



CENTRAL BANK OF CYPRUS
ECONOMIC RESEARCH DEPARTMENT

MONETARY
POLICY
REPORT

APRIL 2002



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The Monetary Policy Report is drafted by the Economic Research Department of the Central Bank of Cyprus as an overview of current developments in Cyprus, in preparation for the meetings - normally held monthly - of the Monetary Policy Committee and the Bank's Board of Directors.

**CENTRAL BANK OF CYPRUS, 2002
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The Monetary Policy Report incorporates a Statistical Bulletin in the June and December editions in order to provide long-term time series.

CONTENTS

1. INTRODUCTION	1
2. ECONOMIC DEVELOPMENTS	2
2.1 INTERNATIONAL DEVELOPMENTS AND EXCHANGE RATES	2
2.2 MONETARY DEVELOPMENTS	10
2.3 INFLATION	21
2.4 DOMESTIC ECONOMY	23
2.5 EXTERNAL TRANSACTIONS	31
3. ANNEX	39

1. INTRODUCTION

In the first two months of 2002 domestic economic developments were dominated by the maintenance of inflation at a relatively high level and the decline in tourist arrivals. The outlook for the tourism sector for the whole year seems to depend on the strength and time of the recovery in the global economy as well as on developments in the Middle East. Unstable political conditions kindle international expectations for higher oil prices and inflationary pressures, and many analysts foresee that the period of monetary policy easing may have ended.

In the domestic monetary sector, a continuing distinct decline in new credit extended, both in domestic and in foreign currency, as well as in foreign exchange inflows was observed. The latter, despite their decline, contradict the usual seasonal pattern of outflows and combined with the low percentage of acceptance of government securities in auctions, contributed to the maintenance of surplus liquidity conditions. The Central Bank intervened in the money market through deposit collection auctions (depos) in order to maintain interest rates consistent with its anti-inflationary policy.

On the inflation front, the price level in February rose by 2,70%, the same increase as in January. The maintenance of inflation at the same level is attributable to the increase in prices of imported goods and the acceleration in the prices of services, combined with the deceleration in the prices of domestic agricultural products and the fall in fuel as well as electricity prices.

Developments in the tourism sector are not encouraging, as tourist arrivals registered a sizeable decrease of 13,9% in February, after a

decrease of 15,8% in January. For the entire two-month period, the decrease reached 14,7%, compared with a decrease of 2,0% in the corresponding period of 2001.

As regards the labour market, unemployment as a percentage of the economically active population rose to 4,2% in January 2002, compared with 3,8% in January 2001. The average unemployment rate in 2001 was 3,0%, down from 3,4% in the previous year. These rates, however, represent exclusively the registered unemployed in district labour offices, while according to the labour force survey (a method widely used in the European Union), the unemployment rate reached 3,9% in 2001, or 3,0% if the unemployed seeking only part-time employment are excluded.

In the primary and secondary sectors of the economy both positive and negative developments have been observed. This mixed picture is especially evident in the secondary sector, where on the one hand manufacturing followed an overall downward path in 2001, while on the other hand construction continued to perform well overall, although a fall in local cement sales was recorded in December 2001 and January 2002. In the primary sector, particularly in agriculture, a marked recovery was recorded in 2001, as agricultural production rose significantly, after the sizeable fall recorded in the previous year.

Turning to external trade, the decrease in total imports continued in the last two months of 2001, in comparison with the corresponding months of 2000, leading to a reduction in the growth rate of total imports to 2,7% for the whole year. At the same time, total exports presented a satisfactory

growth, and the final result was a small increase in the crude trade deficit in 2001 to about £1.907,4 million, from £1.877,0 million in 2000.

Private consumption, for the first time after the 11 September events, showed a decrease of the order of 1,0% in December 2001, compared with an increase of 10% in November 2001 and 7,9% in December 2000. For 2001 as a whole, a small acceleration in private consumption was registered according to the retail sales volume index, which increased by 5,9%, compared with an increase of 5,7% in 2000.

Concerning public finances, the latest available data refer to the first nine months of 2001, in which the fiscal deficit expanded to £133,3 million, compared with £69,1 million in the corresponding period of the previous year. This expansion mainly reflected the slowdown in public revenue. For 2001 as a whole, the fiscal deficit is estimated to have somewhat exceeded 2,7% of GDP, which was recorded in 2000, while remaining below 3,0% of GDP.

2. ECONOMIC DEVELOPMENTS

2.1 INTERNATIONAL DEVELOPMENTS AND EXCHANGE RATES

International economic developments

A cautious optimism for the future course of the economies of the United States and the European Union prevails, as seen in the latest reports of the International Monetary Fund (IMF) and a number of economic analysts. In the United States, the latest available data point to a vigorous first quarter, but it is doubtful whether this upturn will continue. In Europe, the first signs of recovery are seen and at the same time there are some expectations of an increase in official

interest rates in the beginning of the summer. The central banks of Sweden and New Zealand have already increased their interest rates. Recession in Japan is expected to continue, despite the first signs of stabilisation.

The **US** Federal Reserve System maintained key interest rates unchanged in the first quarter of 2002, while the tone of its latest announcement seems to suggest the end of monetary policy easing. New data strengthen hopes of recovery. The University of Michigan's consumer confidence index climbed to 110,2 points in March, its highest level in the last fifteen months. Industrial production in February registered its second consecutive monthly increase of 0,4%. In the same month the unemployment rate decreased to 5,5%, from 5,6% in January. The optimism prevailing in the US market is also reflected in stock exchanges. After falling in January as a result of the collapse of Enron, the Dow Jones, S&P 500 and Nasdaq indices rose by 5,6%, 4,9%, and 3,2%, respectively. The National Bureau of Economic Research is more reserved. In an announcement it stated that recession might be nearing an end, but cautioned that more economic data are needed to ensure recovery.

In the **euro area** GDP fell in the fourth quarter of 2001 at an annual rate of 0,8%, the first decrease since 1993. In December industrial production contracted at an annual rate of 4,1%, while retail sales increased by only 0,4%. The unemployment rate fell to 8,4% in January, from 8,5% in the previous month, and the inflation rate declined to 2,5% in February, from 2,7% in January. By contrast, the European Commission's industrial confidence indicator and the Purchasing Manager's Index (PMI) registered a second consecutive monthly increase in January. In March the ZEW index, which records

economic expectations in Germany rose by 21,0 points. European stock exchanges also displayed a significant rise. In the period from 20 February to 20 March, the German DAX index rose by 12,2%, the French SBF 25 index increased by 9,0%, and the Italian BCI index increased by 10,8%.

Japan's GDP contracted by more than expected in the fourth quarter of 2001, by an annualised rate of 4,5%. Business investment plunged at an annual rate of 40%. Furthermore, industrial

production fell by 11,5% in the twelve months to January, while retail sales decreased by 3,8%. Despite these negative developments, the Nikkei 225 index rose by 20% in February, as the Japanese financial year was approaching its end.

In **Britain**, inflation fell to 1,0% in February, below the target rate of the Bank of England, compared with 1,3% in January. Industrial production contracted by 5,2% in the twelve months to January 2002, while the FTSE 100 index rose by 4,8% in February.

Table 1

Main economic indicators¹
(percentage change)

	GDP				Industrial production (annual)	Retail Sales (annual)	Unemployment	Inflation (CPI) February
	Quarterly Q3	Annual Q3	Quarterly Q4	Annual Q4				
Britain	1,7	2,2	0,1	1,6	-5,2 (Jan.)	5,9 (Feb.)	5,1 (Dec.)	1,0
Japan	-2,2	-0,5	-4,5	-1,9	-11,1 (Jan.)	-3,8 (Jan.)	5,3 (Jan.)	-1,4
USA	-1,1	0,6	1,4	0,4	-4,1 (Feb.)	5,4 (Jan.)	5,5 (Feb.)	1,1
Euro area	0,4	1,4	-0,8	0,6	-4,1 (Dec.)	0,4 (Dec.)	8,4 (Jan.)	2,4

¹ Source: *The Economist*, 16-22 March 2002

The cautious optimism prevalent in January led to revisions of forecasts for the world economy in 2002 as well as in 2003 (table 2). The IMF projects a world growth rate of 2,5%. In particular, the IMF anticipates that GDP in the United States will grow by 1,4% this year and by 3,8% in 2003, in contrast to earlier projections of negative growth in 2002 and marginal positive growth (0,7%) in 2003. Lehman Brothers forecast even higher US growth rates of 2,2% and 3,5%, in 2002 and 2003, respectively. Concerning the euro area, the IMF anticipates corresponding growth rates of 1,2% and 2,8%.

Developments in international oil markets play an important role in estimates of world growth rates. After a downtrend for about eighteen months, crude oil prices increased, initially on account of fears of a new military intervention in Iraq by the United States and their allies. After recent events in the Middle East and with the uncertainty prevailing in the region, oil prices have risen even further and hopes for a decline in euro area inflation to below 2,0% have diminished substantially. In March the average price of Brent crude oil reached USD23,40 per barrel, compared with USD20,23 in February and USD19,52 in January 2002. On the first of April the price of oil reached USD27,40 per barrel.

Table 2
GDP projections

(annual percentage change)¹

	The Economist Poll GDP Forecast ²				Lehman Brothers Weekly Outlook - GDP ³			
	2000	2001	2002	2003	2001	2002	2003	
Britain	2,2	2,2	1,9 (1,7)	2,9	2,4	2,0	3,0	
Japan	1,6	-0,4 (-0,6)	-1,2 (-0,8)	1,1	-0,5 (-0,4)	-0,5 (-1,0)	0,5	
USA	4,1	1,2 (1,1)	1,7 (0,6)	3,6	1,2 (1,0)	2,2 (1,0)	3,5	
Euro area	3,4	1,5	1,2	2,8	1,5	1,8 (1,5)	2,8	
World	3,9				1,2	1,8 (1,2)	3,1	

¹ Figures in parentheses indicate the corresponding previous month projection, in case of change.

² Source: *The Economist*, 16-22 March 2002

³ *Lehman Brothers Global Weekly Economic Monitor*, 22 March 2002

International currencies

In February and March 2002 expectations of a fast recovery in the United States and the euro area influenced the corresponding currencies in a similar manner. As a result, during this period the euro remained broadly stable against the US dollar, mainly within a range of USD0,87 to USD0,88. On 28 March 2002 the euro was quoted at USD0,873.

In February and March the pound sterling presented a similar picture, fluctuating only slightly against the US dollar as well as the euro. On 28 March 2002 the corresponding exchange rates were USD1,426 per GBP and GBP0,612 per EUR, which do not differ substantially from the average exchange rates in February and March.

The calm seen in international currency markets during this period also suggests diminishing uncertainty concerning the severity and duration of the economic slowdown at the end of 2001 as well as the prospects for recovery of the global economy in the course 2002. The frequent changes in exchange rate tendencies that were

observed in the recent past, at least as regards the exchange rates of the euro, the US dollar and the pound sterling, reflected this uncertainty, which was due to continuous revisions of macroeconomic data and projections as well as due to changing expectations for monetary policy and the overall economic recovery.

In contrast to the aforementioned international currencies, the Japanese yen fluctuated widely in February-March 2002, between JPY 112 and 117 per EUR (JPY 128 and 135 per USD), and appreciated significantly in March. While the fundamental problems in the Japanese economy continue to undermine prospects for the yen, the recent appreciation of the Japanese currency was mainly due to temporary factors, such as the repatriation of Japanese capital in view of the end of the fiscal year on 31 March.

An overview of international exchange rate fluctuations in the recent past until the end of March 2002 is presented in chart 1.

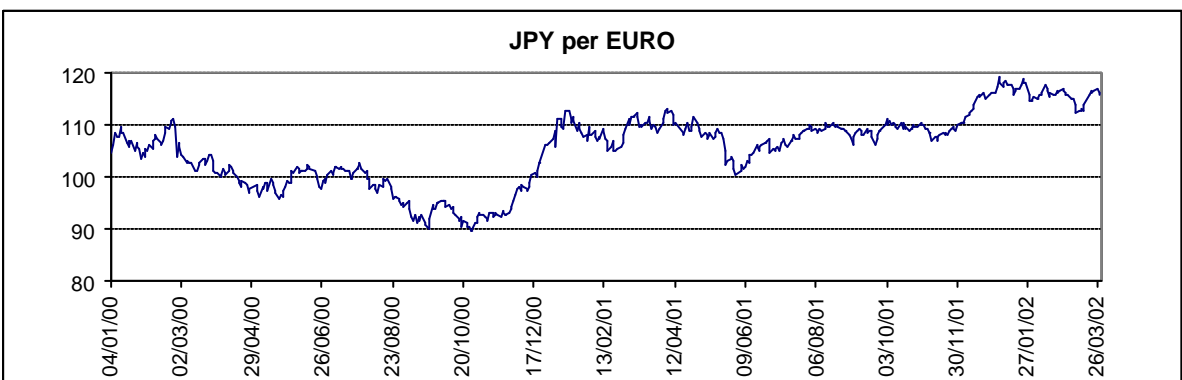
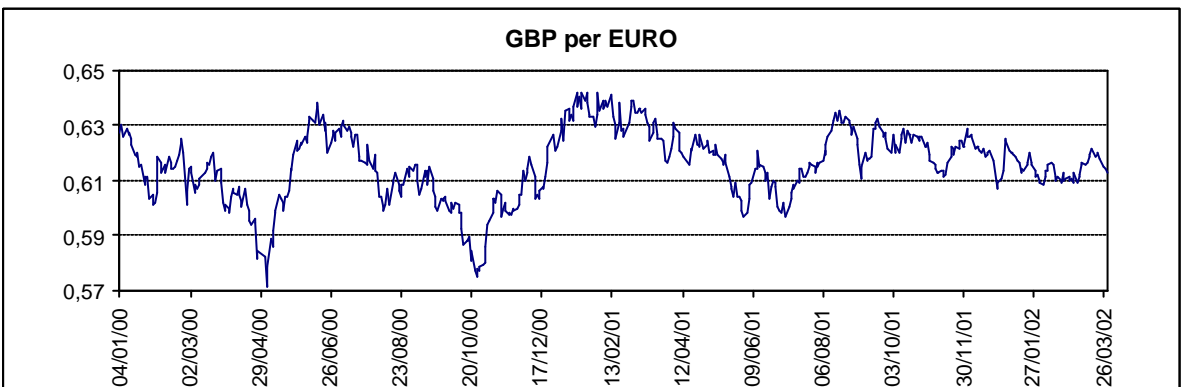
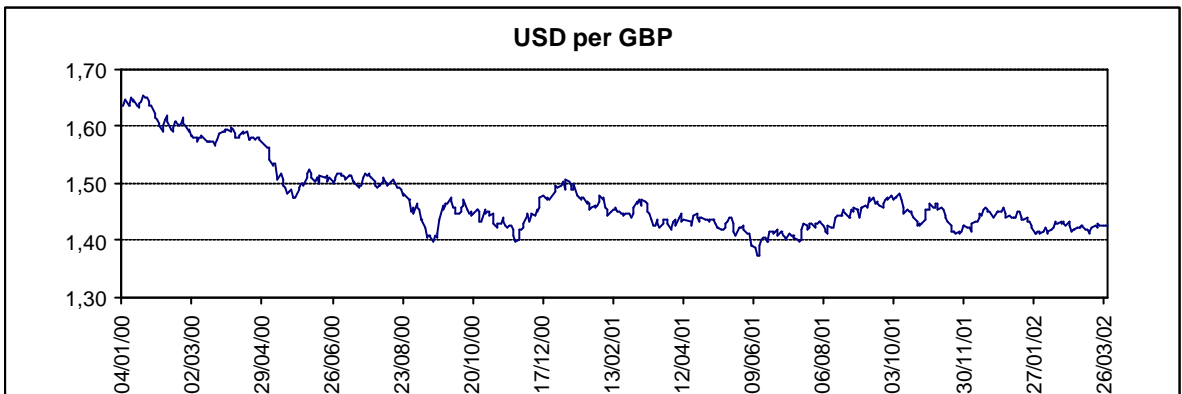
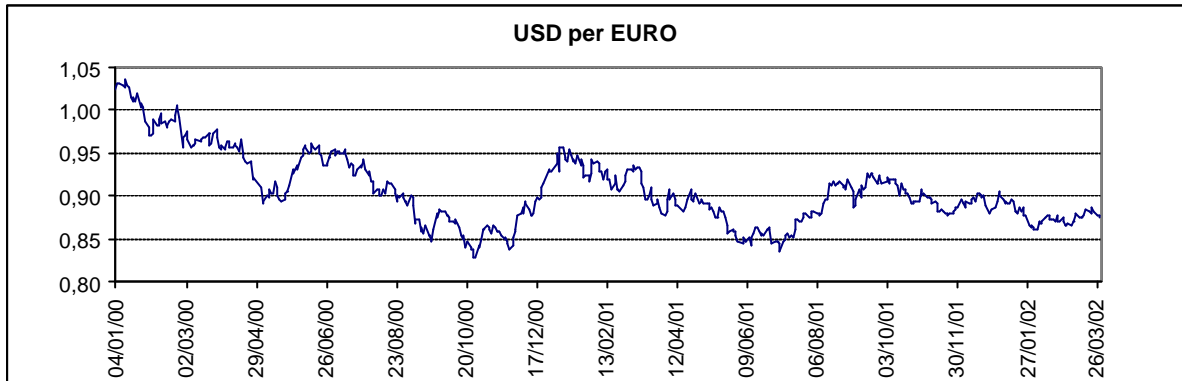
Chart 1**Major international currencies
4/1/2000 - 28/3/2002**

