



CENTRAL BANK OF CYPRUS

ECONOMIC RESEARCH DEPARTMENT

MONETARY POLICY REPORT

DECEMBER 2004



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1. INTRODUCTION

The devaluation of the dollar and the prospects for the world economy following the rise in oil prices during the current year have been at the forefront of international economic developments. Even though growth of the world economy is expected to reach 5% in the current year, there is uncertainty for 2005, depending on the price of oil. Analysts forecast a growth rate of around 4%. With the exception of the US Federal Reserve which is likely to raise interest rates again in the future, the main monetary authorities maintained a cautionary stance during their recent meetings.

As regards domestic developments there were signs of recovery in the economy. Specifically, real GDP grew by 3,6% and 4,1%, in the first and second quarters of 2004 respectively, compared with 1,9% and 1,2% respectively, in the corresponding quarters of 2003. At the same time, inflation reached 2,54% in October from 2,37% in the previous month, and 4,09% the corresponding month of 2003. For the first ten months of 2004, inflation reached 2,02% compared with 4,32% in the same period of 2003. This deceleration reflects, to a large extent, the dissipation of the impact of the increase in value added tax (VAT) from 10% to 13% in July 2002, and 13% to 15% in January 2003, as well as the significant reduction in the excise taxes on most types of vehicles in November 2003. For the year as a whole, and taking into account the increasing price of oil in the international markets during the second half of the year, inflation is expected to be slightly above 2%.

On the monetary front, the annual rate of growth of local bank credit was 6,2% in October, higher

than in the same month in 2003 when it reached 5,7%. The annual growth rate of M2 increased to 7,8%, compared with 5,4% in the same month of the previous year. The annual growth of local currency bank deposits held by residents reached 4,2% in October, the same level as October 2003, while foreign currency deposits grew. In parallel, during September and October surplus banking liquidity conditions continued, while after mid-November there were balanced liquidity conditions.

For the first ten months of the year, tourist arrivals increased by 2,9% compared with a decrease of 6% during the corresponding period of 2003. However, receipts from tourism fell by 3,2% in the first nine months of 2004, compared with a decrease of 10,5% during the corresponding period of 2003.

As regards external trade, provisional data indicate that local imports increased by 16,9% in the first eight months of 2004, compared with a decrease of 8,1% during the corresponding period of 2003. This increase is attributed to the recovery of the Cyprus economy, as well as the large increase in the imports of cars following the significant reduction in excise taxes on most types of vehicles in November 2003. Meanwhile, total exports decreased by 0,9% in the first eight months of 2004, compared with a decrease of 6,2% in the corresponding period of 2003. As a result of these developments, the trade deficit for the period January – August 2004, reached £1.440,6 million, from £1.182,4 million during the corresponding period of 2003.

As regards private consumption, the retail sales volume index increased by 3% in the first seven months of 2004. In the labour market, the unemployment rate, as a percentage of the economically active population, reached 2,9% in October 2004, the same as in the corresponding month of 2003.

In the secondary sectors of the economy, positive developments were recorded. Manufacturing registered an improvement in the first eight months of 2004, and the performance of construction remained generally encouraging. In particular, the volume index of building permits and cement sales increased in the first nine months of 2004.

According to the quarterly data of the general government consolidated accounts prepared by the Statistical Service of Cyprus (Cystat), the fiscal deficit reached £88 million or 1,2% of GDP in the first two quarters of 2004, compared with £182 or 2,8% of GDP during the corresponding

period of 2003. Despite this encouraging development in public finances, the second half of 2004 does not seem to be as encouraging since EU accession is likely to result in the loss of income from import duties. In parallel, some of the public expenditure categories that have decelerated during the first six months of the year, are expected to accelerate in the second half of the year.

It should be noted that the consolidated accounts of the general government for the third quarter of 2004 will be published by Cystat at the beginning of December.

According to revised data from the Ministry of Finance, the fiscal deficit in 2004 will reach 4,8% of GDP and public debt 74,9% of GDP.

2. ECONOMIC DEVELOPMENTS

2.1 INTERNATIONAL DEVELOPMENTS AND EXCHANGE RATES

International economic developments

The devaluation of the dollar against the major currencies, especially the euro, as well as the high oil prices are still at the forefront of international economic developments. The US twin deficits are the main factors that negatively affect the dollar.

In the euro area stronger concerns have been expressed for the high price of oil and its consequences for economic growth in the euro area. The projections for GDP growth in 2005 have been revised downwards to under 2%. Inflation in the euro area is in check due to the appreciation of the euro. Despite this, some concerns have been expressed by European officials, including the President of the ECB, regarding strong fluctuations in exchange rates. The market perception is that the official interest rates of the ECB will remain unchanged until the beginning of next year.

In Japan, further appreciation of the yen against the dollar may probably cause interventions by the monetary authority. The Japanese economy relies heavily on industry and exports and further strengthening of its currency is considered harmful to economic growth.

