



CENTRAL BANK OF CYPRUS
ECONOMIC RESEARCH DEPARTMENT

MONETARY
POLICY
REPORT

August 2001

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1. INTRODUCTION

The Board of the Central Bank, acting pre-emptively to avert adverse developments in the future growth of the economy, stemming from the slowdown in the international economy and the further fall in stock prices, and after considering the need to curb inflows of foreign exchange, which were growing excessively, decided on 10 August 2001 to reduce the Bank's official interest rates by 50 basis points¹. In addition, the Board decided to abandon the policy of maintaining the exchange rate of the pound against the euro within the narrow margins of $\pm 2,25\%$, adopting the widened margins of $\pm 15\%$. The above reduction in interest rates was promptly transmitted to the money market interest rates and the base rates of commercial banks, while the distinct decline in foreign currency inflows observed in August is attributable, at least partly, to the aforementioned monetary policy decisions. Reductions in official interest rates were also decided in August by the European Central Bank, the Bank of England and the Federal Reserve.

The course of the economy continues to be satisfactory although, according to the latest data available, some particular sectors appear to decelerate or decline. As regards domestic demand, the rate of growth of private consumption in May 2001 remained high, according to the retail sales volume index. The high growth rate of private consumption is also manifested by the

acceleration observed in imports for home consumption (excluding imports of military equipment and fuels, as well as the leasing of aircraft) in the period from January to May 2001, as well as the large increase in saloon car registrations up to July. On the other hand, foreign demand for goods and services appears to have weakened somewhat, as tourist arrivals both in July 2001 and in the seven-month period from January to July 2001 show a significant deceleration compared with the corresponding periods of the previous year, while concurrently, growth in total exports of goods slowed significantly in the first five months of the year.

Turning to the production side of the economy, the services sector and especially tourism continues to be the driving force of the Cypriot economy, notwithstanding the slowdown observed up to July. The secondary sector exhibits both positive and negative developments, with construction recovering in the first seven months of the year, on the one hand, and manufacturing continuing to decline up to May of the current year, on the other hand. In the primary sector and more specifically in agriculture, the situation appears significantly improved; during the period January-April 2001 agricultural production rose substantially, in contrast to the large fall observed in the same period of the previous year.

In the labour market, the number of registered unemployed continued to decline in June 2001, compared with the corresponding month of 2000, while for the

¹ These monetary policy decisions were taken after considering the recommendations of the Monetary Policy Committee.

first half of the year unemployment fell to 3,1% of the economically active population, compared with 3,7% in the corresponding period of 2000. Nevertheless, in June 2001 the unemployment rate as a percentage of the economically active population increased in comparison with May of the same year due to seasonal factors and reached 2,8%, from 2,5% in May.

In July 2001 the Consumer Price Index (CPI) fell to 106,54 units from 108,67 units in June. This fall is attributed primarily to the fall in the prices of agricultural products, after their unexpected rise in the previous month, as well as to the deceleration in the increase of fuel prices. Inflation in July stood at 1,01%, down from 3,86% in July 2000, while for the entire January-July 2001 period the CPI increased by 1,82%, compared with an increase of 4,39% in the corresponding period of the previous year.

Turning to external transactions, there was a marked slowdown in the growth of total imports in May 2001 relative to May 2000.

Concurrently, an acceleration in total exports was recorded, for the first time this year, in May 2001 compared with May of the previous year. Nonetheless, for the entire five-month period from January to May 2001, a significant deceleration in total exports was recorded, in comparison with the corresponding period of 2000. As a result, the crude trade deficit in the first five months of the year widened to £784,5 million, compared with £747,9 million in the previous year.

The fiscal deficit also increased during January-May 2001 and reached £63,6 million, compared with £32,1 million in the corresponding period of 2000. This development was the result of a significant slowdown in the growth of public revenue, combined with a marginal slowdown in public expenditure.

2. ECONOMIC DEVELOPMENTS

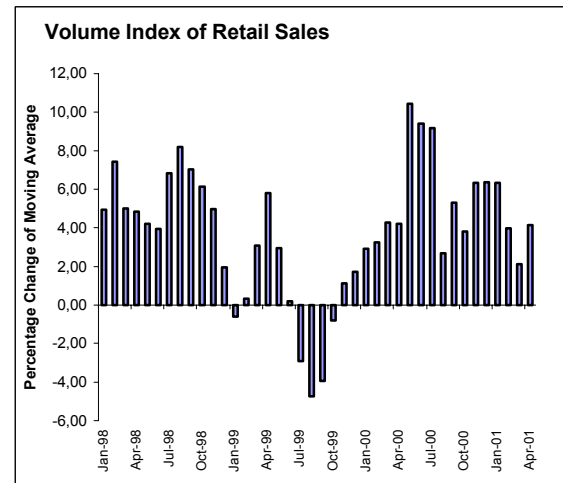
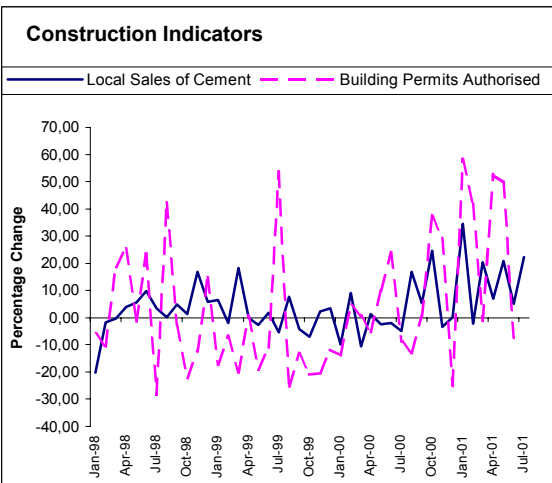
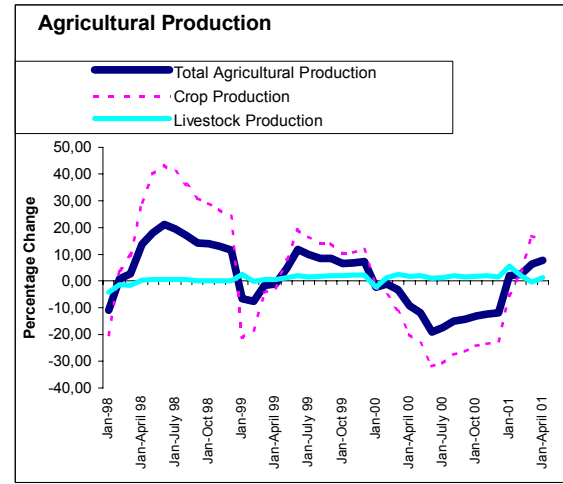
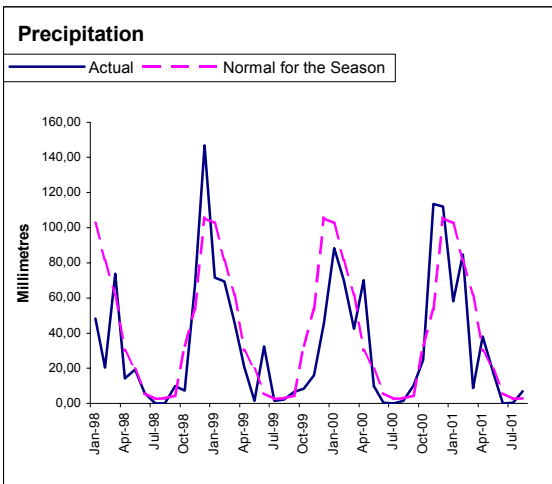
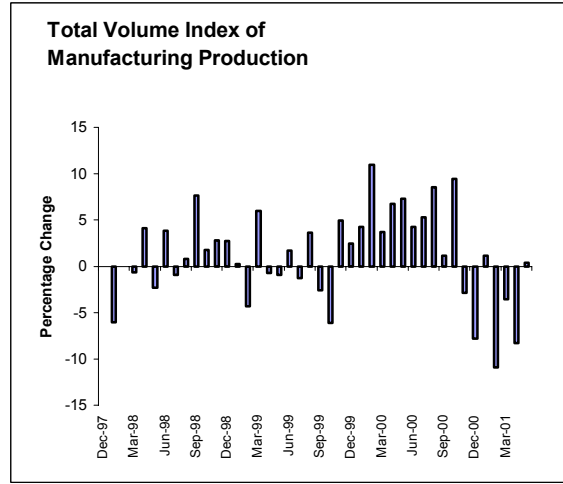
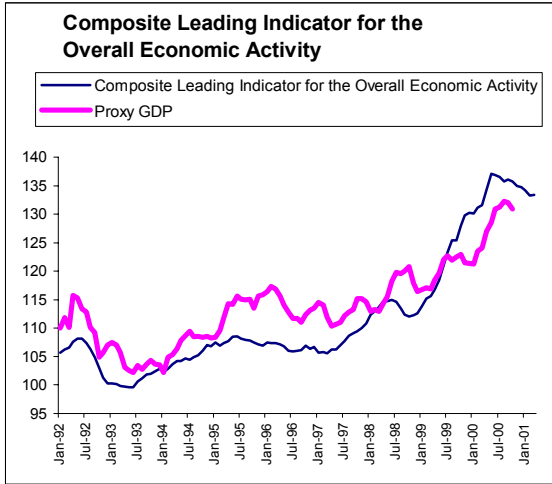
2.1 DOMESTIC ECONOMY

With the exception of manufacturing, which has declined, the remaining sectors of the economy exhibit a more or less satisfactory growth. On the demand side, the picture is not clear yet, as there are conflicting signals from both domestic and foreign demand. Starting from external demand for services and especially tourism, the slowdown in the increase of tourist arrivals observed since the beginning of the year continued in July. Specifically, tourist arrivals increased by 2,7% in July 2001, compared with 12,5% in July 2000, while in January-July 2001, tourist arrivals increased by 4,8%, as compared with 12,3% during the corresponding period of 2000.

The decelerating trend displayed by tourist arrivals up to July is also reflected in the

reduced business confidence of tourist enterprises, as portrayed in the Business Trends Survey conducted by the Statistical Service in July 2001. Analytically, although the proportion of hotels considering their current business position as more than satisfactory was slightly greater than the corresponding proportion in the survey of July 2000, the proportion of hotels considering demand levels to be lower than normal increased. At the same time, the proportion of hotels reporting that they expect an improvement in their business position in the following six months decreased somewhat in July 2001 compared with the corresponding month of the previous year. A fall compared to July 2000 was also recorded in the proportion of hotels anticipating demand levels in the following three months to be above normal.

Chart 1



The same survey of the Statistical Service also portrays trends in other sub-sectors of the services sector, specifically business services, encompassing law offices, accounting and auditing firms, as well as architectural, civil engineering and technical consulting offices, and some other business services. According to the survey, business confidence in this sub-sector of services also deteriorated in comparison with the trends recorded in April of the current year. The proportion of enterprises expecting further improvement in their business position in the following few months was lower than the corresponding proportion in April 2001. Furthermore, a lower proportion of enterprises reported that they expect an increase in the demand for their services, while a higher proportion of enterprises reported that they anticipate an increase in their prices, compared to the proportions recorded in April 2001.

