



# SUSTAINABLE GROWTH AND DIGNITY FOR ALL

Partit Nazzjonalista

**Opposition Pre-Budget Document 2015**





The forthcoming budget in all probability will be the penultimate one of this government. Time is fast running out and government is nowhere near to delivering on its core promise of a Malta for all. The promises of transparency, meritocracy and accountability have long disappeared from government's vocabulary. Good governance, championed by Labour before the last general election, is often in the news but unfortunately for the wrong reasons. Instead of being a pro-business government, this government is pro-certain businessmen at the expense of the common good.

When faced with criticism for having failed to deliver on so many fronts, Prime Minister Joseph Muscat is quick to point to what he considers to be the main success story of this administration: the economy. Prime Minister Muscat

would have us believe that the economic sun started shining on this country in March 2013. The truth is that while some sectors of the economy continued to perform well, there are areas of concern. The way government is acting may impinge negatively on the long-term economic sustainability of our country.

Government would prefer if the Opposition did not talk about these areas of concern. It would prefer if we looked the other way. The Opposition cannot and will not succumb to government's silencing tactics including the repeated and unfounded claim that we are negative in our approach. We will continue, as we are obliged to do, to analyse, criticise and propose alternatives to how our country's finances should be managed. This document is a testament to that.

This is the first time that the Party in Opposition produced such an extensive reaction to government's pre-budget document. This document analysis Malta's economic performance by looking critically at most important economic indicators. In our analysis we looked at the concerns being expressed by the public. The economic wealth being generated is not percolating to all sectors of society. As a result, the number of people at risk of poverty is increasing. It is of little consolation to these people that our country is experiencing GDP growth. Thousands of families in a number of localities are not feeling safe at home. The situation on our roads is getting worse with every

day that passes. Certain elements of our healthcare system are facing a crisis. Our environment is under threat. The Opposition is not only pointing out these concerns. It is suggesting, half way through the legislature, alternative solutions. We promised to be a constructive Opposition and we are delivering on this promise.

Our aims are clear. We want to give Malta back to the people. We want to give back hope to those who are losing faith in the system. We want to help create a country where everyone matters, where no-one is made to feel less equal than others. We want our country to develop in a sustainable manner by making best use and not abusing of our scarce resources. We want to strengthen our system of governance by operating in a transparent, meritocratic and responsible manner.

We would like to invite the Constituted Bodies, civil society and the public to give their reaction to this document. Their reaction will guide the Opposition in its work during the remaining part of this legislature and it will guide the Nationalist Party in formulating its policies and programmes for the next general election.

**Simon Busuttil**  
Leader of the Opposition



justification the economic direction of government. However, the Opposition feels that a number of indicators point to issues of financial and economic sustainability. The Opposition cannot ignore these signs. The Opposition has for the past months been calling for an open and frank discussion on the state of our economy and public finances. The Opposition sees this discussion as a means for identifying solutions for certain structural weaknesses that can impinge on the future sustainability of our economy and public finances. Government has ignored these calls, insisting that our economy and public finances are in the best of shape and that there are no areas of concern.

On 9 September 2015, Joseph Muscat's government reached the half-way mark of its five-year term. Over the past two and a half years the Opposition has been consistent in its comments about the economic performance of this government. It has been an eclectic performance that deserves mixed reviews. The Opposition welcomes the fact that certain sectors of the economy continued to perform well. The groundwork laid by the previous administration in areas such as tourism, financial services and in energy have provided this government with a solid foundation. There are indicators which point to diminishing competitiveness, strained industrial productivity and over-reliance on government expenditure.

It is certainly not the intention of the Opposition to flag unnecessary issues or to question without

and proposes concrete action that can help translate opportunities into success. We hope that the issues and suggestions raised in this document are given their due importance by the government and that government's reaction is based, as is this document, on statistical facts not political rhetoric. It is through such a fact-based discussion that we can continue to build on our economic successes and develop our country in a sustainable manner.



**Mario de Marco**  
Deputy Leader of the Opposition  
and Shadow Minister of Finance

In so doing, government is ignoring certain economic and financial indicators. Economic indicators are the thermometer of an economy. They shed light on the state of health of an economy. The indicators of our economy are showing two contrasting positions. While government is keen to discuss and push those indicators that point towards a healthy economy, it seems to give little or no importance to those indicators that point in the opposite direction. The Opposition, as it is constitutionally bound to do, will continue to flag those issues that it considers to be of economic importance and concern.

It is with this in mind that the Opposition is putting forward this document which in part contains the Opposition's reaction to the pre-Budget document, highlights areas of financial and economic concern



Martin Agius

# 01 HEADLINE INDICATORS

# 1.1 GDP GROWTH FUELLED BY HIGHER GOVERNMENT EXPENDITURE

Since 2008, Malta's rate of GDP growth has outpaced that of the EU (Table 1).

The fact that our economy has consistently over the past years, performed better than the European Union average is undoubtedly positive. Strong GDP growth effects the country's credit ratings resulting in better and cheaper access to finance.

Whilst welcoming the better-than-average growth rate in GDP, the Opposition has over the past two years expressed its concerns over the source of this growth, particularly on the larger role being played by government in the economy.

As can be seen from Table 2 above, in 2014 government consumption's contribution towards GDP growth in comparison to Private consumption was higher than the average of 2008-2013.

The Central Bank's Economic Update, published in March 2015 stated that, "Both private and government consumption supported economic activity, and gathered momentum over the third quarter (2014). Private consumption increased by 5.0% on a year earlier, and boosted real GDP growth by 2.8 percentage points. Government consumption went up by 8.3%, reflecting increases in both intermediate consumption and compensation of employees. It

contributed a further 1.6 percentage points to growth".

In the latest Economic Update, published in August of this year, the Central Bank notes that in the first quarter of 2015, "Government consumption growth also slowed down significantly, with the annual growth rate dropping to 3.6% from 8.3% in the previous three-month period". This in part contributed to a slower GDP growth rate when compared to the previous three months.

It remains to be seen whether over the next two years Government will continue to maintain this higher than average spend and whether it will reduce its spending. If the latter course is pursued then one has to see how much this will impact on GDP growth

**TABLE 1  
GDP GROWTH RATES  
MALTA AND THE EU  
2008-2014**

Year	GDP Growth Malta	GDP Growth EU Average
2008	3.30%	0.50%
2009	-2.50%	-4.40%
2010	3.50%	2.10%
2011	2.10%	1.70%
2012	2.50%	-0.50%
2013	2.30%	0.10%
2014	3.50%	1.30%

Source: Eurostat

**TABLE 2  
PRIVATE CONSUMPTION  
AND GOVERNMENT  
CONSUMPTION 2008-2014**

Year	Private Consumption	GDP Growth EU Average	Ratio (millions)
2008	€3,605	€1,209	75:25
2009	€3,742	€1,213	76:24
2010	€3,815	€1,286	75:25
2011	€4,026	€1,344	75:25
2012	€4,129	€1,446	74:26
2013	€4,254	€1,477	74:26
2014	€4,397	€1,606	72:28

Source: Central Bank of Malta

## 1.2 IMPROVED GOVERNMENT DEFICIT PERFORMANCE FUELLED BY ONE-OFF EVENTS

The general government deficit in 2014 decreased to 2.1% from 2.6% in 2013 and according to the European Commission's winter forecast, the favourable macroeconomic climate is expected to help the budget deficit to fall below the 2% of GDP mark for 2015. During the period January to July 2015, the Consolidated fund deficit narrowed by €134.6 million when compared to the comparative period of 2014. This decline was the result of improved revenue mainly stemming from a 53.9% rise in grants received by the EU and increased revenue from indirect tax inflows mainly from customs and excise duties by 67.2%. Both these factors can be considered as one-off events.

The higher than average amount of EU grants can be explained by the fact that absorption of EU grants accelerates towards the end of the programming period. The increase in customs and excise came as a result of the arrears payment made by Enemalta. So, while favourable economic conditions have pushed up direct taxation by a further 10.6%, it has to be noted that the main impact on deficit came from one-off events and not from structural improvements.

During the same period, it is worth noticing that total expenditure rose by 5.5%, mainly on account of a rise in recurrent expenditure of 5.8% or €92.5 million. Recurrent expenditure

mainly resulted from an increase in public service emoluments of 6.1% and in increase in expenditure on programmes and initiatives of 3.8% or €37.3 million.

While general gross government debt/GDP ratio is expected to fall on improved economic conditions, it will remain above the 'A' median of 47.2% of GDP. Government is projecting nominal GDP growth of 5.3% and a primary surplus of 0.7% of GDP. If the economy performs on these levels then general government debt will go down to around 65% in 2017. The risks associated with these projections are primarily related to lower than projected growth and the possibility of higher budget deficits. As in previous years, expenditure growth will mainly be driven by a higher public wage bill and social transfers. As such, it is imperative that government contains public expenditure and generates revenue through further fiscal expansion emanating from a better economic environment. It is worth noting that between 2013 and 2014, government debt increased by over half a billion Euros.

TABLE 4  
**GENERAL GOVERNMENT DEBT 2008-2014**

Year	Amount (millions)	Increment year-on-year (000)	Debt as a % of GDP
2008	€3,845,489	€253,384	63%
2009	€4,161,542	€316,053	68%
2010	€4,462,186	€300,644	68%
2011	€4,809,050	€346,864	70%
2012	€4,871,967	€62,917	67%
2013	€5,241,287	€369,320	69%
2014	€5,417,449	€176,162	68%

Source: NSO (Structure of General Government Debt), Eurostat (General Government Gross Debt Data)

TABLE 3  
**GOVERNMENT FINANCE**  
**DATA: YEAR TO DATE**

Description	Jan-Jul 2013	Jan-Jul 2014	Jan-Jul 2015	Jan-Jul 2015- Jan-Jul 2014	% change
	<b>€ 000</b>			<i>Change</i>	
<b>(a) Recurrent Revenue</b>	<b>1,543,781</b>	<b>1,631,078</b>	<b>1,871,902</b>	<b>240,824</b>	<b>14.8</b>
<i>of which:</i>					
Grants		92,218	103,492	159,299	55,807
Customs and Excise		104,367	81,947	137,033	55,087
Duties		293,665	320,655	327,670	7,016
Value Added Tax		480,488	510,655	564,621	53,967
Income Tax		330,552	364,280	382,385	18,105
Social Security		242,490	250,050	300,893	50,843
Others					
<b>(b) Total Expenditure</b>	<b>1,802,762</b>	<b>1,940,577</b>	<b>2,046,753</b>	<b>106,176</b>	<b>5.5</b>
<i>consisting of:</i>					
<b>Recurrent Expenditure</b>	1,473,776	1,582,518	1,675,055	92,537	5.8
<i>of which:</i>					
Education		100,091	104,319	112,876	8,558
Social Security Benefits		472,020	472,744	470,221	-2,523
Others		901,664	1,005,456	1,091,958	86,502
<b>Interest</b>		130,649	131,904	131,281	-623
<b>Capital Expenditure</b>	198,338	226,155	240,417	14,262	6.3
<i>of which:</i>					
Productive Investment		71,710	53,572	44,880	-8,692
Infrastructure		103,647	131,363	149,099	17,736
Social		22,982	41,220	46,438	5,218
<b>(a-b) Consolidated Fund Surplus/Deficit(c)</b>		<b>-258,981</b>	<b>-309,499</b>	<b>-174,851</b>	<b>134,648</b>
<b>Financial Transactions</b>					
<i>consisting of:</i>					
<b>Revenue</b>				258,287	-136,584
Loans		369,621	394,871	0	0
Repayment of Loans		30	0		
Receipts from Sale of Shares		0	0	700	700
Other extraordinary receipts		0	0	0	0
<b>Expenditure</b>				9,863	-20,000
Contribution to Sinking Fund		5,661	29,863	1,059	-11,696
Equity Acquisition		11,696	12,755	69,882	-193,493
Repayment of Loan		119,816	263,375	0	0
Loans		0	0		

Note: Totals may not add up due to rounding.  
Source: NSO



## 1.3 INTERNATIONAL TRADE: THE VALUE OF EXPORTS DROPS BY €721 MILLION IN TWO YEARS

The value of exports dropped by €721 million in a space of two years - from €4,439 million in 2012 to €3,718 million in 2014 (Table 5). Even if one removes the value of oil and fuel from the this equation the drop is still significant and definitely merits further consideration. The negative trend continued in 2015. Between January and June 2015, the value of exports shrunk by €190 million when compared to the previous year.

The Central Bank commented as follows in its Economic Update published in March of this year: "The impact of strong domestic demand growth on real GDP during the fourth quarter of 2014

was partly dampened by net exports. These decreased during the quarter reviewed as imports increased and exports dropped. Imports expanded at an annual rate of 2.3%, entirely driven by goods, as imports of services declined. Customs data indicate that the increase in merchandise imports was mainly due to an increase in capital goods, reflecting buoyant investment spending. Exports were down by 1.5% in annual terms, reflecting drops in both goods and services exports. As a result, net exports lowered GDP growth by 5.5 percentage points".

Imports are following a more dynamic path. In 2013, the value of

imports decreased by €498 million when compared to the previous year. In 2014, the drop was reversed as the value of imports increased by €702 million. The upward trend seems to be continuing in 2015. Between January and June of this year the value of imports increased by €269 million. In 2014, imports (net of fuel and lubricants) were valued at €3.7 billion the highest over the past six years (Table 5). Exports in 2014 were lower than 2011 levels.

The drop in exports and increase in imports resulted in a widening of the trade deficit by €460 million during the first six months of 2015. Over the past two years, Government was reluctant to comment on the drop in exports. The Opposition is inviting government to explain how it intends to address this issue that ultimately impinges on Malta's competitiveness.