More analytically, the re-election of President Bush in the **US** was one of the main factors that negatively affected the dollar because of the markets' assessment that both the budget deficit and the current account deficit will remain for some time. The markets' lack of confidence in the official US stance for a strong dollar policy has become apparent. Concurrently, the weakening currency continues to support domestic consumption and negatively affects household saving. On 10 November the US Federal Reserve raised its official interest rates by 25 basis points, while maintaining the position that inflation is under control despite the increase in the price of oil. The Dow Jones share index exhibited an annual rise of 2,3% in October while the S&P 500 and Nasdaq indices rose by 7,6% and 2,2%, respectively. Since the beginning of the year the Dow Jones and Nasdaq indices fell by 3,8% and 1,7%, respectively, while the S&P 500 index rose by 1,9%.

In the **euro area** the annual growth rate of GDP slowed to 1,9% in the third quarter, compared with 2% in the previous quarter. Inflation rose to 2,4% in October while unemployment was 8,9% in September. Inflationary pressures are in check as a result of the strong euro and the containment of wage rises in the EU, while in 2005 the rate of price increases will largely depend on the price of oil. The ECB decided to leave its official interest rates unchanged while analysts have assumed that the cautionary stance in its monetary policy will be maintained in the first quarter of 2005 as well. As regards the share indices, the German DAX rose by 8,3% in October compared with the same month of 2003, the French CAC 40 rose by 9,9% and the Italian BCI rose by 12,3%. Since the beginning of the year, the Italian index has exhibited the largest rise of 8,5% followed by the French, with a rise of 4,2%. The German DAX fell by just 0,1% in the period from January to October 2004.

In the **UK**, the annual growth rate of GDP was 3% in the third quarter, compared with 3,6% in the previous quarter. Inflation was 1,2% in October while unemployment reached 4,6% in the period July-September. On 4 November the Bank of England left its official interest rates unchanged and analysts expect that the contractionary cycle that the Bank has undertaken since the beginning of the year tends to be completed. Data showing property prices have started to recede, as well as steady GDP growth, tend to support this cautionary stance, without ruling out possible cuts in official interest rates in 2005. Regarding share values, the FTSE 100 index rose by an annual rate of 7,9% in October. In the period January-October 2004 the index rose by 3,3%.

In **Japan**, GDP growth for the third quarter was 3,9%, compared with 4,2% in the previous quarter. The Consumer Price Index did not exhibit any change, while unemployment reached 4,6% in September. The Nikkei 225 share index rose by 2% in October compared with the same month of the previous year and in the first ten months of the year it rose by 0,9%.

The average price of Brent crude oil reached \$49,76 per barrel in October, up from \$42,96 per barrel in the previous month. During the first 15 days of November the average price was \$44,45 per barrel. The price of oil has risen in excess of 50% compared with last year's levels. The price was affected by rumours that OPEC would proceed with cutting down production despite the increased demand for heating oil in the winter period. The fall in US heating oil reserves also positively affected the price of oil.

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

	The Economist Poll GDP forecasts ⁽²⁾			Lehman Brothers Weekly Outlook - GDP ⁽³⁾			International Monetary Fund World Economic Outlook ⁽⁴⁾			European Commission Economic Forecasts ⁽⁵⁾		
	2003	2004	2005	2003	2004	2005	2003	2004	2005	2003	2004	2005
World				2,1	3,4	2,3 (2,4)	3,9	5,0 (4,6)	4,3 (4,4)	3,5 (3,7)	5,0 (4,5)	4,2 (4,3)
Euro area	0,5	1,8	1,9 (2,0)	0,5	1,8	1,6 (1,7)	0,5 (0,4)	2,2 (1,7)	2,2 (2,3)	0,6 (0,4)	2,1 (1,7)	2,0 (2,3)
USA	3,2	4,4 (4,3)	3,4	3,0	4,4 (4,3)	3,4 (3,3)	3,0 (3,1)	4,3 (4,6)	3,5 (3,9)	3,1	4,4 (4,2)	3,0 (3,2)
Japan	2,3	4,3 (4,5)	2,1 (2,3)	2,4	3,7 (4,0)	1,0 (1,2)	2,5 (2,7)	4,4 (3,4)	2,3 (1,9)	2,4 (2,7)	4,2 (3,4)	2,1 (2,3)
UK	2,1	3,2 (3,4)	2,5 (2,7)	2,2	3,1 (3,4)	2,3 (2,4)	2,2 (2,3)	3,4 (3,5)	2,5	2,2	3,3 (3,0)	2,8

*(1) Figures in parentheses indicate the corresponding projection in the previous Monetary Policy Report, in case of change.**In the case of the IMF and the EC, the figures indicate the projections in April 2004 and March 2004, respectively.**(2) The Economist, 20 November 2004.**(3) Lehman Brothers Global Weekly Economic Monitor, 19 November 2004.**(4) International Monetary Fund, World Economic Outlook, September 2004.**(5) European Commission, Economic Forecasts, Autumn 2004.***Table 2****Major share indices***(closing prices)*