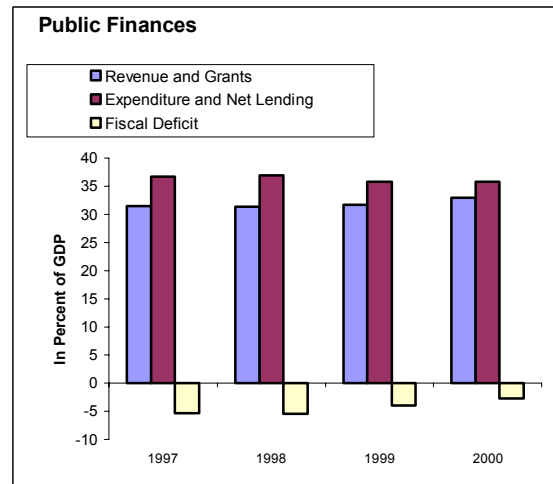
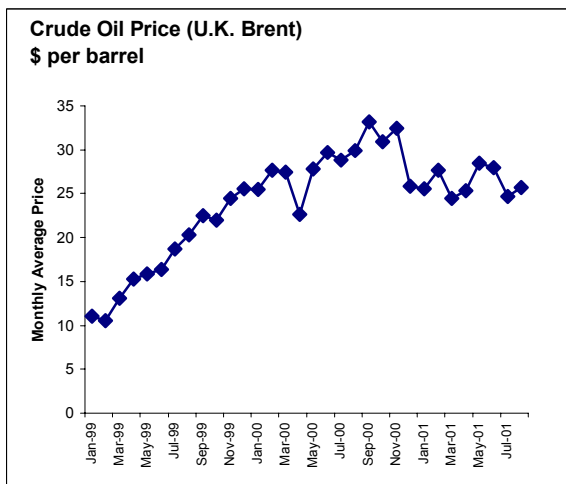
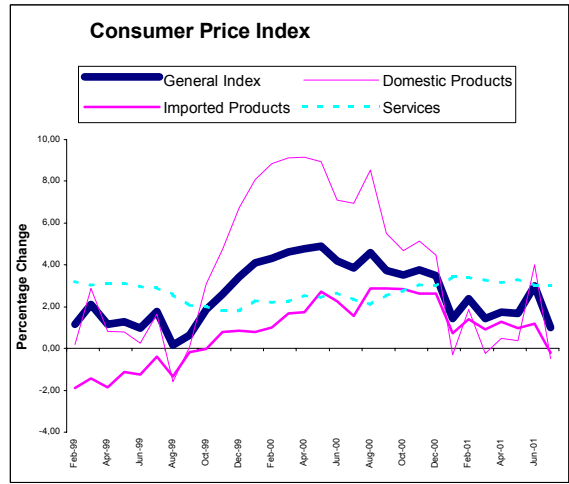
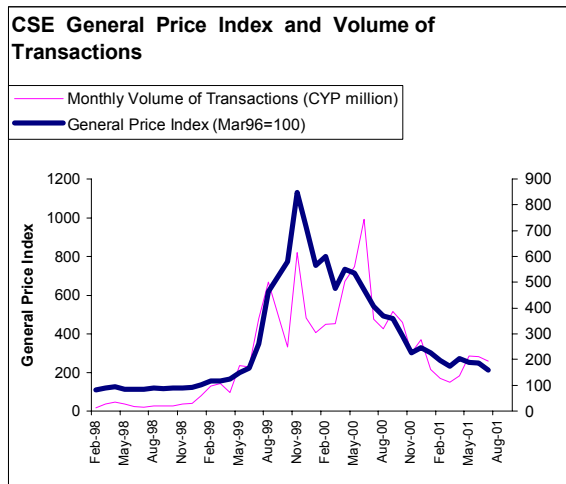
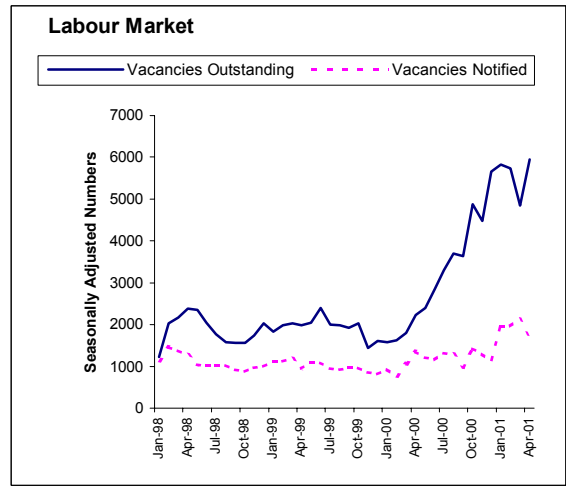
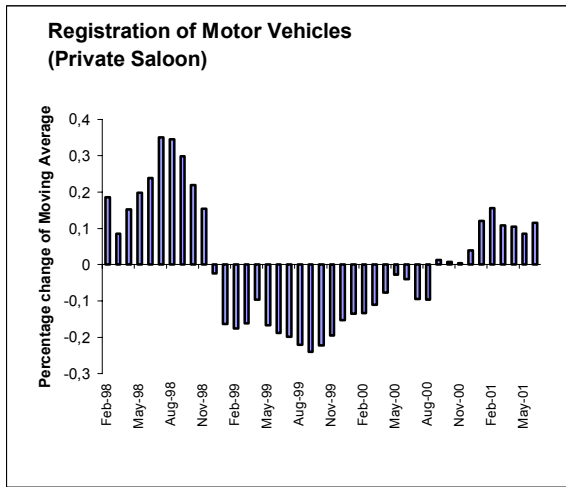
The manufacturing sector continued to present a downturn in May, as in all previous months since November 2000. Specifically, in May 2001 the volume index of manufacturing production fell by 2,1%, compared with a 15,2% fall in April of the same year and a rise of 5,5% in May 2000. For the entire January-May 2001 period, a 5,7% fall in the index was registered, in contrast to a rise of 10,1% in the corresponding period of the previous year. The decline of economic activity in manufacturing is also reflected in the results of the aforementioned Survey of Business Trends for July 2001. In particular, a lower proportion of manufacturing entrepreneurs reported that they anticipate an improvement

in their business situation in the following six months, compared with the corresponding proportion in April 2001, and a higher proportion of entrepreneurs responded that they expect a decrease in the prices of their products. At the same time, lower proportions of entrepreneurs reported that they expect an increase in their production levels and their staff numbers.

In contrast to manufacturing, the situation in construction has clearly improved. Both the volume and value indices of building permits registered remarkable increases in May 2001 as well as the entire January-May 2001 period. Specifically, in May 2001 the volume (value) indices of building permits rose by 49,8% (56,4%), compared with a 9,8% (10,0%) rise in May 2000. For the period January-May 2001, the indices increased by 38,2% (34,5%), compared with a decrease of 0,7% (increase of 4,7%) in the corresponding period of 2000. Local cement sales rose by 22,3% in July 2001, after a fall of 4,9% in July 2000. During the whole January-July 2001 period, cement sales increased by 15,0%, after a decrease of 3,0% in the corresponding period of the previous year.

The performance of agriculture has also been very satisfactory. The volume index of agricultural production registered a significant rise of 7,7% in January-April 2001, compared with a fall of 9,3% in the corresponding period of 2000. Analytically, crop production rose by 15,3%, while livestock production rose by 1,3%, compared with a decrease of 19,7% and an increase of 1,8%, respectively, in the same period of the previous year.

Chart 2



Consumption

A small acceleration in private consumption was registered in May, with the retail sales volume index rising by 8,2%, slightly above the 8,0% increase recorded in May 2000. As regards the whole January-May 2001 period, the rate of increase in the index reached 4,6%, up from 4,2% in the corresponding period of 2000. The observed increase in private consumption is consistent to a certain extent with the acceleration registered in imports for home consumption (excluding imports of military equipment and fuels, as well as the leasing of aircraft), which rose by 16,5% in January-May 2001, compared with a 13,0% rise in the corresponding period of the previous year.

However, at present no safe conclusion can be drawn regarding future developments in consumption, since on the one hand the gradual slowdown in the growth of imports for home consumption signals a similar slowdown in consumption, but on the other hand registrations of private saloon cars, which rose by 25,9% in July, compared with an increase of 1,5% in June 2001 and a fall of 13,9% in July 2000, point to the opposite direction.

Public Finances

Public finances worsened in January - May 2001, with the fiscal deficit reaching £63,6 million, nearly 100% greater than the deficit of £32,1 million recorded in the corresponding period of the previous year. Analytically, in the first five months of the year public revenue rose by 10,0%, while public expenditure rose by 14,2%, compared with growth rates of 27,5% and 14,5%,

respectively, in the same period in 2000. Almost all categories of public revenue displayed a deceleration in January-May 2001, including revenue from direct taxes, in spite of the acceleration observed in income tax receipts. Revenue from indirect taxes also displayed a deceleration, reflecting the fall in the growth rates of both excise tax receipts and import duty receipts, while conversely VAT receipts exhibited an acceleration.

Public expenditure decelerated marginally in January-May 2001, rising by 14,2%. Analytically, current expenditure rose by 14,3%, while capital expenditure expanded by 7,9%, compared with increases of 14,9% and 7,2%, respectively, in the corresponding period of the previous year. Amongst the categories of current expenditure, a slowdown was recorded in current transfers as well as purchases of goods and services, despite the acceleration recorded in wages and salaries. In contrast, subsidies and social pension payments decelerated. Amongst the categories of capital expenditure, investment decelerated, while capital transfers rose after the fall recorded in the corresponding period of 2000.

2.2 EXTERNAL TRANSACTIONS

During the first five months of 2001 a gradual slowdown in imports and a gradual improvement in exports were observed, resulting in the containment of the expansion of the crude trade deficit. Conversely, growth in tourist arrivals continued its downtrend observed since the beginning of the year.

According to the latest preliminary trade data for May 2001, the growth rate of imports for home consumption, excluding imports of military equipment and fuels, displayed a slowdown, reaching 8,9% as compared with a growth rate of 36,5% in the corresponding month of the previous year. However, the growth rate for the period January-May 2001 reached 16,5%, compared with 13,0% in the corresponding period of 2000. It is worth noting that the growth rate of imports has fallen during the course of the year, from 35,3% in January, to 21,0% in the first two months, and to 16,5% in the first five months².

Total exports increased by 18,0% in May 2001, compared with an increase of 13,3% in May 2000. This positive development emanates from the expansion of domestic exports by 21,5% to £24,0 million, as well as from the 32,5% increase in re-exports to £37,0 million. Notwithstanding the improvement recorded in May, total exports in the first five months of 2001 displayed a marked slowdown increasing by 3,3%, down from a growth rate of 25,0% in the corresponding period of the previous year.

² The value of imports does not include amounts for leasing of aircraft, which amounted to £31,8 million in March 2001 and £74,8 million in April 2001.

