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INTERNATIONAL MONETARY FUND

Press Release No. 38

September 23–24, 2003

Statement by the Hon. **MARKOS KYPRIANOU**,
Governor of the Bank for **CYPRUS**,
at the Joint Annual Discussion

Minister of Finance and Governor of the World Bank for Cyprus
Mr. Markos Kyprianou

It is an honour to submit a statement to the 2003 Annual meetings of the Governors of the International Monetary Fund and the World Bank Group.

While this statement addresses global economic and financial issues, it is made from the perspective of a small open economy that will accede to the European Union in May 2004 and aims to participate in European Monetary Union as soon as possible.

Although, there is now some evidence of a recovery in the world economy, the global economic environment has remained unfavourable for Cyprus and other small open economies, with output in the main European trading partners stagnant and the threat of international terrorism compounding the negative effects on the export of tourism services in particular. More generally, it could be said that the small open economies, which are heavily dependent on air travel, have been affected more harshly by the adverse international environment of the last two years.

In order to contain the negative effects emanating from the fall in tourism the Cyprus government adopted a more expansionary fiscal stance and has managed to keep the economy growing at an annual rate of around 2 percent. However, the stimulating of government expenditure comes at a time when cyclically-determined tax revenues are subdued and EU harmonization and structural reform costs are mounting. Accordingly, with this fiscal policy stance,

Cyprus along with many other European countries, is finding EU fiscal rules, including the convergence criteria set for government deficits and public debt under the Maastricht Treaty, more demanding.

In addition, to the great effort that has been made to contain government expenditure in the forthcoming budget for 2004, a sustained and strong recovery in global output and world trade would help considerably in reviving growth and correcting the imbalances in the Cyprus economy. Indeed, fiscal consolidation constitutes the back-bone of the 2003 Pre-Accession Economic Programme of Cyprus, which is premised on the recovery of the annual growth rate of the Cyprus economy to its potential of 4 ½ per cent over the medium-term.

In the current international environment of sluggish economic growth and trade there is a tendency by certain countries and regional groups to attempt to maintain and even enhance their market shares by keeping their currencies undervalued and resorting to protective trade measures. However, such practices and behaviour will only distort world trade and keep its growth below that of output. Cyprus welcomes the efforts of the World Trade Organisation, the World Bank and the International Monetary Fund, in encouraging advanced economies to phase out trade-distorting policies, so as to ensure that their commitments to free trade made in Doha in November 2001 are implemented on schedule by 2004.

In terms of policies of the international community to assist with significant poverty reduction in the poorest countries through the “Monterrey Consensus” there is concern that the momentum built up 12-months ago to bring about the effective delivery of the Monterrey Consensus seems to be losing steam. There is an immediate need for donors to fulfill their Monterrey commitments on large increases in aid, and to pursue proposals for new financing facilities and modalities, so as to help meet the millennium development goals (MDGs). In terms of the policies and efforts of the international community and developing countries to achieve the MDGs, the World Bank’s “World Development Report” 2004 is particularly illuminating, especially in its central theme of how to make services work for poor people. Indeed, the process of providing development assistance should be directed toward making developing countries ultimately dependent upon their own resources and infrastructure to generate and to sustain healthy economic growth.

But, what also is an essential pre-requisite for promoting sustained development is the establishment of conditions of peace and security. The awful experiences of countries such as Afghanistan, Iraq and Liberia demonstrate that conditions of stability and public order must be restored to support any sustainable reconstruction process. International efforts must be taken to prevent post-conflict countries from reverting to instability and violent conflict, so that all developing countries have conditions of peace and security vital for sharing in the global development process.

Finally, it can be stated that Cyprus benefits both directly and indirectly from the IMF’s surveillance activities. The Fund’s Article IV consultation reports

provide an invaluable input into the analysis of economic developments and prospects and the assessment of our policies. While IMF surveillance helps in averting international financial crises, there are areas where this surveillance can be improved. In this connection, trade liberalisation comprises an important element of crisis prevention and resolution. Accordingly, we support the intention of the Fund in its Article IV reports to provide an assessment of the degree to which countries observe open trade regimes.

Furthermore, Cyprus backs strongly the international fight against money-laundering and against the financing of terrorism, and supports the efforts of the IMF and the World Bank in contributing to this fight through their surveillance activities and technical assistance, in collaboration with FATF and FATF – style regional bodies.

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