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PRESS RELEASE

EUROSYSTEM AND MEDITERRANEAN CENTRAL BANKS MEET FOR THE SIXTH EURO-MEDITERRANEAN SEMINAR

The sixth high-level Eurosystem seminar with Mediterranean central banks, which brings together central banks from the Eurosystem and from the southern and eastern shores of the Mediterranean, was jointly organised by the Central Bank of Cyprus and the European Central Bank (ECB) and held in Pafos, Cyprus, on 27 and 28 October 2010.

Jean-Claude Trichet, President of the ECB, and Athanasios Orphanides, Governor of the Central Bank of Cyprus, welcomed the seminar participants: governors and high-level representatives of the Eurosystem central banks as well as of the central banks of Albania, Algeria, Croatia, Egypt, Israel, Jordan, Lebanon, Mauritania, Morocco, the Palestinian National Authority, Syria and Tunisia. Representatives of the European Commission and the European Investment Bank also attended the seminar.

Like previous seminars, the meeting in Pafos provided a useful platform for an exchange of views on issues of common interest from a central banking perspective. This year's seminar focused on the challenges for monetary policy in Mediterranean countries on the way to economic recovery, on experiences with fixed-peg exchange rate regimes and on the impact of the global financial turmoil on the banking sector and financial stability in the region.

Challenges for monetary policy on the way to economic recovery

Seminar participants underlined the fact that the challenges for monetary policy have changed dramatically in the last two years. Until mid-2008 rising inflationary

pressures, largely driven by high commodity prices and buoyant economic activity, were the major macroeconomic challenge in most countries. In the wake of the global financial crisis and recession, inflationary pressures in the region have receded. However, compared with advanced economies and some other emerging market regions, the economic slowdown in the Mediterranean has been less pronounced and inflation rates in some countries have remained relatively high. Seminar participants exchanged views on the policy responses in the region to the economic slowdown. Economic recovery largely depends on trends in economic activity in advanced economies, particularly in the EU. Risks to the inflation outlook relate mostly to food price developments because of the large weight of food items in the consumer price index baskets. Further topics of discussion included monetary policy and asset price developments.

Experiences with monetary policy under fixed-peg exchange rate regimes

Seminar participants discussed monetary policy frameworks in Mediterranean countries, which are largely dominated by external anchors. Exchange rate pegs and tightly managed floats have been adopted by several countries. Participants exchanged views on the constraints such frameworks place on achieving domestic targets, particularly in view of on-going capital account liberalisation. Some Mediterranean countries confirmed their intention accordingly to move towards greater exchange rate flexibility and more domestically oriented targets. **The impact of the global financial turmoil on banking sectors and financial stability**

Seminar participants exchanged views on the lessons from the global financial crisis for financial sector reform at the global level as well as in the Mediterranean region and the euro area. The financial crisis has had a limited impact on financial sectors in the Mediterranean region, mainly due to the relatively low level of integration into global financial markets. Further financial sector reform and integration, which would have the potential to enhance financial intermediation in the region and to facilitate private sector access to capital, would be welcome.