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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 indeed a privilege to address once again the Annual Meetings of the International Monetary Fund and the World Bank. I thank the Government of the United States for hosting these meetings and join the other Governors in welcoming the Federal Republic of Yugoslavia as a new member of the World Bank and the Democratic Republic of East Timor as a new member of the IMF and the World Bank.

It is encouraging to note that after the global slowdown of the past two years, signs of a moderate recovery in international economic conditions are gradually emerging. There is understandable scepticism about the durability of this recovery and the prevailing uncertainty in financial markets is a cause for concern. The threat of a renewed slowdown is affecting markets at the same time when many countries are struggling to achieve macroeconomic stability and set their economies on a path that will lead to sustainable growth. Furthermore the situation in Latin America still remains precarious as the negative repercussions of the Argentinian crisis continue to be felt in neighbouring countries.

In this regard it is relevant to highlight the fact that the effects of contagion may be more widespread than anticipated and this may cause the recovery in many developing countries to stall as adverse financial conditions in one country impact on the markets of other countries. This may be considered the inevitable effect of the global integration of markets as recent experience shows that depressed conditions in one financial market are automatically transferred to financial markets in other countries despite the fact that such countries may be characterised by sound economic fundamentals. Unfortunately, however, instances where asset holders overreact to unfavourable price movements in debt and equity markets are on the increase. While the increasing homogeneity in

expectations could itself be the result of the global integration of markets, it clearly adds to the debate on the costs and benefits of globalisation.

It is generally recognised that the price mechanism, free trade and capital movements and contained public spending should be the order of the day. In fact there is clear evidence that those low-income countries that have experienced the highest growth rates happen to be the ones that have been more open to the rest of the world. Many countries embarked on extensive trade and exchange control liberalisation programmes following the recommendation of international financial institutions, but there were many others that did so on their own initiative.

Notwithstanding the beneficial effects of more open policies, it is evident that more and more countries have become susceptible to both the positive and negative economic and financial effects of developments in the international environment, despite the robustness of the global financial infrastructure. It is certainly a matter of concern for Malta as the authorities continue to liberalise the economy through the removal of remaining trade and capital controls. The small size and openness of the Maltese economy make it susceptible to external developments, and this susceptibility will no doubt increase as levies on non-agricultural products are lifted and the capital account liberalisation programme that was launched in 2000 approaches its final phase.

It is in recognition of this that we have continued to take further measures to strengthen our financial system. Over the past year we have enhanced the regulatory function in the area of financial services by establishing a single regulator, the Malta Financial Services Authority. At the same time we have broadened the powers of the Central Bank to enable it carry out a financial stability function besides its monetary policy role. The Bank will be responsible for identifying risks in the financial system and for overseeing the payments system. The regulatory framework has also been made more robust through various amendments to financial legislation and the introduction of new laws. The latter included the setting up of a Financial Intelligence Analysis Unit which is responsible for

all matters related to anti-money laundering activities. Amendments to the Central Bank Act will also strengthen the Bank's independence and operational flexibility while other amendments to financial legislation will bring Malta's standards and practices further in line with those recommended by the international supervisory bodies.

The authorities in Malta have also completed an initial self-assessment of Malta's adherence to IMF standards and codes in the financial sector. An FSAP mission in fact is expected to visit Malta early next month to carry out a first assessment of the financial sector. We recognise the importance of such an assessment not only because it is our objective to establish Malta as a sound and stable financial centre, but also because despite the small size of the country we clearly understand that Malta has a responsibility to co-operate actively with the Fund in its endeavours to enhance its surveillance of the international financial system.

In this regard we fully support the sovereign debt restructuring mechanism proposed by the First Deputy Director of the Fund for the use of collective action clauses in sovereign bond contracts. If accepted this proposal should enable key decisions in the debt restructuring process to be taken when negotiating with the debtor country. It may therefore prevent a financial crises from getting out of hand by accelerating the arrangements that may be necessary to solve a country's external debt problem. Indirectly it would also contribute to a resumption of private capital flows to developing countries as private investors would be assured that their investments in such countries would be more secure.

Malta also continues to support the efforts of the Fund and the Bank to combat poverty and notes with satisfaction the recent initiatives taken by these institutions to address this urgent issue. A very positive development in this regard is the World Bank's proposed action plan on achieving the Millenium Development goal of universal primary education by 2015. Other positive steps have been the decision of donors to increase the proportion of International Development Agency (IDA) assistance that will be given in the form of

grants, and also the efforts of the Fund to review quota formulas. It is also important that the commitments undertaken by the international community at the UN conference on financing for development in Monterrey to improve living standards and reduce poverty through sound policies and more effective aid be implemented with a minimum of delay.

We also welcome debt-relief initiatives taken by the international community, particularly the HIPC Initiative, the IMF's Africa Capacity Building Initiative and the CIS-7 Initiative. These will continue to enhance the facilities that are available to eligible countries build their poverty reduction capacity.

Finally I would like to refer briefly to the Plan of Implementation and the various partnerships announced in the Johannesburg World Summit on Sustainable Development earlier this month to reverse the decline in environmental degradation. Malta certainly welcomes these initiatives, and although it has very limited resources it has pledged to increase its technical assistance to low income countries and to encourage the participation of Maltese nationals in development projects overseas.

Malta too has benefited greatly from technical assistance provided by international organisations in particular the UN, the IMF and the World Bank. It clearly understands that through meaningful technical assistance a country can implement the correct policies that can better the economic and social conditions of its people without resulting in burdensome commitments. In the case of Malta such assistance has been instrumental in enabling our country to achieve, over the years, a relatively high standard of living, paving the way for accession to the European Union.

I would like to conclude by thanking the management and staff of the Fund and Bank for their continued support and assistance and wish them all success in carrying out their challenging tasks in an international environment which over the year has been difficult and uncertain. Finally, I would like to express my country's appreciation of the assistance

and advice that was provided throughout the year by the Executive Directors who represent Malta on the Boards of the Bank and the Fund.

Thank you for your attention.