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MULTILATERAL INVESTMENT GUARANTEE AGENCY

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



*Minister of Finance and Governor of the World Bank for Cyprus*

*Mr. Michael Sarris*

It is an honour to submit a statement to the 2005 Annual meetings of the Governors of the International Monetary Fund and the World Bank Group.

Global economic growth will reach 4 percent in 2005. The adverse impact of higher oil prices is mainly behind the modest deceleration of growth this year. However, despite a solid performance significant regional divergences are emerging, with strong growth in North America and Asia and weaker performances in the EU and Japan, and in Africa. These divergences—exacerbated in many instances by domestic macroeconomic policies and by a lack of progress in implementing structural reforms—are contributing to a further widening of global imbalances. Low levels of investment in growth-enhancing activities and the lack of reforms of labour and product markets, together with ageing populations, are also contributing to lower long-term growth.

The main challenge for governments is to follow policies, both domestically and in concert with other countries, which are conducive to growth in the short and long term, and which will help to gradually eliminate global imbalances. An abrupt unwinding of the large current account deficits could trigger financial crises in emerging markets, but also in more advanced economies, and could set back the global economic recovery.

To this end, Cyprus supports the EU's emphasis on sound fiscal policies and the sustainability of public finances in the long term, and the promotion of structural reforms.

The economy of Cyprus continued to perform well in 2005. GDP is forecast to expand by around 4 percent and inflation is set to accelerate slightly to 2½ percent. The Government of the Republic of Cyprus intends to rigorously implement its fiscal consolidation plan as set out in its Convergence Programme of 2004. Accordingly, the budget deficit will fall to below 3 percent of GDP in 2005 and 1¾ percent in 2006. Structural reforms will also be pursued vigorously. Achievement of these goals will also enable Cyprus to adopt the euro by 2008.

The Government of the Republic of Cyprus is working for a just, and viable, solution of the Cyprus problem, and for reunification of the island so that all Cypriots may enjoy the benefits of EU membership, and prospective euro adoption. Nonetheless, an economically-viable solution is key for the long-term economic success of the island, also in light of the rules inside the European Monetary Union. The Government of the Republic of Cyprus will work toward the reunification of the island, and will support all efforts towards that end.

Cyprus welcomes the IMF Managing Director's Report on the Fund's Medium Term Strategy. Globalization has brought important benefits to many countries, but has also increased the need for more effective surveillance of the world economy. Hence, the Fund ought to play an

especially important role in promoting macroeconomic and financial stability, and supporting sustainable growth. To this end, the Fund must continue to undertake in a transparent and objective fashion, with the collaboration of the World Bank, its surveillance and to increase its focus on external vulnerability, global imbalances, debt sustainability, with special emphasis on how to achieve the UN Millennium Development Goals.

Cyprus supports efforts to achieve the Millennium Development Goals not only by accelerating debt relief to the poorest countries, but also through providing financial and technical assistance to help implement national poverty reduction programmes, and improve governance. In this regard, Cyprus aims at raising significantly its share of ODA/GNI by 2015. A successful conclusion of the Doha Development Agenda will also have a great impact on world growth and on reducing poverty.

Cyprus is strongly committed in strengthening the international fight against money laundering and the financing of terrorism— in particular through reinforcing mutual co-operation and improving legal frameworks and procedures for freezing all financial assets and property of terrorist organizations,—and supports efforts by the IMF and the World Bank to achieve this goal.