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INTERNATIONAL FINANCE CORPORATION
INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES
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Statement by the Hon. **MICHAEL SARRIS**,
Governor of the Bank for **CYPRUS**,
at the Joint Annual Discussion

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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

We are pleased to submit a statement to the 2006 Annual meetings of the International Monetary Fund and the World Bank Group.

The global economy has continued to enjoy rapid economic growth and expanding trade in 2006, despite higher oil prices. With economic growth in Europe and Japan much stronger, fast growth in Asia continuing, and growth in North America still satisfactory, the benefits derived from high economic growth, have been more evenly dispersed across regions. However, there was a further widening of global financial imbalances as deficits in the USA remained high and as surging energy prices contributed to the very large current account surpluses of the major oil exporters.

Even though the risks of a significant global economic slowdown have now increased the main challenge for governments is still to pursue policies, both domestically and in concert with other countries, which are conducive to growth in both the short and long term, and that will help to eliminate global imbalances.

In the meantime, there should be an orderly recycling of surpluses. In Europe policies must be geared to continuing structural reform and implementing measures to raise the potential growth rate in view of the need to adapt economies to benefit from globalization and to cope with the ageing population problem.

To this end, Cyprus supports the EU's emphasis on sound fiscal policies and the sustainability of public finances in the long term, backed by the sound implementation of structural reform policies to attain the goals of the re-launched Lisbon strategy.

The economy of Cyprus is maintaining its good performance in 2006, where growth is forecast to be around 4 percent and inflation is set to edge up to just over 2½ percent. The government of the Republic of Cyprus continues to rigorously implement its fiscal consolidation plan as set out in its Convergence Programme of 2005. Accordingly, the budget deficit will fall to 2 percent of GDP in 2006 and to around 1½ percent in 2007, while the government debt to GDP ratio will keep declining steadily toward 60%. Maastricht convergence criteria, have been achieved over the last three years, except for the exchange rate criterion which stipulates a two-year period of exchange rate stability following the entry of Cyprus to ERM II on April 29, 2005. Attainment of all the Maastricht criteria will allow Cyprus to remain on course to adopt the euro by January 1, 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. An economically viable solution is key for the long-term economic success of the island, and the Government of the Republic of Cyprus continues to aim toward the reunification of the island, and will support all efforts towards this end.

Cyprus welcomes the IMF Managing Director's strategic review and in this connection supports the Board of Governors' resolution on Quotas and Voice in the IMF. Countries which are clearly underrepresented in the Fund should be assigned ad hoc quota increases, while the voice of low-income countries must be strengthened through a substantial increase in basic votes.

The details of the second stage of quota readjustment will depend importantly on the parameters of the new quota formula. In choosing this formula Cyprus would argue that sufficient weight be given to "openness, both in trade and in financial terms", so that adequate account can be taken of the participation of members in international trade and financial flows. Indeed, members that have successfully pursued open and export-oriented policies should be rewarded commensurately in their representation in the Fund.

Cyprus supports the initiatives of the Managing Director and staff of the IMF to enhance the focus and effectiveness of the Fund's surveillance activities. As increasing global integration means that spillovers from domestic members' policies have a greater impact on other members, surveillance should focus more on multilateral issues. It is important also that the Fund provide more in-depth coverage of financial sector and capital market developments in both its bilateral and multilateral surveillance activities.

Cyprus supports efforts to accelerate debt relief to the poorest countries, but believes that debt sustainability should be ensured in countries receiving debt relief. Where there is a high risk of external debt distress, restraint should be exercised by lending countries in extending loans on concessional terms. Furthermore, donors should help borrowing countries develop their debt management capacity with technical support provided by the Fund and Bank where needed. In sum, all actors involved must make intensified and coordinated efforts to break through the vicious circle whereby countries borrow, acquire unsustainable debts, receive debt cancellation, and then borrow excessively again.

Cyprus recognizes the importance of Aid for Trade in helping many developing countries benefit from trade and supports the EU commitment to deliver on Aid for Trade independent of progress in the Doha Round.

Cyprus is strongly committed to strengthening the international fight against money laundering and the financing of terrorism – in particular according to the 40 Recommendations and the 9 Special Recommendations of the Financial Action Task Force (FATF) – and supports efforts by the IMF and World Bank to achieve this goal.