Table 3 shows the forecasts of a large number of internationally recognised financial institutions for the course of international exchange rates in the near future, as recorded in a survey by Reuters. According to this survey, markets expect a

marginal strengthening of the euro against the US dollar and the pound sterling in the next twelve months, while the yen is not expected to rebound, due to the serious problems still afflicting the Japanese economy.

Table 3

International market expectations for exchange rates

(Monthly poll by Reuters, March 2002)

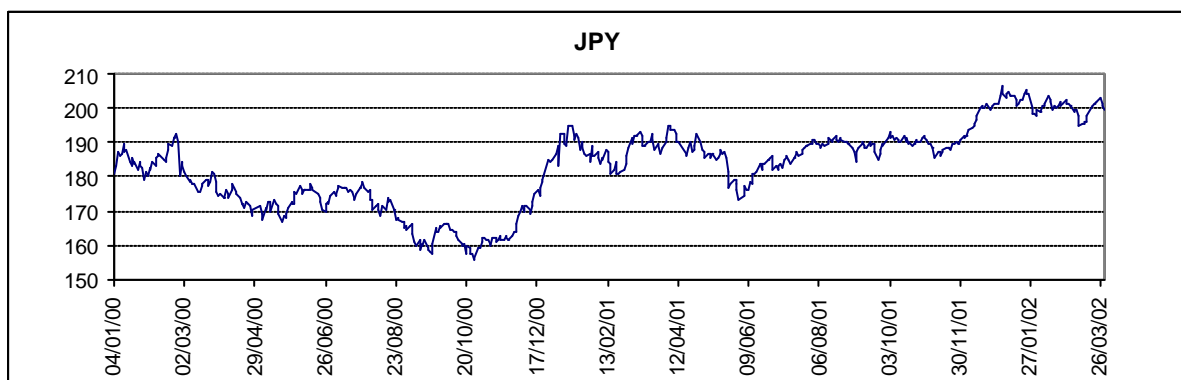
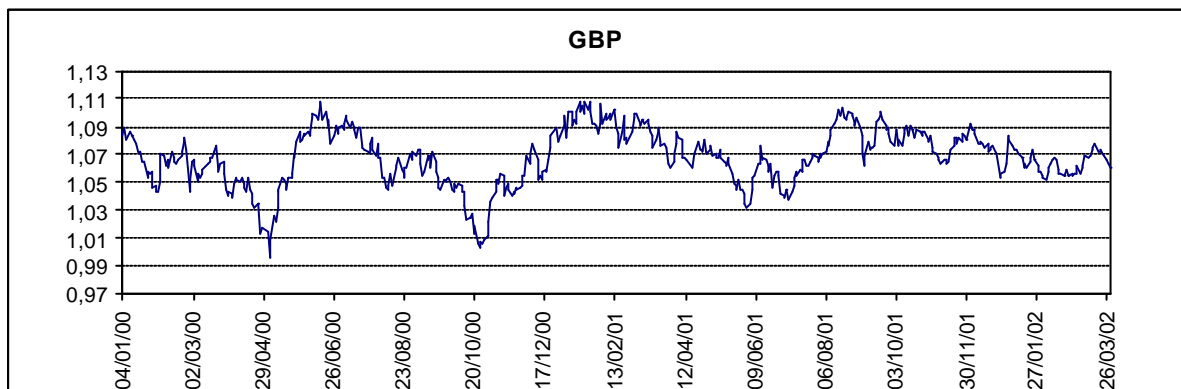
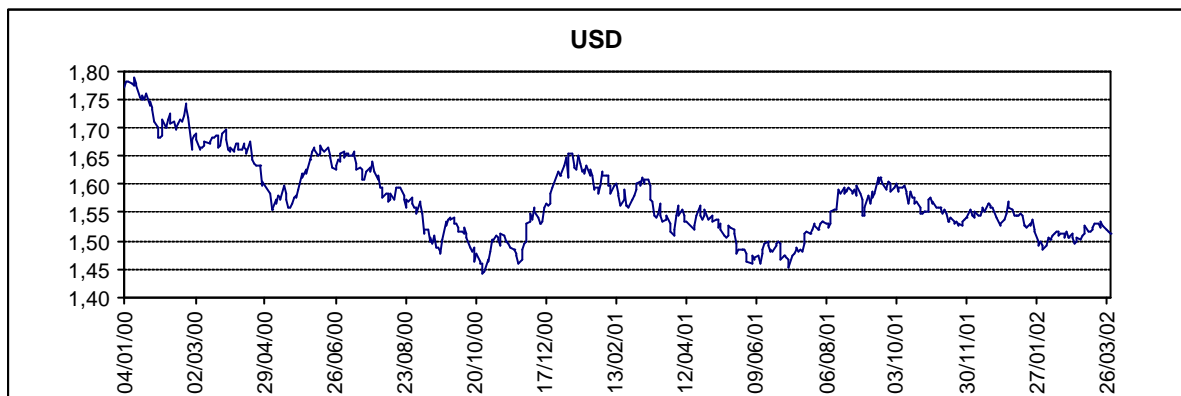
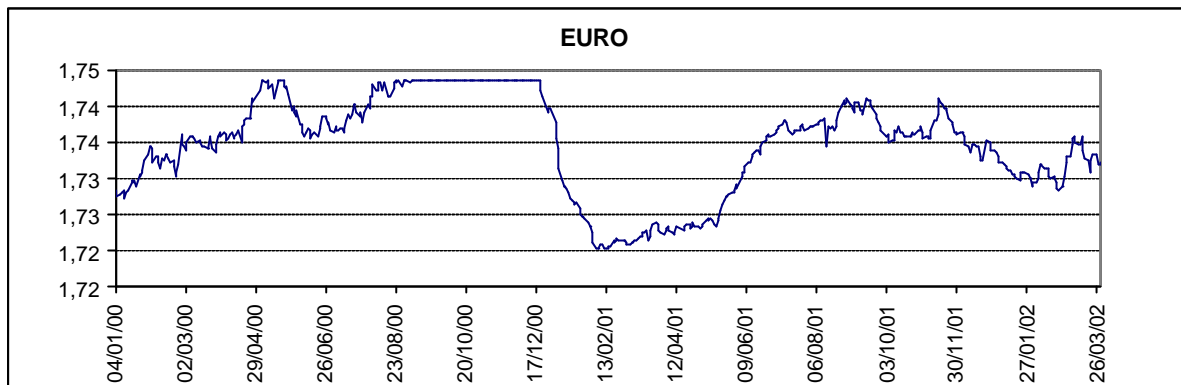
		Exchange rate forecasts			
	Statistical data	1 month	3 months	6 months	12 months
USD per EUR	Mean	0,87	0,88	0,89	0,90
	Minimum	0,84	0,83	0,81	0,77
	Maximum	0,93	0,96	0,98	1,01
	Number of forecasts	47	48	48	47
USD per GBP	Mean	1,42	1,42	1,42	1,42
	Minimum	1,39	1,35	1,30	1,24
	Maximum	1,45	1,48	1,51	1,53
	Number of forecasts	47	48	48	47
JPY per USD	Mean	133	135	136	135
	Minimum	126	125	122	117
	Maximum	140	145	150	160
	Number of forecasts	47	48	48	47
GBP per EUR	Mean	0,61	0,62	0,62	0,63
	Minimum	0,59	0,59	0,57	0,55
	Maximum	0,64	0,65	0,67	0,68

Source: Reuters. The poll was taken in the period 4-6 March 2002.

Cyprus pound

The Cyprus pound fluctuated marginally against the euro in February and March 2002, reaching EUR1,732 on 29 March 2002 (average fixing price). Reflecting fluctuations in international currencies in this period, the Cyprus pound

weakened somewhat against the Japanese yen and remained at about the same level vis-à-vis the pound sterling and the US dollar. Chart 2 presents an overview of recent fluctuations in the exchange rates of the Cyprus pound vis-à-vis the euro, the US dollar, the sterling and the yen.

Chart 2**Cyprus Pound against major international currencies****4/1/2000 - 28/3/2002**

As regards the domestic foreign exchange market, the results of the fixing sessions held until 28 March 2002, based on transaction date, are summarised in table 4. As this table shows, between 1 January 2002 and 28 March 2002 net inflows of foreign exchange amounted to £22,38 million, compared with £18,71 million in the first three months of 2001. It is pointed out that

purchases and sales of foreign exchange in the fixing sessions during February do not reflect the overall situation of the market, since on 12 February 2002 the Central Bank absorbed an additional amount of foreign exchange, equivalent to about £49 million, through the interbank market.

Table 4
Summary of results of fixing sessions

Month	Average fixing exchange rate Foreign currency per Cyprus pound (last day of period)			Purchases (+) / Sales (-) of foreign exchange by the Central Bank (based on transaction date)			
				In foreign currency (millions)			In Cyprus pounds (millions)
2001	Euro	US dollar	Pound sterling	Euro	US dollar	Pound sterling	
January	1,7278	1,6060	1,0983	-169,80	-9,55	-7,00	-110,17
February	1,7264	1,5916	1,1016	49,25	-0,20	1,20	29,51
March	1,7275	1,5209	1,0670	130,40	38,00	-0,10	99,37
April	1,7283	1,5369	1,0713	81,25	-5,30	0,00	43,59
May	1,7338	1,4716	1,0382	233,25	5,30	0,00	138,17
June	1,7413	1,4743	1,0490	250,00	-1,00	0,00	143,20
July	1,7425	1,5265	1,0712	148,25	0,00	0,02	85,11
August	1,7455	1,5989	1,0962	39,45	0,00	0,00	22,58
September	1,7411	1,5968	1,0852	0,75	9,50	5,30	11,28
October	1,7414	1,5766	1,0833	15,90	15,50	10,28	28,46
November	1,7414	1,5464	1,0861	-14,65	6,35	9,20	10,70
December	1,7387	1,5380	1,0622	-7,60	-3,05	3,50	-2,74
Total 2001				756,95	65,55	22,40	499,05
2002							
January	1,7347	1,4977	1,0612	-13,45	-3,60	4,60	-5,76
February	1,7381	1,5053	1,0631	39,70	8,10	4,90	32,89
March*	1,7374	1,5161	1,0647	-6,00	0,00	-1,40	-4,75
Total 2002				20,25	4,50	8,10	22,38

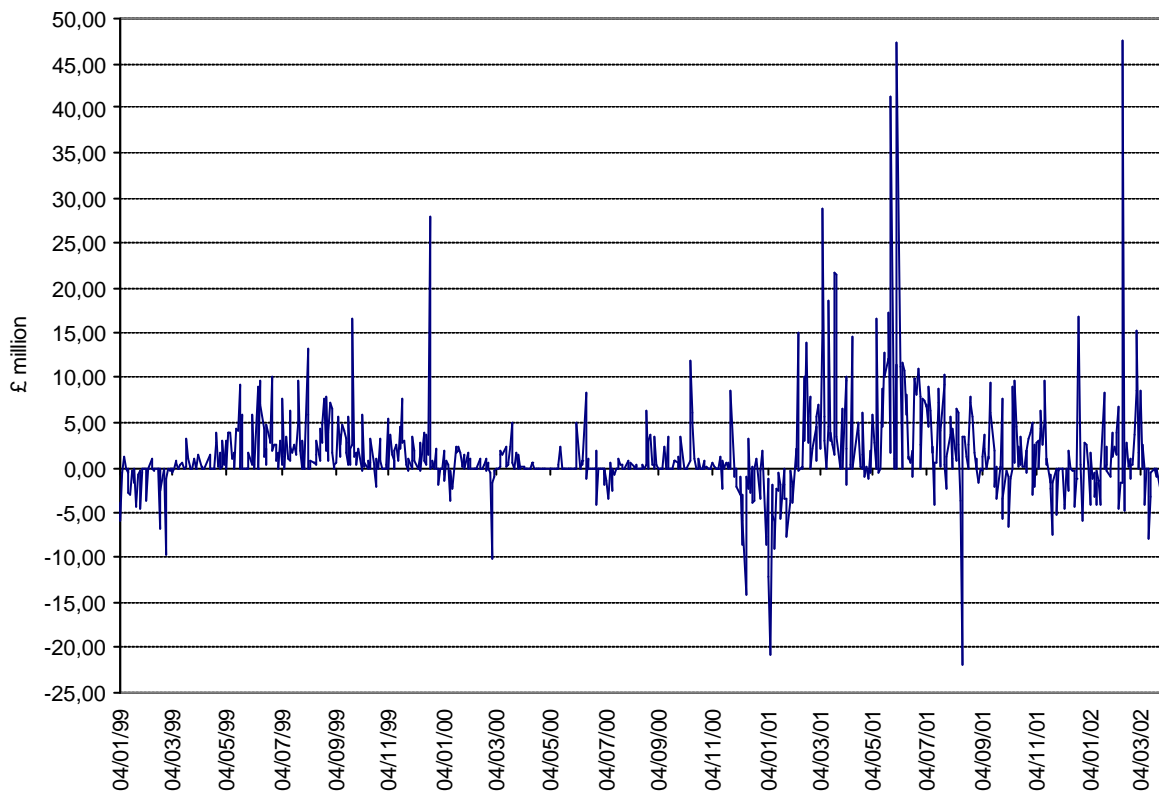
* Data until 28 March 2002.

