



CENTRAL BANK OF CYPRUS
ECONOMIC RESEARCH DEPARTMENT

MONETARY
POLICY
REPORT

DECEMBER 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 economic developments in Cyprus, in preparation for the meeting - normally held monthly - of the Monetary Policy Committee. The Report is available in Greek on the website the day following the meeting and in English two weeks later.

**CENTRAL BANK OF CYPRUS, 2002
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1. INTRODUCTION

International economic recovery remains, at best sluggish. Against this background, the US Federal Reserve System reduced its key interest rate by 50 basis points in November. Acting on the same wavelength, at the meeting of 5 December, the European Central Bank decided an equivalent reduction in its official interest rates. This decision was facilitated by recent data indicating a slight decline in euro area inflation in November, compared with the previous month, while the growth of broad money supply (M3) slowed in October, albeit remaining above the reference value. In contrast, the Bank of England, as anticipated, maintained its official interest rates unchanged.

The considerable decline of inflation in October dominates domestic economic developments. After rising in July, August and September, as a result of increases in the value added tax (VAT) and other indirect taxes, the inflation rate subsided to 2,52%, compared with 3,41% in September 2002 and 2,71% in October 2001. The decrease in the inflation rate in October, compared with the same month of the previous year, was driven to a large extent by the decrease in agricultural product prices, and to a smaller extent by the deceleration in services prices. The continuing decline in the prices of imported cars since July, owing to the reduction in excise duties, also had a moderating effect on the increase of the consumer price index.

Inflationary pressures are also contained by the slowdown in economic activity, which keeps the expansion of credit to the private sector at a low level. The annual growth rate of credit stood at 8,6% in October, compared with 14,0% in the previous year. In this environment of subdued credit expansion, excess bank liquidity persists

and is a potential inflationary risk in case of a reversal in the demand for loans. Against this background and aiming to maintain interest rates consistent with its anti-inflationary policy, the Central Bank continued to intervene in the money market through auctions (depos), absorbing surplus liquidity and incurring the associated cost.

The aforementioned developments are expected to result in the containment of the inflation rate for 2002 slightly below 3,0%. In 2003, under the influence of the increase in the VAT standard rate, changes in other indirect taxes and the cumulative effect of the automatic indexation of wages, the inflation rate is projected to rise to about 4,0 to 4,5%.

Concerning tourism, notwithstanding the small increase in tourist arrivals in October, the decline in arrivals for the first ten months of the year remained substantial, of the order of 11,3%, compared with an increase of 2,3% in the same period of 2001. Receipts from tourism fell by 14,3% in the first eight months of the year.

As regards external trade, provisional data indicate that total imports fell by 18,1% in August 2002, compared with an increase of 4,9% in the same month of 2001. Imports for home consumption excluding imports of fuels and military equipment also fell in August. Taking into account these provisional data, total imports decreased by 5,1% in the first eight months of the year, compared with an increase of 9,3% in the same period of 2001. Total exports fell by 31,2% in August, on account first of the decline of re-exports and second of the decline of domestic exports. For the period from January to August 2002, total exports fell by 18,2%, compared with an increase of 6,3% in the same period of the

previous year. As a result of these developments, the crude trade deficit reached £1.287,8 million in the first eight months of 2002, compared with £1.298,1 million in the corresponding period of 2001.

Private consumption, as reflected by the retail sales volume index, declined by 2,4% in August 2002, compared with an increase of 13,1% in August 2001. For the period from January to August 2002, private consumption registered a significant deceleration, in comparison with the same period of the previous year. Specifically, the retail sales volume index increased by 0,1%, compared with an increase of 5,8% in the first eight months of 2001. The slowdown in the retail sales volume index is consistent with the decline in the growth rate of imports for home consumption in the first eight months of the year.

Turning to the labour market, unemployment rose to 2,9% of the economically active population in October 2002, compared with 2,7% in the same month of 2001. The number of registered unemployed also increased substantially, continuing the upward trend observed since November 2001. An increase in unemployment was recorded in nearly all sectors of the economy.

In the secondary sector of the economy, both positive and negative developments were again recorded. On the one hand, manufacturing continued to decline in August, and on the other hand, the performance of the construction sector remained generally encouraging. In particular, increases were recorded in both the volume and value indices of building permits in September 2002, and in cement sales in October.

As regards public finances, the latest available data show that the fiscal deficit reached £204,1

million in the first eight months of 2002, compared with £137,2 million in the corresponding period of 2001. This increase in the fiscal deficit is mainly attributable to the significant deceleration in public revenue, which grew by 1,9% in the first eight months of 2002, compared with a growth rate of 11,1% in the corresponding period of 2001, while public expenditure recorded a smaller deceleration.

2. ECONOMIC DEVELOPMENTS

2.1 INTERNATIONAL DEVELOPMENTS AND EXCHANGE RATES

International economic developments

The international economy appears anaemic, with growth rates in major economies remaining subdued. The US Federal Reserve System reduced its key interest rate by 50 basis points at its meeting on 6 November, and the European Central Bank decided an equal reduction in official interest rates on 5 December. In contrast, the Bank of England, as anticipated, continued to maintain interest rates on hold, citing high consumer spending and surging prices in the real estate market, which may cause inflationary pressures. All major stock market indices registered an increase in the period October – November, while the recent de-escalation of tension between the United States and Iraq had a downward impact on oil prices.

In the **United States**, the economic growth rate reached 4,0% in the third quarter, primarily due to increased consumption. In contrast, the ISM industrial index declined further to 48,5 points in October, from 49,5 in September. Inflation as well as unemployment remained roughly stable in October. Specifically, the unemployment rate reached 5,7%, compared with 5,6% in the previous month, and the inflation rate reached

2,0%, compared with 1,8% in September. Some analysts expect another interest rate cut during the first quarter of 2003. Concerning stock markets, between 1 October and end-November, the Dow Jones index rose by 12,5%, the S&P 500 index rose by 10,7% and the Nasdaq by 22,6%. In the period from January to November, these indices fell by 10,9%, 18,2% and 23,7%, respectively.

The **euro area** economy shows a similar picture. Unemployment remained unchanged at 8,3% in September, while the inflation rate increased to 2,3% in October. According to provisional data, the inflation rate decreased to 2,2% in November, the same level as in September. This level does not cause concern about inflationary pressures in the future. Germany's Ifo industrial confidence index declined for the sixth successive month, reaching 87,3 points in November, compared with 87,7 in October, albeit the decrease was smaller than expected. As regards share indices, Germany's DAX index rose by 15,9% between 1 October and end-November, while in France the CAC 40 index rose by 17,6% and in Italy the BCI index rose by 18,3%. For the first eleven months of 2002, the DAX, CAC 40 and BCI indices fell by 35,7%, 28,1% and 16,7%, respectively.

In **Britain**, unemployment remained broadly stable at 5,3% in the third quarter of the year, compared with 5,2% in the previous quarter. The consumer price index rose by 2,1% in October, compared with 1,7% in September. The FTSE 100 index rose by 9,8% between 1 October and end-November. Since the beginning of the year, the FTSE 100 index registered a fall of 20,1%.

In **Japan**, GDP growth reached 3,0% in the third quarter, while inflation and unemployment remained at -0,7% and 5,4%, respectively, in September. The Nikkei index increased slightly by 0,6% between 1 October and end-November, and registered a decrease of 12,6% for the first eleven months of 2002.

Developments in oil markets are noteworthy. The de-escalation of tension between the United States and Iraq was the main reason for the decline in oil prices. Specifically, the average price of Brent crude oil stood at USD 27,73 per barrel in October and USD 24,83 per barrel in November, compared with USD 28,32 per barrel in September.

Table 1**GDP projections***(annual percentage change)¹*

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

¹ Figures in parentheses indicate the corresponding previous month projection, in case of change² The Economist, 30 November 2002³ Lehman Brothers Global Weekly Economic Monitor, 29 November 2002⁴ International Monetary Fund, World Economic Outlook, September 2002**Table 2****Major share indices***(closing prices)*

	2001	2002			
	31 Dec.	1 Oct.	29 Nov.	% change	
				Jan. - Nov.	Oct. - Nov.
USA					
Dow Jones	10.021,5	7.938,8	8.931,7	-10,9	12,5
S&P 500	1.148,1	847,9	938,9	-18,2	10,7
Nasdaq	1.950,4	1.213,7	1.487,9	-23,7	22,6
Germany					
DAX	5.160,1	2.865,2	3.320,3	-35,7	15,9
France					
CAC 40	4.624,6	2.828,6	3.326,7	-28,1	17,6
Italy					
BCI	1.433,4	1.009,1	1.194,0	-16,7	18,3
Britain					
FTSE 100	5.217,4	3.797,4	4.169,4	-20,1	9,8
Japan					
Nikkei	10.542,6	9.162,3	9.215,6	-12,6	0,6

Source: Reuters

Table 3
Main economic indicators

(percentage change)

	GDP				Industrial production September (annual)	Retail sales September (annual)	Unemployment September (annual)	Inflation ¹ October (annual)
	(quarterly)	(annual)	(quarterly)	(annual)				
Britain	2,4 Q2	1,3 Q2	3,4 Q3	1,8 Q3	-2,5	6,0 ²	5,3 ⁴	2,1
Japan	2,6 Q2	-0,7 Q2	3,0 Q3	1,5 Q3	5,2	-1,9	5,4	-0,7 ⁵
USA	1,3 Q2	2,2 Q2	4,0 Q3	3,2 Q3	1,2 ²	7,6	5,7 ²	2,0
Euro area	1,3 Q1	0,3 Q1	1,6 Q2	0,7 Q2	-0,6	1,5 ³	8,3	2,3

Source: *The Economist*, 30 November 2002

¹ Based on the Consumer Price Index

² Data of October 2002

³ Data of August 2002

⁴ July-September 2002

⁵ Data of September 2002

International currencies

The euro fluctuated around USD 0,98 and USD 1,00 in October and November, respectively.

This weakening of the US dollar is attributable to the continuing instability in US equity markets and mixed evidence for the US economy, as well as to the prospect of military conflict between the United States and Iraq. It is also noted that during October and November, further signs of uncertainty in the euro area economy were observed, which were confirmed with the publication by the International Monetary Fund of downward revisions of the projections of euro area growth rates for years 2002 and 2003.

The pound sterling remained relatively stable vis-à-vis the euro in October and November, with an exchange rate around GBP 0,63 – 0,64 per EUR. In parallel, the pound sterling fluctuated marginally against the US dollar, registering a

marginal appreciation. It is worth noting that encouraging data indicating that the British economy is developing at rates better than the euro area economies have only marginally affected the exchange rate of the pound sterling vis-à-vis other currencies.

The Japanese yen ranged between JPY 120-122 per US dollar in October and November, registering a downward course, which reflects continuing investor concern about the instability of the country's financial system and the protracted downturn in the Japanese economy.

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

Chart 1

Major international currencies 4/1/2000 - 29/11/2002

(opening, selling values)

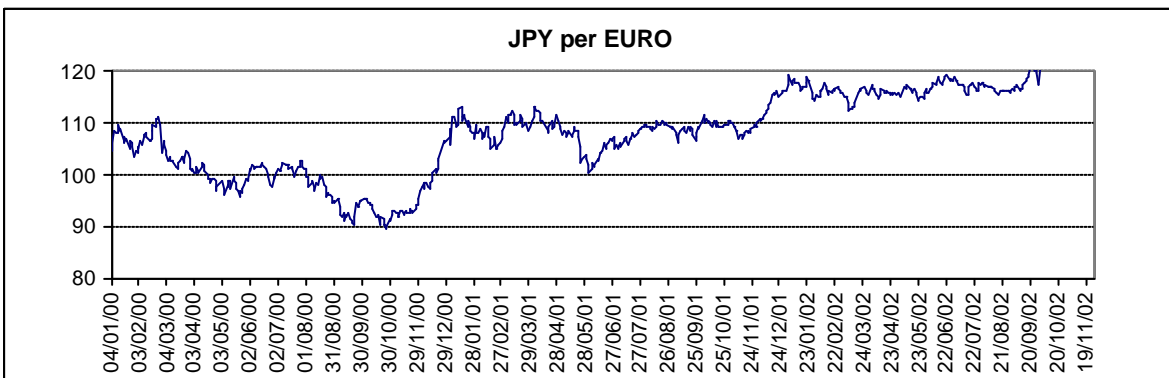
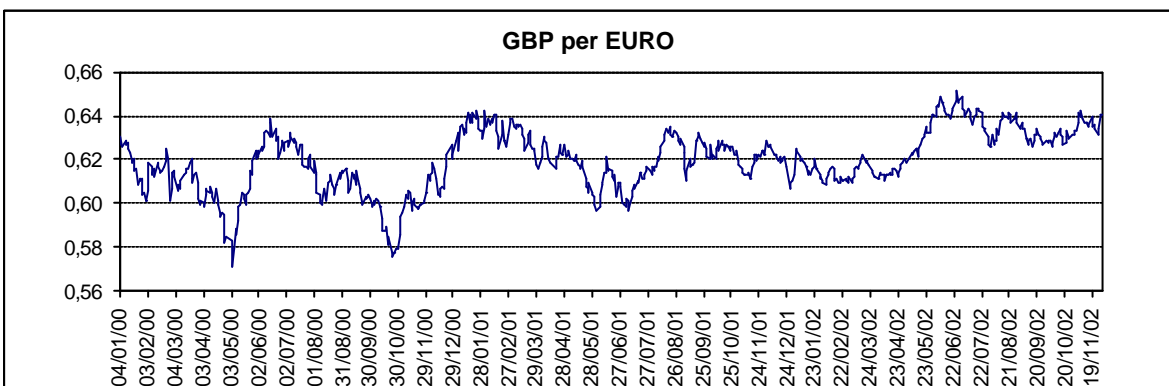


Table 4 shows the forecasts of a large number of internationally recognized financial institutions for the course of international exchange rates in the near future, as recorded in the monthly

survey of Reuters. As seen in table 4, markets anticipate that the euro will remain at about the same level vis-à-vis the US dollar and the pound sterling, while it will strengthen against the yen.