TABLE 5  
INTERNATIONAL TRADE  
MALTA 2008-2014

Year	Imports	Imports (Net of Fuels)	Exports	Exports (Net of Fuels) (millions)
2008	€3,380	€2,819	€2,034	€1,987
2009	€3,472	€2,815	€2,087	€1,640
2010	€4,328	€3,272	€2,809	€2,090
2011	€5,340	€3,406	€3,819	€2,197
2012	€6,188	€3,400	€4,439	€2,428
2013	€5,688	€3,458	€3,925	€2,260
2014	€6,314	€3,759	€3,718	€2,110

Source: NSO International Trade Statistics

## 1.4 INDUSTRIAL PRODUCTION: SIGNS OF RECOVERY IN 2015

The manufacturing sector is responsible for providing work to 15% of the working population. Malta's labour force is consistently praised by these businesses for its strong work ethic, flexibility, and ability to independently solve production or design challenges.

Over the past years, the manufacturing sector has experienced important changes. The country moved away from labour intensive production towards higher-value opportunities such as aviation, the maritime and the pharmaceutical sectors amongst others. Despite these positive developments, manufacturing was amongst the hardest hit sectors throughout the 2009 European recession. Job losses were avoided through direct Government intervention which assisted the larger factories – employing between them in excess of 5000 employees. These were provided with fiscal incentives that encouraged them not only to avoid scaling down their operations but actually to invest further and therefore solidify their position in Malta, safeguarding thousands of jobs in the process. Despite these efforts, due to globalisation, heavy industries, especially labour-intensive ones are moving out of Europe. Malta is not immune from this process. NSO Data for 2013, shows that this sector's contribution to the overall economy declined in excess of 10%. Industrial production decreased constantly between October 2013 and December 2014 bar a slight increase in October 2014 (Table 6). During 2015, industrial production returned to

growth and regained some of the losses suffered during 2014.

Government's claim that the drop in 2014 was mainly the result of a drop in activity in one manufacturing establishment was not supported by the Central Bank. In its Economic Update published in February 2015, the Central Bank stated that, "Industrial production rose modestly in the final quarter of the year, but decreased by 4.6% on average during the twelve months to December 2014. The overall drop in output was mainly driven by declines in pharmaceuticals, textiles and computer, electronic & optical products. To a lesser extent, decreases were also recorded in the production of wearing apparel and energy. In contrast, food production increased considerably compared to a year earlier".

According to the Central Bank's Economic Update (8/2015), the situation improved during the first quarter of 2015: "The available information for the second quarter of 2015 shows signs of recovery in manufacturing and continued growth in tourism. As regards manufacturing, the index of industrial production rose by 3.3% in year-on-year terms during June 2015. Consequently, during the second quarter of 2015 the index increased by 7.2% on a year earlier. This expansion in output was driven by the pharmaceutical sector, firms involved in printing and reproduction of recorded material and manufacturers of computer, electronic & optical products. In contrast, energy production decreased marginally". Despite

this turnaround, manufacturing contributed negatively to the growth in Gross Value Added during Q1 2015.

The Opposition notes that the drop in exports in electronic goods and the negative contribution of this particular sector towards the country's Gross Value Added as evidenced in Figure 1.3 of the Pre-Budget document. The Opposition also takes note of the on-going discussions and actions at ST Microelectronics. Without entering into the merits of these discussions and actions taken by the workers and their representatives, the Opposition expects government to keep the situation under constant review.

It is crucial that all efforts are made to ensure the longer-term viability of existing industries, while at the same time seeking to identify the next niche sector that can create opportunities for those who lose their jobs because of scaling down of operations and restructuring processes.

A further important challenge relates to Malta's EU Status. As an Objective One country, Malta was allowed to support its industry in a more conspicuous manner. With reduced assistance, it will be imperative that industry is supported in innovating and improving its efficiency. Evidently, a reduction in electricity tariffs does provide assistance in the short-term, but will most likely not be enough in the longer-term.

TABLE 6  
**INDEX OF INDUSTRIAL  
 PRODUCTION ADJUSTED  
 FOR WORKING DAYS**

<i>Year</i>	<i>% Change compared to same month in previous year</i>
<b>2013</b>	
October	-13.3
November	-8.1
December	-6.9
<b>2014</b>	
January	-11.5
February	-4.6
March	-2.7
April	-13.1
May	-11.4
June	-0.5
July	-0.7
August	-9
September	-5.9
October	5.5
November	-1.8
December	-5.2
<b>2015</b>	
January	8.5
February	3.3
March	0.5
April	8.7
May	10.1
June	3.2

Source: NSO

Despite the challenges, there are new opportunities in the offing. These include the development of the Life Sciences Park initiated by the previous administration together with Government's plan to support the maritime industry which could offer an opportunity to create collaboration between entrepreneurs, education and industry to spur new technologies and further establish Malta as a regional hub of innovation.

**In view of the above, the  
 Opposition is asking:**

**(1)** What plans does Government have to re-establish exports as a positive contributor to the country's gross domestic product?

**(2)** What strategy and plans is government going to adopt to ensure the long-term sustainability of our manufacturing industry not least that of the electronic goods sector?

**(3)** What strategy is government going to adopt to integrate the Life Sciences industry with the country's research institutions to support and strengthen the commercialisation of science-based technologies in Malta?

**(4)** What are government's plans for the Kordin Business Incubation Centre and how will this Centre be assisted to enable it to offer a full range of services to support start-up companies?

# 1.5 LOWER UNEMPLOYMENT BUT AT A COST TO THE TAXPAYER

A key measure of economic success is the ability of the economy to generate productive employment for those who are able and willing to work. Malta has for the past years enjoyed one of the lowest unemployment levels in Europe (Table 7). Unemployment remained low even during the economic crisis of 2009. Towards the beginning of 2013, unemployment started to creep in and by November 2013, the number of people looking for work was edging close to 8000. This negative trend was reversed post-November 2013 with unemployment now reaching low levels. In the Pre-Budget document, Government also

highlighted the increase in activity rate and drop in unemployment. The number of gainfully employed increased by 6,115 and reached 165,443 at the end of 2014.

These successes are coming at a price to the taxpayer. Government is partly combating unemployment by placing people on the public sector payroll. According to the latest available statistics, the number of public sector employees stands at 44,059 (Table 8). This means that the public sector workforce is now back at the levels it was between 2005 and 2006, reversing years of gradual decreases in the number of public sector employees.

Unemployment decreased by 960 persons between 2015 (March) and 2013. During the same period, public sector employment increased by 3,166.

The public sector recruitment drive is happening despite a clear pledge by government in October 2013 to the European Commission to reduce the number of public sector employees. In a report entitled "Report to the Council and the Commission on Action Taken in Response to the Council's recommendation of 21 June 2013 with a view of bringing to an end the situation of excessive government deficit in Malta (2013/C180/01)", government had made the following commitment:

"Furthermore Government is committed to restart the practice of restricting recruitment and reducing public sector employment through attrition. In particular Government is committed to restrict the replacement of retirees and resignations by a ratio of 2:3. Health and education will be excluded from this exercise. It is to be noted that every year there are roughly 1,500 public sector employees who retire or resign from their posts. This policy would effectively reduce public sector employment by around 500 per annum. This policy will be reviewed every year. Potential savings from this policy could amount to around €4.9 million in 2014 and additional savings in subsequent years."

TABLE 7  
**REGISTERED  
UNEMPLOYED 2008-2015**

<i>Year</i>	<i>Av. Number of un-employed</i>	<i>Change compared to previous year</i>	<i>Increase/decrease in public sector employees</i>
<b>2008</b>	<b>5543</b>	<b>-430</b>	<b>-689</b>
<b>2009</b>	<b>6708</b>	<b>1165</b>	<b>-1030</b>
<b>2010</b>	<b>5986</b>	<b>-722</b>	<b>-111</b>
<b>2011</b>	<b>5892</b>	<b>-94</b>	<b>662</b>
<b>2012</b>	<b>6169</b>	<b>277</b>	<b>-332</b>
<b>2013</b>	<b>7382</b>	<b>1213</b>	<b>1025</b>
<b>2014</b>	<b>6992</b>	<b>-390</b>	<b>2017</b>
<b>2015*</b>	<b>5209</b>	<b>-1783</b>	<b>124</b>

\*June

Source: NSO (Registered Unemployed)

**TABLE 8**  
**NUMBER OF PUBLIC**  
**SECTOR EMPLOYEES**  
**2004-2015**

Year	Number of Public Sector Employees*	% difference
2004	46,686	
2005	45,583	-2.40%
2006	43,708	-4.10%
2007	42,483	-2.80%
2008	41,794	-1.70%
2009	40,764	-2.50%
2010	40,563	-0.50%
2011	41,225	1.60%
2012	40,893	-0.80%
2013	41,918	2.50%
2014	43,935	4.80%
2015*	44,059	0.30%

\*March 2015

Source: NSO Gainfully  
Occupied Population

Rather than decreasing the public sector by around 500 per annum, government increased the number the public sector headcount by over 3,000 in two years. If one adds the number of replacements, using government's own estimate of 1500 a year, then the number of people actually recruited into the public sector in the past two years exceeds 6000. So rather than generating savings, government has increased substantially the public sector wage bill (Table 9). The cost of public sector salaries increased by €55 million (2013), by €72 million (2014) and is expected to increase again by €48 million this year. Part of this increase is due to cost of

**TABLE 9**  
**INCREASE IN THE COST**  
**OF PUBLIC SERVICE**  
**SALARIES 2005-2014**

Year	Budgeted Personal Emoluments	Difference on Previous year	Actual Personal Emoluments	Difference between actual estimate
2005	€484,102,000		€468,639,000	-€15,462,000
2006	€478,397,000	-€5,705,000	€473,056,000	-€5,341,000
2007	€475,747,000	-€2,650,000	€484,430,000	€8,683,000
2008	€486,226,000	€10,479,000	€519,267,000	€33,041,000
2009	€537,526,000	€51,300,000	€541,938,000	€4,412,000
2010	€550,775,000	€13,249,000	€571,792,000	€21,017,000
2011	€581,956,000	€31,181,000	€585,816,000	€4,860,000
2012	€609,130,000	€2,717,000 <sup>4</sup>	€612,478,000	€3,348,000
2013	€639,991,000	€30,861,000	€653,703,000	€13,712,000
2014	€663,296,000	€23,305,000	€697,546,000	€34,250,000
2015*	€710,926,000	€47,630,000	Not available	Not available

\*Estimate

Source: Financial Estimates, Ministry of Finance

living and collective agreement adjustments. The remainder is due to the increase in the number of public sector employees. . Of particular concern is the difference between the Budgeted and Actual spend on personal emoluments in 2013 and 2014. In these two years, government spent nearly €50 million more on wages than it had budgeted.

Contrary to the impression being given by government, public sector recruitment is not related only to health and education. For instance, the Water Services Corporation, between August 2013 and August 2014 employed over 140 people – equivalent to 15% the workforce

of the Corporation. Despite being asked to, the Minister for Health and Energy failed to provide details on the cost of this recruitment on the wage bill of the Corporation. Government also confirmed that it employed over 600 persons in positions of trust. Again none of these persons were employed as teachers, doctors or nurses.

The credit rating Fitch, in its assessment published in August 2015, while giving a stable rating noted the increase in public expenditure that is being driven by a higher wage bill. One has to question whether this higher wage bill is producing a proportional value-added to our economy.

In absolute terms, the public sector generated more new jobs than any of the other main sectors in the past two years (Table 10). The tables below are important for comparative reasons since they show how the main sectors evolved over the recent years. It must be pointed out however that other private sector jobs were created in minor sectors not represented in the tables below.

The increase in public sector jobs exceeds the increase in the number of jobs created in all the others main sectors. Again it must be pointed out that these sectors do not represent the whole of the private sector. This data is being provided for comparison purposes only.

With an increase of 15% and 11% respectively, the manufacturing and construction sectors saw the highest increases in the average gross salary in the period 2012-2015 (Table 12). This is probably related to the fact that these two sectors have the lowest average salary and therefore any small increment, including statutory increments, will have a higher effect in percentage terms. It is not surprising on the other hand that the financial services sector has the largest employment growth rate. The sector has the highest average annual gross salary although the gap with the public sector has nearly halved between 2012 and 2015.

These tables provide a clearer view of how the labour market is changing in respect of new jobs created and remuneration.

Looking at the labour market from the supply side, Malta's working population, over the past years grew due to a number of phenomena.

**TABLE 10**  
**WHICH SECTOR IS CREATING JOBS**  
**(SOURCE GAINFULLY OCCUPIED POPULATION NSO)**

<i>Sector</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>	<i>2015*</i>	<i>% Change 2011-2015</i>
<b>Manufacturing</b>	<b>20016</b>	<b>19830</b>	<b>20250</b>	<b>20376</b>	<b>20621</b>	<b>3%</b>
<b>Transportation</b>	<b>8866</b>	<b>9040</b>	<b>9062</b>	<b>9185</b>	<b>9296</b>	<b>5%</b>
<b>Wholesale and Retail</b>	<b>22849</b>	<b>22926</b>	<b>23304</b>	<b>23783</b>	<b>24277</b>	<b>6%</b>
<b>Financial Services</b>	<b>6814</b>	<b>6949</b>	<b>7595</b>	<b>8036</b>	<b>8333</b>	<b>22%</b>
<b>Construction</b>	<b>12317</b>	<b>12036</b>	<b>10916</b>	<b>9322</b>	<b>10445**</b>	<b>-15%</b>
<b>Accommodation and Food Services</b>	<b>9584</b>	<b>9634</b>	<b>9947</b>	<b>10060</b>	<b>10308</b>	<b>7%</b>
<b>Public Sector</b>	<b>41225</b>	<b>40893</b>	<b>41918</b>	<b>44399</b>	<b>44059</b>	<b>7%</b>

\* March

\*\* The increase is due to a re-classification exercise of public sector employees.

