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EUROSYSTEM

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ABBREVIATIONS

BOE:	Bank of England	FED:	US Federal Reserve
CBC:	Central Bank of Cyprus	GBP:	Great Britain Pound
COLA:	Cost of Living Allowance	GDP:	Gross Domestic Product
CPI:	Consumer Price Index	HICP:	Harmonised Index of Consumer Prices
CSE:	Cyprus Stock Exchange	IMF:	International Monetary Fund
CTO:	Cyprus Tourism Organisation	JPY:	Japanese Yen
CYSTAT:	Statistical Service of the Republic of Cyprus	LFS:	Labour Force Survey
ECB:	European Central Bank	MFI:	Monetary and Financial Institutions
ECOFIN Council:	Economic and Financial Affairs Council	NACE:	Statistical classification of economic activities in the European Community
EER:	Effective Exchange Rate	NEER :	Nominal Effective Exchange Rate
EMU:	Economic and Monetary Union	OIS:	Overnight Index Swap
EONIA:	Euro Overnight Index Average	REER:	Real Effective Exchange Rate
ESI:	Economic Sentiment Indicator	SDW:	Statistical Data Warehouse
EUR:	Euro	USD:	United States Dollar
EURIBOR:	Euro Interbank Offered Rate		
EUROSTAT:	Statistical Office of the European Community		

INTRODUCTION

The global economic scene continues to be affected during 2008 by the prevailing turmoil and uncertainty in the international money markets, which was triggered last August by the subprime loans crisis in the USA. The slowdown in world economic growth is substantial and economic prospects remain bleak. In addition, increases in oil and food prices continue to fuel inflation rates internationally. As a result of high prices and despite the risk of significantly reduced growth, the European Central Bank (ECB) has kept its official interest rates unchanged at 4,0% in the first six months (until June 5) of 2008. Recent statements by the ECB President hint at the possibility of interest rates being increased very soon.

Across the Atlantic, the Federal Reserve reduced interest rates drastically while at the same time it has, in cooperation with other central banks, injected liquidity into the financial system in an effort to support financial markets. The future direction of USA rates appears to be stabilising or moving upward, according to analysts' estimates.

As regards domestic economic developments, inflation is accelerating in part due to negative international developments. The harmonised index of consumer prices (HICP) has registered an upward trend, reaching 4,6% in May 2008 compared with 1,9% in the corresponding month of the previous year. The main recorded increases relate, as in the previous months, to energy, non - processed food, and services.

Domestic inflationary developments have also been reinforced by increased domestic demand, which is reflected in monetary developments. More specifically, lending to both domestic households and non-financial corporations recorded growth rates of 19,8% and 31,0% in April, respectively. It should be noted that mortgage loans registered an annual growth rate of 29,0% in April 2008, thus stabilising over the past four months.

Given this stabilisation process as well as the

direction of other indicators which point to a slowdown in the construction sector, and therefore a reduction in the portfolio risks of banks, the Central Bank of Cyprus (CBC) revised in May the maximum loan to value ratio for the purchase or construction of a second home from 60 % to 70%.

Increased domestic demand is also reflected in the current account balance which deteriorated in 2007. This was due to the strong growth in imported goods as well as to the increased deficit in the income account. The indications of a further deterioration in the first months of 2008 a cause of concern.

In this inflationary environment, fiscal policy should be more ambitious and aimed at targeting the containment of domestic inflationary pressures.

Considering the above external and domestic developments and prospects, and on the basis of the working assumptions as at 15 May, the CBC estimates that inflation will reach around 4,2% in 2008. For the year 2009 it is expected that there will be a partial defusion of inflationary pressures. This is based on the assumption that the rapid rise in the price of petroleum products and food will not continue during the next year. In particular, prices are expected to increase by 2,4%. It should be stressed, however, that the risks for higher levels of inflation in the event of a further deterioration in the international or domestic environment, such as continued expansionary fiscal policy, still exist.

The outlook of the real growth of domestic economic activity in 2008 remains relatively positive, despite a slight slowdown which is expected due mainly to negative external developments affecting investments. Real GDP expanded by 4% in the first quarter of 2008 compared with 4,5% in the corresponding quarter of 2007, and 4,3% in the last quarter of the previous year.

The CBC projection for economic growth in 2008 is 3,6%, which represents a slowdown compared with 4,4% recorded in 2007. In 2009 economic growth is

expected to reach 3, 7% which is based on the assumption of an improved international environment, stabilised oil prices and a slowdown in food prices.

According to the Labour Force Survey, the unemployment rate fell to 3,5% in the fourth quarter of 2007, due to buoyant economic activity. A similar trend continues in 2008 as shown by the registered unemployment series, which continued to decline during the first three months of 2008.

As regards public finances, a surplus of 0,5% of GDP was recorded during the first quarter of 2008, as in the corresponding period of last year. However, more recent data on government revenues for the first five months of 2008 indicate a significant deterioration partly due the slowdown in the property sector, which has negatively affected receipts from capital gains tax. This trend, in conjunction with increasing public expenditure, point to a significant deterioration in the fiscal balances for 2008.

Based on the above overview and available data, the Cyprus economy seems to be characterized by a small deceleration in economic activity this year, while both inflation and public finances are a cause of concern. On the one hand, the accession of Cyprus to the euro area from 1 January 2008 somewhat mitigates the negative impact on our economy. On the other hand, the new conditions require alertness and the application of sound economic policies.

The successful exploitation of the opportunities arising from euro area accession, depend significantly on the degree of implementation of structural changes necessary for the modernisation of our economy and the enhancement of productivity, essential elements for improved competitiveness and the strengthening of employment. Particular attention needs to be paid to inflation, which erodes the competitiveness of Cyprus and undermines the prospects for the economy, particularly given that domestic trends are worse than those existing in the euro area. As a consequence of our membership of the euro area and of the

assignment of domestic monetary policy to the ECB, the need to implement alternative measures to restrict inflation, such as restricting public spending and increasing productivity, become essential.

It needs to be stressed that the budget surplus of 3,3% of GDP recorded in 2007, should not lead to complacency since it is largely the result of unexpected increased revenues, mainly due to the strong activity exhibited in the construction and real estate sectors. Therefore, the government should adopt structural measures towards permanently restricting public expenditure, while at the same time, taking into consideration social policy priorities. The temporary increases in government revenue should not be used to increase public spending, especially in the absence of social targeting. In addition, pro-cyclical fiscal expansions should be avoided because they preserve, particularly at this stage, inflationary pressures which ultimately erode incomes and weaken the competitiveness of Cypriot products.

In exercising its financial stability role, the CBC, inter alia, monitors the cyclical developments in the financial sector, by focusing mainly on the banking system, as well as the developments in the macro-financial environment, with a view of assessing the potential risks to financial stability and the financial system's shock-absorption capacity. In the next edition of the "Economic Bulletin", the CBC aims at providing an assessment of the stability of the banking sector, which constitutes the largest component of Cyprus's financial system, as well as the potential risks facing the above sector. This edition of the "Economic Bulletin" includes only an analysis of the financial condition of the household and non-financial corporate sectors as well as an assessment of the potential risks facing both households and firms, which may affect the stability of the financial system. The key developments in the real estate sector, the financing of this sector by banks as well as the main developments in the domestic financial markets are also described.



SECTION A
**Macroeconomic Developments
and Projections**

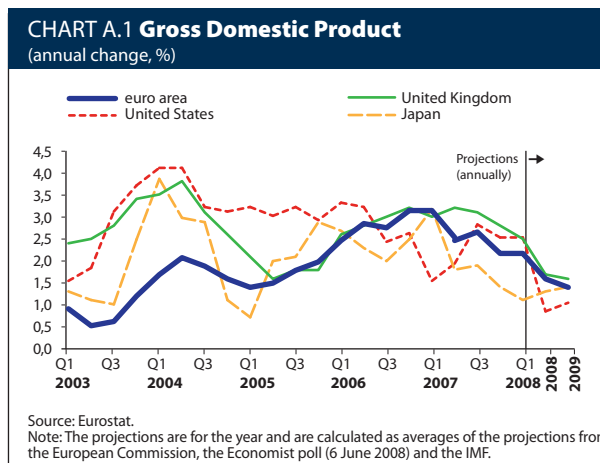
1. International Environment

1.1 International developments

GDP growth¹

The turmoil and uncertainty in international markets continue to significantly affect the world economy. As a result, the slowdown in economic growth is considerable, which, combined with high food and oil prices, impacts further on the international economy (Chart A.1). More specifically, GDP growth in the euro area was 2,2% in the first quarter of 2008 compared with 3,2% in the corresponding quarter of the previous year. The economic downturn is also caused, among other things, by the slowdown in investment expenditure and private consumption. As predicted by analysts, the fall in investment and consumer spending is expected to further reduce economic growth in the euro area to 1,6% in 2008 and 1,4% in 2009. In the UK, GDP grew by 2,5% in the first quarter of 2008 compared with 3% in the corresponding quarter of 2007. During 2008 and 2009, a further slowdown to 1,7% and 1,6%, respectively, is expected, with the deceleration in the real estate sector contributing to a lower increase in GDP.

In the USA the financial turmoil's aftermath has been even stronger. More specifically, while GDP increased by 2,5% in the first quarter of 2008 compared with 1,5% in the corresponding quarter of 2007, the equivalent growth for both 2008 and 2009 is expected to reach a mere 0,8% and 1%, respectively. The slowdown in the housing market continues, which is a factor



1. GDP projections are estimated as the average of the most recent projections from: The Economist poll (6 June 2008), the European Commission (Economic Forecasts, Spring 2008) and the International Monetary Fund (World Economic Outlook, April 2008).

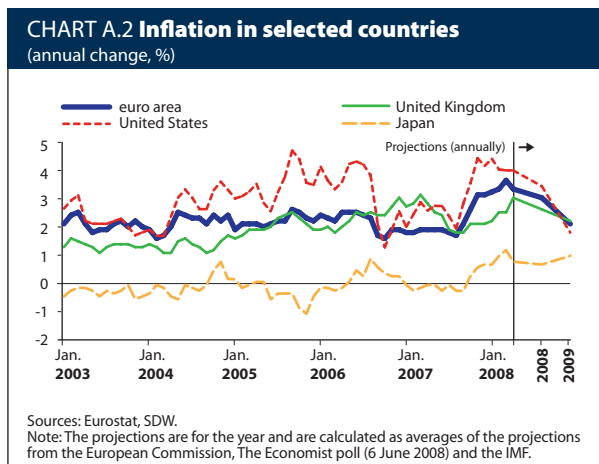
significantly affecting the deceleration in economic activity. In Japan GDP increased by 1,1% in the first quarter of this year compared with 3,2% in the respective quarter of last year, with the rate of growth remaining below potential and the projections reaching 1,3% and 1,4% for 2008 and 2009, respectively. Nevertheless, some signs of recovery are evident, especially with respect to investment, while industrial production and business expectations are still at comparatively low levels.

Inflation²

The continuous increases in oil and food prices are the main factors causing an increase in prices internationally (**Chart A.2**). In the euro area, the Harmonised Index of Consumer Prices (HICP) reached 3,7% in May 2008 compared with 3,3% in the previous month and 1,9% in May 2007, surpassing by a significant amount the ECB's target for inflation of below, but close to, 2%. Inflation in the euro area is expected by analysts to reach 3% in 2008 and then come down to 2,1% in 2009, mainly because of the expected slowdown in the price of oil internationally. In the UK, the HICP reached 3% in April 2008 compared with 2,5% in March 2008 and 2,8% in April of 2007. Market predictions for 2008 and 2009 are around 2,6% and 2,2%, respectively.

In the USA inflation reached 3,9% in April and March 2008 compared with 2,6% in April 2007. However, a deceleration to 3,4% and 1,8% is expected for 2008 and 2009, respectively.

In Japan inflation reached 0,8% in April



2. Inflation projections are estimated as the average of the most recent projections from: The Economist poll (6 June 2008), the European Commission (Economic Forecasts, Spring 2008) and the International Monetary Fund (World Economic Outlook, April 2008).

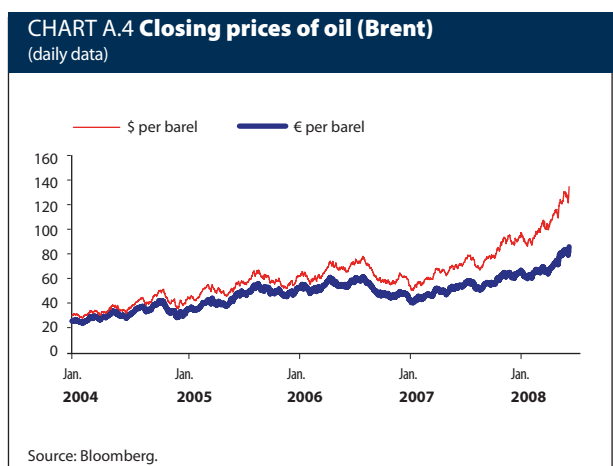
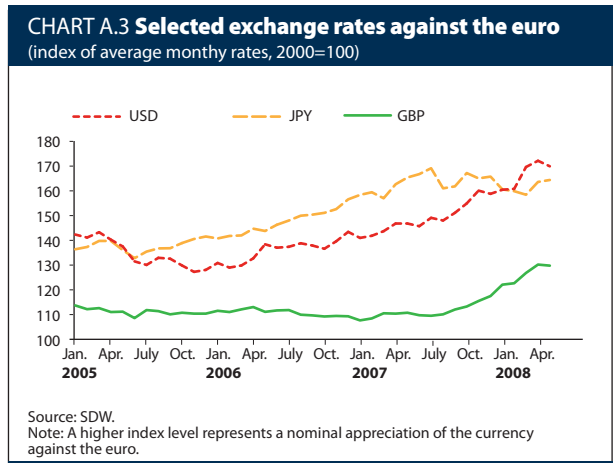
2008, down from 1,2% in the previous month but up from zero in April 2007.

Exchange rates

A strengthening of the euro against sterling, the yen and the dollar has been observed since the beginning of the year (Chart A.3). This was the result of the financial turmoil in the USA along with the reduction in USA and UK interest rates, in contrast to the euro area where the ECB adopted a wait and see policy. Specifically, the dollar reached \$1,5557 per euro in May 2008 compared with \$1,4718 per euro in January 2008. Sterling significantly weakened against the euro, reaching an average of ST£0,79209 per euro in May 2008 compared with ST£0,74725 per euro in January 2008. Similarly, the yen reached ¥ 162,31 per euro in May 2008 compared with ¥158,68 per euro in January 2008 because of the economic conditions in Japan and the decrease in carry trade positions.

Oil and gold

The price of Brent crude continued its rapid acceleration during the first months of 2008 (Chart A.4). The average closing price in May reached \$123,9 (€79,6) per barrel, from \$110,2 (€70) in April 2008 and \$67,5 (€49,9) in May 2007. At the beginning of June, the average price of Brent crude was around \$135 (€86). The continued increases in oil prices are partly due to increased demand, mainly by China and India, the geopolitical uncertainty in oil producing countries, such as Nigeria, the weakening of the dollar, as well as speculative movements. With



respect to gold prices (**Chart A.5**), there were also significant increases during the year, mainly due to the rise in inflation internationally. As a result, the role of gold as a safe means of investment was strengthened, and its price soared. However, the data for the last two months show that the price of gold has begun to decrease. More specifically, the closing price of gold reached \$890,8 (€572,4) per ounce in May, from \$910,5 (€578) in April 2008 and \$667,6 (€494) in May 2007. At the beginning of June, gold prices reached \$902 (€573) per ounce.

Selected international stock market indices

During the first five months of 2008, the uncertainty in international stock markets which had originated from the subprime loans crisis in the USA continued, causing a decrease in company profits. As a result, losses were experienced in the DJ Eurostoxx 50, S&P 500 and Nikkei 225 share indices (**Chart A.6**). After the significant losses experienced by these indices during the period January – March 2008, a more stable path was followed, which in some cases even turned upwards, despite being at lower levels compared with the beginning of the year. In general, during the period January – May 2008, the DJ Eurostoxx 50 lost 3,23%, the S&P 500 fell by 12,94% and the Nikkei 225 decreased by 2,4%.

International official interest rates

The last few months are generally characterised by slowing growth and increasing inflation levels internationally, a combination which is particularly

CHART A.5 Closing prices of gold
(daily data)

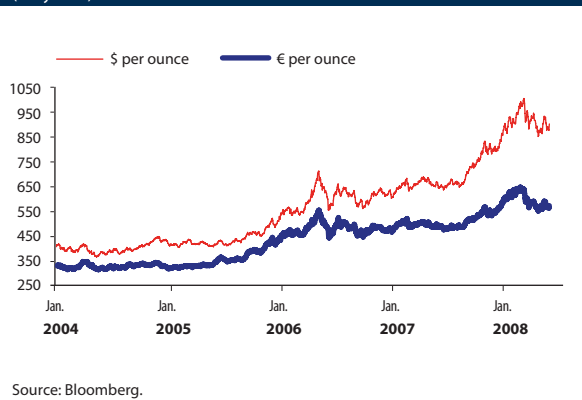


CHART A.6 Selected international stock market indices
(daily data, 02/01/2007 = 100)



challenging for the monetary authorities.

The ECB, despite the risk of significantly lower growth in the euro area, maintained its official interest rates at 4% until June 2008 (Chart A.7), mainly because of the inflation level in the euro area, which significantly surpassed its medium-term goal of below but close to 2%. In fact, Mr Trichet, the President of the ECB, in his statements after the Governing Council meeting of 5 June, left open the possibility of interest rate increases in the near future.

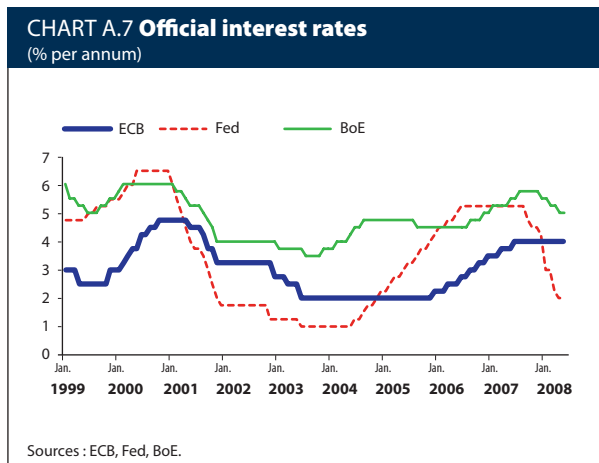
On the other hand, after the 25 basis points increase in its official interest rate to 5,75% in July 2007, the Bank of England maintained its official rates steady until 6 December 2007, when it decreased its official interest rate by 25 basis points. Since then, two further decreases have followed, by 25 basis points each, and its official interest rate reached 5% (Chart A.7).

The Federal Reserve, taking into consideration the particularly severe consequences from the turmoil in the international money markets, drastically reduced its official interest rates. Until the end of May, the official interest rate in the USA was at 2%, from 5,25% at the beginning of the turmoil (Chart A.7). However, according to analysts, the future path of USA interest rates seems to be stabilising or even getting on the upside, since the worst of the financial crisis appears to be over.

1.2 Monetary developments in the euro area

Inflation

As already mentioned, according to Eurostat's flash estimate, inflation in May reached 3,7%



compared to 3,3% in April 2008 and 1,9% in May 2007. It is noted that the HICP excluding food and energy rose to 2,7% in March, the highest level since 2002, and later receded to 2,4% in April (**Chart A.8**). This development suggests that high oil prices affect domestic prices with a time lag thus causing further additional inflationary pressures. Strong concerns regarding inflationary pressures in the euro area have repeatedly been expressed by both central banks in the EMU and the ECOFIN Council who have underlined that these pressures are of a longer-term nature than previously thought.

Reference rates and ECB interventions

As already stated, during the recent meeting of the ECB Governing Council on 5 June 2008, it was decided that the reference interest rates of the euro area remain unchanged. Consequently, the marginal lending facility rate remained at 5,0%, the minimum bid rate of the main refinancing operations remained at 4,0% and the deposit facility rate remained at 3,0% (**Chart A.9**). During the press conference at which the aforementioned decision was announced, the President of the ECB referred to, among other things, the danger of persistent inflationary pressures in the euro area as well as to the upward revisions of the ECB staff projections regarding inflation for 2008 and 2009. Mr Trichet stated that the ECB is in a mode of "heightened alertness" and did not exclude a rise in interest rates shortly.

During May the ECB supplied on average €172 billion via weekly main refinancing

CHART A.8 Inflation in the euro area
(annual change, %)

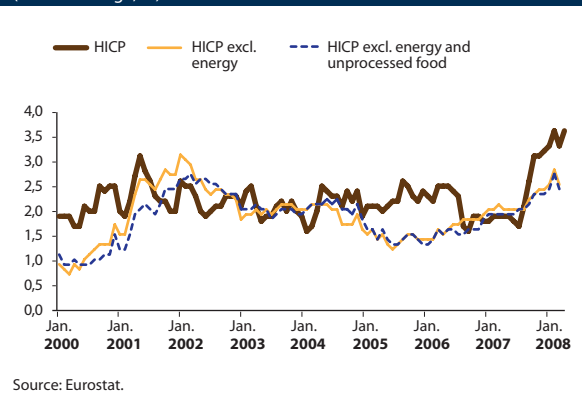
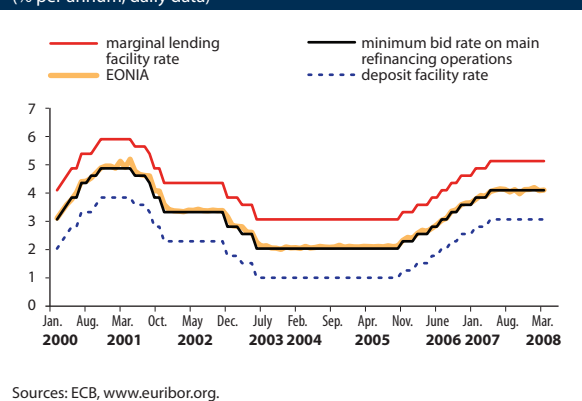


CHART A.9 ECB reference rates & EONIA
(% per annum, daily data)

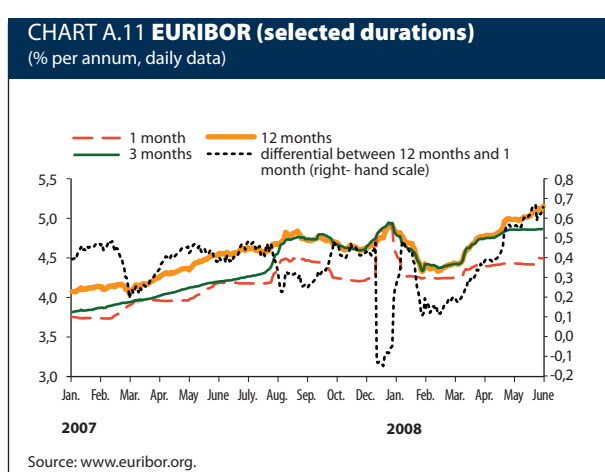
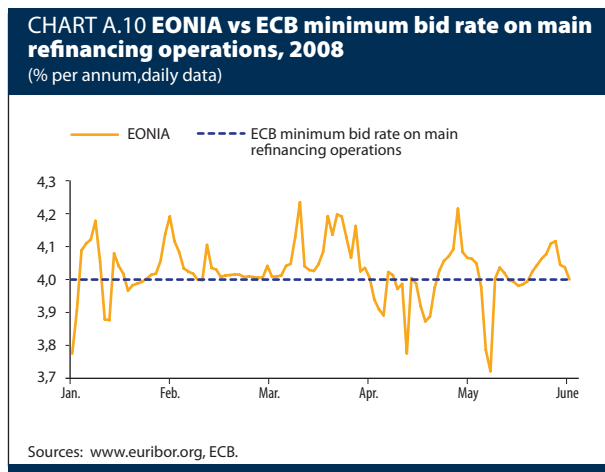


operations. The average marginal rate reached 4,20% while the weighted average rate was 4,25%. The ECB also performed two additional longer-term refinancing operations with three-month duration. The latter operations added €100 billion to the Eurosystem at a weighted average rate of 4,65% and an average marginal rate of 4,51%. In addition, the ECB continued its joint intervention with the Federal Reserve of the USA and the Swiss National Bank for supplying dollar liquidity to euro area banks. In particular, \$50 billion was supplied to the euro area via these tender auction facilities at an average rate of 2,16%.