Table 4
International market expectations for exchange rates
Reuters monthly survey

(November 2002)

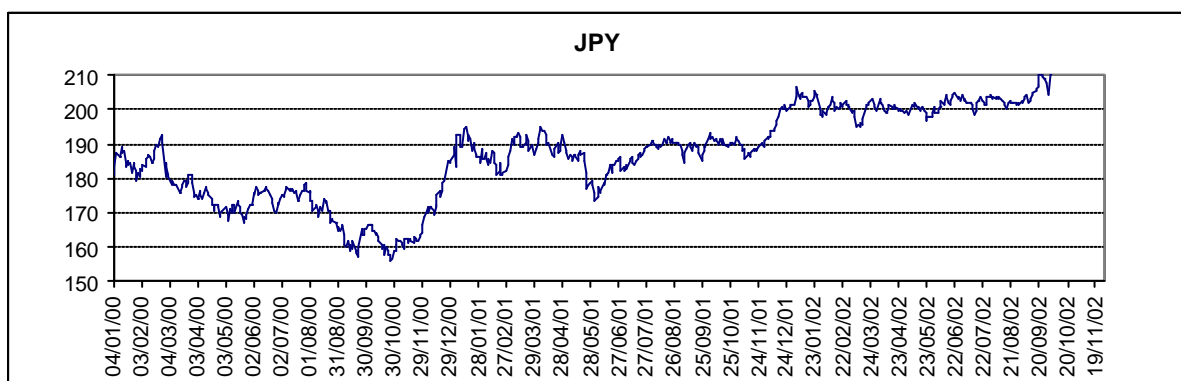
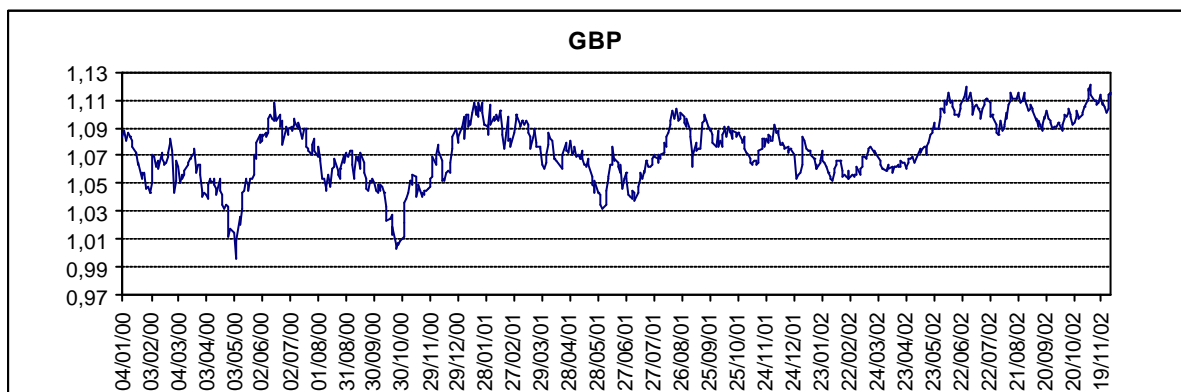
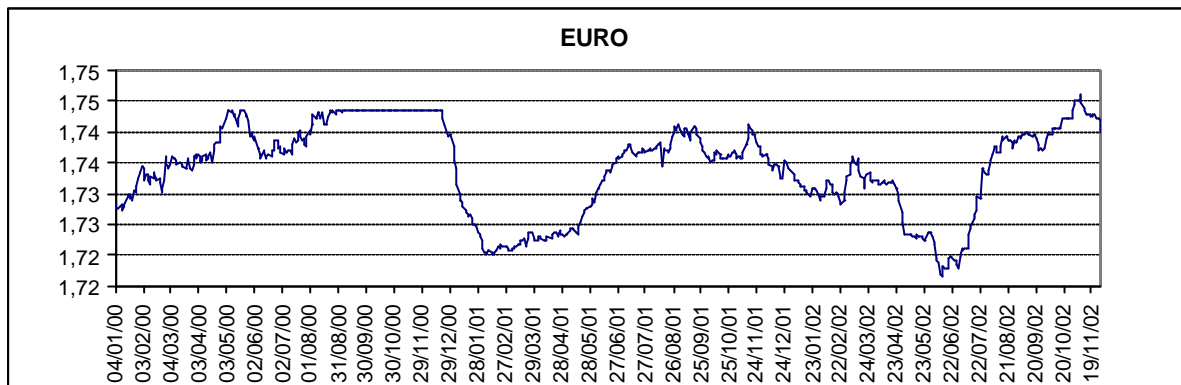
		Exchange rate forecasts			
	Statistical data	1-month	3-month	6-month	12-month
USD per EUR	Mean	0,99	1,00	1,00	1,00
	Minimum	0,95	0,94	0,90	0,85
	Maximum	1,03	1,05	1,13	1,21
	Number of forecasts	48	51	51	50
USD per GBP	Mean	1,56	1,56	1,56	1,57
	Minimum	1,52	1,52	1,46	1,40
	Maximum	1,60	1,61	1,64	1,67
	Number of forecasts	47	49	49	48
JPY per USD	Mean	122,96	124,04	123,62	123,69
	Minimum	119,65	115,00	112,00	105,00
	Maximum	126,30	132,00	140,00	140,00
	Number of forecasts	46	48	48	47
GBP per EUR	Mean	0,64	0,64	0,64	0,65
	Minimum	0,62	0,60	0,60	0,59
	Maximum	0,65	0,67	0,72	0,78

Source: Reuters. The survey was conducted in the period 4-6 November 2002.

Cyprus pound

The Cyprus pound registered marginal fluctuations vis-à-vis the euro in October and November, reaching EUR 1,7399 on 29 November 2002 (opening selling rate), compared with EUR 1,7390 on 2 October 2002. Reflecting fluctuations in international currencies during October and November, the Cyprus pound

strengthened against the US dollar, and fluctuated marginally against the pound sterling and the Japanese yen. 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 - 29/11/2002***(opening, selling values)*

As regards the domestic foreign exchange market, the results of the fixing sessions held until 29 November 2002, based on transaction date, are summarised in table 5. As this table shows, between 1 January 2002 and 29 November 2002, net foreign exchange inflows equivalent to £208,11 million were recorded, compared with £501,8 million in the first eleven months of 2001. In November, foreign exchange outflows of £26,70 million were registered, mostly due to seasonal factors.

Overall, including interventions and other operations in the interbank market (specifically, execution of forward foreign exchange contracts)

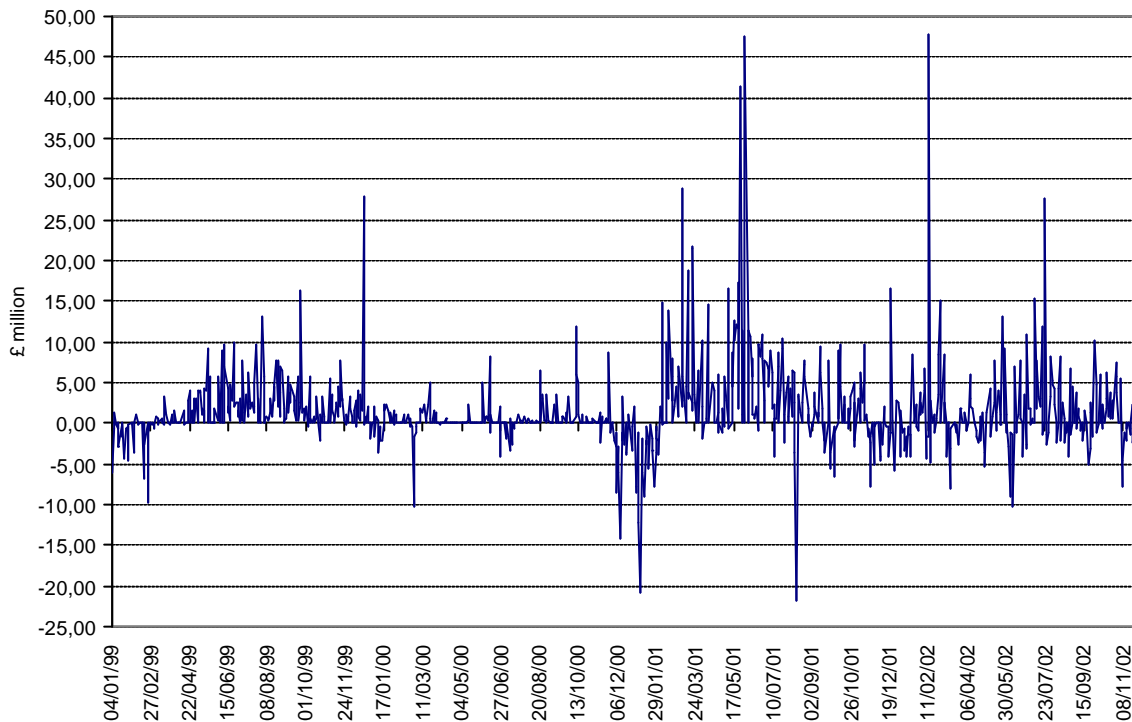
in the period from 1 January 2001 to 29 November 2002, the Central Bank absorbed from the banking system foreign exchange equivalent to £921,46 million. Over 50% of these inflows correspond to borrowing in foreign currency by residents of Cyprus from domestic banks, especially during 2001. It is pointed out that interventions by the Central Bank in the domestic foreign market decreased markedly in the first eleven months of 2002 to £258,17 million, compared with £662,9 million in the corresponding period of 2001. Daily purchases and sales of foreign exchange by the Central Bank from domestic banks since 1999 are shown in chart 3.

Table 5
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
2002	Total 2001			756,95	65,55	22,40	499,05
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	1,5160	1,0626	-6,00	0,00	-1,40	-4,75
April	1,7287	1,5563	1,0685	-18,70	-0,80	10,30	-1,65
May	1,7272	1,6192	1,1045	19,10	20,85	19,50	42,07
June	1,7249	1,7189	1,1201	-12,65	-3,75	4,00	-5,98
July	1,7402	1,7047	1,0890	152,45	-1,00	-0,10	87,25
August	1,7435	1,7192	1,1078	41,00	11,60	-0,10	30,28
September	1,7442	1,7187	1,0988	12,10	3,25	0,0	8,83
October	1,7504	1,7267	1,1078	57,20	20,30	7,75	51,63
November	1,7449	1,7346	1,1157	-48,20	0,00	1,00	-26,70
	Total 2002			222,55	54,95	50,45	208,11

Chart 3

**Daily purchases / sales of foreign exchange by the Central Bank
from the domestic banks
4/1/1999-29/11/2002**



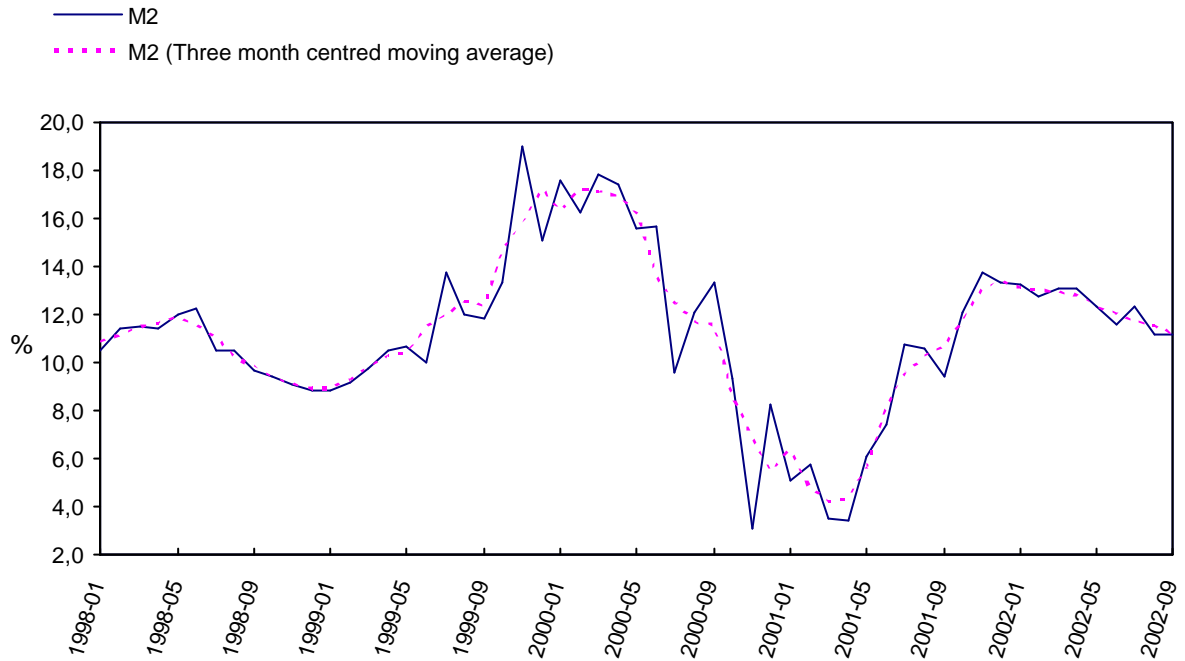
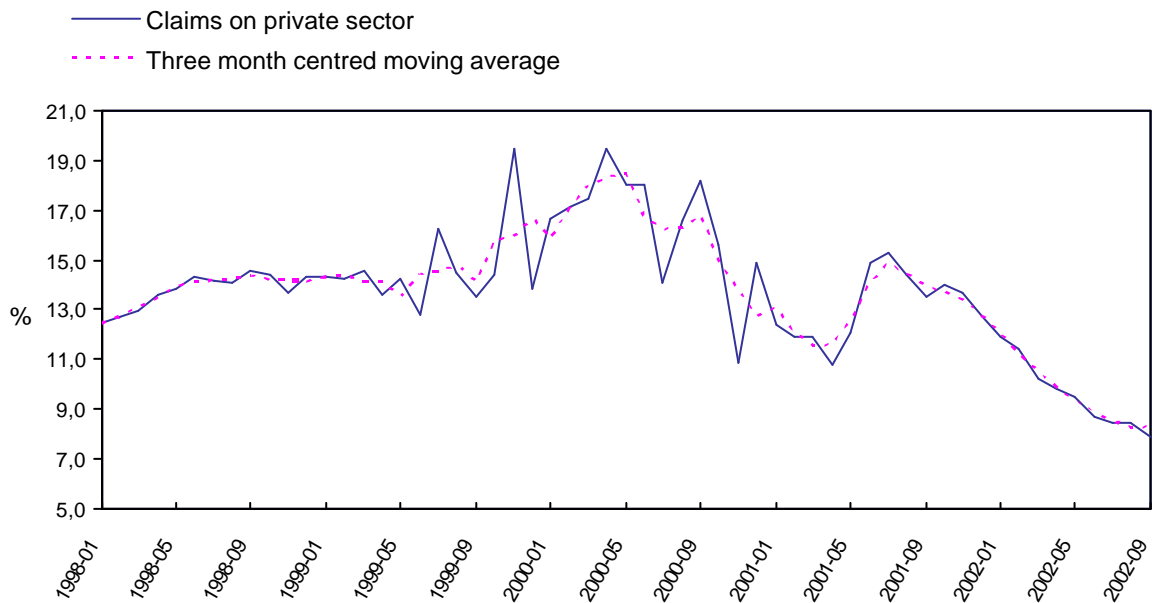
Note: Purchases of foreign exchange by the Central Bank are shown with a positive sign.

2.2 MONETARY DEVELOPMENTS*

Monetary conditions in October were not significantly different from those prevailing in the previous month. The growth rate of broad money supply remained unchanged and credit expansion, in spite of the small acceleration recorded, remained low. In addition, excess

bank liquidity continued to be significant. Fluctuations in excess bank liquidity in October and November stemmed from changes in foreign exchange inflows and withdrawals from government deposits with the Central Bank.

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

Chart 4**M2 growth***(annual percentage changes, monthly data)***Chart 5****Growth of claims on private sector***(annual percentage changes, monthly data)*

The annual growth rate of total liquidity (M2) remained broadly stable in October compared with the previous month, reaching 11,2%. The corresponding growth in October 2001 was 12,0% (table 6). As shown in chart 4, the growth rate of total liquidity has registered a slightly downward trend since November 2001. This trend is confirmed by the course of the three-month moving average, which declined from 11,5% in the period from July to September to 11,2% in the period from August to October.

Table 7 presents the factors affecting total liquidity. As this table shows, net foreign assets,

claims on the private sector and claims on the public sector increased in October compared with the previous month, while unclassified items fell. In the twelve months to October 2002, the increase in claims on the public sector reached £290,9 million, compared with an increase of £223,5 million in the twelve months to September. In the same twelve-month period, net foreign assets increased by £6,3 million, compared with an increase of £58,6 million in September. Credit to the private sector grew by £609,0 million, compared with an increase of £561,2 million in the twelve months to September.