Source: NSO Gainfully employed statistics

TABLE 11  
**NUMBER OF JOBS CREATED  
 BETWEEN 2011-2015 (MARCH)**

	<i>Diff. In Absolute terms</i>	<i>Average Annual Increase/Decrease</i>
<b>Manufacturing</b>	<b>605</b>	<b>121</b>
<b>Transport</b>	<b>430</b>	<b>86</b>
<b>Wholesale and Retail</b>	<b>1428</b>	<b>286</b>
<b>Financial Services</b>	<b>1519</b>	<b>303</b>
<b>Construction</b>	<b>-1872</b>	<b>-374</b>
<b>Accommodation and Food &amp; Services</b>	<b>724</b>	<b>145</b>
<b>Public Sector</b>	<b>2834</b>	<b>576</b>

Source: NSO Gainfully employed statistics

## A MORE ACTIVE AGEING POPULATION

Measures introduced by successive administrations, aimed at encouraging people to work beyond their retirement age are proving to be successful. The number of persons aged 65 and over increased from 1735 in Q1 2013 to 3142 in Q1 2015. At the end of 2014, 2730 or 2.5% of the working population was aged 65 years or older. No doubt, this number will continue to increase in years to come as more people will seek to continue working after reaching the pensionable age. This is positive news as it improves the critical ratio between persons in employment who provide support for persons living on a pension (supported). The pre-budget document states that the old-age dependency ratio is set to increase from 27% in 2014 to 50.9% in 2060. This underlines the importance of encouraging more people to continue working beyond the age of 65. The negative

side to this argument is that less job opportunities are available to new entrants in the labour market. The solution is of course not to limit the options for those who wish to work beyond the retirement age but to create more work opportunities to cater for all those wishing to work. The Opposition will support any such effort as long as the jobs being created are jobs that add value to the economy. The Opposition also calls on government to ensure that all pensioners, irrespective of whether they are working or not, are able to lead a decent life.

## INCREASE IN THE NUMBER OF FOREIGN WORKERS

Malta's European Union membership has made it possible for citizens of EU countries to come and work in Malta. Over the past years we have seen a gradual increase in the number of EU citizens working and residing in Malta. Malta has also seen an increase in the number of non-EU citizens residing and working in Malta. This is mainly due to irregular immigrants being granted the right to work in Malta and also due to residency schemes tied to investment which grant the investor the right to reside and work in Malta. No official statistics exist on the total number of foreign workers working in Malta. However according to a reply to a Parliamentary Question given in March 2014, there are 21,000 non-Maltese citizens working in Malta of which 9670 are EU residents while 11,565 hail from third countries. This accounts roughly to 13% of the full-time gainfully employed population. The number of EU workers

**TABLE 12**  
**AVERAGE GROSS ANNUAL SALARY BY SECTOR**

<i>Sector</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>	<i>2015*</i>	<i>% Change 2011-2015</i>
<b>Manufacturing</b>	<b>15056</b>	<b>16243</b>	<b>16420</b>	<b>16642</b>	<b>11%</b>
<b>Wholesale and Retail, Accommodation and Food services</b>	<b>13148</b>	<b>13173</b>	<b>13815</b>	<b>13752</b>	<b>5%</b>
<b>Financial Services</b>	<b>21018</b>	<b>20853</b>	<b>18478</b>	<b>20442</b>	<b>-3%</b>
<b>Construction</b>	<b>13035</b>	<b>14301</b>	<b>15346</b>	<b>14982</b>	<b>15%</b>
<b>Public Administration</b>	<b>16468</b>	<b>16914</b>	<b>16790</b>	<b>17635</b>	<b>7.0%</b>

Source: NSO (Labour Survey)

\*Jan-Mar

doubled over a four-year period while workers from third countries are increasing albeit at a slower rate. The Minister responsible for Employment recently stated that half of the new jobs being created were taken up by foreigners. Foreign workers operate in a number of sectors including health and home personal-care, tourism accommodation and catering services, financial services, iGaming and manufacturing, construction and retail. There are many reasons driving the increase of foreign workers in Malta. Some of these reasons are local while others reflect the situation in the home countries of the foreign workforce. A percentage of the workers are filling in positions that require skills that could not be provided for locally. Another perhaps much more significant percentage of workers are performing work which Maltese workers are not prepared to carry out at the rates being offered by the respective industries.

In 2014 alone, the authorities are reported to have issued some 14,000 residence permits to non-EU third country nationals. This number is by far greater than the total number of migrants who arrived in Malta over the past ten years. In the light of the recent revelations on serious abuses in the granting of such permits, the Opposition is insisting that the Government should call an independent inquiry to investigate the allegations and to come up with recommendations on how to restore public trust in the system.

The Opposition is of the opinion that the rapid increase in the number of foreign workers, while positive, merits to be the subject of a studied by government's employment agency. The aim of this study should be to ascertain the long-term positive and negative effects of this phenomena on the economy and society as a whole and on the competitiveness and sustainability of particular sectors.

Recent court cases have thrown a spotlight on possible abuses in the way foreign workers are treated in Malta and also in the way residency visas are issued. In view of these alleged abuses, the study should consider also the regulatory aspect of foreign labour in Malta.



## THE INCREASE IN FEMALE PARTICIPATION IN THE LABOUR MARKET

Malta for many years had one of the lowest female participation rates in the labour market. Successive administrations introduced measures to help increase the female participation rate. These measures were successful as Malta witnessed a steady increase in the female participation rate in the labour market especially amongst women aged 54 and younger (Table 13).

Despite the marked improvement over the past ten years, Malta still falls short of the European Union average which in 2014 stood at 66.5%. Malta's female rate of participation is higher than the EU average in the 15-24 age bracket but falls below in the 25 to 54 age bracket and significantly below in the 55 to 64 age bracket. All things being equal, one can assume that the female participation rate will continue to increase over the coming years and approach the EU average, even without further incentives. While this is a welcomed development, as it will help address the dependency ratio, it also means that more jobs will have to be created to meet the additional demand.

## SHIFT FROM SOCIAL SERVICES TOWARDS EMPLOYMENT SCHEMES

In the last two budgets, Government introduced a number of initiatives to encourage people to shift from dependency on social services towards employment. The Opposition supports these initiatives as long as they target abuse without inflicting additional hardship on persons who are vulnerable. As a result of these measures, a number of people were struck off the unemployment register and were added to the working population. It would be opportune for government to give an account on this shift and to provide an insight as to whether these schemes are being successful in providing productive long-term employment to the participants. Government should also state whether unemployment is being artificially held in check as a result of these schemes.

## LABOUR MARKET - FUTURE CHALLENGES

The increase in the working population puts further pressure on the economy to generate more jobs to match the increase in demand. The future challenge will not be only one of numbers. With more people opting for tertiary education and with more foreigners opting to work in Malta, the skill-base of Malta's working population is shifting. In order to avoid the problem of graduate unemployment, our economy has to increase the number of job opportunities available to graduates and skilled personnel.

Over the past two years, the government has not managed to bring to fruition one new initiative to address this challenge. There seems to be no plan targeting growth.

The medical-related investments such as the Barts Medical School in Gozo, might in the future provide scope for persons with medical training. However, with the skill shortages that currently exists in the health sector - shortages that are putting at risk our national health standards - these projects could potentially end up putting more pressure on the national health service rather than help address the jobs-for graduates problem.

The so-called American University of Malta, the only other major development championed by this government, will only create a few jobs for lecturing staff and therefore will not have any major impact on the opportunities for graduates.

**In view of the above the following pertinent questions need to asked:**

**(1)** What led government to reverse its stated objective of decreasing the number of public sector employees?

**(2)** Is there any central control on public sector recruitment? In particular, how is the Ministry of Finance evaluating requests for recruitment submitted by entities?

**(3)** Is the Ministry of Finance concerned with the sustainability of the public sector wage bill given that this was also highlighted in Fitch’s credit rating report?

**(4)** Does Government have an HR strategy in place? What are the objectives of this strategy?

**(5)** Is Government increasing public sector recruitment and scaling back on hiring private sector firms for the provision of certain services such as cleaning, security and other support services?

**(6)** How robust, transparent and fair is government’s recruitment procedure?

**(7)** What new areas of growth are going to be targeted by government to meet the increase in demand resulting from the expanding labour supply and to off-set any possible shrinkages in existing sectors?

**(8)** How is government going to use the next tranche of European Union funds to enhance the skills and flexibility of the Maltese workforce?

**(9)** In the light of the recent scandal on the granting of residence permits, why is the Government resisting calls for an independent inquiry?

**TABLE 13  
FEMALE PARTICIPATION  
RATE IN THE LABOUR  
MARKET 2005-2014**

<i>Year</i>	<i>% of active females</i>	<i>Percentage increase</i>
<b>2005</b>	<b>36.4</b>	
<b>2006</b>	<b>36.8</b>	<b>1.1%</b>
<b>2007</b>	<b>39.1</b>	<b>6.2%</b>
<b>2008</b>	<b>40.4</b>	<b>3.3%</b>
<b>2009</b>	<b>41.2</b>	<b>2%</b>
<b>2010</b>	<b>42.5</b>	<b>3.2%</b>
<b>2011</b>	<b>44.7</b>	<b>5.2%</b>
<b>2012</b>	<b>47.5</b>	<b>6.3%</b>
<b>2013</b>	<b>50.2</b>	<b>5.7%</b>
<b>2014</b>	<b>52.1</b>	<b>3.8%</b>

## 1.6 FOREIGN DIRECT INVESTMENTS

TABLE 14 FOREIGN DIRECT INVESTMENTS FLOWS INTO MALTA

<i>Year</i>	<i>FDI</i>	<i>Finance and Insurance</i>	<i>Manu- facturing ('000)</i>
2008	€642,274	€323,707	€17,741
2009	-€6,222,987	-€6,093,910	-€18,597
2010	€1,172,317	€1,144,340	€49,630
2011	€11,163,661	€11,121,325	€138,358
2012	€9,497,909	€9,580,692	-€78,026
2013	€7,427,456	€7,209,994	€101,433
2014	€7,018,829	€6,883,272	€38,498

Source: NSO (Direct Investment in Malta and Abroad)





## 02 SECTOR SPECIFIC THEMES

## 2.1 ENERGY

The energy sector has unfortunately become highly politicised in recent years. The Labour Party when in Opposition took it upon itself to discredit the investment carried out by the Nationalist administrations in this sector. This investment includes the building of the BWSC plant which was commissioned in 2012, the interconnector project which linked Malta to the the European electricity grid in 2015 and the introduction of SMART meters which helped reduce electricity theft substantially. Most of this investment was carried out between 2008 and 2013 when the price of oil was at its record highest, putting additional financial strain on Enemalta and pushing up its debt levels.

It is ironic that the Labour government is now using the very same infrastructure it vilified to implement its electoral promise and lower electricity tariffs by 25%. It is equally ironic that the BWSC plant, dubbed as a cancer factory by Prime Minister Joseph Muscat, continues to be fired by heavy fuel oil half way through this legislature.

Prior to the last election, the Labour Party made a number of electoral promises linked to the energy sector, promises which have now come back to haunt this government. The Labour Party promised that within two years of being elected it will build a power station, completely funded by the private sector and that this new power station will lead to a 25% reduction in the energy tariffs. The two-year deadline came and

went, and the power station is still in the early stages of construction. Contrary to what was promised, the new power station is not going to be financed by the private sector. Its financing is currently being underpinned by a €360 million state guarantee. This unprecedented state guarantee, together with other elements of this project, is being investigated by the Auditor General. Once that guarantee expires, the financing will be underpinned by a power and gas purchase agreement, and an effective government guarantee in the form of a Security of Supply agreement, whereby government is going to guarantee income flows to the owner and operator of the new power station. The reduction in energy tariffs was made possible by the lower cost of electricity generation of the BWSC plant, the massive reduction in the oil price and the possibility of buying cheaper electricity from Europe thanks to the interconnector project. For the first time in June 2015, 60% of Malta's electricity was imported with only 40% being produced locally. This has also led to a drastic reduction in the use of heavy fuel oil in Malta during the second quarter of 2015. The Labour Party had also pledged that it would not privatise Enemalta. Yet, one third of the energy company, and the Corporation's most efficient generating plant, the BWSC plant were sold to Shanghai Electric.

The interconnector and the existing energy generating plants are capable of providing 644 MW of electricity. The highest average monthly demand in the last five years was of 330 MW. In other

words, Malta currently has about 50% more energy-generating capacity it needs to meet demand during peak times. All this begs the rhetorical question: do we need a new power station?

The question is rhetorical because government has already committed itself and future governments to this project. The level and nature of commitment is not known because the government has so far resisted all calls to publish the contracts and agreements signed with Electrogas (Malta) and Shanghai Electric. According to the limited information made public, government committed itself to buy electricity generated by the new plant at the rate of 9.599 cents per kilowatt from Electrogas. The price is set for five years. The agreement signed with Electrogas is for 18 years. What happens between the sixth year and the eighteenth year is not known. Furthermore, Shanghai Electric is to convert the BWSC plant to gas. Whilst this is welcome from a 'reduction in emissions' point of view, the tying in of significant portions of local generation to gas only, may result in security of supply risks, particularly as the supply of gas in the form of LNG from a single supplier is significantly less reliable than the supply of liquid fuel from multiple suppliers. One hopes that the government in its contracts has made provision to operate the gas fired plant on liquid fuel such as diesel in the event of shortage of gas supplies, otherwise the country may find itself facing an electricity shortage, something which has not happened since the 1970's and 1980's.