Table 1**Trade balance data
(January – May, £ million)**

	1999	2000	2001*	% change 2001/2000	% change 2000/1999
Total imports (cif)	746,3	999,2	1.044,1	4,5	33,9
Imports for home consumption (cif)	621,8	814,7	875,7	7,5	31,0
Imports of military equipment (cif)	5,1	74,5	9,6	-87,0	1.366,2
Imports of fuels for home consumption (cif)	37,1	85,1	102,8	20,8	129,6
Imports for home consumption (cif) excluding Imports of military equipment and Fuels	579,6	655,1	763,2	16,5	13,0
Total Exports (fob)	201,1	251,3	259,6	3,3	25,0
Domestic exports (fob)	88,1	96,9	99,3	2,4	10,1
Re-exports (fob)	103,2	134,6	142,1	5,6	30,4
Crude trade balance	-545,2	-747,9	-784,5	4,9	37,2

* The value of imports does not include aircraft leasing, which amounted to £31,8 million in March 2001 and £74,8 million in April 2001.

As regards the services balance, the most important source of receipts, tourism, registered an increase of 11,1% in the first half of the year, with receipts totalling £441,4 million, compared with a 16,4% increase in the first half of 2000³. The observed growth emanated mainly from European Union countries, particularly from increases in

tourist receipts from Ireland (84,9%), Finland (54,5%), the UK (17,8%) and Italy (20,8%), which were partly offset by decreases in the receipts from France (30,1%), Denmark (11,5%), Greece (4,2%) and Germany (5,8%). Increases were also recorded in receipts from countries of the former Soviet Union, Eastern Europe and Israel.

³ Estimates of receipts from tourism as well as tourist arrivals do not include Cypriot students.

Table 2

Tourist arrivals
January – July

	1999	2000	2001*	% change 2001*/2000	% change 2000/1999
Number of persons	1.310.588	1.471.733	1.542.317	4,8	12,3

* Does not include arrivals of Cypriot students.

Tourist arrivals in July, as well as in the seven-month period from January to July 2001, displayed a slowdown. Arrivals in July 2001 increased by 2,7%, compared with a 12,5% increase recorded in July 2000. Similarly, the increase in arrivals during January-July 2001 was limited to 4,8%, compared with 7,5% in the corresponding period of the previous year.

As table 3 shows, non-resident investments in the Cyprus Stock Exchange recovered in July, amounting to net inflows of £281,9 thousand, after net outflows in June, while May is still the month with the largest net inflows for portfolio investment in 2001.⁴

⁴ Tables 8 and 9 in the Annex present non-resident purchases and sales of shares in the Cyprus Stock Exchange by country of residence.

Table 3**Portfolio investments by non-residents in the Cyprus Stock Exchange (£)**

February –July 2001

	Feb.	Mar.	Apr.	May	June	July
Purchases	2.384.724	1.686.241	1.206.188	1.817.272	794.581	688.484
Sales	2.085.851	1.086.611	999.260	1.096.973	1.312.732	406.586
Net						
investments	298.873	599.630	206.928	720.299	-518.151	281.898

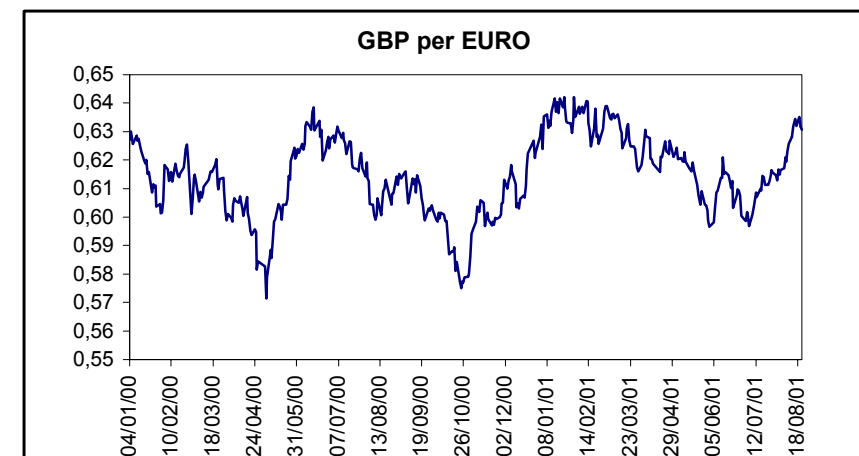
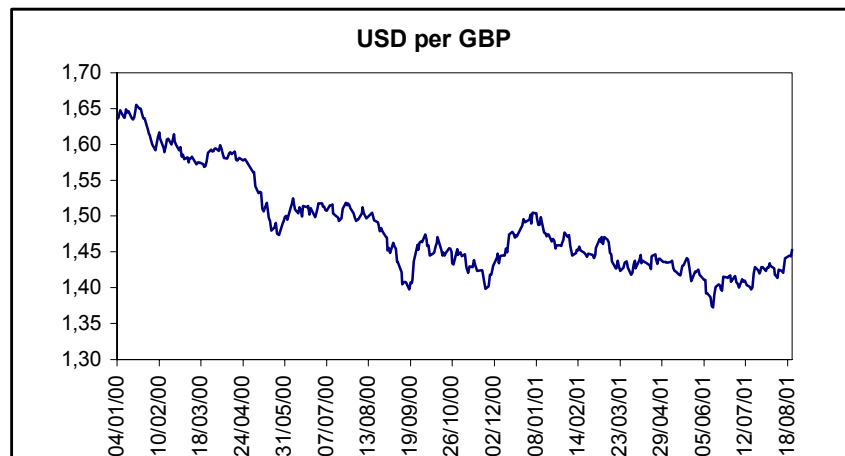
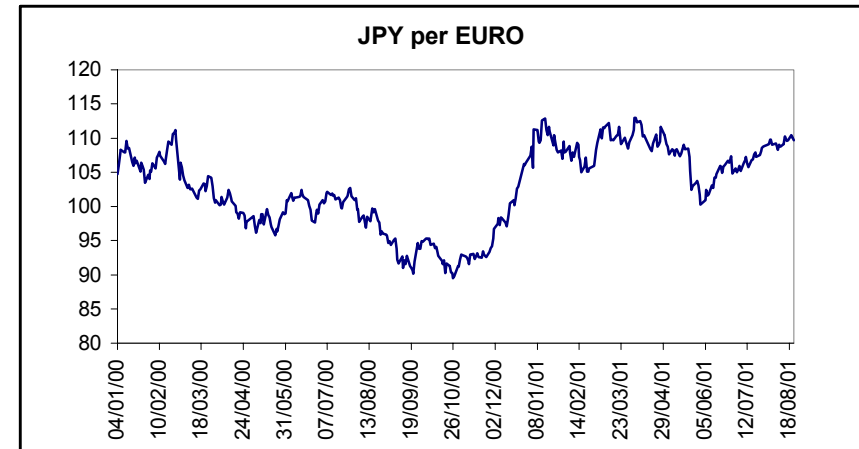
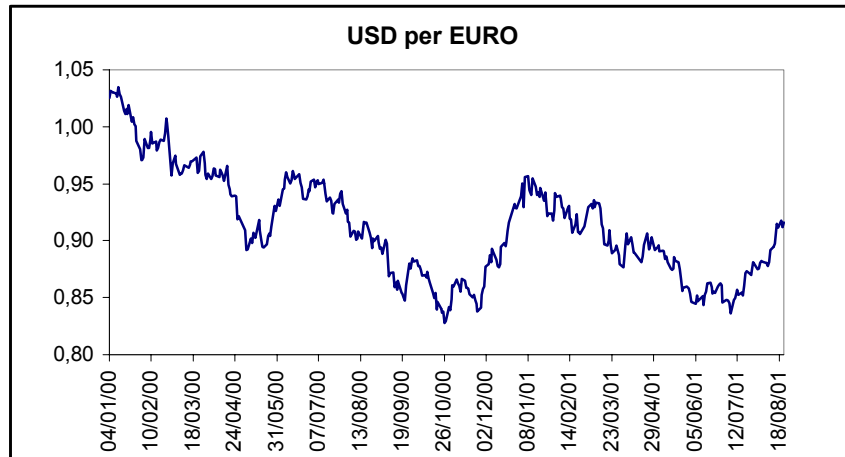
2.3 EXCHANGE RATES*International Currencies*

The euro continued its recovery vis-à-vis the US dollar in August and traded at USD0,92 on 24/08/2001, up from USD0,88 in the beginning of the month and USD0,85 in the beginning of July. The recent course of the European single currency is attributable mainly to the continuing weakness of the US economy, which failed to show signs of recovery, a fact which prompted the Federal Reserve to further reduce interest rates by 25 basis points on 21 August – the seventh interest rate cut during 2001. The weakening of the US dollar is also associated with the recent warning by the International Monetary Fund that the US current account deficit is not sustainable and there is a risk

of a significant depreciation of the American currency.

In August the pound sterling continued to appreciate marginally against the US dollar and depreciate against the euro. The course of the pound sterling vis-à-vis the euro mainly reflects the unexpected interest rate reduction by 25 basis points on 2 August 2001, the generally weak performance of the economy as presented in the recent report of the Bank of England, as well as the probable participation of the UK in the euro area in the near future. The Japanese yen, despite the ongoing economic problems of the country, benefited from the weakness of the US dollar, and hovered around 120 yen on 23 August compared with 125 yen at the beginning of the month.

Chart 3

**Bilateral rates of major international currencies
4/1/2000 - 22/8/2001**

These recent developments have influenced international market expectations for exchange rates in the near future. Table 4 presents the forecasts of a large number of internationally recognised and reliable financial institutions, as recorded in a survey by Reuters⁵. According to this survey, markets anticipate a slight rise in the euro against the US dollar by the middle of 2002, while the sterling pound is expected to weaken against the euro and strengthen marginally against the US dollar.

⁵ The poll was taken between 30 July and 1 August 2001, a period during which the euro fluctuated around USD0,88, the sterling pound fluctuated around USD1,43 and the yen was weak at around 125 yen to the US dollar.

Table 4**International market expectations for exchange rates****Monthly poll by Reuters***(August 2001)*

Currency	Statistical data	Exchange rate forecasts			
		1 month	3 months	6 months	12 months
USD per EUR	Mean	0,8786	0,8810	0,8915	0,9149
	Minimum	0,8400	0,8000	0,7700	0,7600
	Maximum	0,9200	0,9400	0,9800	1,0300
	Number of forecasts	52	52	52	52
USD per GBP	Mean	1,4284	1,4299	1,4283	1,4367
	Minimum	1,3800	1,3800	1,2700	1,2400
	Maximum	1,4600	1,4900	1,5100	1,5600
	Number of forecasts	49	49	49	49
JPY per USD	Mean	125,44	126,21	126,91	126,18
	Minimum	121,00	117,50	115,00	114,00
	Maximum	130,00	135,00	138,00	145,00
	Number of forecasts	50	50	50	50
GBP per EUR	Mean	0,6144	0,6146	0,6227	0,6362
	Minimum	0,5874	0,5714	0,5704	0,6362
	Maximum	0,6434	0,6438	0,6714	0,7138

Source: Reuters. The poll was taken in the period 30 July – 1 August 2001.

Cyprus pound

In the period under review the Cyprus pound appreciated marginally against the euro and reached EUR1,7373 on 22/8/2001 (selling price). Reflecting recent fluctuations in international

currencies, the Cyprus pound strengthened against the US dollar and the pound sterling, while it weakened against the yen. Recent fluctuations in the exchange rates of the Cyprus pound vis-à-vis the euro, the dollar, the sterling and the yen are summarised in table 5.

