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MULTILATERAL INVESTMENT GUARANTEE AGENCY

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

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It is a pleasure and honor to address the Annual Meetings of the International Monetary Fund (IMF) and the World Bank.

We take this opportunity to welcome the Republic of Montenegro as a member of the IMF and the World Bank Group, as well as Djibouti and Liberia as new members of the Multilateral Investment Guarantee Agency. We also note with satisfaction that, since the 2006 meetings, the Republic of Serbia has joined the International Centre for Settlement of Investment Disputes.

A remark of appreciation goes to Mr. Rodrigo de Rato y Figaredo for the direction he has given to the ongoing discussions on the medium-term strategy of the IMF and look forward to work with his newly appointed successor Mr. Dominique Strauss-Kahn. We are confident that Mr. Strauss-Kahn's academic and professional background will help to ensure that the pace of reform will maintain momentum as the discussions shift from the technical to the negotiation phase. We also welcome the nomination of Mr. Tommaso Padoa-Schioppa as chairman of the International Monetary and Financial Committee.

In this regard we would also like to show our appreciation of the positive work undertaken by the former World Bank President Mr. Paul Wolfowitz during his tenure at the Bank and stand ready to co-operate fully with his successor Mr. Robert B. Zoellick in taking this institution forward. .

These meetings take place against the background of relatively favorable growth prospects. It is encouraging that while second round effects from the recent financial market turmoil represent a further downside risk, and some downward revisions to growth, global expansion is expected to remain in the range of 5%. Furthermore, growth appears to be coming from diverse regions. The vigorous pace of activity in emerging economies, in particular, has assumed an important role in alleviating the potential negative multiplier effects of softer conditions in the United States. In the euro area, growth is also expected to remain robust.

Although inflation is generally under control in industrialized countries, the narrowing of output gaps in many emerging economies, posits an upside risk to the inflation outlook. Another factor is the demand for energy products that is pushing the price of oil to higher levels. In an environment like this, some countries might be pressed to take preventive measures in the form of higher interest rates. Concurrent, with the potentially disorderly unwinding of global imbalances and the continuing protectionist sentiment, this presents a downside risk to the growth outlook.

Moreover, financial vulnerabilities persist, particularly in emerging countries, where financial institutions and corporations have been accumulating debt which is partly denominated in foreign currency. More generally, although the recent instability which originated in the US sub-prime mortgage market is not expected to have a significant impact on global economic activity, and many central banks have responded appropriately through liquidity injections, the situation in financial markets is still unfolding and this continues to present a source of uncertainty.

Against this background, the prompt implementation of reforms aimed at addressing structural rigidities and macroeconomic imbalances assumes further importance, as it signals policymakers' commitment to sound economic management and thereby helps restore business confidence. Cognizant of this fact, EU Member States remain committed to a faster pace of implementation of structural reforms, although in this case, this Endeavour is made even more urgent in view of the policy constraints associated with Economic and Monetary Union.

The Maltese authorities concur with this view. While 2007 is expected to mark the second year in which the fiscal deficit ratio will have been below the 3% limit defined in the EU Treaty, and the annual inflation rate has been below 2% since 2006, it is acknowledged that a successful existence as a euro area Member State from 1 January 2008 requires further progress on the path of reform. Of utmost importance in this regard, will be a more expenditure-led fiscal adjustment which takes due account of the future costs of ageing, wage growth that takes into account productivity growth and cost developments in other countries, and enhanced competition in product and resource markets.

Since the IMF was established, the world has undergone an economic development which has seen the balance of economic power shift to a different set of countries. Many emerging economies have seen an increase in their share in trade and financial flows, while others, have correspondingly seen a drop in their role in the global economy. This shift, however, has not been reflected in the distribution of quotas and voting power in the IMF. In this regard, we support the work that is being undertaken to bring the quota share of emerging market economies and the voting power of low-income countries closer to their relative weight and role in the world economy. In particular, we fully support the idea of at least a doubling of basic votes and are prepared to consider also a tripling. We also look forward to a mechanism that safeguards the share of basic votes in total votes.

