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Statement by the Hon. **JOSEF BONNICI,**
Governor of the Fund for **MALTA**

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It is a pleasure 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 Authorities of Washington D.C. for their hospitality and excellent arrangements for these meetings. Let me join other Governors in congratulating Ms. Christine Lagarde on her appointment as Managing Director of the Fund, while extending a warm welcome to Mr. David Lipton as the Fund's First Deputy Managing Director and to Ms. Nemat Shafik and Mr. Min Zhu as IMF's Deputy Managing Directors.

This year's meetings are overshadowed by deep concerns about the global economy and the volatile conditions which continue to persist in financial markets partly in response to the sovereign debt crisis in the euro area. Furthermore, while inflation appears to have abated in the advanced economies inflationary pressures among emerging and developing countries are intensifying and becoming more broad based. These overheating pressures posit risks to the inflation outlook and growth.

There is no doubt that the IMF's role in addressing macroeconomic balances becomes all the more essential in this hostile environment. We are thus pleased to note that since the onset of the financial crisis in 2008, the IMF has successfully strengthened its resources and overhauled its lending toolkit, putting its ability to pre-empt financial crisis on a sounder basis. The Fund has been successful in mobilising both quota and non-quota resources in response to balance of payments problems in member countries, including Low Income Countries (LICs). Here we would like to emphasise our support for the Fund's strategy of using resources linked to gold sales profits for concessional lending to LICs. Within its limited means, Malta too continues to contribute to Fund resources by honouring its commitments under a bilateral loan agreement with the IMF and through its participation in SDR voluntary arrangements. We also continue to provide a modest share of assistance to the Fund's development agenda, in partnership with other countries.

The IMF's credibility and effectiveness hinges to a very large extent on the availability of resources, that need to be commensurate with the long term needs of its members, and on a governance framework that is perceived to be fair and inclusive. In this regard, we welcome the effort by IMF members in bringing into effect the 2008 quota and voice reform. While not among the countries benefiting from the ad hoc quota increase, Malta has completed its ratification process so that the amendments of the IMF's Articles of Agreement and those related to the Fund's enhanced investment authority are brought into effect as soon as possible.

In this regard, we also note with satisfaction the considerable progress made in terms of the 2010 Quota and Governance reforms. As to the Fourteenth Quota Review, we are pleased to observe that this will lead to a realignment in the ranking of quota shares to better reflect global economic realities. At the same time the reforms ensure protection of the quota shares and voting power of the poorest members.

I now turn to an issue which ranks high on the Group of 20's Agenda and which is also a medium term objective of the Fund. I refer to the reform of the International Monetary System (IMS). Although, the IMS has underpinned strong GDP growth and hastened the process of globalisation, the financial crisis has exposed a number of vulnerabilities in the system. It is therefore encouraging to see that the Fund is directing its efforts to enhance the IMS, and achieving progress on a number of fronts.

In this regard we strongly support the Fund's work on capital flows, specifically its effort to develop coherent conclusions for the management of such flows. We must, however, also reiterate that there are no substitutes to sound macroeconomic and financial policies, and that capital flow measures should be transparent, temporary, and only used as a last resort with clear exit strategies. Moreover, we believe that the Fund should play a central monitoring role in this regard.

As part of the broader debate on reforming the IMS, we are open to consider a greater role for the SDR in the global economy. In this regard, we recognise that the SDR would need to be enhanced considerably from its current insignificant level, and that substantial practical, political, and legal hurdles must be overcome in this process. We also strongly believe that a decision to broaden the SDR requires clear and transparent criteria to ensure the stability of the basket, and only freely usable currencies can support the functions of the SDR.

Surveillance will play a key role in the reform of the IMS and in supporting global macroeconomic and financial stability. It is encouraging to see that the IMF-FSB Early Warning Exercise has become firmly established and, at the same time, financial sector issues are now being given greater coverage under Fund surveillance and in Article IV reports. However, we are of the view that some elements of surveillance need to be further explored. Political traction, in fact, needs to be improved to strengthen the Fund's crises prevention role. We also believe that, surveillance needs to be more focussed and recommend that the assessment of spill-over effects is strengthened by enhancing a more integrated approach between multilateral and bilateral surveillance.

In conclusion I would like to emphasise Malta's support for the efforts that are being undertaken by the Fund and the Bank to respond in an effective and coherent manner to the very challenging economic and financial problems that continue to characterise the global environment.