Table 5

Major foreign currencies against the Cyprus pound (selling prices, opening)				
Period	ECU/EUR	USD	GBP	JPY
1995	1,7059	2,2071	1,3983	207,03
1996	1,7086	2,1407	1,3717	232,35
1997	1,7183	1,9428	1,1857	234,46
1998	1,7189	1,9314	1,1658	251,94
1999	1,7243	1,8373	1,1359	208,53
2000	1,7390	1,6054	1,0596	172,61
2000 I	1,7326	1,7100	1,0641	182,78
2000 II	1,7389	1,6245	1,0609	172,87
2000 III	1,7414	1,5776	1,0676	169,40
2000 IV	1,7432	1,5124	1,0458	165,61
2001 I	1,7238	1,5939	1,0914	187,96
2001 II	1,7274	1,5096	1,0622	184,88
01/01	1,7278	1,6224	1,0971	188,46
02/01	1,7209	1,5877	1,0918	184,13
03/01	1,7221	1,5696	1,0852	189,90
04/01	1,7231	1,5401	1,0732	190,51
05/01	1,7255	1,5115	1,0591	183,93
06/01	1,7333	1,4799	1,0558	180,86
07/01	1,7369	1,4938	1,0562	185,96
1-22/8/01	1,7372	1,5542	1,0861	190,20
22/08/01	1,7373	1,5914	1,0955	191,98

With regard to the domestic foreign exchange market, the results of the fixing sessions held until 22/08/2001 based on the transaction date are outlined in table 6. As this table shows, during the sessions since the beginning of the year the Central Bank absorbed foreign exchange from the banking system amounting to £437,76 million. Overall, including interventions and other operations in the interbank market (specifically, execution of forward foreign exchange contracts), between 02/01/2001 and 22/08/2001, the Central

Bank absorbed from the banking system foreign exchange equivalent to £573,7 million. Daily purchases and sales of foreign exchange by the Central Bank from domestic banks since 1999 are displayed in chart 4. The inflow of foreign exchange in 2001, which intensified mainly after March and reached its peak in July, primarily concerns increased borrowing by Cypriots in euro and purchases of Cyprus pounds by foreign tourist agents.

Table 6

Summary of results of Fixing sessions							
<i>January – August 2001</i>							
Month	Average fixing exchange rate Foreign currency per CYP (last day of the period)			Purchases(+)/Sales (-) of foreign exchange by the Central Bank (based on transaction date)			
	EUR	USD	GBP	Foreign currency (million)			Cyprus pounds (million)
	EUR	USD	GBP	EUR	USD	GBP	(million)
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*	1,7432	1,6062	1,1029	15,75	0,00	0,00	8,99
Total				738,35	27,25	-5,88	437,76

* Data up to 22/08/2001

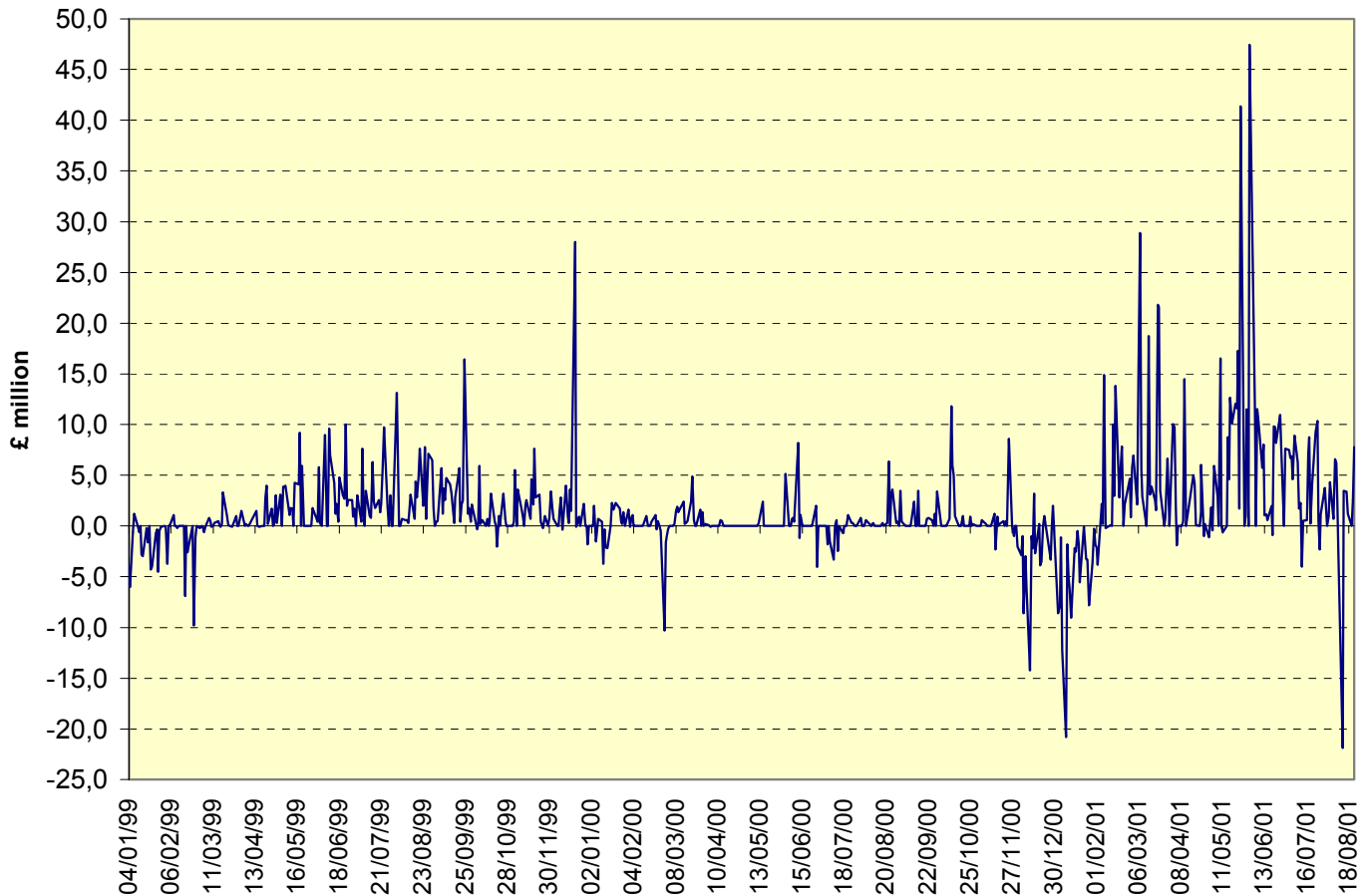
As regards the most recent developments, the Central Bank absorbed from the banking system, through the fixing sessions, foreign exchange equivalent to £8,99 million in the period from 01/08/2001 to 22/08/2001. In the same period the Central Bank purchased additional foreign exchange of about £5,2 million through the execution of forward foreign exchange contracts. This inflow of foreign exchange had an impact on the exchange rate of the Cyprus pound vis-à-vis the euro, which during the August sessions rose slightly to EUR1,7432 on 22/08/2001 (average value). It is pointed out that the inflow of foreign exchange in the months of July and August is

significantly lower than the inflow registered in the months of May and June 2001.

As chart 4 shows, on 13/08/2001, i.e. the first working day after the decision of the Board of the Central Bank of Cyprus to widen the fluctuation margins of the Cyprus pound against the euro, a sharp capital outflow in the order of £22 million was registered, while the average fixing rate of the Cyprus pound against the euro fell to 1,7395, compared with 1,7435 on the previous working day. Subsequently, however, capital inflows resumed and the exchange rate of the Cyprus pound vis-à-vis the euro reverted to about its previous level.

Chart 4

**DAILY PURCHASES/SALES OF FOREIGN EXCHANGE
BY THE CENTRAL BANK FROM THE DOMESTIC BANKS
4/1/1999 - 22/08/2001**



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

2.4 INFLATION

In July 2001 inflation fell sharply to 1,01% from 3,00% in June 2001. As table 7 shows, this fall stemmed primarily from the fall in the prices of agricultural products, after their unexpected rise in the previous month, as well as the deceleration in

fuel prices in July. The average inflation rate in the first seven months of 2001 was 1,82%, registering a slowdown in comparison with the corresponding period of the previous year, when it had reached 4,39%.

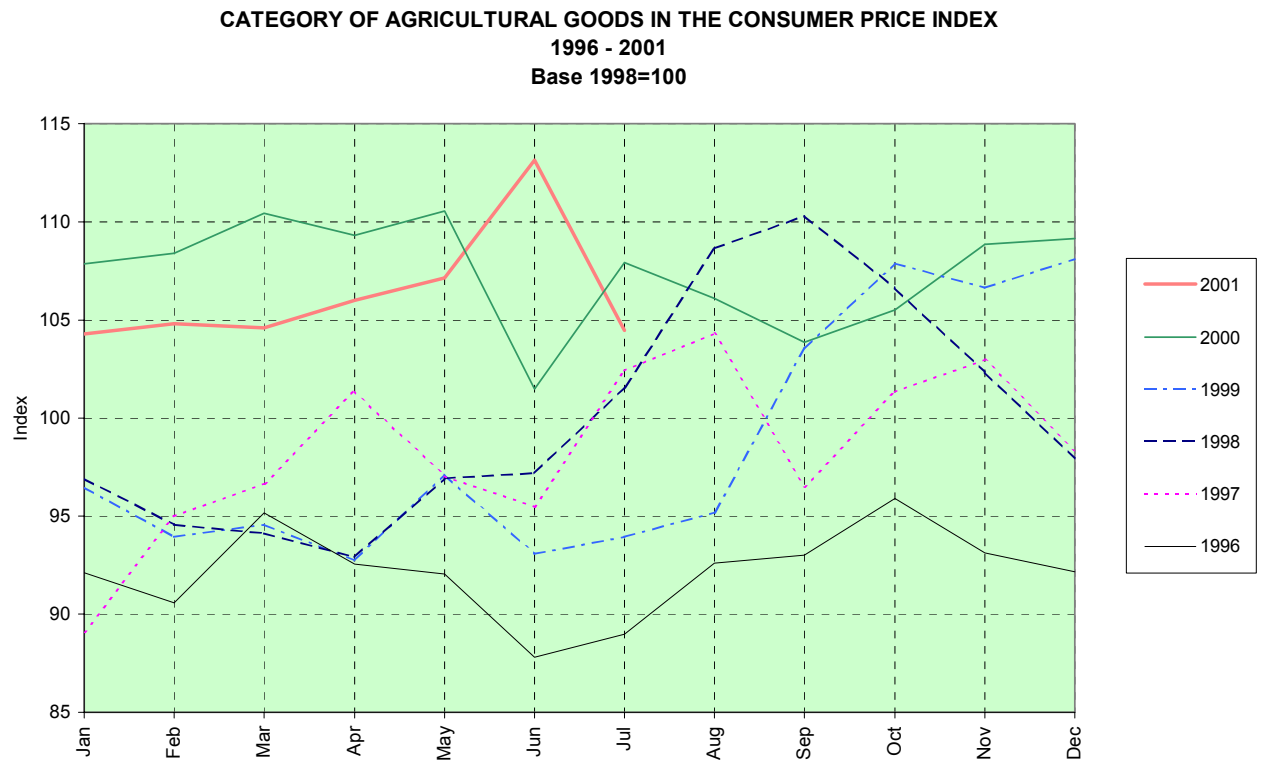
Table 7

		Percentage change in the Consumer Price Index by economic origin			
		2000	July 2000/1999	June 2001/2000	July 2001/2000
	All items	4,15	3,86	3,00	1,01
A	Domestic goods	7,15	6,93	4,00	-0,47
A.1	Agricultural	8,98	14,87	11,52	-3,21
A.2	Industrial	4,48	2,00	3,03	1,18
A.2.1	<i>Industrial, non-oil</i>	2,50	-1,01	0,59	0,17
A.2.2	<i>Fuel and gas</i>	14,86	18,20	15,61	5,72
A.3	Electricity and water	36,04	45,41	-7,48	-8,37
B	Imported Goods	2,14	1,56	1,19	-0,22
B.1	Motor vehicles	3,79	4,20	1,23	-0,03
B.2	Other imported goods	0,94	-0,36	1,17	-0,36
C	Services	2,52	2,36	3,04	3,02