In general, liquidity conditions and, consequently, a smoothing out in the money market of the euro area was the outcome of the continuous interventions by the ECB in the last ten months. This can also be seen from the fact that the EONIA (for overnight interbank deposits) was very close to the minimum bid rate of the ECB main refinancing operations for most of 2008 (Chart A.10).

Interbank market and interest rate differentials

In the interbank market of the euro area, the one-month Euribor was 4,387% on average in May compared to 4,369% in April. At the beginning of June the aforementioned rate was 4,458%. The three-month Euribor average reached 4,857% during May compared to 4,784% in the previous month. At the beginning of June this rate was 4,866% (Chart A.11). Markets seem to have priced in a rise in interest rates within the year, something that is



evident when one observes the differential between 12-month and 1-month Euribor. This differential has been steadily on an increasing trend since the beginning of the year. Towards the end of May the differential was around 68 basis points compared with 58 basis points at the end of April.

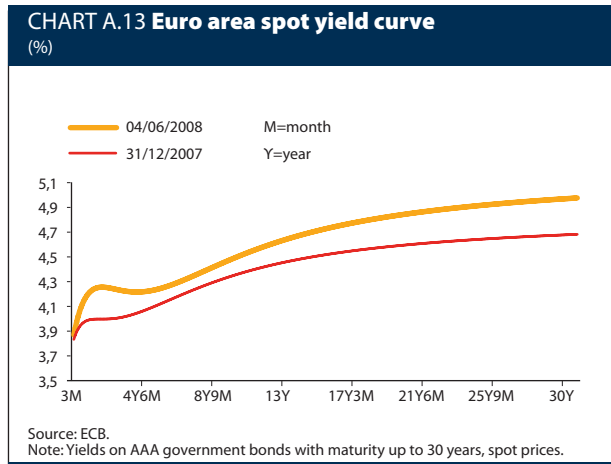
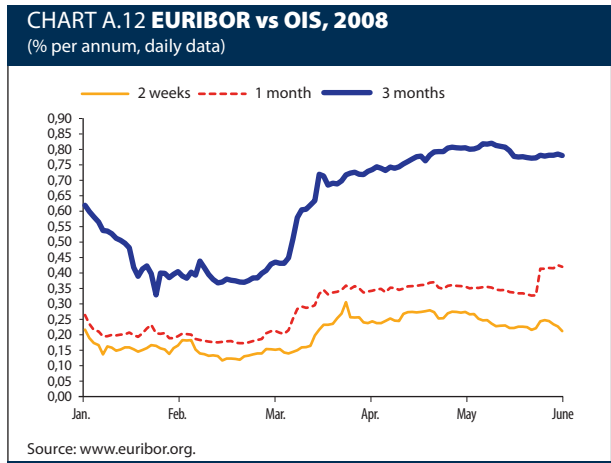
Chart A.12 depicts the differential between Euribor rates of selected durations and the respective rates of overnight index swaps (OIS)³. Regarding 3-month rates, a relative stabilisation in the differential during the last two months has been observed, something that may be interpreted as normalisation of the financial turmoil and the gradual return of liquidity in the interbank market, following the continuous interventions of the ECB.

Euro area yield curve

According to the latest data the spot yield curve for maturities of 3 months to 30 years has shifted upwards and changed its shape in the medium-term maturities, compared with the shape it had at the end of December 2007 (**Chart A.13**). The curve may also suggest that markets have priced in a rise in interest rates by 25 basis points at the short end (up to 2 years) while this rise is not expected to remain, given the uncertainty of economic fundamentals and the general upheaval in the markets.

M3 and credit expansion

During April 2008 M3 in the euro area grew at an annual rate of 10,6% compared with 10,1%

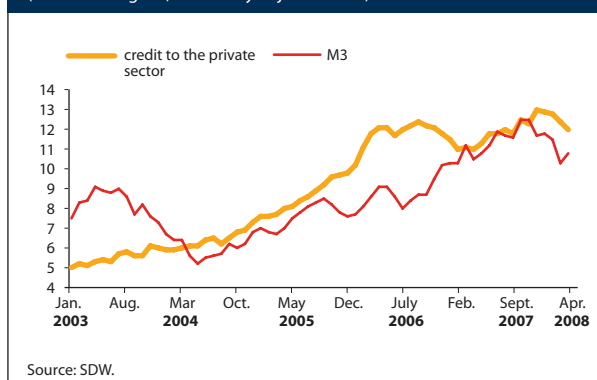


3. OIS are derivative products where EONIA is swapped with a fixed interest rate of selected duration. OIS are used for hedging or speculating moves in interbank overnight rate or the reference rates of central banks.

in March and 10,3% in April 2007. At the same time, credit to the private sector rose by 11,8% compared with 12,2% in March and 10,8% in April of the previous year (Chart A.14). Housing loans to households slowed down to 5,9% in April compared with 6,1% in March, a continuing trend since mid-2006. Concurrently, credit to non-financial corporations continued to be high, reaching an annual growth rate of 14,9% in April 2008 compared with 15% in March, despite repeated statements by MFIs in the euro area that there is some moderation in loan demand and some difficulties in credit financing. Statistical data do not, at present, show that credit funding of non-financial corporations by MFIs in the euro area has been influenced by the financial turmoil. The slowdown in the growth rate of credit to the private sector and, consequently, M3 is in line with the general picture of an imminent slowdown in euro area growth, which is expected to appear more clearly as of the second quarter of 2008.

CHART A.14 M3 and credit to the private sector: euro area

(annual change %, seasonally adjusted data)



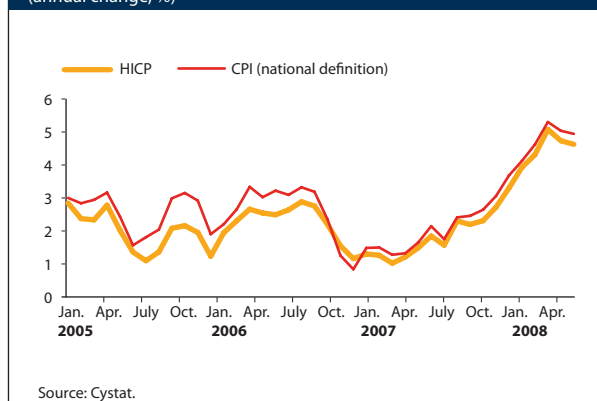
2. Domestic Prices, Monetary Aggregates and Labour Costs

Prices

The Harmonised Index of Consumer Prices (HICP) for Cyprus recorded an increase of 4,3% in April and 4,6% in May 2008, compared with 1,6% and 1,9% in the corresponding months of the previous year. As regards the national Consumer Price Index (CPI), this recorded an increase of 4,6% in April and 4,9% in May 2008 compared with 1,8% and 2,2% in the corresponding months of 2007 (Chart A.15).

CHART A.15 Consumer Price Index

(annual change, %)



As shown in **Chart A.16**, the largest increase in the HICP came from the category of energy which, according to the latest available data, recorded an increase of 17,7% in April 2008 compared with a 2,8% reduction in the corresponding month of 2007. It is worth noting that increases in energy prices recorded in Cyprus, albeit due largely to external factors, were comparatively higher than in the rest of the euro area. More specifically, the contribution of increasing oil prices to inflation surpassed 1,5 percentage points. Nevertheless, the recent appreciation of the euro against the dollar has helped to restrain inflationary pressures and to maintain lower inflation than would have been the case if the dollar remained at higher levels. The prices of unprocessed foods and services have also contributed to the increase in the HICP (**Chart A.17**). In particular, during the period January-April 2008 fruit showed a growth of 20,1% compared with the corresponding period of 2007, while for the same period a significant contribution to increasing inflation came from the categories of health services, education and restaurants. These categories have been affected to a small extent by the introduction of the euro. As reported in a recent European Commission report, the impact of euro adoption on the inflation in Cyprus is estimated to be around 0,3 percentage points annually.

In contrast, a constraining effect on inflation was caused by the prices of non energy industrial goods (**Chart A.18**), which in recent years has recorded consecutive reductions, mainly due to lower prices of

CHART A.16 Harmonized Index of Consumer Prices: energy
(annual change, %)

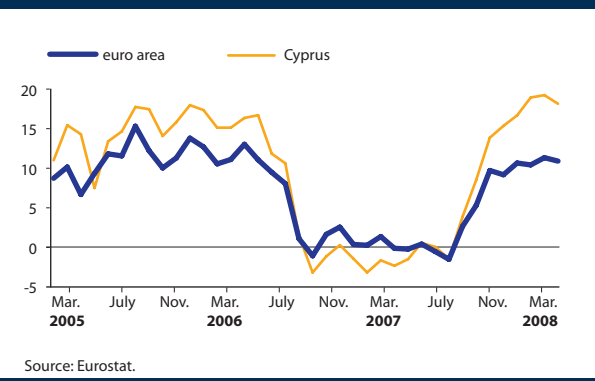


CHART A.17 Harmonized Index of Consumer Prices: by category
(annual change, %)

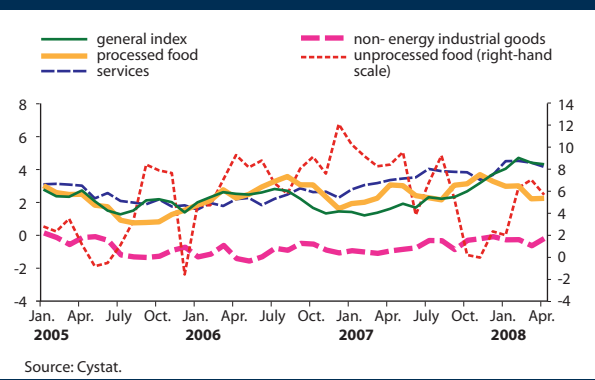
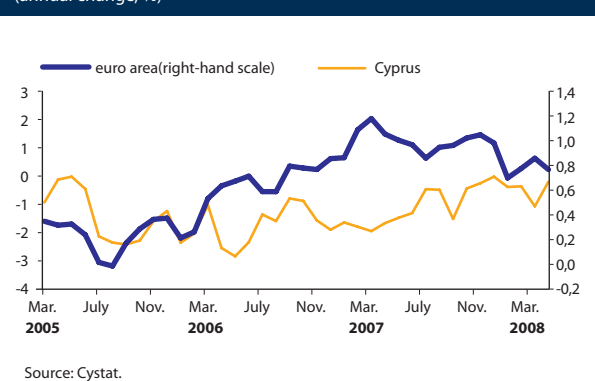


CHART A.18 Harmonized Index of Consumer Prices: non-energy industrial goods
(annual change, %)



imported products, namely clothing and cars.

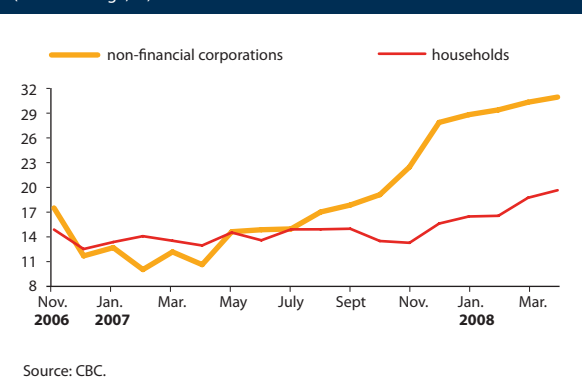
It should be noted that inflation in Cyprus has been at a higher level than the average inflation rate in the euro area, leading to potential competitiveness problems if this situation continues. Exogenous factors such as rising oil prices as well as domestic factors such as the continuous rise in domestic demand, increase the risk of inflationary pressures in the domestic economy and highlight, among other things, the need for tighter containment of public spending and a more contractionary fiscal policy. It should also be noted that the high inflation observed has resulted in zero or in some cases negative real interest rates, thus causing additional inflationary pressures.

Monetary aggregates⁴

Of relevance to developments in inflation is the sharp growth in the monetary aggregates. Specifically, loans to domestic households grew at an annual rate of 19,8% in April 2008 compared with 19,0% at the end of the first quarter of 2008 and 13,4% in April 2007. Loans to non-financial corporations also exhibited an acceleration with an annual growth rate of 31,0% in April 2008 compared with 30,3% at the end of the first quarter of 2008 and 11,0% in April 2007 (Chart A.19).

Of the loans granted by Monetary Financial Institutions (MFIs) in Cyprus to domestic households until the end of April 2008 (Table A.1), 19,5% were for consumption, 43,2% were housing loans and 37,3% other lending. The available data show a rapid

CHART A.19 Loans to domestic households and non-financial corporations: Cyprus
(annual change, %)



Source: CBC.

Table A.1 Loans to domestic households^{(1),(2)}

	Outstanding balance as % of total	Annual percentage change ⁽³⁾					
		2007 Q1	2007 Q2	2007 Q3	2007 Q4	2008 Q1	2008 Apr.
Domestic households	100,0	13,9	14,0	15,3	15,9	19,0	19,8
1. Consumer credit	19,5	10,4	4,9	3,2	9,5	16,9	17,5
2. Lending for house purchase	43,2	32,5	29,3	29,2	27,9	28,3	29,0
3. Other lending	37,3	1,5	5,6	9,1	7,7	10,7	11,8

Source: CBC.

(1) Sectoral classification is based on ESA 95.

(2) Including non-profit institutions serving households.

(3) The annual percentage change refers to the outstanding balances at end of period.

4. All the monetary aggregates for Cyprus (with the exception of Table A.3) are for data excluding the CBC. The same applies for euro area monetary aggregates, which exclude the eurosystem.

growth in consumer credit, with an annual growth rate of 16,9% at the end of the first quarter of 2008, compared with 10,4% in the same period of 2007, and reaching 17,5% at the end of April 2008. It should be noted that the increase in consumer credit observed from March 2008 is mainly attributed to the merger of a specific MFI with its financing subsidiary. Housing loans rose at an annual rate of 29,0% in April 2008 compared with 25,8% in April 2007. It is noted that, in the last two years, the largest annual growth in housing loans was recorded in March 2007, when it reached 32,5%. Since then and mainly due to the stricter criteria applied in July 2007 for the financing of second mortgages, adopted by the CBC for prudential reasons, the growth in housing loans has moderated. Turning to other lending, a significant acceleration was observed, with an annual growth rate of 10,7% in March 2008 compared with 1,5% in March 2007. In April 2008 it reached 11,8% compared with 4,9% in the same month of 2007.

With reference to the wider real estate sector, despite the rapid acceleration in the growth rate of loans observed in the past year (Table A.2), the latest available indicators, like those relating to building permits and property sales, as well as the corresponding reduction in government revenue from capital gains, indicate signs of a slowdown (for further analysis see pages 31-32). As a result, towards the end of May 2008 the constraints imposed by the CBC last July for acquiring or building a second residence were lifted. Specifically, the loan to value ratio for a second mortgage reverted to 70% from 60%. Regarding the rest of the main

Table A.2 Loans to domestic residents classified according to NACE Rev. 1.1 of the EU

	Outstanding balance as % of total ⁽¹⁾	Annual percentage change			
		2007 Mar.	2007 Apr.	2008 Mar.	2008 Apr.
Manufacturing	3,7	10,5	10,9	5,8	5,3
Construction	10,1	31,5	35,9	66,9	61,1
Wholesale and retail trade	9,7	4,2	5,1	20,4	22,6
Hotels and restaurants	5,2	13,0	11,5	10,8	10,0
Financial intermediation ⁽²⁾	5,0	-27,2	-38,5	1,9	12,2
Real estate, renting and business activities	12,3	33,3	33,4	51,5	53,2
Private individuals	44,4	15,3	15,4	19,6	19,7
Other sectors	9,6	30,6	25,1	15,4	22,3

Source: CBC.

(1) As at the end of the last month available. Figures may not add up due to rounding.

(2) Excluding category 65.1 (monetary intermediation)

sectors, there was a rapid acceleration in wholesale and retail trade, while the hotels' and restaurants' sector experienced a deceleration.

The contribution of Cyprus to the annual growth of M2 (excluding currency in circulation) increased to 21,9% in April 2008 compared with 15,1% in April 2007 (Table A.3). The observed acceleration is mainly due to the increase registered by deposits with an agreed maturity of up to 2 years. The above reflects a change in depositors' preferences towards medium-term deposits, which is mainly due to intense competition among MFIs for attracting deposits.

The contribution of Cyprus to the broad monetary aggregate M3 of the euro area grew at an annual rate of 22,3% in April 2008 compared with 15,7% in April 2007.

Interest rates

An increase in both MFI deposit and lending rates has been observed over the past months. A potential further increase in interest rates is expected to confine credit expansion and, furthermore, to contain inflation and the current account deficit. Cyprus MFI interest rates on new euro-denominated loans to households in the euro area in the categories shown in Table A.4 have increased, mainly due to increases in the base rates of MFIs in Cyprus, following the increase in interbank interest rates over the past months. Similarly, Cyprus MFI interest rates on new euro-denominated loans to non-financial corporations in the euro area increased. This was for both loans up to €1 million as well as loans of over €1 million, with a floating rate and up to 1 year initial rate fixation (Table A.5).

Table A.3 Contribution of Cyprus to the main monetary aggregates of the euro area⁽¹⁾

	Outstanding balance as % of M3 ⁽³⁾	Annual percentage change ⁽²⁾					
		2007 Q1	2007 Q2	2007 Q3	2007 Q4	2008 Q1	2008 Apr.
Overnight deposits	22,2	26,6	24,1	15,9	20,0	9,7	18,2
Deposits with an agreed maturity of up to 2 years	62,3	10,5	15,7	18,8	27,5	32,3	36,5
Deposits redeemable at notice of up to 3 months	16,1	21,1	15,6	8,6	1,8	-13,0	-11,0
M2 excl. currency in circulation	100,7	16,3	17,5	15,9	20,1	16,7	21,9
M3 - M2 (= marketable instruments)	-0,7						
M3 excl. currency in circulation	100,0	17,5	18,7	16,0	20,7	16,9	22,3

Source: CBC.

(1) The contribution of Cyprus to the euro area begins 1.1.2008. The data were also calculated for previous periods for purely statistical reasons.

(2) The annual percentage change refers to the outstanding balances, at end of period.

(3) As at the end of the last month available. Figures may not add up due to rounding.

Table A.4 Cyprus MFI interest rates on euro-denominated loans (new business) to euro area households⁽¹⁾

(% per annum, period average)

	Bank overdrafts ⁽²⁾	Floating rate and up to 1 year initial rate fixation		
		Consumer credit	Lending for house purchase	Other lending
2008 Jan.	6,61	6,42	5,50	6,15
Feb.	6,60	6,58	5,48	6,19
Mar.	6,65	6,48	5,47	6,46
Apr.	6,83	6,68	5,53	6,53

Source: CBC.

(1) Including non-profit institutions serving households.

(2) For this instrument category, new business refers to end of period.

Table A.5 Cyprus MFI interest rates on euro-denominated loans (new business) to euro area non-financial corporations (% per annum, period average)

	Bank overdrafts ⁽¹⁾	Floating rate and up to 1 year initial rate fixation	
		Other loans up to €1 million	Other loans over €1 million
2008 Jan.	6,38	6,31	5,71
Feb.	6,38	6,56	5,50
Mar.	6,51	6,63	5,87
Apr.	6,83	6,90	6,56

Source: CBC.

(1) For this instrument category, new business refers to end of period.

In relation to the corresponding interest rates applied by euro area MFIs to households, interest rates on new loans for consumption reached 8,31% in April 2008, 1,6 basis points higher than those applied by MFIs in Cyprus, compared with 8,39% in the previous month and 7,77% in April 2007. Interest rates for new housing loans, marginally lower than those applied by MFIs in Cyprus, stood at 5,23% in April 2008 compared with 5,20% in the previous month and 4,85% in April 2007. Turning to the corresponding interest rates applied by euro area MFIs on loans to non-financial corporations, new loans over €1 million were 1,3 basis points lower than the corresponding interest rates applied by MFIs in Cyprus, amounting to 5,29% in April compared with 5,19% in March 2008 and 4,70% in April 2007. Interest rates on new loans up to €1 million rose to 6,03% in April, again lower than the corresponding interest rates applied by MFIs in Cyprus, compared with 5,91% in March 2008 and 5,37% in April 2007 (Chart A.20).

From the data on Cyprus MFI interest rates on new euro-denominated deposits (Table A.6), an increase was observed in interest rates on deposits from households with an agreed maturity of up to 1 year, as well as on those with a maturity of over 1 and up to 2 years. Interest rates on new deposits from non-financial corporations also rose. The increases in interest rates on longer-term deposits are mainly due to the intense competition among MFIs in Cyprus.

