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CONTAINS CONFIDENTIAL
INFORMATION

January 6, 1992

To: Members of the Executive Board

From: The Secretary

Subject: Malta - Staff Report for the 1991 Article XIV Consultation,
and Text of Decision

At the request of Mr. Kyriazidis, I am circulating for the information of Executive Directors, a communication received from the Maltese authorities relating to the staff report for the 1991 Article XIV consultation with Malta (SM/91/241, 12/16/91) (Attachment I).

Directors will recall that the 1991 Article XIV consultation with Malta was concluded on December 23, 1991, with the adoption by lapse of time of the decision set out in Attachment II.

The staff would note with respect to the first point in Attachment I, regarding the 10 percent tax on overseas travel, that the multiple currency practice arises because the tax is applied directly on the purchase of foreign exchange. With respect to the second point relating to the bilateral payments arrangement with Libya, the delays in settling outstanding balances need to be limited to at most three months to avoid restrictions. As regards the Maltese authorities' intention to phase out the exchange rate guarantee scheme for U.K. and Irish tour operators, the staff notes the intention to do this gradually because of the uncertain outlook in the tourism market. Finally, the Maltese authorities have indicated that the permission for transfers of profits, dividends, and interest from approved foreign investments is invariably given, after compliance with certain formalities. The staff intends to discuss and clarify this issue in the context of the 1992 Article IV consultation, which is scheduled to be held later this year.

Att: (2)

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"Section II of the Report generally gives a fair and interesting account of recent economic developments in Malta. However, we have serious reservations regarding a number of comments in Section III of the Report and on the proposed decision.

1. The Report states that the "10 percent on the purchase of foreign currency for overseas travel purposes ... constitutes a multiple currency practice". We would like to point out that this tax was one of the measures introduced pursuant to the Expenditure Levy Act 1990, which provides for the imposition of the expenditure levy not exceeding ten percent on scheduled goods and services. The items that are specified in the Schedule to this Act include restaurant services, travel services and foreign investment services. We would like to stress that the tax on overseas travel--rather than being a multiple currency practice--was implemented by the Maltese fiscal authorities as a prelude to the eventual introduction of the Value Added Tax in the context of a phased tax reform programme involving a gradual shift from direct to indirect taxation.

2. The Report states that "the bilateral payments arrangement with Libya constitutes an exchange restriction". As we have explained several times in the past and as the Staff Report itself acknowledges, "Maltese exporters are free to choose whether or not to export their products to Libya under this arrangement". We would like to reiterate that, contrary to an exchange restriction, this arrangement actually facilitates payments because it guarantees that Maltese exporters receive their export proceeds (in local currency) as soon as documentary evidence is provided that their exports have been duly accepted by the Libyan importer.

3. With regard to the Sterling Guaranteed Forward Buying Rate Scheme for U.K. and Irish tour operators, the Maltese monetary authorities are fully committed to a policy of phasing out this scheme. Indeed, the guaranteed LStg/Lm rate is being adjusted upwards on a regular basis, despite the extremely depressed conditions of the U.K. tourist market in recent years. However, on account of the lingering recessionary tendencies in this market and the highly uncertain outlook over the medium term, we feel that in the current circumstances, it is appropriate to continue to adopt a gradual approach to the phasing out of this special scheme, so as to avoid disruptive shocks on this extremely price sensitive and vital industry.

4. As regards the Report's statement that "the transfer of profits, dividends, and interest from approved foreign investments requires Central Bank permission, which is normally given, after compliance with certain formalities", we would like to point out once again that Central Bank permission is invariably given. In fact, Section 9 of the Maltese Exchange Control Act provides that "the Finance Minister's permission shall not be withheld except in so far as the withholding of such permission is necessary to give effect to an international agreement, treaty or convention to which Malta is a party".

INTERNATIONAL MONETARY FUND

Malta - Decision Concluding 1991 Article XIV Consultation

Executive Board Decision - December 23, 1991

1. The Fund takes this decision relating to Malta's exchange measures subject to Article VIII, Sections 2(a) and 3, and in concluding the 1991 Article XIV consultation with Malta.

2. Malta continues to maintain restrictions on payments and transfers for current international transactions in accordance with Article XIV, in the form of limitations on certain invisible payments and transfers vis-à-vis residents of countries outside of the former sterling area. In addition, the exchange restrictions arising under the bilateral payments agreements with two Fund members and the exchange restrictions in the form of limitations on certain invisible payments and transfers vis-à-vis residents of countries of the former sterling area are subject to approval under Article VIII, Section 2(a). The multiple currency practices arising from the exchange rate guarantee scheme for tour operators and the 10 percent tax on the value of Maltese lira to be exchanged in foreign currency for use overseas are subject to approval under Article VIII, Sections 2(a) and 3. The Fund encourages Malta to apply the restrictions maintained under Article XIV liberally and urges it to remove the exchange measures subject to Fund approval.