	2003	2004			
	31 Dec.	1 Oct.	29 Oct.	% change	
				Jan.-Oct.	Oct.
USA					
Dow Jones	10.425,0	10.192,7	10.027,5 ⁽²⁾	-3,8	-1,6
S&P 500	1.109,6	1.131,5	1.130,2 ⁽²⁾	1,9	-0,1
Nasdaq	2.009,9	1.942,2	1.975,0 ⁽²⁾	-1,7	1,7
Germany					
DAX	3.965,2 ⁽¹⁾	3.995,0	3.960,3	-0,1	-0,9
France					
CAC 40	3.557,9	3.730,2	3.706,8	4,2	-0,6
Italy					
BCI	1.256,6 ⁽¹⁾	1.331,1	1.363,1	8,5	2,4
UK					
FTSE 100	4.476,9	4.659,6	4.624,2	3,3	-0,8
Japan					
Nikkei 225	10.676,6 ⁽¹⁾	10.985,2	10.771,4	0,9	-1,9

*Source: Reuters**(1) Closing date 30 December 2003**(2) Closing date 1 November 2004*

Table 3**Main economic indicators***(percentage change on year ago)*

	GDP				Industrial production September (annual)	Retail sales September (annual)	Unemployment September (annual)	Inflation ⁽²⁾ October (annual)
	2004 (Q2)		2004 (Q3)					
	(quarterly) ⁽¹⁾	(annual)	(quarterly) ⁽¹⁾	(annual)				
UK	3,6	3,6	1,5	3,0	-0,9	6,0 ⁽³⁾	4,6 ⁽⁴⁾	1,2
Japan	1,3	4,2	0,3	3,9	3,8	-0,4	4,6	0,0 ⁽⁵⁾
USA	3,3	4,8	3,7	3,9	5,2 ⁽³⁾	6,3	5,5 ⁽³⁾	3,2
Euro area	2,1	2,0	1,2	1,9	2,9	0,0	8,9	2,4

*Source: The Economist, 20 November 2004.**(1) percentage change on previous quarter at an annualised rate**(2) based on the Consumer Price Index**(3) October 2004**(4) July - September 2004**(5) September 2004***International currencies**

The euro reached 130 cents against the dollar on 19 November 2004 compared with 128 cent on 1 November 2004 and 119 cents on 1 November 2003. The recent weakening of the dollar against other foreign currencies reflects the continuous negative psychology of investors due to the twin deficits of US economy. The decision of the Federal Reserve to increase interest rates by 25 basis points on 10 November, was already expected and did not affect the dollar. Instead, the markets focused on the announcement following the decision, which expressed concerns for the increasing trade deficit of the US. At the same time, the negative environment surrounding the dollar has been worsened due to the speculation that the ECB will not interfere to stop the strengthening of the euro as a strong euro highly offsets the impact on the inflationary pressures created by the increasing price of oil.

During November, sterling fluctuated at around 70 pence to a euro, thus remaining at the same level as in November 2003. It should be noted that during the first nine months of the year sterling strengthened against the euro, while in October it weakened, partly due to the