Overall, including interventions and other operations in the interbank market (specifically, execution of forward foreign exchange contracts), between 1 January 2001 and 28 March 2002 the Central Bank absorbed from the banking system foreign exchange equivalent to £735,1 million.

Over 50% of these inflows correspond to borrowing by Cypriots in foreign currencies, mainly euro, from domestic banks. Daily purchases and sales of foreign exchange by the Central Bank from domestic banks since 1999 are shown in chart 3.

Chart 3

**Daily purchases / sales of foreign exchange by the Central Bank
from the domestic banks
4/1/1999-28/3/2002**



Note: Purchases of foreign exchange by the Central Bank are shown with a positive sign.

2.2 MONETARY DEVELOPMENTS*

Against the background of international developments and taking into account the cautious optimism prevailing for a fast recovery of the world economy, the Central Bank decided on 21 February to maintain official interest rates unchanged. The Central Bank, in the context of its anti-inflationary policy, continued to intervene in the money market in February and March, absorbing part of the surplus liquidity through deposit collection auctions (depos).¹ Foreign exchange inflows continued in February and March, contributing markedly to surplus liquidity conditions.

Twelve-month total liquidity registered a marginal slowdown in February in comparison with the previous month, reaching a growth rate of 12,7%, down from 13,2% in January. This development emanated from the fall in primary liquidity coupled with the slowdown in secondary liquidity. The three-month moving average of total liquidity annual growth rates in the period from December 2001 to February 2002 also registered a marginal slowdown, reaching 13,11%, compared with 13,43% in the period from November 2001 to January 2002.

Table 6 presents the factors affecting bank liquidity. As this table shows, net foreign assets and claims on the public sector moved in opposite directions, the former rising significantly while the latter fell. By contrast, claims on the private sector remained at about the same level

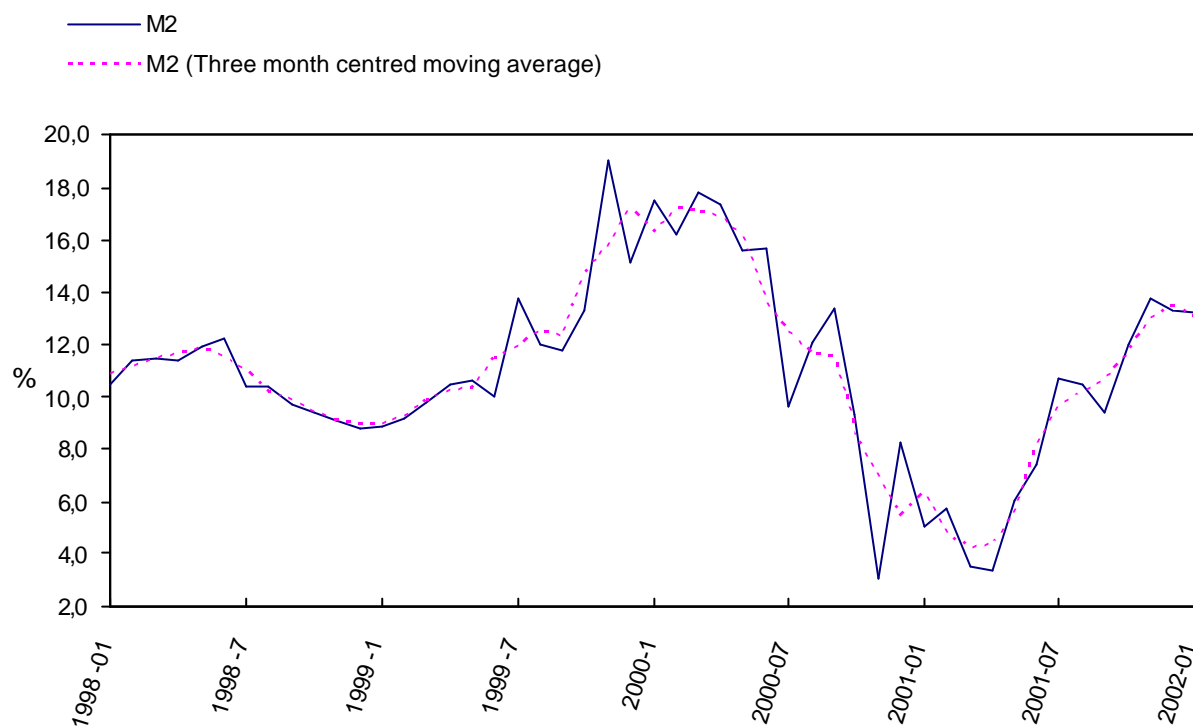
as in the previous month. Specifically, in the twelve months to February 2002 the increase in claims on the public sector reached only £14,6 million, compared with an increase of £331,2 million in the previous month. In the same period, net foreign assets increased by £465,6 million, compared with an increase of £167,2 million in the twelve months to January. The expansion of credit to the private sector remained roughly stable, reaching £756,6 million, compared with £783,0 million in the previous month. Taking into account government foreign borrowing amounting to £312,7 million, credit extended to the public sector rises to £327,3 million and the increase in net foreign assets is reduced to £152,9 million, indicating that all three factors affecting broad money supply contributed to the slowdown in its annual growth rate in February, in comparison with the previous month.

In terms of annual growth rates, claims on the private sector decelerated somewhat in February 2002, growing by 11,4%, compared with a growth rate of 11,9% in January. According to the three-month moving average, annual credit expansion was 12,0% in the period from December 2001 to February 2002, compared with 12,75% from November 2001 to January 2002.

The growth in credit seems to have slowed in March as well. According to preliminary data for the period from 1 January to 22 March 2002, new credit amounting to £72,9 million was granted, compared with £203,4 million in the corresponding period of 2001. The annualised seasonally adjusted growth rate of credit was 6,2%, down from 16,6% in the corresponding period of 2001. According to the monthly distribution method (box 1), bank financing in February was below the reference value by about £37,9 million.

* Monetary figures refer to all banks, i.e. they also include the Development Bank, the Mortgage Bank of Cyprus Ltd. and the Housing Finance Corporation.

¹ The difference between reverse repos and depos is that in the latter no purchase of government securities takes place, while their duration may exceed fifteen days.

Chart 4**M2 growth***(annual percentage changes, monthly data)***Table 5****Annual percentage change %**

	1998	1999	2000	2001	2001 Feb.	2002 Jan.	2002 Feb.
M1 (Primary liquidity)	3,4	41,3	4,0	2,0	1,5	3,0	-1,3
M2 (Total Liquidity)	8,8	15,1	8,2	13,3	5,7	13,2	12,7
Claims on private sector	14,3	13,9	14,9	12,7	11,9	11,9	11,4

Table 6**Factors affecting total liquidity***(change, Cyprus pounds thousand)*

	Feb. 2002	Jan.-Feb.		Jan. 2001/2002	Feb. 2001/2002
		2001	2002		
Foreign assets (net)	206.519	-133.303	205.343	167.243	465.609
Claims on private sector	32.902	119.049	49.806	783.033	756.564
Claims on public sector	-284.158	-49.817	-368.563	331.231	14.622
Unclassified items	33.500	20.898	27.799	-446.066	-430.615
Total Liquidity (M2)	-11.237	-43.173	-85.615	835.441	806.180
Primary liquidity (M1) (Money supply)	-43.229	-105.309	-139.772	29.514	-12.917
Currency in circulation	-1.750	-41.061	-36.968	25.485	27.363
Demand deposits	-41.479	-64.248	-102.804	4.029	-40.280
Secondary liquidity (Quasi-money)	31.992	62.136	54.157	805.927	819.097

Foreign currency lending to residents of Cyprus declined to £12,1 in February, from £18,0 million in January.² The proportion of credit in foreign currency to total credit remained broadly stable, reaching 10,4% in February, compared with 10,3% in the previous month. The decline in foreign currency lending seems to have continued in March, according to preliminary data up to 22 March, which indicate negligible foreign currency lending.

The euro is the dominant choice of borrowers, according to data for long-term foreign currency loans in 2001, which show that 82% of these loans were denominated in euros. According to the same data, about 52% of long-term foreign currency loans were used for refinancing,³ while 40% of such loans were used for construction in Cyprus and for the acquisition of fixed assets.

² These figures only include foreign currency loans granted by all domestic banks. Loans granted by banks abroad to Cypriots, according to data reported for long-term loans, remained at a very low level.

³ Refinancing refers to repayment of existing loans in Cyprus pounds as well as conversion of existing foreign currency loans to a different currency.

Table 7**Claims on Private Sector***(change - 2002, Cyprus pounds million)*

	Jan.	Feb.
Foreign Currency loans to residents	18,0	12,1
Claims on private sector	38,1	32,9

(end of period balances, Cyprus pounds million)

	1998	1999	2000	2001	2002 Jan.	2002 Feb.
Foreign Currency loans to residents	246,0	355,2	373,5	729,9	747,9	759,9
Claims on private sector	4982,7	5673,5	6517,5	7315,5	7353,6	7386,5
%	4,9	6,3	5,7	10,4	10,3	10,4

Box 1**Credit expansion monitoring ***

In accordance with the Financial Programme the reference value for credit expansion in 2002 was set at 11% for the whole year. Attainment of the reference value implies that credit as a percentage of GDP will rise to 132%, from 126% in 2001**.

Credit as a percentage of GDP

	1997	1998	1999	2000	2001	2002
Credit/GDP	100%	106%	113%	119%	126%	132%

The continuous increase in credit as a percentage of GDP raises concerns about the sustainability of such a policy; hence the reference value of 11% for credit expansion should at least be adhered to. It is therefore necessary to assess whether the course of credit expansion in each period is within the reference value. To answer this question, three methods are considered:

(1) Annualised growth rate

The rate of growth in credit observed at a given point of time is annualised; that is, the growth rate for the whole year is derived assuming that credit expansion will continue at the same rate.

For example, credit expansion in absolute terms from end-December 2001 to end-February 2002 was £49,8 million. This absolute change converted to an annualised growth rate seasonally adjusted gives:

**Annualised growth rate
(seasonally adjusted***)**

6,6%

Reference value

11%

(2) 12-month growth rate

The reference value of 11% was specified as the rate of increase in credit from December to December. Thus it would be reasonable to assume that each month in comparison with the corresponding month of the previous year should present a rate of increase less than or equal to the reference value, so that credit expansion at the end of the year remains within the specified limits. On the basis of this method the 12-month rate of growth in credit to the private sector in February was:

* Credit expansion includes all banks.

** If loans granted by the co-operative credit institutions are included, then total credit as a percentage of GDP increases to 138,7% in 1997, 145,0% in 1998, 154,6% in 1999 and 158,1% in 2000.

*** Data were seasonally adjusted by the X11 method including a period of fifteen years.

12-month growth rate**Reference value**

11,4%

11,0%

Moving average

12,0%

This method presents the problem of base effect, i.e. results may be misleading if the base month for some reason was unusually high or low. To alleviate this problem, the moving average method should also be applied.

(3) Monthly distribution method

The Central Bank has estimated that credit could expand by up to £808 million and reach £8150 million at the end of 2002. This amount (reference value) may be distributed in the months of 2002 in accordance with the seasonal pattern of previous years. Monitoring may be effected through the following table, where the first row gives the distribution of credit in accordance with the reference value and the second row gives actual credit to date. As seen in the table, credit expansion until February was slightly below the reference value.

Table of bank financing 2002

(Cyprus pounds million)

	Jan.	Feb.	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Reference value	7359	7431	7529	7550	7578	7658	7676	7646	7712	7753	7795	8150
Actual	7360,2	7393,1										

* Data were seasonally adjusted by the X11 method including a period of fifteen years. Because the seasonal pattern may have changed during the years, the proportion of credit granted each month in the last six years was also taken into account.

** Figures for February are provisional.

Money market

Surplus liquidity conditions continued to prevail in the money market in the first quarter of 2002. As table 11 indicates, surplus liquidity conditions in February were enhanced by the increase in net foreign assets of the Central Bank as well as currency in circulation, while the increase in government deposits with the Central Bank contributed to liquidity absorption. In particular, the average daily value of the Central Bank's net foreign assets reached £1.384,4 million in February, up from £1.309,0 million in the previous month, reflecting foreign exchange inflows of £82,3 observed during this month. Currency in circulation contributed to a smaller extent, as it decreased due to seasonal factors to an average of £363,9 million in February, from £377,6 million in the previous month. On the other hand,

government deposits with the Central Bank increased to £159,2 million in February, from £54,3 million in the previous month. The increase in government deposits was partly due to net sales of government securities, which amounted to £40,3 million in February.

The Central Bank, aiming to maintain interest rates consistent with its anti-inflationary policy, intervened in the money market through auctions (depos). In two auctions in February the Central Bank absorbed liquidity amounting to £290,0 million at an average interest rate of 3,78%, and in two auctions in March liquidity amounting to £452,0 million was absorbed at about the same average interest rate.

Table 8

Interest rates

(% per annum)

	1998	1999	2000	2001	2001 Mar.	2002 Feb	2002 Mar.
Interbank (1day)	4,83	5,15	5,96	4,93	5,78	3,22	3,20
Repos	4,68	5,45	5,97	6,39	6,41		
Reverse repos/depos			4,44	4,59		3,78	3,76
Treasury bills (13 weeks)	5,50	5,54	5,75	6,00	6,09	4,00	4,00
Treasury bills (52 weeks)	5,99	6,00	6,21	6,35	6,61	4,21	4,22
Development stocks (2 years)			6,55	6,11		4,58	
Development stocks (5 years)	6,95	7,27	7,45	6,96	7,49	5,02	5,06
Development stocks (10 years)	7,22	7,36	7,55	7,66	7,59	5,37	
Development stocks (15 years)				6,47			

Note: Simple average of the weighted averages for the period

Money market interest rates remained low, following the three reductions in official interest rates. The average overnight interest rate on the interbank market fell from 3,39% in January to 3,22% in February and 3,20% in March, remaining well below the intervention rate (depos). This very low interest rate on the interbank market was due to the small proportion of acceptance of offers in government security auctions, which resulted in net repayments of £59,8 million in March. In general, the proportion of acceptance of offers for government securities, that is the ratio of the value of securities sold to the total value auctioned, is around 45%.