In the euro area, interest rates on new deposits from households with an agreed maturity of over 2 years stood at 3,15% in April 2008, compared with 3,08% in the previous

CHART A.20 New loans at floating rate and up to 1 year initial rate fixation: euro area

(% per annum, period averages)

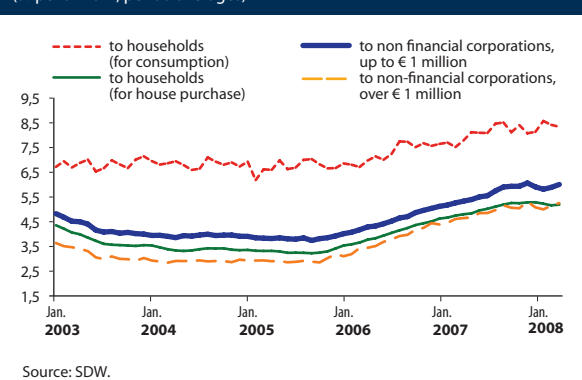


Table A.6 Cyprus MFI interest rates on euro-denominated deposits (new business) by euro area residents

(% per annum, period average)

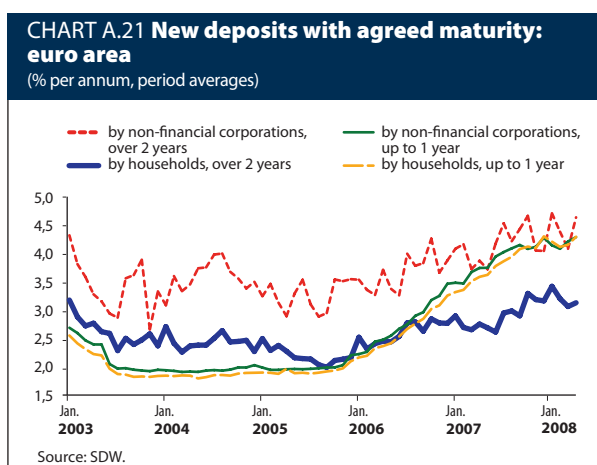
		Households ⁽¹⁾			Non-financial corporations	
		With agreed maturity			Overnight ⁽²⁾	With agreed maturity of up to 1 year
		Overnight ⁽²⁾	Up to 1 year	Over 1 and up to 2 years		
2008	Jan.	1,59	4,13	4,26	1,28	3,99
	Feb.	1,60	4,17	4,21	1,21	3,79
	Mar.	1,65	4,32	4,28	1,32	4,31
	Apr.	1,55	4,56	4,61	1,10	4,56

Source: CBC.

(1) Including non-profit institutions serving households.

(2) For this instrument category, new business refers to end of period.

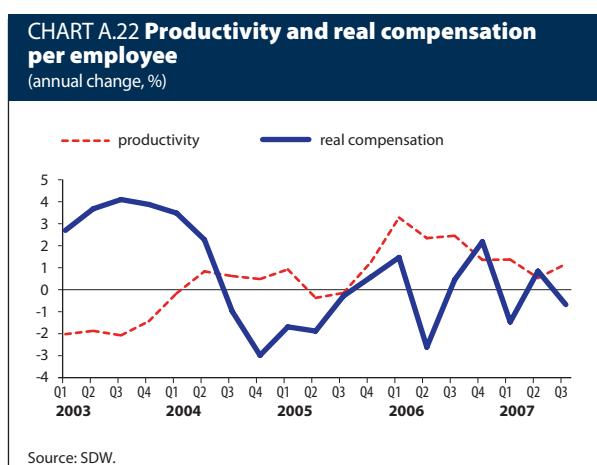
month and 2,78% in April 2007. On the other hand, corresponding interest rates on new deposits with an agreed maturity of up to 1 year rose to 4,28% in April 2008 from 4,14% in the previous month and 3,59% in April 2007. Furthermore, corresponding interest rates on new deposits from non-financial corporations with an agreed maturity of over 2 years rose to 4,61% in April from 4,07% in the previous month and 3,87% in April 2007, while interest rates on new deposits with a maturity of up to 1 year increased to 4,27% in April from 4,20% in the previous month and 3,74% in April 2007. This year's increase reflects the uncertainty in the markets due to the constrained liquidity and the higher cost experienced in the interbank market by euro area MFIs. By increasing their deposit rates, MFIs tried to draw funds through deposits (Chart A.21).



Labour costs

The developments in labour costs are linked to the developments that are related to the increased demand in the economy.

Real compensation per employee^{5,6}, in 2007 continued a modest but slightly upward trend (Chart A.22). The moderation of real compensation per employee is largely due to the increased inflow of low-wage foreign workers in Cyprus. On the other hand, labour productivity growth in Cyprus has continued to decline since late 2005, reaching 1,3% in 2007. However, it has remained above the growth rates of the real compensation per employee. The downward



5. Real compensation per employee is defined as the ratio of nominal compensation per employee and private consumption deflation.
6. The number of employees used has to do with physical persons and not full time equivalent persons which is used by Cystat because this was not available on a quarterly basis.

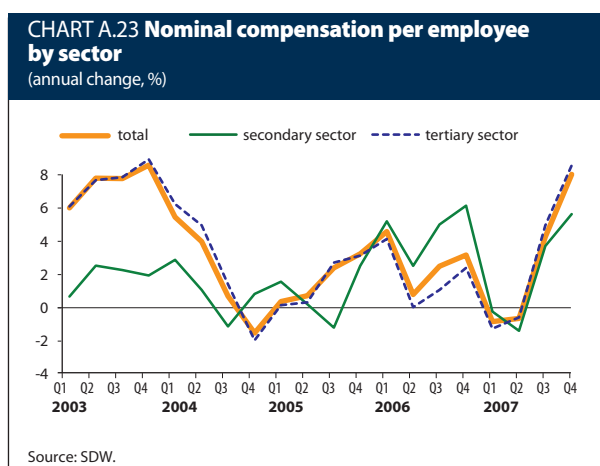
trend in productivity is partly due to the large inflow of foreign workers in Cyprus, since the majority of these workers are unskilled.

Labour costs, as shown by the nominal compensation per employee, display a slight upward trend since the end of 2006, reaching around 3% in 2007 (**Chart A.23**). Based on preliminary indicators, the upward trend seems to be continuing in 2008 as well, reflecting, in part, the strong inflationary pressures. The increase in nominal compensation per employee in the tertiary sector (services) was greater than the increase in the secondary sector in 2007. This is due to both, the very good performance of financial institutions in Cyprus in 2007 (tertiary sectors) and the wage moderation in the secondary sector.

It should be noted that the recent wage indexation increase (COLA) given in January 2008 reached 2,56% and was the highest increase in the last 12 years. In addition, according to recent inflation figures and CBC forecasts, the COLA increase that will be incorporated into the payroll in July will also be high and is expected to be the highest increase in the second half of a year in the last 15 years.

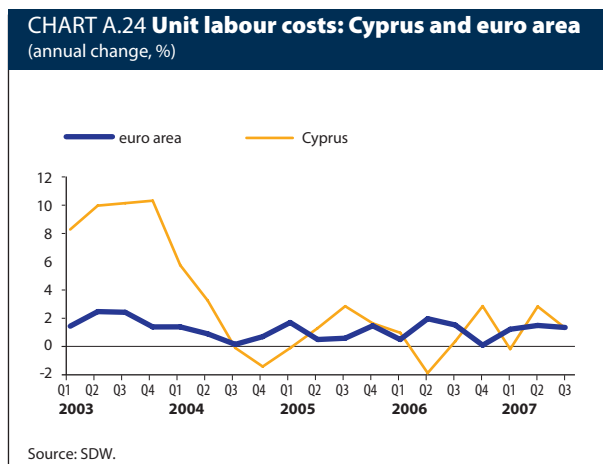
Labour costs, apart from the nominal cost per employee, are also shown by the labour cost index as calculated by Eurostat, which is available until the first quarter of 2008. This indicator shows an increase in labour costs of 5,0% in the first quarter of 2008, and although it is lower than the corresponding period of 2007 it remains well above the average euro area level of 3,3%.

Unit labour cost in Cyprus⁷ is at the same level as in the euro area but exhibiting greater



7. Unit labour cost is defined as the ratio of nominal compensation per employee and GDP per employed person.

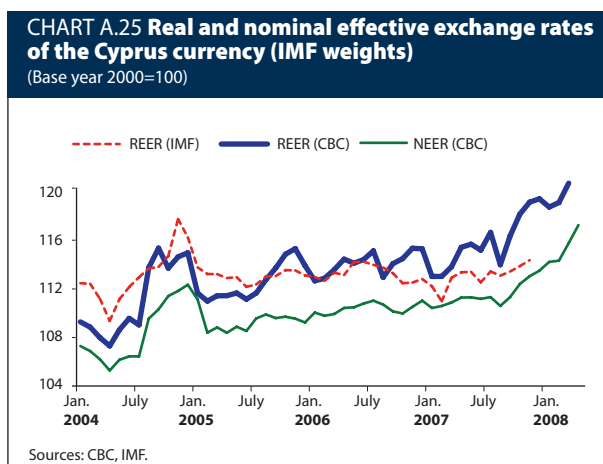
volatility. The increase which occurred in 2007 is due to both, the increase in the nominal compensation per employee and the reduction in labour productivity. Unit labour cost is forecast to increase further due to the expected increase in the nominal compensation per employee, which, as indicated above will largely be the result of increased inflation and, therefore, COLA. It is noteworthy that the sharp increase recorded in 2003, as shown in **Chart A.24**, is mainly due to the retroactive increases given in the public sector that year.



3. Domestic Competitiveness and Balance of Payments

Effective exchange rate

Chart A.25 shows the effective exchange rate (EER) of the Cyprus currency (Cyprus pound until 2007 and euro from 2008 onwards), namely the index of real EER, as calculated by the IMF, and the real and nominal EER, as calculated by the CBC⁸. The chart shows an increasing trend of the real exchange rate (appreciation) in 2007, due to the increased inflation in Cyprus compared with the corresponding inflation in countries used for the construction of the index, as well as the weakening of the dollar and sterling against the euro. This phenomenon was even stronger during the first months of 2008, suggesting a further deterioration in the price competitiveness of Cypriot products.

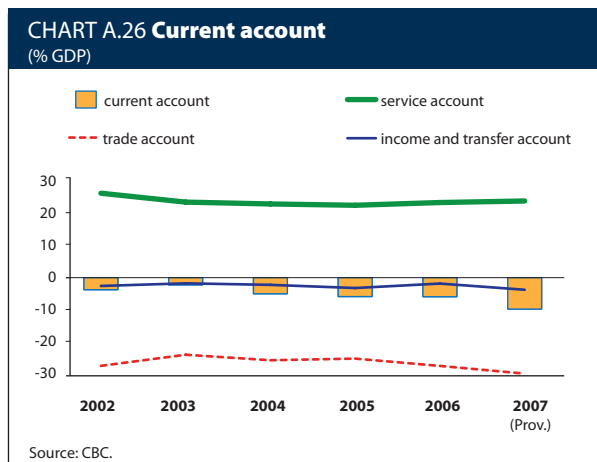


8. The effective exchange rate in real terms “REER IMF” is calculated by the IMF and takes into account competition with other countries (19 countries). The deflator used is the CPI. Because of the time lag that this index is published, CBC calculates a simplified index using eight countries instead of 19, REER CBC. The same index is also calculated in nominal terms, NEER CBC.

The developments in the effective exchange rate in conjunction with the developments in the unit labour cost are expected to have a negative impact on the current account since these two figures are important indicators of competitiveness of the Cypriot economy. More specifically, the appreciation of EER causes a decrease in the competitiveness of domestic exports, while the increase in unit labour cost means an increase in the production cost of domestic products that will result in a negative impact on domestic exports as they become less competitive, while at the same time imported products become cheaper.

Balance of payments

According to the latest available preliminary data for 2007, the current account recorded a deficit of 9,7%⁹ of GDP compared with a deficit of 5,9% in 2006 (**Chart A.26**). The increase in the deficit is mainly due to the deterioration of the trade balance as well as the income account and current transfers. Specifically, the deficit in the trade account and services account reached 6% of GDP in 2007 compared with 4,1% in 2006. The increase recorded in the services account surplus was not sufficient to reverse the increase in the trade account deficit. The deficit in the income account and current transfers was recorded at 3,7% of GDP in 2007 compared with 1,8% in 2006. This is partly due to the increased profitability of Cypriot financial institutions in 2007, in combination with the increasing participation of foreign investors in companies based in Cyprus.



9. Current account deficit as a percentage to GDP, according to preliminary data from the CBC, is at 9,7% and is 2,4 b.p. higher than the preliminary estimation used by Cystat in the national accounts. Data used for projections are the data published by Cystat.

The current account deficit in Cyprus is mainly financed by foreign direct investment (FDI) (**Chart A.27**). The financing of the current account deficit by FDI in 2007 amounted to 49% and while this percentage is high compared with other countries, it was one of the lowest financing rates for Cyprus in the last few years.

Although there is no data available for the current account in the first months of 2008, some indicators show a deterioration compared with 2007. In particular, **Table A.7** shows that total imports of goods, which include imports for domestic consumption and imports destined for re-exports, increased by 16,3% in the first four months of 2008, influenced largely by the price of oil and the strong domestic demand. At the same time, total exports of goods, which include domestic exports and re-exports, decreased by 5,3% in the first four months of 2008, and according to detailed data for the first two months of 2008 show that this is due to a sharp drop in re-exports.

Tourism

Tourism revenue in the first four months of 2008 recorded a decrease of 5% compared with the corresponding period of 2007 (**Table A.8**). Unlike revenues, arrivals during the same period recorded an increase of 0,6%. The effort by the Cyprus Tourism Organisation to increase winter tourism had some effect in this development. It is worth noting that despite concerns about tourism from the UK due to the slowing economy and the weakening of sterling, arrivals from

CHART A.27 Current account financing by foreign direct investment

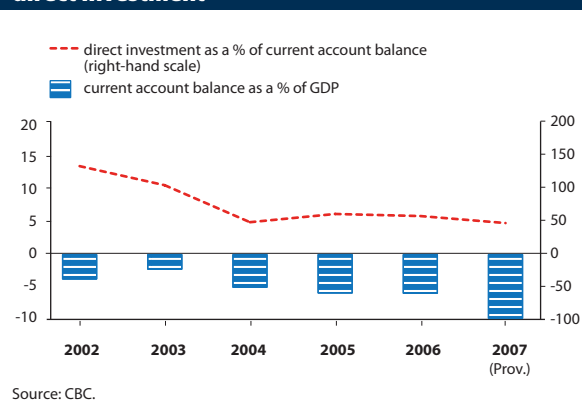


Table A.7 Trade account
€ million

	Imports	Exports	Trade deficit
2006	5.513,5	1.111,8	4.401,7
2007	6.353,4	1.082,7	5.270,8
annual % change	15,2	-2,6	19,7
2007 Jan. - Apr.	1.908,9	369,2	1.539,7
2008 Jan. - Apr.	2.221,0	349,7	1.871,3
annual % change	16,3	-5,3	21,5

Source: Cystat.

Table A.8 Tourism

	Tourist arrivals (thous.)	Tourist receipts (€ million)	Expenditure per person(€)
2006	2.400,9	1.755,3	731,1
2007	2.416,1	1.858,1	769,1
annual % change	0,6	5,9	5,2
2007 Jan. - Apr.	408,6	264,3	646,9
2008 Jan. - Apr.	411,1	251,0	610,6
annual % change	0,6	-5,0	-5,6

Source: Cystat.

the UK increased by 1,6% in the first quarter of the year.

As shown in **Chart A.28**, the growth rate in revenue during the first quarter of 2008 was lower than the growth rate of arrivals, which means that the per capita expenditure fell in that period. The phenomenon is worsen, when taking into account the data for April. It is worth noting that during the period 2003 – 2005, the rate of increase in arrivals was higher than the growth rate in revenue, meaning that the per capita expenditure decreased while the opposite occurred during the period of 2006 - 2007.

4. Domestic Demand, Production and Labour Market

Quarterly national accounts

Based on the latest available figures from Cystat, GDP growth exhibited a deceleration in the first quarter of 2008. Specifically, real GDP growth fluctuated around 4,0% in the first quarter of this year compared with 4,5% in the corresponding quarter of 2007. The small deceleration began in 2007 since GDP recorded a 4,3% increase in the last quarter (Chart A.29). For the whole of 2008 the downturn is expected to be greater than the deceleration recorded during the first quarter of the year, mainly due to a series of external factors, such as the downturn in USA economic activity, the slowdown in the UK property market and the weakening of sterling against the euro, factors which adversely affect the tourism and real estate markets in Cyprus. In addition, the record

CHART A.28 Tourist arrivals and receipts
(annual change, %)

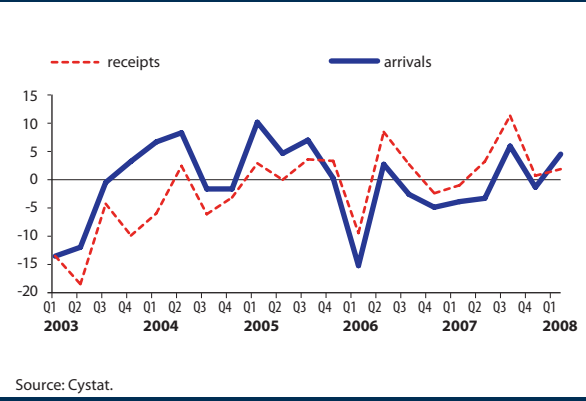
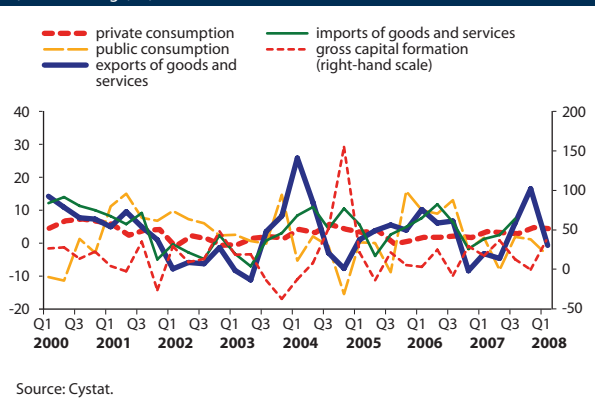


CHART A.29 Quarterly GDP growth
(annual change, %)



increase in international oil and food prices significantly enhance the effects of the above factors. As a result of these developments, growth, although above the euro area average, is expected to fall to around 3,6% for the year 2008 compared with 4,4% in 2007.

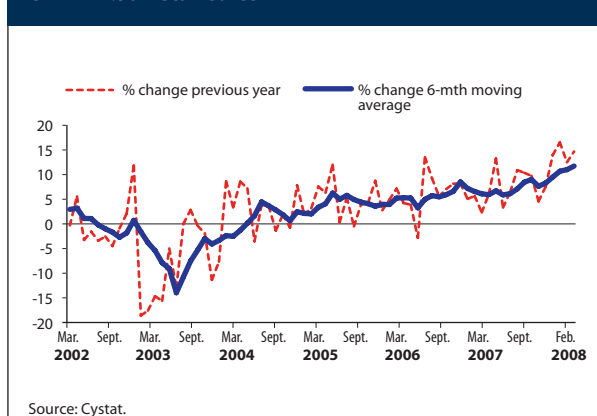
As regards the growth performance in the first quarter of 2008, it was mainly due to a reduction of 2,8% recorded by public consumption. Private consumption, which contributed significantly to the growth of GDP in 2007, accelerated, growing by 7,3% in the first quarter of this year compared with 6,0% in the corresponding period of 2008. At the same time, gross fixed capital formation rose by 4,3% while imports showed a big rise of around 14,4% compared with an increase of 2,0% over the corresponding quarter of 2007. Finally, exports increased by 2,0% compared with 2,6% reduction in the corresponding period of the previous year.

Consumption

Private consumption seems to have been maintained at high levels during the first months of 2008, as evidenced by several indicators. Specifically, the turnover index of retail trade, which excludes car sales, rose by 13,4% during the period January-February 2008 compared with 4,1% in the corresponding period of 2008 (Chart A.30).

The registration of private cars recorded an increase of 3,8% during the first five months of the year compared with 33,4% during the same period of 2007, the year in which car sales had risen dramatically due to a reduction

CHART A.30 Retail sales



in consumption taxes (Chart A.31).

As regards the expenditure of Cypriot credit card holders in Cyprus, an increase of 27,4% was observed in January - April 2008 compared with 25,8% in the corresponding period of 2007 (Chart A.32). The opposite trend was exhibited by the spending of foreign card holders in Cyprus, which rose by just 4,7% in January - April 2008 compared with an increase of 12,4% over the corresponding period last year, partly reflecting the decrease in revenue from tourism.

Secondary sectors

Construction /industrial production

In the secondary sectors and particularly in the construction industry, the total value on property sales for the first months of 2008 decreased to € 794 million from € 956 million in the corresponding period of 2007, while for the same period the number of property sales fell to 4.143 from 5.202. The reduction in the construction sector is also evident from the 17% reduction in government revenue from capital gains for the first months of 2008 compared with the corresponding period of 2007. In addition, the ratio of volume index of building permits decreased by 11,3% in the first quarter of 2008 compared with the 8,5% rise in the corresponding quarter of 2007, while the total number of building permits fell by 16,2% during the period January -- March 2008, compared with the corresponding period of last year (Chart A.33). The biggest decline in the number of building permits occurred in residential buildings (around 19,7%). Focusing

CHART A.31 Registration of motor vehicles

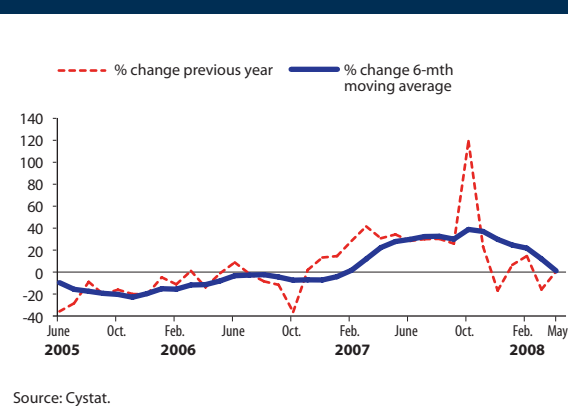


CHART A.32 Credit card spending
(cumulative annual % change from January)

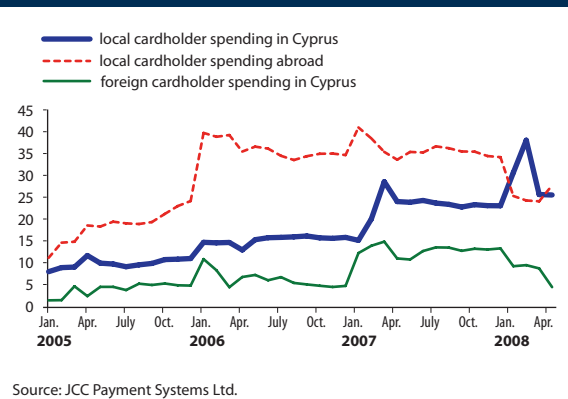
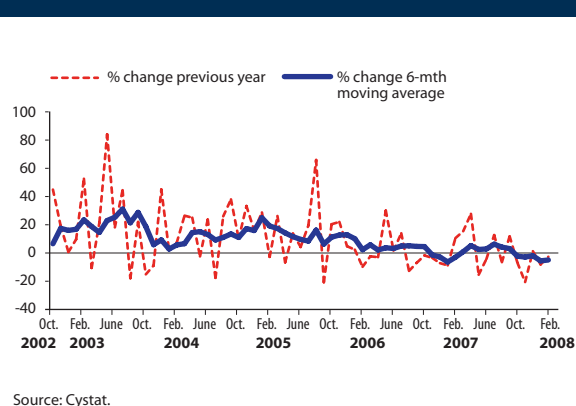


CHART A.33 Building permits authorised



on building permits per province, Famagusta recorded the largest decrease in the number of building permits (42,7%) followed by Nicosia (14,1%), while Larnaca and Paphos, although recording a reduction in the number of permits, experienced a significant increase in volume and value of building permits. Nevertheless, sales of cement increased by 16,7% in the first quarter of 2008 compared with an increase of 13,1% in the corresponding quarter of 2007 (Chart A.34). In the manufacturing sector, the index of manufacturing production increased by 3,1% during the first three months of 2008 compared with an increase of 2,5% over the corresponding period of 2007 (Chart A.35).

