



BANK ĊENTRALI TA' MALTA
EUROSISTEMA
CENTRAL BANK OF MALTA

CENTRAL BANK OF MALTA 50TH ANNIVERSARY CONFERENCE

BOX 1: CENTRAL BANK OF MALTA 50TH ANNIVERSARY CONFERENCE¹

As part of a series of events organised to commemorate the Central Bank of Malta's 50th anniversary, the Bank hosted a conference entitled "Central Banks in Historical Perspective: What Changed after the Financial Crisis?" on 4 May 2018. The conference brought together economists, policymakers and representatives from financial institutions and the business community.

The Minister for Finance, Professor Edward Scicluna, delivered the opening remarks. The Minister recounted the setting up of the Central Bank of Malta and its achievements, milestones and main challenges over the last 50 years. Minister Scicluna stated that the Bank's "role has changed considerably, but it has always remained instrumental in supporting Malta's economic development over the years". The Minister also acknowledged that the monetary policy pursued by the Central Bank of Malta has served the country well as shown by Malta's steady economic growth throughout the last five decades.

The keynote speech was delivered by the outgoing Vice-President of the ECB, Vítor Constâncio and focused on the ECB's monetary policy strategy since its establishment.² He identified four key phases in the practice of monetary policy in the euro area. The first phase started with the launch of the euro in 1999 and encompassed the revision of the monetary policy strategy in May 2003, when the framework of monetary policy became more in line with the flexible inflation targeting regime adopted by many other central banks around the world. The second phase, from approximately 2003 to the beginning of the financial crisis in 2007, was characterised by several policy rate increases in an environment of strong economic growth. The third phase marked the expansionary monetary policy during the global financial crisis and the subsequent European sovereign debt crisis in 2012. The fourth phase started in 2014, when deflationary pressures in the euro area required the launch of a new set of non-standard monetary policy measures. He concluded by drawing some lessons from this experience, both for economic thinking and monetary policy making.

The Chief Officer of the Bank's Economics Division, Aaron G. Grech, delivered a presentation on the Bank's publication, entitled "*The Central Bank of Malta's First Fifty Years: A Solid Foundation for the Future*", launched specifically for this event.³ This publication provides a comprehensive overview of the transformation of the Maltese economy and of the Central Bank of Malta over the last 50 years. The presentation first analysed the main trends and structural changes in the Maltese economy, including its financial system, before reviewing the changing role of the Central Bank of Malta since its inception.

The second session consisted of two speeches related to the theme of the conference. Professor Charles Goodhart from the London School of Economics delivered a speech on

¹ Prepared by Tiziana Gauci, a senior research economist at the Research Department of the Central Bank of Malta.

² Dr Constâncio's term in office came to an end on 28 May 2018. For the full text of the speech see Constâncio, V., (2018), 'Past and future of the ECB monetary policy', ECB speeches available at: <https://www.ecb.europa.eu/press/key/date/2018/html/ecb.sp180504.en.html>.

³ The publication "The Central Bank of Malta's First Fifty Years: A Solid Foundation for the Future" can be viewed at: <https://www.centralbankmalta.org/site/excel/publications/CBM-50-Anniversary-Publication.pdf>.

central bank policies before and after the crisis.⁴ The pre-crisis years were characterized by low inflation, stable growth and subdued unemployment in most developed economies. Over-optimism in financial markets led to the global financial crisis, which necessitated a swift response by monetary and fiscal authorities around the world. These measures were successful in avoiding a depression but productivity growth remained sluggish after the crisis in most developed countries. The crisis has also led to what Professor Goodhart referred to as a “debt trap”, with interest rate normalization risking a severe worsening of debt servicing given the prevailing high debt ratios. He concluded his presentation by considering some potential routes out of this debt trap although he conceded that there are no silver bullets, especially with the demographic challenges facing many economies over the medium term.

The second speech was delivered by the Deputy Governor of the Central Bank of Ireland, Sharon Donnery, who focused on gender diversity from a central banking perspective.⁵ She discussed the benefits of gender diversity to organisations as well as the challenges ahead, including cultural perceptions. Ms Donnery believes that gender diversity in the boards and management of firms can help mitigate issues such as groupthink, insufficient challenge and poorly assessed risk – traits which she believes contributed to the financial crisis and which can be associated with a lack of diversity at senior levels. She also outlined the progress made at the Central Bank of Ireland to promote diversity since the early 2000s. Ms Donnery also commented on whether regulation should promote gender diversity. While the Central Bank of Ireland would prefer that the firms that it supervises increase diversity levels on a voluntary basis, specific requirements are not excluded.

The final session consisted of a policy panel focusing on the challenges facing central banks after the financial crisis. The panel consisted of the Governor of the Central Bank of Iceland, Már Guðmundsson, the Deputy Governor of the Bank of Canada, Lawrence Schembri and the Deputy Governor of the Central Bank of Malta, Alexander Demarco. The speakers gave an overview of the respective central banks’ response to the 2008 financial crisis. The ensuing discussion focused on financial integration and the role of cross-border financial flows. It was noted that the current international monetary system and the global financial safety net do not reflect the high level of global financial integration reached in this century. A number of desirable reforms were highlighted including the need to further reduce financial regulatory flaws and gaps with regards to capital flows and cross-border banking.

The Governor of the Central Bank of Malta, Mario Vella, delivered the concluding comments. He provocatively remarked that there is more to the national economy than finance, and emphasized the importance of fiscal policy and strengthening the real economy to ward off another crisis. The conference brought together a large number of professionals and policy makers who highlighted the Central Bank of Malta’s journey and its role in supporting Malta’s economic development over the years. It also offered an opportunity for participants to voice their thoughts and views about the future of central banking.

⁴ For the full text of the speech see Goodhart, C. (2018), ‘Central Bank Policies in Recent Years’, *Quarterly Review*, 51(2), pp. 71-78, Central Bank of Malta.

⁵ For the full text of the speech see Donnery, S. (2018), ‘The importance of diversity in central banks and supervised entities’, BIS speeches available at: <https://www.bis.org/review/r180511f.pdf>.