In the three auctions of three-month treasury bills that took place in February and March, the average yield remained stable at 4,0%. The average yield on 52-week treasury bills also remained stable around 4,21% in February and March, compared with 4,25% in January.

Concerning long-term government securities, five-year bond yields increased marginally. Specifically, in the single auction of March, the average interest rate reached 5,06%, compared with 5,02% on 25 February and 4,99% on 25 January. In the single auction of ten-year bonds, the yield fell to 5,37%, from 7,57% on 30 July 2001, the last date in which bids were accepted.

Table 9
Inflation and interest rates of Europe and Cyprus - January 2002
(latest 12 month average)

	Inflation (HICP)	Long-term interest rates	Long-term real interest rates
Belgium	2,40	5,10	2,70
Denmark	2,30	5,10	2,80
Germany	2,40	4,80	2,40
Greece	3,80	5,30	1,50
Spain	3,20	5,10	1,90
France	1,90	4,90	3,00
Ireland	4,10	5,00	0,90
Italy	2,30	5,20	2,90
Luxembourg	2,30	4,80	2,50
Netherlands	5,10	5,00	-0,10
Austria	2,30	5,10	2,80
Portugal	4,30	5,20	0,90
Finland	2,70	5,00	2,30
Sweden	2,80	5,10	2,30
United Kingdom	1,30	5,00	3,70
Euro zone	2,60	5,00	2,40
EU -15	2,40	5,00	2,60
Cyprus	2,08	7,66*	5,58*

**interest rates refer to July 2001 and do not reflect the three official interest rate reductions amounting to 150 basis points.*

As a result of the non-acceptance of offers for ten-year bonds in January as well as the decrease in long-term interest rates in Europe, the divergence of long-term nominal interest rates from corresponding European rates increased to 266 basis points. At the same time, the differential between real interest rates in the euro area and corresponding domestic rates decreased due to the rise in domestic inflation to 318 basis points in January, from 321 basis points in December (table 9). In February, the differential between nominal long-term interest rates is estimated to have decreased substantially, due to the acceptance of bids for domestic ten-year bonds, reflecting reductions in official interest rates.

International and domestic interest rates

With regard to international interest rates, a series of improved economic indicators generated a cautious optimism for a faster than previously anticipated economic recovery and averted further reductions in official interest rates in most countries. As a result of the maintenance of unchanged interest rates by both the European Central Bank and the Central Bank of Cyprus (table 10), the width of the gap between official interest rates remained at 125 basis points for the marginal lending facility and 25 basis points for the overnight deposit facility.

Table 10

Official interest rates

(levels in percentages per annum; change in percentage points)

		change
European Central Bank		
<i>(March 7, 2002)</i>		
Minimum bid rate on the main refinancing operations	3,25	-
Interest rate on the marginal lending facility	4,25	-
Interest rate on the deposit facility	2,25	-
Bank of England		
<i>(March 7, 2002)</i>		
Repo Rate	4,00	-
Federal Reserve System		
<i>(March 19, 2002)</i>		
Federal Funds Rate	1,75	-
Discount Rate	1,25	-
Central Bank of Cyprus		
<i>(February 21, 2002)</i>		
Minimum bid rate on the main refinancing operations	4,00	-
Interest rate on the marginal lending facility	5,50	-
Interest rate on the deposit facility	2,50	-

Cyprus Stock Exchange

The Cyprus Stock Exchange (CSE) General Index registered two more consecutive decreases in the months of January and February, accompanied by a decrease in traded volume. On the last day of January, the CSE General Index stood at 124,35 points, and at the end of February it fell further to 110,31 points (chart 6). On a sectoral level, in January as well as in February all indices fell. In February the average daily volume decreased markedly to £2,4 million, compared with £7,2 million in the previous month, and the average daily number of transactions also decreased to 2770 from 4877. The securities with the largest proportion of the monthly traded volume in January were the shares of Bank of Cyprus and Farma Hadjioannou, which accounted for 9,3% and 6,15% of the traded volume, respectively, while in February the shares of Bank of Cyprus and Popular Bank accounted for 14,73% and 10,79%, respectively.

Table 11

Banking system's liquidity position*(£ million, period averages of daily positions)*

		Liquidity - providing factors					Liquidity - absorbing factors						Credit institutions current accounts (MRA)	Base money (6+7+9+12)
		Monetary policy operations								Currency in circulation	Central Govern. Deposits (net)	Other factors (net)		
		Net assets in gold and foreign currency (NFA)	Main refinancing operations (repos)	Long term refinancing operations	Marginal lending facility (lombard)	Other liquidity-providing operations (swap)	Deposit facility (overnight)	Other liquidity-absorbing operations (additional & special & S.M.E. dep.)	Rev-repos & depos					
		1	2	3	4	5	6	7	8	9	10	11	12	13
2000	Feb.	947,0	0,0	0,0	1,6	0,1	40,6	2,3	14,5	313,6	-27,3	174,6	430,4	746,3
	Mar.	931,1	57,5	0,0	7,6	4,3	3,2	5,3	0,0	315,0	68,8	171,4	436,8	757,2
	Apr.	939,2	60,9	0,0	0,8	4,5	8,6	2,4	0,0	331,1	-6,1	226,6	442,9	776,4
	May	931,3	21,8	0,0	9,6	8,7	0,2	0,2	0,0	349,0	-53,2	232,4	442,8	792,0
	Jun.	987,8	0,0	0,0	17,3	4,0	1,1	0,6	0,0	354,2	-44,6	249,1	448,8	803,5
	Jul.	998,1	0,0	0,0	20,3	2,0	0,1	0,0	0,0	363,3	14,7	123,0	519,3	882,6
	Aug.	1.006,0	0,0	0,0	11,5	1,8	0,5	1,7	0,0	365,1	50,6	92,9	508,5	875,3
	Sep.	1.028,0	0,0	0,0	4,0	0,4	3,7	0,5	0,0	358,6	48,2	112,1	509,3	868,4
	Oct.	1.018,1	0,0	0,0	18,6	4,3	0,3	0,0	0,0	354,7	-26,8	194,9	517,8	872,5
	Nov.	1.056,5	0,0	0,0	6,3	1,8	3,7	0,0	0,0	341,5	9,8	199,8	509,8	851,2
	Dec.	1.007,1	0,0	0,0	18,9	1,1	4,1	0,5	0,0	353,8	-22,4	184,1	507,0	861,2
	2001	Jan.	892,6	10,2	0,0	8,6	1,1	3,9	94,5	0,0	346,9	41,1	-5,2	431,3
Feb.		876,0	49,5	0,0	0,5	1,2	12,5	93,9	0,0	336,2	-17,7	58,7	443,6	886,1
Mar.		991,3	16,3	0,0	5,0	1,0	2,9	93,0	0,0	337,5	27,3	107,9	444,9	878,3
Apr.		1.075,1	0,0	0,0	18,2	0,7	0,3	90,7	0,0	358,7	-10,3	204,8	449,7	899,5
May		1.109,6	0,0	0,0	28,2	1,2	1,0	84,2	0,0	369,4	47,9	186,2	450,3	904,9
Jun.		1.316,1	0,0	0,0	0,0	0,0	57,9	79,7	26,4	382,7	121,0	209,4	439,1	959,3
Jul.		1.379,0	0,0	0,0	1,2	0,0	9,2	79,6	92,0	393,8	148,5	205,8	451,1	933,8
Aug.		1.333,2	0,0	0,0	0,5	0,0	39,3	79,6	58,6	393,9	114,1	190,8	457,2	970,2
Sep.		1.359,6	0,0	0,0	0,0	0,0	58,7	79,6	94,8	386,0	78,1	200,6	461,8	986,1
Oct.		1.358,1	0,0	0,0	2,3	0,1	19,4	79,6	104,7	384,3	47,3	260,7	464,5	947,8
Nov.		1.372,1	0,0	0,0	2,3	0,0	13,3	79,4	118,5	366,5	43,9	286,3	466,6	925,8
Dec.		1.334,4	0,0	0,0	3,6	0,0	8,3	79,4	111,9	385,3	-0,6	285,7	468,1	941,1
2002	Jan.	1.309,0	0,0	0,0	0,8	0,0	16,4	79,4	174,3	377,6	54,3	134,7	473,1	946,6
	Feb.	1.384,4	0,0	0,0	0,6	0,0	14,5	79,4	131,3	363,9	159,2	148,3	488,6	946,4

2.3 INFLATION

Prices increased by 2,70% in February, just as in January. As table 12 shows, the maintenance of inflation at the same level is attributable to the rise of imported product prices and the acceleration in the prices of services, combined with the deceleration in the prices of domestic agricultural products and the fall in the prices of fuels as well as electricity. It is pointed out that water, which hitherto was included in the same category as electricity (A.3) has been moved to the category "industrial, non-oil" (A.2.1), so that category A.3 only includes electricity.

As regards domestic goods, the most important development in February was the slowdown in agricultural product prices, which increased by 15,63%, compared with a rise of 21,82% in the previous month. The large increases in agricultural product prices in previous months

partly emanated from the destruction of vegetable crops due to unfavourable weather conditions, which resulted in a sharp rise in the prices of these products. This situation seems to have been mitigated since February. The continuing fall in electricity prices is also worth noting, while the administratively specified fuel prices decreased in February. The fall in fuel prices in Cyprus mainly reflects developments in international oil markets. Indicatively, prices of oil (Brent) in the first two months of 2002 averaged USD19,9 per barrel, while in the corresponding period of 2001 the average price was USD26,6 per barrel. However, oil prices rose sharply lately, due to the crisis in the Middle East. If military operations continue, then oil prices are expected to remain high, adversely affecting inflation.

Table 12
Consumer price index by economic origin

(annual percentage change)

		2000	2001	February 2001/2000	January 2002/2001	February 2002/2001
	All items	4,14	1,97	2,40	2,70	2,70
A	Domestic goods	7,15	1,34	1,87	4,14	3,31
A.1	Agricultural	8,98	4,50	-3,31	21,82	15,63
A.2	Industrial	4,47	0,79	2,43	0,60	1,27
A.2.1	<i>Industrial, non-oil</i>	2,50	0,11	0,57	0,73	2,17
A.2.2	<i>Fuel and gas</i>	14,86	3,99	11,59	0,00	-2,73
A.3	Electricity	36,04	-2,66	15,66	-14,06	-14,87
B	Imported goods	2,13	0,47	1,41	-0,37	0,59
B.1	Motor vehicles	3,78	0,55	1,94	0,41	0,46
B.2	Other imported goods	0,93	0,41	1,01	-0,96	0,68
C	Services	2,52	3,35	3,40	2,97	3,22

Prices of imported goods increased by 0,59% in February 2002, compared with a decrease of 0,37% in January 2002 and an increase of 1,41% in February 2001. The abrupt increase in the prices of imported goods in February compared to January is not related to motor vehicles, the prices of which increased at about the same rate.

Finally, prices of services rose by 3,22% in February, compared with an increase of 2,97% in January and 3,40% in February of the previous year. This acceleration relative to January mainly emanated from the categories "health" and "miscellaneous goods and services".

As a result of the aforementioned developments in February, the inflation rate in the first two months of 2002 increased to 2,70%, compared with 1,92% in the corresponding period of 2001. A more detailed analysis of developments on the inflation front by economic origin is presented in tables 3 to 6 in the annex⁴. An increase in core inflation to 1,9% was also recorded in the first two months of 2002, compared with 1,6% in the first two months of 2001 (see table 3 in the annex).

Turning to prospects for the year 2002, inflation is expected to be in the range of 2,0% to 2,5%, excluding the effects of the forthcoming increase

in the VAT rate and other indirect taxes.⁵ This preliminary projection is based on the framework of price analysis by economic origin as presented above⁶ and the assumption that international oil prices will remain around USD22 per barrel, while no wide fluctuations of the Cyprus pound against the euro, the US dollar, the pound sterling and the yen will occur. It is also assumed that agricultural product prices will register a small acceleration in comparison with 2001, while monetary policy in Cyprus will be accommodative to international developments to the extent macroeconomic stability is not affected.

It is pointed out that the more pronounced the expected slowdown in the growth rate of the Cypriot economy turns out to be in 2002, due to unfavourable international developments mainly at the end of 2001, the greater the likelihood of a lower inflation rate, and vice versa.

For purposes of comparison, table 13 presents the latest available monthly data on inflation in Cyprus, the euro area and selected other countries, as well as projections for 2002.

⁴ Table 3 shows percentage changes in the consumer price index from 1998 until February 2002, and table 4 shows the corresponding weighted contributions of particular categories to the general index in the same period. In addition, tables 5 and 6 in the annex present the corresponding analyses of recent developments on the inflation front by product category.

⁵ The effect of these tax increases on the annual inflation rate is estimated at 2,0 points. Even though the imposition of these increases in 2002 is almost certain, the exact timing of their imposition is uncertain and is expected around the end of the second quarter.

⁶ These conclusions are also supported by preliminary econometric analyses using autoregressive models, with quarterly data for the period 1992(1)-2001(4).

Table 13**Inflation : Cyprus and other countries***(annual percentage change in consumer prices)*

	Inflation rate	month	forecast for 2002 ¹
Cyprus	2,7	Feb.	2.2 ²
Euro area	2,4	Feb.	1,6
U.S.A.	1,1	Jan.	1,3
G.Britain	1,0	Feb.	2,0
Germany	1,7	Feb.	1,3
Italy	2,5	Feb.	1,8
Denmark	2,5	Feb.	1,8
France	2,0	Feb.	1,2
Austria	1,9	Feb.	1,6
Belgium	2,6	Feb.	1,6
Spain	3,1	Feb.	2,3
Sweden	2,8	Feb.	2,0
Switzerland	0,7	Feb.	0,6
Japan	-1,4	Jan.	-1,0
Canada	1,3	Jan.	1,2

*(1) Source: The Economist**(2) Source: Central Bank of Cyprus***2.4 DOMESTIC ECONOMY****Production**

Business confidence in manufacturing and business services improved, as regards prospects in the first half of the year. In contrast, the slowdown in tourism was reflected in expectations that tourist demand in the first quarter of the year would be lower than normal. It is encouraging, however, that the majority of hotels expect an improvement rather than deterioration in the first half of the year. The latest available data on domestic developments mostly refer to the previous year and do not significantly alter the picture presented in January's *Monetary Policy Report*. It is worth noting that inflation in February remained at the same level as in January, while an increase in unemployment was recorded in January in comparison with the corresponding month of the previous year.

