

BOARDS OF GOVERNORS•1999 ANNUAL MEETINGS•WASHINGTON, D.C.

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

INTERNATIONAL MONETARY FUND

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Press Release No. 10

September 28–30, 1999

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

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It is encouraging to note that the world economic situation is now distinctly better than 12 months ago and that the global growth momentum during 1999 has been improving. There are still considerable downward risks for the world economy, especially if the expected deceleration in the growth of the US economy is not offset by faster growth in the other major industrial economies. It is important that this momentum can be sustained so as to enable significant improvements in the living standards of the population of the poorer developing countries.

The experience of the last two years has demonstrated the vital role international financial institutions can play in resolving and helping countries recover from financial crises. Indeed, the enhancement of the resources and facilities of the IMF, including its new Contingent Credit Line should help the Fund to prevent and contain future financial crises. However, we are concerned that some of these enhanced facilities, such as that of the strengthened HIPC initiative, will require further large funding in order to provide timely financing and debt relief to deserving countries. In this vein, Cyprus would urge that early agreement be reached on the full financing and equitable burden-sharing for the enhanced HIPC initiative. And in view of the rapid increase in the World Bank Group's lending portfolio and its higher degree of concentration and the downgrading of a number of borrowing countries, we think consideration could be given also to capital replenishment for the Group, including the International Finance Corporation.

With respect to the "New International Financial Architecture" and "Strengthening Global Economic Governance" we would support the view that the IMF must continue to perform the role of a crisis manager on the global financial stage, but that public resources be used more prudently and only with strong conditionality so as to avoid moral hazard. New mechanisms must be developed and implemented to strengthen the involvement of the private sector in forestalling and resolving financial crises, a process that would make imprudent creditors and investors bear part of the burden and losses associated with financial crises.

The recovery and resumption of strong economic growth in East Asian countries, that were most directly affected by the recent financial crises, is encouraging. However, we are concerned that countries hurt by the indirect effects of the East Asian crisis, mainly through sharply falling primary commodity prices, will continue to experience irretrievable losses in income and will remain vulnerable to further price fluctuations. In this context, we would welcome the creation of the commodity price risk insurance scheme for developing countries that has recently been proposed by the World Bank. We trust also that in the development of new trading arrangements at the forthcoming World Trade Organization meeting in Seattle and those to follow the Lomé Convention for the ACP (African, Caribbean and Pacific) Group with the European Union, sufficient priority

be given to assuring that developing countries have continued access for their main export commodities to the markets of the European Union and other industrial countries.

In Cyprus we are well aware of the vulnerability of small open economies to fluctuations in export prices and volumes. In 1999 a considerable fall has been recorded in the international prices of our main commodity export, namely potatoes, but fortunately our largest foreign exchange earner, tourism, has experienced substantial rises in both the number of tourists and their average expenditure. The continued pegging of the Cyprus pound to the Euro has contributed to improving export competitiveness in 1999, especially for tourists from the United Kingdom, while permitting the importing of low inflation from the countries of the European Monetary Union. For 1999 the real GDP of Cyprus is expected to increase by around 4,5 per cent, the annual rise in the consumer price index is forecast to average 1,5 per cent, and the unemployment rate will remain at about 3,4 per cent.

Despite these favourable macroeconomic indicators we are concerned that we have not been able to reduce the fiscal deficit to below 5 ½ per cent of GDP in 1999. For the first time in conjunction with the tabling of the Government budgets for 2000 at our House of Representatives, the Government will propose a detailed and substantive package of tax measures aimed at bringing about a sizeable reduction in the fiscal deficit. As the magnitude of the budgetary allocations is dependent on securing revenue from the new tax measures, any failure by the House to agree on a significant package of tax measures will mean that budgeted expenditures for 2000 will have to be reduced.

In concluding, I will emphasise that Cyprus continues to support and cooperate with the Fund and the Bank in their efforts to foster a stable economic and financial environment conducive to healthy growth and development. Also, I would take this opportunity to thank the management and staff of the Fund and the Bank for the constructive advice they have rendered to Cyprus.