

SM/62/55
Supplement 1

CONTAINS CONFIDENTIAL
INFORMATION

July 25, 1962

To: Members of the Executive Board
From: The Secretary
Subject: Cyprus - 1962 Article XIV Consultations

There follows for the records of the Executive Directors the text of the decision taken by the Executive Board at Meeting 62/38, July 25, 1962, on the 1962 Article XIV consultations with Cyprus.

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1. The Government of the Republic of Cyprus has consulted the Fund under Article XIV, Section 4, of the Fund Agreement concerning the further retention of its transitional arrangements.

2. The boom in the Cypriot economy in the mid-1950's was generated mainly by U.K. military expenditure. The decline in economic activity in 1958 to 1960 was connected with a reduction in such expenditure, political unrest, and declining export prices. Unfavorable weather conditions affected agricultural output. The gross national product in real terms was about the same in 1961 as in 1960. Since achieving independence in August 1960, the Cypriot Government has successfully pursued a policy of financial stability, and prices and wages have remained about unchanged.

3. The aim of the Government's five-year development program, which has started in 1962, is to stimulate economic growth and to reduce unemployment. The success of the program will require efficient planning and implementation of the development projects. The Fund welcomes the statement of the Cypriot authorities that the program will be financed by noninflationary means. Government expenditures, especially for subsidies, should be scrutinized in order to free resources for economic development. The authorities are drafting banking laws which will provide the instruments needed to implement proper monetary and credit policies.

4. The goods and services deficit on the balance of payments was more than covered by grants and emigrants' remittances in 1961. There was a net inflow of private capital. The Government's and the banking system's foreign assets increased, amounting to £28 million at the end of 1961. There is continued heavy reliance on U.K. military expenditure in and grants to Cyprus. Since these are decreasing, there is need to strengthen other sectors of the balance of payments.

5. The Fund welcomes the recent relaxation of restrictions and the substantial reduction of discrimination. Payments for current invisibles can in

general be made freely, and most imports can also be made freely under an open general license from all countries other than those with which the Republic of Cyprus has or expects to conclude bilateral payments arrangements. These agreements have only recently been established, and the Fund urges Cyprus to reconsider the need for them.

6. In concluding the 1962 consultations, the Fund has no other comments to make on the transitional arrangements maintained by the Republic of Cyprus.

Other Distribution:
Department Heads
Division Chiefs