In the primary sector, after the downturn observed in 2000, agricultural output recovered strongly in 2001, increasing by 9,1%, compared with a fall of 11,5% in 2000. More specifically, crop production and livestock production increased by 18,1% and 0,5%, respectively, compared with a decrease of 22,0% and an increase of 1,5% in 2000.

In the secondary sector the picture is still mixed. According to most indicators, prospects for construction are good. The volume index of building permits, which indicates prospects for construction in the following few months, continued to rise in December 2001. The increase reached 48,8%, compared with a fall of 25,2% in December 2000. In parallel, the value index of building permits rose by 46,3% in December 2001, compared with a decrease of 13,2% in the corresponding month of 2000. For 2001 as a whole, the volume (value) index of building permits increased by 23,4% (26,2%), compared with an increase of 2,6% (7,2%) in 2000. Local cement sales fell by in December, for the first time in 2001. The fall was of the order of 14,2%, compared with a marginal increase in December 2000. For the whole year 2001, local cement sales grew by 11,6%, compared with an increase of 1,1% in 2000. A decrease in cement sales by 3,1% was also recorded in the first month of 2002, compared with an increase of 34,5% in January 2001.

Manufacturing continued to present a negative picture in November and December 2001. The volume index of manufacturing production declined further by 0,5% in each month, as compared with decreases of 2,7% and 7,6% in November and December 2000, respectively.

Chart 5

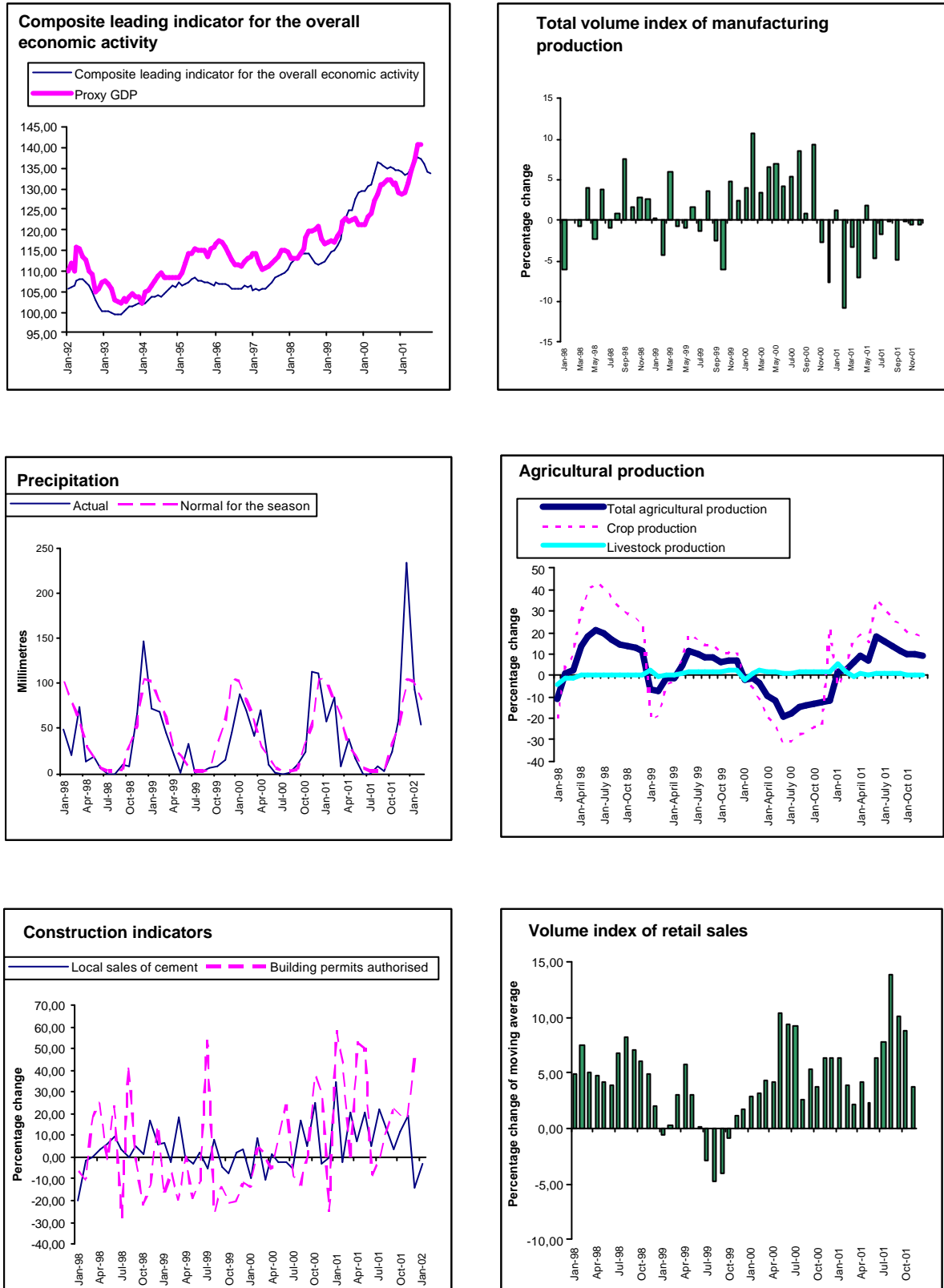
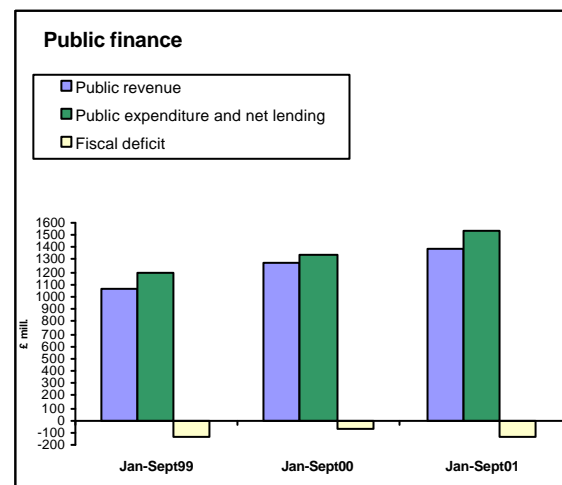
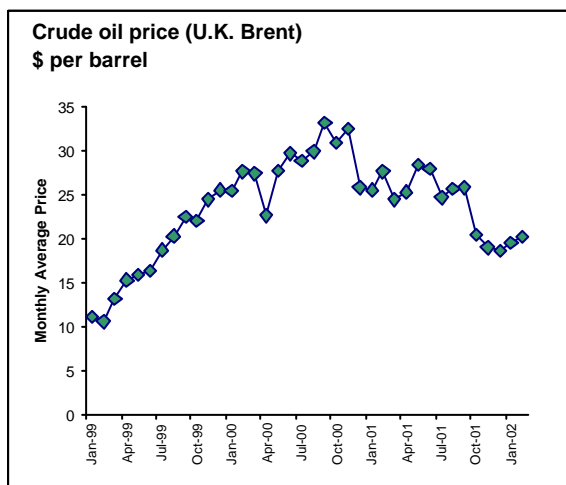
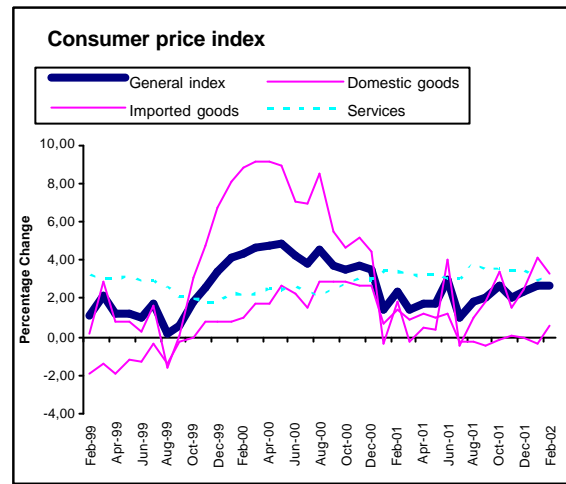
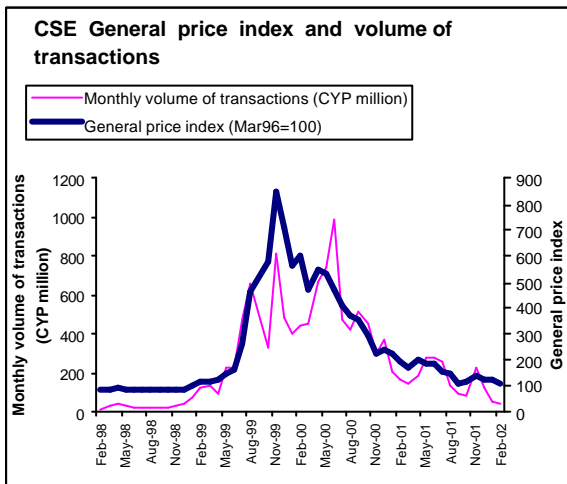
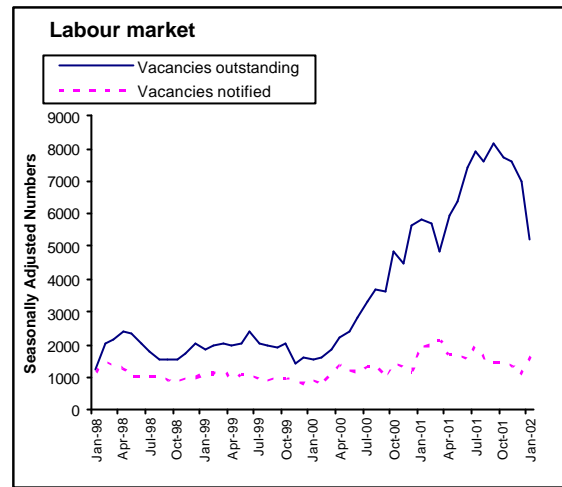
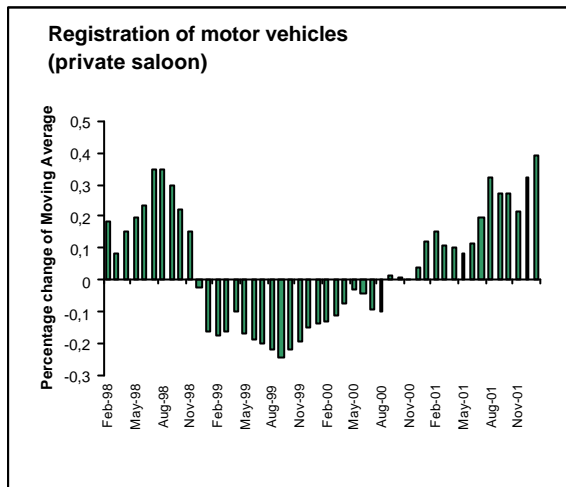


Chart 6



During 2001 as a whole, the index declined by 2,6%, compared with an increase of 4,0% in 2000. The performance of manufacturing by product category is presented in table 14. Notwithstanding the fall of economic activity in manufacturing observed in 2001, business confidence in this sector improved in 2002. According to the Business Trends Survey conducted by the Statistical Service in January 2001, the proportion of manufacturing

entrepreneurs anticipating an improvement in their business situation in the next six months was higher than the corresponding proportion in October 2001. There was also a rise in the proportion of entrepreneurs reporting that they expected an increase in production levels as well as an increase in selling prices of their products. However, a proportion higher than that in October 2001 was planning a cutback in their staff numbers.

Table 14**Manufacturing production volume index***(percentage change by category)*

	Dec. 2001/2000	Dec. 2000/1999	Jan.-Dec. 2001/2000	Jan.-Dec. 2000/1999
General index	-0,45	-7,64	-2,61	3,95
Food products, beverages & tobacco	-4,82	-14,14	-7,29	4,04
Textiles & textile products	-8,76	-2,25	-3,45	-7,07
Leather and leather products	-10,33	-7,60	-7,84	-13,10
Wood & wood products	9,96	-6,33	-1,87	6,91
Paper, paper products, publishing & printing	4,53	2,41	6,24	11,16
Refined petroleum products	3,34	1,99	-2,02	-0,48
Chemicals, chemical products and man-made fibres	22,15	-6,44	10,80	2,98
Rubber and plastic products	-11,35	-13,01	-6,16	-1,57
Other non-metallic mineral products	-5,66	1,36	2,32	6,22
Basic metals & fabricated metal products	16,01	-2,82	2,49	9,46
Machinery and equipment n.e.c.	-5,12	0,00	-1,07	11,02
Electrical & optical equipment	-3,26	2,63	-2,70	7,15
Transport equipment	27,16	-28,51	-11,62	-0,64
Manufacturing n.e.c.	-5,92	-13,54	-6,87	1,84

The services sector, mainly tourism, which is the driving force of the economy, has been adversely affected by international developments. Tourist arrivals continued to decrease in the first two months of 2002, by 15,8% and 13,9% in January and February, respectively, compared with an increase of 1,0% and a decrease of 4,2% in the corresponding months of 2001. For the first two months tourist arrivals fell by 14,7%, as compared with a decrease of 2,0% in the corresponding period of 2001. Receipts from

tourism in the first month of 2002 decreased by 13,5% to £21,6 million.

The slowdown in tourism is reflected in the decline of business confidence of hotel owners, as portrayed in the aforementioned Business Trends Survey. The proportion of hotels reporting in January that they considered their current business position as not satisfactory for this time of the year exceeded the proportion of those assessing it as more than satisfactory by 70 percentage points, compared with a much

smaller proportion in the same month of the previous year. Furthermore, the proportion of hotels reporting that demand levels in January 2002 were lower than normal for the season was more than double the corresponding proportion in January 2001, while the proportion of hotels reporting that they expected demand within the coming three months to be lower than normal reached 64%, compared with 23% in the corresponding month of the previous year. At the same time, the proportion of hotels reporting in January that they expected an improvement in their business position during the next six months exceeded the proportion of those expecting a deterioration, but the difference was much smaller than that in the same month of the previous year.

The Business Trends Survey conducted by the Statistical Service also records trends in business

services, including legal services, accounting, auditing and bookkeeping services, engineering, architectural and technical services, and some other business services. According to the results of the survey conducted in January, business confidence in this sub-sector of services improved in comparison with expectations recorded in October 2001. The proportion of enterprises reporting that they anticipated a further improvement in their business position within the next few months was higher than the corresponding proportion in October. There was also a rise in the proportion of enterprises reporting that they anticipated an increase in demand for their services and an increase in the size of their permanent staff, as well as a rise in the proportion of those anticipating an increase in the prices of their services.