Concerning the category of domestic goods, the most significant change compared with the previous month is the fall in agricultural product prices in July by 3,21%, as compared with the unexpected rise by 11,52% in the previous month⁶. Besides the decrease in the prices of agricultural products, the continuing decrease in the price of electricity (which is directly affected by international oil prices) is also worth noting, as well as the slowdown in the increase of fuel prices, which are administratively set. Based on the movements in petroleum prices in the international markets (measured in Cyprus pounds) during July, the prices of all types of fuels were reduced by 1,1 cent per litre on 01/08/2001 by an order of the Minister of Commerce, Industry and Tourism.

⁶ As chart 5 shows, the rise in the prices of agricultural products in June 2001 was unexpected as, at least according to data for the last five years, agricultural prices usually fall in June compared with May, a rule which held especially in June 2000 and as a result the increase in agricultural product prices in June 2001 was particularly pronounced.

Chart 5



Prices of imported goods declined in July slightly by 0,22%, following the increases of 1,19% and 1,56% registered in June 2001 and July 2000, respectively. The prices of services increased by 3,02%, compared with 3,04% in June 2001 and 2,36% in July 2000. The acceleration in the prices of services, which is observed in 2001 in comparison with the previous year, is attributed mainly to developments in the sub-categories "restaurants and coffee shops", "medical care", "education", and "transport", which appears to be significantly affected by the increase in petroleum prices.

As a result of the above developments in July, the inflation rate in the first seven months of 2001 stood at 1,82%, maintaining a significant deceleration relative to the corresponding period of

2000, when it had reached 4,39%. A more detailed analysis of developments concerning inflation by economic origin is presented in tables 3 and 4 of the Annex.⁷

Considering the developments on the inflation front during the first seven months of 2001 and taking into account changes in July in comparison with the previous months of 2001 as well as inflation prospects for the remaining months of the year, the expectations of a substantial fall in the rate of inflation in year 2001 compared with 2000

⁷ Table 3 presents percentage changes in the CPI from 1998 to July 2001, while table 4 presents the corresponding weighted contributions of the particular categories to the general index for the same period. In addition, tables 5 and 6 in the Annex show the corresponding analyses of recent developments on the inflation front by product category.

remain valid. Specifically, the projection that inflation will subside to around 2,0% on average in 2001 is considered realistic⁸, in light of the information available today.

2.5 MONETARY DEVELOPMENTS

In the monetary sector, the recent reduction in the Central Bank's official interest rates was promptly transmitted to the money market interest rates and reverse repo rates, which moved to lower levels, while foreign exchange inflows declined significantly in August. The Central Bank, acting in the context of its anti-inflationary policy, intervened in the money market in August absorbing part of the surplus liquidity.

Total liquidity increased further in July, rising by 10,4%, compared with increases of 7,1% in June and 5,5% in May, while in July 2000 a 9,4% increase was recorded. Similarly, the three-month moving average of annual growth rates which covers the period from May to July shows that the growth rate in broad money increased substantially, reaching 7,7% compared with 5,1% in April-June 2001.

⁸ Developments and expectations in international oil markets play an important role in this projection. The price of Brent crude oil remained around USD25 per barrel in August, while markets expect that the price will remain around this level for the rest of 2001, compared with over USD30 per barrel in the corresponding period of 2000.

Chart 6

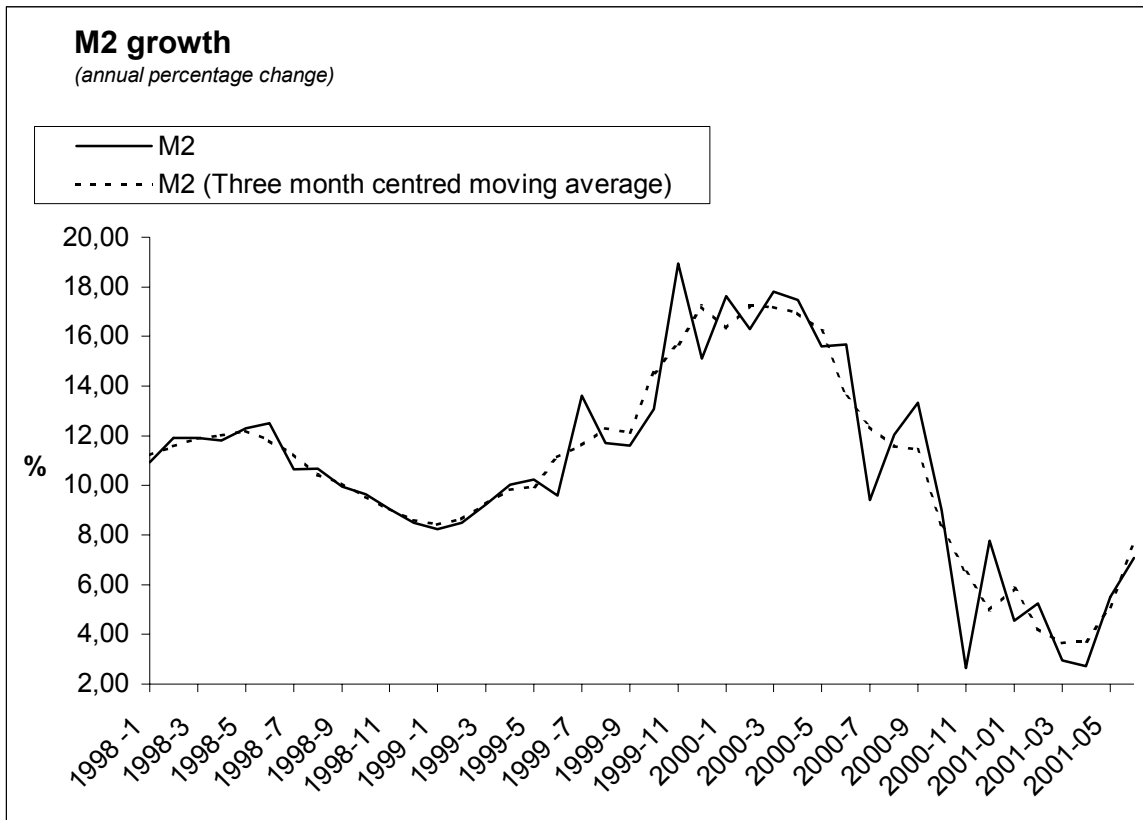


Table 8

Annual percentage change (%)	1997	1998	1999	2000	2000 July	2001 June	2001 July
M1 Primary Liquidity (Money-supply)	7,8	3,7	42,4	5,1	5,4	-8,2	3,5
M2 Total Liquidity	10,8	8,5	15,1	7,8	9,4	7,1	10,4
Claims on Private Sector	11,9	14,2	13,8	15,0	14,1	14,6	14,9

The significant rise in broad money supply in July in comparison with the previous month (see table 9) is attributable primarily to the increase in net foreign assets and to a lesser extent to the increase in the claims on the public sector. The

increase in net foreign assets is consistent with the outcome in the balance of payments, where a surplus of the order of £123,1 million was recorded, compared with a deficit of £81,3 million in the corresponding period of 2000.

Table 9

Factors Affecting Total Liquidity (£ thousand)				
	Change			
	July	July	January/July	
	2000	2001	2000	2001
Foreign Assets (Net)	(40.971)	102.554	(85.037)	93.804
Claims on Private Sector	(24.959)	(12.558)	443.904	504.644
Claims on Public Sector	(27.517)	12.323	(42.038)	71.093
Unclassified Items	23.718	23.679	(106.721)	(283.738)
Total Liquidity (M2)	(69.729)	125.998	210.108	385.803
Primary Liquidity (M1) (Money Supply)	(107.998)	21.479	(419)	(17.956)
Currency in circulation	3.932	5.333	10.350	18.917
Demand Deposits	(111.930)	16.146	(10.769)	(36.873)
Secondary Liquidity (Quasi Money)	38.269	104.519	210.527	403.759

Conversely, claims on the private sector exerted a contractionary effect on broad money supply. Specifically, credit to the private sector, following its seasonal pattern, decreased by £12,6 million in July, compared with a £25,0 million decrease in the corresponding month of 2000. In annual growth rates, credit extended to the private sector displayed a small acceleration, with a growth rate of 14,9%, up from 14,6% in June and 14,1% in July of the previous year. This acceleration increases significantly if biannual interest is excluded, since the growth rate for June is then reduced to 12,8%. According to the three-month moving average (see box 1), credit expansion was 13,7% (13,1%) for the May-July period, compared with 12,2% (11,6%) for the April-June period, with the figures in parentheses referring to data corrected for interest.

As emphasised in the previous *Monetary Policy Report*, the high level of credit extended in 2000 impairs the usefulness of annual growth rates and moving averages in the estimation of credit expansion in the current year. An additional problem is posed by the change in the frequency of interest capitalization, as well as by the fact that in the second half of 2000 credit ceilings were imposed and banks proceeded to loan repayments that month in order to comply with the ceilings. Considering the above, fewer problems in the estimation of credit expansion are presented by the monthly distribution method, on the basis of which credit expansion up to July exceeded the reference value by about £222,6 million, as compared with an excess of £250,2 million in June and £124,8 million in May.

A decline in foreign currency lending was recorded in July, which amounted to £32,8 million compared with £36,8 million in June⁹. As a result, the proportion of credit in foreign currency to total credit increased to 9,1% in July from 8,6% in June.

⁹ It is clarified that these figures include only foreign currency loans granted by domestic banks. Loans granted to Cypriots by foreign banks amounted to about £2,0 million in January, £2,7 million in February, £5,5 in March, £2,6 million in April, £1,0 million in May, and £0,1 million in June.