Labour market

Employment¹⁰ developments reflected the strong economic activity in 2007 and recorded an increase of 3,2%, mainly due to the increased foreign labour force which rose by approximately 15 thousand persons in 2007, according to social insurance data. It is worth noting that the number of Turkish Cypriots who engaged in employment in the government controlled area and contributed to the Social Insurance Fund has remained roughly stable since 2004 at around 3.500 people. Employment growth is due, apart from the influx of foreign workers, to the continued fall in unemployment over the last two years, which reached 3,9% in 2007, according to the Labour Force Survey (LFS) data (Chart A.36).

Registered unemployment rate which shows a similar trend as the one recorded by the LFS data in the past two years, displays a

CHART A.34 Sales of cement

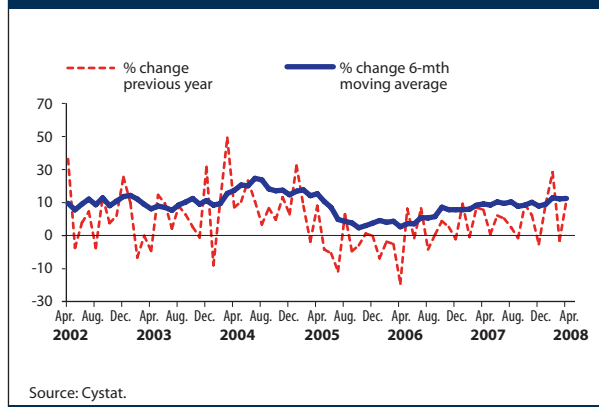


CHART A.35 Manufacturing production

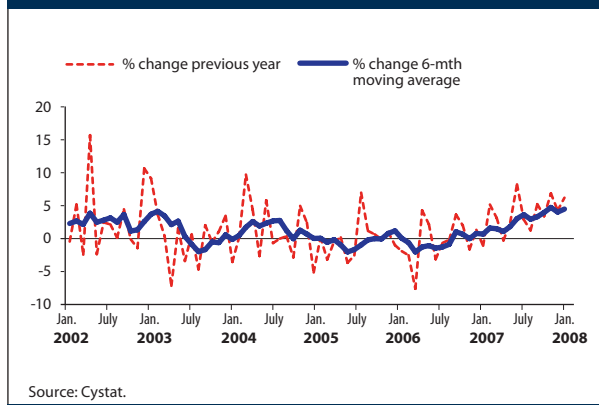
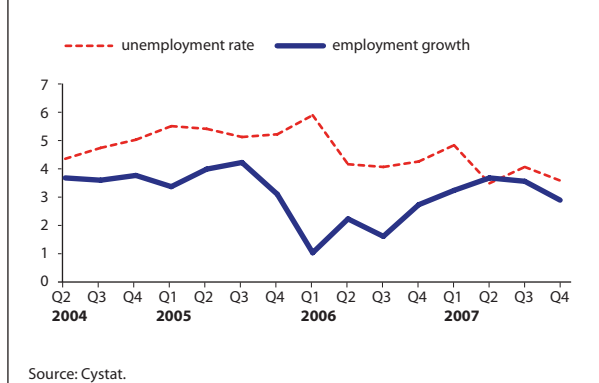


CHART A.36 Employment growth and unemployment rate



10. The number of employees used relates to physical persons and not full time equivalent persons which is used by Cystat because this was not available on a quarterly basis.

downward trend, which is clearly evident from the data corrected for seasonal variations (**Chart A.37**). The downward trend appears to be continuing in the first quarter of 2008. It is worth noting that the number of registered unemployed and therefore the registered unemployment rate is smaller than those given by the LFS because of differences in the methodologies of the two unemployment measures.

The increase in employment during 2007 was mainly due to the “other services” sector (financial institutions, real estate management, public administration, education, health), while the contribution of the trade, repair, hotels, restaurants, transport and communications sectors was also significant. Construction also contributed positively to employment and to a lesser extent, manufacturing. Finally, following a negative contribution in the years 2005-2006, agriculture recorded a positive contribution to employment in 2007 (**Chart A.38**).

5. Domestic Public Finance Developments

The year 2007 was characterized by a greater than the anticipated improvement in public finances, with a recorded budget surplus of around 3,3% of GDP compared with a deficit of around 1,2% in 2006. The surplus was also significantly higher than the 1,5% initially projected by the government in its Stability Programme submitted in December 2007. This stronger than expected improvement was partly due to the buoyant level of economic

CHART A.37 Registered unemployment rate

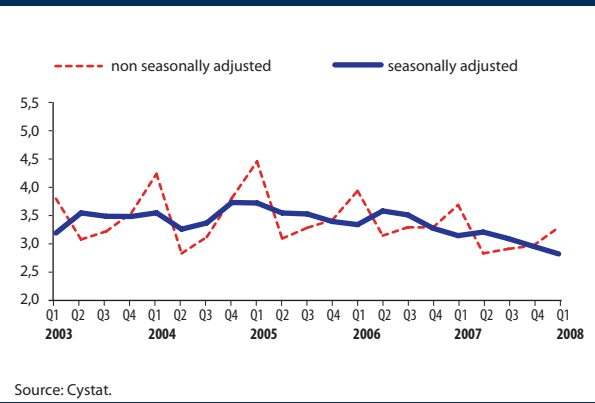
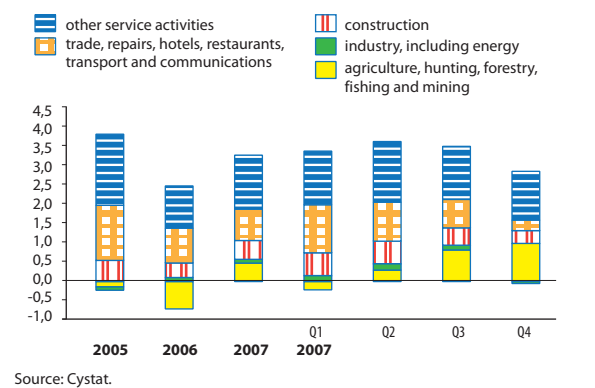


CHART A.38 Contribution to employment growth by sector



activity, the increased profitability of companies - particularly of companies engaged in overseas activities – and mainly to the booming activity in the construction and property sectors. As a result, total public revenues as a percentage of GDP increased to 47,1% compared with 42,4% in 2006, while total public expenditure as a percentage of GDP reached 43,9% compared with 43,6% in 2006.

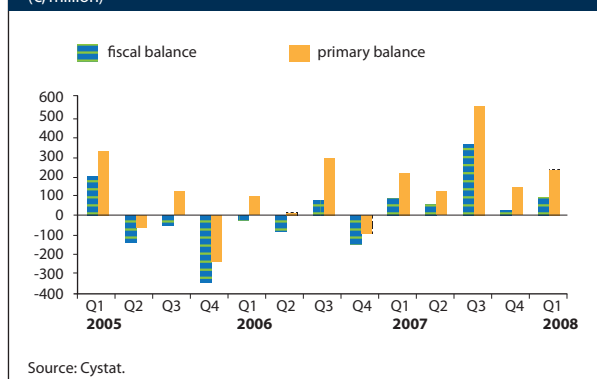
According to the preliminary data prepared by Cystat and covering general government accounts, during the first quarter of 2008 a budget surplus of around 0,5% of GDP was registered, the same as in the corresponding period of 2007 (Table A.9). At the same time, the primary balance in the first quarter of 2008 was approximately at the same level as that in the corresponding period of 2007 (Chart A.39). Total expenditure rose by 2,2% in the first quarter of 2008 compared with the corresponding period of 2007, in contrast to 2007 and 2006 when the increase was around 15,5%. Total revenues rose by 2,6% in the first quarter of 2008 compared with the corresponding period of 2007, in contrast to 2007 and 2006 when the increase was around 24,3% (Chart A.40 on page 35). In addition, it should be noted that in connection with the first quarter of 2007, a decrease of about 3% in the revenue category “Current taxes on income, wealth, etc.”, has already been recorded. This includes a significant proportion of revenue emanating from the increased activity in the construction and property sectors. It should further be noted that in the corresponding first quarter of 2007, revenues in this category had recorded an increase of 39,6% compared to the first quarter of 2006. The sharp reversal of revenue in this category reflects the fact

Table A.9 Accounts of general government
(€ million)

	Jan. - Mar. 2007	Jan. - Mar. 2008	Change
EXPENDITURE			
Intermediate consumption	162,3	154,2	-8,1
Capital formation	85,6	71,3	-14,3
Compensation of employees	514,6	543,5	28,9
Other taxes on productions	0,0	0,1	0,1
Subsidies	0,7	0,3	-0,4
Interest paid	128,7	135,1	6,4
Social transfers	408,9	450,0	41,1
Other current transfers	217,5	196,6	-20,9
Capital transfers	3,5	3,8	0,3
Total expenditure	1.521,8	1.554,9	33,1
REVENUE			
Market output & output for own final use	101,7	105,5	3,8
Taxes on production and imports	706,7	747,1	40,4
of which VAT	403,1	469,4	66,3
Property income	29,6	15,3	-14,3
Current taxes on income, wealth, etc	447,7	434,2	-13,5
Social contributions	293,2	324,5	31,3
Other current transfers	22,7	17,0	-5,7
Capital transfers	1,9	1,2	-0,7
Total revenue	1.603,5	1.644,8	41,3
Surplus (+) / Deficit (-)	81,7	89,9	
Surplus (+) / Deficit (-) % of GDP	0,5	0,5	

Source: Cystat.

CHART A.39 Fiscal and primary balances of the general government
(€ million)



Source: Cystat.

that the increased tax revenues in 2007 were of a temporary nature.

Following the boom in the construction and property sectors during 2007, recently released figures by the Inland Revenue Department confirm the slowdown in revenue associated with these sectors. In particular, revenue from capital gains tax in the first five months of 2008 decreased by 16% compared with the corresponding period of 2007.

In general terms, it is suggested that unexpected increases in revenue, such as those in 2007, are utilized towards the enhancement of budgetary consolidation instead of funding increased expenditure, especially since most of the increases are of a permanent nature and hence, not easily reversible. The government should adopt measures that will permanently reduce public spending, for example by adopting means testing for benefits.

Despite the reduction in certain categories of public revenue, the European Commission still envisages a surplus of 1,7% of GDP for 2008. This is indicative of their implication that the unexpected revenue increases in 2007 will not be channelled towards increased public expenditure, a move that would, to a large extent, absorb the corresponding surplus.

The containment of expenditure is considered crucial in order to establish long-term sustainability of public finances, especially in the light of the European Commission's assessment of the impact of the island's ageing population on public finances. In addition, the various measures aimed at ensuring the sustainability of the Social Security Fund should also be adopted the soonest possible.

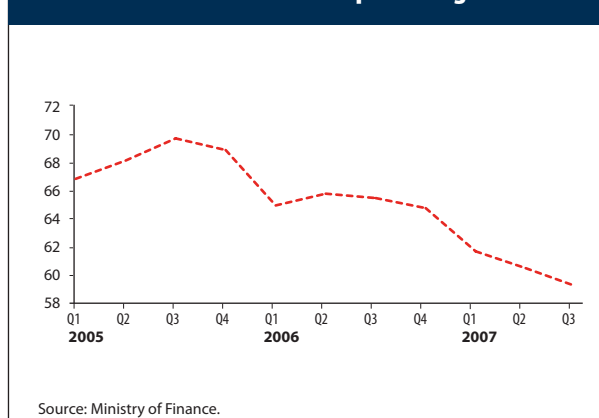
CHART A.40 Total revenue and expenditure of the general government as a percentage of GDP



Cyprus's accession in the euro area has strengthened the importance of fiscal policy, through which the challenges facing the economy will be managed. The widening of the current account as well as the inflationary pressures facing the Cyprus economy, indicate that fiscal policy should focus on maintaining macroeconomic stability and discipline in order to avoid a pro-cyclical fiscal expansion, which inter alia could exacerbate inflationary pressures.

Government debt as a percentage of GDP fell to 59,8% in 2007 compared with 65,2% in 2006, owing to the high primary surplus as well as to the shrinking of the sinking funds (Chart A.41). In 2008 it is expected to be even further reduced, due to the shrinking of the largest part of sinking funds. The external debt as a percentage of net total public debt in 2007 amounted to around 23% compared with 22% in 2006. The long-term debt as a percentage of net debt amounted to 98,1% in 2007 compared with 93,4% in 2006. The short-term debt as a percentage of net total public debt was 1,9% and 6,6% for 2007 and 2006, respectively.

CHART A.41 Net total debt as a percentage of GDP



6. Macroeconomic Projections for Cyprus

Working assumptions

The projections for the Cyprus economy are based on the assumptions for the world economy as specified by the Eurosystem. These projections are used for the evaluation of international developments and risks by the ECB's Board of Directors which are then used in setting monetary policy. The working assumptions used for

Cyprus's projections, which are common for the whole eurosystem, mainly cover assumptions on interest rates, exchange rates, the price of oil and international trade. May 15 was the cut off date for the working assumptions and the data used for the calculation of the projections.

According to the aforementioned assumptions, the dollar is expected to fluctuate close to €1,55 in 2008 – 2009. The price of oil is expected to reach \$113,3 per barrel in 2008 while in 2009 it is expected to stabilise at around \$117,7. However, recent developments in the international oil market present a more pessimistic outlook as the price of oil has exceeded expectations. As far as public finances are concerned, prudent fiscal policy and the containment of public expenditure is envisaged in the projections.

Eurosystem projections for the euro area

Based on the above working assumptions, inflation in the euro area is expected to remain high and to fluctuate between 3,2% and 3,6% in 2008 (**Table A.10**). In 2009 the average increase in the consumer price index is expected to fluctuate between 1,8% and 3,0%. GDP growth is expected to reach 1,5% - 2,1% in 2008 and 1,0% - 2,0% in 2009. It should be noted that the fundamentals of the euro area economy are expected to remain sound and stable.

Nominal side HICP projections

As far as the Cyprus economy is concerned, the HICP is projected to reach 4,2% in 2008 compared with 2,2% in 2007 (**Table A.11**).

Table A.10 Eurosystem projections for the euro area
(annual change, %)

	2008f	2009f
GDP		
June projections 2008	1,5 - 2,1	1,0 - 2,0
December projections 2007	1,5 - 2,5	-
Inflation		
June projections 2008	3,2 - 3,6	1,8 - 3,0
December projections 2007	2,0 - 3,0	-
Source: ECB.		

Table A.11 HICP projections
(annual change, %)

	2007	2008f	2009f
HICP			
June projections 2008	2,2	4,2	2,4
December projections 2007	2,1	2,9	2,3
HICP excluding energy			
June projections 2008	2,2	2,8	2,7
December projections 2007	2,2	2,7	2,4
Sources: historic data - Cystat, projections - CBC			

More specifically, the expected increase in inflation stems from the significant increase in the price of oil, food and services, while non-energy industrial goods are expected to contain this increase in prices.

Earnings, productivity and unit labour cost

Unit labour cost is expected to increase to 2,7% in 2008 as a result of the significant increase in compensation per employee. This development is mainly due to the significant increase in the cost of living allowance (COLA). In 2009, unit labour cost is expected to decelerate to 2,4%, following the expected slow down in compensation per employee, as well as to the expected increase in productivity in the next two years (Table A.12).

Real side: national accounts

As far as the national accounts are concerned, GDP growth is expected to reach 3,6% and 3,7% in 2008 and 2009 respectively, mainly due to the assumed increase in domestic demand (Table A.13). The projections are slightly lower than the projections prepared in December 2007, mainly as a result of international developments as well as the deceleration in the construction industry. More analytically, public consumption is expected to accelerate due to the amount spent for the import of water as well as due to the base effect when compared to 2007. Private consumption in 2008 is expected to accelerate due to the assumed acceleration in imports. These developments are also reflected in retail sales

Table A.12 Labour market projections
(annual change, %)

	2007	2008f	2009f
Compensation per employee			
June projections 2008	3,1	4,5	4,3
December projections 2007	2,1	2,5	3,0
Unit labour cost			
June projections 2008	1,8	2,7	2,4
December projections 2007	0,0	0,6	1,0
Productivity			
June projections 2008	1,3	1,7	1,8
December projections 2007	2,1	1,9	2,0

Source: Cystat.

Table A.13 National accounts: projections in real terms
(annual change, %)

	2007	2008f	2009f
GDP			
June projections 2008	4,4	3,6	3,7
December projections 2007	4,0	3,9	3,8
Private consumption			
June projections 2008	6,2	6,4	5,4
December projections 2007	5,7	4,2	3,7
Public consumption			
June projections 2008	-0,1	3,3	2,4
December projections 2007	-0,1	4,2	4,1
Gross fixed capital formation			
June projections 2008	6,3	5,8	4,8
December projections 2007	5,6	4,0	4,1
Exports			
June projections 2008	4,3	4,4	5,3
December projections 2007	4,1	3,1	3,4
Imports			
June projections 2008	6,9	8,2	7,2
December projections 2007	5,4	3,6	3,2

Sources: historic data - Cystat, projections - CBC

and credit card spending. In 2009 private consumption is expected to decelerate following the deceleration in imports. Gross fixed capital formation is expected to slow down in 2008-2009, following the completion of the two airports. Furthermore, recent developments indicate a deceleration in the construction industry as well.

Evaluation of macroeconomic risks

HICP (Table A.11, p. 37) and GDP growth projections (Table A.13, p. 38) are constructed under the assumptions elaborated above. Nevertheless, the ambiguity regarding these assumptions creates uncertainty for the modal (i.e. most probable) projections.

Charts 42 and 43 report the possible variability of the modal projection for GDP growth and HICP. The method followed for the setting of the confidence intervals, which is the same method used by the ECB for the eurosystem projections, is the mean absolute deviation of forecast errors. More specifically, in the charts three intervals can be distinguished with probabilities of 50%, 70% and 90% respectively, thus showing the highest and lowest probabilities for the specific confidence interval. The distribution of the two charts is symmetric around the modal projection, with the variability increasing as the projection period increases. Nevertheless, some risks relating to the price of oil and the financial turmoil could cause a deviation, either upwards or downwards, from the central scenario with a different statistical probability.

CHART A.42 Real GDP fan chart
(annual change, %)

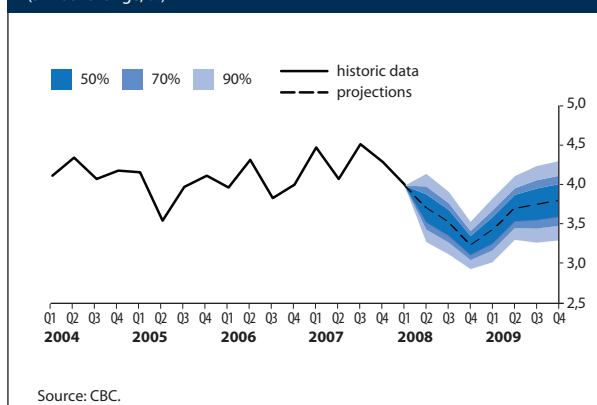
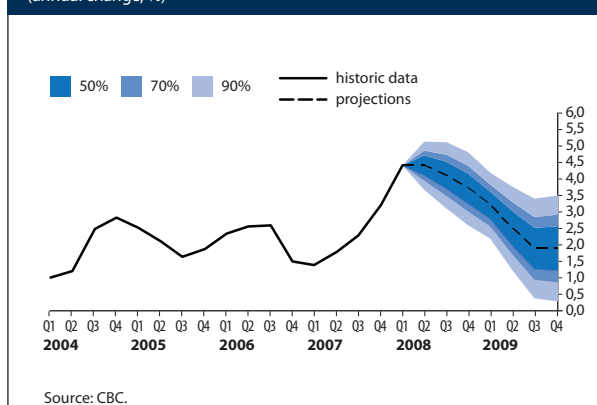


CHART A.43 HICP fan chart
(annual change, %)



Recent economic developments are likely to have a negative impact on international demand and GDP growth prospects of the major economies. Such a development would certainly affect the Cyprus tourism industry as well as the provision of financial services, thus causing downward pressures on GDP growth.

As far as inflation is concerned, projections are more pessimistic, especially for the second and third quarters of 2008, mainly due to the continuous increase in the price of oil which reached a level 25% higher than the assumptions adopted when preparing the projections, and the uncertainty surrounding food prices. At the same time, if the current high prices affect inflation expectations and wages this may cause a chain reaction and lead to further inflationary pressures in the future. Thus, risks for inflation are on the high side.