Table 15

Retail sales volume index

(percentage change by category)

	Dec. 2001/2000	Dec. 2000/1999	Jan.-Dec. 2001/2000	Jan.-Dec. 2000/1999
General index	-0,99	7,92	5,89	5,68
Food, drinks and tobacco	-6,38	5,08	1,01	2,71
Clothing and textiles	-9,47	30,68	-4,04	22,14
Footwear & leather products	-16,25	41,80	-1,82	28,12
Electrical goods & appliances	45,25	-6,93	1,98	13,32
Vehicles, machinery & spare parts	3,10	18,23	21,49	1,89
Supermarkets	-5,35	8,76	2,32	7,10
Pharmacies	1,45	-12,91	6,82	-12,05
Furniture	-19,34	21,91	2,82	13,95
Petrol stations	5,31	-6,83	2,61	2,64
Toys	27,67	4,91	3,79	-2,84

Consumption

Private consumption seems not to have been significantly affected by the 11 September events. The retail sales volume index increased by 4,3% and 10,0% in October and November, respectively, and decreased by 1,0% in December 2001, compared with increases of 8,3%, 1,8% and 7,9% in the corresponding months of 2000. The course of retail sales by product category is presented in table 15. For 2001 as a whole, the retail sales volume index accelerated slightly, rising by 5,9% compared with an increase of 5,7% in 2000.

Private saloon car registrations also indicate that private consumption remained high in 2001. Specifically, private saloon car registrations increased by 19,4% in 2001, compared with a decrease of 6,5% in 2000, and in the first two months of 2002 they rose by 48,1%, compared with an increase of 21,4% in the corresponding period of 2001. This may indicate a rise in private consumption in the first two months of 2002.

Developments in imports for home consumption (excluding imports of military equipment and fuels) do not seem consistent with the small acceleration in retail sales in 2001. A substantial deceleration was recorded in these imports, which increased by 9,0% in 2001, down from a growth rate of 16,5% in 2000.

Confidence indicators

Every month the European Commission publishes a consumer confidence indicator as well as an industrial confidence indicator for accession countries. According to these data (table 16), in October 2001 the overall fall of the industrial confidence indicator was 5 points, while in Cyprus a fall of 9 points was recorded. In November, however, this indicator improved or declined slightly in nearly all accession countries. The indicator for Cyprus increased by 8 points.

Turning to consumer confidence, while in October 2001 the consumer confidence indicator for Cyprus fell by 12 points –the largest fall among all accession countries– in November it increased by 7 points. The movement of this indicator in the accession countries was on average slightly worse in November than in October. As table 16 shows, the consumer confidence indicator by country presents a mixed picture, continuing to decline in some countries while improving in others.

Labour market

The number of registered unemployed increased by 12,2% in January 2002, compared with a decrease of 11,5% in January 2001, while the unemployment rate, as a percentage of the economically active population rose to 4,2%, compared with 3,8% in the corresponding month of the previous year. A rise in unemployment in the first month of the year was observed in all sectors of the economy, with the sole exception of construction. It is noted that rising unemployment has been recorded since November 2001.

Table 16

Business and consumer surveys in the accession countries (AC)

(balances, seasonally adjusted)

		Since 01/1990				2000	2001										
		Minimum		Maximum		Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.
		Value	Date	Value	Date												
Industrial confidence indicator	AC total	-23	03-99	12	04-95	-3	-2	-4	-4	-7	-7	-10	-9	-13	-11	-16	-17
	BG	-30	06-93	8	11-95	-9	-9	-8	-10	-4	-6	-5	-2	-2	-2	-11	-7
	CY ⁽¹⁾	-2	10-01	10	06-01	:	:	:	:	:	7	10	-2	0	7	-2	6
	CZ	-31	03-99	27	06-00	10	13	6	8	11	9	1	6	0	1	-9	-10
	EE	-31	07-92	19	03-01	11	18	19	19	11	9	10	9	9	7	2	3
	HU	-15	05-99	8	04-98	6	2	2	4	1	-1	-4	-7	-6	-8	-11	-13
	LV	-44	04-93	2	08-01	-2	-2	-1	-1	-4	-7	-3	2	2	0	-1	-2
	LT	-37	11-98	0	07-95	-13	-11	-11	-7	-2	-3	-10	-11	-6	-9	-7	-8
	PL	-29	10-01	8	10-97	-15	-13	-15	-14	-17	-19	-21	-23	-28	-23	-29	-28
	RO	-21	07-92	27	04-96	:	-2	:	:	-1	:	:	1	:	:	-1	:
	SK	-23	12-95	26	05-96	19	18	17	4	1	13	12	10	5	3	2	-7
	SI	-21	03-99	18	06-00	7	6	7	6	1	-3	-1	-4	-6	-6	-11	-8
Consumer confidence indicator	AC total ⁽¹⁾	-27	08-01	-22	09-01	:	:	:	:	:	-26	-25	-25	-27	-22	-24	-25
	BG ⁽¹⁾	-31	11-01	-12	08-01	:	:	:	:	:	-25	-21	-13	-12	-20	-30	-31
	CY ⁽¹⁾	-38	10-01	-9	06-01	:	:	:	:	:	-14	-9	-22	-17	-26	-38	-31
	CZ	-36	03-98	1	04-01	-15	-7	-2	-1	1	0	-5	-5	-6	-6	-3	-4
	EE	-56	04-93	-7	08-01	-35	-31	-31	-32	-36	-20	-18	-17	-7	-14	-17	-20
	HU	-59	04-95	-9	07-98	-25	-27	-22	-23	-21	-20	-21	-19	-20	-19	-18	-16
	LV	-48	03-93	4	09-01	:	:	:	:	:	-11	-4	-6	-4	4	-2	0
	LT ⁽¹⁾	-33	05-01	-24	08-01	:	:	:	:	:	-33	-30	-24	-24	-25	-30	-28
	PL ⁽¹⁾	-40	08-01	-27	09-01	:	:	:	:	:	-38	-36	-35	-40	-27	-31	-33
	RO ⁽¹⁾	-27	11-01	-20	06-01	:	:	:	:	:	-22	-20	-21	-22	-23	-26	-27
	SK ⁽¹⁾	-48	09-99	-23	05-00	-42	-35	-38	-43	-36	-33	-33	-32	-28	-29	-31	-27
	SI	-29	06-99	-12	06-01	-14	-13	-12	-12	-12	-15	-12	-14	-15	-13	-16	-18

(1) not seasonally adjusted

Source: Surveys conducted by national statistical (and other) institutions and harmonised by the European Commission.

Public finances

The fiscal deficit is estimated to have reached about 3,0% of GDP in 2001, compared with 2,7% of GDP in the previous year. In 2002, despite the expected slowdown in economic growth, the fiscal deficit is projected to remain around 3% of GDP.

Detailed data for public finances are released with some delay, and the latest available data refer to the first nine months of 2001. According to these data, the fiscal deficit increased substantially in January-September 2001 and reached £133,3 million, compared with £69,1 million in the corresponding period of the previous year. Public revenue increased by 9,1% in the first nine months of 2001, compared with an increase of 21,2% in the corresponding period of 2000, while public expenditure increased by 13,3%, showing a small deceleration. As regards public expenditure, subsidies to oil companies should be nil as a result of the fall in oil prices, while growth in public sector employment should be contained to 1,0% according to the fiscal consolidation programme. Interest payments on domestic debt should also be contained due to the interest rate reductions by the Central Bank in 2001. Turning to public revenue, the slowdown in tax receipts is expected to be mitigated by improved tax collection management. It should be noted that the proposed tax reform, if implemented in 2002, will have a neutral effect on public finances in this year. In the medium and long run, however, it is anticipated to have a net positive effect on public revenue, thus contributing to the accomplishment of the Pre-accession Economic Programme of Cyprus.

2.5 EXTERNAL TRANSACTIONS

The decrease in total imports continued in the last two months of 2001, in comparison with the corresponding months of 2000, and as a result the growth rate of total imports for the whole year declined to 2,7%. At the same time, total exports presented a satisfactory growth and the final result was a small increase in the crude trade deficit in 2001 to about £1.907,4 million, from £1.877,0 million in 2000.

Data for tourism in the first months of 2002 are not encouraging, as tourist arrivals fell by 15,8% in January and by 13,9% in February.

Trade in goods

The latest available data on trade, which are summarised in table 17, show a sharp fall in the growth rate of imports in 2001 and a relatively small deceleration in exports. It is clarified that data for December 2001 are provisional, while detailed data are available for the period January-November 2001. Tables 18 and 19 present an analysis of imports and exports by category of goods.

In November 2001 total imports fell by 17,1% in comparison with November 2000, primarily due to the fall of fuel imports by 64,8% (£24,2 million). The decrease in imports continued in December, but the size of the decrease was around 7,8%. In the last quarter of 2001 the decrease in total imports was of the order of 9,4%, compared with an increase of 13,7% in the last quarter of 2000. In the same period, imports for home consumption excluding imports of military equipment and fuels registered a decrease of about 1,0%, compared with an increase of 20,1% in the last quarter of 2000 and an increase of

12,9% in January-September 2001. For 2001 as a whole, the growth rate of imports for home consumption excluding imports of military equipment and fuels was about 9,0%, down from 16,5% in 2000.

Analytically, after decreasing by 4,1% in September, for the first time in 2001, imports for home consumption excluding imports of military equipment and fuels decreased by 0,8% in October as well as in November and by 1,4% in December. In particular, in October and November a decrease in imports of semi-durable and durable consumer goods and a small increase in imports of non-durable consumer goods were observed. These trends point to a slowdown in domestic consumption. However, imports of cars, after a small decrease in October, continued to increase in November. Concurrently, a decrease in imports of intermediate inputs was observed. As table 18 shows, in January-November 2001 a slowdown was recorded in all major categories of imports except imports of transport equipment and parts thereof, which accelerated substantially, mainly due to the sizeable increase in imports of cars. The slowdown in imports of intermediate inputs and capital goods, with the exception of capital goods for construction and mining, which rose significantly after the fall recorded in 2000, seems to be consistent with the observed downturn of the domestic manufacturing sector and the rise of the construction sector.

The downtrend in imports observed in the last four months of 2001 seems to have continued in January 2002, according to data for VAT receipts, but seems to have been reversed in February. Specifically, VAT receipts from imports of goods decreased by 1,2% in January, but increased by 8,8% in February, in comparison with the corresponding months of 2001.

Turning to exports, after a marginal increase in October 2001, domestic exports rose by 11,2% in November, but decreased by 5,5% in December, in comparison with the corresponding months of 2000. In parallel, after rising by 66,6% in October, re-exports increased by 8,9% in November and by 30,1% in December. The annual growth rates of domestic exports and re-exports in the last quarter of 2001 reached 1,9% and 34,6%, respectively, despite the adverse international developments following the events of 11 September. For the whole year 2001, domestic exports and re-exports increased by 4,1% and 12,9%, respectively, as compared with increases of 8,4% and 0,7% in 2000.

As table 19 shows, the slowdown in domestic exports emanated from the stagnation of industrial exports, while exports of raw agricultural products, particularly potatoes, recovered strongly after the decrease recorded in 2000. These trends seem to reflect the poor performance of the domestic manufacturing sector, on the one hand, and the recovery of the agricultural sector, on the other.

Table 17**Trade balance data***(millions Cyprus pounds)*

	Nov. 2001	Dec. 2001 ¹	2000	2001 ¹	% change 2001/2000	% change 2000/1999
Total imports (cif)	197,0	196,0	2.468,9	2.536,6	2,7	23,2
Imports for home consumption (cif)	172,6	170,0	2.035,7	2.182,6	7,2	22,4
Imports for home consumption (cif) excluding imports of military equipment and fuels	157,4	141,7	1.668,3	1.818,0	9,0	16,5
Total exports (fob)	48,1	43,0	591,9	629,2	6,3	9,0
Domestic exports (fob) ²	18,6	17,0	224,0	233,1	4,1	8,4
Re-exports (fob)	26,5	23,0	299,6	338,2	12,9	0,7
Goods procured in ports by carriers	2,9	3,0	68,3	57,8	-15,4	76,0
Crude trade balance	-148,9	-153,0	-1.877,0	-1.907,4		

*(1) Figures for December 2001 are provisional.**(2) Domestic exports figures for the months of April, May and June 2001 have been changed, due to revisions made by the Statistical Service of Cyprus in respect of potatoes.*

Table 18**Imports (cif) by economic destination***(January - November)*

	1999		2000		2001		% change 2001/2000	% change 2000/1999
	Value (£ million)	%	Value (£ million)	%	Value (£ million)	%		
Consumer goods	435,4	30,0	523,4	28,2	572,8	28,5	9,4	20,2
Non-durable	238,9	16,4	285,2	15,4	313,5	15,6	9,9	19,4
Semi-durable	121,6	8,4	145,3	7,8	159,6	7,9	9,8	19,6
Durable	75,0	5,2	92,9	5,0	99,7	5,0	7,3	23,9
Intermediate inputs	524,0	36,1	615,9	33,2	654,3	32,5	6,2	17,5
Agricultural	32,1	2,2	37,3	2,0	37,6	1,9	0,9	16,2
Construction and mining	84,5	5,8	100,2	5,4	112,2	5,6	12,0	18,6
Manufacturing	320,2	22,0	366,1	19,7	388,8	19,3	6,2	14,3
Transport, storage and communication	27,5	1,9	40,0	2,2	27,7	1,4	-30,9	45,6
Other sectors of the economy	59,7	4,1	72,2	3,9	88,1	4,4	22,0	21,0
Capital goods	171,6	11,8	213,5	11,5	238,2	11,8	11,6	24,4
Agricultural	7,8	0,5	8,2	0,4	8,4	0,4	1,7	5,0
Construction and mining	23,0	1,6	14,0	0,8	19,3	1,0	37,3	-39,0
Manufacturing	45,5	3,1	58,9	3,2	64,9	3,2	10,3	29,5
Transport, storage and communication	26,1	1,8	39,4	2,1	47,5	2,4	20,5	51,3
Other sectors of the economy	69,2	4,8	92,9	5,0	98,1	4,9	5,5	34,3
Transport equipment and parts thereof	166,6	11,5	171,8	9,2	210,8	10,5	22,7	3,1
of which:								
Passenger cars	62,0	4,3	69,2	3,7	87,4	4,3	26,2	11,7
Spare parts	50,3	3,5	49,2	2,6	57,1	2,8	16,2	-2,2
Fuels and lubricants	136,1	9,4	248,5	13,4	249,8	12,4	0,5	82,6
Unclassified	19,9	1,4	84,6	4,6	86,6	4,3	2,4	326,0
Imports for home consumption	1.453,6	82,3	1.857,7	82,3	2.012,6	86,0	8,3	27,8
Imports destined for re-exports	313,1	17,7	398,7	17,7	328,0	14,0	-17,7	27,3
Total imports	1.766,7	100,0	2.256,4	100,0	2.340,6	100,0	3,7	27,7