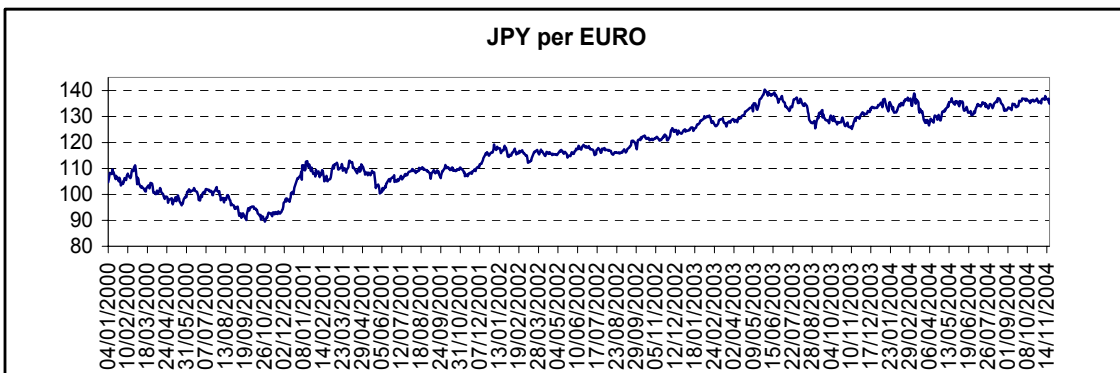
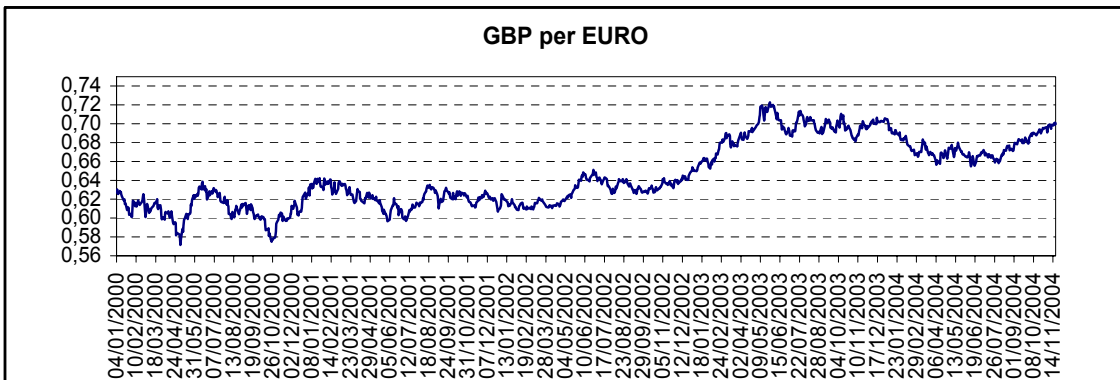
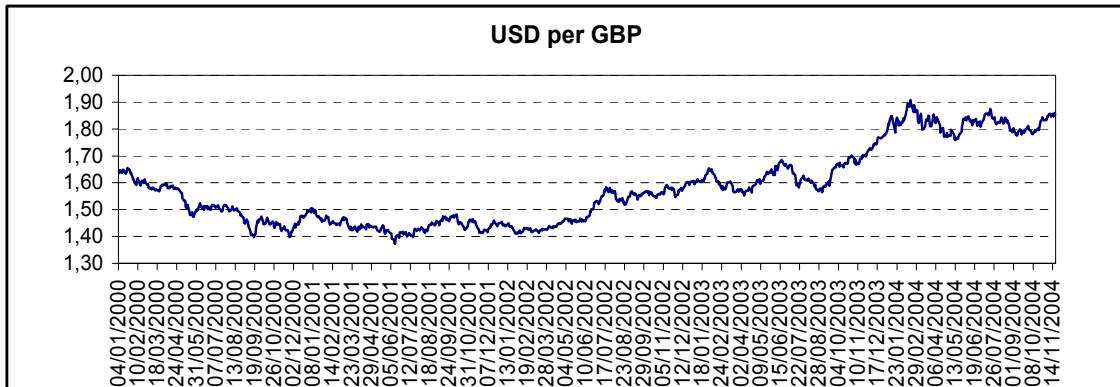
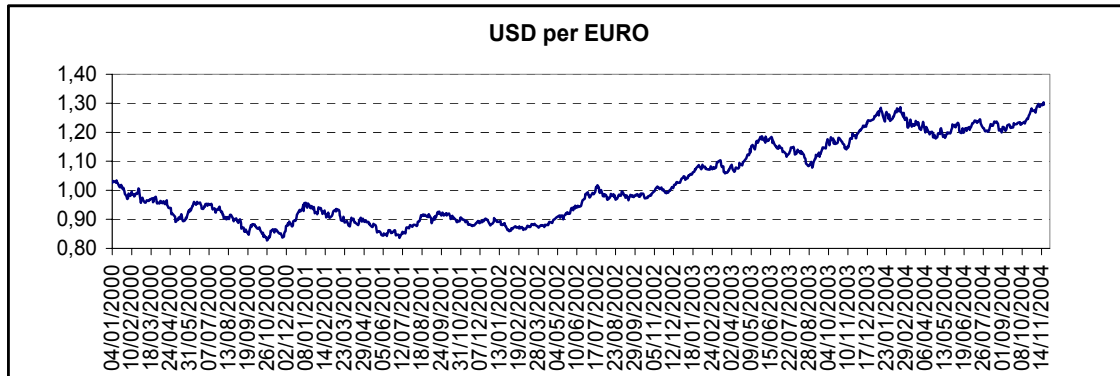
deceleration of house inflation. In November, sterling remained at the same level as in October due to the Report of the Bank of England on inflation, which implied that interest rates in Britain had reached their highest level for the present. Additional decreases in house prices contributed further to the stabilization of sterling.

On 19 November, the yen reached Y135 to a euro. The lowest value of the yen was Y138 to a euro on 11 November. On 28 November 2003 the yen was Y131 to a euro. Chart 1 depicts the fluctuation of international currencies during the last years.