**TABLE 15**  
**PRICE OF CRUDE OIL**  
**JAN 2013 - AUGUST 2015**

Government has fixed the purchase price from BWSC at slightly higher than 9.599 cents but in this case, government is not obliged to purchase electricity from this plant. However given that the price of oil is now significantly lower (Table 15) than when the agreements were reached, does the government have any provisions in these contracts to allow a reduction in cost of electricity when the cost of fuel drops as it has done? Given that the suppliers have government guarantees to protect them against risk, it is important that there is an effective mechanism to mitigate against them making excessive profits at the cost of the taxpayer.

The spot price of electricity bought from the European grid is currently significantly cheaper than the price government will be paying to Electrogas and Shanghai electric. Government should at the very least explain why Malta will be buying electricity at more expensive rates when cheaper options are available? Is part of the higher cost going towards building a power station that is surplus to the country's needs? Government is arguing that the power station is necessary to ensure a secure supply and to meet future demand. Given that technology in the energy sector is changing so fast, would it not have made more sense to wait some years before going for this project (all our energy-generation units are now going to have roughly the same age)? Would it have been more cost-efficient to invest in another form of energy generating medium such as another interconnector? Given that

<i>Year</i>	<i>Price in \$</i>	<i>% Change compared to same month in previous year</i>	<i>Year</i>	<i>Price in \$</i>	<i>% Change compared to same month in previous year</i>
<b>2013</b>			<b>2014</b>		
January	112.93	3	November	78.44	-10.12
February	116.46	3.13	December	62.16	-20.75
March	109.24	-6.20	<b>2015</b>		
April	102.88	-5.82	January	48.42	-22.10
May	103.03	0.15	February	57.93	19.64
June	103.11	0.08	March	55.79	-3.69
July	107.72	4.47	April	59.39	6.45
August	110.96	3.01	May	64.56	8.71
September	111.62	0.59	June	62.35	-3.42
October	109.48	1.92	July	55.87	-10.39
November	108.08	1.28	August	46.99	-15.89
December	110.63	2.36			
<b>2014</b>					
January	107.57	-2.77			
February	108.81	1.15			
March	107.41	-1.29			
April	107.88	0.44			
May	109.68	1.67			
June	111.87	2.00			
July	106.98	-4.37			
August	101.92	-4.73			
September	97.34	-4.49			
October	87.27	-10.35			

## RENEWABLE ENERGY

Malta will be applying for EU funds to connect to the European gas supply, does it make sense to invest now in an environmentally risky LNG terminal and re-gasification plant which will become obsolete once the pipeline becomes operational?

The reductions affected by this government are in the main being financed by favourable factors that were unknown to the Labour Party when it made the pledge to lower the electricity tariffs, namely the drop in the price of oil and the significant reduction in the cost of electricity generation due to the efficiency of the BWSC plant and the interconnector. The Opposition of the opinion that the savings or a significant part thereof, being made by Enemalta as a result of the 60% drop in the price of oil and the drop in the cost of electricity generation should be passed on to the consumers. The Opposition is therefore supporting the GRTU's call made by the GRTU for a further 30% reduction in the price of energy tariffs for businesses and later supported by the Chamber of Commerce and MEA whilst additionally calling for further similar reductions in energy tariffs for households. Within the context of lower price of oil, the Opposition is also calling for a reduction in the price of petrol and diesel.

Malta is bound by the EU 2020 targets to generate 10% of its energy through renewable sources by the year 2020. In October of last year, Government announced that it was abandoning the plans for an off-shore wind farm and that it intends to reach this target through solar energy. The 2020 target is now five years away and government has yet to elaborate on how it intends to meet this target. The pre-budget document, while referring in passing to this target, does not specify how government intends to work towards achieving it other than stating that priority will be given to photovoltaic systems and solar water heating. Government should make its plans for renewable energy public by the next budget by publishing its National Renewable Energy Action Plan (NREAP).

Earlier this month, it was reported that International Renewable Energy Development Limited, the company set up between Enemalta and Shanghai Electric, is considering the development of a 46 megawatt wind farm in Montenegro. The Government should give more details about this proposal and explain how the nation will benefit from this investment. It is to be noted that Montenegro is aspiring to become an EU MS and therefore, given that Montenegro is presently a third country, there needs to be a direct connection to import the green energy generated in Montenegro into

the EU. The energy generated in Montenegro can only account as renewable energy for Malta if this energy is carried through a direct connection. Will Malta be investing in a direct connection itself or will it be using other third party connections? If it will be using third party connections, what are the conditions? Furthermore, from the scant information given so far, it is very difficult to understand whether this investment will contribute towards Malta's RES targets. With this investment, in a third country, whilst on the one hand we may meet the RES targets (or part of), on the other hand, what we are essentially doing is paying a tax to produce clean energy because Malta will not reap any economic benefit from this investment. Expertise, spin-offs, supply chain, support services, etc will not be indigenous to Malta but will reside in Montenegro.



## 2.2 TOURISM

The tourism industry in Malta has continued to experience year-on-year growth both in terms of the number of visitors and in terms of tourist expenditure (Table 16). The strategy adopted by the previous administrations way back in 2007, was based on the expansion of Malta's air-links, investment in product and more focused marketing campaigns. The present government continued applying this strategy. Tourist arrivals in 2014 surpassed the 1.7 million mark and could reach 1.8 million in 2015.

While recognising the overall positive direction that the industry is following, there are a number of considerations that the Opposition would like to highlight.

### CARRYING CAPACITY

It is not unreasonable to assume that within the next few years, tourism arrivals will hit the 2 million mark. As this milestone approaches, it is pertinent to ask what are government's future plans for tourism once this milestone is surpassed? How far can our tourism grow?

In order to answer this question, government needs to carry out a carrying-capacity study to see what factors could potentially limit tourism growth. Potential bottlenecks include the airport,

TABLE 16 **TOURISM STATISTICS 2008 - 2014**

<i>Year</i>	<i>Number of Arrivals</i>	<i>Tourism Expenditure</i>	<i>Bed Nights</i>
<b>2008</b>	<b>1,290,856</b>	<b>€1,069 m</b>	<b>10,962,465</b>
<b>2009</b>	<b>1,182,489</b>	<b>€925 m</b>	<b>9,949,378</b>
<b>2010</b>	<b>1,333,341</b>	<b>€1,130 m</b>	<b>11,139,826</b>
<b>2011</b>	<b>1,411,748</b>	<b>€1,230 m</b>	<b>11,680,167</b>
<b>2012</b>	<b>1,454,400</b>	<b>€1,344 m</b>	<b>12,618,372</b>
<b>2013</b>	<b>1,590,991</b>	<b>€1,440 m</b>	<b>21,890,268</b>
<b>2014</b>	<b>1,714,533</b>	<b>€1,528 m</b>	<b>13,522,112</b>

Source: NSO (Inbound Tourism)

our accommodation facilities, the nation's liquid and solid waste-handling capabilities, our road infrastructure, public transport, the public health infrastructure and beach facilities.

Tourism boosts the number of persons living in Malta on average by 30,000. The number is higher in summer and lower in the winter months. The number of foreign workers and foreign students studying in Malta is also inflating the resident population. One must also factor in cruise passengers who spend a day in Malta and use elements of the nation's infrastructure. The added population puts pressure on our infrastructure, pressure that could lead to a level of dissatisfaction if the infrastructure is not upgraded to meet the higher level of demand. This is why it is imperative that potential bottlenecks are identified earlier on and dealt with before they become a problem or a limiting factor.

A percentage of the 2013-2018 EU funds could be used to address these bottlenecks.

## AIRMALTA

The National carrier currently accounts for 40% of the inbound tourism movements. The airline's importance, from the tourism industry's perspective, is nothing short of paramount. The Opposition has avoided dragging the airline into the political arena, even if the Opposition had serious doubts on a number of strategic and operational decisions taken by the airline over the past months.

The deadline set by the European Commission on the viability of the airline is drawing near. Government and the airline's management seem confident that the airline is on track in returning the airline to profitability by March of next year.

While not questioning this level of confidence, the Opposition thinks it is important for all stakeholders to know whether a plan B exists. There were reports in the local media about hinting at possible take-over bids or joint-ventures involving the national carrier. Government has not been forthcoming with details. However, at this late stage, the Opposition feels that government should in the least assure all stakeholders that come March 2016, Malta will continue to enjoy the level of accessibility that it currently has.

## THE PERFORMANCE OF SOURCE MARKETS

While most of the major source markets are showing year on year growth, three markets registered a drop in 2014 -Spain, Germany and Russia. During the first half of 2015, arrivals from Spain and Germany picked up as seat capacity from these source markets was increased. However the Russian market continued on its downward spiral. Arrivals from Russia fell by 40% between January and July of this year. Russia is the most accessible of the BRIC countries and has potential for delivering high-end tourists.

On a more general note, the Malta Tourism Authority has for a number of months left vacant important positions in the overseas offices. The posts of Director Germany, France, Italy and UK were left vacant for a number of weeks even months in some cases. On the other hand, the Malta Tourism Authority moved fast to create and fill a vacancy for a representative in New York. The person appointed to represent the MTA in New York is the business partner of the Prime Minister's wife. This clearly shows that the MTA is not prioritising its actions according to the needs of the industry but according to other needs. Incidentally, tourist arrivals from the USA during the first seven months of 2015 decreased by 5% when compared to the previous year.

## THE INSTITUTE OF TOURISM STUDIES

If the first two years of this administration were positive for the tourism industry in general, the same cannot be said for the Institute of Tourism Studies. The ITS, which is considered to be of vital importance for the industry has suffered from internal bickering, lack of direction and claims of gross mismanagement leading to the forced resignation of its Executive Director. This has had an effect on the moral of both the academic staff and students.

## THE ECONOMIC IMPACT OF TOURISM

There is no doubt that tourism is a strong agent for economic growth. One can draw a correlation between government tax earnings, employment statistics and Malta's tourism performance. However the real extent of tourism's contribution to Malta's GDP has not been quantified. The Opposition is recommending that an exercise based on the UNWTO's Tourism Satellite Account be carried out to measure the contribution of tourism to Malta's economy.

## EU FUNDS

Over the past years, Malta invested heavily in upgrading the tourism product. Government has made use of both national and EU funds to this end. The current programme period started in 2014 and will run till 2020. Government has at its disposal a billion euro to spend on projects. Government has not yet divulged how it intends to use these funds to upgrade Malta's tourism product. Also, government has been very sketchy as to whether it intends to fund another scheme for tourism operators. These schemes in the past helped tourism operators upgrade their product and create additional jobs.

What percentage of these funds is going to be used to continue enhancing Malta's tourism product and thereby used to safeguarding the competitiveness of this sector?

Has the Malta Tourism Authority applied for funds to carry out tourism zones embellishment projects as was the case in the past (e.g.: the Malta National Aquarium, the embellishment of the promenade in St Paul's Bay, the embellishment of the Pembroke)?

Will government or the Malta Tourism Authority be administering a grant scheme for tourism operators as was the case between 2008 and 2013? If so when will this scheme be launched?



Martin Agius

## **THE NEXT FRONTIER**

Malta's tourism sector is unrecognisable from what it was thirty years ago. Our product changed. The source markets of our tourism changed. We are no longer as dependent on tour operator business as we are attracting more independent travellers. The changes were planned. The first tourism plan for Malta, launched in the late 1980's by the late Dr Michael Refalo paved the way for a more cultural, more diversified, higher spending tourism. The tourism plans of the last decade opened up our tourism to low cost carriers, more diversification, improved product and more focused marketing. It is now the time to ask where is our industry going to be in twenty years time and what needs to be done to ensure that Malta remains on top of the game in this very competitive sector. Our tourism business model today is based heavily on air accessibility and on managing successfully our partnerships with airlines. And so it should be in the era where airlines are the strongest link in the tourism chain. But things can change and best way to prepare for such a change is by building a natural and strong demand for Malta as a tourist destination. The Opposition feels that the time is opportune to launch a process for a new comprehensive study on tourism in Malta, in line with the study that was carried out by Horwarth and Horwarth in the late 1980's. The study should look at the product side and marketing side of tourism as it stands today and identify options for the future.

## 2.3 GREEN ECONOMY

The green economy is an area of significant potential for the Maltese Islands, for beyond the economic impact, it can support our efforts and obligations towards a better managed, cleaner and more sustainable environment. It can be a significant source of economic activity directed at the creation of ways to supply efficient, eco-friendly products to assist green businesses. These create work opportunities requiring green designers, architects, energy auditors, painters, engineers, project managers, lighting consultants amongst others.

Unfortunately, many businesses and households still consider the concept of “going green” as a preferable, but more expensive option. This is still hindering growth, considering the potential. However, past experiences show that simple, tailor-made incentives are likely to drive significant chunks of the population to make lifestyle changes – the take up of solar energy schemes or even the tax rebates on energy saving household appliances are clear evidence of this. Such schemes could be further extended to the concept of green buildings and green businesses, which would significantly reduce the energy cost while creating opportunity for workers with such skills. Evidently, this will require a deep look at the educational and training necessities, which so far still appear to be lacking in this regard.