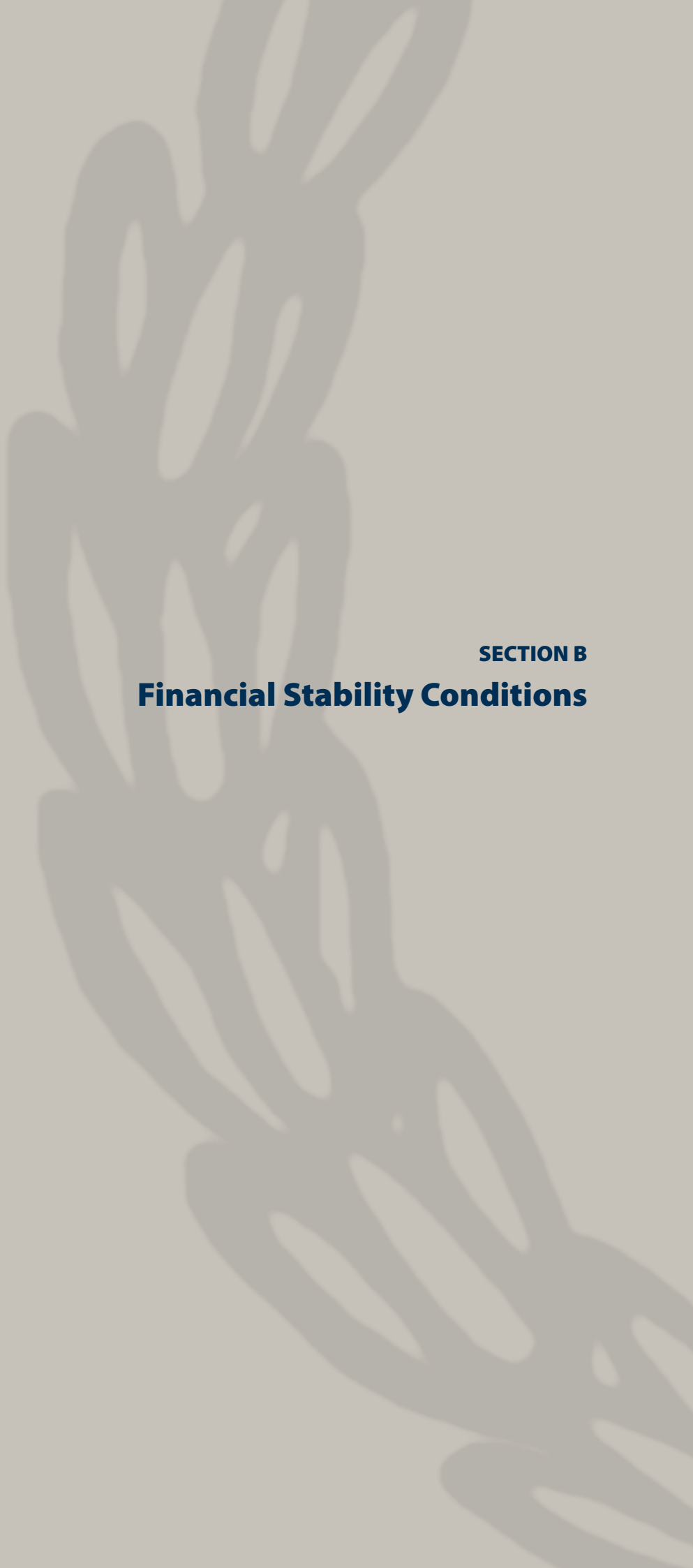
Comparison of Cyprus's projections prepared by various international institutions

Projections for Cyprus's GDP for the years 2008 – 2009, prepared and published in autumn 2007 and spring 2008 by various international institutions, do not differ significantly from the CBC projections (Table A.14). On the other hand, HICP projections prepared by the same international institutions are significantly lower for 2008 and higher for 2009 than the CBC projections. This is due to the different fundamentals prevailing at the time of preparing the projections.

Table A.14 Cyprus economy comparison projections by international organisations
(annual change, %)

		GDP		HICP	
		2008f	2009f	2008f	2009f
European Commission	Spring 2008	3,7	3,7	3,8	2,5
	Autumn 2007	3,9	3,9	2,3	2,1
IMF	Spring 2008	3,4	3,5	4,0	2,9
	Autumn 2007	3,7	-	2,4	-
CBC	June 2008	3,6	3,7	4,2	2,4
	December 2007	3,9	3,8	2,9	2,3

Sources: European Commission, IMF, CBC.



SECTION B

Financial Stability Conditions

Financial Stability Conditions

In accordance with the relevant provisions of the Central Bank of Cyprus Laws of 2002 to 2007, the safeguarding of the stability of the financial system constitutes one of the main functions of the CBC. In performing the above task, the CBC, inter alia, monitors the cyclical developments in the financial sector, by focusing mainly on the banking system, as well as developments in the macro-financial environment with a view of assessing the potential risks to financial stability and the financial system's shock-absorption capacity.

"Financial stability" can be defined as a condition in which the financial system – comprising of financial intermediaries (i.e. credit institutions, insurance companies, collective investment schemes, pension and provident funds etc.), markets as well as infrastructures – is capable of withstanding shocks and the unravelling of financial imbalances, thereby, mitigating the likelihood of disruptions in the financial intermediation process which are severe enough to significantly impair the allocation of savings to profitable investment opportunities¹.

This edition of the "Economic Bulletin" includes an analysis of the financial condition of the household and non-financial corporate sectors as well as an assessment of the potential risks facing both households and firms, which may affect the stability of the financial system. The key developments in the real estate sector, the financing of this sector by banks as well as the main developments in the domestic financial markets are also

1. Financial Stability Review, ECB, June, 2008.

described. An assessment of the stability of the banking sector, which constitutes the largest component of Cyprus's broad financial system, as well as the potential risks facing this sector will be presented in the forthcoming December edition of the "Economic Bulletin".

1. The domestic macro-financial environment

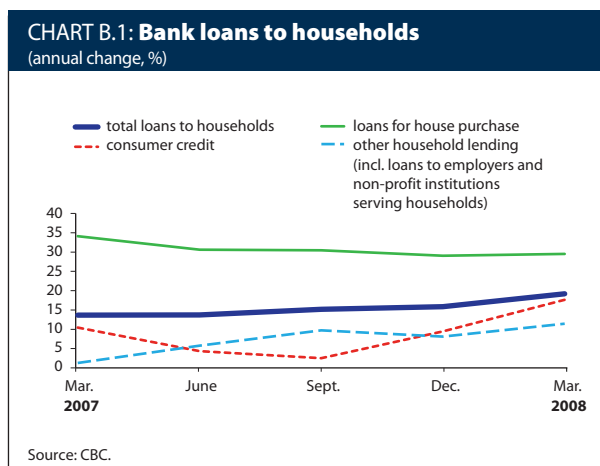
This section includes an analysis of the indebtedness and financial condition of households and non-financial corporations. An assessment of the potential risks facing these two sectors is also provided in sections 1.1.3 and 1.2.3 which follow.

1.1 Household Sector

1.1.1 Indebtedness²

MFI loans to households

MFI loans to households³ increased by 19,0% year-on-year in March 2008. As regards the three components of household lending, i.e. loans for house purchase, consumer credit and other household lending⁴, these grew by 28,3%, 16,9% and 10,7% respectively year-on-year in March 2008 (**Chart B.1**). As at the end of March 2008, the share of loans to the household sector as a percentage of total outstanding loans to non-MFIs declined to 47,1% compared with 47,4% as at end-December 2007 and 49,1% as at the end of March 2007. The shares of loans for house purchase, consumer credit and other



2. Based on MFI balance sheet data.

3. Includes MFI loans to domestic households.

4. Includes, inter alia, MFI loans granted to individuals, other than those included in the other two categories, such as loans for medical treatment, education and debt consolidation, as well as loans to employers (including own-account workers) and non-profit institutions serving households.

household lending as a percentage of total loans to the household sector, as at end-March 2008, stood at 43,0%, 19,6% and 37,4% respectively compared with 43,0%, 19,3% and 37,7% as at the end of December 2007 and 39,8%, 20,0% and 40,2% as at end-March 2007 respectively (**Chart B.2**). In this regard, housing loans continue to constitute the largest exposure of the household sector.

The share of loans to households in foreign currency as a percentage of total outstanding loans to the household sector increased to 3,8% as at the end of March 2008.

Non-performing loans

Non-performing loans⁵ to households as a percentage of total outstanding loans to the household sector amounted to 4,4% as at end-March 2008 compared with 4,9% as at the end of December 2007 and 6,1% as at end-March 2007. Provisions as a percentage of total non-performing loans to the household sector stood at 92,4% as at the end of March 2008 compared with 91,9% as at end-December 2007 and 85,3% as at the end of March 2007.

Household debt⁶

Household debt as a percentage of GDP increased to 140,9% as at the end of December 2007 (up from 129,0% as at end-December 2006 and 124,6% as at the end of December 2005). **Chart B.3** exhibits the household debt-to-GDP ratio for the years 2005 to 2007.

CHART B.2: Components of bank household lending
(end of quarter, %)

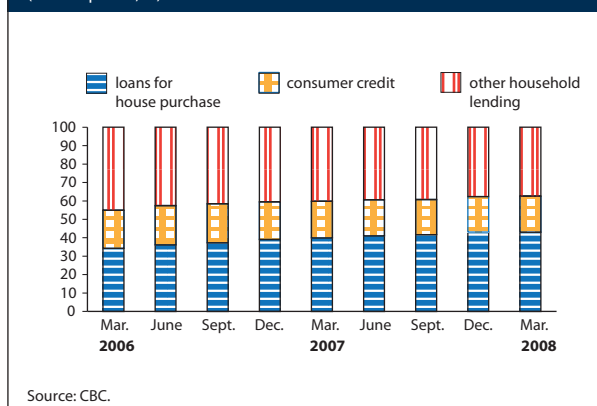
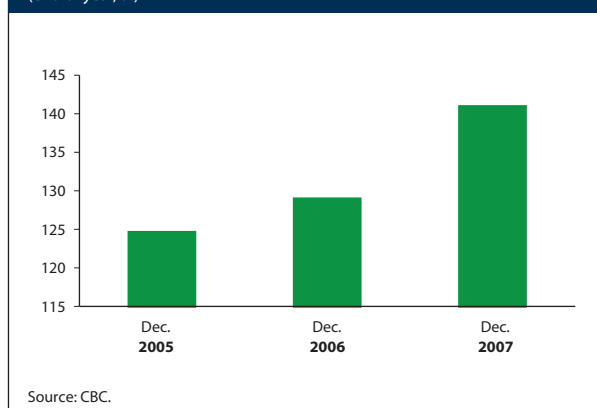


CHART B.3: Household debt as % of GDP
(end of year, %)



5. As defined in the relevant CBC Directive, non-performing loans include credit facilities which are in excess of their approved limit or whose repayment, in regard to principal or interest or other income, is in arrears for more than three months. Funded credit facilities and credit substitutes extended to customers, which are fully secured, are not classified as non-performing.

6. Based on quarterly financial accounts data (prov.). Includes loans and other financial liabilities of households and non-profit institutions serving households.

Financing conditions

Bank interest rates on housing and personal loans have fluctuated in the range of 5,47% to 5,53% and 6,42% to 6,68% in the first four months of 2008 (Table A.4, page 22).

1.1.2 Financial condition⁷

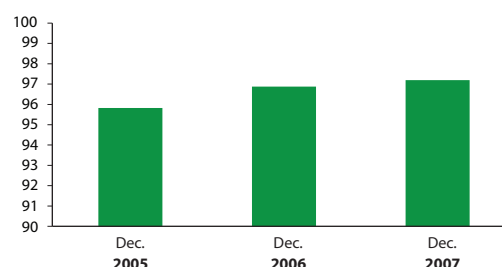
Net financial assets

The household sector's net financial assets as a percentage of GDP rose to 97,0% as at the end of December 2007 (up from 96,8% as at end-December 2006 and 95,7% as at the end of December 2005). **Chart B.4** indicates the household sector's net financial assets as a percentage of GDP for the years 2005 to 2007.

The household sector's financial liabilities have expanded by 17,6% year-on-year in December 2007 mainly due to a notable increase in the value of loans granted, which accounted for 78,1% of the household sector's financial liabilities as at the end of 2007. Consequently, as indicated in **Chart B.5**, the ratio of financial liabilities to financial assets rose to 59,3% as at the end of December, 2007 (up from 57,1% as at end-December, 2006 and 56,6% as at the end of December, 2005).

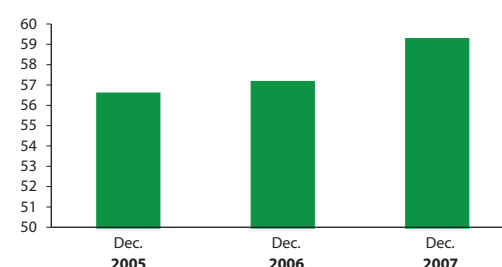
As at the end of December 2007, cash and bank deposits and bank loans represented the largest parts of the household sector's financial assets and liabilities respectively. **Chart B.6** exhibits the breakdown of the household sector's financial assets and liabilities as at the end of December 2007.

CHART B.4: Household sector net financial assets as % of GDP
(end of year, %)



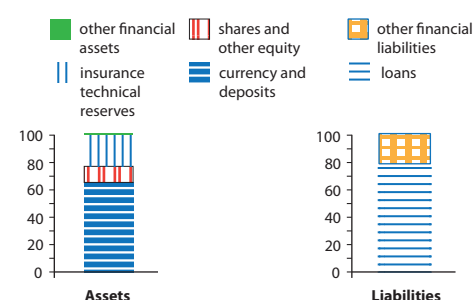
Source: CBC.

CHART B.5: Household sector financial liabilities
(% of financial assets, end of year)



Source: CBC.

CHART B.6: Distribution of household sector financial assets and liabilities
(end of December 2007, %)

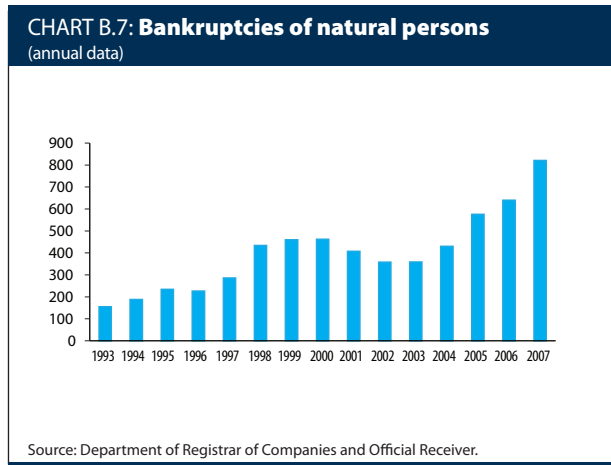


Source: CBC.

7. Based on quarterly financial accounts data (prov.).

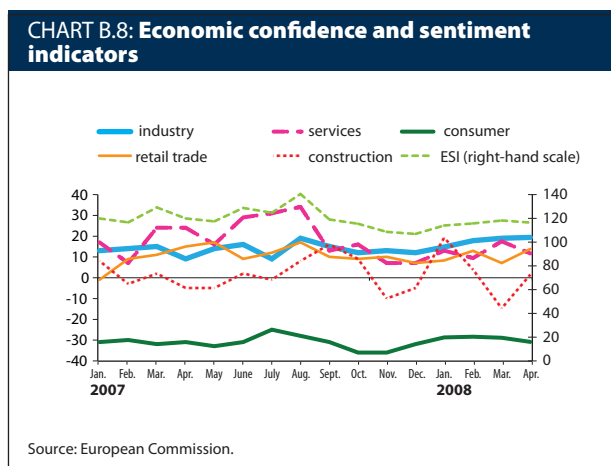
Bankruptcies of natural persons

The number of bankruptcies of natural persons has exhibited a continuous upward trend and reached 821 in 2007 compared to 640 in 2006 and 576 in 2005, which may indicate that the financial condition of households is deteriorating. In fact, in the first four months of 2008, 272 bankruptcies of natural persons have been recorded, which indicates that the total for the year could eventually be higher than in 2007. **Chart B.7** shows the number of bankruptcies of natural persons for the years 1993 to 2007.



Forward-looking indicators

Aggregate confidence and economic sentiment indicators for Cyprus compiled by the European Commission show that the Economic Sentiment Indicator (ESI)⁸, following an overall downward trend in 2007, has improved in the first three months of 2008 but weakened slightly in April 2008. As regards the household sector's expectations, the consumer confidence indicator (**Chart B.8**) has improved in the first two months of 2008 but showed signs of weakness in the period March to April 2008.



1.1.3 Risks facing the household sector

From a financial stability viewpoint, what ultimately matters are the potential risks that banks may face from lending. In this context, banks face the risk that certain indebted households may be unable to meet their debt servicing obligations.

8. The Economic Sentiment Indicator (ESI) is composed of the industry confidence indicator (40%), the services confidence indicator (30%), the consumer confidence indicator (20%), the construction confidence indicator (5%) and the retail trade confidence indicator (5%).

There are a number of factors that can determine the risks affecting the debt servicing capacity of households. The sources of risk can be systematic (such as changes in interest rates, household income or house prices) or idiosyncratic (such as an illness or a divorce).

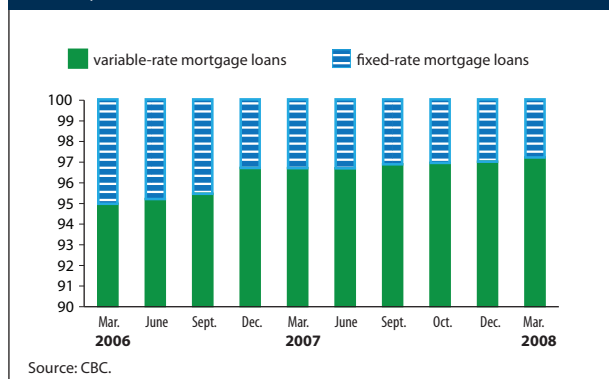
During a downturn of the economic cycle, the household sector becomes vulnerable especially when it is highly leveraged or when the majority of borrowing has been carried out at variable interest rates or when house prices have been overvalued.

Interest rate risks of households

As regards loans to households for house purchase, the impact of rising interest rates on the debt servicing costs of individual households depends on the terms and conditions of their mortgage contracts. In the case where a mortgage contract provides for a variable rate of interest, households are exposed to an interest rate risk. The share of such mortgage loans to total outstanding mortgage loans stood at 97,2% as at the end of March 2008 compared with 97,0% as at end-December 2007 and 96,7% as at the end of March 2007 (**Chart B.9**). Hence, the predominance of mortgage loans which carry a variable rate of interest indicates that households remain vulnerable to interest rate shocks.

The recent global financial turmoil has led to a liquidity squeeze in the international money markets and a rise in short-term funding rates. As a result, banks in Cyprus

CHART B.9: Distribution of fixed- and variable-rate mortgage loans
(end of quarter, %)



have been induced to transfer at least some of the increased cost of funding in the interbank market (Euribor or Libor) to their customers by increasing the cost of debt financing. Moreover, the strong competition in attracting new deposits has resulted in higher deposit rates, which has also led banks to pass through their increased cost to new borrowers. In this regard, banks announced in the period from March to April 2008 a rise in their base interest rates charged on current accounts and new loans, including housing loans granted after 1 January 2008, while a second round of borrowing interest rate rises is expected in the future.

Record oil and other commodity prices as well as high food costs have maintained an upward pressure on the rate of inflation in the euro area in the first few months of 2008, thus deterring the ECB from lowering interest rates, which would have helped to alleviate households' interest rate risk concerns. Although a deceleration in the euro area's economic activity is possible in 2008, if inflationary pressures persist, a rise in ECB interest rates may not be ruled out, which could adversely affect, to some extent, the debt servicing capacity of households.

Risks to household income

Under normal economic circumstances, an upswing in the business cycle when the macroeconomic environment improves, enhances households' disposable income

while job creation is likely to offset any adverse effects on debt servicing from any potential rises of interest rates. Conversely, lower interest rates have a cushioning effect in the event of an economic downturn.

Although the recent turmoil in international financial markets is expected to have a negative impact on the growth outlook of the Cyprus economy during 2008, generally stable employment and income conditions are expected to remain dominant in the current year, thus containing, to a large extent, potential risks to the household sector's financial sustainability.

Risks to residential property prices

Residential property prices in Cyprus have appreciated at high rates over the past few years. The net worth of households could be adversely affected should house prices experience a significant drop. Although some cooling-off of construction activity in the residential real estate sector has been evident in the first three months of 2008, given the broadly positive outlook of the macroeconomy, the risk of a sharp downturn in house prices, in the short term, seems low. In addition, while any potential overvaluation in the housing market could represent a source of risk for the household sector's balance sheets, since it leads to a corresponding overvaluation of financial assets, income growth continues to remain the more decisive factor in assessing the risks to household finances.

1.2 Non-financial corporate sector

1.2.1 Indebtedness⁹

MFI loans to non-financial corporations

MFI loans to non-financial corporations¹⁰ increased by 30,3% year-on-year in March 2008 (Chart B.10).

As at the end of March 2008, the share of loans to non-financial corporations as a percentage of total outstanding loans to non-MFIs increased to 46,1% from 45,3% as at end-December 2007 and 44,2% as at the end of March 2007.

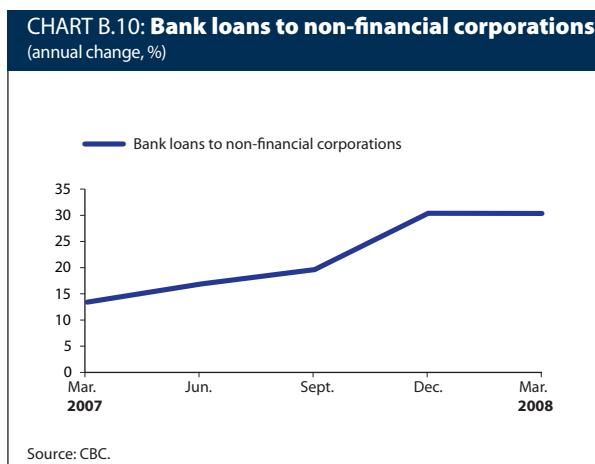
The share of loans to non-financial corporations, in foreign currency, to total outstanding loans to non-financial corporations decreased to 16,7% as at end-March 2008, down from 17,5% as at the end of January 2008.

Non-performing loans

Non-performing loans to non-financial corporations as a percentage of total loans to non-financial corporations amounted to 8,1% as at the end of March 2008 compared with 9,2% as at end-December 2007 and 11,3% as at the end of March 2007. Provisions as a percentage of total non-performing loans to non-financial corporations stood at 58,1% as at the end of March 2008 compared with 61,7% as at end-December 2007 and 59,8% as at the end of March 2007.

Non-financial corporate debt¹¹

Non-financial corporate debt as a percentage of GDP continued its upward trend in 2007,



9. Based on MFI balance sheet data.

10. Includes MFI loans to domestic non-financial corporations.

11. Based on quarterly financial accounts data (prov.). Includes loans, debt securities, trade credit and other financial liabilities of non-financial corporations.

reaching 149,8% as at the end of December 2007 (up from 119,9% as end-December 2006 and 115,7% as at the end of December 2005). **Chart B.11** exhibits the non-financial corporate debt-to-GDP ratio for the years 2005 to 2007.

Financing conditions

Bank interest rates on secured loans to enterprises fluctuated in the range of 6,38% to 6,44% in the first quarter of 2008 (**Table A.5**, page 23).

