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Statement by the Hon. **MICHAEL C. BONELLO,**
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Statement by Mr Michael C. Bonello
Governor of the Fund for Malta
at the Joint Annual Meetings of the International Monetary Fund and the World Bank
8 October 2010

I am honoured to address the Annual Meetings of the International Monetary Fund and the World Bank. I wish to thank the United States Government and the Authorities of Washington D.C. for hosting these meetings and for their excellent organizational arrangements.

I also take this opportunity to welcome Tuvalu as a member of the IMF and the World Bank Group.

This year's meetings take place amid continued signs of recovery in the world economy and a gradual improvement in financial market conditions. However, the pace of the recovery remains uneven across countries and its evolution remains uncertain and subject to downside risks, which in part reflect previously accumulated macroeconomic imbalances. At the same time, particularly in the advanced economies, further balance sheet adjustment remains necessary in both the financial and non-financial sectors.

In this regard we are pleased to note the considerable progress that has been made in terms of the review of the Fund's mandate and its lending facilities, including those covering LICs. Taken together these efforts should ensure that the Fund is in a better position to help bridge policy gaps in member countries while ensuring a more effective response in case of financing needs.

The Fund has been relatively successful in mobilising resources necessary for a more timely and meaningful response to balance of payments problems, including those triggered by the crisis. Earlier this year, Malta has honoured its commitment in this sense with the signing of a bilateral loan agreement with the Fund, a grant contribution to the Poverty Reduction and Growth Trust and participation in a voluntary SDR trading arrangement. Malta also continues to fully accept its commitments and responsibilities in terms of the Millennium Declaration and to provide its modest share of assistance in the development agenda, in partnership with other countries.

Sound macroeconomic and financial policies, however, remain the first line of defence against the recurrence of crisis and the best guarantee to a sustainable recovery. The steps that have already been taken by the Fund to improve the coverage of financial sector issues in surveillance and analytical work are encouraging. In particular, I would like to welcome the recent decision of the Executive Board to make financial stability assessments under the Financial Sector Assessment Program (FSAP) a regular and mandatory part of the Fund's surveillance for members with systemically important financial sectors. One aspect that deserves further study in the period ahead concerns the rationale behind the accumulation of foreign reserves, the benefits and costs of this trend, and possible policy responses.

During the past year, the Fund has also deepened its engagement with other regional and international institutions involved in financial regulation and crisis prevention to ensure a co-ordinated economic adjustment process in those countries most severely affected by the crisis. While this momentum is to be commended and should be maintained, further work remains necessary to improve the clarity and coherence of the Fund's policy advice and to ensure that it is implemented. There is also scope for further work aimed at exploiting synergies with bilateral and regional financial safety nets. Further reflection is also necessary with regard to the proposal to establish a Global Stabilisation Mechanism.

The effectiveness of these measures in terms of improving market confidence would be maximised if they are also supported by an IMF quota increase that reflects the long-term financial needs of the membership. A doubling of quotas would be consistent with this principle. This should be accompanied by a quota realignment that would reflect more appropriately the increasing role of dynamic economies in the global economy. At the same time, it is also necessary to review the balance between quota and borrowed resources to ensure that the Fund remains a quota- based institution.

In this regard, we welcome the progress that has been made in terms of the ratification of the 2008 Quota and Voice Reform. While not among the countries eligible for the ad hoc quota increase approved as part of that reform, Malta has made further progress in terms of the ratification of the related amendments to the IMF's Articles of Agreement and those related to the Fund’s enhanced investment authority. I am pleased to say that Malta’s parliament approved the amendments this week and so the acceptance procedure by Malta should be concluded before the end of this month.

As regards the Fourteenth Review, and in particular, the realignment of quotas among members, we consider that a reduction in the over- and under-representation of countries is essential for the Fund’s legitimacy and future effectiveness. The reform should at the same time protect the quota share of poor countries while ensuring a fair burden sharing across all overrepresented countries. Underrepresented advanced countries should receive equivalent treatment as other underrepresented countries. Thus any decision as to whether to forego a quota increase should be at the discretion of the eligible country concerned and no overrepresented country should become an underrepresented one after the reform.

Further, the current quota formula should serve as the sole basis for determining the degree of outlineness and the principal basis for determining eligibility for any selective or ad hoc increases. A review of the formula could be considered at a later stage, given that a number of IMF members have not yet ratified the 2008 reform. It is probably also not feasible considering the very short-time available until the end January 2011 target date for completing the quota review. Focus should therefore be on resolving, by this date, the other outstanding issues under this heading and other aspects of governance, which should preferably be addressed as a single comprehensive package.

Malta concurs with the view that there is a need for greater ministerial engagement and a clarification of the responsibilities among the advisory and decision making organs of the IMF. While such enhanced engagement could be achieved either through a strengthened IMFC or a new International Monetary and Financial Board, the arrangement that prevails in the end should ensure that Ministers have among their responsibilities the regular assessment of members’ economic and financial developments and the implementation of the Fund’s policy advice.

We also agree that emerging market and developing countries should be better represented on the Executive Board. From a procedural point of view, the decision-making process at the level of the Executive Board could also be rendered more efficient if a change in its composition is accompanied by a lowering of the majority thresholds that apply for special voting majorities and welcome further work on the selective application of double majorities.

Significant progress has been made in implementing the World Bank reforms agreed in 2008, particularly with regard to the representation and voting power of developing countries and rendering the selection process for the Bank's President more merit-based and transparent. This principle should guide all future appointments of IFI heads.

I conclude by affirming Malta's support to the processes that are taking place within the Fund and the Bank to make these institutions more responsive to the needs of the broader membership.