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

STATEMENT BY THE GOVERNOR OF THE BANK

FOR THE REPUBLIC OF CYPRUS

Christodoulos Christodoulou

It is a great pleasure and honour for me to address these Fifty-Second Annual Meetings of the International Monetary Fund and World Bank.

It is encouraging that the world economy over the past year has been characterised by healthy growth, low inflation, reduced fiscal deficits and significant structural reforms in a number of countries. This improvement in the economic fundamentals has enabled many countries to pursue new initiatives and reforms to meet the challenges of globalization. At a regional level we welcome particularly the historically high economic growth rates being recorded by sub-Saharan Africa and the resumption of positive economic growth in the countries in transition and trust that these developments can be sustained.

Mr. Chairman,

The benefits and costs associated with the globalisation process for emerging market economies has been illustrated strikingly during 1996 and 1997. Massive amounts of foreign private capital have flowed into these economies, especially to Southeast Asia, to promote investment and rapid economic growth. However, the vulnerability of such flows to individual countries and regions in response to shifts in market sentiment has been underlined by the recent downward pressures on the currencies of a number of Southeast Asian countries and the large falls in equity prices in their markets. We need to put these developments into perspective and assess whether foreign investors and financiers and domestic players have exaggerated the deterioration in the prospects for Southeast Asian economies and have overreacted by shifting funds and capital out of these countries. If so, what else can the international financial community, including the IMF, do to help restore confidence in the currencies and financial assets in the affected Asian markets? Are the IMF´s resources too limited to provide quickly the appropriate amount of emergency financing? What corrective measures should the authorities of individual countries take to enhance and reinforce policy credibility in the eyes of domestic and foreign investors? It is pleasing to note that the Interim and Development Committees have in recent days been at the forefront in addressing these issues.

In Cyprus we have become acutely aware of how sudden shifts in investor and consumer confidence arising from actual and perceived political and military developments can be transformed quickly into destabilising financial and economic developments. In 1996 events, which caused uncertainty regarding future political and military developments, depressed foreign and domestic spending in the Cyprus economy reducing the growth rate to 2 per cent compared with 5 1/2 per cent in the preceding year. To contain the destabilising tendencies the economic authorities stressed the good economic fundamentals pertaining to the Cyprus economy and its ability to increasingly align its policies with those of the more successful performers in the European Union. Indeed in 1996, with a stable exchange rate, annual inflation around 2,1 per cent according to the interim EU harmonised consumer price index, a long-term interest rate of 7 per cent, and a public debt to GDP ratio of 54 per cent, Cyprus was able to meet almost all of the Maastricht criteria. Only a government deficit to GDP ratio of 3,4 per cent, caused mainly by a moderation in the growth of revenues, prevented full satisfaction of the Maastricht criteria. In 1997 a strong recovery in net exports is now boosting the growth performance of the economy, while the rates of unemployment and inflation have been around 3 per cent.

We consider the issues of the ability of the IMF and World Bank to help promote and sustain economic growth in the least developed countries and to provide emergency financing to countries affected by sudden private capital outflows are of great importance. The IMF and the World Bank must have the financial resources to respond quickly, flexibly and adequately to meeting such responsibilities. We welcome the approval of the increase in quotas by 45%, a measure which will enhance the ability of the Fund to deal more adequately with balance of payments and currency crises of its members. Cyprus welcomes also the recent decision of the IMF to proceed with a new SDR allocation.

Cyprus would support efforts being made to speed up the implementation of debt initiatives by the IMF and the World Bank to assist the poorest highly indebted countries. We are concerned also that the flow of official and World Bank development assistance to African countries is falling and would urge that greater efforts be made to address this problem.

In concluding, I would like to stress that Cyprus will continue to support and co-operate with the Fund and the Bank in their efforts to foster a stable economic environment conducive to growth and development. I would like also to take this opportunity to thank the managements and staff of the Fund and the Bank for the constructive advice and assistance they have rendered to Cyprus. In particular, the various missions that have visited Cyprus in recent years have been instrumental in enabling us to implement economic and financial reforms that were necessary to liberalise our economy and to harmonise our policies and institutions with those of the European Union.

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