1.2.2 Financial condition¹²

Net financial assets

The non-financial corporate sector's net financial assets as a percentage of GDP declined to -202,7% as at the end of December 2007 (down from -188,1% of GDP as at end-December 2006 and -138,1% of GDP as at the end of December 2005) (**Chart B.12**).

The ratio of financial liabilities to financial assets declined significantly to 216,6% as at the end of December 2007 from 239,4% as at end-December 2006 mainly due to a significant rise in financial assets (**Chart B.13**). As at the end of December 2007, cash and deposits represented the largest part of the non-financial corporate sector's financial assets while shares and other equity constituted the largest component of the sector's financial liabilities. **Chart B.14** exhibits the breakdown of the non-financial corporate sector's financial assets and liabilities as at the end of December 2007.

CHART B.11: Non-financial corporate debt as % of GDP
(end of year, %)

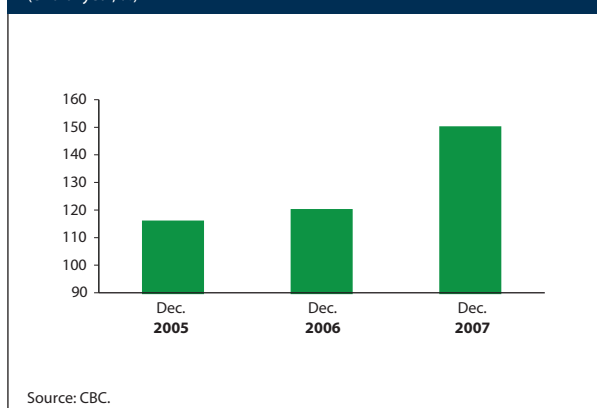


CHART B.12: Non-financial corporate sector net financial assets as % of GDP
(end of year, %)

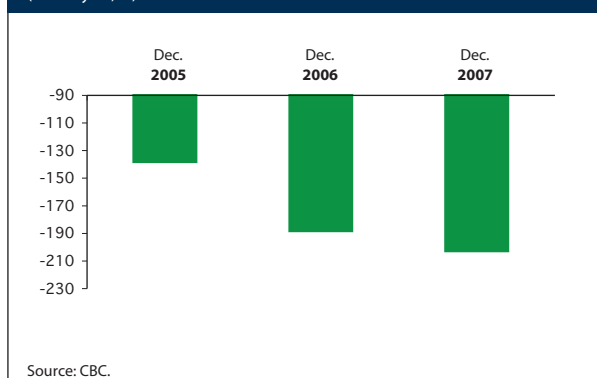
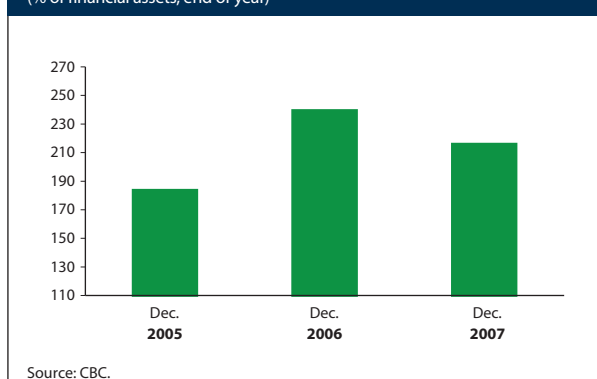


CHART B.13: Non-financial corporate sector financial liabilities
(% of financial assets, end of year)



12. Based on quarterly financial accounts data (prov.).

Company liquidations

The number of company liquidations continued a downward trend, reaching 134 in 2007 compared to 140 in 2006 and 158 in 2005 (Chart B.15). In the first four months of 2008, 38 companies have been liquidated.

The number of new company registrations reached 29,016 in 2007 compared with 20,280 in 2006 and 14,494 in 2005 (Chart B.16). In the period from January to April 2008, 8,107 new companies have been registered.

Forward-looking indicators

As exhibited in Chart B.8 (p. 46), the industry confidence indicator has been steadily improving in the first four months of 2008, while the construction confidence indicator has been positive since the beginning of 2007, with the exception of a significant fall exhibited in March 2008. An improvement in the services confidence indicator was also recorded in the first three months of 2008, with the aforementioned indicator weakening in April 2008. The retail trade confidence indicator has improved in the period from January to April 2008, with the exception of March 2008 during which the above indicator showed signs of weakness.

1.2.3 Risks facing the non-financial corporate sector

Factors which could expose the corporate sector's balance sheet vulnerabilities, such as an excessive leverage, include, inter alia, any

CHART B.14: Distribution of non-financial corporate sector financial assets and liabilities
(end of December 2007, %)

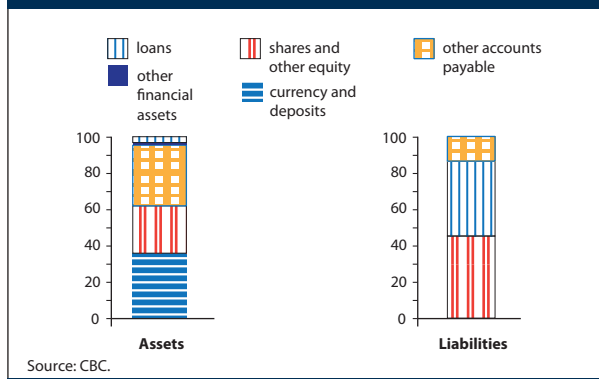


CHART B.15: Company liquidations
(annual data)

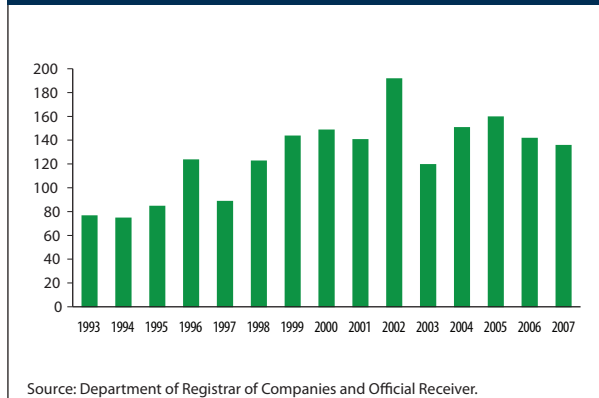
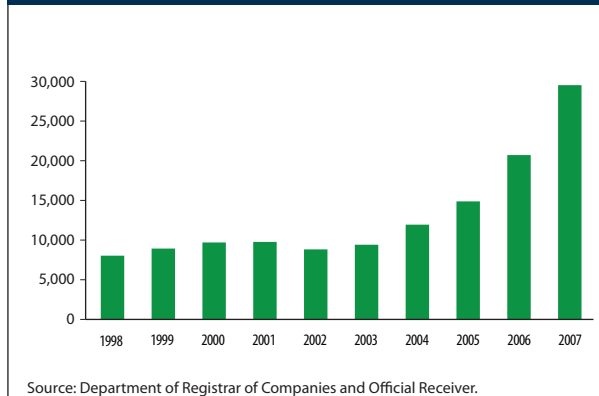


CHART B.16: New company registrations
(annual data)



unexpected adverse disturbances affecting corporate profitability or interest rates. In particular, a significant deterioration in corporate profits or a delay in the servicing of debts could enhance the credit risk faced by those banks which are materially exposed to the corporate sector.

Bank lending to non-financial corporations

Bank lending to non-financial corporations has continued to grow at a high rate during 2007, particularly to those corporations with activities in the broad real estate sector. As a result, the level of indebtedness of non-financial corporations has risen significantly in 2007, making firms more vulnerable to any unexpected and adverse shocks. However, the small number of liquidations in the corporate sector, which has been exhibited in the past few years, although typically a lagging factor, suggests that the corporate sector's financial condition remains satisfactory.

Corporate profitability

A combination of a lower than expected domestic economic growth coupled with a potential slowdown in the euro area's economic activity, which may have a negative impact on the external demand from European countries, could pose some downside risks on the earnings and profitability of the corporate sector. These risks, however, are somewhat mitigated by the fact that corporate profitability, as indicated by the published financial results of companies

listed on the Cyprus Stock Exchange, has remained satisfactory over the past few years, a fact which, in turn, has enhanced firms' balance sheets.

Cost of financing of non-financial corporations

Firms in Cyprus have traditionally relied on bank financing rather than being financed in the capital market through the issue of bonds or equity. A potential increase in the cost of bank financing of non-financial corporations in the period ahead, as already evidenced by the increase of base interest rates by banks in March and April 2008, could lead to higher debt servicing costs and have some negative impact on the corporate sector's balance sheets especially if further shocks to the financial system were to materialise. Coupled with a rising financial leverage, this may raise, to some extent, the likelihood of clusters of defaults on debt, in particular, among riskier and/or smaller firms.

1.3 Real estate sector

1.3.1 Key developments in the real estate sector

Real estate sector activity

During the period from January to March 2008, the volume index of authorised building permits registered a decrease of 16,2% compared to the corresponding period of 2007. In the same period, the total value of building permits dropped by 8,9% and the

total area of building units by 11,3%, while the number of dwelling units declined by 20,5%.

Chart A.33 (page 31) exhibits the volume index of building permits granted.

In contrast, cement sales in the domestic market increased by 5,1%, in the first four months of 2008, compared to a rise of 3,5% in the same period of 2007. **Chart A.34** (page 32) exhibits the cement sales in the domestic market.

Real estate prices

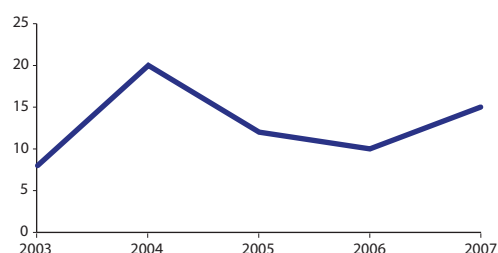
As indicated by the trends in the “Residential Property Valuation Index”¹³ for the Cyprus housing market, residential property prices grew by 15% in 2007 following a 10% rise in 2006 (**Chart B.17**).

1.3.2 Real estate financing by banks¹⁴

MFI loans to the broad real estate sector¹⁵

MFI loans to the broad real estate sector rose significantly by 69,7% year-on-year in March 2008 and represented 18,3% of the total outstanding loans to non-MFIs as at end-March 2008, up from 16,9% as at the end of December 2007 and down from 13,4% as at end-March 2007. Demand for housing has been strengthened, inter alia, by the lowering of bank interest rates in recent years, which has made mortgage finance less expensive. The intense efforts of banks, fuelled by strong competition, to increase their profitability and market share have led to the active marketing of long-term housing loans with flexible repayment terms and at lower interest rates

CHART B.17: Residential property valuation index
(annual change, %)



Source: CBC.

13. The index, which is compiled by the Central Bank of Cyprus, is based on valuations of residential property used as collateral for loans granted by banks.

14. Based on MFI balance sheet data.

15. Excludes loans to households for house purchase.

than in the past. The distribution of outstanding loans by economic activity is shown in **Table C.21** (p.76) and in **Chart B.18**.

As regards the three components of this sector, loans to the construction sector rose notably by 66,9% year-on-year in March 2008 and represented 10,0% of the total outstanding loans to non-MFIs compared with 9,0% as at the end of December 2007 and 7,4% as at end-March 2007. At the same time, loans to real estate activities exhibited a significant increase by 75,8% year-on-year in March 2008 and represented 8,0% of the total outstanding loans to non-MFIs compared with 7,6% as at end-December 2007 and 5,7% as at the end of March 2007. Also, loans to construction-related manufacturing activities rose by 27,2% year-on-year in March 2008 and represented 0,3% of the total outstanding loans to non-MFIs as at the end of March 2008, retaining the same percentage as at end-December 2007 and at the end of March 2007 (**Chart B.19**).

Non-performing loans

Non-performing loans to the broad real estate sector amounted to 4,3% as at the end of March 2008 (down from 5,1% as at end-December 2007 and 7,1% as at the end of March 2007), indicating an improvement in banks' asset quality. Provisions as a percentage of total non-performing loans to the broad real estate sector stood at 51,2% as at the end of March 2008 compared with 57,0% as at end-December 2007 and 57,3% as at the end of March 2007.

CHART B.18: Distribution of bank loans to Cyprus residents by economic activity
(end of quarter, %)

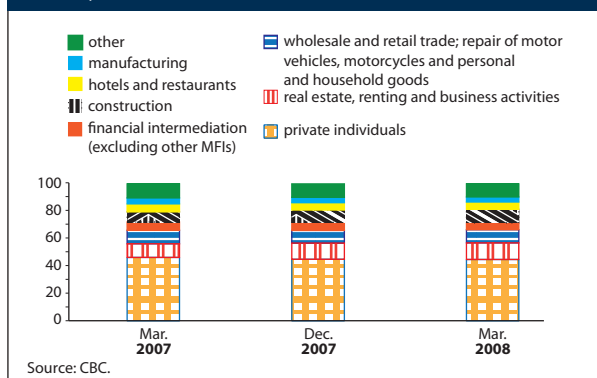
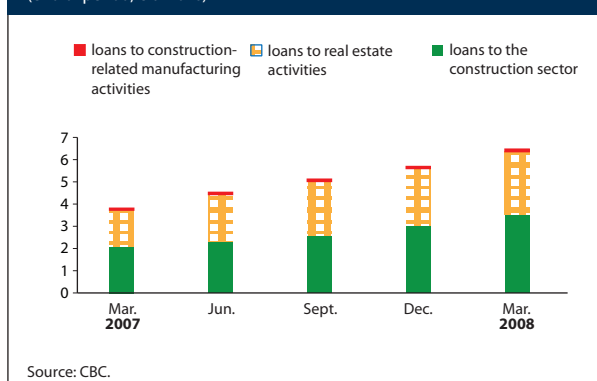


CHART B.19: Distribution of bank loans to the broad real estate sector
(end of period, € billions)



2. Financial markets

2.1 Key developments in the money market

Strains in the international money markets have led to an increase in banks' cost of short-term funding in 2007. The average monthly highest and lowest interbank rates¹⁶ peaked in October 2007 and November 2007 respectively, with the average monthly spread between the highest and the lowest interbank rates reaching its highest point in October 2007 (Chart B.20). Following concerted action by major Western central banks to restore confidence among participants in the money market, the average monthly interbank rates declined in January 2008 and have stabilised since then, while the average monthly spreads have narrowed. Nevertheless, an enhanced risk premium remains for banks when borrowing through the interbank market.

Chart B.21 exhibits the fluctuations of the weighted average daily interbank rates¹⁷ around the EONIA swap rate and the minimum bid rate for the ECB main refinancing operations since January 2008.

2.2 Key developments in the capital markets

2.2.1 Government bond market

In the first four months of 2008, no primary market auction for the sale of Government Registered Development Stock was held, while in the second half of the previous year only one primary market auction took place in September 2007 for the sale of 4,5% 10-year

CHART B.20: Average monthly interest rates in the interbank market

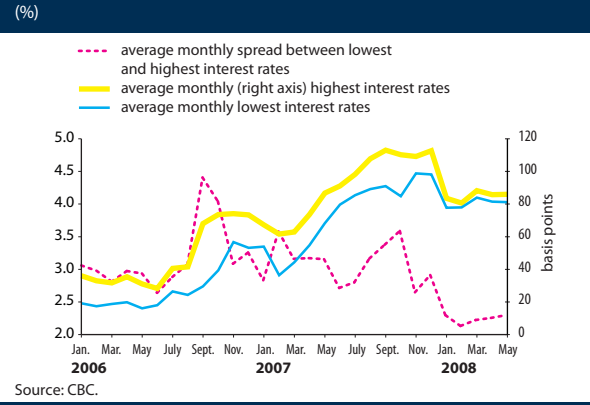
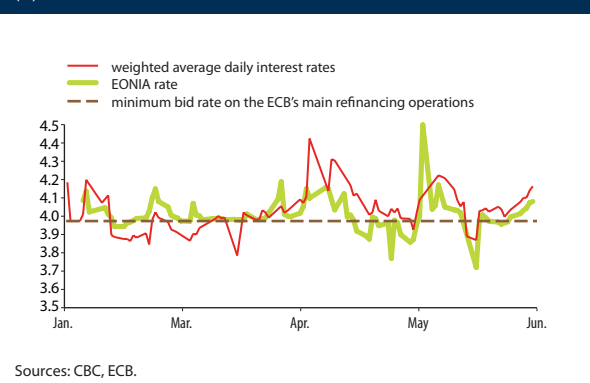


CHART B.21: Weighted average daily interest rates in the interbank market (with maturity of up to 7 days), 2008



16. Cost of short-term funding in euro (with a maturity of up to 7 days) of banks in Cyprus when borrowing from other domestic banks or banks outside the country.

17. With a maturity of up to 7 days.

GRDS. The weighted average price of the competitive bids accepted in the above auction represented an annual yield of 4,6%. The decrease in the number of issues of government bonds in 2007 and in the first few months of the current year reflects the government's improved financial position.

Trading activity in government securities listed on the Cyprus Stock Exchange is very limited. The introduction of a system of primary dealers to act as market-makers for government bonds, which has long been under discussion, should help enhance trading activity in the secondary market.

2.2.2 Equity market

Share prices

Share prices of companies listed on the Cyprus Stock Exchange exhibited a downward trend in the first four months of 2008, with the banking sector capturing most of the investors' interest. Specifically, the CSE General Price Index (Main and Parallel Market) dropped by 25,6% year-on-year in April 2008, reaching 3.272,61 points, down from 4.396,01 points at the end of April 2007 (**Chart B.22**). In parallel, the FTSE/CySE 20 Index decreased by 24,8% year-on-year in April 2008, climbing to 1.128,02 points (down from 1.499,16 points at end-April 2007).

The market capitalisation¹⁸ of shares declined by 16,9% year-on-year in April 2008 reaching €14,62 billion compared to €20,16 billion in December 2007 and €17,60 billion at the end of April 2007. In total, the three largest domestic banks listed on the CSE represented

CHART B.22: Cyprus Stock Exchange general price index (main and parallel market)
(daily data, 3 September 2004=100)



18. Excluding the Investment Companies Market.

69,0% of market capitalisation as at end-April 2008 compared to 76,9% as at the end of April 2007. Market capitalisation of shares to GDP rose from 85,1% as at the end of December 2006 to 130,0% as at end-December 2007.

The fall in share prices in the first four months of 2008 can be attributed to the negative sentiment that prevailed among investors in the global financial markets, including the Athens Stock Exchange on which the shares of the two largest domestic banks have a parallel listing. The uncertainty stemming from the recent financial market turmoil has had an impact on investors' risk appetite and has contributed to the high volatility of share prices. As a result of the decrease in share prices, price/earnings ratios of listed companies have declined markedly compared to a year ago.



SECTION C
Appendix

Table C.1 Exchange rates of selected currencies against the euro

Jan - May 2008	GBP/EUR	JPY/EUR	USD/EUR
Average for January	0,7473	158,68	1,4718
Average for February	0,7509	157,97	1,4748
Average for March	0,7749	156,59	1,5527
Average for April	0,7949	161,56	1,5751
Average for May	0,7921	162,31	1,5557
Average for Jan - May	0,7720	159,42	1,5260
Closing rate on 02/01/2008	0,7413	163,83	1,4688
Closing rate on 30/05/2008	0,7860	163,74	1,5508
Highest exchange rate vs the euro	0,8061 (16 Apr.)	164,43 (22 Apr.)	1,5940 (23 Apr.)
Lowest exchange rate vs the euro	0,7413 (02 Jan.)	152,50 (17 Mar.)	1,4482 (21 Jan.)
% appreciation (+)/depreciation (-) of the currency vs the euro from closing rate on 02/01/2008 to closing rate on 30/05/2008	-6,0	0,1	-5,6

Source: SDW.

Table C.2 Percentage change in CPI by economic category
(%)

	2005	2006	2007	Apr. 2007/06	Mar. 2008/07	Apr. 2008/07	Jan.- Apr. 2007/06	Jan.- Mar. 2008/07	Jan.- Apr. 2008/07	Weights		
										1998=100 (for 2005)	2005=100 (for 2006)	2005=100 (for 2007- 2008) ⁽¹⁾
GENERAL INDEX	2,56	2,49	2,38	1,77	4,70	4,62	1,59	4,65	4,65	100,00	100,00	100,00
A Domestic products	1,79	4,35	3,94	3,81	6,81	6,55	3,87	6,03	6,16	32,36	28,60	28,98
A.1 Agricultural	1,34	6,51	7,83	10,24	13,11	9,32	10,74	9,34	9,34	7,93	6,92	6,93
A.2 Industrial	1,13	2,47	3,02	3,14	1,85	2,90	2,52	2,60	2,68	22,91	19,24	19,29
A.3 Electricity	11,51	13,10	-0,33	-7,89	24,22	24,56	-4,63	20,01	21,12	1,52	2,44	2,76
B Petroleum products	14,82	8,09	2,81	-0,86	16,45	14,92	-1,89	16,92	16,40	4,33	6,44	6,63
C Imported products	-2,47	-1,14	-1,92	-2,39	-1,91	-0,88	-2,79	-1,35	-1,23	22,20	25,31	24,62
C1 Motor vehicles	-2,42	-1,38	-8,50	-10,48	-1,58	-1,67	-10,27	-1,76	-1,74	9,43	6,15	5,41
C2 Other imported	-2,49	-1,07	-0,08	-0,07	-1,99	-0,68	-0,53	-1,24	-1,10	12,77	19,16	19,21
D Services	3,34	2,57	3,58	3,19	4,96	4,57	3,07	5,02	4,90	41,11	39,65	39,77
HICP	2,1	2,2	2,2	1,6	4,4	4,3	1,4	4,4	4,4			

Source: Cystat.
(1) The weights for 2007 were updated as a result of the change in the taxes for motor vehicles.

