INTERNATIONAL MONETARY FUND

WORLD BANK GROUP

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL FINANCE CORPORATION
INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES
MULTILATERAL INVESTMENT GUARANTEE AGENCY

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Press Release No. 10

October 13, 2008

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

Statement by the Hon. Mr. Michael C. Bonello,
Governor of the Fund for Malta,
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It is an honour for me to address the Annual Meetings of the International Monetary Fund and the World Bank. I would like to convey my appreciation to the management of the IMF and the World Bank, the Government of the United States of America and the authorities of Washington D.C. for the excellent arrangements made for these meetings.

I also take this opportunity to welcome New Zealand as a member of the Multilateral Investment Guarantee Agency.

A warm welcome is extended to Dr Boutros-Ghali on his appointment as chair of the International Monetary and Finance Committee and Ms Izumi Kobayashi as Executive Vice President of the Multilateral Investment Guarantee Agency. We are certain that the Bretton Woods institutions will benefit from their experience in international affairs and global finance. The past months have seen a number of organizational changes in the IMF and the World Bank Group. In this regard, I would like to express my appreciation for the service and dedication of all those who left one institution or the other, and congratulate their successors on their new appointments.

This year's meetings take place against a background of severe crisis in global financial markets and a hostile and uncertain macroeconomic environment which continues to be substantially undermined by depressed conditions in housing markets and the negative impact until recently of a sharp upward trend in oil and commodity prices.

In many economies, and especially in the advanced economies, economic growth prospects have deteriorated further since the summer. Although the deterioration in terms of inflation might be over, price pressures are set to remain elevated for a while as supply in commodity markets responds only gradually to demand.

This situation is exacerbated by the ongoing turbulence in the financial markets and the persistence of global imbalances, which complicates the task for macroeconomic policy. Indeed, the measures that would seem to offer the best possibilities for the restoration of smoothly functioning financial markets may not be consistent with the longer-term macroeconomic objectives of fiscal soundness and price stability.

There is no doubt that the commodity price shocks and the economic slowdown are having a more pronounced impact on highly open economies and developing countries. A continuation of present trends risks undoing the progress made in recent years towards the Millennium Development Goals. As higher commodity prices, lower external demand and the automatic stabilizers continue to weigh on the public finances of developing countries there is a risk that they will not be able to undertake public sector projects that are necessary to deliver sustainable economic growth. Developing countries' external reserves are also bound to experience erosion as most of them are net commodity importers.

In this regard, we welcome the efforts undertaken by the Bretton Woods institutions to make their financial assistance more promptly available to those countries most affected by the energy and food shocks, and to encourage the resumption of trade liberalisation talks. This should contribute to a faster recovery in economic growth worldwide. It should be emphasised, however, that the upward trend in commodity prices also reflects structural factors. Consequently the financial assistance available from the Fund and the Bank can only offer temporary respite to an adjustment process that in the medium- to longer-term will imply an inevitable change in consumption patterns.

We believe that the IMF and the World Bank can facilitate adjustment in these countries, first by allowing temporary deviations from pre-established targets in country programmes, provided that end objectives are not redefined and time frames are set for reverting to optimal policy paths as soon as this is feasible for the borrowing countries concerned.

Second, as the institution responsible for international monetary stability, the IMF must also ensure that the short-term response to the financial crisis is conducted without amplifying global imbalances. The combination of housing market shocks, elevated commodity prices and ongoing financial turmoil highlights the need for a more resolute implementation of the policy commitments aimed at ensuring an orderly correction of these imbalances.

Third, the advice and capacity-building initiatives of the Fund and the Bank can be formulated so as to encourage the adoption of new consumption patterns, a more efficient use of energy resources and a faster switch to renewable sources of energy.

This, however, has to be achieved with due consideration being given not only to the two institutions' respective mandates and comparative advantage, but also bearing in mind the availability of knowledge bases of other institutions that have expertise in energy and related environmental issues, such as climate change. Through the combined expertise synergies will be achieved, ensuring an efficient utilisation of resources.

This principle should also guide the activities of the IMF in low income countries in general, possibly the area of the Fund's responsibilities where there is the greatest risk of overlap with World Bank operations. The recently concluded review of this aspect of the Fund's work offers a good opportunity to identify those areas where there might be room to rationalize its non-core activities and focus instead on those areas where its efforts can add value.

It will also be important to ensure, however, that the Fund's lending policy as it applies to LICs takes due account of its implications in terms of debt sustainability as well as the overall objectives of the broader review that is underway with regard to the other lending instruments available at the Fund.

In a sense, the current international situation has rendered such a broad review timely. It has brought to the fore weaknesses in the accounting and regulatory framework, as well as channels of financial contagion that were previously unforeseen. Moreover, unlike the more recent financial and currency crises, the current one does not have its origins in emerging market economies, but in the sophisticated financial markets of the advanced economies.

At this juncture, therefore, it may be relevant to consider whether the Fund's current lending framework only remains relevant to a small subset of members under a limited set of circumstances or whether it could be rendered more relevant to the membership of the Fund as a whole by being endowed with the capacity to respond to a broader range of potential events.

We believe that the papers presented by the Fund staff provide a useful first step towards a simpler and more transparent lending framework. However, further reflection is required, not least on what instruments should be terminated and what new instruments and financing terms would be compatible with the Fund's mandate. In this regard we note that some of the proposals put forward, such as the idea of making financial assistance subject to collateral, do not seem to be consistent with the Fund's mandate and do not really offer a workable alternative. Furthermore the proposed 'quiet' facility would bring into question the Fund's efforts to enhance its institutional transparency. In addition we believe that further analysis should be undertaken by the Fund to see how conditionality could be streamlined and tailored to the circumstances of different countries without departing from the principle of uniformity of treatment and without impinging on the revolving nature of the Fund's resources.

Recent financial market events confirm the continued importance of the Fund's surveillance activities and the need for an even handed and transparent approach towards its implementation. To a large extent, the Triennial Review of bilateral surveillance correctly identifies those areas where there seems to be the greatest scope for modification. Here it would be pertinent to mention the need for more attention to low probability events with potentially significant regional or global effects, the links between the financial and non-financial sectors, and regional and multilateral spillover effects.

We also see a role for the systematic reporting on the follow-up to past surveillance activities in Article IV Reports. For many members, particularly non-programme countries that are not considered to be of systemic importance and that are not subject to some form of peer pressure from other institutions, IMF surveillance remains the best available framework for conveying relevant policy advice and ensuring it is implemented in a timely and meaningful manner. For this reason too we share the view of the Managing Director that the newly launched *'ad hoc'* consultation procedure should not replace, but complement regular Article IV Missions. We also welcome the draft Statement of Surveillance Priorities but reiterate our view that its implementation should not result in an increase in administrative burden.

I conclude by assuring the management and staff of the Fund and the Bank of our continued support as they continue to press ahead with their efforts to refocus and restructure, and in their broader efforts in promoting international financial stability and poverty reduction in an increasingly global challenging environment.

Thank you.