Table 6
Main monetary indicators

(annual percentage change)

	1998	1999	2000	2001	2001 Oct.	2002 Sep.	2002 Oct.
Primary liquidity (M1)	3,4	41,3	4,0	2,0	-0,8	-7,9	-5,8
Total liquidity (M2)	8,8	15,1	8,2	13,3	12,0	11,1	11,2
Claims on private sector	14,3	13,9	14,9	12,7	14,0	7,9	8,6

Table 7
Factors affecting total liquidity

(change, Cyprus pounds thousand)

	Oct. 2002	Jan.-Oct.		Sep. 2001/2002	Oct. 2001/2002
		2001	2002		
Foreign assets (net)	44.941	175.365	59.662	58.596	6.261
Claims on private sector	27	557.456	339.139	561.154	608.985
Claims on public sector	28.431	114.751	66.643	223.486	290.864
Unclassified items	-45.527	-363.832	-66.455	-82.674	-140.712
Total Liquidity (M2)	27.872	483.740	398.989	760.562	765.398
Primary liquidity (M1) (Money supply)	-9.746	-99.748	-178.040	-80.024	-56.744
Currency in circulation	-10.632	-2.743	3.362	24.134	29.374
Demand deposits	886	-97.005	-181.402	-104.158	-86.118
Secondary liquidity (Quasi-money)	37.618	583.488	577.029	840.586	822.142

The growth rate of credit to the private sector increased to 8,6% in October, from 7,9% in September (table 6). According to the three-month moving average, credit expanded by 8,3% in the period from August to October 2002, the same rate recorded in the period from July to September. The low rate of expansion of bank lending is attributable to subdued demand for loans by the private sector due to the slowdown in economic activity, and to stricter bank policies for the assessment of loan applications. As a result of low credit expansion in the first ten months of 2002, bank financing, according to the monthly distribution method (box 1), was below the reference value by £69,1 million.

The breakdown of bank credit by sector of economic activity (table 8) shows that in the period from January to October 2002, personal and professional loans, construction, and domestic and foreign trade absorbed the largest part of new credit, amounting to 48,4%, 25,7% and 11,9%, respectively, while in the same period of the previous year, personal and professional loans dominated with a share of 45,3% of new credit. In absolute terms, the amount of new credit channelled to trade in the period from January to October fell from £136,1 million in 2001 to £40,4 million in 2002. Personal and professional loans also decreased considerably to £164,3 million, from £275,5 million in the first ten months of 2001. A smaller decrease was recorded in the construction sector, which accounted for £87,3 million,

compared with £96,4 million in the first ten months of 2001, while new credit for the tourist sector fell from £65,1 million to £31,5 million. As a result, the share of tourism decreased somewhat to 9,3% of total new credit in the first ten months of 2002. Credit expansion seems to have been weak in November as well. According to provisional weekly data, in the period from 1 to 22 November, new credit amounting to £12,5 million was granted, compared with £33,5 million in the same period of 2001. In the twelve months to 22 November 2002, the amount of new credit granted was £592,8 million, indicating a growth rate of 8,3%, down from a growth rate of 14,8% in the corresponding period of the previous year.

As regards credit extended through credit cards, domestic expenditure by Cypriots through credit cards expanded by 19,4% in the twelve months to October. The respective growth rate for September was 20,3%. Expenditure abroad by Cypriots through credit cards rose sharply by 37,4% in the twelve months to October, compared with an increase of only 4,3% in September. The last two months perhaps mark a reversal of the downward trend of expenditure abroad in the current year compared with 2001. Expenditure in Cyprus by foreign card holders increased by 8,9% in October compared to the same month in the previous year, while the previous month's increase was 12,2% with respect to September 2001.

Table 8
Bank credit by sector

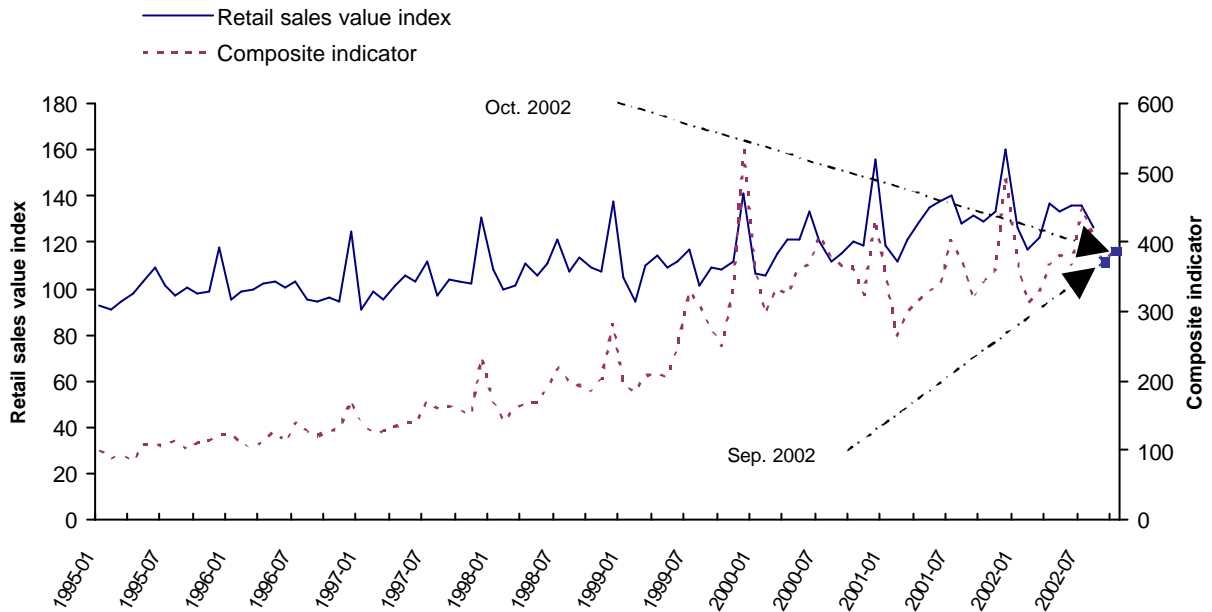
	January - October			
	2001		2002	
	change CYP' 000	share %	change CYP' 000	share %
Public institutions and corporations	38.965	6,4	23.420	6,9
Agriculture	-3.512	-0,6	-9.476	-2,8
Mining	2.499	0,4	-1.410	-0,4
Manufacture	-4.984	-0,8	-5.069	-1,5
Transport and communication	5.043	0,8	9.240	2,7
Foreign and domestic trade	136.105	22,4	40.350	11,9
Building and construction	96.434	15,9	87.319	25,7
Tourism	65.107	10,7	31.489	9,3
Personal and professional loans	275.472	45,3	164.315	48,4
Bills discounted: Local	-2.321	-0,4	-143	0,0
Foreign	-858	-0,1	-313	-0,1
Total	607.950	100,0	339.722	100,0

Chart 6 shows the retail sales value index, for which data are available up to August 2002, and the composite indicator,¹ for which data are available up to October 2002. As seen in this graph, the composite indicator fell in September and recovered in October. Based on these data, a corresponding movement of the retail sales value index is anticipated in the same months, given that the predictive ability of the composite indicator was proven adequate in previous months.

¹ The composite indicator comprises domestic expenditure by Cypriots through credit cards and cheque clearing (*Monetary Policy Report* of September 2002).

Chart 6

Retail sales value index and composite indicator



Foreign currency loans to residents of Cyprus declined by £6,9 million in September and by £4,3 million in October, compared with an increase of £1,8 million in August.² The proportion of credit in foreign currency to total credit remained broadly stable at 10,1% in September and 10,0% in October (table 9). Provisional data for the period from 1 to 22 November indicate an increase in foreign currency lending by £6,4 million.

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

Table 9
Claims on private sector

(change - 2002, Cyprus pounds million)

	2002 Aug.	2002 Sep.	2002 Oct.
Foreign currency loans to residents	1,8	-6,9	-4,3
Claims on private sector	-15,1	35,1	-0,2

(end of period balances, Cyprus pounds million)

	1999	2000	2001	2001 Oct.	2002 Sep.	2002 Oct.
Foreign currency loans to residents	355,2	373,5	729,9	711,5	772,5	768,2
Claims on private sector	5673,5	6517,5	7317,0	7074,9	7672,8	7672,6
Share %	6,3	5,7	10,0	10,1	10,1	10,0

Data on long-term foreign currency loans in the first nine months of the year confirm the increased preference of Cypriots for foreign currencies other than the euro. Foreign currency borrowing by Cypriots has been increasingly denominated in US dollars, Swiss francs and Japanese yen, and thus the proportion of new loans denominated in euros to new long-term loans in foreign currency fell to 55,9%, while a proportion of 23,9% was denominated in US dollars, 7,2% in yen and 7,4% in Swiss francs. Last year, by contrast, the euro dominated, with a proportion of over 80%.

The increased preference for the US dollar, the Japanese yen and the Swiss franc is attributable to lower interest rates as well as to the recent strengthening of the euro and the corresponding weakening of the other three currencies, while the increased exchange rate risk seems to be disregarded (box 2).

In the first nine months of 2002, 44,2% of long-term foreign currency loans were used for construction in Cyprus, 30,9% for refinancing³ and 17,3% for the acquisition of fixed assets.

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

Box 1**Credit expansion monitoring***

In accordance with the Financial Programme, the reference value for credit expansion in 2002 has been set at 11% for the whole year. Attainment of the reference value implies that credit as a percentage of GDP will rise to 131% in 2002, from 125% in 2001**.

Credit as a percentage of GDP

	1997	1998	1999	2000	2001	2002
Credit/GDP	100%	106%	113%	119%	125%	131%

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, in absolute terms, credit expansion from end-December 2001 to end-October 2002 was £339,1 million. This absolute change converted to an annualised growth rate seasonally adjusted gives:

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

9,7%

Reference value

11%

(2) Twelve-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 same 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 limits. On the basis of this method, the twelve-month rate of growth in credit to the private sector in October 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 rises to 139% in 1997, 145% in 1998, 154% in 1999, 158% in 2000 and 162% in 2001.

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

	12-month growth rate	Reference value
	8,6%	11,0%
Moving average	8,3%	

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 end-October was below the reference value.

Table of Bank financing 2002

(Cyprus pounds million)

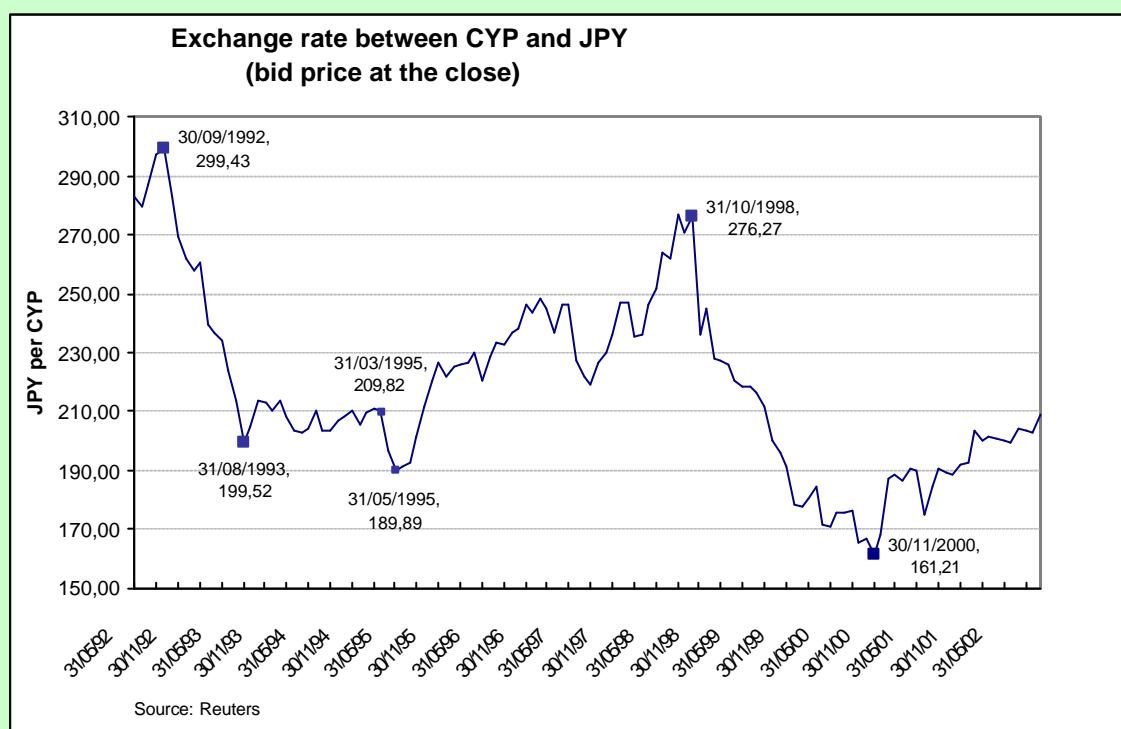
	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
Reference value*	7359	7431	7529	7550	7578	7658	7676	7646	7712	7753	7795	8150
Actual	7360,6	7394,7	7465,2	7479,5	7518,6	7691,2	7664,3	7649,0	7683,9	7683,9		

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

Box 2**Foreign currency loans and exchange rate risk**

During 2002, increased preference for foreign currency loans denominated in currencies other than the euro has been observed, mainly for loans denominated in Japanese yen, US dollars and Swiss francs. These currencies are attractive mainly owing to lower interest rates for borrowers, compared with the euro, while the increased exchange rate risk seems to be disregarded.

As an example, the graph below shows the course of the Japanese yen vis-à-vis the Cyprus pound in the last ten years. Wide fluctuations of the yen are exhibited, which imply significant exchange rate risk for borrowers in this currency. For instance, between 30/9/1992 and 30/11/2000 the yen appreciated against the Cyprus pound by 46,2%. Such large changes may eliminate any interest rate advantages and cause considerable losses for borrowers. Large changes in the exchange rate of the yen have been recorded not only over long periods but also within short intervals, such as the two-month period from 31/03/1995 to 31/05/1995, when the yen appreciated by 9,5% vis-à-vis the Cyprus pound.



It is pointed out that the interest rate difference is to a large extent discounted in forward contracts for the purchase of foreign exchange, which may be used by borrowers to hedge for the exchange rate risk.

In conclusion, foreign currency borrowing should take into account not only interest rate differentials but also the exchange rate risk and other relevant factors, such as receipts and payments in foreign currency and the overall composition of the borrower's portfolio, so as to avoid exposure to excessive risks.

Money market

In the money market, bank liquidity declined slightly in October, but in November it returned to September's level. As table 11 indicates, this course of bank liquidity stemmed from opposite changes in net foreign assets and government deposits. Specifically, the average daily value of net foreign assets increased to £1461,3 million in October and decreased to £1446,9 million in November, while overdrawing of government deposits fell to £98,8 million in October and rose to £135,9 million in November. In addition, the government absorbed liquidity of £3,8 million in October, through auctions of government

securities, and released liquidity amounting to £29,7 million in November.

Aiming to maintain interest rates consistent with its anti-inflationary policy, the Central Bank intervened in the money market through auctions (depos). Specifically, in October, the Central Bank absorbed an average daily liquidity of £332,6 million, compared with £392,3 million in the previous month. In November, liquidity of £385,3 million was absorbed. The monthly average interest rate reached 3,98% for October and November, compared with 3,99% in September.

