BOARDS OF GOVERNORS ● 2000 ANNUAL MEETINGS ● PRAGUE, CZECH REPUBLIC

INTERNATIONAL MONETARY FUND
WORLD BANK GROUP
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL FINANCE CORPORATION
INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES
MULTILATERAL INVESTMENT GUARANTEE AGENCY

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Press Release No. 53

September 26–28, 2000

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

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It is an honour and a pleasure to address the Annual Meetings of the World Bank and the International Monetary Fund. I would like to begin by thanking the Government and the people of the Czech Republic for their warm welcome and hospitality during our stay in this beautiful city of Prague. I would also like to join other Governors in welcoming San Marino as a new member of the World Bank. This is also the first Annual Meeting presided by the new Managing Director of the Fund Mr Horst Köhler. I take this opportunity to congratulate him on his appointment and to wish him all success during his five year term.

We meet here today against a generally optimistic economic background. The outlook for the global economy has continued to improve as most regions of the world have registered satisfactory growth rates. The USA has succeeded in maintaining its momentum, the expansion in Europe has gathered pace, while Japan's economy appears to be on the road to recovery. It is also encouraging to note that fundamentals in the emerging economies have improved considerably and that economic activity has generally accelerated. We are glad to see that forecasts for world economic growth have been revised upwards once again this year and that prospects remain relatively bright. On the other hand we cannot but show our concern at the threat of inflationary pressures, particularly those emanating from the escalation in oil prices. At the same time it is important that more attention be focused on addressing economic and financial imbalances which could pose serious threats to global expansion in the future. We must also ensure that globalization is managed in ways that reduce the threat of marginalization and lead to greater stability, growth and poverty reduction across countries.

Addressing macroeconomic imbalances is indeed a difficult, but essential task which my country is presently pursuing with determination. While Malta's level of inflation remains relatively low through the use of a prudent monetary and exchange rate policy the fiscal deficit remains at an unacceptably high level. Our medium term objective is therefore to reduce the fiscal deficit to a sustainable level. A deficit reducing programme has been put into effect and this is proceeding satisfactorily. As a result it is expected that the budget deficit, as a percentage of GDP, will be reduced for the second year in succession. It is the intention of the Government to narrow the deficit to the 3% level by the year 2004 while maintaining a Government debt to GDP ratio below the 60% level.

Malta is preparing itself for accession into the European Union and so its economic and financial reforms are also being implemented with membership in mind. The country's legislation is to a large extent being amended to bring it in line with the European Union's *acquis communautaire*. I am pleased to say that following the commencement of negotiations earlier this year the first few chapters have already been closed and discussions have started on a number of others. We are hoping to conclude negotiations by the end of next year so that we will be able to join the European Union in the next enlargement.

The Government's fiscal strategy is to increase its revenue sources, mainly by ensuring proper tax compliance rather than through a rise in taxation rates. At the same time it is endeavouring to reduce wasteful expenditure particularly where this involves the outlays on the social security programme. Pension reform is one of the government's top priorities and a Commission set up for that purpose is expected to make policy recommendations before the end of this year.

Macroeconomic policy measures have been accompanied by structural reforms to enhance the market mechanism in Malta. We are gradually removing subsidies and protective levies and where possible exposing public utilities to competition particularly those in the telecommunications sector. In fact a plan for the gradual liberalisation of the latter sector, was announced in the early part of the year and is coming on stream from the beginning of next month. Details of the Government's privatisation programme will also be announced soon while the privatisation of Malta's Freeport zone is already underway. In this regard I would like to thank the World Bank for the valid technical assistance it has been providing to us over the last year.

In the financial sector, interest rate liberalisation has now been completed and very soon legislation will be introduced in Parliament to strengthen the independence of the Central Bank. The Bank is already responsible for the formulation and implementation of monetary policy but the proposed amendments to the Central Bank Act will enhance its monetary policy responsibilities by declaring the maintenance of price stability as the primary objective of the Bank.

The process of capital control liberalisation has reached an advanced stage following the significant liberalisation measures that were introduced from the beginning of this year. We are however proceeding more cautiously on the liberalisation of short term capital movements since we want to ensure that our financial system has the capacity to adjust smoothly and efficiently to large capital movements. We are therefore placing more emphasis on the data compilation process where capital flows are concerned to ensure that these do not pose a threat to the balance of payments.

