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No surprises in the budget

It was hard to imagine anything different in the budget for 2023 as presented last Monday. The government has taken a step back in the prevailing circumstances, preferring to steady the boat in the stormy waters that we are experiencing, rather than go for the spectacular which it could then not deliver.

It has pledged to keep the country going first of all by subsidising the rising costs of energy. We heard it from the minister's mouth that the Cost of Living Adjustment would have been €25, and not the already hefty €9.90 per week, if the government had not intervened to keep the price of electricity and fuel stable.

That €600 million that will be spent could have gone for other projects and ideas, but if the government had chosen that road, it would have probably meant that some businesses would have had to close down with the result that many would have lost their job.

As a result of this, the government has had to keep back from going for mega-projects. The infrastructure is the first to pay the price for this, as other than the plan for the Msida Creek re-development, there is nothing major happening in 2023 except for the projects that started months ago and need to be completed.

There was no talk, for example, of the metro system and the tunnel to Gozo, which means that, for now, they are no longer a priority. Or else they have been completely shelved.

It was a budget with a social conscience, as the government seeks to help the more vulnerable sectors of society, in a bid to keep the lid on the poverty cases. Apart from the COLA, pensioners will be getting an additional rise which will help them get by better, even though one must keep in mind that the COLA and other increases all will be getting is to make up for the inflation we have already experienced. It is possible, not to say likely, that this record COLA will lead to yet more increases in the cost of products and services although, in the words of the minister, inflation is set to start going down as from next year.

Not everyone was happy. For example, Gozo did not get much of attention in the budget and the nurses' union believes that the sector it is responsible for was by and large ignored. No mention was made as to which new economic niches are being pursued to create more jobs. And the fact that the government continues to employ more and more people was not a matter that was addressed in the budget.

Still, that the government did not increase taxes or introduce new ones is a point that needs to be highlighted, especially given the circumstances we are living in.

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Liz Truss' nemesis



CLINT FLORES

Last week, Liz Truss resigned office citing that she cannot execute her mandate

Whether the mandate she referred to relates to the Tory's mandate or her leadership campaign mandate we still need to see. A day prior to her resignation, the media was betting whether a lettuce would last longer than Liz Truss' premiership. Ironically, a day after this unkind bet Liz Truss resigned.

Frankly, I was not surprised. The resignation followed a series of market turbulences that broke after the announcement of an unpopular minibudget. The economic policies that were proposed in the minibudget were the nemesis of Liz Truss' economic promises that she pledged to deliver during her leadership race. Indeed, Liz Truss promised to lower taxes and other unsustainable economic policies that require gargantuan sums of money to sustain them. In fact, the public and financial investors were asking a legitimate question; how is this going to be repaid? So did the former Chancellor of the Exchequer Rishi Sunak, who currently succeeded Liz Truss. Prime Minister Rishi Sunak warned Liz Truss and the former Chancellor of the Exchequer Kwasi Kwarteng that the proposed policies were a recipe for disaster.

Truly, the minibudget and the accompanying economic policies came back to haunt Liz Truss and her campaigner Kwasi Kwarteng. The latter had to depart before Liz Truss, as the economic policies presented in the minibudget were the same policies authored by him during Truss' leadership campaign. The reaction of the markets was so strong and turbulent that the Bank of England warned of an economic

and financial catastrophe. Subsequently, the pound Sterling plunged to its lowest levels relative the US dollar. The interpretation of the depreciation of the pound Sterling meant a higher level of expected inflation; imports became dearer. The situation was so fluid that the interpretation of Liz Truss' economic policies was such that they left a mark on the historical financial data.

Undeniably, the problem of populism is becoming a pressing problem everywhere around the world. Liz Truss knew that those economic policies would not deliver the desired positive economic effects. However, she could not retract her economic promises. Let us take a simple analogy. Imagine a situation whereby a vehicle is on a highway driving at a speed that is picking up and the driver (Bank of England) presses the breaks (monetary policy) to slow down the velocity (inflation) of the vehicle. In tandem, someone from the back of the car jumps to the front and unexpectedly presses the gas (Liz Truss), while the driver (Bank of England) is trying to press the breaks to slow down the velocity (inflation) of the vehicle. Surely, these are the economic consequences of populism.

In a context where the main driver of inflation is the shortage of supply and the Bank of England is increasing interest rates to curb inflation and limit the pound Sterling's depreciation, it is incomprehensible to propose such tax cuts. The proposed tax reductions hammered the final nail in the coffin of the UK's economy and that of Liz Truss' political career. In one of my TV appearances, I stated that it is by far better to lose a leadership campaign with dignity rather than resigning in humiliation, especially if that is the result of your own proposed economic policies.

Personally, I think that the problem does not stop with Liz Truss. It did not stop with Boris Johnson, and it would not stop with Prime Minister Rishi Sunak, either. Positively, I believe that with Prime Minister Rishi Sunak in office the situation will slightly improve. He comes across as an insightful economist and predicted the economic mess of the pro-

posed minibudget. However, it will take years for the UK's political class to settle the Brexit mess. When Brexit came into effect the process of doing business became more bureaucratic. In a globalised world, small businesses cannot thrive if they do not capitalise on easy access to the single market. Economic policies under international trade dictate that innovation and cost-efficiency, as well as the harmonisation of rules, are important pillars for businesses to flourish. The restrictions to the EU's single market are halting microenterprises and private investment. Geographically, the United Kingdom is in proximity of the European Continent, and any logistics and ease of business, especially for microenterprises, can only happen on European soil. What was in the past normal practice of harmonised regulations, Brexit became a nightmare for countless companies to do business. Clearly, the easy access to the single market cannot be replicated with a trade agreement with Australia and New Zealand. The shifting of economic patterns takes longer to adjust and rules are completely different.

Prime Minister Sunak is taking office in turbulent times. The war in Ukraine is not aiding due to higher inflation, while the economic prospects are not looking rosy. Certainly, the UK's economic recovery will take longer relative to those of the G7 countries. Indeed, the main negative driver is Brexit. Truly, the only leverage left for the UK is related to the security aspects. The UK is a main partner in security intelligence. They sit in the UNSC as permanent members and they share intelligence with likeminded partners. The context of the Russian invasion of Ukraine changed the way countries behave when it comes to economic trade and security intelligence.

To conclude, I believe that further trade cooperation with likeminded partners is in the interest of everyone. And fostering stronger economic ties with likeminded partners to primarily resist any future threats, is not just in the interest of the United Kingdom, but also of the EU.

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