

Memorandum for Cabinet by the
Hon. Minister of Finance, Customs and Port

Draft Central Bank and Banking Acts

The establishment of a Central Bank has been recommended by the United Nations Economic Mission in their report on the economic adaptation and development of Malta which was printed on the 20th January, 1964. As a result of Malta's independent status and the intensive measures which are being taken for the economic development of these Islands, it is necessary that an organization should be set up to advise Government on monetary and credit policy, to manage the assets backing the currency, to keep a watch on the banking system and to encourage a higher proportion of Malta's capital to be invested locally.

2. For this purpose, the Government sought the advice of the Bank of England. Mr E. B. Bennett, then Assistant Head of the Overseas Division of the Bank, was given the assignment to go into the matter. He visited Malta and discussed with the Government and with interested individuals and institutions the role which a Central Bank could play in Malta. Mr Bennett submitted his report, which was accompanied by draft legislation for the establishment of a Central Bank and by a draft Banking Act.

3. In forwarding his report, Mr Bennett laid particular emphasis on the vital need of proceeding with the establishment of a Central Bank in a manner which engenders confidence. Further he strongly felt that, if the Government is to gain full benefit from the Central Bank's advice on internal and external financial affairs, the Central Bank must be able to develop its own independent views without fear or favour.

4. Mr Bennett's report was studied in the Ministry of Economic Planning and Finance and was also discussed with him. As a result certain amendments were made in the draft legislation as originally prepared by him. Following further discussion of the draft bills with officials of the International Monetary Fund and further revisions by Mr San Lin and Mr Mladek of the same Fund, a third draft was prepared. However, on the arrival of Dr Philip Hogg, the Governor designate of the Central Bank in Malta in February last, a final thorough and intensive revision was made and certain important points were discussed by him with the Bank of England authorities during a subsequent short visit to London and a fourth draft prepared. This fourth draft has been compared with the model acts on Central Banking and Banking prepared by the International Monetary Fund as well as with the recent similar legislative instruments enacted by Malawi, Sierra Leone, Malaysia and Libya. An International Monetary Fund publication comprising the Central Bank Acts of twenty-one Commonwealth and other nations has also been extensively made use of to ensure that only standard and widely accepted provisions were included in the draft bills. The actual legal drafting has been carried out throughout by the Deputy Crown Advocate General. Copies of the drafts of both the Central Bank of Malta Act and of the Banking Act - Appendices A and B - are attached.

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5. The Central Bank draft legislation provides for:-

- (a) the transfer of responsibility of the note issue from the present Currency Board to the Central Bank and the taking over by the Central Bank of the responsibility for the issue of legal tender coin in Malta;
- (b) the control of credit so as to promote the orderly and balanced economic development of Malta consistent with the maintenance of monetary stability and the external value of the currency;
- (c) the control of commercial banks and other financial institutions;
- (d) the fostering of the capital market;
- (e) the provision of banking facilities to Government;
- (f) the tendering of advice to Government on monetary and credit matters;
- (g) the issue and management of Government loans;
- (h) the investment of part of its funds in Government stock, Treasury bills and local Development Corporation Shares or Debentures.

6. The draft Banking Act which is complementary to the Central Bank legislation, provides for:-

- (a) the issue of licences to commercial banks;
- (b) the control of the liquidity of Banks by statutory holdings of specified assets;
- (c) the capital structure of Banks;
- (d) the control and operation of the banking system;
- (e) the preservation of audited Balance Sheets and other accounts of banks;
- (f) the appointment of inspectors to examine the affairs of any bank in certain special justifiable circumstances.

7. Before however proceeding with the presentation of the draft bills for Parliamentary approval, Government may wish to consider whether, in line with a declaration made by the Hon. Prime Minister in the 1964 Budget Speech, banking institutions as well as other interested bodies and organizations should be consulted. Such a step would appear to be advisable in the interests of having a legislation

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which is generally acceptable to the bodies whose affairs it is intended to regulate as well as of being able to assure Parliament in the House Committee that the various interested bodies have been consulted.

8. In this respect, the points which it is proposed to discuss with the Malta Bankers' Association are the following:-

1. Central Bank Act

Section 2 - Types of deposits in operation - to check limitations of the proposed definitions;

" 15 - Types and maturities of bills and securities eligible for discount or purchase by the Central Bank - to confirm that all reasonable needs of the economy for short-term finance are covered;

" 16(i) and 34
Commercial bank deposits with the Central Bank - to ascertain whether working balances (as distinct from reserve balances) should be made compulsory;

" 32 and 33
Banking facilities - to consider the implementation of banking co-operation and the urgency of a new clearing system.

2. Banking Act

Section 7 - Minimum capital - to establish the adequacy of the suggested figure of £100,000;

" 12(1) - Prohibited transactions - to give the banks an opportunity to express their views on the restrictions;

" 13(3) - Composition of liquid assets - to ascertain whether the maturities are appropriate and whether there is likely to be any initial difficulty in establishing a uniform ratio for all banks;

" 14 and 18
Statements - to confirm that the information required under these two sections can reasonably be furnished within the time allowed.

9. It would have to be made clear to the banks that, while their views would be taken into account, the Government could not undertake to meet them on every point - especially as regards "prohibited transactions", on which one may expect a certain amount of opposition.

10. Honourable Ministers are asked to say whether they agree in principle with the draft Central Bank Act and the draft Banking Act and with the procedure suggested for processing this legislation as proposed in paragraphs 7, 8 and 9 above.

22nd April, 1967.

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