Here I would like to say a word about my country's efforts to enhance the quality and timeliness of economic and financial data in line with the standards established by the Fund. Over the last year Malta has taken a number of steps to improve its statistical standards particularly in the area of government finance. A new chart of accounts is being introduced from the beginning of next year to ensure that GFS data are consistent with the standards set out in the European System of Accounts 95 (ESA). Malta is a participant in the Fund's GDDS and its metadata were recently posted on the Fund's Dissemination Standards Bulletin Board. Malta is in fact the twelfth country to be listed on the DSBB. Our ultimate aim, of course, is to comply with the more demanding requirements of the SDDS.

Malta supports the Fund's initiatives to improve transparency and accountability of its members' policies. It is endeavouring to adhere as much as possible to the Fund's recommendations as set out in the Codes of Good Practices on Transparency in Monetary and Financial Policies and the Code of Good Practices on Fiscal Transparency. Other Fund initiatives aimed at strengthening financial systems are strongly endorsed by my country particularly recent proposals to develop and disseminate of macroprudential indicators (MPIs) which are important indicators of the health and stability of financial systems.

I am pleased to say that Malta's financial system is well regulated by our supervisory bodies, the Central Bank and the Malta Financial Services Centre. For many small developing countries such as Malta, shorn of natural resources or sizeable domestic markets, the provision of financial services has proved an attractive and successful option. Yet we fully understand that the success of an international financial centre depends to a large extent on its ability to earn a reputation of efficiency, stability and credibility. Malta has therefore striven to establish itself as an international financial services centre of repute, based on the highest regulatory and supervisory practices. It has established a comprehensive legal and institutional framework to combat money laundering and financial crime and has declared its willingness to co-operate on tax issues.

Although we were pleased that the OECD excluded Malta from the list of uncooperative countries in its harmful tax initiative, we remain concerned that initiatives have been taken in many fora that have thrown a negative light on the reputation of certain international financial centres in small states. It appears that recommendations and prescriptions have been made on the basis of subjective perceptions. Malta would like to see a fair and transparent process that would include all interested parties in an effective consultative environment. Malta considers that these issues should be dealt with by the appropriate international institutions where all interested parties are represented.

I will now briefly turn to a much debated topic over the last year. That is the role of the World Bank and the International Monetary Fund in the global financial system. There is a view that the operations of both institutions should be scaled back. In the case of the Fund, while there appears to be general agreement that it carries out a useful surveillance function, the case has been put forward that, by providing liquidity in emergencies, the Fund is bailing out imprudent investors and governments and thus worsening a moral hazard problem. Somewhat paradoxically, the opposite concern has also been voiced, namely that in a world where international capital flows can destabilise economies in a very short time, the Fund is ill-equipped to act as an international lender of last resort. This gives rise to the danger that the Fund's resources will be stretched to the limit in an emergency.

The World Bank's role as lender to developing countries has also come under fire, particularly in the case of middle income countries that have raised funds successfully from private investors. The argument is that the Bank should cease operations in these countries. In contrast, support for the Bank's role in channelling concessional assistance to low income countries remains critical for increasing growth and reducing poverty.

However, it is clear that an exclusive dependence on market forces would imply that a large number of developing countries would be perceived to be too risky and would be unable to attract private sector investment. Furthermore it should be mentioned that much of the work financed by the Bank in areas such as the provision of health and education are in the nature of public goods that are unlikely to attract much private finance. Other market imperfections also exist. Asymmetric information, investor myopia and, sometimes, plain greed may lead to a build-up of capital inflows. We have seen cases when bad news then prompts a belated re-assessment of risk and a rush to liquidate investments, with a sudden reversal of capital inflows. There is thus a strong argument in favour of global public sector intervention to dampen the impact of volatile markets on member states.

Malta supports both the IMF and the World Bank in their advisory and financial roles and is willing to participate in any new allocation of SDRs that would provide the Fund with additional resources to meet financial crises situations.

Malta also appreciates the professional work undertaken by the Fund and the World Bank to strengthen the global financial system and enhance international co-operation. While it is not a debtor country, Malta has, over the past year, continued to seek technical assistance from both the Bank and the Fund, this has been forthcoming and has contributed positively to our programme of economic reforms particularly in the fiscal sphere. In conclusion I would like to thank the Executive Directors who have represented Malta on the Executive Boards of the Bank and the Fund for their continual assistance and support.

I thank you for your attention.