Source: Statistical Service of Cyprus

Table 19**Exports (fob) by economic origin***(January – November)*

	1999		2000		2001		% change 2001/2000	% change 2000/1999
	Value (£ million)	%	Value (£ million)	%	Value (£ million)	%		
Agricultural products (raw)	34,0	6,9	32,4	5,9	41,7	7,1	28,8	-4,6
of which:								
Potatoes	13,7	2,8	12,3	2,2	17,5	3,0	42,0	-9,7
Other vegetables, fresh, frozen or dried	2,7	0,5	2,6	0,5	3,6	0,6	37,5	-2,2
Citrus fruit	12,5	2,5	11,7	2,1	13,7	2,3	16,5	-5,9
Minerals and industrial products of mineral origin	10,4	2,1	10,9	2,0	10,8	1,8	-0,2	4,4
Industrial products of agricultural origin	23,2	4,7	26,2	4,7	25,6	4,4	-2,2	13,1
of which:								
Halloumi cheese	5,2	1,1	7,0	1,3	6,8	1,2	-2,6	33,8
Fruit preserved	1,5	0,3	1,5	0,3	0,9	0,1	-41,5	-1,4
Fruit and vegetable juices	2,8	0,6	3,3	0,6	3,8	0,7	16,6	18,1
Beer	1,1	0,2	1,0	0,2	0,9	0,2	-8,6	-7,9
Wines	7,1	1,4	5,8	1,1	4,7	0,8	-18,8	-17,8
Industrial products of manufacturing origin	120,0	24,2	136,3	24,7	137,8	23,5	1,1	13,6
of which:								
Cigarettes	13,1	2,6	14,6	2,6	10,1	1,7	-31,1	11,8
Cement	7,2	1,4	9,5	1,7	6,8	1,2	-28,5	32,8
Pharmaceutical products	22,4	4,5	28,2	5,1	35,9	6,1	27,1	26,1
Articles of paper or of paperboard	3,6	0,7	4,5	0,8	5,4	0,9	20,8	24,9
Clothing	21,0	4,2	21,0	3,8	18,5	3,2	-11,7	-0,1
Footwear	6,3	1,3	5,7	1,0	3,6	0,6	-36,0	-9,9
Furniture	5,8	1,2	7,2	1,3	6,4	1,1	-11,1	24,6
Unclassified	0,2	0,0	0,1	0,0	0,1	0,0	-44,2	-34,4
Total domestic exports	187,8	37,9	206,0	37,3	216,1	36,9	4,9	9,7
Re-exports	272,2	54,9	281,9	51,0	315,2	53,8	11,8	3,6
Goods procured in ports by carriers	35,8	7,2	64,9	11,7	54,8	9,4	-15,6	81,4
Total exports	495,8	100,0	552,8	100,0	586,2	100,0	6,0	11,5

Source: Statistical Service of Cyprus

Tourism

As shown in table 20, the downturn of tourism, which has started since September 2001, continued in the first two months of 2002. Tourist arrivals fell by 15,8% in January and by 13,9% in February, in comparison with the corresponding months of 2001. Receipts from tourism decreased by 13,5% in January, that is the average tourist expenditure per person presented an increase of 2,7%.⁷

As regards the geographical origin of tourists, in January over half the number of arrivals as well as receipts from tourism came from the United Kingdom, while Germany remained the second main tourist market. It is worth noting that according to data compiled by the Cyprus Tourism Organisation, a sizeable fall in tourism receipts was registered for all countries except Greece, Sweden and Israel, for which an increase was recorded.

Even though the contribution of winter tourism to annual receipts from tourism is generally small, results for the first two months of the year appear worrisome. The course of summer tourism is not yet evident. The government and other competent parties are making efforts to promote Cyprus as a tourist destination, through incentives for tourism recovery, participation in international tourism fairs and communication with foreign tour operators, who greatly influence tourism in Cyprus.

⁷ Estimates of receipts from tourism as well as tourist arrivals do not include same-day visitors.

Table 20**Tourist arrivals***(number of persons¹)*

	1999	2000	2001	2002	% change 2002/2001	% change 2001/2000	% change 2000/1999
January	57.740	63.553	64.214	54.067	-15,8	1,0	10,1
February	74.041	87.243	83.569	71.950	-13,9	-4,2	17,8
March	126.494	135.487	137.578			1,5	7,1
April	180.076	221.785	237.229			7,0	23,2
May	273.317	299.355	324.901			8,5	9,5
June	276.879	302.011	322.835			6,9	9,1
July	322.041	362.299	373.385			3,1	12,5
August	341.088	356.686	371.536			4,2	4,6
September	309.498	329.964	329.400			-0,2	6,6
October	270.732	300.597	269.744			-10,3	11,0
November	118.105	133.500	107.454			-19,5	13,0
December	84.274	93.722	74.887			-20,1	11,2
Jan.-Dec.	2.434.285	2.686.202	2.696.732			0,4	10,3
Jan.-Feb.	131.781	150.796	147.783	126.017	-14,7	-2,0	14,4

*Source: Statistical Service of Cyprus**(1) Does not include arrivals of same-day visitors.***Table 21****Receipts from tourism¹***(Cyprus pounds)*

	2001	2002	% change 2002/2001
January	24.940.895	21.580.892	-13,5
February	29.136.394		
March	49.735.299		
April	89.865.725		
May	139.090.117		
June	157.358.175		
July	191.984.827		
August	204.960.178		
September	176.300.401		
October	130.241.548		
November	48.791.595		
December	29.224.911		
January – December	1.271.630.044		

*Source: Cyprus Tourism Organisation**(1) Receipts from same-day visitors are not included.*

Investments by non-residents on the Cyprus Stock Exchange

Table 22 presents recent developments in investments by non-residents on the Cyprus Stock Exchange. In January 2002 a net inflow of

capital was recorded, for the first time since last September, but in February there was a small net outflow. Tables 8 and 9 in the annex present purchases and sales by non-residents of shares quoted on the Cyprus Stock Exchange.

Table 22

Investments by non-residents on the Cyprus Stock Exchange

(millions Cyprus pounds)

	Jan. 2001	Feb. 2001	Mar. 2001	Apr. 2001	May 2001	June 2001	July 2001	Aug. 2001	Sep. 2001	Oct. 2001	Nov. 2001	Dec. 2001	Jan. 2002	Feb. 2002
Purchases	2,045	2,385	1,686	1,206	1,817	0,795	0,689	1,262	0,873	0,916	1,226	0,367	0,570	0,292
Sales	0,962 ¹	2,086	1,087	0,988	1,097	0,889	0,659	0,706	0,772	1,090	2,007	0,577	0,362	0,347
Net investments	- ¹	0,299	0,600	0,218	0,720	-0,094	0,030	0,556	0,101	-0,174	-0,781	-0,210	0,208	-0,055

(1) Data for sales in January 2001 only cover the period 17.01.2001 to 31.01.2001.

3. ANNEX

Table 1**European retail bank interest rates***(percentages per annum, period averages)*

	Deposit Interest Rates						Lending Interest Rates			
	Overnight	With agreed maturity			Redeemable at notice		To enterprises		To households	
		Up to 1 year	Up to 2 years	Over 2 years	Up to 3 months	Over 3 months	Up to 1 year	Over 1 year	Consumer lending	For house purchase
2000 Jan.	0,69	2,74	2,74	4,19	2,05	3,18	5,91	5,74	9,51	6,03
Feb.	0,69	2,80	2,81	4,25	2,06	3,18	6,01	5,85	9,52	6,13
Mar.	0,73	2,96	2,96	4,28	2,07	3,33	6,07	5,85	9,56	6,10
Apr.	0,76	3,04	3,05	4,28	2,09	3,44	6,24	6,00	9,64	6,12
May	0,78	3,26	3,26	4,45	2,13	3,65	6,41	6,16	9,72	6,30
Jun.	0,83	3,49	3,49	4,48	2,16	3,87	6,56	6,23	9,84	6,34
Jul.	0,87	3,58	3,58	4,71	2,33	3,94	6,77	6,37	9,95	6,46
Aug.	0,89	3,67	3,67	4,75	2,36	4,06	6,81	6,44	10,00	6,51
Sep.	0,94	3,85	3,83	4,77	2,38	4,20	6,92	6,44	10,03	6,56
Oct.	0,97	3,96	3,96	4,76	2,40	4,14	7,13	6,60	10,15	6,57
Nov.	0,99	4,04	4,03	4,77	2,47	4,25	7,16	6,63	10,20	6,56
Dec.	1,01	3,96	3,96	4,58	2,49	4,21	7,18	6,45	10,19	6,43
2001 Jan. *	1,01	3,88	3,88	4,39	2,52	4,01	7,19	6,40	10,32	6,29
Feb.	1,01	3,84	3,83	4,35	2,50	3,99	7,11	6,44	10,26	6,24
Mar.	1,02	3,82	3,82	4,32	2,50	3,99	7,04	6,32	10,22	6,18
Apr.	1,03	3,76	3,76	4,26	2,50	3,91	7,07	6,34	10,24	6,14
May	1,01	3,75	3,74	4,27	2,48	3,91	7,03	6,34	10,22	6,17
Jun.	0,98	3,65	3,65	4,25	2,45	3,85	6,97	6,25	10,17	6,13
Jul.	0,97	3,65	3,65	4,22	2,44	3,80	6,90	6,20	10,10	6,05
Aug.	0,96	3,59	3,59	4,14	2,40	3,68	6,89	6,19	10,16	5,96
Sep.	0,91	3,28	3,28	3,98	2,36	3,33	6,71	6,07	10,08	5,86
Oct.	0,84	3,06	3,06	3,84	2,29	3,01	6,46	5,82	9,99	5,65
Nov.	0,78	2,84	2,83	3,65	2,19	2,75	6,31	5,71	9,86	5,48
Dec.	0,75	2,78	2,78	3,77	2,15	2,79	6,16	5,69	9,82	5,52

* From January 2001 data refer to Euro area enlargement

Table 2**Money market interest rates***(percentages per annum)*

		Cyprus					Euro area				
		Overnight deposits	2-7 days deposits	1-month deposits	2-6 months deposits	6-12-months deposits	Overnight deposits	1-month deposits	3-month deposits	6-month deposits	12-month deposits
2001	Jan.	5,77	6,06	6,31	-	6,50	4,75	4,81	4,77	4,68	4,58
	Feb.	5,52	6,10	6,28	6,36	7,50	4,99	4,80	4,76	4,67	4,59
	Mar.	5,78	-	6,05	6,83	-	4,78	4,78	4,71	4,58	4,47
	Apr.	6,40	6,10	6,39	-	-	5,06	4,79	4,69	4,57	4,49
	May	6,63	6,75	6,60	6,68	7,20	4,65	4,67	4,64	4,57	4,53
	Jun.	4,73	-	5,00	-	6,55	4,54	4,53	4,45	4,35	4,31
	Jul.	4,94	4,88	5,95	-	6,50	4,51	4,52	4,47	4,39	4,31
	Aug.	4,33	4,60	4,85	5,84	-	4,49	4,46	4,35	4,22	4,11
	Sep.	3,97	4,55	5,19	6,10	-	3,99	4,05	3,98	3,88	3,77
	Oct.	3,71	4,10	4,78	-	-	3,97	3,72	3,60	3,46	3,37
	Nov.	3,46	-	4,58	-	5,00	3,51	3,43	3,39	3,26	3,20
	Dec.	3,88	4,67	4,62	5,00	4,50	3,34	3,42	3,34	3,26	3,30
2002	Jan.	3,39	3,82	4,09	-	-	3,29	3,35	3,34	3,34	3,48
	Feb.	3,22	3,66	3,83	-	4,50					

Sources: Central Bank of Cyprus and European Central Bank

Table 3
Percentage change in the Consumer Price Index by economic origin (%)
2000-2002

	Yearly		Quarterly			Feb. 2001/ 2000	Jan. 2002/ 2001	Feb. 2002/ 2001	Jan.-Feb. 2001/ 2000	Jan.-Feb. 2002/ 2001	Weights 1998=100
	2000	2001	2001 II	2001 III	2001 IV						
GENERAL INDEX	4,14	1,97	2,15	1,62	2,36	2,40	2,70	2,70	1,92	2,70	100,00
A LOCAL GOODS	7,15	1,34	1,61	0,81	2,46	1,87	4,14	3,31	0,77	3,73	36,69
A.1 Agricultural	8,98	4,50	1,55	4,55	15,97	-3,31	21,82	15,63	-3,32	18,71	7,93
A.2 Industrial	4,40	0,78	2,30	0,50	-0,48	2,43	0,60	1,27	0,84	0,93	27,24
A.2.1 industrial non-petroleum	2,45	0,10	0,28	0,46	0,95	0,57	0,73	2,17	-1,29	1,44	22,91
A.2.2 fuel and gas	14,86	3,99	12,93	0,66	-6,73	11,59	0,00	-2,73	11,59	-1,36	4,33
A.3 Electricity	47,32	-3,23	-6,90	-8,48	-8,94	15,66	-14,06	-14,87	16,61	-14,47	1,52
B IMPORTED GOODS	2,13	0,47	1,16	-0,29	0,00	1,41	-0,37	0,59	1,08	0,11	22,20
B.1 Motor Vehicles	3,78	0,55	1,32	-0,37	-0,76	1,94	0,41	0,46	2,45	0,44	9,43
B.2 Other Imported	0,93	0,41	1,04	-0,24	0,57	1,01	-0,96	0,68	0,05	-0,14	12,77
C SERVICES	2,52	3,35	3,17	3,37	3,50	3,40	2,97	3,22	3,41	3,10	41,11
Euro area inflation	2,4	2,7	3,2	2,7	2,2						
Underlying inflation for Cyprus¹	2,4	1,7	1,9	1,7	1,9	2,1	1,5	2,3	1,6	1,9	

1) Excluding changes in the prices of the following categories: A.1, A.2.2 and A.3

Table 4

Weighted contribution to the total change in the Consumer Price Index by economic origin (%)
2000-2002