Table 10

Interest rates

(percentages, per annum,
simple average of the weighted averages for the period)

	1999	2000	2001	2001 Nov.	2002 Sep.	2002 Oct.	2002 Nov.
Interbank (1day)	5,15	5,96	4,93	3,46	3,72	3,40	3,95
Repos	5,45	5,97	6,39				
Reverse repos/depos		4,44	4,59	3,88	3,99	3,98	3,98
Treasury bills (13 weeks)	5,54	5,75	6,00				
Treasury bills (52 weeks)	6,00	6,21	6,35		4,28		
Development stocks (2 years)		6,55	6,11		4,53	4,49	
Development stocks (5 years)	7,27	7,45	6,96		5,10	5,09	
Development stocks (10 years)	7,36	7,55	7,66			5,36	
Development stocks (15 years)			6,47			5,60	

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 & depots		
		1	2	3	4	5	6	7	8	9	10	11	12	13
2000	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	51,8	-15,9	431,3	876,6
	Feb.	876,0	49,5	0,0	0,5	1,2	12,5	93,9	0,0	336,2	-6,8	47,8	443,6	886,1
	Mar.	991,3	16,3	0,0	5,0	1,0	2,9	93,0	0,0	337,5	38,2	97,0	444,9	878,3
	Apr.	1.075,1	0,0	0,0	18,2	0,7	0,3	90,7	0,0	358,7	0,0	194,4	449,7	899,5
	May	1.109,6	0,0	0,0	28,2	1,2	1,0	84,2	0,0	369,4	58,4	175,7	450,3	904,9
	June	1.316,1	0,0	0,0	0,0	0,0	57,9	79,7	26,4	382,7	132,3	198,2	439,1	959,3
	July	1.379,0	0,0	0,0	1,2	0,0	9,2	79,6	92,0	393,8	159,8	194,5	451,1	933,8
	Aug.	1.333,2	0,0	0,0	0,5	0,0	39,3	79,6	58,6	393,9	125,6	179,4	457,2	970,2
	Sep.	1.359,6	0,0	0,0	0,0	0,0	58,7	79,6	94,8	386,0	89,4	189,3	461,8	986,1
	Oct.	1.358,1	0,0	0,0	2,3	0,1	19,4	79,6	104,7	384,3	58,0	250,0	464,5	947,8
2002	Nov.	1.372,1	0,0	0,0	2,3	0,0	13,3	79,4	118,5	366,5	54,6	275,5	466,6	925,8
	Dec.	1.334,4	0,0	0,0	3,6	0,0	8,3	79,4	111,9	385,3	10,5	274,6	468,1	941,1
	Jan.	1.309,0	0,0	0,0	0,8	0,0	16,4	79,4	174,3	377,6	64,7	124,2	473,1	946,6
	Feb.	1.384,4	0,0	0,0	0,6	0,0	14,5	79,4	131,3	363,9	169,8	137,7	488,6	946,4
	Mar.	1.684,4	0,0	0,0	3,3	0,0	24,8	79,4	189,9	367,4	369,6	167,3	489,2	960,9
	Apr.	1.637,5	0,0	0,0	3,4	0,0	17,6	79,4	267,7	379,4	121,7	284,6	490,7	967,0
	May	1.632,1	0,0	0,0	1,0	0,0	11,2	79,4	287,6	400,1	98,2	263,2	493,4	984,1
	June	1.576,3	0,0	0,0	0,6	0,0	26,0	79,4	366,9	403,1	-16,3	221,6	496,3	1.004,7
	July	1.403,2	0,0	0,0	1,5	0,0	41,5	79,4	405,2	413,5	-212,0	179,6	497,5	1.031,9
	Aug.	1.465,0	0,0	0,0	1,9	0,0	21,9	79,5	427,1	422,7	-166,4	176,7	505,4	1.029,5
	Sep.	1.450,9	0,0	0,0	8,6	0,0	2,2	79,3	392,3	413,0	-127,4	190,7	509,3	1.003,9
	Oct	1.461,3	0,0	0,0	0,3	0,0	10,5	79,4	332,6	413,3	-98,8	213,4	511,2	1.014,4
	Nov	1.446,9	0,0	0,0	0,6	0,0	4,7	79,5	385,3	399,6	-135,9	202,2	512,1	995,9

The overnight interest rate in the interbank market fell to 3,40% in October, from 3,72% in September, but rose to 3,95% in November. Concerning government securities, no auctions of treasury bills were held during October and November, while auctions of long-term securities took place only in October. The average interest rate on five-year bonds was 5,09%, essentially the same level as in September. The average interest rate on ten-year and fifteen-year bonds stood at 5,36% and 5,60%, respectively (table 10).

Domestic long-term real interest rates remained below the corresponding European rates in October. The latest twelve-month average of long-term nominal interest rates remained at 5,37%, the same level as in the twelve months to August. Concurrently, inflation both in Cyprus and in the European Union declined, and as a result, real domestic interest rates were lower than the corresponding European Union rates by 31 basis points.

Table 12
Inflation and interest rates in Europe and Cyprus - October 2002

(latest twelve-month average)

	Inflation (HICP)	Long-term interest rates	Long-term real interest rates
Belgium	1,70	5,10	3,40
Denmark	2,30	5,10	2,80
Germany	1,40	4,80	3,40
Greece	3,80	5,20	1,40
Spain	3,30	5,00	1,70
France	1,80	4,90	3,10
Ireland	4,60	5,10	0,50
Italy	2,50	5,10	2,60
Luxembourg	1,80	4,80	3,00
Netherlands	4,20	5,00	0,80
Austria	1,70	5,00	3,30
Portugal	3,70	5,10	1,40
Finland	2,10	5,00	2,90
Sweden	2,20	5,30	3,10
United Kingdom	1,10	5,00	3,90
Euro zone	2,20	5,00	2,80
EU -15	2,00	5,00	3,00
Cyprus	2,68	5,37	2,69

International and domestic interest rates

The US Federal Reserve System and the European Central Bank, on 6 November 2002 and 5 December 2002, respectively, reduced their official interest rates by 50 basis points. As a consequence of the interest rate reduction by

the European Central Bank (table 13), the official interest rate differential between Cyprus and the euro area widened to 175 basis points for the marginal lending facility and 75 basis points for the overnight deposit facility.

Table 13

Official interest rates

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

		change
European Central Bank		
<i>(5 December 2002)</i>		
Minimum bid rate on the main refinancing operations	2,75	-0,50
Interest rate on the marginal lending facility	3,75	-0,50
Interest rate on the deposit facility	1,75	-0,50
Bank of England		
<i>(5 December 2002)</i>		
Repo Rate	4,00	-
Federal Reserve System		
<i>(6 November 2002)</i>		
Federal Funds Rate	1,25	-0,50
Discount Rate	0,75	-0,50
Central Bank of Cyprus		
<i>(1 November 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 General Price Index fell to a new record low level for the year, reaching 79,3 points on 10 October 2002 and registering an upward course in the remainder of the month. The rise of the index was accompanied by an increase in traded volume compared with September. On the last day of October, the General Price Index closed at 101,1 points (chart 7). During the month, the index moved in the range of 79,3 to 101,1 points.

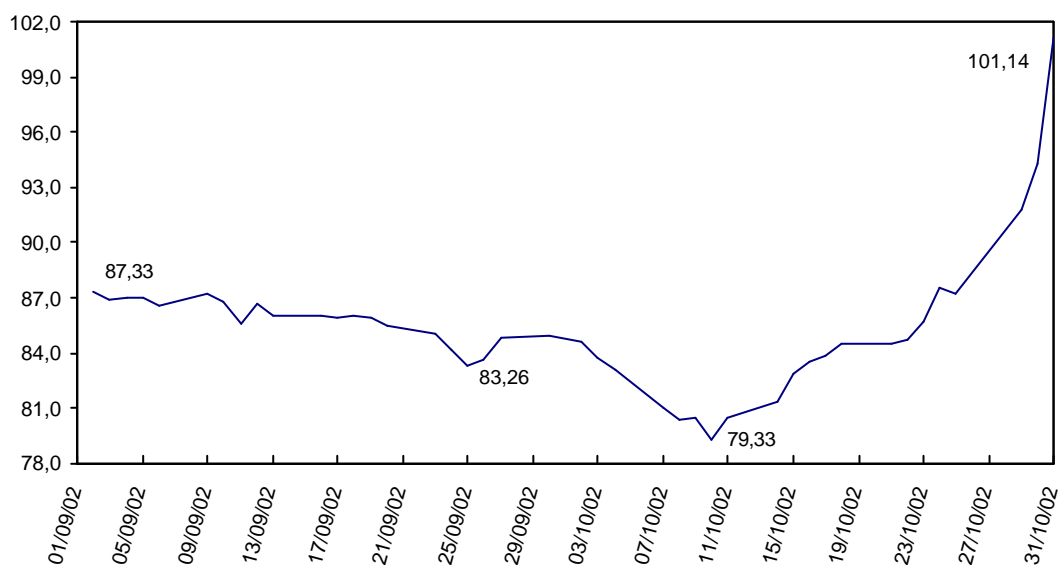
The average daily volume reached £0,8 million in October, compared with £0,5 million in September, while the average daily number of transactions increased to 1416, from 835 in September. All sectoral indices rose in October. The securities with the largest proportion of the monthly traded volume were the shares of Bank of Cyprus and Popular Bank, which accounted for 18,1% and 11,7% of the traded volume, respectively.

Chart 7

Cyprus Stock Exchange (CSE) General Index

September - October 2002

(29/3/1996=100, daily data)



As table 14 shows, net capital outflows were registered in the Cyprus Stock Exchange during October. Specifically, sales of listed shares by non-residents exceeded purchases by £31 thousand in October, compared with net inflows

of £43 thousand in the previous month. Tables 11 and 12 in the annex present purchases and sales of shares by non-residents analysed by country of residence.

Table 14

Investments by non-residents on the Cyprus Stock Exchange

(Cyprus pounds; thousand)

	2001	2002		
	Dec.	Aug.	Sep.	Oct.
Purchases	367	51	44	32
Sales	577	7	1	63
Net investments	-210	44	43	-31

Source: Central Bank of Cyprus

2.3 INFLATION

Prices increased by 2,52% in October 2002, compared with an increase of 3,41% in September. As table 15 shows, the decline of the inflation rate emanated primarily from the fall of domestic agricultural product prices, and to a lesser extent from the deceleration in the increase of services prices, mainly on account of the reduction in mobile telephony rates. It is pointed out that price increases since July 2002 have included the effects of the increase in the VAT standard rate and of changes in excise duties; hence they show a substantial acceleration compared with the first six months of

the year, notwithstanding the decrease in car prices due to the sizeable reduction of excise duties on cars.

As regards domestic goods, the most significant development in October 2002 was the decrease in agricultural product prices by 10,52%, compared with a decrease of 2,82% in the previous month, while electricity prices registered a small deceleration. Prices of industrial goods continued to register a sizeable increase, of the order of 9,32%, compared with an increase of 8,81% in September, and fuel prices rose by 21,9%, as in September.

Table 15
Consumer price index by economic origin
(annual percentage change)

		2000	2001	October 2001/2000	September 2002/2001	October 2002/2001
	All items	4,14	1,97	2,71	3,41	2,52
A	Domestic goods	7,15	1,34	3,40	5,93	4,30
A.1	Agricultural	8,98	4,50	19,08	-2,82	-10,52
A.2	Industrial	4,40	0,78	-0,29	8,81	9,32
A.2.1	Industrial, non-oil	2,45	0,10	1,19	6,02	6,67
A.2.2	Fuel and gas	14,86	3,99	-6,72	21,87	21,86
A.3	Electricity	47,32	-3,23	-5,58	3,52	3,06
B	Imported goods	2,13	0,47	-0,11	-3,22	-3,23
B.1	Motor vehicles	3,78	0,55	-1,19	-9,72	-9,54
B.2	Other imported goods	0,93	0,41	0,71	1,62	1,40
C	Services	2,52	3,35	3,55	4,47	3,76

Prices of imported goods declined further by 3,23% in October 2002, compared with a decrease of 3,22% in September 2002 and 0,11% in October 2001. In particular, the prices of motor vehicles fell by 9,54%, owing to the sizeable reduction in excise duties on cars since 1 July 2002, while prices of other imported goods again increased due to the VAT increase.

Services prices increased by 3,76%, compared with an increase of 4,47% in September 2002 and 3,55% in October 2001. The slowdown compared with the previous month emanated primarily from the considerable reduction in telecommunication prices during October, while health and education prices also registered a deceleration.

As a result of the aforementioned developments, the inflation rate reached 2,78% in the first ten months of 2002, compared with 1,93% in the corresponding period of 2001. This rise was driven partly by the sharp increase in agricultural product prices in the beginning of the year and by the increase in the VAT rate and in excise taxes since July 2002. A more detailed analysis of developments on the inflation front by economic origin is presented in tables 7 to 10 in the annex.⁴

On the basis of developments hitherto, the inflation rate for 2002 as a whole is expected to be slightly below 3,0%, a level reflecting the effects of the recently enacted increase in the VAT rate and changes in other indirect taxes.

Taking into account the effects of the tax measures recently implemented, and the effects

of the tax measures that will be implemented on 1 January 2003, including a further increase in the VAT standard rate to 15%, the inflation rate in 2003 is expected to rise to about 4,0% to 4,5%. This preliminary projection is based on the framework of price analysis by economic origin as presented above, and the assumption that oil prices will remain around USD 25 per barrel and agricultural product prices will increase slightly. It is also assumed that no significant fluctuations of the exchange rates of the Cyprus pound vis-à-vis the euro, the US dollar and the pound sterling will occur. It is pointed out that if inflationary developments, enhanced by increases in input prices and wage increases (due to the automatic indexation of wages), lead to further spiral increases, this projection may be considered to be optimistic.

For purposes of comparison, table 16 presents the latest available monthly data on inflation in Cyprus, the euro area and selected other countries, as well as forecasts for 2002.

Table 16
Inflation : Cyprus and other countries
(annual percentage change in consumer prices)

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

(1) Source: *The Economist*

(2) Source: *Central Bank of Cyprus*

⁴ Table 7 shows percentage changes in the consumer price index from 2000 until October 2002, and table 8 shows the respective weighted contributions of the particular economic categories to the general index. In addition, tables 9 and 10

in the annex present the corresponding analysis of recent developments on the inflation front by product category.

2.4 DOMESTIC ECONOMY

An overview of the domestic economy is presented in table 17, which gives a series of the latest economic indicators. Perhaps the most distinct development in 2002 is the continuing decline in tourist arrivals. In the first ten months of the year, tourist arrivals recorded a sizeable decrease, notwithstanding the small increase in arrivals in October. Receipts from tourism also registered a substantial decrease in the first eight months of the year. In parallel, important indicators of supply and demand point to a slowdown in economic activity in the current year compared with 2001, and unemployment has continued its upward trend in recent months compared with the respective months of 2001.

Production

In the services sector, the small increase in tourist arrivals in October is noteworthy. Specifically, tourist arrivals increased by 2,3% in October 2002, compared with a decrease of 10,3% in the same month of the previous year. For the first ten months of the year, tourist arrivals registered a decrease of 11,3%, compared with an increase of 2,3% in the corresponding period of 2001. In parallel, receipts from tourism fell by 14,3% in the first eight months of 2002.

In the secondary sector, mixed signs have been observed. On the one hand, the construction sector continued to show positive signs, although it seems to have been affected by the overall slowdown in the economy, while on the other hand, manufacturing continued to show a downturn.

Specifically, the volume index of building permits, which indicates prospects for construction in the following few months, rose by 17,9% in September 2002, compared with an increase of 22,1% in the same month of 2001, while the value index of building permits increased by 9,2%, compared with a rise of 31,6% in September 2001. For the first nine months of 2002, the volume and value indices of building permits registered an increase of 6,2% and 6,8%, respectively, compared with respective increases of 22,3% and 25,2% in the same period of the previous year.