Graph 1

Major international currencies 04/01/2000 - 19/11/2004

(opening, selling values)



Source: Central Bank of Cyprus

Cyprus pound

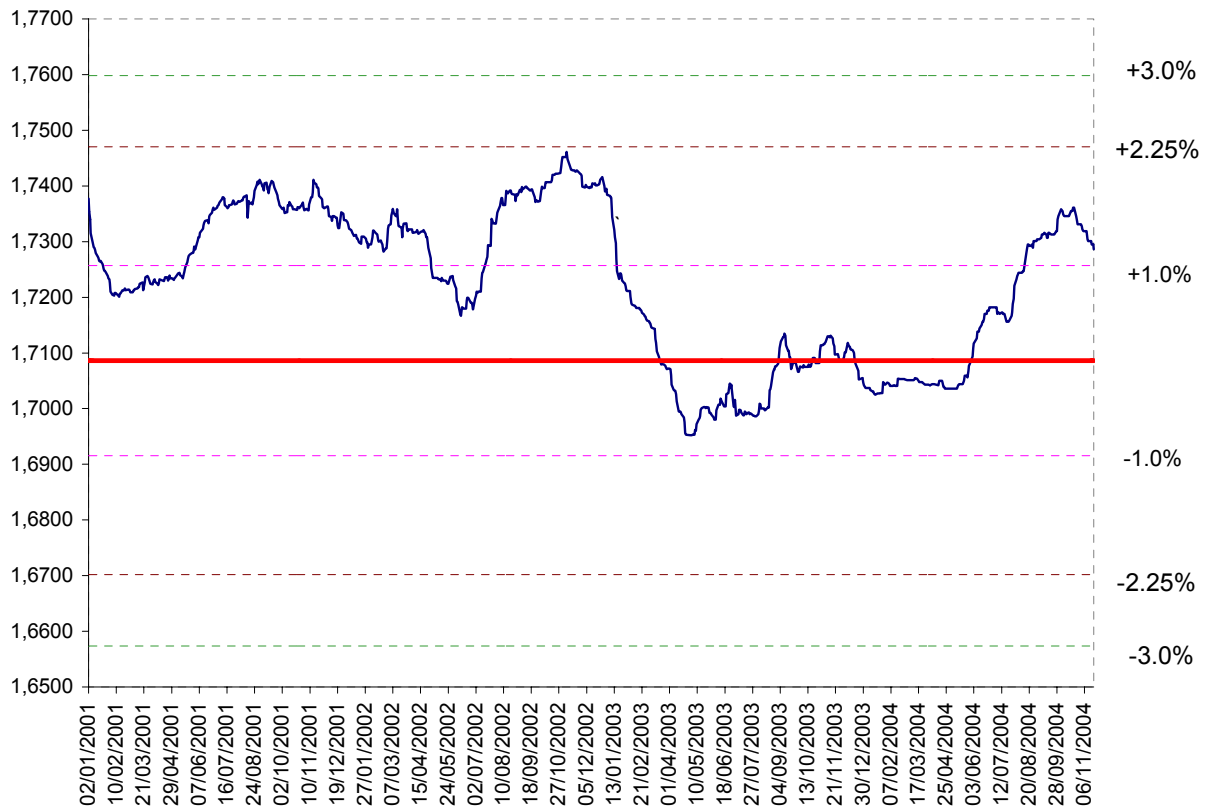
The Cyprus pound registered a marginal depreciation vis-à-vis the euro during November, reaching €1,7286 on 19 November 2004 compared with €1,7331 on 1 November 2004. Reflecting fluctuations in international currencies during this period, the Cyprus pound appreciated against the dollar, reaching \$2,4111 on 19 November 2004. During the same period, the Cyprus pound strengthened against sterling, reaching ST£1,2096 on 19 November 2004, while on 1 November 2004 it reached ST£1,2066.

During the period January to 19 November 2004, the Cyprus pound registered a gradual appreciation vis-à-vis the euro reaching an average rate of €1,7309 in November, compared with an average rate of €1,7033 in January 2004.

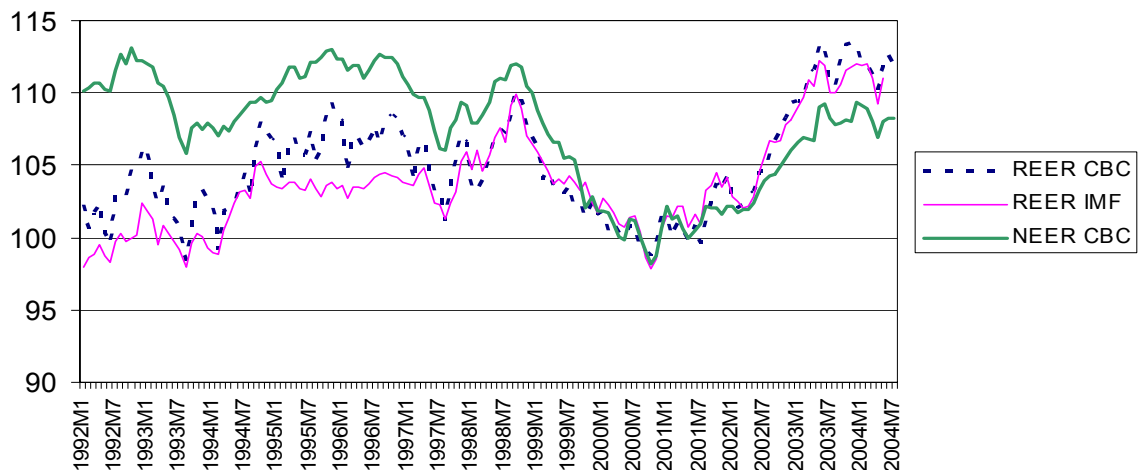
During the same period, the Cyprus pound strengthened against the dollar. The average rate of the Cyprus pound against the dollar in November 2004 was \$2,2314 compared with \$2,1470 in January 2004.