Despite the lack of formal policy on the Green economy, over the past decade our country has seen a gradual “green” shift in a number

of fields, ranging from energy to tourism, from transport to manufacturing. Both businesses and enterprises have started to – at least to some extent, think green. Evidently, certain aspects of this industry have fared significantly better than others – companies involved in the solar panel business, insulation products and energy-saving appliances are a clear example of this. However, the concept of green economy spreads well beyond, to some areas of potential growth, from air pollution control to the production of recycled material, from production of biofuels to waste management. The latter are relatively untapped in Malta and offer significant opportunities for investment, business start-ups and employment growth.

It is unfortunate that government is sending out mixed messages on the green economy – on the one hand saying that it cares for the environment while on the other hand relegating the environment to the second division of national priorities. It is ironic for instance that in the pre-budget document, government speaks of improving the management of Natura 2000 sites yet the same government is going to re-designate 160 tumoli of ODZ land in Zonqor Point to allow development to take place. This land is currently earmarked for a nature park but government, despite widespread opposition, intends to give it up for development. In order to be

able to do change the designation of the land, government is labelling the proposed project as an educational project, when it is clear to all that this project is a speculative development that should be subjected to the normal market conditions and not given land on the cheap. This project reflects the development-at-all-costs mentality adopted by this government. This mentality is also epitomised in the proposed changes to the development and planning laws. The decoupling of MEPA, mentioned as a pro-environment task in the pre-budget document, is being criticised by all eNGOS, the Church’s Interdiocesan Commission for the Environment and the Environment and Planning Commissioner within the Office of the Ombudsman. Interestingly, the Church’s Environment Commission stated that while in the past it spoke publicly in favour of the split, it now “sadly notes that beyond the rhetoric and the marketing efforts currently being made to portray positively the splitting of the environment and the planning functions, and the setting up of two new authorities, the proposed Bills will make the environment a big loser due to the weakening of the development planning function that was introduced after years of environmental pillaging due to direct ministerial involvement in regulating development in the country”. The Commissioner for Environment and Planning, in the Office of the Ombudsman, is opposing the de-merger in

its current form saying that it undermine transparency, accountability and access to public scrutiny in the development planning process. It is sad and ironic that in the Pre-Budget document government speaks of increased public participation in the decision making process and of encouraging a more transparent and accountable and improved governance when this piece of legislation is doing the very opposite.

**With the aim of strengthening Malta's green economy, the Opposition is calling on government to:**

**Re-think** the proposed changes to the Development and Planning Act to address the legitimate concerns being expressed by the Opposition, the eNGOs, the Office of the Ombudsman and the Church's Interdiocesan Commission for the Environment

**Reverse** its decision to re-designate and grant 160 tumoli of ODZ land in Zonqor Point for development

**Give an economic value** to government-owned ODZ land that it at least equal to the economic value of land in prime development zones

**Promote** practices that that ensure real sustainable economic growth, prevent environmental degradation and protect natural resources

**Integrate** issues such as green business management and green design into education by including them at different educational stages

**Support** the private sector in taking a stronger role in environmental management and in developing environmentally friendly (innovative) product, services

**Support** public- private partnerships for large-scale energy efficiency projects

**Incentivise** provision of interest rate subsidies on the commercial loans that are targeted as investment in renewable energy source projects

**Ensure** that part of the EU structural funds are used to encourage green activities both within the business and the domestic sector, such as energy efficient and environmental audits.

## 2.4 SMALL AND MEDIUM SIZED BUSINESSES AND SELF EMPLOYED

### SMES: THE BACKBONE OF THE MALTESE ECONOMY

As the end of 2013, Malta had 26,346 SMEs accounting for 99.8% of all enterprises. These SMEs employed 92,702 persons which equate to about 80% of the gainfully employed. SMEs are also responsible for generating 71.5% of the overall value added. The most important sectors for SMEs in Malta are manufacturing, wholesale and retail trade, a statistic which is very much in line with the EU norm. These two sectors account for more than 46% of SMEs value added and employment. The importance of SMEs has been appreciated by successive Nationalist Governments – and in past legislatures much has been done to address their issues ranging from access to finance to reducing bureaucracy, particularly through the Small Business Act.

Self-employed fall under the category of SMEs. The number of self-employed has increased consistently between 2008 and 2015 (Table 17 and 18) with an average annual increase of 205 self-employed every year. The highest increases were recorded in the professional sector and in the construction and tourism sectors. The increase in the number of self employed persons in the construction and tourism is expected given the consistent increase in tourism business over the past eight years and the increase in the construction business over the past two years. One has to point out that part of the increase in the number of self-employed is attributable to the

condemnable practise referred to locally as precarious work, whereby employees are forced to register as self-employed and thereby stripped of their rights for statutory holidays and bonuses. Additionally, a percentage of the increase in the number of self-employed can be attributed to a fiscal measure and not to economic growth. As budget measure introduced last year, necessitated self-employed persons earning less than €7000 to register and obtain a VAT number. This measure in all probability inflated the number of self-employed during 2014.

Interestingly, the number of self-employed professionals increased by an extraordinary 8% in 2014 and 9% in March 2015 when compared to March of the previous year. Seen on its own, this increase is positive but it could be problematic if it hides a growing inability among graduates to find paid employment. To put it differently, are these professionals registering as self-employed by choice or is it because of lack of opportunities to work with companies or professional firms?

**TABLE 17**  
**NUMBER OF FULL-TIME SELF-EMPLOYED 2008-2015**

<i>Year</i>	<i>Number of Full-time Self-employed</i>
<b>2008</b>	<b>17,165</b>
<b>2009</b>	<b>17,390</b>
<b>2010</b>	<b>17,502</b>
<b>2011</b>	<b>17,681</b>
<b>2012</b>	<b>17,787</b>
<b>2013</b>	<b>18,181</b>
<b>2014</b>	<b>18,597</b>
<b>2015*</b>	<b>18,961</b>

\* March

Source : NSO (Gainfully occupied population)

**TABLE 18**  
**NUMBER OF SELF-EMPLOYED BROKEN DOWN BY SECTOR 2008-2015**

<i>Sector</i>	<i>2008</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>
<b>Manufacturing</b>	<b>1,618</b>	<b>1,583</b>	<b>1,544</b>	<b>1,520</b>	<b>1,427</b>	<b>1,386</b>	<b>1,414</b>	<b>1,432</b>
<b>Agriculture &amp; Fisheries</b>	<b>1,269</b>	<b>1,274</b>	<b>1,263</b>	<b>1,521</b>	<b>1,507</b>	<b>1,475</b>	<b>1,455</b>	<b>1,412</b>
<b>Construction</b>	<b>2,616</b>	<b>2,601</b>	<b>2,554</b>	<b>2,626</b>	<b>2,645</b>	<b>2,709</b>	<b>2,739</b>	<b>2,745</b>
<b>Wholesale &amp; Retail</b>	<b>5,196</b>	<b>5,209</b>	<b>5,154</b>	<b>5,250</b>	<b>5,228</b>	<b>5,333</b>	<b>5,367</b>	<b>5,459</b>
<b>Accomodation &amp; Food Services</b>	<b>900</b>	<b>931</b>	<b>950</b>	<b>1,075</b>	<b>1,109</b>	<b>1,171</b>	<b>1,202</b>	<b>1,219</b>
<b>Professional, Scientific &amp; Technical</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>1,054</b>	<b>1,091</b>	<b>1,184</b>	<b>1,278</b>	<b>1,372</b>

\* March

Source : NSO (Gainfully Occupied Population)



TABLE 19  
**BIRTH AND DEATH OF BUSINESSES 2009-2014**

<i>Year</i>	<i>Birth of new businesses</i>	<i>Death of business units</i>
<b>2009</b>	<b>5,649</b>	<b>3,498</b>
<b>2010</b>	<b>6,218</b>	<b>3,350</b>
<b>2011</b>	<b>6,149</b>	<b>10,382</b>
<b>2012</b>	<b>6,474</b>	<b>4,399</b>
<b>2013</b>	<b>7,133</b>	<b>3,699</b>
<b>2014</b>	<b>6,871</b>	<b>3,128</b>

\* March

Source : NSO (Gainfully occupied population)

## TRADING ABROAD- EASIER THAN IT SOUNDS

\*On 1 January 2011, the Value Added Tax (Exemption from Registration) Regulations, 2010, came into force, as notified in Legal Notice 524 of 2010. The Regulations state that the VAT Commissioner shall not register any taxable person established in Malta whose turnover does not exceed €7,000 in a calendar year. Therefore business demographics from 2011 onwards may not be strictly comparable to the business demographics of previous years and should be treated with caution.

EU membership has opened the door for Maltese businesses to a huge market, in excess of half a billion consumers, which counteracts the small scale size of the Maltese market. This has created a significant competitive challenge, paralleled by wide-ranging opportunities, ranging from funding to export possibilities. It does not seem that our SMEs have been quick to capitalise on this opportunity. While imports have flooded certain markets, many small entrepreneurs seem unwilling to look at the wider EU market for strengthening their business. EU funding which could be crucial to help in developing overseas markets is considered as too complex for many SMEs.

According to the European Family Business Barometer published by KPMG in December

2014, 63% of family-run businesses in Europe sell to foreign markets. The 27% who do not sell cited the following reasons for not taking their business abroad: 34% said that their products and services cannot be sold externally; 24% said that the domestic market is sufficient; 20% said that they lacked familiarity with foreign markets; 4% said that they had no public support; 4% said they lacked financing while the remaining 14% mentioned other reasons. Malta participated in this survey. According to the Family Business Survey 2014, carried out by PWC only 21% of Maltese family-run businesses currently export. With the country's exports dropping year-on-year and competition for local market share increasing, it is important for government to help SMEs target foreign markets. A number of the conditions that impact negatively on SMEs exports

## **THINK GLOBAL BUT ALSO LOCAL**

can be overcome with the right assistance from government. Unfortunately, Government and Malta Enterprise have done next to nothing over the past two and a half years to help SMEs develop their international presence. The Gateway to Exports programme, is no longer being promoted. A link on the Malta Enterprise webpage which should lead to a site giving information on this programme is obsolete.

While Maltese companies are struggling to export, our wholesalers and retailers are facing increased competition as a result of globalisation, the increasing dominance of on-line trading and the process of liberalisation. Some 40% of retailers who took part in GRTU's annual business survey reported a decrease in sales in 2014 when compared to 2013, while only 25% reported an increase. According to the survey, the main reasons for this decrease were local competition, trading from Sicily, online shopping and lack of parking facilities. The government has on various occasions pledged to address the issue of falling competitiveness of the retail trade but has done nothing in this regard.

While focusing on the potential of internationalising our SMEs, one should not ignore the fact that small businesses are deeply impacted by local issues such as parking and traffic management, access to funding and excessive bureaucracy. The issue of traffic is dealt with in Section 2.10 of this document.

## **ACCESS TO FUNDING: NOT SO EASY AND DEFINITELY NOT CHEAP**

Despite funding opportunities made available to SMEs over the past years, a number of SMEs are still finding it difficult to obtain loan financing even though their venture is financially viable. A survey conducted amongst GRTU members shows that they appear divided on their views on ease of accessing finance. Members however have unanimously agreed that accessing funds is very costly and this relates to both bank charges which are disproportionate, interest rates which vary significantly and go up to 8% and excessive collateral requirements which are sometimes even five times the loan amount. The stricter controls introduced by the Banks, after the financial crisis of 2009, have made it more difficult for SMEs to convince lending institutions to support their ventures. This is a problem not only for SMEs in Malta but also for SMEs across member states of the European Union. Europe needs SMEs if it wants to continue being an economic powerhouse. The success of the European Union's economy and that of its individual member states, including Malta, depends on instigating and supporting the entrepreneurial spirit small and medium sized businesses. The European Union and government's measured intervention in the past helped paved the way for easier access to finance for SMEs. The Jeremy initiative, administered locally by the Bank of Valletta, helped over 600 SMEs gain access to a loan

## SURVIVING FROM ONE GENERATION TO THE NEXT

portfolio of €62m and €100m of capital investment. The pre-budget document makes no reference to government's plans in creating new funding opportunities for SMEs, even though government has in the past announced measures in this regard. The Opposition is therefore calling on government to state how it intends to help SMEs gain easier access to funding.

### Excessive Bureaucracy:

According to the latest Global Competitiveness Index report, published by the World Economic Forum in September of last year, Malta slipped six places and is now ranked in the 47th place. In 2013 Malta had moved up six places to rank 41st but has now slipped back to the 2012 ranking. According to the report, the most problematic factor for doing business in Malta is 'Inefficient government bureaucracy.' Malta obtained a low score of 3.5 (out of 7) for 'Public trust in politicians,' and 3 on 'Favouritism in decisions of government officials.' Relatively low scores were also registered on the quality of roads and the burden of government regulation.

The PWC survey on family businesses showed that the major concern of family-run businesses for the next five years is how to ensure the company's long-term survival. It also points to structural weaknesses in family-run businesses even if the survey points out that "there is evidence that things are changing with higher than average numbers planning on passing on ownership to the next generation but bring in professional management". Government should seek ways of helping this process of professionalising family-run businesses.