	Yearly		Quarterly			Feb.	Jan.	Feb.	Jan.-Feb.	Jan.-Feb.	Weights 1998=100
	2000	2001	2001 II	2001 III	2001 IV	2001/ 2000	2002/ 2001	2002/ 2001	2001/ 2000	2002/ 2001	
GENERAL INDEX	4,14	1,97	2,15	1,62	2,36	2,40	2,70	2,70	1,92	2,70	100,00
A LOCAL GOODS	2,63	0,51	0,61	0,31	0,94	0,70	1,54	1,23	0,29	1,38	36,69
A.1 Agricultural	0,69	0,36	0,12	0,36	1,27	-0,28	1,70	1,23	-0,27	1,47	7,93
A.2 Industrial	1,21	0,21	0,64	0,14	-0,13	0,65	0,16	0,34	0,23	0,25	27,24
A.2.1 industrial non-petroleum	0,57	0,02	0,06	0,10	0,22	0,13	0,16	0,48	-0,29	0,32	22,91
A.2.2 fuel and gas	0,64	0,19	0,57	0,03	-0,35	0,53	0,00	-0,13	0,52	-0,07	4,33
A.3 Electricity	0,73	-0,07	-0,15	-0,19	-0,20	0,32	-0,32	-0,34	0,33	-0,33	1,52
B IMPORTED GOODS	0,46	0,10	0,25	-0,06	0,00	0,30	-0,08	0,12	0,23	0,02	22,20
B.1 Motor Vehicles	0,35	0,05	0,12	-0,03	-0,07	0,18	0,04	0,04	0,22	0,04	9,43
B.2 Other Imported	0,12	0,05	0,13	-0,03	0,07	0,12	-0,12	0,08	0,01	-0,02	12,77
C SERVICES	1,05	1,37	1,29	1,38	1,42	1,41	1,24	1,35	1,40	1,29	41,11

Table 5

Percentage change in the Consumer Price Index by category of goods and services (%)
2000-2002

	Yearly		Quarterly			Feb. 2001/ 2000	Jan. 2002/ 2001	Feb. 2002/ 2001	Jan.-Feb. 2001/ 2000	Jan.-Feb. 2002/ 2001	Weights 1998=100
	2000	2001	2001 II	2001 III	2001 IV						
GENERAL INDEX	4,14	1,97	2,15	1,62	2,36	2,40	2,70	2,70	1,92	2,70	100,00
Food & non-alcoholic beverages	5,49	4,09	3,06	3,97	8,64	1,01	11,14	8,70	0,80	9,92	18,20
Alcoholic beverages & tobacco	8,16	2,79	4,38	1,61	1,30	4,15	1,12	0,80	3,79	0,96	1,78
Clothing and footwear	-0,46	-6,75	-6,75	-5,24	-2,12	-7,60	-5,39	-0,57	-13,10	-3,06	8,22
Housing, water, electricity and gas	5,46	1,59	1,56	0,81	0,77	3,56	1,55	1,61	3,58	1,58	21,27
Furnishings, household equipment and supplies	1,47	0,15	0,80	-0,84	0,34	0,41	-2,03	-0,40	0,08	-1,22	7,08
Health	6,18	5,41	5,79	4,81	5,05	5,21	4,00	4,54	6,20	4,27	4,92
Transport	5,70	2,29	4,77	0,83	-1,23	5,03	0,76	0,20	5,25	0,48	17,42
Communication	-10,36	1,73	-1,79	6,04	4,85	-1,88	-7,48	-6,32	-1,27	-6,90	1,79
Recreation & culture	-0,20	-0,50	-2,23	0,96	1,40	-2,03	1,12	1,31	-1,86	1,22	5,88
Education	3,87	4,60	4,05	4,15	6,63	3,23	6,63	6,63	3,23	6,63	2,33
Restaurants & hotels	5,80	6,00	6,58	5,43	3,96	8,63	3,45	3,17	8,41	3,31	6,07
Miscellaneous goods and services	4,16	3,97	4,50	3,16	2,95	5,45	2,55	3,12	5,38	2,83	5,04

Table 6

Weighted contribution to the total change in the Consumer Price Index by category of goods and services (%)
2000-2002

	Yearly		Quarterly			Feb.	Jan.	Feb.	Jan.-Feb.	Jan.-Feb.	Weights
	2000	2001	2001 II	2001 III	2001 IV	2001/ 2000	2002/ 2001	2002/ 2001	2001/ 2000	2002/ 2001	
GENERAL INDEX	4,14	1,97	2,15	1,62	2,36	2,40	2,70	2,70	1,92	2,70	100,00
Food & non-alcoholic beverages	0,99	0,75	0,56	0,72	1,57	0,19	2,03	1,60	0,15	1,82	18,20
Alcoholic beverages & tobacco	0,16	0,06	0,09	0,03	0,03	0,08	0,02	0,02	0,08	0,02	1,78
Clothing and footwear	-0,04	-0,54	-0,57	-0,39	-0,17	-0,55	-0,37	-0,04	-1,03	-0,21	8,22
Housing, water, electricity and gas	1,17	0,34	0,34	0,18	0,17	0,78	0,34	0,36	0,78	0,35	21,27
Furnishings, household equipment and supplies	0,10	0,01	0,05	-0,06	0,02	0,03	-0,14	-0,03	0,01	-0,08	7,08
Health	0,31	0,27	0,29	0,25	0,26	0,27	0,21	0,24	0,31	0,22	4,92
Transport	0,97	0,40	0,81	0,15	-0,22	0,87	0,13	0,04	0,90	0,09	17,42
Communication	-0,17	0,03	-0,03	0,09	0,06	-0,03	-0,11	-0,09	-0,02	-0,10	1,79
Recreation & culture	-0,01	-0,03	-0,13	0,05	0,08	-0,12	0,06	0,07	-0,11	0,07	5,88
Education	0,09	0,11	0,10	0,10	0,16	0,08	0,16	0,16	0,08	0,16	2,33
Restaurants & hotels	0,36	0,38	0,41	0,35	0,25	0,53	0,22	0,21	0,52	0,22	6,07
Miscellaneous goods and services	0,21	0,20	0,22	0,16	0,15	0,27	0,13	0,16	0,27	0,15	5,04

Table 7**Calendar of interest rates announcements in 2002**

	Jan.	Feb.	Mar.	Apr.	May.	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
European Central Bank ¹	3 3,25	7 3,25	7 3,25	4	2	6	4	1	12	10	7	5
Bank of England ²	10 4,00	7 4,00	7 4,00	4	9	6	4	1	5	10	7	5
Federal Reserve System ³	29/30 1,75		19 1,75		7	25/26		13	24		6	10
Central Bank of Cyprus ⁴	25 5,50	21 5,50		11	16	14	11	8	12	10	14	12

(1) Minimum bid rate on the main refinancing operations

(2) Repo Rate

(3) Federal Funds Rate

(4) Interest rate on the marginal lending facility

Table 8

Inward portfolio investment: Purchase of shares traded on the Cyprus Stock Exchange by non-residents*(thousands Cyprus pounds)*

Country	2001	2001 Jan.	2001 Feb.	2001 Mar.	2001 Apr.	2001 May	2001 June	2001 July	2001 Aug.	2001 Sep.	2001 Oct.	2001 Nov.	2001 Dec.	2002 Jan.	2002 Feb.
Australia	207,9	26,2	27,4	19,4	11,8	6,1	55,6	13,2	34,6	5,3	3,6	0,4	4,4	0,9	0,0
Austria	210,4	0,0	174,8	13,6	0,2	21,7	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Belgium	16,2	6,0	4,7	0,0	0,0	5,5	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
British Virgin Islands	175,5	0,0	0,0	0,0	0,0	0,0	0,0	1,2	33,2	23,1	36,0	56,9	25,1	67,1	76,7
Canada	66,1	34,1	2,6	2,9	0,3	12,3	11,7	0,6	0,0	0,6	0,9	0,1	0,0	0,5	7,4
Cuba	0,7	0,0	0,7	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Czech Republic	4,4	0,0	0,0	0,0	0,0	4,4	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Egypt	30,1	4,6	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	17,1	8,4	0,0	0,5
France	68,9	0,0	68,9	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Georgia	1,5	0,0	0,0	0,0	0,0	0,0	1,5	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Germany	260,4	56,8	24,2	35,1	53,7	52,7	19,7	9,3	2,1	0,0	0,0	3,6	3,3	15,6	0,0
Greece	8.753,2	799,8	1.414,3	1.125,7	723,1	1.089,6	394,6	427,5	912,9	468,4	710,6	577,8	108,9	221,9	34,3
Iran	22,8	0,0	0,0	0,0	0,0	0,0	0,0	0,0	3,6	1,5	6,4	10,9	0,4	0,2	0,0
Ireland	112,3	7,7	0,0	55,9	35,8	6,2	0,0	0,0	0,0	0,0	0,0	4,4	2,3	2,4	0,0
Italy	0,3	0,0	0,0	0,0	0,0	0,3	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	4,2
Jordan	40,1	0,0	0,0	0,0	20,1	0,0	14,7	5,3	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Latvia	39,7	0,0	0,0	0,0	0,0	0,0	11,6	0,0	0,0	0,0	4,8	23,3	0,0	0,0	0,0
Lebanon	10,9	0,0	0,6	0,0	7,6	2,8	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Libya	0,7	0,0	0,7	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Mexico	22,1	0,0	0,0	0,0	0,0	0,0	0,0	22,1	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Moldova	7,1	0,0	5,7	1,5	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Netherlands	3,5	0,0	2,6	0,9	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Panama	29,4	0,0	0,0	29,3	0,1	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Philippines	1,5	0,0	0,0	0,0	0,0	0,0	0,0	1,5	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Russia	949,7	312,4	116,6	78,1	17,6	105,6	41,2	26,6	48,7	35,2	45,0	41,3	81,5	22,1	3,0
Saudi Arabia	174,7	0,0	0,0	19,5	10,4	18,8	0,0	6,8	41,7	77,5	0,0	0,0	0,0	0,0	0,0
South Africa	664,9	18,0	32,5	18,0	11,9	41,8	8,0	28,4	58,4	117,1	26,5	235,6	68,6	139,1	122,7
Spain	15,0	1,8	0,6	0,0	0,0	8,0	0,0	0,0	0,0	0,0	4,6	0,0	0,0	0,0	0,0
Switzerland	25,6	0,0	0,0	0,0	11,8	6,4	1,7	3,5	0,0	0,0	0,0	2,2	0,0	0,0	0,0
Syria	5,0	0,0	5,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Ukraine	522,0	48,2	30,0	26,1	54,7	59,3	58,6	55,4	29,1	36,6	10,6	98,4	14,9	14,6	0,0
United Arab Emirates	0,3	0,0	0,0	0,0	0,0	0,0	0,0	0,3	0,0	0,0	0,0	0,0	0,0	0,7	0,0
United Kingdom	2.157,3	615,1	342,8	203,9	169,0	271,1	132,5	59,7	53,6	107,4	20,6	137,0	44,6	68,9	35,0
United States of America	268,2	19,6	71,7	9,7	56,4	50,1	3,0	10,6	3,3	0,0	39,9	3,9	0,0	14,8	0,0
Yugoslavia	159,6	62,4	13,6	33,0	20,9	0,0	22,6	7,2	0,0	0,0	0,0	0,0	0,0	0,4	0,8
Zambia	109,8	0,0	0,0	0,0	0,0	31,2	16,5	5,5	34,3	0,0	5,5	12,0	5,0	0,7	7,2
Zimbabwe	8,9	0,0	0,0	0,0	0,8	0,0	0,0	3,8	2,1	0,0	0,9	1,2	0,0	0,0	0,0
Unidentified	118,9	32,0	44,7	13,7	0,0	23,5	1,2	0,0	3,7	0,0	0,0	0,0	0,0	0,0	0,0
Total	15.265,8	2.044,7	2.384,7	1.686,2	1.206,2	1.817,3	794,6	688,5	1.261,6	872,7	915,9	1.226,0	367,3	569,9	291,9

Table 9

Inward portfolio investment: Sale of shares traded on the Cyprus Stock Exchange by non-residents*(thousands Cyprus pounds)*

Country	2001 ¹	2001 Jan. ¹	2001 Feb.	2001 Mar.	2001 Apr.	2001 May	2001 June	2001 July	2001 Aug.	2001 Sep.	2001 Oct.	2001 Nov.	2001 Dec.	2002 Jan.	2002 Feb.
Australia	55,3	0,3	0,3	3,8	0,0	5,6	0,0	0,0	15,6	14,0	0,0	5,0	10,7	0,4	2,5
Austria	27,7	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	27,7	0,0	0,0	0,0	0,0	0,0
British Virgin Islands	201,8	0,0	0,0	0,0	0,0	0,0	37,8	15,0	44,7	22,8	9,1	51,4	20,9	39,6	0,1
Canada	6,8	0,5	1,7	1,7	0,3	0,0	2,2	0,0	0,5	0,0	0,0	0,0	0,0	0,0	0,0
Cuba	0,4	0,0	0,4	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Egypt	14,7	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	5,9	8,8	0,0	0,9
France	109,4	0,0	109,4	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Germany	14,8	0,3	8,0	0,0	0,0	0,7	4,2	1,5	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Greece	5.814,2	371,1	1.123,3	567,7	447,5	811,2	461,9	269,3	331,6	391,7	348,2	555,8	135,0	22,9	65,1
Iran	3,9	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	2,9	1,0	0,0	0,0
Italy	13,6	13,6	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Latvia	7,9	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	7,4	0,5	0,0	4,9	1,8
Lebanon	2,2	0,0	2,2	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Libya	0,7	0,0	0,7	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Moldova	5,8	0,0	5,8	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Netherlands	2,9	0,0	1,9	1,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Norway	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Philippines	21,1	5,6	0,0	0,0	15,5	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Russia	602,9	347,1	139,5	56,7	0,0	0,2	0,1	0,2	0,3	5,0	20,1	10,6	23,2	23,2	9,8
South Africa	367,3	0,0	0,1	0,0	0,0	0,3	0,0	1,0	44,1	36,0	165,3	20,1	100,6	46,8	157,3
Spain	5,5	0,0	0,0	0,0	0,0	5,5	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Switzerland	453,7	0,0	0,0	0,0	0,0	0,0	27,5	176,2	59,1	152,9	30,5	7,4	0,0	0,0	0,0
Syria	2,0	0,0	0,0	0,0	2,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Ukraine	46,3	0,0	0,0	0,0	0,0	9,2	17,5	0,4	11,5	0,0	0,0	1,3	6,4	1,7	0,0
United Kingdom	1.101,1	143,4	278,0	24,5	125,7	80,4	210,2	64,2	32,9	43,0	19,2	60,6	19,1	14,4	12,4
United States of America	3.874,0	1,3	381,3	406,3	388,9	183,8	115,5	131,3	165,8	73,1	490,2	1.286,1	250,4	202,1	97,2
Yugoslavia	160,2	79,0	31,7	22,9	8,1	0,0	11,9	0,0	0,0	5,5	0,0	0,0	1,1	5,8	0,1
Unidentified	3,9	0,2	1,6	2,1	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Total	12.920,1	962,3	2.085,9	1.086,6	988,0	1.097,0	888,8	659,0	706,1	771,8	1.090,2	2.007,4	577,1	361,7	347,3

(1) Data for sales in January 2001 only cover the period 17.01.2001 to 31.01.2001.