



Minister For Finance Prof Edward Scicluna

# Good Fiscal Governance

By Martin Vella

In this interview, Minister for Finance, Prof. Edward Scicluna, talks about Government's commitment to making sure that Malta's tax regime helps businesses, especially startups and SMEs, to grow and not the other way round. Among other things, he explains how the government is introducing a cap on cash transactions to curb the black economy.

**MBR: How confident are you that the Government's strategy for the energy sector will deliver the desired results?**

**ES:** We have delivered according to our plan and we are more than satisfied with the positive outcome resulting from the restructuring of Enemalta. The Government is now being paid excise duty by Enemalta on time. We formulated a strategy, and we are progressing according to that plan. That will in turn reduce the costs of energy production, which will in turn benefit consumers while taking into account the fact that Enemalta has to repay

more than €300 million in outstanding debts inherited from the previous administration.

Regarding fuel, it is a question of having stability. Both businesses and households prefer stability. Stability means hedging, which requires that stable prices are maintained for a period of time. If our plan goes according to how it was drawn up, we should start enjoying the benefits, and Malta will be more competitive.

**MBR: How do you see the micro enterprise and SME sector's role in our economy?**

**ES:** As Finance Minister, not as an economist, my concern is how the tax system can encourage more small startups, SMEs and family businesses to grow. You have to be very careful: as soon as you mention incentives, this means cutting taxes or exempting from tax and so on. Ideally, we should not have taxes. But unfortunately that cannot be, because that's how we can provide services such as free education, free healthcare, police protection you name it. If we want to get so many services from the State and we do expect a lot then we have to pay for them, and this is done through the tax

system. My concern is that, when giving tax exemptions, where we draw the line is going to change economic behaviour. Let's take family businesses: if you have a successful family business and, let's say (as it's not always the case) the second generation are achievers and entrepreneurial, they will continue to expand. I don't want our tax system to stop them or hinder them from achieving that natural process. In other words, if the inheritance tax or the capital gains tax interferes with that natural process, we should correct it.

However, we have to be careful. What do we want family businesses to do in order to grow and become mature and strong? Do we want them to stay in their cocoon, or do we want to incentivise them to get external management, outside consulting and real external partnerships, acquisitions and mergers? I think families with big businesses should take a step towards the stock exchange, and we'll hopefully propel them in that direction. That is where I want small businesses to go. In other words, I don't want to discourage family businesses from growing by imposing high taxes which they are not able to sustain, such as tax on property which they cannot dispose of. I do not believe we should give them a tax holiday, whereby all that's in the family remains in the family; this is not in our interest. Our interest is to help them grow, and at a certain point they have to go out of their home. Going out means going on the stock exchange, getting a bond, getting the participation of other shareholders, getting outside board governors to bring in fresh air... This is my daily concern: to make sure that the tax system helps business to grow, and not the other way round.

Another concern is access to credit and bank charges. Following reports I received, I have written to the MCCA, the Competition Authority, to take on these recommendations and advise about what problems they have in order to take action. We want micro-enterprises and small enterprises to have access to finance, and not be overloaded with charges which should not exist in a competitive economy.

**MBR: How does the government intend to cap on cash transactions to curb the black economy?**

**ES:** We have various plans to clamp down on the underground economy. It is growing, especially with the unlawful recruitment of immigrants, and the

risk is for it to get more widespread. So we are looking at the impact of this capping because in Malta, unfortunately, we have the highest rate of cash transactions per capita in the European Union. The point is that you get more risks of tax evasion and of a subversive economy, so we have plans which will be announcing to redress this issue.

**MBR: How do you intend to cut down on public debt?**

**ES:** Public debt is the accumulated amount of money the country has borrowed. If you want to address the debt issue, you stop borrowing, but you cannot do that in one year. When we got elected in 2013, we found that the Government's revenues were not enough to cover its expenditure; it's as simple as that. When you have an expenditure but you don't have enough revenue to cover it, you get a deficit and you have to borrow the money. We want to cut the country's deficit gradually. Not even the Troika on Greece told that country to go cold turkey to control their deficit. They told them to lower the deficit but not to eliminate it at once and stop borrowing. We are already cutting the debt ratio on which we are examined and monitored, but the debt as an amount of money stops growing when you stop borrowing. We hope we will reach that point not so far in the future.

*Going out means going on the stock exchange, getting a bond, getting participations of other shareholders, getting outside board governors*

**MBR: How would you sum up the Budget 2016 and what the measures closest to your heart were, which that you have worked assiduously to achieve?**

**ES:** First and foremost, the bottom line is good fiscal governance. We have to be sure that, whatever we do, we don't step out of the box of good fiscal governance. Our aim is to keep the deficit and maintain our targets within that box. With the money we have at our disposal, we want to do what we believe will make the economy grow, like introducing measures that make work pay, increase the labour force and attract investment, and then distribute

the benefits in a fair manner. We want to be fair geographically too; Gozo and the South must not be excluded from this distribution. We must also make sure the distribution of wealth is fair in terms of different level groups in our community. In this Budget we thought of giving a tax break to 160,000 people who pay taxes and who had not already benefited. We looked further down by lowering the minimum pension and also by including an inwork benefit per child. That way we are trying to ensure a more equitable distribution of wealth. One might ask: are there still pockets which we have not yet touched? Unfortunately yes, but we will see exactly where the schemes already launched have left out lacunae so as to address them in the next Budget. **MBR**

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## EDITOR'S NOTE



Edward Scicluna is an economist and Finance Minister elected on behalf of the Maltese Labour Party. Scicluna is married to Astrid Bartoli. They have two children Mark and Katya. He holds a Diploma in social studies from the Plater College and degrees in economics from the University of Malta and the University of Toronto. Between 1981 and 1990 he was professor and head of the Department of Economics at the University of Malta where he still holds a lectureship post. His previous appointments included that of Professor and Head of the Department of Economics at the University of Malta; Chairman of the Malta Council of Economic and Social Development (MCESD), Chairman of the Malta Financial Services Authority (MFSA), Electoral Commissioner, Central Bank Director, Mediterranean Insurance Brokers Ltd. director, Chairman in charge of political discussion programmes organised by the Malta Broadcasting Authority (MBA), Chairman of the HSBC's Malta Funds Sicav plc and Structured Funds Sicav plc, Chairman of CWG plc, director at San Antonio Hotel and Spa, and board member of the National Euro Change-over Committee (NECC).