### In view of the above, the Opposition is calling on government to:

**(1) Improve** access to finance for SMEs especially for start-ups which are facing funding difficulties and higher interest rates. Government should also provide information on the performance of the venture capital initiative launched earlier this year and on plans for future initiatives aimed at improving access to finance for SMEs;

**(2)** Unfortunately a number of 'businesses are 'lost' from generation to the next. Government should **identify** measures that can help family-run businesses adopt a structures that are not dependent on family ownership and that can help the business survive and flourish from one generation to the next;

**(3) Ease** the access to EU funding for SMEs;

**(4) Consider** tax incentives which can alleviate start-up costs, encourage growth/employment and support entrepreneurs in looking beyond our shores;

**(5) Offer** support to potential entrepreneurs to innovate their products and services;

**(6) Address** with urgency the situation of traffic congestion on the roads ;

**(7) Enter** into discussions with financial institutions to encourage them to reduce lesser charges for smaller businesses; and,

**(8) Support** recruitment by startups and micro enterprises by suspending social security during the probation period.

**(9) Reinstate** the VAT exemption for self-employed earning less than €7,000.

## 2.5 FINANCIAL SERVICES

Malta has gained a reputation as a world-class international financial jurisdiction, which employs over 10,000 people. Over the last years it has seen its varied sub-sectors, ranging from investment services to insurance, from banking to retirement scheme administration, grow from strength to strength. The World Economic Forum has ranked Malta amongst the top 20 financial jurisdictions around the world. The sector benefitted from cross-Party support that helped our country develop a legislative and operational framework that is the envy of other jurisdictions.

The Maltese financial services regulator is considered as a leader in the industry and together with the agility of being a smaller, nimble nation has provided a competitive advantage in anticipating and responding to market opportunities. The development of sub-sectors related to trusts and pensions proves the success of this approach.

In spite of global economic events, employment and associated salaries in this sector, are expected to remain strong. As international investors seek safer jurisdictions following the terrible crisis of the past years, this industry is likely to keep going forward while creating a substantial number of new jobs. Over the past two decades, Malta has worked diligently to improve

its financial regulatory system to become internationally competitive. Malta's banks adhered to sound banking practice, maintaining solid capital positions which enabled them to ride out the financial turmoil relatively unscathed.

Competing jurisdictions, however, have been following suit and are quickly catching up. First mover advantage remains critical to ensure growth – in an industry that is subject to constant changes and pressures, we need to remain vigilant and on top of our game.

Which is why recent cases that cast doubts on our country's standing as a financial centre of unblemished repute cannot be taken lightly. Our continued success in this sector depends on a number of factors but primarily on our reputation. We lose that and with it the goodwill built painstakingly over the years. We need to ensure that our regulatory regime filters out the bad apples before they join the basket. And if a rotten apple is spotted within the basket then we need to act fast not only to remove that apple but to close any loopholes that weaken our regulatory regime.

Beyond that we need to ensure a steady supply of professionals ready to benefit from the new opportunities that are being created and who understand the responsibility they have to the sector and the country's economy.

### WAY FORWARD

The Opposition is proposing that cross-Party collaboration in this sector continues to ensure the expansion of existing sub-sectors within this industry and the identification of the next niche areas that will enhance growth. Government should strengthen its efforts to achieve a balance between flexibility and robustness, whilst maintaining full respect to regulations, particularly EU-led regulation. While Malta has established itself strongly amongst European investors, particularly British and Swiss, there could be room for growth beyond Europe. How can Maltese expand its remit further beyond European shores? Other European countries with some similar target industries to Malta's have attracted significant U.S. investment, which, a market which, despite our linguistic advantages, has not yet been tapped. Despite the increase in financial jobs, this sector does not yet enjoy the visibility and attractiveness amongst younger students in a comparable manner to IT. What efforts is government going to take to keep ensuring a steady supply of professionals in the sector to meet the demands of a growing industry?

## 2.6 THE CONSTRUCTION INDUSTRY

The construction industry underwent a boom period that peaked in 2007 (Table 20 and Table 21).

The number of full-time and part-time employees in the construction industry fluctuated greatly between 2003 and 2014, with full time employees peaking in 2009 (12,672 employees) and part-time employees peaking in 2014 (2739 employees). (Table 22). The industry seems to be shedding full-time employees and engaging part-time workers instead

**TABLE 20 APPLICATIONS FOR NEW DEVELOPMENT PERMITS 2003-2014**

<i>Year</i>	<i>Development Permits for new dwellings</i>	<i>Number of units permitted</i>
<b>2003</b>	<b>1,838</b>	<b>6,128</b>
<b>2004</b>	<b>1,813</b>	<b>6,707</b>
<b>2005</b>	<b>2,422</b>	<b>9,081</b>
<b>2006</b>	<b>2,994</b>	<b>10,409</b>
<b>2007</b>	<b>3,047</b>	<b>11,343</b>
<b>2008</b>	<b>2,145</b>	<b>6,836</b>
<b>2009</b>	<b>1,609</b>	<b>5,298</b>
<b>2010</b>	<b>2,519</b>	<b>4,444</b>
<b>2011</b>	<b>1,991</b>	<b>3,955</b>
<b>2012</b>	<b>1,658</b>	<b>3,054</b>
<b>2013</b>	<b>1,812</b>	<b>2,705</b>
<b>2014</b>	<b>2,045</b>	<b>2,937</b>

Source: BRO, Ministry for Transport and Infrastructure

**TABLE 21 APPLICATIONS FOR NEW NON-RESIDENTIAL BUILDINGS**

<i>Year</i>	<i>Number of Applications</i>
<b>2003</b>	<b>713</b>
<b>2004</b>	<b>671</b>
<b>2005</b>	<b>730</b>
<b>2006</b>	<b>623</b>
<b>2007</b>	<b>649</b>
<b>2008</b>	<b>442</b>
<b>2009</b>	<b>410</b>
<b>2010</b>	<b>832</b>
<b>2011</b>	<b>655</b>
<b>2012</b>	<b>643</b>
<b>2013</b>	<b>576</b>

Source: BRO, Ministry for Transport and Infrastructure

**TABLE 22  
NUMBER OF EMPLOYEES  
IN THE CONSTRUCTION  
INDUSTRY 2003-2014**

<i>Year</i>	<i>Full-time</i>	<i>Part-time</i>
<b>2003</b>	<b>11,149</b>	<b>1,114</b>
<b>2004</b>	<b>10,384</b>	<b>1,192</b>
<b>2005</b>	<b>10,602</b>	<b>1,272</b>
<b>2006</b>	<b>11,267</b>	<b>1,319</b>
<b>2007</b>	<b>11,536</b>	<b>1,355</b>
<b>2008</b>	<b>12,219</b>	<b>2,616</b>
<b>2009</b>	<b>12,672</b>	<b>2,601</b>
<b>2010</b>	<b>12,141</b>	<b>2,554</b>
<b>2011</b>	<b>12,317</b>	<b>2,626</b>
<b>2012</b>	<b>12,036</b>	<b>2,654</b>
<b>2013</b>	<b>10,916</b>	<b>2,709</b>
<b>2014</b>	<b>9,322</b>	<b>2,739</b>

Source: NSO (Gainfully Occupied Population)

Government has adopted a development-at-all-cost attitude. It is dismantling safeguards in the planning development application process to enable more development. This attitude has created a united front against development in outside development zones. There is also a growing resistance to the changes being proposed by government as they are seen by many as favouring the constructing lobby interest over the environmental interests of the country. The downside of this is going to be a growing public resentment towards the construction industry.

The Opposition would like to see incentives aimed at encouraging construction companies to take on more restoration, regeneration and rehabilitation projects. Over the past years, properties in village and town cores were left abandoned. These properties, with the right incentives could be restored and help bring back life into village centres which are currently suffering from degradation.

The Opposition is also calling on targeted efforts to reverse the process what Din I-Art Helwa aptly called the process of uglification. A significant percentage of the development that has taken place in Malta has had a detrimental effect on the street scape and overall landscape of our country. Most of this development cannot be reversed. The only way to counteract it is by carrying

out projects within our towns and villages that bring out the aesthetically pleasing elements of the locality and by ensuring stricter design guidelines for new development.

## 2.7 DIFFUSING THE PENSION TIME BOMB

The Pre-Budget document has a section dedicated to the issue of Ageing and the long-term sustainability of public finances. And so it should. This, together with health care, is arguably the biggest challenge to long-term sustainability that our country is facing. The increase in the number of persons aged 65 and over is set to increase and with it the number of persons who depend on others to generate economic wealth (Table 23). Nationalist government's have a sound track record in enabling

pensioners to contribute towards economic wealth - to be an asset rather than a weight on the economy. We removed obstacles to persons over pensionable age to remain in paid employment. Ensuring the adequacy of pensions, and their sustainability for future generations, has been at the heart of the pension reform that we set in motion over ten years ago. These reforms, together with sound economic governance and a buoyant labour market despite the crisis, have resulted in a significant

decrease in what is known as the Pensions Gap, which the World Bank warned us of ten years ago. They have also contributed to a better quality of life for older persons.

TABLE 23  
POPULATION PROJECTIONS FOR MALTA 2015-2030

	2015	2020	2025	2030
<b>Age 65+ as % of total population</b>	<b>18.9</b>	<b>21.2</b>	<b>23.3</b>	<b>24.4</b>
<b>Age 80+ as % of total population</b>	<b>4.1</b>	<b>4.9</b>	<b>5.8</b>	<b>7.8</b>
<b>Age 80+ as % of working age population</b>	<b>6.1</b>	<b>7.7</b>	<b>9.4</b>	<b>12.9</b>
<b>Old-age dependency ratio</b>	<b>28</b>	<b>33</b>	<b>38</b>	<b>41</b>

Source : EC,2014

Despite the improvements, there is more that needs to be done to ensure that our pensions system is both adequate and sustainable.

According to the latest Income and Living Conditions Survey, published by the NSO, the percentage of the population at risk of poverty stood at 15.9 per cent while those at risk of poverty or social exclusion rate stood at 23.8 per cent. These statistics show that government is moving further away from reaching the goal it set for itself in the electoral manifesto, wherein it was stated that a Labour government would work to reduce the number of people living in poverty or risk of poverty which at that time stood at 88,000. There has been an increase in the number of persons below the threshold particularly in the age group 65+. In 2013 there was 14.9 per cent who were at risk of poverty whereas in 2014 this has increased to 16.9 per cent. The Opposition therefore looks forward to the implementation of Government's promised proposals on the Guaranteed National Minimum Pension.

Sustainability is the other policy pillar which must underpin any pension reforms. Over the past years, various and quite major parametric reforms were introduced, with a tightening of the contribution/benefit link to take earnings over one's career into account; with a raising of the

retirement age for both men and women; and the recognition of a period of unpaid family work. Furthermore, the maximum ceiling for State pensions will gradually increase to see pensioners' income increase steadily over the coming years. The ground was also laid for the necessary structural reforms, to leave room for, and encourage, a multi-pillar approach within a sound regulatory framework.

In this respect, the amendments to the Social Securities introducing incentives for those willing and able to pay into a voluntary third pillar pension are welcome. However, the incentive of a tax rebate of 15% on a third pillar investment, capped at €1,000, is not generous enough and in the Opposition's view both the rate and the cap should have been revised upwards.

The Opposition believes that the time has come to look seriously at the EU's recommendations, as well as those of the Pensions Working Group, and examine the implications and consequences of adopting and/or opting not to adopt a second pillar system, as well as consider alternative systems in place in other countries. Unlike the third pillar system, which tends to attract and reward higher-income earners, the second pillar is more equitable in that its coverage is broader, and its impact on adequacy and sustainability are stronger. That said, we do recognise that a shift to a multi-pillar system, while seen

as essential in most developed countries, does imply a 'risk shift' – as future pensioners will bear, as individuals, more risk of exposure to labour and financial markets and of increasing longevity. Regrettably, to date the Government has taken a very populist approach to the responsible call for a second pillar system, flatly rejecting it without offering any sound alternatives that would ensure the sustainability and adequacy of pensions for future generations. It is ironic that, once again, it is the Opposition, rather than the Government, that is calling for a consensual approach to matters of national long-term importance.

The Opposition would also like to reiterate its call for government to help people make informed decisions on their decisions on their future pensions. People should have information that is meaningful, and easy to understand, to guide them in making decisions about saving for their retirement. There is a pressing need for action to be taken in this regard as recommended by the Pensions Working Group. We need to make particularly sure that women are aware of their pension entitlements and how they go about accruing pension rights. This is especially significant in the case of women, as they are more likely to have career breaks to care for family members and thus have shorter working careers; they are more likely to work on a part-time basis; and to have



lower-paid service sector jobs. This is especially true of women performing undeclared work. All these factors result in their not becoming eligible to a state pension in their own right. We also need greater clarity on the pension rights of separated and divorced women and the terms of their entitlement to part of their husband's pension.

The Opposition is aware that left to its own accord, the pension time bomb will explode. Unless all political parties actively work together to diffuse it, people will suffer greatly. This is an issue that necessitates a bi-partisan approach. This is an issue where politicians should follow technocrats and not the other way round. This is an issue that goes beyond the lifetime of any one administration. The Opposition is therefore recommending that every budget includes SMART measures, ideally discussed and agreed upon between government and the Opposition, that in a measurable and significant way, tackle this issue.



## 2.8 A SOCIETY THAT CARES: SUPPORTING THE LOWER INCOME EARNERS AND COMBATING POVERTY

The progress of a country cannot be measured by GDP growth only. Sustainability principles dictate that equal care be given to environmental and social considerations. A country will truly prosper if the wealth it generates is shared in a fair manner, a manner that rewards those who generate wealth and at the same time provides for those who, for reasons beyond their control, are unable to participate and share in the wealth being generated. It is the duty of the State to enable persons to participate in the economy, to create the proper environment that allows people to use their talents, abilities and resources to their personal and common good. It is also the role of the State to provide a safety net for those who lag behind as society moves forward.

Our country's GDP has been on an upward trajectory since 2008. Regrettably so has the number of persons considered to be at risk of poverty (Table 24).

