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INTERNATIONAL FINANCE CORPORATION  
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Statement by the Hon. **ANTHONY ABELA**,  
Governor of the Bank for **MALTA**,  
at the Joint Annual Discussion

**Statement by the Hon. Anthony Abela**  
**Governor of the World Bank for Malta**  
**at the Joint Annual Meeting of the**  
**International Monetary Fund and the World Bank**  
**Dubai, 23 September 2003**

It is an honour to address the Annual Meetings of the International Monetary Fund and the World Bank. I thank the President and Government of the Federation of the United Arab Emirates and the authorities of Dubai for the excellent arrangements for these meetings and for their warm hospitality.

Since the last Annual Meetings two of the IMF Deputy Managing Directors, Mr Eduardo Aninat some months ago, and more recently, Mr Shigemitsu Sugisaki have left the Fund. I would therefore like to express my appreciation for their contribution to the reform of the international financial system. I would also like to welcome Mr Agustin Carstens as new Deputy Managing Director. I am sure that with his extensive experience in the financial and fiscal field he will contribute significantly to the work of the Fund.

Turning to developments in the international economy it is encouraging that the much awaited global economic recovery now appears to be underway. At the same time it is also satisfying to observe that financial markets have remained resilient in the wake of the economic slowdown and the geopolitical uncertainties of recent months. Furthermore, the correction in asset prices – which had risen sharply in anticipation of a global economic recovery that turned out to be much weaker than originally projected - has been less destabilising than expected. This notwithstanding, prospects in the major economies continue to be characterised by considerable uncertainty. While the US economy appears to have gathered some momentum, the performance of the euro area continues to disappoint with a weak recovery projected to take place in the second half of this year. The other major economy, Japan, has experienced a welcome turnaround but this may turn out to be short-lived. Consequently, many countries which are highly dependent on external demand originating from the three largest economies are expected

to operate below potential for some time to come, and while the risks of a prolonged deflation in most countries seem to have subsided, they cannot be ruled out.

Against this unfavourable background, the Maltese economy experienced a contraction in 2001 and then returned to positive, though slow growth a year later. In 2003 economic activity is expected to continue to expand, though at a modest rate reflecting the impact of the expected sluggish growth in external demand. Malta's recent economic performance has been affected by the uncertainty surrounding the outcomes of the EU referendum and the general election held earlier this year and by the war in Iraq. The performance of the export-oriented sectors is nevertheless expected to improve during the second half of the year. The recovery in private investment, coupled with a stronger fiscal stimulus, are also expected to contribute to growth.

In the wake of slow economic growth and the absence of inflationary pressures, the Central Bank eased its monetary stance by lowering its central intervention rate on two occasions. The Bank continues to adopt a fixed exchange rate as its intermediate target to achieve its primary goal of price stability. It is the intention of the Monetary Authorities to maintain this exchange rate strategy as the country prepares for EU accession next year and future participation in Economic and Monetary Union (EMU). In line with preparations for EU membership, capital controls were eased further at the start of the year and are to be completely lifted upon accession in May 2004.

The lacklustre performance of many developing countries has compelled policy makers to take a closer look at the impediments to faster growth. The factors at play are various, and include the slow pace of structural reforms, the existence of large external and fiscal imbalances and, in some countries, weak financial systems as the persistence of inadequate provisions for non-performing loans result in a loss of confidence in the ability of financial market players and corporations to meet their obligations.

Of all these factors, however, fiscal reform is perhaps the area requiring most attention, particularly when accommodative monetary policies seem to have had only limited success in bringing about the necessary economic stimulus. Malta too has registered a substantial widening of its fiscal deficit as the slow pace of economic growth took its toll on government revenues.

The government is committed to reducing this imbalance to a more sustainable level over the next three years, even though it recognises that the prospect of an ageing population, the loss of revenue implied by the planned trade liberalisation measures and the implementation of reforms associated with EU membership make fiscal consolidation a daunting task indeed.

Difficulties in meeting fiscal targets also appear to be experienced by many high- and middle-income countries, particularly on the European continent. This will have implications in terms of the capacity of the international community to increase official development assistance in line with the targets set at Monterrey. In this regard, while we agree that further work on an International Financial Facility should be undertaken, we also believe that creditor and donor countries should strive to provide their share of bilateral debt relief and multilateral financing to the HIPC initiative. In addition, developed countries should grant improved market access for the products of the least developed countries while assisting them to set up the necessary institutions that would enable them to participate more effectively in the world trading system. In this regard, we note with concern the unsuccessful outcome of the Ministerial Meeting in Cancun earlier this month. Despite this failure we still expect the Fund and the Bank to continue with their initiatives to integrate trade-related aspects in their technical assistance programmes for developing countries and to streamline capacity-building projects through better co-ordination with other regional and multilateral agencies.

While the Cancun outcome augurs little in terms of improved global economic prospects and the integration of the developing countries in the world's trading system, the role of the IMF and the World Bank will be crucial in supporting members' efforts. The latter should focus on the creation of a stable macroeconomic environment, a sound financial system and a diversified economic structure so that unexpected changes in market conditions can be more effectively managed and external imbalances redressed.

At a time when terrorism has become another major threat to the stability of the international financial system, both the Fund and the Bank should continue to encourage members to adopt anti-money laundering standards and strengthen their efforts in the fight against the financing of terrorism. Malta strongly supports such efforts and endorses the forty recommendations on

money laundering approved by the Financial Action Task Force (FATF). It is also satisfying to note that the Fund and Bank have strengthened their assessment of member countries' anti-money laundering practices and other measures to combat the financing of international terrorism through their reports on Financial Sector Assessment Programs (FSAP) and Standards and Codes (ROSCs). I am happy to say that a FSAP recently carried out on Malta's financial system concluded that Malta has a comprehensive legal framework and strongly adheres to most of the international standards and codes in this regard. This legal framework also comprises the essential elements for AML and CFT.

I would like to conclude by thanking the management and staff of the Fund and Bank for their continued support and co-operation. As Malta proceeds with its structural reforms, it continues to benefit significantly from their technical assistance. I wish both institutions continued success in the challenging tasks they will be undertaking in the coming year in an international environment which continues to be complex and uncertain.

Thank you.

