

Malta Stock Exchange Annual Dinner 2022 Keynote Speech

Honourable Minister, Mr Chairman, Board and Management of the Malta Stock Exchange,
Distinguished Guests, Ladies & Gentlemen,

I am privileged to be invited to talk to you this evening. Chairman Portelli gave me two main instructions for this speech: a), to keep it within 10 minutes, which I am definitely going to respect, and b), to talk about something that is interesting, and topical. Now, many interesting things came to mind but I knew that by this time they would be competing with the main course or dessert. Hence, it had to be something *really* topical, and not the World Cup or Black Friday!

So I thought that a topic of common concern to this audience should be value creation and economic growth. And in these times when we have become so much more conscious of sustainability and of that new buzzword – ESG – I thought of speaking to you about ‘sustainable economic growth’. But let me anticipate that you’re not going to be hearing about carbon emissions, net zero or managing climate-related and environmental risks.

In 1987, the United Nations defined sustainability as “how we can meet the needs of the present without compromising those of future generations”; whereas the term ‘ESG’ is much more recent - it refers to the framework of how a company contributes to sustainability through caring for the environment, providing for society and better corporate governance. Weak ESG *prevents* sustainable economic growth, while strong ESG, on the other hand, *creates* value and growth. But what creates strong ESG? Let me stop throwing buzzwords and acronyms and instead talk about leadership.

Sustainable leadership promotes economic, environmental and social objectives by aligning corporate profit with a bigger purpose. It recognises, and rewards, the contributions of customers, employees and investors, encouraging innovation and growth. Companies that display sustainable leadership tend to enjoy more brand loyalty, strong staff retention and good investment sentiment. But to practice such leadership, executives need a deep understanding of the challenges and opportunities emerging from the global commotion around sustainability. They need to be driven by strong values and a clear vision for a future that must be very different from the present.

Banking can be regarded as a business that fundamentally exists on the taking of sustainable decisions. At its most basic, loans are made and deposits are raised on the implicit assumption that at least similar conditions will prevail in the future for them to be repaid. Banks have been key to the development of commerce and a cornerstone of business over the centuries, a role that today we see challenged by many new forms of bank-like firms and fintechs. Obviously, banks also need to change and adapt but they remain the essential partners to support the regulatory, monetary and fiscal strategies that help the world navigate through its troubled waters, as we've learned especially during these last 24 months. The trust we receive as bankers brings with it many privileges and, equally, huge responsibilities.

So let me share with you a few things that are on my mind locally about sustainable economic development.

As bankers we increasingly face dilemmas about real estate projects, big or small, that may be covered by permits, appear feasible and be supported by sales or rental projections, even by adequate collateral But you then pause and ask: how are some, or many, of these projects impacting the aesthetic of our islands? What will they leave for future generations? While the multiplier effects of real estate development are well known, and I accept that there is a need to upgrade certain stocks both residential and commercial, we should have other, more sustainable and export-orientated ideas to drive our national economic model. Bankers, financiers and investors must become pressure points on our authorities and policymakers that economic growth cannot continue to be fueled to such an extent by construction.

One might argue that construction and real estate are symptoms of other challenges, like demographics, and urbanization, and that these are creating more far-reaching issues for our infrastructure, transportation, air quality and water resources. But then I link that to other industries that are the mainstay of our economy, like tourism and hospitality. Will the Maltese Islands of the coming years continue attracting tourists to visit and, more importantly, to want to return? Will the overall product offering to our visitors remain attractive, competitive and one that offers value-for-money? Everything matters: from the smiles and the courtesies to the service, and prices, at our hotels and restaurants, to the overall visitor experience. Those smiles and courtesies have never been so important, as we are increasingly seeing our Malta and Gozo stressed and fatigued by over-development. This leads to the other important question of what volumes and number of tourists can we afford to receive sustainably.

It's Catch-22, however one looks at it. Of course I can mention other examples but the point is that there is a need to come together and re-define 'sustainability' with *our* priorities in mind - because no-one will do that for us.

And I cannot let an occasion like this pass without repeating my appeal to policy and law makers to do whatever is needed to always protect Malta's fragile reputation and at all costs. Having been in the thick of the financial services industry for a few decades, what annoys and concerns me most is not that we were greylisted but the attitudes, policies and behaviour that brought about the greylisting. We were wrong in trying to promote economic sectors for short term gain rather than for long term value, which is what sustainable leadership should be about. Let's make sure we always present Malta as a jurisdiction that upholds the highest standards of conduct, and welcomes business that meets elevated entry standards. When I hear banks being criticized for their approach to 'know your customer' and many an onboarding experience, I reflect that quite often the criticism is justified. But when banks do not show appetite for certain business activities or raise red flags, they are probably seeing a bigger and longer-term picture of risks and potential consequences that others might not be seeing.

The world is contending with challenges from which we may feel to be insulated: economic uncertainty and rising inflation, the war in Ukraine, food insecurity, an energy crisis, and a lingering pandemic. Of course, we are never insulated, on the contrary we need to assume extra challenges that have to do with our size, insularity and various economic vulnerabilities.

Sustainable growth must also be inclusive and with the resilience to deal with adversity, withstand shocks, and continuously adapt and accelerate as disruptions and crises arise over time.

So, to come back to my question, and conclude: what makes good sustainable leadership? My answer is in two simple sentences. *First*, we can no longer speak about what causes less harm, but about doing more good. And *second*, the values of sustainability must first be a way of life to be a way of business. It's no rocket science but we must start from our backyard. I hope that banking-sector integrity, and trust, which underpin the strength and well-functioning of our economic system, are also thanks to the leadership example that we set, and that this may continue for a long time to come.

Thank you.