**TABLE 24**  
**PERSONS AT RISK OF POVERTY**

<i>Year</i>	<i>Persons at risk of poverty</i>	<i>% of population</i>
<b>2009</b>	<b>61,280</b>	<b>15</b>
<b>2010</b>	<b>61,520</b>	<b>12</b>
<b>2011</b>	<b>69,640</b>	<b>22</b>
<b>2012</b>	<b>93,783</b>	<b>23</b>
<b>2013</b>	<b>99,020</b>	<b>24</b>
<b>2014</b>	<b>99,038</b>	<b>24</b>

Source: NSO (International Day of the Family)

According to Eurostat, persons living in Malta in 2014 who earned €7,672 or less were considered to be at risk of poverty which means that they face one or more of the following: difficulty to keep their home warm in winter; inability to afford a healthy diet; and/or inability to pay bills and loan payments. This means that one in four of the Maltese population in 2013 and 2014 was living in risk of poverty. The percentage of people living in the risk of poverty increased from 15% in 2009 to 24% in 2013 and 2014. This gives a different perspective to the economic growth that occurred in Malta in the same period. The country may be generating more but there are proportionally less people who are benefitting adequately from that growth.

Malta followed the the European Union trend between 2009 and 2012 but in 2013, while poverty levels in the European Union decreased, the number and percentage of people in risk of poverty in Malta increased. As shown in Figure 1 below, “the number of people at risk of poverty or social exclusion in the EU-27 had been decreasing steadily before the economic crisis. The indicator reached its lowest level in 2009 with about 114 million people at risk in the EU-27. However, this figure grew again in the following years. It reached its peak in 2012, with about 123 million people at risk, before decreasing again slightly in 2013. For the EU-28, the number of people at risk of poverty or social

exclusion followed a similar trend, although at a slightly higher level due to the inclusion of Croatia. As shown in Figure 2, it accounted for about 118 million people in 2010 and rose to almost 125 million people in 2012 before falling again in 2013 to 122.6 million. The serious impact of the economic crisis on Member States’ financial and labour markets was the most likely cause for the rise from 2009 onwards”, (Source: Eurostat, Europe 2020 indicators - poverty and social exclusion).

**FIGURE 1: PEOPLE AT RISK OF POVERTY EU 2005-2013**  
**SOURCE: EUROSTAT**

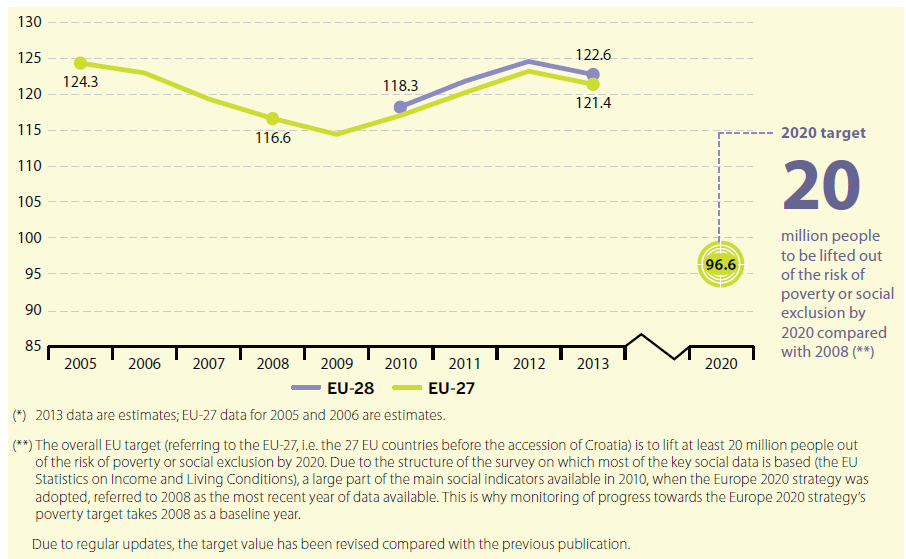
**Poverty can only be overcome through structural reforms that:**

- promote economic growth;
- generate high levels of employment – employment that gives adequate and just rewards to enable a decent standard of living; and,
- guarantee adequate social protection and access to quality services (such as healthcare, childcare, education and housing).

On paper, Malta seems to be doing all this. The country's GDP has grown year on year. Unemployment levels are dropping and the number of gainfully employed is on the rise. More and more money is being spent on social services, including free healthcare and education. So why is the number of persons at risk of poverty increasing rather than decreasing?

The answer is not a simple one.

The average income of employees is increasing at a decreasing level (Table 25). The cost of living adjustment, while helping in no small ways to protect the disposable income of persons in employment, is clearly not being effective enough.



**TABLE 25**  
**CHANGE IN AVERAGE ANNUAL SALARY 2009-2013**

Year	Average Salary	% increase on previous year
2009	€13,788	
2010	€14,448	5
2011	€15,016	4
2012	€15,471	3
2013	€15,979	3
2014	€16,267	2

Source: NSO (Labour Force Survey)

Certain sectors are also unable or unwilling to improve the wages of their employees. While this harnessing of wages may have helped in improving the competitiveness of certain sectors, it is pushing more people towards the risk of poverty, especially if the income earner is the sole bread winner in the family.

According to the National Statistics Office, “the at-risk-of-poverty rate decreased as household work intensity went up. This rate ranged from 65.2 per cent among persons living in households with very low work intensity, to 1 per cent for those in households with a very high work intensity” (Statistics on Income and Living Conditions 2013 – Salient Indicators). This is a different way of saying that a single minimum wage is not sufficient to keep a family from drifting towards poverty.

The increase in number of pensioners is also a factor when determining the cause leading to the increase in the number of persons at risk of poverty. The current national minimum pension for married individuals is €135 per week and €119 per week for singles. Therefore pensioners on the national minimum pension immediately fall within the category of persons at risk of poverty since they earn below €7256 annual threshold. In the National Strategic Policy for Poverty Reduction and For Social Inclusion, government proposed that the the national

minimum pension should be equivalent to 60 per cent of the median national income. The Opposition supports this proposal but is echoing the call made by the Pensioners Alliance for this change to be introduced in a shorter time period than that being proposed by government.

Malta is committed to reducing the number of persons at risk of poverty by 6,500 by the year 2020. Our country is currently drifting further away from and not closer to this goal. This criticism is not being levelled solely at this administration. It is clear from the above that even during the past administration, the wealth generated by the country was not cascading down to all income groups.

In November 2014, the Government launched The National Strategic Policy for Poverty Reduction and Social Inclusion. The Opposition is asking government to accelerate the implementation of the actions emanating from this policy. The Opposition disagrees with government’s decision to assign responsibility for this strategy to the President’s office. Government, particularly the Cabinet office, should be in the driving seat, implementing a clear programme aimed at eliminating poverty and social exclusion.

**In order to help our country to move closer to this goal, the Opposition is recommending that government:**

**(1)** Increases its efforts to help improve the competitiveness of certain sectors of our economy. Improved competitiveness will lead to an improved bottom-line which in turn will enable employers to improve the employees wages. Government should consider utilising part of the European Union funds of the current programming period to this end. Schemes that help improve the competitiveness of our industries – particularly our manufacturing, wholesale and retail, accommodation and food services and construction industry - will help improve the earnings of our workforce thereby reducing the number of those at risk of poverty;

**(2)** Provide more on-the-job training opportunities, similar to the EU-funded Advance programme that was administered by the Malta Tourism Authority, to enable people in employment to take on better paid jobs, and,

**(3)** Improve the pensions system at a faster rate than that being contemplated by government and through the introduction of a second pillar pension scheme.

The Opposition furthermore supports efforts aimed at encouraging more people to join the active labour force – efforts that increase the female participation rate, encourage and facilitate productive employment for persons with disability and encourage persons that reach pensionable age to continue working beyond the statutory retirement age.

**The Opposition is also recommending that the following concrete actions be taken to combat poverty:**

## **FIGHTING HUNGER AND MALNUTRITION**

Hunger and malnutrition are the number one risk to health worldwide. Every person should have a balanced and healthy diet. Some don't as a matter of choice or wrong lifestyle. Others don't because they lack the means to purchase adequate food. People growing up in poverty or in risk of poverty are unable to buy meat, chicken or vegetables every second day. This is unacceptable in a society that prides itself of generating wealth year-on-year. The Opposition is proposing two direct actions to combat malnutrition in families living in poverty or at risk of poverty. These actions will not only help reduce the number of those at risk of poverty but will also help address the challenge of poor diet that is prevalent in Malta:

**(1)** A healthy food voucher system: Government should introduce a healthy food voucher system for families that cannot afford to buy food. The vouchers can be exchanged only for food items that are required for a healthy diet: namely meat, chicken, fish and vegetables.

**(2)** Lunch boxes for school children: Government should introduce a system, similar to the Meals-on-wheels concept- to distribute lunch boxes for school children coming from families which are at risk of poverty. This measure should form part of a larger effort to promote healthy living amongst school children.

**(3)** Extension of the Meals-on-wheels programme: The meals-on-wheels programme currently delivers warm food to circa 300 pensioners. Government should work with the voluntary organisation that runs this programme to extend the programme to more pensioners. Government should set a target of increasing the number of recipients every year at least proportionally to the increase in number of people reaching pensionable age. The service is currently not means tested. Government should consider whether new beneficiaries should be mean tested to ensure that the service targets those at risk of poverty.

The above benefits should be quantified and added to the income of the person receiving the benefit. In this manner, these benefits will contribute in a tangible manner towards the national goal of reducing the number of persons at risk of poverty.

## BREAKING THE POVERTY CYCLE

Poverty cycle is defined as those set of factors or events by which poverty, once started, is likely to continue unless there is outside intervention. Breaking these cycles is not easy. It requires financial commitment and targeted action investment particularly in education programmes that are tailor-made to meet the needs of families that fall prey to poverty cycles. Studies have shown that the most effective weapons for fighting poverty is education and programmes that build on skills and aptitude of persons trapped in this cycle. The pseudo-University project, being championed by government, does none of this, and it is regrettable that government is promoting this project as a means of combating poverty in the inner harbour regions. The Opposition is putting forward these proposals which we feel will target and break poverty cycles:

**(1) Special focus on Children caught in Poverty cycles:** A recent study carried out in Malta showed that one in three inmates belonged to a family with criminal convictions. Many had a sibling, parent or spouse who had previously been in jail. These are the type of cycles that our society needs to destroy. Clearly the systems we have in place are not effective enough to meet the challenges faced by social groups who face greater risk of poverty. The Opposition is recommending a rethink of the way primary and secondary education is delivered to school children whose families are caught up in poverty cycles. We need to think outside the box, use our best brains to develop an institution that can deliver a personalised system of education to children who are currently trapped in these vicious cycles. This system cannot start and end in the classroom but should integrate the classroom with the home and social life of these children.

**(2) Putting people at the centre of cities:** The National Strategy for poverty reduction states that “50,616 persons are in arrears on mortgage or rent payments, utility bills or other loan repayments... Substandard housing conditions, which mainly manifest themselves among low-income families who suffer multiple deprivations, are not only likely to lead to an increased risk of poverty and social exclusion but may also give rise to injury and illness (Krieger & Higgins 2002)”. The Strategy also makes

the argument for the availability of decent and affordable housing by restoring vacant and unoccupied buildings thus helping in the regeneration of the environment. The Opposition supports this line of thinking and is recommending that a scheme be set up to convert government owned vacant property into decent housing for families caught in poverty cycles. The property once restored will be made available to such families subject to certain conditions to ensure that the property remains as a family asset and contributes towards the elimination of the cycle. Persons gaining a house from this scheme should where possible contribute by carrying out work on properties forming part of this scheme. Such a scheme will not only help the families in need, it will also help put people back into the city and village of the inner harbour region which are suffering from an exodus towards other localities.

**(3) Funding Sports associations:** The Opposition is recommending that a fund be created to help sports associations develop programmes that assist athletes and sports persons that come from families at risk of poverty, especially members of families that are caught up in poverty cycles. These funds can be used to buy sports equipment, to provide training both in Malta and abroad and to build and operate sports facilities particularly gyms.

## 2.9 GOZO

**(4)** Funding programmes to help creativity: The National Strategy for poverty reduction acknowledges the role that can be played by culture to help combat poverty. The Opposition is recommending a direct action in the form of a fund, managed by the Malta Council for Culture and the Arts, to help develop the artistic and creative talent of persons living in poverty cycles.

Eradicating poverty is a national priority and not just a government priority. These above initiatives should be carried out with the involvement of the whole of society, particularly NGOs, who have over the years fought this battle nearly single-handedly, and the business community.

The section on Gozo in the pre-budget document lacks any reference to new projects and ideas other than those that were announced in the past, specifically the Barts and the London School of Medicine and Dentistry in Gozo. The Opposition is still waiting for the publication of the agreements signed with these institutions in order to be able to assess better the costs and benefits of these projects. The Opposition also notes the opening sentence of the chapter on Gozo which states that “Gozo has been viewed as simply being a quiet backwater of Malta”. This statement does not reflect the truth and does not reflect the efforts undertaken by various administrations and Gozo entrepreneurs who over the years carried out projects and undertook initiatives which have helped Gozo develop in various fields of life. The Opposition nevertheless recognises that more needs to be done to help strengthen the economic development of Gozo.