Cement sales in the domestic market increased by 9,1% in October 2002, compared with an increase of 11,8% in the same month of 2001. For the first ten months of the year, cement sales grew by 10,8%, compared with a growth rate of 13,3% in the corresponding period of 2001.

Table 17
Latest economic indicators

	2000	2001	Latest month with available data		Corresponding month of the previous year		Latest period with available data		Corresponding period of the previous year	
Consumer price index (% change)	4,1	2,0	?ct. 2002	2,5	?ct. 2001	2,7	Jan.-?ct. 2002	2,8	Jan.-?ct. 2001	1,9
Unemployment rate (% of E.A.P)	3,4	3,0	?ct. 2002	2,9	?ct. 2001	2,7	Jan.-?ct. 2002	3,2	Jan.-?ct. 2001	2,9
Fiscal deficit(-)/surplus(+) (% of GDP)	-150,5	-164,3	Jan.-?ug. 2002	-204,1	Jan.-?ug. 2001	-137,2	Jan.-Aug. 2002	-204,1	Jan.-Aug. 2001	-137,2
Tourist arrivals (% change)	10,3	0,4	?ct. 2002	2,3	?ct. 2001	-10,3	Jan.-?ct. 2002	-11,3	Jan.-?ct. 2001	2,3
Tourist revenue (% change)	16,5	7,0	?ug. 2002	-25,0	?ug. 2001	18,0	Jan.-Aug. 2002	-14,3	Jan.-Aug. 2001	n/a
Cypriots traveling abroad (% change)	4,2	16,8	?ug. 2002	5,4	?ug. 2001	17,9	Jan.-Aug. 2002	1,4	Jan.-Aug. 2001	20,0
Volume index of retail sales (% change)	5,7	5,9	?ug. 2002	-2,4	?ug. 2001	13,1	Jan.-Aug. 2002	0,1	Jan.-Aug. 2001	5,8
Private car registration (% change)	-6,5	19,4	?ct. 2002	35,8	?ct. 2001	10,5	Jan.-?ct. 2002	21,0	Jan.-?ct. 2001	17,7
Volume index of manufacturing production (% change)	4,0	-2,6	Sept. 2002	-1,0	Sept. 2001	-4,9	Jan.-Sept. 2002	-2,1	Jan.-Sept. 2001	-3,4
Volume index of building permits authorised (% change)	2,6	23,4	Sept. 2002	17,9	Sept. 2001	22,1	Jan.-Sept. 2002	6,2	Jan.-Sept. 2001	22,3
Value index of building permits authorised (% change)	7,2	26,2	Sept. 2002	9,2	Sept. 2001	31,6	Jan.-Sept. 2002	6,8	Jan.-Sept. 2001	25,2
Local sales of cement (% change)	1,1	11,6	?ct. 2002	9,1	?ct. 2001	11,8	Jan.-?ct. 2002	10,8	Jan.-?ct. 2001	13,3
Total imports (c.i.f.) (% change)	23,2	2,4	?ug. 2002	-18,1	?ug. 2001	4,9	Jan.-Aug. 2002	-5,1	Jan.-Aug. 2001	9,3
Imports for home consumption (c.i.f.) ¹ (% change)	16,5	8,7	?ug. 2002	-14,7	?ug. 2001	23,9	Jan.-Aug. 2002	2,8	Jan.-Aug. 2001	15,1
Total exports (f.o.b.) (% change)	9,0	6,1	?ug. 2002	-31,2	?ug. 2001	3,2	Jan.-Aug. 2002	-18,2	Jan.-Aug. 2001	6,3
Domestic exports(f.o.b.) (% change)	8,4	4,5	?ug. 2002	-23,7	?ug. 2001	20,1	Jan.-Aug. 2002	-1,7	Jan.-Aug. 2001	7,5
Trade deficit (£ million)	-1877,0	-1900,7	?ug. 2002	-133,0	?ug. 2001	-154,5	Jan.-Aug. 2002	-1287,8	Jan.-Aug. 2001	-1298,1

(1) Non-oil civil imports

The signs for manufacturing are still negative. The volume index of manufacturing production declined by 1,0% in September 2002, compared with a decrease of 4,9% in the same month of 2001. For the first nine months of 2002, the index registered a decrease of 2,1%, compared with a

decrease of 3,4% in the corresponding period of 2001. The time of recovery from the observed downturn in manufacturing is difficult to predict. The performance of manufacturing by product category is shown in table 18.

Table 18
Manufacturing production volume index

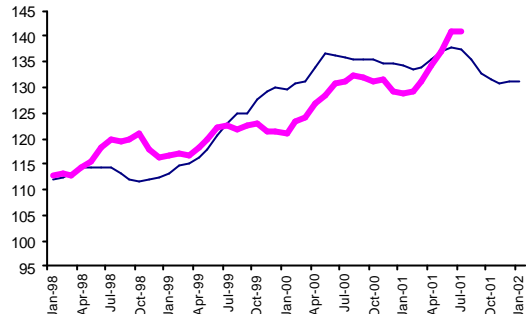
(percentage change by category)

	Sept. 01/00	Sept 02/01	Jan.-Sept. 01/00	Jan.-Sept. 02/01
General index	-4,9	-1,0	-3,4	-2,1
Food products, beverages & tobacco	-14,2	-4,8	-8,1	-7,3
Textiles & textile products	5,5	-15,8	-2,2	-16,7
Leather and leather products	-10,4	-3,9	-7,5	-5,2
Wood & wood products	-1,3	-1,8	-4,4	-1,5
Paper, paper products, publishing & printing	2,6	3,4	6,0	-2,1
Refined petroleum products	-14,4	9,3	-1,8	-2,6
Chemicals, chemical products and man-made fibres	21,2	4,4	9,8	5,4
Rubber and plastic products	-5,3	-1,1	-5,7	3,6
Other non-metallic mineral products	-0,1	8,3	2,1	9,3
Basic metals & fabricated metal products	1,7	0,5	-0,3	5,6
Machinery and equipment n.e.c.	-4,6	0,0	2,1	-0,1
Electrical & optical equipment	13,3	-6,2	-3,1	3,0
Transport equipment	-9,3	27,8	-19,8	21,8
Manufacturing n.e.c.	-2,6	-0,3	-7,6	-0,8

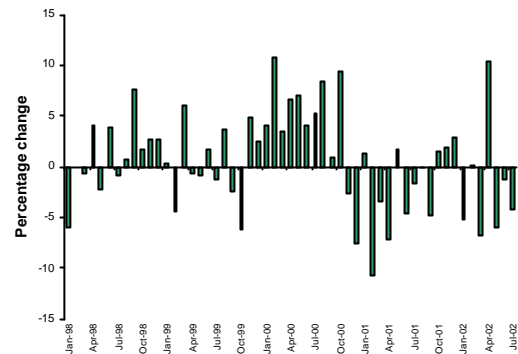
Chart 8

Composite leading indicator for the overall economic activity

— Composite leading indicator for the overall economic activity
— Proxy GDP

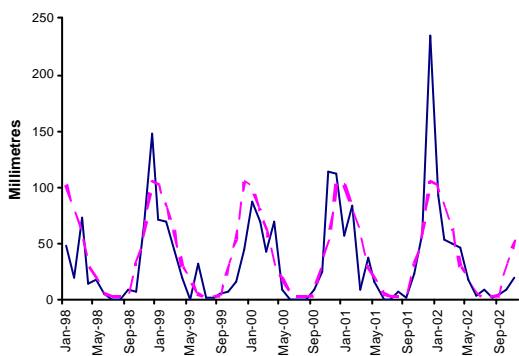


Total volume index of manufacturing production



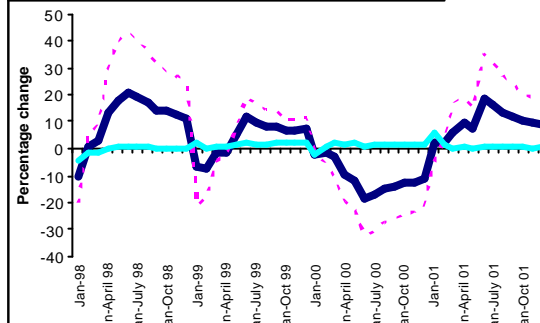
Precipitation

— Actual — Normal for the season



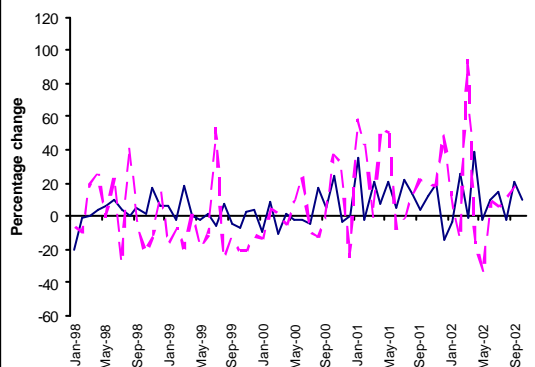
Agricultural production

— Total agricultural production
— Crop production
— Livestock production



Construction indicators

— Local sales of cement — Building permits authorised



Volume index of retail sales

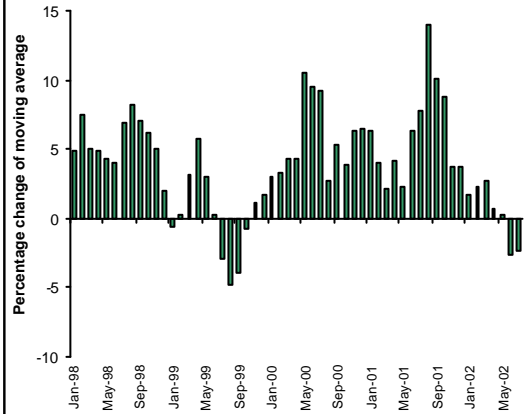
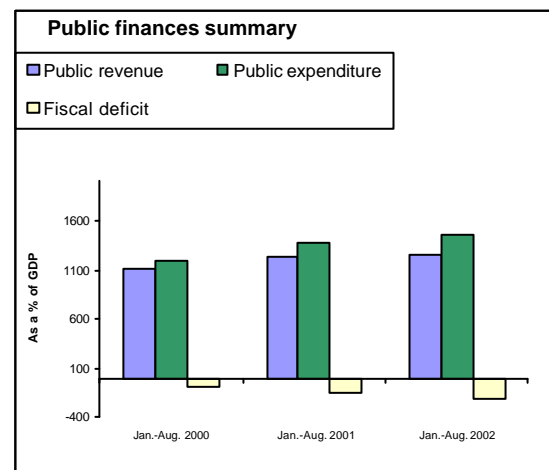
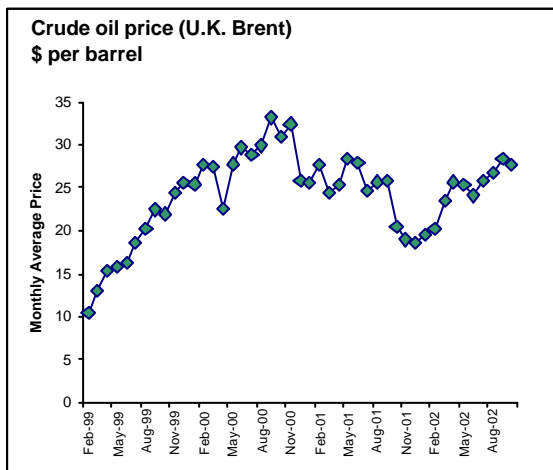
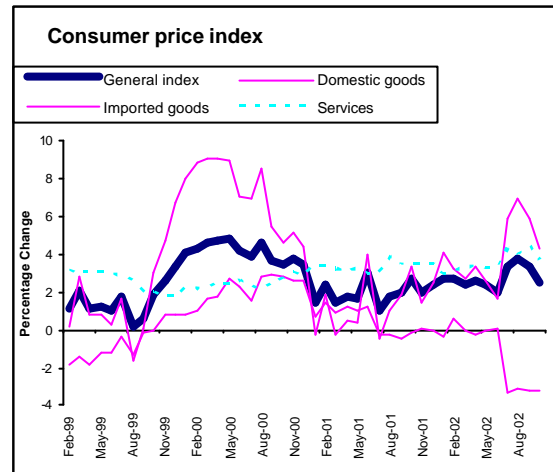
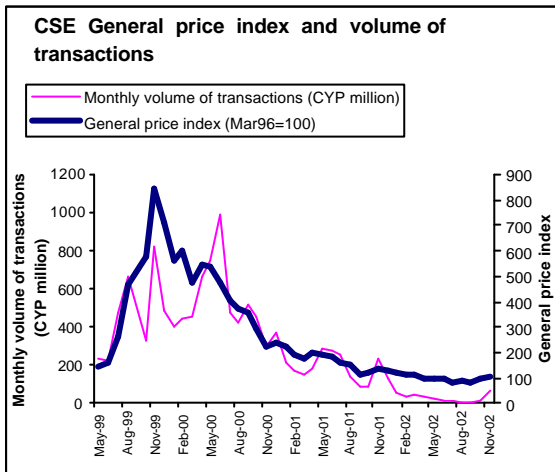
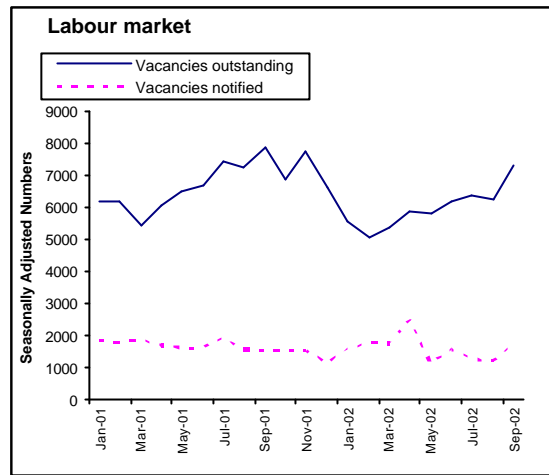
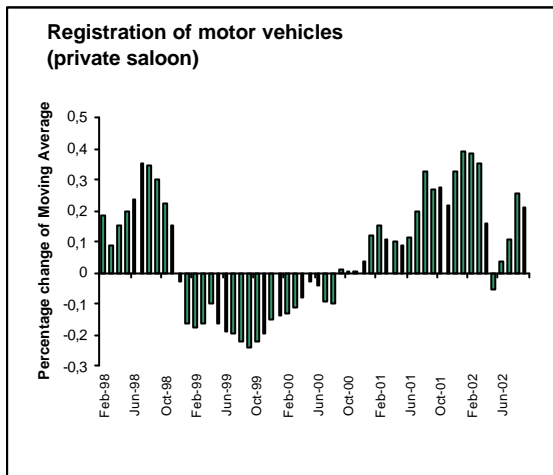


Chart 9



Consumption

Private consumption slowed significantly in the first eight months of 2002. The retail sales volume index increased by 0,1% in the period from January to August 2002, compared with an increase of 5,8% in the same period of the previous year. In August, in particular, the index declined by 2,4%, compared with a rise of 13,1% in the same month of 2001.

Private saloon car registrations, which provide another important indicator of consumer behaviour, showed wide fluctuations in recent months. Reflecting the inclusion in the tax reform of a provision for a reduction in excise duties on saloon cars, which started to be publicly discussed in mid-May, registrations of private saloon cars slowed in May, increasing marginally by 0,6%, and fell by 38,6% in June. Following the implementation of the tax reform on 1 July 2002, which included a considerable reduction in excise duties on cars, sales of cars

rebounded and grew by 46,2%, 24,6% and 7,6% in July, August and September 2002, respectively. In October, the growth rate reached 35,8%. For the period from January to October 2002, car registrations increased by 21,0%, compared with an increase of 17,7% in the same period of 2001.

