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

Statement by The Hon Mr Tonio Fenech
Governor for Malta at the World Bank
Joint Annual Meetings of the International Monetary Fund / World Bank,
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It is a pleasure and an honour for me to address the Annual Meetings of the International Monetary Fund and the World Bank. I take this opportunity to thank the United States Government and the Washington Authorities for hosting these meetings and providing the necessary organisational facilities to ensure that these proceed smoothly and successfully. This is the first Annual Meeting addressed by the new president of the World Bank Group, Mr Paul Wolfowitz. I congratulate him on his appointment and wish him success in the challenging tasks ahead. On behalf of my country I would also like to express our solidarity with the people of the United States for the damage and loss of life endured as a consequence of the natural disasters that hit their country.

This year's meetings take place against an international economic background characterised by growing uncertainty as a result of the surge in oil prices. There is no doubt that high and rising oil prices will have a significant impact on consumption and growth in the major economies in the months ahead, but the countries that will be affected most will be emerging markets and other oil importing developing countries. The persistence of large global current account imbalances, with their destabilising effects on long-term interest rates and exchange rates, are also a matter of concern. A sudden rise in long-term interest rates could also dampen growth prospects as household wealth is affected negatively through a decline in asset prices, particularly property prices.

The implications of these projected scenarios is that growth would be more subdued from levels forecasted earlier this year. The weakening trend in manufacturing output in a number of countries during the first half of the year appears to have been arrested and

activity in this sector is expected to strengthen later in the year. World trade is also expected to recover due to relatively strong import demand in particular regions such as the US, Canada and the OPEC countries.

A hostile economic environment augments the problems faced by small open economies such as Malta. Following membership of the European Union in May last year, my country has adopted a totally liberalised trade and capital regime and implemented a programme of reforms to strengthen the market infrastructure. The aim of these policies is to enable the economy to take full advantage arising from European Union membership. However, as a result of these more open policies, the Maltese economy is more exposed to developments overseas. At present these include depressed demand for our exports as well as a persistently rising oil importation bill. In addition, over the summer months Malta has had to face a regular influx of illegal immigrants from the North African coast. Providing food and accommodation for these large numbers of immigrants has placed a significant burden on the island's physical infrastructure and on its financial resources at a time when the Government is pursuing a policy of fiscal consolidation.

Malta continues to recognise the benefits of regional integration and through membership of the European Union it has access to the vast single market of the European hinterland. To take further advantage of the opportunities that are offered by this market we have taken the first steps that will lead to full participation in Economic and Monetary Union (EMU) and the adoption of the single currency, the euro. Thus in early May 2005 Malta joined the Exchange Rate Mechanism II (ERM II) thus pegging its currency fully to the euro. To emphasise our commitment to the fixed exchange rate policy that has delivered price stability to our country over many years, we have unilaterally committed ourselves to keeping the currency fixed in terms of the euro, at the central parity rate.

Our adherence to a fixed exchange rate policy and our efforts to align our economy closely with that of our European partners underpins our macroeconomic policies,

implying the need for more fiscal discipline following the expansionary stance of recent years. In line with our medium-term fiscal programme, we are reducing the fiscal deficit substantially so that from a deficit/ GDP ratio of 5.2% in 2004 we expect to register one of below 4% this year and under 3% in 2006. We expect to achieve our targets through, amongst others, better control of recurrent expenditure and the implementation of structural reforms.

On Fund and Bank matters we would like to express our strong support for the important work that these two institutions undertake in the international economy. Our commitment to the Bretton Woods institutions, was further underlined recently by our decision to join the International Finance Corporation (IFC).

Malta also welcomes the increased attention being attached to the development of small states. We believe that small states face peculiar realities and specificities to which the Bank and Fund can assist through their specialised competences. Moreover, closer collaboration amongst small states can be facilitated through the creation of a global network of small states.

We recognise that the role of both the Fund and the Bank should be reviewed and reassessed from time to time to ensure that they adapt to the new challenges of globalisation. We, therefore, note with interest the Report of the Managing Director on the Fund's Medium Term Strategy. The report offers a critical assessment of the Fund, particularly of its internal workings and governance. It puts forward positive proposals to redefine the Fund's role and to make it more effective in its primary task of ensuring a stable international monetary system. In this regard we strongly support an enhancement of the Fund's commitment to monetary and financial stability through more effective surveillance of members at the global, regional and country level. We are convinced that the Report should not only be discussed and debated, but should be the basis for the implementation of those reforms that are so necessary to give the Fund strategic direction.

Malta actively supports initiatives which promote economic development and poverty reduction in low income countries. Consequently, we favour a continued involvement of the IMF in low income countries. The Fund's role in this regard should be to complement that of the World Bank Group, which is primarily responsible for development issues and for combating poverty and improving the living standards of people in the developing world. Thus besides contributing expertise in the macroeconomic field, the Fund should continue to offer structural lending and other financial assistance to these countries. This should also be the case when natural disasters disrupt the social and economic life of such countries.

While we note that considerable progress has been achieved in the eradication of poverty and hunger, a lot still remains to be done if the Millennium Development Goals are to be achieved within the planned time frame. Here it is satisfying to note that the G8 in its recent Summit agreed to increase total official development assistance to Africa and to cancel the multilateral debt of some of the poorest and most indebted countries. These decisions will certainly provide further thrust to development initiatives aimed at assisting entire populations to achieve economic growth and social advancement. This notwithstanding, there is a need for additional resources to finance development aid and in this regard developed countries have to strengthen their efforts to achieve the internationally agreed target of 0.7% ODA/GNI. Even though my country's resources are severely limited, we will strive to achieve the target of 0.17% set by the EU for Member States that joined the EU after 2002. Finally I am pleased to say that in order to demonstrate our solidarity with developing countries that are endeavouring to rebuild their economies in the face of tremendous challenges, my government has decided to cancel all official claims against Iraq.

I would like to conclude by expressing our appreciation to the Board, management and staff of the Fund and the Bank for their continued support and fruitful co-operation. Once again I wish them success in their daunting tasks of promoting global financial

stability and reducing poverty in the developing countries. I feel confident that both institutions have the resources and strong leadership to make the changes necessary to be able to face these challenges successfully.