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Statement by the Hon. **MICHAEL C. BONELLO,**
Governor of the Fund for **MALTA,**
at the Joint Annual Discussion

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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 in this magnificent setting of Singapore. On behalf of the Maltese delegation I wish to thank the Singapore Authorities for the excellent organisation of these meetings and their warm hospitality. I take this opportunity as well to express our appreciation to Ms Anne Krueger, who relinquishes the post of First Deputy Managing Director of the Fund, for her very valid contribution to the work of the Fund in recent years. We are confident that Mr John Lipsky will continue to build on her achievements and wish him all success in his new post.

The international economic outlook

While the economic background to this year's Annual Meetings is generally benign, the global economy continues to face uncertainty and downside risks. These steer in particular from the high level and volatility in oil prices, which have negative repercussions for inflation and growth. The persistence of global economic imbalances and the possibility that these could unwind in a disorderly fashion represents another downside risk amid signs of growing protectionist pressures.

This notwithstanding, world growth has continued to accelerate at a fairly robust pace with the rise in world output estimated at 5.1% this year compared with 4.9% last year. Growth in many of the major industrial countries has been accompanied by a pick up in inflation, mostly due to the second-round effects of higher oil and commodity prices. These have led to a gradual rise in interest rates as monetary conditions continue to be tightened. There is no doubt that the main threat to price stability comes from the rise in oil prices, which is being driven by a combination of supply-side constraints and persistently high demand. Increasing tensions in the Middle East have exacerbated the situation.

For a small open economy like Malta's, which is totally dependent on oil imports for its energy needs, these developments have had severe repercussions. The large increase in Malta's oil bill over the last year has been reflected in a sharp widening of the current account deficit. It has also had a significant impact on energy prices, leading to a year-on-year rise in inflation of over 3%. As the Maltese economy continues to face the challenges of international competition and seeks to consolidate its integration with the European Union through the adoption of the single currency, a persistently high rate of inflation, driven by escalating oil prices, is complicating the country's efforts to achieve the Maastricht inflation criterion.

Nevertheless, economic activity in Malta has gathered momentum over the last year underpinned by buoyant, investment and consumption. In this regard, Malta's fixed exchange rate policy has contributed to macroeconomic stability, including in the area of government finance. Over the last three years the Government has consolidated its fiscal position following the expansionary stance of previous years. In line with the medium-term fiscal programme, the fiscal deficit has been substantially reduced, so that from a deficit/GDP ratio of 5% in 2004 this is expected to decline to under 3% this year. The Government expects to achieve its targets through higher tax revenues and better control of recurrent expenditure.

IMF reform strategy

We note with satisfaction the first steps the Fund will be taking to implement its reform strategy. We are all aware of the need for the Fund to respond to the dynamic shifts in economic power that have taken place over the last decade. We have supported the recent IMF resolution calling for an increase in quotas for a selected number of countries and laying down an outline for the second stage of the reforms which foresees further changes in the Governance of the Fund, including a further *ad ho*c quota increase, a simpler quota formula and a doubling of basic quotes. We hope that in dept discussions on these issues will commence soon so that the necessary work can be finalised as scheduled. We feel sure that these reforms will lead to a stronger voice for low income countries. They should also ensure a better representation for other under-represented countries, including a number of emerging economies that are now well integrated in the global economy and thus more vulnerable to external shocks. In this regard we would like to express our support for the proposal that in the new quota formula increased weight should not only be given to GDP, but also to indicators of countries' openness.

We are also pleased to note that the IMFC proposal for a new framework for IMF surveillance focuses more effectively on multilateral issues, especially the impact that economic developments and policies in individual economies could have on others. In the light of the persistence of global imbalances, it is therefore encouraging to see that the Fund has commenced multilateral consultations with a number of countries. Here it has to be emphasised that the effectiveness of this role will, to a large extent, depend upon the Fund's ability to demonstrate its independence in its surveillance work. Thus in exercising firmer surveillance on systemically important countries it has to maintain the independence of its analysis in the face of possible pressures from such countries.

Trade issues

Global growth and the expansion in international trade have over the last year contributed significantly to the positive performance of low-income countries. In this regard, therefore, we are concerned about the suspension of the Doha Round trade talks. There is a danger that a prolonged interrupted in these negotiations could lead to a rise in protectionism and a shift to bilateral trade arrangements, which would weaken multilateralism and result in trade discrimination. We urge the major parties involved in the discussions to resume their discussions in order to conclude the Round so that both industrial and developing countries will benefit from the boost in trade, in goods and services that a successful outcome would deliver.

Fund/Bank collaboration

We are also pleased to note the decision to set up a Joint Fund/Bank Task Force to make recommendations on the working relationship between the Fund and the Bank. A rational division of responsibilities between the two institutions is important to ensure that they complement each other. However, better Fund/Bank co-ordination should not be interpreted as a means of Fund disengagement from development. There are many common areas of economic development that necessitate expertise in both macroeconomic aspects and structural issues. In effect, therefore, both the Fund's expertise in macroeconomic analysis and policy formulation and the Bank's experience in the areas of social policy and poverty reduction should be harnessed to promote more rapid and sustainable development.

One such area where both institutions should continue to work closely is in the financial stability field. By ensuring that member countries adhere to high standards and codes, financial crises may be prevented both at the domestic and international levels. I am pleased to say that after having successfully undergone a FSAP three years ago, Malta invited a statistical mission from the Fund to prepare a Report on the Observance of Standards and Codes (ROSC) in the area of macroeconomic statistics. The mission prepared a final report in the early part of this year and its recommendations are now being implemented.

Here I would like to say that Malta strongly welcomes the Fund's efforts to asses the feasibility on a new mechanism with high-access contingent liquidity support for those countries with strong macroeconomic polices, sustainable debt and transparent reporting; providing this incorporates appropriate conditionality. These countries may still face potential weaknesses in their economic and financial structure. The availability of timely liquidity would enhance their ability to weather financial crises and should also reduce the risk of contagion to other economies.

Poverty eradication

In the area of poverty eradication, much progress has been achieved but a lot still remains to be done if the Millennium Development Goals are to be reached within the planned time frame. There is a need for additional resources to finance development aid and in this regard the developed countries have to strengthen their efforts to achieve the internationally agreed ODA targets. In this regard Malta is striving to sustain its ODA/GNI contribution above the 2005 level 0.18% in line with the targets set by the EU for the New Member States.

In addition to ODA, such countries should benefit from increased aid flows aimed at reducing their debts, thus enabling them to release resources for their own development. In this regard, we welcome the progress achieved in the implementation of the Multilateral Debt Relief Initiative launched by the IMF, the African Development Fund and International Development Association. Such initiatives contribute to the eradication of extreme poverty in the low income countries. Here I would like to draw attention to the illegal immigrant phenomenon currently affecting my country, which is a reflection of the lack of opportunity and extreme poverty in a number of countries in Central and Eastern Africa. Malta is playing its part in providing food and shelter to a regular influx of illegal immigrants, but this is placing a considerable burden on its limited resources.

Conclusion

I would like to conclude by expressing our appreciation to the Boards, management and staff of the Fund and the Bank for their continued support and co-operation. Both institutions are making important contributions to the promotion of global macroeconomic and financial stability and the alleviation of poverty in developing countries. We wish them continued success in their work.