Developments in imports for home consumption (excluding imports of military equipment and fuels) seem consistent with the observed slowdown in domestic demand, as well as the subdued demand for loans previously discussed. These imports increased by 2,8% in the period from January to August 2002, compared with a growth rate of 15,1% in the same period of the previous year. The number of Cypriots travelling abroad also registered a significant deceleration. Specifically, in the first eight months of 2002, the number of Cypriots travelling abroad increased by 1,4%, compared with an increase of 20,0% in the corresponding period of 2001.

Table 19

Retail sales volume index

(percentage change by category)

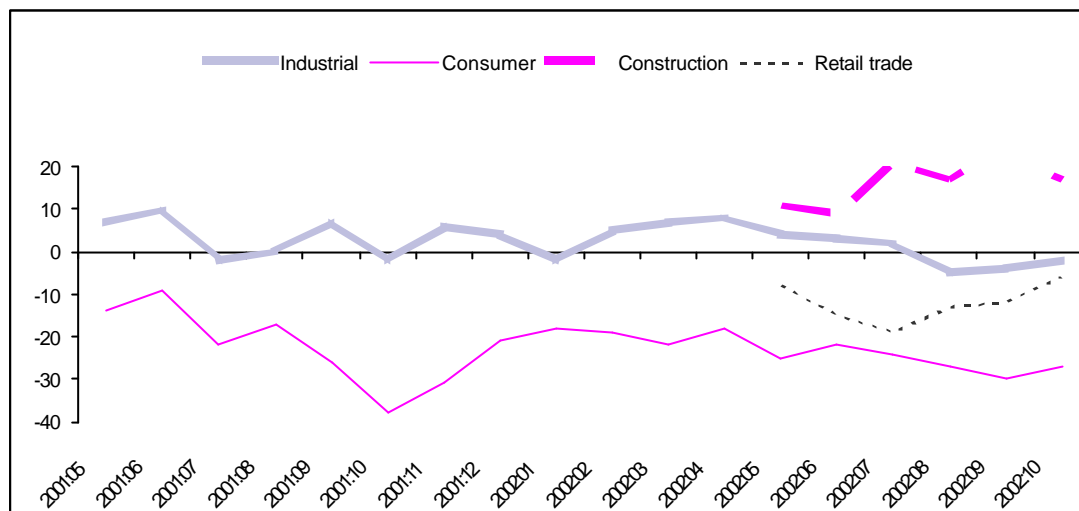
	Aug. 01/00	Aug. 02/01	Jan.-Aug. 01/00	Jan.-Aug. 02/01
General index	13,1	-2,4	5,8	0,1
Food, drinks and tobacco	4,1	-7,1	4,5	-7,6
Clothing and textiles	-11,8	7,5	-2,8	3,6
Footwear & leather products	4,8	-8,4	2,9	0,6
Electrical goods & appliances	0,0	26,8	-8,7	7,9
Vehicles, machinery & spare parts	51,6	-1,2	20,4	6,3
Supermarkets	1,9	-10,5	0,5	-5,2
Pharmacies	14,5	8,9	5,9	4,4
Furniture	17,8	-14,7	5,5	3,8
Petrol stations	9,1	6,2	1,2	3,6
Toys	-5,6	-18,3	-0,6	-1,7

Confidence indicators

Chart 10 illustrates developments in consumer confidence indicators for Cyprus, since the European Commission started their publication (May 2001). The European Commission publishes on a monthly basis confidence indicators for consumers, industry, construction and retail trade, in the European Union member states and in the accession countries. The data refer to the end of each month and are based on studies conducted by the national statistical (and other) institutes and harmonised by the European Commission.

As seen in chart 10, trends in confidence indicators are consistent with the overall picture of the Cypriot economy presented in this *Report*. Notwithstanding fluctuations during 2002, the construction confidence indicator registered an overall upward course, which is consistent with the satisfactory performance of the construction sector in the current year, as portrayed by the volume and value indices of building permits and by cement sales. The downtrend in the industrial confidence indicator during 2002 is consistent with the negative performance of the sector depicted by the volume index of manufacturing production. Furthermore, the course of the consumer confidence indicator in 2002 is consistent with the substantial slowdown in retail sales, while the retail trade confidence indicator shows a similar overall trend.

Comparing the confidence indicators for Cyprus with those for the European Union member states and for other accession countries, it appears that overall Cyprus is in a better position than both the European Union average and the average for accession countries.

Chart 10**Confidence Indicators***(units, end of month)***Labour market**

According to the latest available data for the labour market, the number of registered unemployed increased by 6,8% in October 2002, while the unemployment rate, as a percentage of the economically active population, rose to 2,9%, from 2,7% in the same month of the previous year. For the period from January to October 2002, the number of registered unemployed increased by 11,6%, compared with a decrease of 15,9% in the same period of 2001, and the unemployment rate rose from 2,9% to 3,2%. Rising unemployment has been observed since November 2001 and is consistent with the recorded slowdown in overall economic activity, in comparison with 2001.

Public finances

According to the latest available data from the Ministry of Finance, the fiscal deficit reached

£204,1 million in the period from January to August 2002, compared with £137,2 million in the same period of the previous year. Public revenue slowed significantly, increasing by 1,9%, compared with 11,1% in the first eight months of 2001. Public expenditure also registered a deceleration, growing by 6,6%, compared with a growth rate of 15,1% in the same period of the previous year.

Turning to public revenue, a considerable deceleration in tax receipts was recorded. Partly reflecting the slowdown in economic activity in 2002, both direct and indirect tax receipts decelerated. As regards direct taxes, a sharp decline in income tax receipts was recorded. As regards indirect taxes, VAT receipts, excise taxes and import duties slowed significantly. Finally, other revenues and foreign grants declined. Developments in public finances are presented in table 20.

Table 20
Public finances summary Jan.-Aug. 2002

	Jan-Aug.2001	Jan-Aug.2002	Jan-Aug.2001	Jan-Aug.2002
	pounds million		% change	
Total revenue and grants	1234,1	1258,1	11,1	1,9
Direct taxes	374,6	380,2	13,5	1,5
Income tax	270,6	103,5	25,9	-61,8
Indirect taxes	474,8	498,3	14,9	4,9
Value added tax	218,8	235,5	23,2	7,6
Excise taxes	120,7	126,2	10,7	4,6
Import duty	44,6	47,0	43,1	5,5
Social security funds contributions	175,8	198,0	9,9	12,6
Other revenues	207,8	180,6	1,2	-13,1
Foreign grants	1,1	1,0	-34,0	-15,6
Total expenditure and net lending	1371,3	1462,2	15,1	6,6
Current expenditure	1257,5	1351,0	16,0	7,4
Goods and services	539,8	556,9	0,3	3,2
Wages and salaries	340,0	362,6	4,7	6,7
Current transfers	331,4	381,1	30,7	15,0
Social pension	11,9	12,5	-17,9	4,8
Social security funds payments	189,2	209,5	9,9	10,7
Subsidies	57,5	41,2	50,4	-28,4
Interest	224,1	228,8	14,5	2,1
Capital expenditure	108,5	99,2	5,7	-8,6
Investment	82,3	75,4	4,8	-8,5
Capital transfers	26,2	23,9	8,7	-8,9
Net lending	5,3	11,9	1,4	123,5
Fiscal surplus (+)/deficit(-)	-137,2	-204,1	68,5	48,7

**Overall assessment and outlook
of the economy**

The Cypriot economy has slowed in 2002 and is expected to register a real GDP growth rate around 2,0%, down from 4,1% in the previous year. The slowdown is confirmed by developments in tourism and by the negative course of manufacturing. The observed deceleration in private consumption and in imports for home consumption also indicates a slowdown in the economy. These developments are reflected in the labour market, where an upward trend in unemployment has been recorded. The quarterly national accounts compiled by the Statistical Service confirm the slowdown, at least for the first half of the year. Specifically, GDP grew at an annual rate of 2,9% and 0,6%

in the first and second quarter, respectively. It is worth noting that the expected growth rate for 2002, albeit subdued, is higher than in most European Union countries.

A rebound of the economy, especially the tourist sector, is expected in 2003. This expectation is contingent on the projected recovery of the European Union economy and on developments on the Iraqi front.

2.5 EXTERNAL TRANSACTIONS

Trade in goods

Table 21 presents an overview of the trade balance for the first eight months of 2002, including provisional data for July and August.

Total imports decreased by 5,1% in the first eight months of 2002, compared with an increase of 9,3% in the same period of the previous year. This decrease emanated largely from the fall of imports destined for re-exports by 38,4%. Imports for home consumption excluding imports of fuels and military equipment recorded a marked slowdown, as they increased by 2,8%, compared with a growth rate of 15,1% in the first eight months of 2001.

VAT receipts from imports of goods⁵ which may be considered as an indicator of imports, registered a sizeable increase of 30% in October, reflecting the increase in the VAT standard rate from 10% to 13%. Thus it appears that imports remained subdued at least until October.

Turning to total exports, the provisional data indicate a continuing decline in August 2002, mainly on account of the decline of re-exports. The decrease in total exports was of the order of 18,2% in the first eight months of 2002, compared with an increase of 6,3% in the corresponding period of 2001, as re-exports fell by 28,4%. In parallel, domestic exports fell in August, leading to an overall decrease of 1,7% for the period from January to August 2002, compared with an increase of 7,5% in the same

period of 2001. Based on the aforementioned data, the crude trade deficit reached £1.287,8 million in the first eight months of the year, compared with a deficit of £1.298,1 million in the corresponding period of 2001.

Tables 22 and 23 present the latest available data on the breakdown of imports for home consumption and domestic exports, respectively, by category of goods, which cover the period up to June 2002.

Considering imports for home consumption, table 22 shows that in the first half of 2002, imports of consumer goods slowed, registering a growth rate of 5,0%, compared with 12,6% in the first half of 2001. Imports of intermediate inputs also decelerated, decreasing by 0,8%, compared with an increase of 11,9% in the first half of 2001. Imports of capital goods fell by 10,8% in the first half of 2002, compared with an increase of 21,7% in the first half of the previous year. This decline is seen partly as a correction following sizeable increases in the previous two years and also reflects the overall slowdown in the economy during 2002. By contrast, a sharp increase of 27,6% was recorded in imports of transport equipment and parts thereof, partly due to the purchase of an aircraft having a value of £22,4 million by Cyprus Airways in May. If this purchase is excluded, the growth rate of imports of transport equipment and parts thereof is reduced to 8,2%.

As regards domestic exports (table 23) in the first half of 2002, exports of certain industrial products, especially pharmaceuticals, remained strong.

⁵ VAT is imposed on all goods cleared through customs for the domestic market

Table 21**Trade balance data¹***(Cyprus pounds millions)*

	2001	2001/2000 % change	2000 Jan. - Aug.	2001 Jan. - Aug.	2002 Jan. - Aug.	2001/2000 % change Jan. - Aug.	2002/2001 % change Jan. - Aug.
Total imports (cif)	2.528,7	2,4	1.582,2	1.729,9	1.641,0	9,3	-5,1
Imports for home consumption (cif)	2.176,8	6,9	1.299,2	1.477,7	1.485,7	13,7	0,5
<i>Non oil civil imports for home consumption (cif)</i>	1.813,0	8,7	1.066,8	1.227,9	1.261,7	15,1	2,8
Imports destined for re-exports	351,9	-18,6	283,0	252,2	155,3	-10,9	-38,4
Total exports	628,0	6,1	406,4	431,8	353,2	6,3	-18,2
Domestic exports (fob)	233,9	4,5	153,9	165,5	162,7	7,5	-1,7
Re-exports (fob)	337,0	12,5	209,8	226,1	161,9	7,8	-28,4
Shipstores	57,1	-16,4	42,7	40,2	28,6	-5,9	-28,9
Trade balance	-1.900,7	3,7	-1.175,8	-1.298,1	-1.287,8	10,4	-0,8

¹ *Figures for July and August 2002 are provisional.*

Table 22**Imports (cif) by economic destination***(Cyprus pounds millions)*

	2000 year	2001 year	2002 Jan. - Jun.	2000/1999 year % change	2001/2000 year % change	2001/2000 Jan. - Jun. % change	2002/2001 Jan. - Jun. % change
Consumer goods	569,6	617,7	322,5	18,3	8,4	12,6	5,0
Non-durable	308,7	338,1	177,5	16,8	9,5	9,5	7,9
Semi-durable	157,4	170,4	87,6	18,5	8,3	16,3	3,4
Durable	103,5	109,2	57,4	22,4	5,5	16,3	-0,8
Intermediate inputs	675,1	710,3	358,7	16,5	5,2	11,9	-0,8
Agricultural	42,0	42,2	20,3	19,2	0,3	-5,8	17,0
Construction and mining	110,4	120,7	70,7	19,4	9,4	28,0	7,7
Manufacturing	398,8	421,8	211,6	12,0	5,8	8,7	0,4
Transport, storage and communication	44,9	29,4	10,1	52,1	-34,6	-21,0	-45,9
Other sectors of the economy	79,0	96,2	46,0	18,9	21,7	37,1	-6,1
Capital goods	237,1	258,3	121,8	25,1	8,9	21,7	-10,8
Agricultural	8,8	8,8	4,7	1,4	0,7	0,3	-3,9
Construction and mining	15,7	20,6	10,0	-37,7	31,3	32,1	5,1
Manufacturing	67,0	69,6	37,5	34,7	4,0	3,5	29,2
Transport, storage and communication	43,8	52,3	27,4	49,9	19,3	8,1	20,3
Other sectors of the economy	101,9	107,0	57,2	32,8	5,0	8,4	3,5
Transport equipment and parts thereof	186,4	226,6	147,5	3,1	21,6	22,8	27,6
of which:							
passenger cars	74,9	94,6	85,4	10,3	26,3	19,7	12,9
spare parts	53,3	61,3	37,2	-3,0	15,1	32,6	-1,1
Fuels and lubricants	269,3	266,1	128,4	76,8	-1,2	25,5	-3,8
Unclassified	31,1	97,9	60,8				
Imports for home consumption	1968,7	2176,8	1139,7	22,4	6,9	8,6	6,6
Imports destined for re-exports	433,3	351,9	121,3	26,9	-18,8	-9,9	-38,5
Total imports	2401,9	2528,7	1261,0	23,2	2,4	5,3	-0,4
<u>Memo item:</u>							
Non oil civil imports for home consumption	1668,0	1813,0	950,5	16,5	8,7	14,8	3,2

Source: Statistical Service of Cyprus

Table 23**Exports (fob) by economic origin***(Cyprus pounds millions)*

	2001 year	2002 Jan. - Jun.	2000/1999 year % change	2001/2000 year % change	2001/2000 Jan. - Jun. % change	2002/2001 Jan. - Jun. % change
Agricultural products (raw)	43,8	35,8	-5,7	27,4	28,0	0,2
of which:						
potatoes	17,5	17,3				
other vegetables	4,2	2,3				
fresh, frozen or dried						
citrus fruit	14,7	14,9				
Minerals and industrial products of mineral origin	11,6	5,0	7,8	-6,3	4,7	-11,9
Industrial products of agricultural origin	28,0	17,0	11,4	-0,7	-0,2	19,3
of which:						
halloumi cheese	7,7	5,8				
fruit preserved	0,9	0,3				
fruit and vegetable juices	4,1	2,7				
beer	1,0	0,5				
wines	5,3	2,5				
meat	2,9	2,7				
Industrial products of manufacturing origin	150,5	71,7	11,9	1,1	-1,9	-0,1
of which:						
cigarettes	10,8	1,9				
cement	8,4	4,4				
pharmaceutical products	39,4	22,1	22,6	27,7	16,9	26,3
articles of paper or of paperboard	6,0	2,9				
clothing	19,7	7,8	-1,3	-12,3	-11,3	-18,1
footwear	3,8	1,6				
furniture	6,8	3,3				
Unclassified	0,1	0,0				
Domestic exports	233,9	129,7	8,4	4,5	5,4	1,8
re-exports	337,0	124,9	0,6	12,5	9,5	-28,6
shipstores	57,1	18,6	76,4	-16,4	1,7	-30,0
Total exports	628,0	273,2	9,0	6,1	7,2	-16,9

Source: Statistical Service of Cyprus

Tourism

As table 24 shows, in October 2002, tourist arrivals recovered somewhat, increasing by 2,3% compared with October 2001, thus reversing the downturn that has been recorded since the events of 11 September 2001. A stronger recovery is expected in the following months, owing to base effects. For the first ten months of the current year, the decrease in tourist arrivals stood at 11,3%.