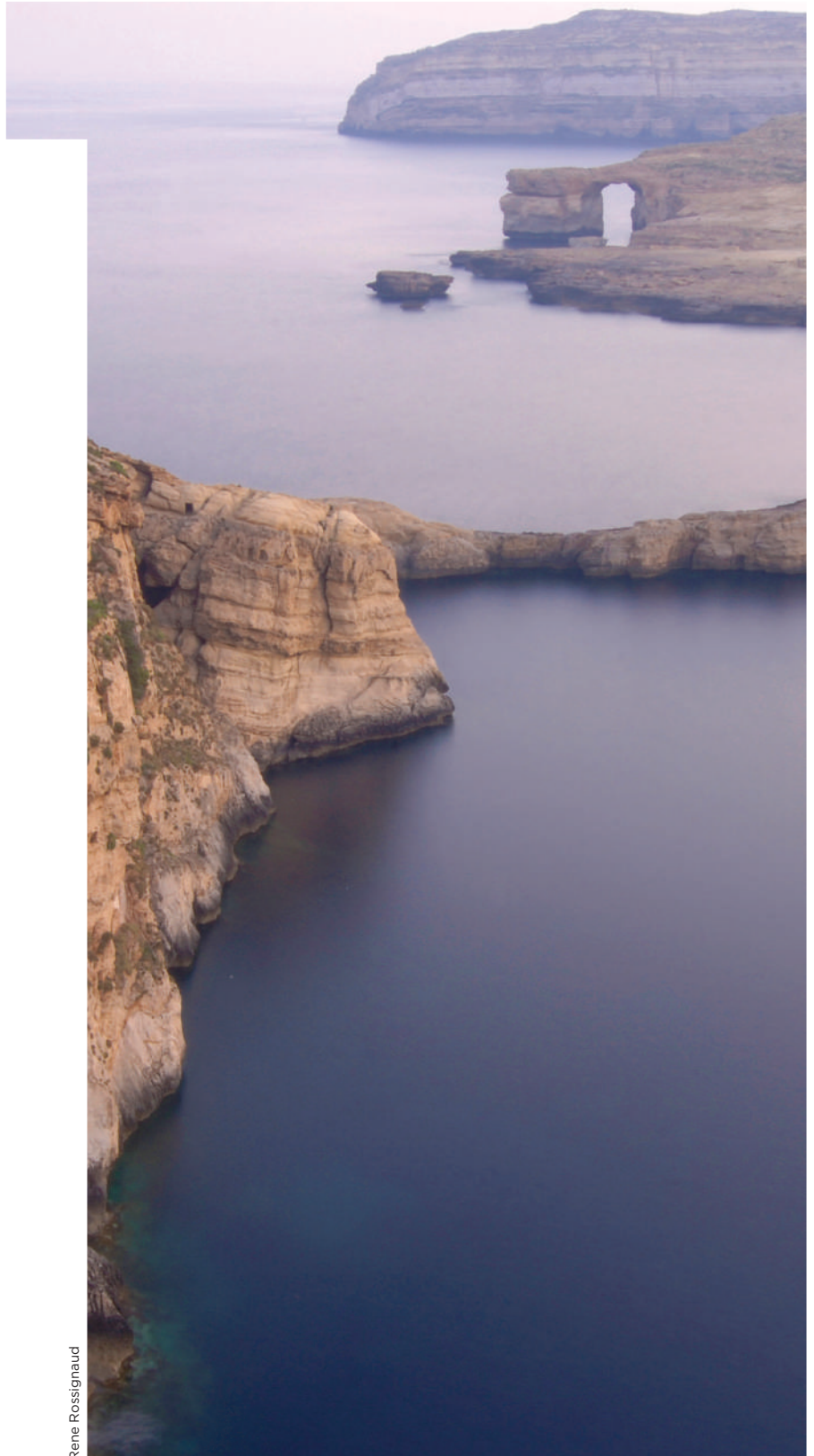
Two years ago, the Maltese Government signed a deal with a Chinese company blacklisted by the World Bank, in order to do a study on the building of a bridge between Malta and Gozo. To date, nothing further has been heard.

The Nationalist Party reiterates that further studies are conducted on the possibility of a tunnel as a permanent link between the two islands. This Government should continue building on the feasibility study which has been carried out 4 years ago.



With this aim in mind, the Opposition is currently working on a set of specific proposals for Gozo. These proposals need to be subjected to further consultation and studies before being made public. In drawing these proposals the Opposition was guided by one simple principle: any proposal aimed at improving life on Gozo needs to emanate from Gozo. There can be no Malta made solution for Gozo. The proposals are bold but will not contain any wishful thinking projects that will never see the light of day.

Over the coming weeks, the Nationalist Party will be launching a series of consultation meetings with Gozitan civil society to develop these ideas further for eventual inclusion in the Party's electoral programme.



Rene Rossignaud

## 2.10 TRAFFIC PROBLEMS DEFINITELY NOT A PERCEPTION

These past two years unfortunately saw a widespread degradation of traffic management system which impacted negatively on the operations of all businesses including SMEs and is causing unnecessary hardship to commuters. Despite promising a quick solution to traffic congestion, this government has so far only managed to make the situation on the Maltese roads worse. According to a survey carried out by one of the local newspapers in January of this year, 16% of the respondents cited traffic as their major concern. In a similar survey carried out in March 2014 only 7% cited traffic as their major concern. A survey carried out in August of this year showed that traffic has become the main concern of the respondents. The traffic congestion problem besides other ill-effects, is pushing up the operating costs of businesses, impacting the bottom-line and reducing the competitiveness of local businesses. Commuters are spending hours in traffic, possibly up to ten hours a week which means that a full day of work is being lost on commuting. Considering the size of the country, such long time spent on commuting is unacceptable. Traffic congestion comes at an economic cost to the country and at a personal cost to the commuters who are not only burning up more fuel but are also paying higher prices for the additional discomfort.

The price of diesel in Malta is higher than the EU 28 weighted average. Towards the end of August and beginning of September, the price of diesel in Malta was €0.10 cents more than the weighted average of the Eurozone Area (€1.162 euro per litre), and €0.06 cents more than the EU 28 weighted average (€1.196 per litre). The prices of petrol was cheaper in 16 of the EU countries and the prices of diesel was cheaper in 23 of the EU member states. The higher price paid for petrol and diesel is placing undue hardship on Maltese families and impacting on the competitiveness of local businesses.

Traffic congestion increases exponentially during school days. Steps should be taken to encourage parents to send their children to schools with transport provided by the schools. The Opposition reiterates the proposal it made last year for the subsidisation of transport for students attending church and independent schools. Government last year shot down this proposal but now seems to be pitching it as a government proposal.

Despite the radical changes made to the public transport system over the past five years, people are still reluctant to make more use of the public transport system. As a result, we have reached a traffic saturation point - a situation which calls for widespread holistic

solutions. One must look into the cause of the current state of affairs and think out of the box. The Opposition will in the coming months be looking at ways of how people can be encouraged to make a modal shift.

**In line with the above, the Opposition is calling on government to:**

- (1)** Reduce with immediate effect the price of petrol and diesel to reflect the drastic drop in the international price of oil;
- (2)** Subsidise as of this year, the transport for all students attending church and independent schools;
- (3)** Ensure that road works are carried out in a more efficient, more co-ordinated and timely manner than is being done at present.



Martin Agius

## 2.11 HEALTHCARE

Every citizen has the right to an adequate public health system: a system that is not only medically sound but also treats patients in a timely and dignified manner, a system that operates with full respect to both patients and professionals who operate in the sector.

If one has to ask whether these last two years have moved us closer to this goal then the answer has to be regrettable no. This is not the view of the Opposition but the view being expressed by MUMN, MAM and patients making use of Mater Dei Hospital. The “Mater Dei Hospital - Hospital Activity Report Jan - June 2015” states that 53% of patients did not attend their out-patient appointment. It also states that in the first 6 months of 2015 there was an increase of 7% in the patients who attended the A&E department and 72% of all attendees did not have a doctor’s referral while over 23,000 patients could and should have been attended to in the Primary Health Care services. This shows that government’s efforts to promote primary healthcare failed. This summer, Mater Dei hospital faced a crisis, with patients piled in corridors. According to the President of MAM, the situation in the Emergency department is close to breaking point. All this is happening despite the Labour government’s assurance that it had a road map to deal with problems in the healthcare in the shortest of time.

Government’s reluctance to introduce new cancer drugs on the free medicine list is creating hardships on the patients and burdens on the cancer patients and their families. This burden is also putting huge pressures on the Malta Community Chest Fund and ultimately on the generosity of our people since the Community Chest Fund has become the only entity these patients can turn to for these new cancer drugs. The Opposition fully supports those, including the Action for Cancer Foundation, who are urging government to include more cancer drugs on the free medicine list.

The Opposition earlier on in this legislature made a call for a unified non-partisan approach to healthcare in Malta. Government did not respond to this request. If anything, judging by the public comments made, government is more interested in fomenting an us-and-them mentality.

The Opposition is fully aware that the health sector requires long-term solutions and that such solutions cannot always be catered for overnight. However in many instances, government’s actions or inaction is leading to a deterioration in the provision of healthcare in Malta. Government’s initial decision to stop referring patients for treatment in private hospitals was a case in point. It took the government months to realise that it was wrong and to re-introduce the agreement with a private hospital to cover minor medical surgical sessions.

The Opposition is therefore proposing that:

**(1)** The proposed bill on Obesity presented by the Opposition should be given priority. This law will become an enabling law through which many life-changing initiatives across different Ministries and departments will come into force to promote and encourage a healthier life-style.

**(2)** Government should collaborate more with NGOs in the health sector and with private health sector operators. The services offered by these should be looked at as complimentary to the national health services and not as a competitors or threats. Government should look at what our NGOs and private health services have to offer and what they would like to invest and specialize in. Service agreements with NGOs, private hospitals and clinics would not only ease the pressure on the national services but would give these local investors a good push to invest further (in existing services and possibly new ones) and to focus on specialization.

**(3)** Furthermore, past Nationalist Administrations put cancer treatment high on the national healthcare agenda. The new Oncology Centre and the introduction of new drugs were part of the National Cancer Plan 2011-2015. This legacy deserves serious attention particularly through the much promised National Cancer Plan for the coming 5 years.

## 2.12 GOOD GOVERNANCE

Good governance or the lack of it has a direct and indirect impact on the country's finances. Poor governance not only leads to loss of income in the short-term, it can also undermine the trust in public institutions and leave a more devastating long-term effect on the country. Over the course of the past two and a half years, the Ombudsman, the Auditor General, NGOs, the Independent media, opinion makers and the Opposition have repeatedly criticised government for its lack of good governance.

The Cafe Premier affair, the Gaffarena land deal, the Australia Hall case, Parliamentary Secretary's Michael Falzon's €250,000 unique retirement package, the €360 million unprecedented state guarantee to the private consortium Electrogas Malta, the dubious engagement of Minister Konrad Mizzi's wife on a staggering €13,000-a-month salary package, the Prime Minister renting out his personal car to government, dubious public appointments and promotions, major contracts given without a call for tender, government back-benchers given public appointments; conflict of interest in the Police Force...these are but some of the examples of poor governance of this government that have emerged in quick succession over the past months.

Government removed a number of the pillars that uphold good governance. This government is operating without transparency, without meritocracy and without accountability. The way it has inflated the public service and public sector entities and the way it has disposed of public assets proves that there is little regard for the concept of value-for-money. The sad reality is that this government was handed a golden opportunity to govern with a strong parliamentary majority, enabling it to carry out important reforms. Rather than taking this country forward, this government in many respects is taking the country back to the times where political intervention overruled technical considerations. The manner in which government is conducting itself is leading to a loss of trust in the political class and is impacting negatively on the level of service being offered. A clear example of this is the feeling of lawlessness being experienced by residents of Sliema, Swieqi, St Julians and St Paul's Bay. These residents are not feeling safe at home and on the streets of their localities. The pre-budget document makes no reference to the need of strengthening governance and no reference as to how these problems are going to be addressed. The Auditor General has commented negatively on the way government is conducting its business. One has to note in this regard that the Office

of the Auditor General is facing a problem of resources which is hindering its ability to carry out its functions in a timely and efficient manner.

The Office of the Auditor General, together with that of the Ombudsman and other Parliamentary offices, are crucial players in our democratic system. Now that Parliament has its own house, it is time for government to invest more in ensuring that Parliament operates to higher standards not least by providing adequate resources to this institution. Various proposals were made over the years of how Parliament can be strengthened and now is a good time as any to take these proposals forward. A motion tabled by the Opposition in 2013 to establish a Parliamentary Commissioner for Standards in Public Life led to the drafting of a draft Bill. However, this Bill has been left languishing on the parliamentary agenda for almost two years. This shows the meagre interest of the Government in living up to its commitments on good governance.

The Opposition is working on its own set of proposals aimed at strengthening good governance. These proposals will be made public by the end of the year. The proposals will cover a wide range of areas. In drawing up proposals on how to strengthen meritocracy in public sector appointments, the Opposition

is considering the Bonello Commission's recommendations on appointments to the Bench. These recommendations were discarded by this government.

The Opposition is also looking at how transparency can be entrenched in government's work. This government has refused to publish important agreements which have far reaching consequences including the agreements signed with Electrogas (Malta), Shanghai Electric, Autobus de Leon, Barts and the Sadeen Group. This is all the more shocking considering that as Leader of the Opposition, Prime Minister Joseph Muscat had personally promised to submit important agreements entered into by government for scrutiny by Parliament prior to their signing.

The Opposition is also looking at how public procurement processes can be enhanced and how institutions such as that of the Auditor General and the Ombudsman can be strengthened to keep government in check in a timely manner.

**In the interim, the Opposition is calling for:**

**(1)** additional resources to be made immediately available to the Police to enable it to deal adequately with the legitimate security concerns of the residents of Swieqi, Sliema, St Julians and St Paul's Bay;

**(2)** more resources to be made available to the Office of the Auditor General to enable it to deal better with its caseload; and,

**(3)** the strengthening of the Parliamentary institution.

# NOTES

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