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Statement by the Hon. **JOHN DALLI**,
Governor of the Bank for **MALTA**,
at the Joint Annual Discussion

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It is a pleasure and an honour for me to address once again the Annual Meetings of the International Monetary Fund and the World Bank.

We are pleased to note that the outlook for the world economy has improved considerably over the last year. Most of the economies which were seriously affected by the international financial crises are showing strong signs of recovery while those which emerged relatively unscathed from the crises have managed to maintain a steady rhythm. It is encouraging to observe that forecasts for world economic growth in 1999 have been revised upwards, and prospects for the year 2000 are definitely brighter than they were a year ago. The developments over the past year have also demonstrated that governments in major economies were able to respond to the international financial crises in a rapid, concerted and determined manner. This ensured that a potentially prolonged and severe economic crisis which could have had serious repercussions on developing countries was generally averted.

The financial crises in Asia, Russia and recently in Brazil has also highlighted the important role the IMF and the World Bank are playing in strengthening the architecture of the international financial system. We are convinced that the outcome would have been very different today had it not been for the effectiveness of both the Fund and the Bank in tackling the crises. In this regard, we are glad to note that the collaboration between the two institutions has been enhanced, especially where this is related to the monitoring of member countries' financial systems.

The Fund has continued to stress the importance of surveillance and transparency in economic policy making. It is essential that policy processes are as transparent as possible, as greater transparency helps to improve both the quality and the timeliness of decision making by both international institutions and member countries. The development by the IMF of a Code of Good Practices on Transparency in Monetary and Financial Policies is certainly a major step forward since it promotes more transparent institutional arrangements. We believe that transparency and accountability are the key factors which need to be in place before structural reforms are undertaken. Otherwise any institutional arrangements would tend to lack credibility and, hence, the authority to carry out the necessary changes. My country has adopted a number of measures in recent years to strengthen accountability and transparency in the financial sector. Apart from putting in place various pieces of legislation to ensure high ethical standards as far as financial operators are concerned we have also strengthened the powers of the government auditor to carry out investigations and the powers of parliament to examine in detail the activities of various public financial agencies.

Malta fully supports the Fund in its efforts to further enhance the standards of economic and financial data published by members. We are monitoring closely developments of both standards for data dissemination established by the Fund. While at present we have decided to participate in the GDDS it is very much our intention to subscribe to the SDDS as soon as possible. We are in the process of upgrading our statistical agencies to improve the quality and integrity of our data. In recent months we have set up a number of task forces to enhance the method of statistical compilation where government finance statistics and the balance of payments are concerned. In this regard we are grateful to the Fund's Statistical Department for providing us with technical assistance in both these fields.

We have observed also that the Fund has taken new initiatives to strengthen the transparency of the surveillance process. Members are being encouraged to release

more information on the discussions that take place at Executive Board level after Article IV consultations have been conducted by the Fund with member countries. Recently Malta has agreed to participate in the Fund's pilot project under which member countries voluntarily release the IMF staff report prepared by the Fund at the conclusion of Article IV consultations. As a result Malta was among the first group of countries to release the staff report to the media in Malta early this summer.

Our policy of openness and transparency is consistent with our overall strategy which is to modernise and upgrade our economic structures ahead of accession to the European Union. We are taking action on all fronts particularly in the financial sector which has been liberalised almost totally. Interest rates now move in line with market forces and the Central Bank is free to formulate and implement monetary policy. Our banking sector has recently been enhanced by the participation of a large international bank which has purchased one of the largest commercial banks in the country after this was privatised by the government. All financial institutions in Malta are supervised actively by the competent authorities and it is my government's intention in the near future to consolidate all supervisory functions under a single financial services regulator. An important step over the next three years will be to complete the process of capital control liberalisation. This will enable Maltese financial markets to integrate closely with the large and deep European financial markets particularly in the light of the rapid developments of these markets following the introduction of the single currency, the euro.

Malta is fully aware of the benefits of having a liberalised capital account and is conscious that such a condition is essential for membership in the European Union. However having observed the experiences of a number of countries with capital account liberalisation we feel that we should proceed cautiously and not get carried away by the attraction of unlimited capital inflows. The

implementation of sound and consistent macroeconomic policies together with the attainment of a sustainable position on the current account of the balance of payments are necessary pre conditions for full capital convertibility. Thus before capital controls are completely relaxed we will aim at achieving much more stability in our economy by first addressing the structural imbalances particularly in the fiscal sector.

Following the revival of its application to join the European Union Malta is currently undergoing a screening process prior to the commencement of negotiations for membership, which will probably start early next year. Our aim still remains to join the EU as part of its next enlargement process. In this regard, Malta is rigorously pursuing policies aimed at re-structuring the economy in line with EU requirements. This includes the reduction of the fiscal deficit, maintaining public debt at a sustainable level and keeping inflation in line with that of our major European trading partners. As part of an overall strategy, the Maltese government has reformed its tax collection strategies and re-introduced value added tax. It has also embarked on a programme for the removal of government subsidies, the abrogation of protective levies and the gradual abolition of monopolies, as well as the privatisation of public sector enterprises. Privatisation is expected to contribute positively to efficiency in the economy and so it is the intention of the government to embark on a long term programme of privatisation. A strategy document on the privatisation process has recently been prepared with the assistance of World Bank experts and this is expected to be presented for discussion in parliament in the next month.

The small size and vulnerability of our economy necessitates constant vigilance and an effective economic strategy to counter external shocks. We recognise clearly the need to upgrade continuously and strengthen our economic structures in order to compete effectively in the international environment. However, while the main focus of our attention is our own internal development we are concerned

about the plight of the highly indebted developing countries and are willing to support all measures that contribute towards their development particularly if this takes the form of debt relief or concessional finance.

In this regard we are pleased to observe that the Interim and Development Committees of the Fund endorsed a strengthening of the current framework of the Heavily Indebted Poor Countries Initiative to provide deeper debt relief in a way that strengthens the incentives to adopt and implement economic and social reform programs, and provides a clear exit from unsustainable debt burdens. We also noted with satisfaction that this item stood high on the agenda of the Cologne summit of heads of governments of G7/G8 countries in June 1999, which pledged their full support to this initiative. On its part, Malta despite its limited resources has agreed to contribute to the HIPC Initiative by contributing the balance held in the Second Special Contingent Account, after having made these funds available as an interest-free loan for the last two years. Malta has always sought to contribute to such IMF assistance programmes and, in the past, has granted credit at low interest rates to the ESAF subsidy account.

We are also satisfied that the Fund has agreed to provide Contingent Credit Lines as a new instrument of crisis prevention for member countries with strong economic policies, when faced with potential balance-of-payments problems from international financial contagion.

In conclusion, I would like to thank the management and staff of the Fund and Bank for their continued support and wish them all success in their operations. Finally I would like to express my country's appreciation for the assistance and advice that is provided throughout the year by the Executive Directors who represent Malta on the Boards of the Bank and the Fund.

I thank you for your attention