Table 10

Claims on Private Sector

Change - 2001	Jan.	Feb.	Mar.	Apr.	May	June	July
Residents' foreign currency loans (£million)	9,0	45,8	54,5	13,2	41,4	36,8	32,8
Claims on private sector (£million)	58,8	57,8	127,2	31,5	49,3	192,4	-12,6

	1997	1998	1999	2000	2001 (June)	2001 (July)
Residents' foreign currency loans (£million)	158,7	246,0	354,6	369,7	570,3	603,2
Claims on private sector (£million)	4107,3	4691,0	5339,4	6138,0	6655,2	6642,6
%	3,9	5,2	6,6	6,0	8,6	9,1

After the recent monetary policy decisions to reduce interest rates and widen the fluctuation margins of the Cyprus pound against the euro, foreign currency loans are expected to moderate since these loans are mainly euro-denominated. The latest available data indicates that the decline in foreign currency lending continued in August, with loans amounting to £30,0 million up to 24 August. The signs for further containment of foreign currency lending are encouraging, as a significant decline in foreign exchange inflows is observed for the whole of August.

Fast credit expansion continued in August according to the latest preliminary data, which indicate that credit in the period from 1 January to 24 August increased by £547,5 million, compared with £470,1 million in the

corresponding period of the previous year, while foreign currency loans amounted to £285,1 million. The annualised rate of growth in loans to the private sector was 13,1%, compared with 12,9% in the previous year¹⁰. The twelve-month rate of growth for the period up to 24 August was 15,0%, compared with 15,8% in the previous year.

¹⁰ Corresponding increases in previous years were 10,0%, 9,7% and 6,4% for 1999, 1998 and 1997 respectively. These figures are not seasonally adjusted.

Box 1**Monitoring credit expansion**

In accordance with the Financial Programme, the reference value for credit expansion in 2001 was set at 11% for the whole year. Attainment of the reference value implies that credit expansion as a percentage of GDP will rise to 117% in 2001 from 113% in 2000*.

Credit Expansion (CE)

	1997	1998	1999	2000	2001
CE/GDP	94%	100%	107%	113%	117%

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% should at least be adhered to. It is therefore necessary to ascertain whether the course of credit growth 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 recorded at a given time is annualised. That is, the annual growth rate is derived assuming credit expansion will continue at the same rate through the year.

For example, credit expansion in absolute terms from end-December 2000 to end-July 2001 was £504,6 million. This absolute change converted to an annualised growth rate seasonally adjusted gives:

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

16,3%

Reference value

11%

(2) 12-month growth rate

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

* If loans granted by the co-operative credit institutions are included, total credit as a percentage of GDP increases to 133,0% in 1997, 138,8% in 1998 and 148,0% in 1999.

** The data were seasonally adjusted by the X11 method and included a fifteen-year period. Because during these years the seasonal pattern of banks may have changed, the proportion of credit granted each month in the last six years was also taken into account.

	12-month growth	Reference value
	14,9% (12,8%)*	11%
Moving average	13,7% (13,1)*	

This method presents the problem of base effects, i.e. data may be misleading if the base month for some reason was unusually high or low, as was July 2000 in this case. To alleviate the problem, the moving average method should also be applied. The three-month moving average displays a more accurate picture of credit expansion for the May-July period, with a growth rate of 13,7% (13,1%).

(3) Monthly distribution method

The Central Bank has estimated that credit could expand by £675 million to £6816,7 million at the end of 2001. This amount may be distributed in the months of 2001 in accordance with the seasonal pattern of previous years. Monitoring may occur through the following table, where the first row shows the distribution of credit in accordance with the reference value and the second row indicates actual credit to date. As the table shows, credit expansion has exceeded the reference value.

Table of credit expansion (£ million)												
	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
Reference Value	6155	6215	6297	6315	6338	6405	6420	6395	6450	6485	6520	6816,7
Actual	6196,8	6254,7	6381,9	6413,4	6462,8	6655,2	6642,6					

* Excluding capitalised interest

The money market

The official interest rate reduction by 50 basis points was promptly transmitted to money market interest rates, with the average interbank rate falling to around 4,2%, from 4,5% immediately prior to the interest rate cut and 4,9% in July. A significant dampening influence was also exerted on foreign exchange flows, which by 22 August amounted to only £14,2 million, compared with inflows of £84,9 million in July and £155,6 million in June. There was also a prompt effect on the average interest rate on reverse repos, which on the auction of 14 August fell to 4,9% from 5,39% in July. The Central Bank, in order to keep interest rates consistent with its anti-inflationary policy, intervened in the money market through reverse repo auctions and absorbed liquidity amounting to £228,0 million in July and £169,0 million in August at an average interest rate of 4,89%. Concurrently, part of the excess liquidity was channelled to government securities, the net sales of which reached £96,4 million in July and £0,1 million in the first 15 days of August.

Furthermore, yields on government securities are expected to follow a downward trend, although after the Board's decision no long-term securities auctions have taken place as yet and no bids for short-term securities have been accepted. In six consecutive auctions of three-month treasury bills (since 20 June 2001) the government did not accept the bids, considering the bid interest rate as too high. Concerning one-year treasury bills, the latest auction where bids were accepted was on 8 August, at an average interest rate of 6,10% compared with 6,28% in July. Small decreases were registered in long-term government security yields in July, with the yields on two-year and five-year development stock being 6,57% and 7,26%, respectively, compared with 6,71% and 7,36% in July. Yields on ten-year development stock declined to 7,57% in July from 7,72% in May.

Table 11

Interest Rates (% per annum)	1997	1998	1999	2000	2000 July	2001 June	2001 July
Interbank (1 day)	4,82	4,83	5,15	5,96	6,66	4,73	4,94
Repos	4,70	4,68	5,46	5,97			
Reverse Repos	4,43			4,44		5,39	5,39
Treasury bills (13 weeks)	5,39	5,50	5,54	5,75		5,49	
Treasury bills (52 weeks)		6,00	6,01	6,17		6,45	6,28
Development stocks (2 years)				6,55		6,71	6,57
Development stocks (5 years)	6,80	6,96	7,27	7,45	7,49	7,36	7,26
Development stocks (10 years)	6,93	7,22	7,36	7,55	7,59		7,57

Note: Simple average of the weighted averages for the period

Table 12

Inflation and Interest Rates of Europe and Cyprus			
	Harmonised Indices of Consumer Prices	Long-term Interest Rates	Long-term Real Interest Rates
	June - Latest month (12 month average)	June - Latest month (12 month average)	
Belgium	3,00	5,40	2,40
Denmark	2,50	5,40	2,90
Germany	2,50	5,00	2,50
Greece	3,50	5,70	2,20
Spain	3,90	5,30	1,40
France	1,90	5,20	3,30
Ireland	4,80	5,20	0,40
Italy	2,80	5,40	2,60
Luxembourg	3,60	5,30	1,70
Netherlands	3,90	5,20	1,30
Austria	2,20	5,30	3,10
Portugal	4,20	5,40	1,20
Finland	3,00	5,30	2,30
Sweden	1,90	5,10	3,20
United Kingdom	1,00	5,10	4,10
Euro zone	2,70	5,20	2,50
EU -15	2,40	5,20	2,80
Cyprus	2,88	7,66	4,78

International and domestic interest rates

In August there were additional reductions in international interest rates. On 21 August the Federal Reserve once again cut its key interest rate by 25 basis points to 3,5%, in response to the continuing slowdown in the US economy, which is also reflected in the expected revision of

GDP growth in the second quarter to zero or even a negative rate. The Bank of England also cut its official interest rate by 25 basis points to 5,0%, and on 30 August the European Central Bank also adopted an equivalent cut bringing its benchmark refinancing rate to 4,25%.

Table 13

OFFICIAL INTEREST RATES

European Central Bank

<i>(August 30, 2001)</i>	%	Δ*
Minimum bid rate on the main refinancing operations	4,25	-0,25
Interest rate on the marginal lending facility	5,25	-0,25
Interest rate on the deposit facility	3,25	-0,25

Bank of England

<i>(August 2, 2001)</i>	%	% Δ*
Repo Rate	5,00	-0,25

Federal Reserve System

<i>(August 21, 2001)</i>	%	% Δ*
Federal Funds Rate	3,50	-0,25
Discount Rate	3,00	-0,25

Central Bank of Cyprus

<i>(August 10, 2001)</i>	%	% Δ*
Minimum bid rate on the main refinancing operations	4,50	-0,50
Interest rate on the marginal lending facility	6,50	-0,50
Interest rate on the deposit facility	3,50	-0,50

* Change from the previous decision.

As a result of the reduction in the key interest rate in Cyprus by 50 basis points combined with the smaller reduction in the key interest rate by the European Central Bank, the differential between the lending/deposit interest rates in Cyprus and the euro area has narrowed. According to data for July the interest rate on deposits over 12 months was 6,50% in Cyprus and 4,3% in the euro area, indicating a differential of about 2 percentage points, which *ceteris paribus* is expected to decrease to 1,75 percentage points in August.¹¹

¹¹ Additional information on lending/deposit interest rates in the euro area is given in table 1 of the annex.

Ten-year development stock yields bring Cyprus slightly outside the relevant Maastricht criterion in June (see table 12). The divergence is more significant in real interest rates, where the gap between real European interest rates and corresponding domestic rates widened due to the further de-escalation of domestic inflation and reached 198 basis points in June, as compared with a differential of 187 basis points in May. The greater reduction in domestic interest rates against the reduction of European interest rates is expected to reduce the differential and bring Cyprus closer to the fulfilment of the relevant criterion.

Table 14

**FACTORS AFFECTING LIQUIDITY
2000 - 2001**

£ million

PERIOD MONTHLY	LIQUIDITY - PROVIDING FACTORS					LIQUIDITY - ABSORBING FACTORS						CREDIT INSTITU- TIONS CURRENT ACCOUNTS	BASE MONEY	
	NET ASSETS IN GOLD AND FOREIGN CURRENCY	MONETARY POLICY OPERATIONS					DEPOSIT FACILITY	OTHER LIQUIDITY - ABSORBING OPERATIONS	REV- REPOS	CURRENCY IN CIRC- ULATION	CENTRAL GOVERN. DEPOSITS (NET)			OTHER FACTORS (NET)
		MAIN REFINANCING OPERATIONS	LONG TERM REFINANCING OPERATIONS	MARGINAL LENDING FACILITY	OTHER LIQUIDITY - PROVIDING OPERATIONS	ADDITIONAL & SPECIAL & S.M.E. DEPOSITS								
		NFA	REPOS	LOMBARD	SWAP	OVERNIGHT								
1	2	3	4	5	6	7	8	9	10	11	12	13		
Jan-00	1.090,9	0,0	0,0	0,0	0,0	88,8	0,0	0,0	333,3	-41,9	269,3	441,4	774,7	
Feb-00	1.119,4	0,0	0,0	1,6	0,1	40,6	2,3	14,5	313,6	-27,3	347,0	430,4	746,3	
Mar-00	1.122,7	57,5	0,0	7,6	4,3	3,2	5,3	0,0	315,0	68,8	362,9	436,8	757,2	
Apr-00	1.146,1	60,9	0,0	0,8	4,5	8,6	2,4	0,0	331,1	-6,1	433,5	442,9	776,4	
May-00	1.151,5	21,8	0,0	9,6	8,7	0,2	0,2	0,0	349,0	-53,2	452,5	442,8	792,0	
Jun-00	1.231,4	0,0	0,0	17,3	4,0	1,1	0,6	0,0	354,2	-44,6	492,7	448,8	803,5	
Jul-00	1.247,4	0,0	0,0	20,3	2,0	0,1	0,0	0,0	363,3	14,7	372,3	519,3	882,6	
Aug-00	1.233,8	0,0	0,0	11,5	1,8	0,5	1,7	0,0	365,1	50,6	320,8	508,5	875,3	
Sep-00	1.291,4	0,0	0,0	4,0	0,4	3,7	0,5	0,0	358,6	48,2	375,4	509,3	868,4	
Oct-00	1.208,7	0,0	0,0	18,6	4,3	0,3	0,0	0,0	354,7	-26,8	385,6	517,8	872,5	
Nov-00	1.267,1	0,0	0,0	6,3	1,8	3,7	0,0	0,0	341,5	9,8	410,4	509,8	851,2	
Dec-00	1.194,5	0,0	0,0	18,9	1,1	4,1	0,5	0,0	353,8	-22,4	371,5	507,0	861,2	
Jan-01	1.119,8	10,2	0,0	8,6	1,1	3,9	94,5	0,0	337,3	51,8	238,6	413,6	845,4	
Feb-01	1.133,9	49,5	0,0	0,5	1,2	12,5	93,9	0,0	326,6	-6,4	332,9	425,7	846,1	
Mar-01	1.226,5	16,3	0,0	5,0	1,0	2,9	93,0	0,0	328,7	40,0	358,0	426,9	848,6	
Apr-01	1.256,1	0,0	0,0	18,2	0,7	0,3	90,7	0,0	358,7	-14,1	389,7	449,6	899,4	
May-01	1.283,1	0,0	0,0	28,2	1,2	1,0	84,2	0,0	369,4	48,0	359,8	450,2	904,8	
Jun-01	1.512,9	0,0	0,0	0,0	0,0	57,9	79,7	26,4	382,7	117,9	409,3	439,1	959,3	
Jul-01	1.581,6	0,0	0,0	1,2	0,0	9,2	79,6	92,0	393,8	144,4	412,5	451,1	933,8	

