

## The Challenge of the Euro

Cyprus has officially submitted its application to join the Eurozone on January 1<sup>st</sup>, 2008. Undoubtedly, much work has been done in the last few years to meet the necessary criteria for adopting the single European currency. And indeed, the high fiscal deficits have been contained and significant progress was also made in relation to the public debt and inflation. All in all Cyprus has fulfilled all the relevant criteria and is about to make the next great step – adopting the Euro.

The process leading up to the application had also necessitated a rethinking of our overall economic structure and the economic model pursued in the last years. Undoubtedly, the overall record has been positive. Nevertheless, it would be self-deceiving to ignore the existing structural problems, bottlenecks and distortions. Tourism has been and will continue to be a major pillar of the economy. But it is also essential that there should be a diversification of the base of the economy. Furthermore, the persistent deficits in the balance of payments – around 4-5% of the GDP – in the last years should be a cause of concern. There should be an even greater rationalization of public spending as well as the advancement of particular sectors producing goods and services for the international market.

Indeed, there is no doubt that the structure of the economy will need to undergo a major transformation. Not only is it essential for the economy to generate more jobs but especially in an era of growing demand for tertiary education, inevitably there will be higher expectations. In this regard it is essential to understand that job seekers will become more demanding. This should lead to a serious assessment of the prospects for change in the economic structure.

In our globalized world Cyprus is not the only country preoccupied with such economic challenges. The uniqueness of Cyprus is that while it has to rise up to the occasion of its Eurozone membership, it has to do so as it addresses the Cyprus question with its own internal

and external ramifications. It is expected that joining the Euro will also contribute substantively to the prospect of Cyprus' reunification.