Receipts from tourism fell by 25,0% in August, reflecting the substantial decline in tourist arrivals by 18,8% in the same month. Similarly, for the first eight months of the current year, tourist arrivals decreased by 14,0%, compared with the corresponding period of 2001, whereas receipts from tourism fell by 14,3% (table 25).

The larger decrease in receipts from tourism, compared with the decrease in arrivals, stemmed from the decrease in expenditure per tourist in Cyprus, partly due to the decline in arrivals of tourists from the United Kingdom, who spend more than the average tourist. The decline in arrivals from the United Kingdom is attributable in part to uncertainty surrounding British participation in probable military operations in Iraq.

Balance of payments prospects

On the basis of the evidence discussed above and the outlook for the economy in 2002, the current account deficit is expected to reach about 6,0% of GDP, compared with 4,3% of GDP in 2001. Besides the downturn in tourism, the current account balance in 2002 is significantly affected by exogenous factors such as the purchase of aircraft by Cyprus Airways having a worth of £50,0 million or about 0,8% of GDP and increased defence expenditure. The elimination or moderation of these exogenous factors in 2003, combined with the projected recovery of the world economy, the stabilisation of the political environment and the revitalisation of tourism, is expected to result in a narrowing of the current account deficit next year to less than 4,0% of GDP.

Table 24**Tourist arrivals¹***(number of persons)*

	1999	2000	2001	2002	% change 2000/1999	% change 2001/2000	% change 2002/2001
January	57.740	63.553	64.214	54.067	10,1	1	-15,8
February	74.041	87.243	83.569	71.950	17,8	-4,2	-13,9
March	126.494	135.487	137.578	138.625	7,1	1,5	0,8
April	180.076	221.785	237.228	180.481	23,2	7	-23,9
May	273.317	299.355	324.901	279.070	9,5	8,5	-14,1
June	276.879	302.011	322.835	293.192	9,1	6,9	-9,2
July	322.041	362.299	373.385	327.404	12,5	3,1	-12,3
August	341.088	356.686	371.536	301.724	4,6	4,2	-18,8
September	309.498	329.964	329.400	306.731	6,6	-0,2	-6,9
October	270.732	300.597	269.744	275.840	11	-10,3	2,3
November	118.105	133.500	107.454		13	-19,5	
December	84.274	93.722	74.887		11,2	-20,1	
Jan. - ?ct.	2.231.906	2.458.980	2.514.390	2.229.084	10,2	2,3	-11,3
Jan. - Dec	2.434.285	2.686.202	2.696.731		10,3	0,4	

*Source: Statistical Service of Cyprus*¹ Arrivals of same - day visitors are not included**Table 25****Receipts from tourism¹***(Cyprus pounds millions)*

	2000	2001	2002	% change 2002/2001
January		24,9	21,6	-13,5
February		29,1	28,9	-0,9
March		49,7	59,2	18,9
April		89,9	77,0	-14,3
May		139,1	119,5	-14,1
June	122,9	157,4	139,3	-11,5
July	162,7	192,0	160,7	-16,3
August	173,7	205,0	153,8	-25,0
September	161,9	176,3		
October	135,1	130,2		
November	54,1	48,8		
December	36,2	29,2		
Jan.- Dec.		1.271,6		
Jan. - Aug.		887,1	760,1	-14,3

*Source: Statistical Service of Cyprus*¹ Receipts from same - day visitors are not included

3. ANNEX

Table 1**Official interest rates***(levels in percentages per annum)*

With effect from ⁽¹⁾		Deposit facility	Main refinancing operations			Marginal lending facility
			Variable rate tenders			
			repo	reverse repo	acceptance of deposits	
2001	10 Aug.	3,50		5,00		6,50
	18 Sep.	3,00		4,50		6,00
	02 Nov.	2,50			4,00	5,50

(1) The date refers to the overnight deposit and marginal lending facilities. For main refinancing operations, changes in the rate are effective from the first operation following the date indicated.

Table 2**Main refinancing operations allotted through tenders ⁽¹⁾***(Cyprus pounds millions; interest rates in percentages per annum)*

Date of settlement		Bids (amount)	Allotment (amount)	Variable rate tenders				Fixed rate tenders	Running for (...) days
				Maximum bid rate	Weighted average rate	Minimum allotted rate	Maximum allotted rate	Fixed allotted rate	
2002	14 Mar.	268,0	200,0	4,00	3,65	3,64	3,80		14
	28 Mar.	252,0	252,0	4,00	3,92	3,65	3,98		14
	11 Apr.	349,0	280,0	4,00	3,90	3,70	4,00		14
	25 Apr.	281,0	265,0	4,00	3,93	3,80	4,00		14
	09 May	289,5	280,0	4,00	3,96	3,89	4,00		14
	23 May	319,5	319,5	4,00	3,98	3,94	4,00		14
	06 June	166,0	166,0					4,00	42
	06 June	201,5	100,0	4,00	3,64	3,5	3,97		14
	10 June	125,0	100,0					3,90	38
	20 June	161,0	160,0	4,00	3,86	3,74	3,98		14
	04 July	177,0	150,0	4,00	3,85	3,82	4,00		14
	18 July	328,0	270,0					4,00	42
	18 July	158,5	120,0	4,00	3,79	3,69	3,87		14
	01 Aug.	231,0	175,0	4,00	3,73	3,69	3,75		13
	14 Aug.	137,0	137,0	4,00	3,75	3,70	3,98		15
	29 Aug.	430,0	350,0					4,00	42
	29 Aug.	102,0	100,0	4,00	3,88	3,65	4,00		14
	12 Sep.	12,0	12,0	4,00	3,93	3,88	3,95		14
	10 Oct.	295,0	200,0					4,00	42
	10 Oct.	105,0	105,0	4,00	3,92	3,85	3,97		14
	24 Oct.	161,5	161,5	4,00	3,91	3,83	4,00		14
	07 Nov.	187,0	185,0	4,00	3,95	3,90	4,00		14
	21 Nov.	425,0	250,0					4,00	42
	21 Nov.	156,0	150,0	4,00	3,97	3,90	4,00		14
	05 Dec.	170,0	170,0	4,00	3,97	3,90	4,00		14

(1) Since 9 October 2001, the main refinancing operations for the absorption of liquidity are conducted through auctions for the acceptance of deposits.

Table 3**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	July	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	4,38	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	3,28	3,34	3,36	3,40	3,59
	Mar.	3,20	-	4,10	5,05	4,57	3,26	3,35	3,39	3,50	3,82
	Apr.	3,29	-	4,10	5,10	-	3,32	3,34	3,41	3,54	3,86
	May	3,28	3,74	4,25	4,60	5,02	3,31	3,37	3,46	3,62	3,95
	June	3,42	3,77	3,96	4,88	5,55	3,35	3,38	3,46	3,59	3,87
	July	3,45	3,00	4,00	-	4,95	3,30	3,36	3,41	3,48	3,64
	Aug.	3,33	3,67	4,02	-	-	3,29	3,33	3,35	3,38	3,44
	Sep.	3,72	3,70	4,29	5,02	-	3,32	3,32	3,31	3,27	3,24
	Oct.	3,40	3,50	3,73	4,19	-	3,30	3,31	3,26	3,17	3,13
	Nov.	3,95	3,28	4,15	4,15	-					

Sources: Central Bank of Cyprus and European Central Bank

Table 4**Bank interest rates***(percentages per annum)*

	Lending interest rates ^{1, 2}					Deposit interest rates ^{1, 3}		
	Enterprises: overdraft within limits	Enterprises: secured loans	Personal: secured loans	Housing: loans secured by assignment of life policy	Credit cards	Current accounts	3 month notice - over CYP5000	1 year fixed deposits - over CYP5000
2001 Jan.	7,92	7,92	8,95	8,67	10,50	2,00	5,25	6,50
Feb.	7,92	7,92	8,95	8,67	10,50	2,00	5,25	6,50
Mar.	7,92	7,92	8,95	8,67	10,50	2,00	5,25	6,50
Apr.	7,92	7,92	8,95	8,67	10,50	2,00	5,25	6,50
May	7,92	7,92	8,95	8,67	10,50	2,00	5,25	6,50
June	7,92	7,92	8,95	8,67	10,50	2,00	5,25	6,50
July	7,92	7,92	8,95	8,67	10,50	2,00	5,25	6,50
Aug.	7,42	7,42	8,45	8,17	10,00	1,50	4,75	6,00
Sept.	6,92	6,92	7,95	7,67	9,67	1,00	4,25	5,42
Oct.	6,92	6,92	7,95	7,67	9,67	1,00	4,25	5,42
Nov.	6,42	6,42	7,45	7,17	9,00	0,50	3,75	4,92
Dec.	7,12	7,12	7,95	7,00	9,00	0,90	4,00	4,94
2002 Jan.	7,12	7,12	8,03	7,00	10,00	0,92	4,00	4,95
Feb.	7,12	7,12	8,12	7,08	10,50	0,93	4,03	4,95
Mar.	6,78	7,13	7,90	7,15	10,50	0,93	4,03	4,79
Apr.	6,78	7,13	7,90	7,15	10,50	0,93	4,03	4,79
May	6,78	7,13	7,90	7,15	10,50	0,93	4,03	4,79
June	6,98	7,16	7,90	7,15	10,50	0,93	4,42	4,85
July	6,98	7,16	7,90	7,15	10,50	0,93	4,42	4,85
Aug.	6,98	7,16	7,90	7,13	10,50	0,83	4,42	4,85
Sept.	6,98	7,16	7,90	7,13	10,50	0,84	4,37	4,88
Oct.	6,98	7,16	7,90	7,13	10,50	0,84	4,37	4,88

*(1) Reported as end of month.**(2) For the period January 2001 - November 2001, data refer to the average of the minimum interest rates charged on each loan category, as reported by the three largest banks. From December 2001, data refer to the average of the representative interest rates charged on each loan category, as defined by the three largest banks.**(3) Data refer to the average of the representative interest rates offered on each deposit category, as defined by the three largest banks.*

Table 5**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	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	10,25	6,14	
	May	1,01	3,75	3,74	4,27	2,48	3,91	7,03	6,34	10,22	6,17	
	June	0,98	3,65	3,65	4,25	2,45	3,85	6,97	6,25	10,17	6,13	
	July	0,97	3,65	3,65	4,22	2,44	3,80	6,90	6,20	10,11	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	9,87	5,48	
	Dec.	0,74	2,79	2,78	3,77	2,17	2,79	6,26	5,69	9,81	5,52	
	2002	Jan.	0,73	2,77	2,77	3,83	2,17	2,80	6,18	5,63	9,78	5,53
		Feb.	0,73	2,78	2,79	3,95	2,15	2,91	6,16	5,75	9,81	5,61
		Mar.	0,73	2,84	2,84	4,07	2,15	3,00	6,09	5,85	9,76	5,74
		Apr.	0,74	2,89	2,90	4,13	2,14	3,07	6,17	5,95	9,82	5,81
May		0,74	2,91	2,92	4,15	2,15	3,08	6,20	5,98	9,85	5,82	
June		0,74	2,93	2,94	4,09	2,13	3,08	6,17	5,92	9,81	5,77	
July		0,74	2,88	2,89	4,02	2,13	3,02	6,15	5,79	9,76	5,68	
Aug.		0,73	2,83	2,84	3,81	2,12	2,94	6,13	5,71	9,77	5,53	
Sep.		0,73	2,77	2,77	3,64	2,12	2,73	6,09	5,61	9,80	5,37	

* From January 2001 data refer to the enlarged euro area

Table 6**Calendar of interest rates announcements in 2002**

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
European Central Bank ¹	3 3,25	7 3,25	7 3,25	4 3,25	2 3,25	6 3,25	4 3,25	1 3,25	12 3,25	10 3,25	7 3,25	5 2,75
Bank of England ²	10 4,00	7 4,00	7 4,00	4 4,00	9 4,00	6 4,00	4 4,00	1 4,00	5 4,00	10 4,00	7 4,00	5 4,00
Federal Reserve System ³	29/30 1,75		19 1,75		7 1,75	25/26 1,75		13 1,75	24 1,75		6 1,25	10
Central Bank of Cyprus ⁴	25 5,50	21 5,50		11 5,50	16 5,50	14 5,50	19 5,50		20 5,50		1 5,50	13

(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 7

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

	Yearly		Quarterly			Oct. 2001/ 2000	Sep. 2002/ 2001	Oct. 2002/ 2001	Jan.-Oct. 2001/ 2000	Jan.-Sep. 2002/ 2001	Jan.-Oct. 2002/ 2001	Weights 1998=100
	2000	2001	2002 I	2002 II	2002 III							
GENERAL INDEX	4,14	1,97	2,58	2,35	3,50	2,71	3,41	2,52	1,93	2,81	2,78	100,00
A LOCAL GOODS	7,15	1,34	3,39	2,57	6,26	3,40	5,93	4,30	1,20	4,07	4,09	36,69
A.1 Agricultural	8,98	4,50	16,74	2,98	-1,98	19,08	-2,82	-10,52	2,48	5,72	3,87	7,93
A.2 Industrial	4,40	0,78	0,93	2,91	9,02	-0,29	8,81	9,32	1,06	4,29	4,80	27,24
A.2.1 industrial non-petroleum	2,45	0,10	1,60	3,09	6,49	1,19	6,02	6,67	-0,04	3,73	4,03	22,91
A.2.2 fuel and gas	14,86	3,99	-2,11	2,08	20,42	-6,72	21,87	21,86	6,41	6,83	8,33	4,33
A.3 Electricity	47,32	-3,23	-13,28	-3,71	2,58	-5,58	3,52	3,06	-1,68	-5,06	-4,27	1,52
B IMPORTED GOODS	2,13	0,47	0,07	-0,08	-3,23	-0,11	-3,22	-3,23	0,55	-1,08	-1,30	22,20
B.1 Motor Vehicles	3,78	0,55	0,35	-0,43	-10,10	-1,19	-9,72	-9,54	0,77	-3,38	-4,00	9,43
B.2 Other Imported	0,93	0,41	-0,14	0,18	1,96	0,71	1,62	1,40	0,39	0,66	0,74	12,77
C SERVICES	2,52	3,35	3,15	3,37	4,40	3,55	4,47	3,76	3,33	3,65	3,66	41,11
Euro area inflation	2,3	2,5	2,6	2,1	2,0	2,4	2,2		2,8	2,2		
Underlying inflation for Cyprus¹	2,4	1,7	2,0	2,4	3,0	2,0	2,9	2,8	1,7	2,5	2,5	