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
Jan-00	0,69	2,74	2,74	4,19	2,05	3,18	5,91	5,74	9,51	6,03
Feb-00	0,69	2,80	2,81	4,25	2,06	3,18	6,01	5,85	9,52	6,13
Mar-00	0,73	2,96	2,96	4,28	2,07	3,33	6,07	5,85	9,56	6,10
Apr-00	0,76	3,04	3,05	4,28	2,09	3,44	6,24	6,00	9,64	6,12
May-00	0,78	3,26	3,26	4,45	2,13	3,65	6,41	6,16	9,72	6,30
Jun-00	0,83	3,49	3,49	4,48	2,16	3,87	6,56	6,23	9,84	6,34
Jul-00	0,87	3,58	3,58	4,71	2,33	3,94	6,77	6,37	9,95	6,46
Aug-00	0,89	3,67	3,67	4,75	2,36	4,06	6,81	6,44	10,00	6,51
Sep-00	0,94	3,85	3,83	4,77	2,38	4,20	6,92	6,44	10,03	6,56
Oct-00	0,97	3,96	3,96	4,76	2,40	4,14	7,13	6,60	10,15	6,57
Nov-00	0,99	4,04	4,03	4,77	2,47	4,25	7,16	6,63	10,20	6,56
Dec-00	1,01	3,96	3,95	4,58	2,49	4,21	7,18	6,45	10,19	6,43
Jan-01 *	1,01	3,88	3,87	4,39	2,52	4,01	7,19	6,40	10,32	6,29
Feb-01	1,01	3,84	3,83	4,35	2,50	3,99	7,11	6,44	10,26	6,24
Mar-01	1,02	3,81	3,81	4,32	2,50	3,99	7,04	6,31	10,20	6,17
Apr-01	1,03	3,76	3,76	4,26	2,50	3,91	7,07	6,34	10,23	6,14
May-01	1,01	3,74	3,74	4,27	2,48	3,91	7,03	6,34	10,20	6,17
Jun-01	0,98	3,65	3,65	4,25	2,45	3,85	6,96	6,25	10,16	6,13

* From January 2001 data refer to Euro area enlargement

Table 2

MONEY MARKET INTEREST RATES

Cyprus

	Overnight deposits	2-7 days deposits	1-month deposits	Over 1-month deposits	12-month deposits
2000					
January	4,65	4,64	4,50	-	6,50
February	4,64	4,62	4,85	5,31	6,50
March	5,57	5,61	5,56	-	6,50
April	6,23	6,23	-	5,80	6,50
May	6,36	6,34	-	-	6,50
June	6,48	6,55	-	6,75	6,50
July	6,66	6,68	6,81	-	6,50
August	6,57	6,58	6,50	-	6,50
September	5,76	5,90	-	6,50	6,50
October	6,40	6,34	6,25	-	6,50
November	5,99	6,11	6,35	6,35	6,50
December	6,06	6,27	6,24	7,00	6,50
2001					
January	5,77	5,88	6,31	-	6,50
February	5,51	5,80	6,28	6,59	6,50
March	5,82	5,85	6,05	6,83	6,50
April	6,37	6,42	6,39	-	6,50
May	6,66	6,57	6,60	6,72	6,50
June	4,72	4,73	5,00	6,55	6,50
July	4,94	4,95	5,95	6,50	6,50

Source: Central Bank of Cyprus

Euro area

	Overnight deposits	1-month deposits	3-month deposits	6-month deposits	12-month deposits
	3,04	3,15	3,34	3,56	3,95
	3,28	3,36	3,54	3,73	4,11
	3,51	3,59	3,75	3,94	4,27
	3,69	3,80	3,93	4,09	4,37
	3,92	4,15	4,35	4,53	4,84
	4,29	4,37	4,50	4,68	4,96
	4,31	4,41	4,58	4,84	5,11
	4,42	4,57	4,78	5,01	5,25
	4,59	4,70	4,85	5,04	5,22
	4,76	4,85	5,04	5,10	5,22
	4,83	4,92	5,09	5,13	5,19
	4,83	4,94	4,93	4,91	4,87
	4,75	4,81	4,77	4,68	4,58
	4,99	4,80	4,76	4,67	4,59
	4,78	4,78	4,71	4,58	4,47
	5,06	4,79	4,69	4,57	4,49
	4,65	4,67	4,64	4,57	4,53
	4,54	4,53	4,45	4,35	4,31
	4,51	4,52	4,47	4,39	4,31

Source: ECB Monthly Bulletin - August 2001 -

European Central Bank

Table 3

**Percentage change in the Consumer Price Index by economic origin (%)
1998-2001**

	Yearly			Quarterly			July	June	July	Jan.-July	Jan.-June	Jan.-July	Weights	
	1998	1999	2000	2000 IV	2001 I	2001 II	2000/ 1999	2001/ 2000	2001/ 2000	2000/ 1999	2001/ 2000	2001/ 2000	1992=100 ²	1998=100 ¹
GENERAL INDEX	2,23	1,74	4,15	3,58	1,75	2,15	3,86	3,00	1,01	4,39	1,95	1,82	100,00	100,00
A LOCAL GOODS	2,08	1,73	7,15	4,76	0,43	1,61	6,93	4,00	-0,47	8,29	1,02	0,81	42,99	36,69
A.1 Agricultural	1,65	-1,87	8,98	0,28	-3,99	1,55	14,87	11,52	-3,21	14,21	-1,24	-1,52	11,31	7,93
A.2 Industrial	3,10	2,96	4,48	4,89	0,83	2,34	2,00	3,03	1,18	4,20	1,59	1,54	29,70	26,75
A.2.1 industrial non-petroleum	3,66	3,20	2,50	1,65	-1,32	0,28	-1,01	0,59	0,17	3,19	-0,51	-0,41	24,97	22,42
A.2.2 fuel and gas	0,00	1,52	14,86	21,56	11,59	12,93	18,20	15,61	5,72	9,54	12,26	11,25	4,73	4,33
A.3 Electricity and Water	-11,07	0,93	36,04	19,07	10,72	-5,70	45,41	-7,48	-8,37	43,51	2,17	0,57	1,98	2,01
B IMPORTED GOODS	0,28	-0,83	2,14	2,71	1,02	1,16	1,56	1,19	-0,22	1,69	1,09	0,90	23,17	22,20
B.1 Motor Vehicles	-0,54	-1,52	3,79	3,95	2,05	1,32	4,20	1,23	-0,03	3,54	1,68	1,44	11,88	9,43
B.2 Other Imported	1,06	-0,19	0,94	1,80	0,25	1,04	-0,36	1,17	-0,36	0,34	0,65	0,50	11,29	12,77
C SERVICES	3,54	3,23	2,52	2,94	3,36	3,17	2,36	3,04	3,02	2,40	3,27	3,23	33,84	41,11
Underlying inflation for Cyprus³	2,8	2,3	2,4	2,5	1,5	1,9	1,3	1,9	1,4	2,4	1,7	1,7		
Euro area inflation	1,2	1,1	2,4	2,7	2,6									

¹ For the years 2000 and 2001

² For the years 1998 and 1999

³ 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 (%)
1998-2001**

		Yearly			Quarterly			July	June	July	Jan.-July	Jan.-June	Jan.-July
		1998	1999	2000	2000 IV	2001 I	2001 II	2000/ 1999	2001/ 2000	2001/ 2000	2000/ 1999	2001/ 2000	2001/ 2000
	GENERAL INDEX	2,23	1,74	4,15	3,58	1,75	2,15	3,86	3,00	1,01	4,39	1,95	1,82
A	LOCAL GOODS	0,89	0,75	2,63	1,80	0,16	0,61	2,53	1,50	-0,18	3,02	0,39	0,31
A.1	Agricultural	0,17	-0,19	0,69	0,02	-0,33	0,12	1,09	0,88	-0,26	1,06	-0,10	-0,12
A.2	Industrial	0,95	0,92	1,21	1,33	0,22	0,64	0,55	0,83	0,31	1,14	0,43	0,41
A.2.1	<i>industrial non-petroleum</i>	<i>0,96</i>	<i>0,85</i>	<i>0,57</i>	<i>0,37</i>	<i>-0,30</i>	<i>0,06</i>	<i>-0,23</i>	<i>0,13</i>	<i>0,04</i>	<i>0,72</i>	<i>-0,11</i>	<i>-0,09</i>
A.2.2	<i>fuel and gas</i>	<i>0,00</i>	<i>0,07</i>	<i>0,64</i>	<i>0,96</i>	<i>0,52</i>	<i>0,57</i>	<i>0,78</i>	<i>0,69</i>	<i>0,28</i>	<i>0,41</i>	<i>0,55</i>	<i>0,51</i>
A.3	Electricity and Water	-0,23	0,02	0,73	0,44	0,27	-0,15	0,90	-0,20	-0,23	0,83	0,06	0,01
B	IMPORTED GOODS	0,06	-0,17	0,46	0,58	0,22	0,25	0,34	0,25	-0,05	0,37	0,23	0,19
B.1	Motor Vehicles	-0,06	-0,18	0,35	0,36	0,19	0,12	0,38	0,11	0,00	0,33	0,15	0,13
B.2	Other Imported	0,12	-0,02	0,12	0,22	0,03	0,13	-0,05	0,14	-0,04	0,04	0,08	0,06
C	SERVICES	1,27	1,17	1,05	1,20	1,38	1,29	0,98	1,25	1,24	1,00	1,34	1,32