The Cyprus pound strengthened against sterling during the period January to 19 November 2004, reaching an average rate of ST£1,2071 on 19 November 2004, compared with ST£1,1791 in January 2004.

Charts 2A and 2C depict recent fluctuations in the value of the Cyprus pound against the euro, dollar, sterling and yen.

Graph 2A**Exchange rate of the euro against the Cyprus pound****02/01/2001 – 19/11/2004***(selling rate, opening)*

Source: Central Bank of Cyprus

Note: The official fluctuation margins of the Cyprus pound against the euro are set equal to $\pm 15\%$ **Graph 2B**
**Real and nominal effective exchange rates of the
Cyprus pound (using IMF weights)
(Base year 2000=100)**


Source: Central Bank of Cyprus and International Monetary Fund

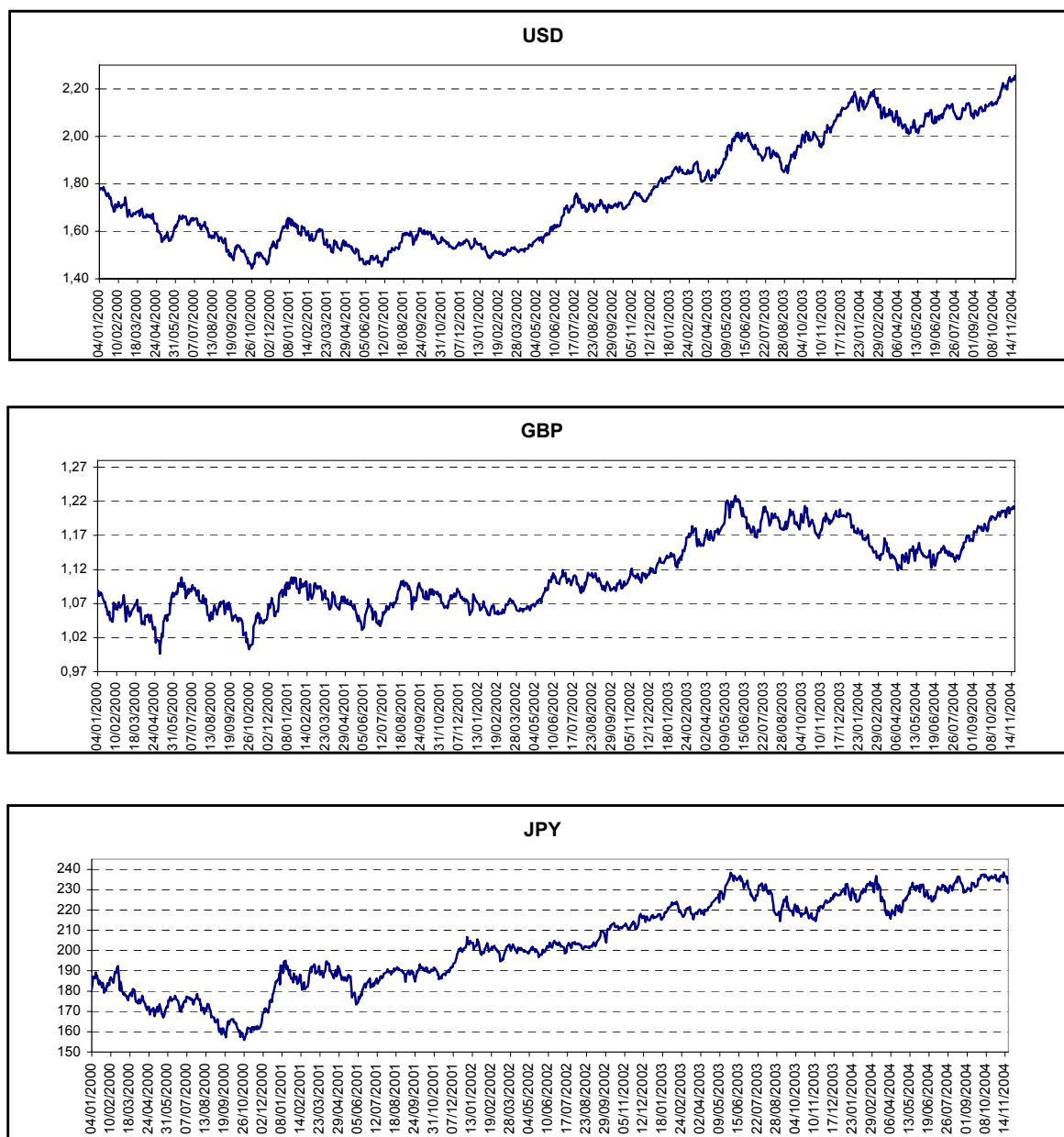
Graph 2C**Cyprus pound against major international currencies
04/01/2000 - 19/11/2004***(opening, selling values)**Source: Central Bank of Cyprus*

