

Price persistence in Malta

PRICES REFLECT economic information. However, some prices reveal more about the health of an economy than others. The most indicative prices are those for goods that do not fluctuate greatly, which exclude fresh food, energy, and a few others. Changes to prices of stable, core goods (insurance policies, some services, and others) should ring alarm bells with policymakers who need to consider them when setting targets for inflation.

For an in-depth analysis of the local situation, Reuben Ellul (supervised by Dr Gordon Cordina) estimated core inflation using an unconventional approach, called a trimmed mean index, which allowed the pinpointing of pressures within the Maltese economy.

Local inflation is susceptible to international price changes, especially for energy and food. From 1999 to 2010, (particularly



between 2005 and 2010) Maltese inflation rates fluctuated more than in euro area countries. The Maltese economy responds poorly to sudden price changes and shocks appear to last longer. On the other hand, the prices of certain locally provided services tend to be more stable. These sectors might be unable to negotiate new prices quickly, or reflect conditions in an unliberalised market.

The author suggests that, taken together, these findings help to more accurately iden-

tify the pressures in an economy. Similar approaches could aid policymakers, as core inflation rates may portray a more realistic picture of an economy. ●

This research was performed as part of a Bachelor of Commerce (Honours) at the Faculty of Economics, Management & Accountancy. Opinions expressed are those of the author and not necessarily those of the Central Bank of Malta.

Assessing government

PUBLIC SERVICES should be audited. Their financial reports need to be reviewed by agencies independent of government (external audits), while government itself has to assess its own operations to maximize efficiency, minimize fraud, and comply with the law (internal audits). Despite their importance, most studies on the Maltese situation have focused on the private sector, neglecting the public sphere.

To analyse the degree of communication between the internal and external auditors, Sharon Zammit (supervised by Mr Peter J. Baldacchino) interviewed officials from the National Audit Office (NAO: external) and Internal Audit and Investigations Depart-

ment (IAID). She concluded that effective communication between these departments is still in its infancy, leaving lots of space for improvement.

She identified four main barriers. The first is an ingrained culture promoting a lack of cooperation for investigating fraud and irregularities. The second is overreliance on informal communication that affects their cooperation in audit planning and internal controls. The third is mutual misperceptions that limit sharing of reports. The fourth is a lack of resources that limits time for communication between the offices.

Such 'walls' prevent the organisations from reaping the benefits of cooperation.

To change this situation the author recommends an official written agreement between the two entities (NAO and IAID). This would support a programme of regular meetings, decentralisation of internal audit function, sharing expertise to prevent duplication, and when appropriate combined auditing of government activities. Ms Zammit hopes that both organisations can come to be "seen as complementing each other, rather than as treading on each other's toes." ●

This research was performed as part of a Bachelor of Accountancy (Honours) at the Faculty of Economics, Management & Accountancy.