

WORLD BANK GROUP

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
INTERNATIONAL FINANCE CORPORATION  
INTERNATIONAL DEVELOPMENT ASSOCIATION  
INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES  
MULTILATERAL INVESTMENT GUARANTEE AGENCY

J

INTERNATIONAL MONETARY FUND

Press Release No. 41

October 22, 2007

---

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



**Statement by the Hon. Michael Sarris,  
Governor of the Bank for Cyprus,  
at the Joint Annual Discussion**

It is an honour to submit a statement to the 2007 Annual Meetings of the Governors of the International Monetary Fund and the World Bank Group.

This statement comments on global economic and financial issues, from the perspective of Cyprus as a small open economy in the European Union, which will adopt the euro on January 1, 2008.

***1. Economic Situation***

Against the background of buoyant global trade and economic activity in the first part of 2007, the Cyprus economy performed well recording real GDP growth of around 4 per cent and meeting all of the Maastricht convergence criteria. This good performance contributed to the positive decision for Cyprus to enter the euro area on January 1, 2008.

The recent turmoil in financial markets does not appear to have any significant adverse effects to date on the real economy of Cyprus. What is of more concern is the sharp rise in prices of certain internationally traded commodities particularly oil and cereal products which are imparting considerable inflationary pressures on Cyprus and other open economies. Also, with evidence that certain major exporters of manufactured products are experiencing increased domestic inflationary pressures the global economy may be entering a stage where some slowdown in economic growth will be accompanied by higher inflation.

This conjuncture of prospective economic developments adds to the challenges of an economy like Cyprus as it enters the euro-zone. The authorities must not only intensify policies to ensure nominal convergence in the EU and to secure macroeconomic stability, but must implement structural reforms with greater vigour to maintain competitiveness and raise potential growth. In this respect, the government deficit is expected to decline from 1,4 per cent GDP in 2006 to 1,0 per cent in 2007, will be further reduced to around 0,5 per cent in 2008 and attain balance in 2009. Reflecting the fiscal developments government debt is now on a distinct downward path and is estimated to reach under 53 per cent of GDP by end-2008. It is noteworthy also that public expenditure management reforms, including the introduction of a medium-term budgetary framework, with the help of valuable technical assistance from the IMF will enable the better control

of government expenditures as well as their more efficient allocation and targeting to growth-enhancing activities.

As to relations between the larger economies we note that recent cyclical developments have contributed to some unwinding of global imbalances. However, we trust that the further reduction of such imbalances will be accompanied by orderly movements in exchange rates of major currencies and be in line with competitiveness positions and hope that the euro/US dollar exchange rate does not have to continue to bear the brunt of the adjustment. Indeed, it would be preferable if demand management policies as well as structural reforms can play a greater role in rebalancing global economic growth and thereby phasing out large current account deficits.

## ***2. Quotas and Voice Reforms in the IMF***

Cyprus along with fellow EU members is willing to reach timely agreement on a satisfactory outcome on the reform on quotas and voice aimed at ensuring fair and adequate representation for all members of the IMF. Cyprus supports a shift of actual quota shares of advanced economies to emerging market economies, and that the voting power of low income countries should be enhanced. The details of proposals for quota and voice reforms in the IMF which Cyprus supports were outlined in the statement of the EU Presidency to the IMFC meeting. And in this connection Cyprus strongly endorses the objective of enhancing the voice and participation of low income and transition countries in the Fund and supports significantly increasing basic votes.

## ***3. Other Governance Issues***

Cyprus welcomes the appointment of Mr Dominique Strauss-Kahn as Managing Director of the IMF and looks forward to his leadership. As for the IMFC chair, Cyprus along with other EU member states supports a time-limited chairmanship and the principle of geographic diversity, and welcomes the recent appointment of Mr Tommaso Padoa-Schioppa for a three-year term.

## ***4. Low Income Countries***

Cyprus backs the continuing role of the Fund and the Bank under existing facilities, in supporting low income countries according to their mandates. We consider that the IMF should give priority to enhancing the effectiveness and efficiency of its work in low income countries by focusing on macroeconomic stability and sustainable growth that support the achievement of the MDG's.

We welcome the initiatives of new World Bank President Robert Zoellick in developing a strategy and pragmatic approach to enable the Bank to better help low income members and countries emerging from major conflicts. In particular we welcome efforts to bring about a more client-focused approach, to find better ways of integrating aid with national programmes, and to improve governance and the fight against corruption. In this connection, we trust that the donors of IDA, through the 15<sup>th</sup> replenishment can show a high degree of confidence in the course being charted by the new World Bank President.

#### ***5. Combating Money Laundering and Financing of Terrorism***

Cyprus backs strongly the international fight against money-laundering and against the financing of terrorism and calls action by all countries to implement programs according to the 40 Recommendations and the 9 Special Recommendations of the Financial Action Task Force (FATF) and together with other EU members calls on the IMF and the World Bank to closely cooperate with the FATF. EU countries are committed to the effective and timely implementation of UN Resolutions 1540, 1718, 1737, 1747 and have taken action to that effect; we call on other countries to do likewise. Cyprus supports the recent decisions of the FATF concerning the financing of proliferation of weapons of mass destruction.