Table 4 illustrates the results from the Central Bank's foreign currency transactions, during November (19 November 2004) on the basis of the transaction dates. The daily transactions in foreign currency between the Central Bank and the domestic banks, from 2001 until now, are illustrated in Chart 3.

From 1 January 2004 to 19 November 2004, capital inflows of £7,74 million were recorded in comparison with outflows of £88,96 million during the corresponding period of 2003.

Table 4**Domestic foreign exchange market: purchases and sales by the Central Bank of Cyprus**

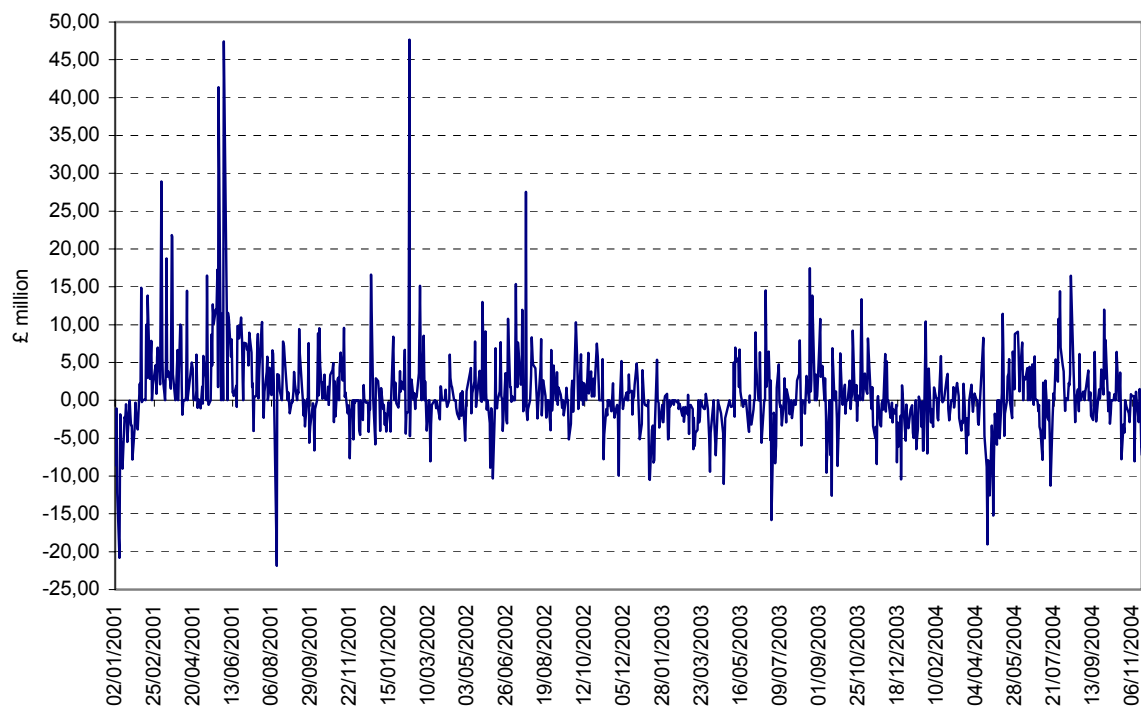
Period	Average exchange rate intervention Foreign currency per Cyprus pound (period average)			Purchases(+)/Sales(-) of foreign exchange by the Central Bank (based on transaction date)			
				In foreign currency (million)			In Cyprus pounds (million)
	Euro	Dollar	Sterling	Euro	Dollar	Sterling	
<u>Yearly</u>							
2001	1,7314	1,5602	1,0805	755,82	242,99	76,39	663,30
2002	1,7383	1,6445	1,0934	321,55	64,75	53,05	273,13
2003	1,7122	1,9361	1,1844	-259,75	1,30	19,50	-134,01
<u>Quarterly</u>							
2003 Q1	1,7240	1,8505	1,1539	-201,80	1,25	0,00	-116,28
2003 Q2	1,7050	1,9358	1,1963	-56,20	-1,75	1,00	-33,09
2003 Q3	1,7073	1,9208	1,1927	50,60	0,45	0,30	30,01
2003 Q4	1,7123	2,0368	1,1946	-52,35	1,35	18,20	-14,66
2004 Q1	1,7060	2,1348	1,1604	-155,75	2,00	30,20	-64,23
2004 Q2	1,7099	2,0579	1,1401	-19,05	6,50	1,10	-7,49
2004 Q3	1,7271	2,1107	1,1612	199,60	4,95	-19,20	101,02
<u>2003</u>							
January	1,7328	1,8419	1,1392	-96,25	-0,40	0,00	-55,73
February	1,7230	1,8570	1,1535	-37,25	-0,70	0,00	-22,00
March	1,7154	1,8532	1,1707	-68,30	2,35	0,00	-38,55
April	1,7050	1,8457	1,1749	-108,30	-1,40	0,00	-64,26
May	1,7038	1,9728	1,2148	23,10	-0,35	1,00	14,21
June	1,7063	1,9890	1,1991	29,00	0,00	0,00	16,96
July	1,7026	1,9366	1,1919	-33,30	0,00	0,10	-19,47
August	1,7053	1,9073	1,1940	88,30	0,05	-0,20	51,57
September	1,7132	1,9226	1,1936	-4,40	0,40	0,40	-2,08
October	1,7118	2,0038	1,1950	42,95	0,00	7,90	31,68
November	1,7144	2,0062	1,1878	-28,80	1,35	8,30	-9,07
December	1,7106	2,1005	1,2012	-66,50	0,00	2,00	-37,27
<u>2004</u>							
January	1,7051	2,1497	1,1799	-83,20	-0,20	9,70	-40,62
February	1,7064	2,1595	1,1555	-23,55	0,00	11,00	-4,25
March	1,7069	2,0982	1,1470	-49,00	2,20	9,50	-19,36
April	1,7058	2,0416	1,1355	-161,15	0,00	1,00	-93,62
May	1,7068	2,0483	1,1471	49,95	0,00	0,00	29,22
June	1,7171	2,0838	1,1402	92,15	6,50	0,10	56,90
July	1,7190	2,1083	1,1454	54,70	5,40	-23,70	13,64
August	1,7290	2,1063	1,1574	78,00	-0,30	4,50	48,89
September	1,7332	2,1175	1,1809	66,90	-0,15	0,00	38,49
October	1,7363	2,1681	1,2007	-23,10	-0,15	2,50	-11,31
November*	1,7320	2,2346	1,2084	-52,00	3,35	3,40	-25,73