Table C.3 Weighted contribution to the total percentage change in CPI by economic category
(%)

	2005	2006	2007	Apr. 2007/06	Mar. 2008/07	Apr. 2008/07	Jan.- Apr. 2007/06	Jan.- Mar. 2008/07	Jan.- Apr. 2008/07	Weights		
										1998=100 (for 2005)	2005=100 (for 2006)	2005=100 (for 2007- 2008) ⁽¹⁾
GENERAL INDEX	2,56	2,49	2,38	1,77	4,70	4,62	1,59	4,66	4,65	100,00	100,00	100,00
A Domestic products	0,61	1,25	1,16	1,12	2,04	1,96	1,14	1,81	1,85	32,36	28,60	28,98
A.1 Agricultural	0,11	0,45	0,56	0,73	1,00	0,72	0,77	0,73	0,73	7,93	6,92	6,93
A.2 Industrial	0,27	0,47	0,58	0,60	0,36	0,57	0,48	0,50	0,52	22,91	19,24	19,29
A.3 Electricity	0,23	0,32	-0,01	-0,24	0,68	0,68	-0,14	0,58	0,60	1,52	2,44	2,76
B Petroleum products	0,97	0,52	0,20	-0,06	1,10	1,03	-0,13	1,12	1,09	4,33	6,44	6,63
C Imported products	0,43	-0,29	-0,46	-0,58	-0,44	-0,20	-0,67	-0,31	-0,28	22,20	25,31	24,62
C1 Motor vehicles	-0,15	-0,08	-0,44	-0,56	-0,07	-0,08	-0,55	-0,08	-0,08	9,43	6,15	5,41
C2 Other imported	-0,28	-0,20	-0,01	-0,01	-0,37	-0,12	-0,10	-0,22	-0,20	12,77	19,16	19,21
D Services	1,41	1,02	1,43	1,26	2,00	1,83	1,22	2,03	1,98	41,11	39,65	39,77

Source: Cystat.
(1) The weights for 2007 were updated as a result of the change in the taxes for motor vehicles.

Table C.4 Percentage change in the CPI by category of goods and services
(%)

	2005	2006	2007	Apr. 2007/06	Mar. 2008/07	Apr. 2008/07	Jan.- Apr. 2007/06	Jan.- Mar. 2008/07	Jan.- Apr. 2008/07
GENERAL INDEX	2,56	2,49	2,38	1,77	4,70	4,62	1,59	4,65	4,65
Food & non-alcoholic beverages	1,59	4,80	5,56	6,58	6,96	5,83	6,36	6,00	5,96
Alcoholic beverages & tobacco	0,23	0,49	1,34	2,86	0,42	-0,01	1,33	0,63	0,47
Clothing & footwear	-2,24	-0,32	0,29	0,40	-4,79	-0,63	-0,47	-2,71	-2,15
Housing, water, electricity & gas	5,41	4,90	2,07	0,01	6,93	7,55	0,88	6,10	6,47
Furnishings, household equipment & supplies	0,58	0,13	0,27	-0,15	2,07	1,68	-0,22	1,55	1,58
Health	0,36	1,31	6,22	6,91	7,24	4,57	5,24	7,99	7,11
Transport	3,79	2,87	-0,48	-2,34	6,98	5,68	-3,01	7,18	6,80
Communications	-10,34	-1,83	1,30	1,28	0,18	0,15	1,25	0,19	0,18
Recreation & culture	1,06	-0,33	0,59	-0,23	3,38	4,31	-0,09	3,33	3,57
Education	5,21	4,68	4,88	4,89	5,14	5,14	4,89	5,14	5,14
Restaurants & hotels	3,30	2,18	4,20	2,57	7,49	7,52	2,66	7,52	7,52
Miscellaneous goods & services	3,83	2,23	2,48	2,45	2,60	2,48	2,22	2,84	2,75

Source: Cystat.

Table C.5 Weighted contribution to the total change in the CPI by category of goods and services
(%)

	2005	2006	2007	Apr. 2007/06	Mar. 2008/07	Apr. 2008/07	Jan.- Apr. 2007/06	Jan.- Mar. 2008/07	Jan.- Apr. 2008/07
GENERAL INDEX	2,56	2,49	2,38	1,77	4,70	4,62	1,59	4,65	4,65
Food & non-alcoholic beverages	0,31	0,82	0,98	1,17	1,30	1,09	1,12	1,12	1,10
Alcoholic beverages & tobacco	0,01	0,01	0,03	0,06	0,01	0,00	0,03	0,01	0,01
Clothing & footwear	-0,14	-0,03	0,03	0,04	-0,41	-0,06	-0,04	-0,22	-0,18
Housing, water, electricity & gas	1,22	0,76	0,34	0,00	1,14	1,23	0,14	1,01	1,06
Furnishings, household equipment & supplies	0,04	0,01	0,02	-0,01	0,14	0,11	-0,01	0,10	0,10
Health	0,02	0,06	0,31	0,34	0,37	0,24	0,26	0,41	0,36
Transport	0,59	0,45	-0,07	-0,36	1,03	0,85	-0,46	1,05	1,99
Communications	-0,11	-0,07	0,05	0,05	0,01	0,01	0,05	0,01	0,01
Recreation & culture	0,06	-0,02	0,04	-0,01	0,21	0,26	-0,01	0,20	0,22
Education	0,13	0,13	0,14	0,14	0,15	0,15	0,14	0,15	0,15
Restaurants & hotels	0,23	0,16	0,31	0,19	0,57	0,57	0,20	0,57	0,57
Miscellaneous goods & services	0,21	0,15	0,17	0,17	0,18	0,17	0,15	0,20	0,19

Source: Cystat.

Table C.6 Percentage change in prices of services
(%)

	Apr. 2007/06	Mar. 2008/07	Apr. 2008/07	Jan.- Apr. 2007/06	Jan.- Mar. 2008/07	Jan.- Apr. 2008/07
GENERAL INDEX	1,77	4,70	4,62	1,59	4,65	4,65
Rents	2,20	2,41	2,52	2,47	2,18	2,27
Maintenance of houses	1,24	3,09	3,09	1,24	2,73	2,82
Transport	6,56	10,16	1,92	4,86	4,84	4,10
Communications	1,49	0,36	0,36	1,49	0,36	0,36
Insurances	1,99	0,47	0,47	2,42	0,47	0,47
Public services	1,23	2,48	2,48	1,65	2,48	2,48
Education	4,89	5,14	5,14	4,89	5,14	5,14
Medical care	8,72	10,05	6,25	6,38	11,14	9,87
Restaurants	2,73	7,72	7,70	2,94	7,77	7,75
Personal and household services	2,27	7,27	7,03	2,06	7,34	7,26
Total services	3,19	4,96	4,57	3,07	5,02	4,90

Source: Cystat.

Table C.7 Weighted contribution to the percentage change in prices of services
(%)

	Apr. 2007/06	Mar. 2008/07	Apr. 2008/07	Jan.- Apr. 2007/06	Jan.- Mar. 2008/07	Jan.- Apr. 2008/07
GENERAL INDEX	1,77	4,70	4,62	1,59	4,65	4,65
Rents	0,15	0,17	0,17	0,17	0,15	0,16
Maintenance of houses	0,03	0,07	0,07	0,03	0,06	0,06
Transport	0,16	0,25	0,05	0,12	0,13	0,11
Communications	0,05	0,01	0,01	0,05	0,01	0,01
Insurances	0,04	0,01	0,01	0,04	0,01	0,01
Public services	0,02	0,03	0,03	0,02	0,03	0,03
Education	0,14	0,15	0,15	0,14	0,16	0,15
Medical care	0,31	0,36	0,23	0,22	0,40	0,36
Restaurants	0,20	0,56	0,56	0,21	0,57	0,57
Personal and household services	0,18	0,57	0,55	0,16	0,58	0,57
Total services	1,27	2,00	1,83	1,23	2,03	1,98

Source: Cystat.

Table C.8 Balance of payments
(€ million)

	2006			2007 (prov.)		
	CREDIT	DEBIT	NET	CREDIT	DEBIT	NET
CURRENT ACCOUNT	9.147,4	9.995,6	-848,2	10.501,4	12.006,8	-1.505,3
GOODS, SERVICES AND INCOME	8.490,8	9.504,6	-1.013,8	9.903,7	11.445,6	-1.541,9
GOODS AND SERVICES	6.795,9	7.381,0	-585,0	7.479,9	8.405,2	-925,3
GOODS	1.112,0	5.043,8	-3.931,8	1.088,1	5.688,7	-4.600,5
SERVICES	5.683,9	2.337,1	3.346,8	6.391,7	2.716,5	3.675,3
Transport	1.323,0	858,3	464,6	1.537,8	872,5	665,3
Travel	1.882,0	768,1	1.113,9	1.954,6	1.066,4	888,2
Communications services	73,3	100,1	-26,8	85,9	103,3	-17,4
Construction services	160,3	18,5	141,8	149,1	21,4	127,7
Insurance services	90,9	60,4	30,5	84,4	61,2	23,2
Financial services	251,4	104,1	147,3	535,3	116,1	419,2
Computer and information services	161,2	27,1	134,1	198,2	27,6	170,7
Royalties and licence fees	12,8	47,4	-34,6	15,5	39,3	-23,8
Other business services	1.378,3	230,8	1.147,5	1.422,3	258,9	1.163,4
Personal, cultural and recreational services	42,1	51,6	-9,5	55,6	56,7	-1,1
Government services, n.i.e.	308,6	70,6	238,0	353,0	93,2	259,8
Services not allocated	0,0	0,0	0,0	0,0	0,0	0,0
INCOME	1.694,9	2.123,6	-428,8	2.423,8	3.040,4	-616,6
Compensation of employees	27,5	147,0	-119,4	31,2	162,8	-131,6
Investment Income	1.667,3	1.976,7	-309,3	2.392,7	2.877,6	-485,0
Direct investment income	477,6	1.124,4	-646,8	606,1	1.473,1	-867,0
Portfolio investment income	387,0	307,1	79,9	567,5	632,5	-65,0
Other investment income	802,8	545,2	257,6	1.219,0	772,1	447,0
CURRENT TRANSFERS	656,6	491,0	165,6	597,7	561,2	36,6
General government	245,9	163,0	82,8	171,7	152,1	19,6
Other sectors	410,7	327,9	82,8	426,1	409,1	17,0
CAPITAL AND FINANCIAL ACCOUNT			992,0			1.293,6
Capital account	77,6	51,8	25,8	51,6	57,8	-6,2
Financial account			966,2			1.299,9
Direct investment			508,7			738,7
Abroad			-670,6			-774,8
In Cyprus			1.179,3			1.513,5
Portfolio investment			-589,8			416,6
Assets			-3.767,5			-278,9
Liabilities			3.177,7			695,5
Financial derivatives			14,2			-5,8
Other investment			1.820,0			-69,8
Assets			-3.994,5			-10.963,5
Liabilities			5.814,5			10.893,7
Official reserve assets			-786,8			220,3
Net errors and omissions			-143,9			211,7

Source: CBC.

Table C.9 Trade account
(€ million)

	2006	2007	% change	2007 Jan. Feb.	2008 Jan. Feb.	% change
Imports	5.513,5	6.353,4	15,2	879,0	1.084,5	23,4
Consumer goods	1.683,0	1.834,5	9,0	235,1	268,7	14,3
Intermediate inputs	1.525,9	1.848,9	21,2	272,9	313,6	14,9
Capital goods	505,7	571,5	13,0	77,6	92,8	19,5
Transport equipment	727,0	1.013,7	39,5	143,0	167,3	17,0
Fuels and lubricants	999,9	1.071,2	7,1	146,0	241,3	65,3
Exports	1.111,8	1.082,7	-2,6	187,8	169,1	-10,0
Trade deficit	4.401,7	5.270,8	19,7	691,2	915,4	32,4

Source: Cystat.

Table C.10 Direct investment by non-residents in Cyprus
(€ million)

		Net capital flows									
NACE CODE	Economic activity	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
595	AGRICULTURE AND FISHING	-0,3	0,3	*	0,2	0,2	0,0	0,0	0,0	0,0	-0,1
1495	MINING AND QUARRYING	0,1	4,1	8,9	2,8	2,1	2,1	4,7	50,3	19,9	19,6
3995	MANUFACTURING	7,5	-5,2	6,0	14,3	5,6	37,8	-9,2	53,2	30,4	3,6
4195	ELECTRICITY, GAS AND WATER	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
4500	CONSTRUCTION	3,2	3,7	*	6,6	-6,3	13,6	29,8	58,9	68,3	46,2
5295	TRADE AND REPAIRS	125,1	130,2	132,4	210,7	256,1	217,8	101,1	277,3	177,2	201,6
5500	HOTELS AND RESTAURANTS	1,3	-0,6	0,4	2,3	21,3	8,3	1,9	*	*	9,8
6495	TRANSPORT AND COMMUNICATION	0,7	2,4	7,2	9,6	-0,2	44,6	119,1	*	*	-14,0
6895	FINANCIAL INTERMEDIATION	184,5	42,0	394,5	431,8	444,3	173,6	140,0	122,1	0,8	172,1
7395	REAL ESTATE AND BUSINESS ACTIVITIES	140,0	108,6	172,6	218,3	278,9	523,3	338,1	205,8	356,0	413,2
9995	OTHER SERVICES	17,9	20,1	30,9	12,6	35,8	67,8	40,0	75,8	269,6	327,2
9996	NOT ALLOCATED	0,0	0,0	0,0	0,0	0,0	14,7	24,4	15,3	0,0	0,0
9999	TOTAL	479,9	305,6	754,3	909,1	1.037,8	1.103,6	789,8	873,0	940,5	1.179,3

		Net capital flows									
Geographical / economic zone		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
E1	EUROPEAN COUNTRIES	397,2	252,5	637,0	771,4	873,3	955,1	667,5	764,5	909,4	599,5
D2	EU-15	195,4	*	209,1	392,9	414,0	418,1	511,7	477,4	501,3	315,9
D3	EU-25	231,6	223,2	219,1	458,4	455,2	444,1	588,4	604,3	534,0	325,2
E4	AFRICA	15,3	19,0	19,1	16,2	20,8	25,3	25,9	*	*	*
E7	AMERICA	33,1	*	75,2	82,6	82,3	*	30,3	*	-9,4	*
F2	ASIA	34,7	31,1	24,7	39,7	63,0	86,6	*	14,8	34,2	413,4
F7	OCEANIA	-0,4	*	-1,7	-0,8	-1,7	*	*	-1,2	*	-4,8
Z8	Extra EU-15 not allocated	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	-0,1
A1	WORLD (ALL ENTITIES)	479,9	305,6	754,3	909,1	1.037,8	1.103,6	789,8	873,0	940,5	1.179,3

Source: CBC.

* In order that the confidentiality of the data is ensured, amounts which relate to a small number of transactions are not presented on their own but are included in a higher level of aggregation.
For the conversion of Cyprus pounds into euro, the irrevocable exchange rate of €1 = £0,585274 was used.

Table C.11 Direct investment abroad
(€ million)

		Net capital flows									
NACE CODE	Economic activity	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
595	AGRICULTURE AND FISHING	0,0	*	*	-2,6	*	-0,3	0,0	0,0	0,0	0,0
1495	MINING AND QUARRYING	0,0	0,0	0,0	0,0	-0,9	0,0	0,0	0,0	0,1	0,1
3995	MANUFACTURING	0,6	-2,6	-3,8	-7,1	-7,1	-4,6	-15,5	-58,9	-39,5	41,5
4195	ELECTRICITY, GAS AND WATER	*	0,0	0,0	*	*	-1,4	0,0	-0,1	0,0	0,0
4500	CONSTRUCTION	-1,0	-1,2	-1,2	-4,2	*	-69,5	-75,0	*	-196,8	*
5295	TRADE AND REPAIRS	-1,8	-0,6	-2,7	-9,1	-7,9	-5,3	-32,6	-37,3	176,9	-57,6
5500	HOTELS AND RESTAURANTS	*	*	-2,3	-18,2	-62,9	-16,3	-88,1	*	*	-2,9
6495	TRANSPORT AND COMMUNICATION	0,0	-8,7	-39,6	-22,2	-13,5	-21,3	-18,4	-12,0	3,8	-9,9
6895	FINANCIAL INTERMEDIATION	-18,8	-47,5	-116,2	-98,4	-160,9	-112,1	-94,6	-122,4	42,5	-220,7
7395	REAL ESTATE AND BUSINESS ACTIVITIES	-4,3	-1,5	-2,5	-18,1	-12,7	-299,6	-132,4	-137,4	-415,8	-209,7
9995	OTHER SERVICES	*	*	*	*	-3,9	-0,8	-10,7	-0,7	*	*
9996	NOT ALLOCATED	0,0	0,0	0,0	0,0	0,0	-9,3	-39,5	-8,9	0,0	0,0
9999	TOTAL	-24,5	-62,6	-169,4	-183,0	-274,3	-540,6	-506,8	-555,4	-442,4	-670,6

		Net capital flows									
Geographical / economic zone		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
E1	EUROPEAN COUNTRIES	-20,6	-44,6	-115,0	-139,2	-234,8	-441,4	-412,0	-475,6	-301,9	-537,5
D2	EU-15	-19,8	-36,2	-104,4	-114,4	-221,9	-188,0	-319,4	-319,7	-127,1	-416,6
D3	EU-25	-20,0	-36,0	-104,6	-116,1	-223,6	-429,0	-339,0	-359,2	-138,7	-376,7
E4	AFRICA	*	-0,6	-30,0	-7,6	*	-26,4	-35,4	*	*	*
E7	AMERICA	-1,1	*	*	-2,4	*	*	-16,9	-6,5	*	*
F2	ASIA	-1,2	-16,0	-21,4	-0,6	-3,9	*	-41,1	*	*	-111,7
F7	OCEANIA	*	*	*	-33,2	-32,9	-3,4	-1,4	-11,2	-4,8	-8,6
Z8	Extra EU-15 not allocated	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
A1	WORLD (ALL ENTITIES)	-24,5	-62,6	-169,4	-183,0	-274,3	-540,6	-506,8	-555,4	-442,4	-670,6

Source: CBC.

* In order that the confidentiality of the data is ensured, amounts which relate to a small number of transactions are not presented on their own but are included in a higher level of aggregation.
For the conversion of Cyprus pounds into euro, the irrevocable exchange rate of €1 = £0,585274 was used.

Table C.12 Annual international investment position: 2006 Provisional
(€ million)

	ASSETS	LIABILITIES	BALANCE
FINANCIAL ACCOUNT			3.091,6
Direct investment			-7.224,9
Abroad			3.711,4
Equity capital and reinvested earnings			2.945,0
MFIs (excluding central banks)			814,6
Other sectors			2.130,4
Other Capital			766,4
MFIs (excluding central banks)			65,0
Other sectors			701,4
In the reporting country			10.936,3
Equity capital and reinvested earnings			8.669,3
MFIs (excluding central banks)			4.238,1
Other sectors			4.431,1
Other capital			2.267,1
MFIs (excluding central banks)			273,2
Other sectors			1.993,8
Portfolio investment	20.281,2	11.238,1	9.043,1
Equity securities	3.365,6	818,3	
Monetary authorities			
General Government			
MFIs (excluding central banks)	180,3	613,3	
Other sectors	3.185,2	205,0	
Debt securities	16.915,7	10.419,7	
Bonds and notes	15.713,3	5.777,8	
Monetary authorities			
General government		1.382,8	
MFIs (excluding central banks)	14.934,1	4.395,0	
Other sectors	779,2		
Money market instruments	1.202,3	4.641,9	
Monetary authorities			
General government			
MFIs (excluding central banks)	964,3	4.641,9	
Other sectors	238,0		
Financial derivatives	52,5	38,1	14,4
Monetary authorities			
General government			
MFIs (excluding central banks)	45,8	29,0	16,7
Other sectors	6,7	9,1	-2,4
Other Investment	25.977,4	29.171,1	-3.193,7
Monetary authorities		38,9	
Loans/currency and deposits		38,9	
Other assets/liabilities			
General government	46,1	656,4	
Trade credits	39,3		
Loans/currency and deposits		656,4	
Other assets/liabilities	6,8		
MFIs (excluding central banks)	21.296,4	26.892,9	
Loans/currency and deposits	21.278,3	26.892,9	
Other assets/liabilities	18,1		
Other sectors	4.634,9	1.582,8	
Trade credits	90,0	578,4	
Loans/currency and deposits	4.544,9	1.004,4	
Other assets/liabilities			
Reserve assets			4.452,7

Source: CBC.
MFIs= Monetary Financial Institutions.
For the conversion of Cyprus pounds into euro, the irrevocable exchange rate of €1 = £0,585274 was used.

Table C.13 Tourist arrivals and receipts from tourism

		Tourist arrivals			Receipts from tourism		
		Number of tourists	% change		€ million	% change	
			Previous year	Cumulative period		Previous year	Cumulative period
2005	January	58.894	4,2	4,2	35,4	-5,0	-5,0
	February	72.600	-4,1	-0,5	40,1	-7,6	-6,4
	March	137.075	22,4	10,0	81,3	13,2	2,8
	April	183.561	-4,0	3,8	105,9	-14,0	-4,7
	May	284.132	8,6	5,6	180,1	5,9	-0,7
	June	282.652	6,7	5,9	193,6	3,7	0,6
	July	338.972	10,8	7,1	239,4	3,7	1,4
	August	336.587	10,0	7,7	275,6	8,9	3,1
	September	302.833	-0,2	6,4	235,6	-2,3	2,2
	October	292.273	4,8	6,2	205,8	3,9	2,4
	November	104.822	-8,1	5,5	73,7	0,0	2,3
	December	75.656	-3,9	5,2	51,8	5,3	2,4
2006	January	54.875	-6,8	-6,8	36,2	2,4	2,4
	February	66.151	-8,9	-8,0	39,4	-1,7	0,2
	March	107.071	-21,9	-15,1	66,5	-18,3	-9,4
	April	206.548	12,5	-3,9	127,2	20,2	2,5
	May	283.513	-0,2	-2,5	191,1	6,1	4,0
	June	280.164	-0,9	-2,0	201,1	3,8	3,9
	July	341.443	0,7	-1,3	264,9	10,6	5,8
	August	314.872	-6,5	-2,4	264,8	-3,9	3,5
	September	296.532	-2,1	-2,3	240,8	2,2	3,2
	October	283.046	-3,2	-2,4	209,9	2,0	3,1
	November	95.682	-8,7	-2,7	64,3	-12,7	2,4
	December	71.022	-6,1	-2,8	49,1	-5,2	2,2
2007	January	51.848	-5,5	-5,5	33,6	-7,1	-7,1
	February	63.098	-4,6	-5,0	38,5	-2,2	-4,6
	March	104.316	-2,6	-3,9	68,5	3,1	-1,0
	April	189.310	-8,3	-6,0	123,7	-2,8	-1,8
	May	273.058	-3,7	-5,1	204,6	7,1	1,9
	June	282.465	0,8	-3,4	207,4	3,2	2,3
	July	352.423	3,2	-1,7	287,3	8,5	4,0
	August	340.534	8,1	0,1	306,0	15,5	6,6
	September	315.437	6,4	1,1	263,0	9,3	7,0
	October	275.103	-2,8	0,6	206,3	-1,7	5,9
	November	94.741	-1,0	0,5	67,8	5,5	5,9
	December	73.742	3,8	0,6	51,4	4,5	5,9
2008	January	50.658	-2,3	-2,3	35,3	4,9	4,9
	February	70.140	11,2	5,1	40,6	5,5	5,2
	March	108.164	3,7	4,4	67,3	-1,7	1,8
	April	182.091	-3,8	0,6	107,8	-12,8	-5,0

Source: Cystat.