While the emergence of new economic powers in the world stage has implications for the governance of the Fund, it also has implications for the surveillance framework of the IMF, not least because the diversity of the economic players which today exert the greatest influence on financial markets has not only facilitated risk transfer opportunities, but it may also have created new channels of contagion and created incentives to trade in more complex financial products. Furthermore, the benefits of greater market integration that go to emerging economies can only spillover to less developed countries if these can draw on a stable international financial system. We thus welcome the 2007 Decision on Bilateral Surveillance. We consider that with this revision, the IMF is in a better position to deliver focused and even-handed messages to its members, while providing a better framework than the 1977 Decision in avoiding the misuse of exchange rate policies to disguise underlying macroeconomic imbalances and to postpone reforms. This should reduce the potential negative effects which such practices often entail, while also facilitating a more orderly unwinding of global imbalances.

We also welcome the decision of the Executive Board to set a statement of surveillance priorities and responsibilities. By clarifying the channels through which the different parties involved in surveillance are held accountable, this should strengthen the effectiveness of surveillance. In this sense, it would complement the new surveillance decision. While we encourage the IMF to continue to work on an appropriate text that could make up this remit, we emphasize that this statement of priorities and responsibilities should steer clear from introducing new administrative burdens. Moreover, to ensure that this statement achieves the purposes it is meant to achieve, surveillance practices and results should be regularly monitored against previously agreed priorities.

The continuation of benign economic conditions and progress with macroeconomic stabilization in many borrowing members have in the meantime reinforced the pattern of early repayments, thus depriving the IMF from what is effectively its most important source of income. The report from the Committee of Eminent Persons includes a number of suggestions that could be activated to address this situation, although these measures differ in terms of their technical and political feasibility. We encourage the IMF to use this Report as a basis for a comprehensive package that builds on different approaches. Although we recognized that expenditure-led solutions were not included in the terms of reference of the Committee, we consider that a durable income model must include both income and expenditure measures.

Given the implementation lag associated with such measures, we encourage the IMF to start considering these issues without delay.

On the expenditure side, one aspect that might warrant closer examination are the potential savings that could be achieved through better collaboration between the IMF and the World Bank, as this has the potential to reduce significantly the duplication of resources. In particular, the appropriate role of the two institutions in low-income countries needs to be addressed.

A more effective deployment of resources to combat poverty would not only benefit directly the citizens of low-income countries but is also of interest to countries, which like Malta have to deal with an overflow of immigrants who leave their country of origin in search of a better life overseas. Improved economic conditions in these countries, especially in Africa, would reduce incentives for illegal migration to recipient countries, and thus avoid further pressures on the infrastructure and financial resources of the latter.

Although there remains scope for Fund involvement in low-income countries under existing facilities, the involvement of the Fund in these countries should not overstep its mandate. Focus should remain on macroeconomic stabilization and financial sector work, including participation in the Financial Sector Assessment Program and the implementation of the recommendations of the Financial Action Task Force (FATF) against money laundering and the financing of terrorism. Generating a stable and transparent macroeconomic environment conducive to private sector initiative, in our view, is the best way in which the IMF can be of added value.

In this regard, Malta continues to support initiatives administered by the IMF and the World Bank which seek to avoid the re-emergence of unsustainable external debt problems, and has taken note of the recommendations made in the Report on Applying the Debt Sustainability Framework for Low-Income Countries post debt relief.

Although Malta plays a very minor role compared to other creditors, it has always stood ready to make contributions to the clearance of arrears or to the pledging of financial resources under initiatives benefiting low-income countries. This commitment is also reflected in recent decision to pledge our contribution in the Special Contingent Account-1 to help secure a financing package for Liberia. Moreover, the Maltese authorities remain committed to adhere to the expected benchmarks in terms of Overseas Development Assistance.

I conclude by stating that we keep the work of the Fund and the Bank in high regard and thank the Boards of the two institutions, management and staff for their continued efforts in engendering an environment conducive to international financial stability and poverty reduction. We wish them continued success in these endeavors.

Thank you.