# Fiscal policy and its implications in malta

" Malta's Fiscal Policy and Its Implications" should begin with a review of the two types of policies that governments use to provide economic stability and sustained growth. Government fiscal policy refers to the expense a government takes on to provide goods and services and the way in which the government finances these expenditures. " There are two methods of financing this policy, taxation and borrowing" (Nikomborirak, 1996)".

Taxation can take the form of personal and corporate income tax, a value added taxation and the collection of fees or taxes on specific sets of goods or services such as a gasoline tax to finance highways or license plate fees. Government may have different agendas based on the current economic conditions. Since spending and taxes are controlled by elected officials, they play a large role in the direction the economy takes. " By adjusting spending and tax rates (fiscal policy) or managing the money supply and controlling the use of credit (monetary policy), it can slow down or speed up the economy's rate of growth and by this process, affecting the level of prices and employment (U. S. Department of State)."

Since the Great Depression of the 1930s governments sought to strengthen the economy by spending heavily itself or cutting taxes so that consumers would spend more, and increase the growth in the money supply, which also encouraged more spending. In the 1960s, government had great faith in fiscal policy, yet in the 1970s, high inflation, unemployment, growing government deficits along with major price increases in energy created a strong fear of inflation and weakened confidence in fiscal policy. As a result, government leaders concentrated more on controlling inflation than on combating recession by limiting spending, resisting tax cuts, and slowing growth in the money supply. Instead, monetary policy or controlling the nation's money supply through interest rates, which would act as a breaking tool (higher interest rates would shrink the money supply, discourage borrowing, reduce consumer spending) or as an accelerate (lower interest rates would encourage borrowing and expand spending), gained acceptance and use (Federal Reserve Bank, San Francisco). Lower interest rates make common stocks more attractive; as a result, the price of stock tends to rise. Households that see the value of their stocks are higher, are willing to spend more which increases consumer demand. Increased stock prices and high consumer demand makes it easier for businesses increase output and invest capital in plants and equipment by issuing stock. Higher interest rates have the opposite effect on the economy.

Malta has used fiscal policy as the main tool in working toward the 2010 goal of a balanced budget. This policy has consisted of realistic budgeting, pension reform (due to the increasing over 60 demographic), and increasing tariffs and taxes on energy imports and usage. Malta has also been consolidating government jobs and services along with transferring many jobs to the public sector to achieve further budgetary savings. Increasing health care costs and the unknown overall cost of the European Union climate change initiative are challenges that need to be factored into the balanced budget goals of Malta. Malta has also installed economic stabilizers that automatically react to sudden short term changes in that may have an impact on the 3 percent deficit agreement that is a requirement of joining the E U. The application of these policies is designed to, a) stabilize inflation and maintain it at the lowest possible level, b) improve outside investment in

Malta, c) improve competitive structure of local business, and d.) slow national debt increases and in the best case scenario, reduce government debt

The Central Bank of Malta in the most recent economic review (2009) shows that a.) government deficit fell to 3. 8% of GDP in 2009, b.), public debt-to-GDP ratio will rise from 67. 4% in 2009 to 70. 9% by 2011, c.) for 2009 inflation was 1. 8% , d.) The exchange rates against the euro are to remain constant at their 2010 levels, e.) Interest rates on long-term debt in Malta will remain at current levels.

There are 5 main EU requirements as outlined in the 1999 Maastricht Treaty, a.) price stability (not more than 1. 5% above the rate of the three best performing EU members, b.) sound and reasonable public finances (government deficit is at 3% of GDP, c.) sound and reasonable public finances (government debt is less than 60% of GDP, d.) long term interest rates (not more than 2% above best three EU members, and e.) exchange rate stability (participation for two years without devaluation on countries own initiative.

The EU's budget is financed through money collected from Member States through, a.)import/export duties, b.) Agricultural fees, c.) Value added taxes, d.) and a percentage of EU members GNP (up to 1. 24%). , The areas and percentage of budget for expenditures are, a.)Sustainable growth (44. 9%) (research, transnational networks, developing technology, support to countries with below average GNP, b.) Preservation and Management of Natural Resources (42. 6%) (farm subsidies, biodiversity, rural development, economic diversification), c.) Citizenship, freedom, security and justice (1. 0%) (migration, terrorism, cultural exchange, and media programs), d.) The EU as a global partner (5. 5%) (conflict prevention, humanitarian aid, and human rights), d.) Administration (5. 5%) and, e.) Compensation (. 5%).

The description given in the beginning of this paper of what fiscal policy is (Government fiscal policy refers to the expense a government takes on to provide goods and services and the way in which the government finances these expenditures. “ There are two methods of financing this policy, taxation and borrowing”) shall be the basis of differences between Malta and the United States fiscal policy. As a member of the EU Malta is faced with EU tax regulations which places limits on its national tax authority. The United States Government does not interfere with individual states in the leveling of local state taxes. National tax revenues in the United States impact the GDP by 26% while in Malta almost 40% of GDP is consumed by taxes. The payroll tax (Social security, Medicare) in the United States is about 15. 3% and declines as incomes increase while in Malta payroll taxes are higher than 25% and are collected on all income. The United States does not have a national sales tax where as Malta is required to collect a value added Tax of 15% as its membership in the EU requires.

Malta’s use of Fiscal policy to manage and stabilize the economy has been demonstrated over the last two tears. The results shown in the Central Bank Of Malta Economic Update (June, 2010) show that Malta has Increased exports 17% and GDP by 3. 4% over the previous year. Another by product of Malta’s fiscal policy is apparent in the labor market where employment increased 1. 5%. The bank also reports an increase in approved home mortgages in conjunction with an increase in Demand for goods and services over the previous year. This increase in demand and improved exports has been accompanied with higher output. The application of Fiscal policy as outlined in a previous section of this paper has stabilized the economy and is allowing Malta to move closer to the goal of a balance budget.