Table 5

**Percentage change in the Consumer Price Index by category of goods and services (%)
2000-2001**

	2000	Quarterly			July 2000/ 1999	June 2001/ 2000	July 2001/ 2000	Jan.-July 2000/ 1999	Jan.-June 2001/ 2000	Jan.-July 2001/ 2000	Weights
		2000 IV	2001 I	2001 II							1998=100
GENERAL INDEX	4,15	3,58	1,75	2,15	3,86	3,00	1,01	4,39	1,95	1,82	100,00
Food & non-alcoholic beverages	5,49	2,39	0,63	3,06	7,96	7,41	0,57	7,27	1,84	1,66	18,20
Alcoholic beverages & tobacco	8,16	3,51	3,94	4,38	3,99	4,32	1,57	11,67	4,16	3,78	1,78
Clothing and footwear	-0,46	-3,55	-12,87	-6,75	-10,58	-6,08	-6,25	1,76	-9,72	-9,27	8,22
Housing, water, electricity and gas	5,46	4,35	3,25	1,56	6,11	1,39	0,96	5,77	2,40	2,19	21,27
Furnishings, household equipment and supplies	1,47	2,14	0,29	0,80	-0,13	0,94	-0,90	0,97	0,55	0,34	7,08
Health	6,18	7,53	6,01	5,79	6,25	6,10	5,18	5,34	5,90	5,80	4,92
Transport	5,70	8,11	5,07	4,77	6,77	5,23	1,98	4,06	4,92	4,49	17,42
Communication	-10,36	-11,61	-1,56	-1,79	-7,81	-1,55	-2,99	-9,28	-1,68	-1,87	1,79
Recreation & culture	-0,20	-1,54	-2,06	-2,23	-1,71	-2,06	0,44	0,67	-2,15	-1,79	5,88
Education	3,87	3,23	3,50	4,05	4,13	4,05	4,05	4,13	3,77	3,81	2,33
Restaurants & hotels	5,80	7,59	8,19	6,58	5,71	6,23	5,40	5,06	7,37	7,08	6,07
Miscellaneous goods and services	4,16	5,46	5,34	4,50	5,20	3,79	3,02	3,24	4,91	4,64	5,04

Table 6

**Weighted contribution to the total change in the Consumer Price Index by category of goods and services (%)
2000-2001**

	2000	Quarterly			July	June	July	Jan.-July	Jan.-June	Jan.-July	Weights 1998=100
		2000 IV	2001 I	2001 II	2000/ 1999	2001/ 2000	2001/ 2000	2000/ 1999	2001/ 2000	2001/ 2000	
GENERAL INDEX	4,15	3,58	1,75	2,15	3,86	3,00	1,01	4,39	1,95	1,82	100,00
Food & non-alcoholic beverages	0,99	0,44	0,12	0,56	1,41	1,32	0,11	1,30	0,34	0,30	18,20
Alcoholic beverages & tobacco	0,16	0,07	0,08	0,09	0,08	0,09	0,03	0,22	0,08	0,08	1,78
Clothing and footwear	-0,04	-0,30	-1,04	-0,57	-0,89	-0,52	-0,46	0,15	-0,80	-0,75	8,22
Housing, water, electricity and gas	1,17	0,94	0,71	0,34	1,31	0,30	0,21	1,24	0,52	0,48	21,27
Furnishings, household equipment and supplies	0,10	0,15	0,02	0,05	-0,01	0,06	-0,06	0,07	0,04	0,02	7,08
Health	0,31	0,37	0,30	0,29	0,31	0,31	0,26	0,27	0,30	0,29	4,92
Transport	0,97	1,37	0,87	0,81	1,16	0,89	0,35	0,70	0,84	0,77	17,42
Communication	-0,17	-0,18	-0,02	-0,03	-0,14	-0,02	-0,05	-0,16	-0,03	-0,03	1,79
Recreation & culture	-0,01	-0,09	-0,12	-0,13	-0,10	-0,12	0,02	0,04	-0,12	-0,10	5,88
Education	0,09	0,08	0,08	0,10	0,10	0,10	0,10	0,10	0,09	0,09	2,33
Restaurants & hotels	0,36	0,47	0,50	0,41	0,36	0,39	0,34	0,31	0,46	0,44	6,07
Miscellaneous goods and services	0,21	0,27	0,27	0,22	0,26	0,19	0,15	0,16	0,25	0,23	5,04

Table 7

CALENDAR OF INTEREST RATES ANNOUNCEMENTS IN 2001

JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
ECB 4 4,75 (1)	ECB 1 4,75	ECB 1 4,75	ECB 11 4,75	ECB 10 4,50	ECB 7 4,50	ECB 5 4,50	ECB 2 4,50	ECB 13 27	ECB 11 25	ECB 8 22	ECB 6 20
18 4,75	15 4,75	15 4,75	26 4,75	23 4,50	21 4,50	19 4,50	30 4,25				
		29 4,75									
BOE 11 6,00 (2)	BOE 8 5,75	BOE 8 5,75	BOE 5 5,50	BOE 10 5,25	BOE 6 5,25	BOE 5 5,25	BOE 2 5,00	BOE 6	BOE 4	BOE 8	BOE 5
FED 3 6,00 (3)		FED 20 5,00	FED 18 4,50	FED 15 4,00	FED 26/27 3,75		FED 21 3,50		FED 2	FED 6	FED 11
30/31 5,50											
CBC 26 7,00 (4)	CBC 23 7,00	CBC 29 7,00	CBC 27 7,00		CBC 1 7,00	CBC 6 7,00	CBC 10 6,50	CBC 14	CBC 12	CBC 9	CBC 14

- (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 Flows (with reference to stocks traded at the CSE)
Purchase of shares by non - residents (£)

	February 2001	March 2001	April 2001	May 2001	June 2001	July 2001
Australia	27.397,8	19.351,0	11.834,1	6.104,4	55.550,5	13.208,8
Austria	174.800,0	13.615,9	209,0	21.743,6	0,0	0,0
Belgium	4.720,0	0,0	0,0	5.475,0	0,0	0,0
British V Islands	0,0	0,0	0,0	0,0	0,0	1.248,6
Canada	2.636,5	2.923,7	255,0	12.290,0	11.705,0	561,6
Cuba	738,8	0,0	0,0	0,0	0,0	0,0
Czech Republic	0,0	0,0	0,0	4.400,0	0,0	0,0
France	68.902,6	0,0	0,0	0,0	0,0	0,0
Georgia	0,0	0,0	0,0	0,0	1.512,0	0,0
Germany	24.185,2	35.079,2	53.735,0	52.657,0	19.683,8	9.294,0
Greece	1.414.256,0	1.125.672,0	723.075,7	1.089.593,6	394.579,0	427.524,2
Holland	1.820,0	0,0	0,0	0,0	0,0	0,0
Ireland	0,0	55.913,8	35.818,1	6.186,2	0,0	0,0
Italy	0,0	0,0	0,0	349,0	0,0	0,0
Jordan	0,0	0,0	20.100,0	0,0	14.730,9	5.280,0
Latvia	0,0	0,0	0,0	0,0	11.581,0	0,0
Lebanon	560,0	0,0	7.618,0	2.750,0	0,0	0,0
Libya	696,9	0,0	0,0	0,0	0,0	0,0
Mexico	0,0	0,0	0,0	0,0	0,0	22.125,0
Moldova	5.662,2	1.484,0	0,0	0,0	0,0	0,0
Netherlands	747,8	900,0	0,0	0,0	0,0	0,0
Panama	0,0	29.304,3	100,2	0,0	0,0	0,0
Philippines	0,0	0,0	0,0	0,0	0,0	1.465,0
Russia	116.569,8	78.059,1	17.561,0	105.594,2	41.222,5	26.556,0
Saudi Arabia	0,0	19.530,0	10.400,6	18.751,8	0,0	6.847,5
South Africa	32.548,3	17.993,2	11.897,3	41.814,2	7.985,6	28.409,3
Spain	620,0	0,0	0,0	8.000,0	0,0	0,0
Switzerland	0,0	0,0	11.839,4	6.390,1	1.717,6	3.465,0
Syria	4.965,3	0,0	0,0	0,0	0,0	0,0
UAE	0,0	0,0	0,0	0,0	0,0	326,2
UK	342.797,7	203.887,7	169.014,9	271.101,7	132.484,0	59.735,4
Ukraine	30.037,2	26.092,5	54.656,3	59.269,4	58.619,0	55.382,2
USA	71.721,3	9.708,0	56.433,0	50.109,3	3.020,6	10.585,4
Yugoslavia	13.640,0	32.983,9	20.855,5	0,0	22.560,0	7.160,0
Zambia	0,0	0,0	0,0	31.192,9	16.462,1	5.469,8
Zimbabwe	0,0	0,0	795,5	0,0	0,0	3.840,0
Unidentified	44.700,6	13.742,5	0,0	23.500,0	1.167,5	0,0
Total	2.384.723,8	1.686.240,7	1.206.188,4	1.817.272,3	794.581,1	688.483,9

Table 9

Inward Portfolio Flows (with reference to stocks traded at the CSE)
Sale of shares by non - residents (£)

	February 2001	March 2001	April 2001	May 2001	June 2001	July 2001
Australia	340,0	3.774,5	0,0	5.565,0	0,0	0,0
British V Islands	0,0	0,0	0,0	0,0	19.877,5	13.305,9
Canada	1.660,0	464,8	261,9	0,0	2.202,0	0,0
Cuba	392,5	1.190,1	0,0	0,0	0,0	0,0
France	109.379,0	0,0	0,0	0,0	0,0	0,0
Germany	8.036,0	0,0	0,0	735,9	4.216,2	1.477,0
Greece	1.123.266,0	189.969,9	449.413,9	811.202,1	460.778,4	163.420,3
Hungary	0,0	377.754,9	0,0	0,0	0,0	0,0
Lebanon	2.179,0	0,0	0,0	0,0	0,0	0,0
Libya	735,3	0,0	0,0	0,0	0,0	0,0
Moldova	5.789,2	0,0	0,0	0,0	0,0	0,0
Netherlands	1.925,0	0,0	0,0	0,0	0,0	0,0
Norway	0,0	1.014,0	0,0	0,0	0,0	0,0
Philippines	0,0	0,0	15.540,5	0,0	0,0	0,0
Russia	139.522,7	720,0	0,0	204,4	125,8	0,0
South Africa	55,5	55.970,6	0,0	333,0	0,0	954,0
Spain	0,0	0,0	0,0	5.500,0	0,0	0,0
Switzerland	0,0	0,0	0,0	0,0	27.538,2	141.845,6
Syria	0,0	0,0	2.040,0	0,0	0,0	0,0
Ukraine	0,0	0,0	0,0	9.180,0	17.462,0	307,5
UK	277.979,6	18.452,9	134.989,6	80.427,6	653.174,5	38.658,3
USA	381.278,6	63.500,7	388.914,5	183.825,0	115.499,3	46.617,2
Yugoslavia	31.732,6	354.787,5	8.100,0	0,0	11.858,5	0,0
Unidentified	1.580,0	19.011,2	0,0	0,0	0,0	0,0
Total	2.085.851,0	1.086.611,1	999.260,4	1.096.973,0	1.312.732,4	406.585,8