Table C.14 Gross domestic product by category of expenditure at constant 2000 prices, chain linking method.
(annual change, %)

Q/Year	Gross Domestic Product	General government consumption	Private consumption	Gross capital formation	Exports of goods and services	Imports of goods and services
Q1 1996	3,6	8,0	1,2	7,2	11,9	9,6
Q2 1996	0,8	14,4	4,4	-5,5	3,5	7,5
Q3 1996	1,3	20,7	4,3	-12,7	0,4	4,6
Q4 1996	1,8	15,1	4,2	6,5	1,6	10,9
Q1 1997	1,9	19,7	2,3	-16,3	1,4	-4,5
Q2 1997	-0,7	13,7	2,7	-7,8	0,6	4,7
Q3 1997	4,5	8,5	0,6	5,9	9,8	7,6
Q4 1997	3,7	0,3	3,0	-7,3	0,7	-3,9
Q1 1998	3,6	17,9	7,6	-11,7	5,9	7,2
Q2 1998	6,7	0,8	4,4	-3,4	3,6	-4,9
Q3 1998	5,2	4,7	5,3	15,6	-0,5	0,9
Q4 1998	4,7	-3,1	6,2	49,0	-1,1	7,3
Q1 1999	4,4	4,6	3,6	-5,8	-0,2	-4,6
Q2 1999	4,9	12,8	3,1	5,8	6,7	7,3
Q3 1999	4,5	4,3	2,4	-31,2	12,7	1,5
Q4 1999	5,5	12,4	2,5	-3,0	12,2	7,9
Q1 2000	5,7	-10,0	5,7	18,0	15,5	13,3
Q2 2000	5,6	-11,1	7,5	19,2	12,0	15,2
Q3 2000	4,7	2,0	7,3	6,4	8,7	12,5
Q4 2000	4,2	-2,3	6,6	14,4	8,3	11,1
Q1 2001	3,4	12,3	6,0	-1,8	5,9	9,2
Q2 2001	4,2	16,3	2,8	-7,7	10,6	6,7
Q3 2001	4,8	8,7	4,1	25,6	5,8	10,2
Q4 2001	3,5	7,8	4,5	-28,9	1,8	-4,4
Q1 2002	2,5	10,8	-0,2	20,4	-7,4	0,4
Q2 2002	1,6	8,3	2,7	2,7	-5,4	-2,2
Q3 2002	1,4	7,0	1,8	6,1	-5,8	-4,3
Q4 2002	3,1	3,1	0,4	37,3	-0,7	3,2
Q1 2003	1,8	3,3	0,3	10,9	-7,9	-2,7
Q2 2003	1,8	1,4	2,3	11,4	-10,9	-6,6
Q3 2003	1,7	0,6	3,0	-17,9	4,4	1,5
Q4 2003	2,3	16,0	3,1	-38,8	9,3	3,9
Q1 2004	4,1	-4,8	6,3	-16,8	27,6	9,4
Q2 2004	4,4	2,8	4,9	1,6	13,6	12,1
Q3 2004	4,1	-0,2	7,4	40,2	-2,4	5,3
Q4 2004	4,2	-15,3	6,6	155,1	-7,3	11,6
Q1 2005	4,2	1,0	5,3	13,5	1,8	6,6
Q2 2005	3,5	0,7	5,7	-17,8	4,7	-3,3
Q3 2005	4,0	-8,5	2,3	13,5	6,4	3,4
Q4 2005	4,1	17,1	2,9	-0,8	4,8	5,8
Q1 2006	4,0	11,1	3,8	-2,7	11,3	8,6
Q2 2006	4,3	10,0	3,9	16,5	7,0	13,0
Q3 2006	3,8	14,3	4,4	-12,6	7,7	7,3
Q4 2006	4,0	-1,3	4,9	20,5	-8,0	-1,1
Q1 2007	4,5	2,4	6,0	9,7	-2,6	2,0
Q2 2007	4,1	-7,7	5,7	27,0	-4,1	3,3
Q3 2007	4,6	2,7	5,5	5,8	7,1	8,4
Q4 2007	4,3	1,9	7,6	-5,9	17,9	13,4
Q1 2008	4,0	-2,8	7,3	27,1	2,0	14,4

Source: Cystat.

Table C.15 Gross domestic product by category of expenditure at current prices
(annual change, %)

Q/Year	Gross Domestic Product	General government consumption	Private consumption	Gross capital formation	Exports of goods and services	Imports of goods and services
Q1 1996	5,9	11,2	4,3	8,8	13,9	12,5
Q2 1996	3,0	17,9	7,0	-3,1	5,7	10,6
Q3 1996	4,1	25,2	6,8	-6,6	3,0	8,2
Q4 1996	4,0	18,4	6,9	13,1	3,6	15,3
Q1 1997	4,1	25,7	4,8	-13,3	4,1	-0,6
Q2 1997	1,7	20,2	4,5	-4,1	3,9	8,8
Q3 1997	7,0	15,1	2,6	6,9	14,0	11,8
Q4 1997	6,6	6,4	4,8	-6,8	4,3	-1,3
Q1 1998	6,5	20,9	8,6	-7,8	9,1	7,9
Q2 1998	9,8	3,2	6,1	-0,4	6,1	-4,2
Q3 1998	8,7	8,3	7,6	14,8	1,6	0,4
Q4 1998	7,3	-1,6	8,0	41,7	0,7	6,5
Q1 1999	7,5	8,3	6,6	-5,1	1,3	-3,8
Q2 1999	7,1	16,0	4,5	7,1	9,4	8,8
Q3 1999	6,6	6,8	2,7	-21,8	15,8	4,8
Q4 1999	8,0	17,7	6,4	-5,9	16,3	12,7
Q1 2000	9,2	-4,2	10,4	14,7	21,2	18,6
Q2 2000	9,3	-5,5	11,8	15,1	18,3	19,6
Q3 2000	8,7	7,8	11,7	4,4	14,7	19,0
Q4 2000	9,0	2,9	9,0	33,6	14,4	18,3
Q1 2001	7,3	16,4	7,4	6,2	10,9	12,6
Q2 2001	8,9	21,6	5,4	1,7	14,2	10,4
Q3 2001	8,3	12,4	7,4	21,0	8,1	10,6
Q4 2001	5,6	11,4	7,0	-34,9	2,3	-6,2
Q1 2002	4,1	13,1	1,4	24,0	-8,0	1,0
Q2 2002	1,0	9,5	5,0	0,4	-7,0	-1,1
Q3 2002	2,5	10,6	6,2	3,5	-7,4	-3,1
Q4 2002	5,9	7,2	2,4	59,2	-2,8	4,6
Q1 2003	7,0	13,6	3,7	21,2	-9,9	-1,2
Q2 2003	8,2	13,0	6,6	20,1	-12,2	-7,5
Q3 2003	6,9	9,8	6,7	-12,9	4,5	0,5
Q4 2003	6,4	25,6	8,0	-49,4	11,4	3,2
Q1 2004	7,7	-2,1	8,4	-14,1	31,6	8,6
Q2 2004	6,7	4,7	6,7	1,2	18,7	14,4
Q3 2004	7,7	2,9	8,9	47,8	2,4	8,5
Q4 2004	8,3	-12,3	8,7	197,6	-3,4	16,6
Q1 2005	7,3	4,9	7,8	18,4	6,1	11,5
Q2 2005	5,9	4,5	8,6	-14,1	8,3	1,5
Q3 2005	6,0	-5,0	5,2	20,5	8,7	8,1
Q4 2005	6,4	22,0	5,2	4,0	6,6	10,2
Q1 2006	6,8	15,5	6,5	4,7	13,1	13,1
Q2 2006	7,6	14,5	6,8	20,8	9,0	15,8
Q3 2006	6,9	18,5	6,7	-10,0	10,2	9,2
Q4 2006	6,3	-0,1	6,9	20,3	-5,6	0,0
Q1 2007	7,0	3,7	8,6	10,2	-0,4	3,7
Q2 2007	7,0	-6,1	8,4	31,3	-2,0	5,6
Q3 2007	8,3	5,4	8,8	13,6	9,9	11,1
Q4 2007	8,1	6,3	10,8	0,0	21,0	16,6
Q1 2008	9,5	3,4	10,3	34,4	5,0	17,5

Source: Cystat.

Table C.16 Turnover volume index of retail trade

Year / Month	Volume	6-mth moving average	% Change	
			previous year	6-mth moving average
2005 August	120,8	119,2	4,0	4,4
September	120,8	121,1	4,3	4,1
October	121,5	120,4	8,7	3,6
November	119,9	122,0	2,8	4,0
December	155,4	128,2	4,9	4,0
2006 January	112,9	125,2	7,1	5,2
February	102,7	122,2	4,3	5,3
March	113,8	121,0	3,9	5,3
April	122,0	121,1	-2,6	3,3
May	125,4	122,0	13,4	5,0
June	128,7	117,6	9,2	5,7
July	138,2	121,8	5,6	5,5
August	129,3	126,2	7,0	5,9
September	130,6	129,0	8,1	6,6
October	131,4	130,6	8,1	8,5
November	126,0	130,7	5,1	7,2
December	164,2	136,6	5,7	6,6
2007 January	115,6	132,9	2,4	6,1
February	108,9	129,5	6,0	5,9
March	128,7	129,1	13,1	6,7
April	126,1	128,3	3,4	5,9
May	133,5	129,5	6,5	6,1
June	142,6	125,9	10,8	7,1
July	152,4	132,0	10,3	8,4
August	141,8	137,5	9,7	8,9
September	136,6	138,8	4,6	7,6
October	141,3	141,4	7,5	8,2
November	143,1	143,0	13,6	9,4
December	191,0	151,1	16,3	10,6
2008 January*	129,9	147,3	12,4	10,9
February**	124,7	144,5	14,5	11,6
Percentage change by category				
	February**	February**	Jan - Feb.**	Jan - Feb.**
	2007/2006	2008/2007	2007/2006	2008/2007
General index	6,0	14,5	4,1	13,4
Retail sale in non-specialised stores with food, beverages or tobacco predominating	5,2	9,2	3,8	9,2
Other retail sale in non-specialised stores	13,4	14,4	5,5	17,3
Retail sale of food, beverages and tobacco in specialised stores	3,9	6,1	0,1	9,3
Retail sale of pharmaceutical and medical goods, cosmetics and toilet articles	3,1	23,0	13,8	22,1
Retail sale of textiles, clothing, footwear and leather goods	5,7	15,4	5,7	11,1
Retail sale of furniture, lighting, equipment and household articles, electrical household appliances and radio and television goods hardware, paints and glasses	9,0	20,9	6,9	20,8
Retail sale of books, newspapers and stationery and other retail sale in specialised stores	-1,3	12,9	-1,7	6,7
Retail sale of second-hand goods in stores	-41,3	-7,3	-39,0	-16,4
Retail sale not in stores	8,7	21,6	-0,5	16,3
Source: Cystat.				
* Revised data.				
** Provisional data.				

Table C.17 Construction indicators

Year/	Month	Sales of cement (volume)			Building permits authorised (volume)		
		Total (m.ton)	% Change		Area (sq.met)	% Change	
			Previous year	6-mth moving average		Previous year	6-mth moving average
2005	January	120.970	35,96	17,53	268.015	30,19	26,50
	February	126.572	17,15	18,29	285.715	-0,17	20,94
	March	150.703	0,56	14,89	330.823	27,80	19,24
	April	146.911	17,17	16,03	252.028	-3,92	16,21
	May	133.692	-3,10	11,55	289.171	15,95	13,67
	June	143.765	-4,91	8,04	297.040	6,58	11,77
	July	135.562	-13,32	1,01	255.329	21,34	10,62
	August	76.062	13,28	-0,16	221.276	66,09	18,14
	September	140.080	-3,95	-1,00	264.510	-17,56	8,55
	October	136.293	-1,18	-3,89	329.040	22,14	13,30
	November	146.225	4,26	-2,60	336.708	23,74	14,76
	December	131.832	3,23	-1,18	287.328	7,08	14,91
2006	January	112.257	-7,20	0,40	280.754	4,75	12,25
	February	127.234	0,52	-0,67	265.808	-6,97	4,73
	March	149.825	-0,58	-0,06	331.444	0,19	8,07
	April	118.938	-19,04	-3,30	251.063	-0,38	4,54
	May	154.815	15,80	-1,44	380.135	31,46	6,05
	June	146.826	2,13	-1,55	309.252	4,11	5,55
	July	157.298	16,03	2,12	296.102	15,97	7,23
	August	73.669	-3,15	1,87	199.623	-9,79	7,41
	September	145.224	3,67	2,67	253.311	-4,23	6,97
	October	150.045	10,09	8,16	331.638	0,79	6,86
	November	156.958	7,34	6,69	333.853	-0,85	1,17
	December	134.066	1,69	6,68	274.504	-4,46	-0,30
2007	January	132.561	18,09	6,70	263.912	-6,00	-3,65
	February	130.638	2,68	7,00	299.455	12,66	-0,42
	March	174.292	16,33	9,32	388.979	17,36	3,35
	April	137.205	15,36	10,10	324.503	29,25	7,54
	May	160.929	3,95	9,41	333.002	-12,40	4,89
	June	165.444	12,68	11,26	304.133	-1,66	5,25
	July	174.989	11,25	10,36	339.730	14,73	8,51
	August	78.961	7,18	11,29	192.004	-3,82	6,49
	September	148.393	2,18	8,68	288.517	13,90	5,47
	October	176.722	17,78	9,37	318.083	-4,09	0,31
	November	177.170	12,88	11,04	275.785	-17,39	-0,32
	December	133.152	-0,68	8,83	284.703	3,72	0,58
2008	January	156.587	18,12	9,90	249.822	-5,34	-2,89
	February	173.499	32,81	13,66	299.159	-0,10	-2,31
	March	175.963	0,96	13,04	n/a	n/a	n/a
	April	164.519	19,91	13,30	n/a	n/a	n/a

Source: Cystat.

Table C.18 Volume Index of manufacturing production

Year/	Month	Index		% Change		
		Monthly	Cumulative	Previous year	6-mth moving average	Cumulative period
2005	January	91,40		-5,09	0,03	-5,09
	February	95,30	93,35	0,21	0,06	-2,46
	March	107,90	98,20	-3,14	-0,56	-2,71
	April	107,40	100,50	-0,46	-0,14	-2,12
	May	108,10	102,02	0,19	-0,94	-1,64
	June	111,30	103,57	-3,64	-2,00	-2,00
	July	116,20	105,37	-2,52	-1,64	-2,08
	August	77,20	101,85	6,93	-0,95	-1,30
	September	112,50	103,03	1,17	-0,19	-1,00
	October	107,70	103,50	0,65	0,00	-0,83
	November	110,50	104,14	-0,09	-0,05	-0,76
	December	111,90	104,78	0,99	0,79	-0,61
2006	January	90,50	90,00	-0,98	1,18	-0,98
	February	93,50	93,00	-1,89	0,05	-1,45
	March	105,20	104,60	-2,50	-0,59	-1,83
	April	99,30	99,00	-7,54	-2,01	-3,36
	May	112,70	112,40	4,26	-1,26	-1,74
	June	113,70	113,30	2,16	-1,05	-1,05
	July	112,60	114,30	-3,10	-1,42	-1,37
	August	76,70	76,40	-0,65	-1,26	-1,30
	September	112,30	113,10	-0,18	-0,85	-1,16
	October	111,60	112,50	3,62	1,04	-0,67
	November	112,70	111,90	1,99	0,66	-0,41
	December	110,10	113,20	-1,61	0,00	-0,52
2007	January	91,70	91,70	1,33	0,79	1,10
	February	93,50	92,10	-1,07	0,69	0,11
	March	110,70	98,27	5,13	1,60	1,94
	April	102,30	99,30	3,12	1,49	2,24
	May	112,40	101,92	-0,27	1,08	1,68
	June	116,50	104,35	2,46	1,82	1,82
	July	121,80	106,84	8,17	3,01	2,80
	August	78,90	103,35	2,87	3,61	2,81
	September	113,70	104,50	1,25	2,93	2,62
	October	117,40	105,79	5,20	3,30	2,90
	November	116,50	106,76	3,37	3,94	2,95
	December	117,60	107,67	6,81	4,70	3,29
2008	January	95,60	95,60	4,25	4,00	4,25
	February	98,20	96,90	6,16	4,45	5,21
Percentage change by category				February	February	Jan. - Feb.
				2007/2006	2008/2007	2007/2006
General index				-0,5	6,2	0,7
Food products, beverages & tobacco				-2,3	4,2	-1,6
Textiles & textile products				4,6	-14,8	-0,3
Leather & leather products				-11,8	-27,3	0,0
Wood & wood products				-1,4	-1,2	0,2
Paper products, publishing & printing				0,6	1,9	2,5
Refined petroleum products, chemical products & man-made fibres				9,6	7,0	7,0
Rubber & plastic products				3,6	22,9	5,7
Other non-metallic mineral products				-1,0	17,9	0,1
Basic metals & equipment n.e.c.				-4,8	2,7	-0,3
Machinery & equipment				-7,9	0,0	-6,1
Electrical & optical equipment				13,4	12,7	11,3
Transport equipment				-6,8	4,1	-8,0
Manufacturing n.e.c.				-1,6	4,4	2,3

Source: Cystat.

Table C.19 Labour market indicators based on the Labour Force Survey (LFS)

	2006		2007			
	Q3	Q4	Q1	Q2	Q3	Q4
Labour force	374.816	378.114	388.115	391.089	395.400	398.903
Employed	360.004	362.081	369.308	377.856	379.777	384.852
By type of employment:						
Full time	335.203	334.886	341.654	351.519	352.990	355.813
Part time	24.801	27.195	27.654	26.337	26.787	29.039
By sector of employment:						
Primary sector	15.992	14.297	14.766	16.209	17.259	18.057
Secondary sector	79.742	82.087	82.774	85.947	84.832	86.895
Tertiary sector	264.270	265.697	271.768	275.700	277.686	279.900
Employees	280.592	285.764	293.071	301.789	301.131	308.228
Unemployed	14.811	16.034	18.808	13.233	15.622	14.051
By unemployment duration:						
Less than 12 months	11.426	12.915	15.895	10.555	12.784	11.007
12 months and above	3.385	3.119	2.913	2.678	2.838	3.044
Employment rate (%)	61,3	61,2	60,9	61,9	62,1	62,4
Male	71,5	70,7	69,9	71,1	71,8	71,6
Female	51,9	52,3	52,5	53,4	53,2	53,8
Unemployment rate (%)	4,0	4,2	4,8	3,4	4,0	3,5
Male	3,0	3,7	4,2	3,2	3,2	3,0
Female	5,1	4,9	5,7	3,6	4,9	4,1
Activity rate (%)	63,8	63,9	64,0	64,1	64,7	64,7
Male	73,8	73,4	73,0	73,4	74,1	73,9
Female	54,7	55,0	55,7	55,4	55,9	56,2

Source: Cystat.

Table C.20 Public debt
(€ million)

	2005				2006				2007		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
A. Domestic debt	11.342,65	11.800,58	12.137,58	12.210,43	12.328,92	12.780,94	12.816,82	12.785,95	13.153,97	13.032,27	12.993,33
Long-term debt	5.858,73	6.253,21	6.359,72	6.378,93	6.217,05	6.757,48	6.751,52	6.757,39	6.951,27	7.075,93	6.997,94
Short-term debt	5.483,93	5.547,37	5.777,86	5.831,51	6.111,87	6.023,45	6.065,30	6.028,56	6.202,69	5.956,34	5.995,40
B. Foreign debt	2.474,02	2.276,9	2.268,38	2.286,96	2.286,3	1.998,65	1.995,68	2.041,03	2.040,57	2.043,35	2.040,60
Short-term liabilities of the Central Bank to the IMF	0	0	0	0	0	0	0	0	0	0	0
Long-term loans	552,89	549,74	549,01	639,36	638,66	625,62	622,65	656,75	656,3	659,08	656,33
Medium-term loans (EMTN)	1.665,15	1.665,15	1.665,15	1.647,6	1.647,64	1.373,03	1.373,03	1.384,27	1.384,27	1.384,27	1.384,27
Short-term loans (ECP)	255,98	62,01	54,21	0	0	0	0	0	0	0	0
C. Total public debt	13.816,67	14.077,47	14.405,96	14.497,4	14.615,22	14.779,59	14.812,5	14.826,98	15.194,54	15.075,62	15.033,92
D. Net total debt (excl. intragovernmental & short-term liabilities of the Central Bank to the IMF)	9.016,22	9.196,82	9.415,41	9.300,52	9.359,2	9.483,36	9.436,93	9.330,8	9.550,65	9.359,72	9.155,4

Source: Ministry of Finance.

Table C.21 Distribution of bank loans to Cyprus residents by economic activity based on the NACE Rev. 1.1 classification of the European Union
(monthly data, %)

	Outstanding Amount As a percentage of total				% Change Mar. 2007 - Mar. 2008
	Dec. 2006	Mar. 2007	Dec. 2007	Mar. 2008	
A Agriculture, hunting and forestry	0,86	0,98	0,84	0,86	8,40
B Fishing	0,05	0,05	0,04	0,04	-3,84
C Mining and quarrying	0,29	0,32	0,36	0,44	68,42
D Manufacturing	4,56	4,38	3,88	3,74	5,78
of which: construction-related activities (20.1 to 20.3 and 26.3 to 26.7)	0,34	0,32	0,29	0,33	27,19
E Electricity, gas and water supply	0,19	0,18	0,18	0,07	-54,37
F Construction	7,00	7,42	9,00	10,01	66,94
G Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	9,92	9,85	9,24	9,58	20,37
H Hotels and restaurants	5,50	5,82	5,34	5,22	10,80
I Transport, storage and communication	1,18	1,16	1,37	1,68	79,23
J Financial intermediation (excluding other MFIs)	6,62	6,06	5,93	4,99	1,89
K Real estate, renting and business activities	9,82	9,94	11,83	12,17	51,50
of which: real estate activities (70)	5,39	5,65	7,6	8,01	75,84
L Public administration and defence; compulsory social security	2,62	3,79	3,23	2,98	-2,53
M Education	0,35	0,34	0,34	0,34	20,27
N Health and social work	0,47	0,48	0,47	0,48	24,78
O Other community, social and personal service activity	2,85	2,92	3,03	2,67	13,25
P Private individuals	47,69	46,29	44,91	44,74	19,63
Q Extra-territorial organisations and bodies	0,03	0,02	0,00	0,00	-90,72
Total	100,00	100,00	100,00	100,00	24,08

Source: CBC.

DESING (INSIDE PAGES):

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