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

Table 8

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

	Yearly		Quarterly			Oct. 2001/ 2000	Sep. 2002/ 2001	Oct. 2002/ 2001	Jan.-Oct. 2001/ 2000	Jan.-Sep. 2002/ 2001	Jan.-Oct. 2002/ 2001	Weights 1998=100
	2000	2001	2002 I	2002 II	2002 III							
GENERAL INDEX	4,14	1,97	2,58	2,35	3,50	2,71	3,41	2,52	1,93	2,81	2,78	100,00
A LOCAL GOODS	2,63	0,51	1,26	0,97	2,34	1,29	2,23	1,64	0,45	1,52	1,54	36,69
A.1 Agricultural	0,69	0,36	1,31	0,24	-0,16	1,49	-0,24	-0,95	0,20	0,46	0,31	7,93
A.2 Industrial	1,21	0,21	0,25	0,81	2,45	-0,08	2,40	2,53	0,29	1,17	1,31	27,24
A.2.1 industrial non-petroleum	0,57	0,02	0,36	0,70	1,44	0,27	1,35	1,50	-0,01	0,84	0,90	22,91
A.2.2 fuel and gas	0,64	0,19	-0,10	0,10	1,00	-0,35	1,05	1,04	0,30	0,34	0,41	4,33
A.3 Electricity	0,73	-0,07	-0,30	-0,07	0,05	-0,12	0,07	0,06	-0,04	-0,11	-0,09	1,52
B IMPORTED GOODS	0,46	0,10	0,01	-0,02	-0,68	-0,02	-0,67	-0,67	0,12	-0,23	-0,27	22,20
B.1 Motor Vehicles	0,35	0,05	0,03	-0,04	-0,91	-0,11	-0,87	-0,84	0,07	-0,31	-0,36	9,43
B.2 Other Imported	0,12	0,05	-0,02	0,02	0,23	0,09	0,19	0,17	0,05	0,08	0,09	12,77
C SERVICES	1,05	1,37	1,31	1,39	1,84	1,45	1,85	1,54	1,36	1,51	1,52	41,11

Table 9

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

	Yearly		Quarterly			Oct. 2001/ 2000	Sep. 2002/ 2001	Oct. 2002/ 2001	Jan.-Oct. 2001/ 2000	Jan.-Sep. 2002/ 2001	Jan.-Oct. 2002/ 2001	Weights
	2000	2001	2002 I	2002 II	2002 III							1998=100
GENERAL INDEX	4,14	1,97	2,58	2,35	3,50	2,71	3,41	2,52	1,93	2,81	2,78	100,00
Food & non-alcoholic beverages	5,49	4,09	9,31	5,09	3,87	10,05	3,49	-0,50	3,30	6,06	5,36	18,20
Alcoholic beverages & tobacco	8,16	2,79	0,98	7,66	21,65	1,62	21,27	21,89	3,13	10,11	11,29	1,78
Clothing and footwear	-0,46	-6,75	-3,06	-4,00	-4,64	-1,79	-5,68	-3,09	-7,66	-3,91	-3,82	8,22
Housing, water, electricity and gas	5,46	1,59	1,82	3,46	5,41	0,91	5,84	5,52	1,77	3,56	3,76	21,27
Furnishings, household equipment and supplies	1,47	0,15	-1,21	-0,99	3,42	-0,03	3,05	2,41	0,07	0,39	0,60	7,08
Health	6,18	5,41	4,30	5,03	5,17	5,38	5,23	4,32	5,52	4,84	4,79	4,92
Transport	5,70	2,29	0,25	0,65	0,19	-1,25	0,83	0,67	3,02	0,37	0,40	17,42
Communication	-10,36	1,73	-7,13	-7,77	-6,70	4,67	-7,26	-14,12	1,14	-7,20	-7,86	1,79
Recreation & culture	-0,20	-0,50	1,16	1,46	3,42	1,46	2,73	2,65	-0,87	2,02	2,08	5,88
Education	3,87	4,60	6,35	5,79	6,29	6,63	7,27	4,40	4,18	6,15	5,96	2,33
Restaurants & hotels	5,80	6,00	3,30	3,14	4,65	4,56	4,17	4,44	6,48	3,70	3,78	6,07
Miscellaneous goods and services	4,16	3,97	3,03	3,83	7,69	3,26	7,35	7,53	4,21	4,86	5,13	5,04

Table 10

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

	Yearly		Quarterly			Oct. 2001/ 2000	Sep. 2002/ 2001	Oct. 2002/ 2001	Jan.-Oct. 2001/ 2000	Jan.-Sep. 2002/ 2001	Jan.-Oct. 2002/ 2001	Weights 1998=100
	2000	2001	2002 I	2002 II	2002 III							
GENERAL INDEX	4,14	1,97	2,58	2,35	3,50	2,71	3,41	2,52	1,93	2,81	2,78	100,00
Food & non-alcoholic beverages	0,99	0,75	1,70	0,94	0,72	1,82	0,66	-0,10	0,60	1,12	0,99	18,20
Alcoholic beverages & tobacco	0,16	0,06	0,02	0,16	0,44	0,03	0,43	0,44	0,06	0,21	0,23	1,78
Clothing and footwear	-0,04	-0,54	-0,21	-0,31	-0,32	-0,14	-0,42	-0,23	-0,61	-0,28	-0,28	8,22
Housing, water, electricity and gas	1,17	0,34	0,40	0,75	1,18	0,20	1,25	1,17	0,38	0,78	0,82	21,27
Furnishings, household equipment and supplies	0,10	0,01	-0,08	-0,07	0,23	0,00	0,20	0,16	0,00	0,03	0,04	7,08
Health	0,31	0,27	0,22	0,26	0,27	0,27	0,27	0,23	0,28	0,25	0,25	4,92
Transport	0,97	0,40	0,04	0,11	0,03	-0,22	0,14	0,11	0,52	0,06	0,07	17,42
Communication	-0,17	0,03	-0,11	-0,11	-0,10	0,06	-0,11	-0,19	0,02	-0,11	-0,11	1,79
Recreation & culture	-0,01	-0,03	0,06	0,08	0,19	0,08	0,15	0,14	-0,05	0,11	0,11	5,88
Education	0,09	0,11	0,16	0,14	0,16	0,16	0,18	0,11	0,10	0,15	0,15	2,33
Restaurants & hotels	0,36	0,38	0,22	0,20	0,31	0,29	0,27	0,29	0,41	0,24	0,25	6,07
Miscellaneous goods and services	0,21	0,20	0,16	0,20	0,40	0,17	0,38	0,38	0,21	0,25	0,26	5,04

Table 11**Inward portfolio investment: Purchase of shares listed on the Cyprus Stock Exchange by non-residents¹***(Cyprus pounds thousands)*

Country	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.	2002 Mar.	2002 Apr.	2002 May	2002 June	2002 July	2002 Aug.	2002 Sep.	2002 Oct.
Australia	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	1,8	0,0	0,6	0,0	0,0	0,0	0,0	0,0
Austria	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	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Belgium	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	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
British Virgin Islands	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	9,3	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Canada	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	1,8	39,8	0,0	0,0	0,0	14,5	0,0	0,0
Cuba	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	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Czech Republic	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	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Egypt	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	2,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
France	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	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Georgia	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	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Germany	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	4,8	0,0	0,0	0,0	0,0	0,0	0,0	10,0
Greece	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	92,4	245,2	88,8	17,7	55,5	2,6	0,0	0,0
Iran	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	9,2	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Ireland	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	0,0	0,0	4,6	0,0	0,0	0,0	0,0	0,0
Italy	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	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Jordan	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	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Latvia	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	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Lebanon	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	0,0	0,0	0,0	0,0	40,9	0,0	0,0	0,0
Libya	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	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Mexico	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	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Moldova	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	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Netherlands	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	0,0	1,0	0,0	0,0	0,0	0,0	0,0	0,0
Panama	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	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Philippines	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	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Russia	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	0,6	0,0	8,1	8,9	0,0	0,3	2,4	0,0
Saudi Arabia	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	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
South Africa	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	61,8	94,3	68,7	7,9	39,2	10,7	31,8	15,8
Spain	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	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Switzerland	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	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Syria	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	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Ukraine	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	0,6	0,0	0,0	0,0	0,0	0,0	0,0	0,0
United Arab Emirates	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	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
United Kingdom	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	25,3	13,5	12,3	9,7	22,3	15,3	8,6	6,6
United States of America	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	0,0	35,6	22,7	0,0	2,7	7,3	1,0	0,0
Yugoslavia	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	0,4	0,0	1,2	0,0	0,0	0,0	0,0	0,0
Zambia	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	4,6	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Zimbabwe	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	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Unidentified	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	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Total	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	214,7	429,5	207,0	44,2	160,7	50,7	43,8	32,5

(1) These figures refer to shares not included in the dematerialisation process.

Table 12**Inward portfolio investment: Sale of shares listed on the Cyprus Stock Exchange by non-residents¹***(Cyprus pounds thousands)*

Country	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.	2002 Mar.	2002 Apr.	2002 May	2002 June	2002 July	2002 Aug.	2002 Sep.	2002 Oct.
Australia	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	1,0	0,0	2,5	0,0	0,0	0,0	0,0	1,2
Austria	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	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
British Virgin Islands	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	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Canada	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	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Cuba	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	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Egypt	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	0,5	0,0	0,0	0,0	7,6	0,0	0,0	0,0
France	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	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Germany	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	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Greece	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	111,4	1,3	5,8	25,9	0,0	6,9	0,0	0,0
Iran	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	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Italy	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	0,0	0,0	0,0	0,0	0,0	0,0
Latvia	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	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Lebanon	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	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Libya	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	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Moldova	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	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Netherlands	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	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Philippines	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	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Russia	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	2,6	31,7	0,0	0,0	0,0	0,0	0,0	0,0
South Africa	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	9,2	23,4	0,0	0,0	0,0	0,0	0,0	61,5
Spain	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	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Switzerland	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	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Syria	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	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Ukraine	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	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
United Kingdom	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	18,4	1,0	4,0	196,7	0,5	0,0	1,3	0,0
United States of America	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	78,1	0,0	10,8	0,0	0,0	0,0	0,0	0,0
Yugoslavia	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	1,4	0,0	0,6	0,5	0,0	0,0	0,0	0,0
Unidentified	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	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Total	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	222,6	57,4	23,7	223,1	8,1	6,9	1,3	62,7

(1) These figures refer to shares not included in the dematerialisation process.

Table 13

Tax reform***Indirect taxation***

In July, most bills concerning the tax reform were approved by the House of Representatives. Through this tax reform, the Cypriot tax regime is harmonised with the European Union (EU) acquis as well as the requirements of the Organisation for Economic Co-operation and Development (OECD). The new tax legislation shifts the weight, to a great extent, from direct to indirect taxes, in line with the tax regime in the EU and the other developed countries.

The main provisions of the new tax legislation are listed below:

VAT Increase in the standard rate from 10% to 13% effective 1.7.2002, and from 13% to 15% effective 1.1.2003. Abolition of the zero rate on all goods exempted from the standard rate with effect 1.1.2008.

Excise duties

Petroleum increase by 5 cent per litre effective 1.7.2002.

increase by 4 cent per litre effective 1.1.2003.

increase by 3 cent per litre effective 1.10.2003.

Petrol increase by 2 cent per litre (for regular and unleaded petrol) effective 1.7.2002.

increase by 2 cent per litre (for regular and unleaded petrol) effective 1.1.2003.

increase by 1 cent per litre (for regular and unleaded petrol) effective 1.10.2003.

Alcoholic beverages

Domestic increase by 66 cent per litre of pure alcohol effective 1.7.2002.

increase by 65 cent per litre of pure alcohol effective 1.1.2003.

increase by 70 cent per litre of pure alcohol effective 1.10.2003.

Imported increase by £1,35 per litre of pure alcohol effective 1.7.2002, and simultaneously a much larger decrease in import duties on alcoholic beverages imported from the EU.

increase by 65 cent per litre of pure alcohol effective 1.1.2003, and simultaneously a much larger decrease in import duties on alcoholic beverages imported from the EU.

increase by 70 cent per litre of pure alcohol effective 1.10.2003, and simultaneously a much larger decrease in import duties on alcoholic beverages imported from the EU.

Cigarettes

Increase by 20 cent per packet effective 30.5.2002.

Increase by 10 cent per packet effective 1.7.2003.

Motor vehicles

Decrease in excise duties on saloon cars as follows:

Up to 1600 cc, up to 45% decrease effective 1.7.2002, and additional decrease of 10% effective 1.1.2004.

For 1601 cc to 2000 cc, 15% decrease effective 1.7.2002, and additional decrease of 10% effective 1.1.2004.

For 2001-2500 cc, no change.

For 2501 cc and above, 5% increase effective 1.7.2002.

The imposition of special tax on all cars up to 1600 cc is abolished. The special tax is maintained for cars 1601 cc and above.

Increase by 20% of registration fees for cars effective 1.1.2003.

Increase in permit fees for petrol-powered cars up to 1016 kg by 10%, and increase by 20% for vehicles exceeding 1016 kg effective 1.1.2003.

Increase in excise duties on vans and double-cabin vehicles as follows:

	1.7.2002	1.1.2004
Van	10%	10%
Double-cabin	5%	5%
4x4 up to 2500 cc	10%	10%
4x4 above 2500 cc	20%	30%

Luxury goods

Increase in excise duties on luxury goods, such as boats and motorcycles above 100 cc, smoked salmon, caviar and sparkling wine by 10%, and increase in the excise duty for soft drinks by 1 cent per litre.

Direct taxation

Natural persons

Increase in the non-taxable income from £6.000 to £9.000, retroactively from 1.1.2002, in parallel with the abolition of tax exemptions for spouse and interest expenditure (except interest on housing loans).

Abolition of the defence fund levy for employees and the self-employed effective 1.7.2002.

Effective 1.1.2003, the tax brackets are amended as follows:

Taxable Income	Income tax rate
£0 - £9.000	0%
£9.501 - £12.000	20%
£12.001 - £15.000	25%
£15.001 and above	30%

Effective 1.1.2004, increase in the non-taxable income to £10.000, simultaneously with the abolition of tax exemptions for interest on housing loans and amendment of the tax brackets as follows:

Taxable income	Income tax rate
£0 - £10.000	0%
£10.001 - £15.000	20%
£15.001 - £20.000	25%
£20.001 and above	30%

Professional tax

Abolition of the professional tax effective 1.1.2003.

Taxation of interest

Abolition of the 3% defence fund levy on interest earned and introduction of tax withholding at the source, at a rate of 10%.

Corporation tax

Introduction of a uniform tax rate of 10%, and an additional 15% tax on 70% of non-distributed profits effective 1.1.2003.

Abolition of the additional tax rate of 10% effective 1.1.2003.

Abolition of the tax rate of 4,25% for international business companies in operation prior to 31.12.2001, effective 1.1.2006.

Social cohesion fund

Introduction of a 2% tax rate to be contributed by employers to the social cohesion fund.

Defence fund

Abolition of the 2% defence fund levy for employers effective 1.1.2003. Abolition of the defence fund levy on corporate profits effective 1.1.2003.

Compensatory measures

Finally, the tax reform includes a series of compensatory measures, such as the expansion of the child allowance, increase in pensions and other public assistance allowances, the final form of which is still pending.