Source: Central Bank of Cyprus

* Until and including 19 November 2004.

Graph 3

**Daily purchases / sales of foreign exchange by the Central Bank
of Cyprus from / to domestic banks
2/1/2001-19/11/2004**



Source: Central Bank of Cyprus

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

BOX 1**Effective exchange rate indices of the Cyprus pound**

The aforementioned analysis of bilateral exchange rate developments can be completed by an analysis of various “effective exchange rate indices of the Cyprus pound”. These indices reflect the average fluctuation of a currency relative to the currencies of its trading partners. The effective exchange rates expressed in real terms represent the deflated value of the corresponding nominal effective exchange rate, where the deflator can be either the consumer price index or any other price or cost variable such as unit labour cost.

Graph 2B illustrates the monthly nominal and real effective exchange rates of the Cyprus pound from January 1992 to July 2004. An upward trend of the overall index is constructed to reflect an appreciation of the domestic currency in real or nominal terms, thus indicating weakening of the competitiveness of exported products.

The real effective exchange rate of the Cyprus pound “REER IMF” shown in graph 2B is calculated by the International Monetary Fund (IMF) and is a so called third country competition weighted index, taking into account 19 countries. The weights are estimated by using data on trade and tourism for the years 1988 – 1991 while the deflator used is the Consumer Price Index. May 2004 is the latest indication of this index with a base year 1995 – 100. Due to this lag of reporting the Central Bank of Cyprus calculates its own index using 8 instead of 19 countries and is also based on this IMF index. The Central Bank of Cyprus index (“REER CB”) shown in the same graph follows the original IMF index very closely. In 2003 the average value of “REER CBC” index was 106,7 compared with 100,1 in 2002. During the first seven months of 2004 the value of “REER CBC” reported a marginal depreciation reaching 111,7 in July 2004, compared with the last six months of 2003 which was 112,4.

The outlook indicated by the nominal index is diversified. The sharper appreciation observed in real terms is primarily attributable to the higher inflation recorded in Cyprus in comparison with other European countries largely as a result of the progressive increase in the rate of VAT from 10% to 15% during 2002 and 2003 as well as increases in other consumption taxes (particularly those on petroleum products). More recent data pertaining to month of October 2004, place the index at 111,3 units, thus showing a slight decrease.

2.2 MONETARY DEVELOPMENTS

Cyprus's banking system consists of the local banks, the co-operative credit institutions (CCIs) and the international banking units (IBUs) which have been allowed to lend to Cypriot residents in foreign currency since the liberalisation of capital movements. For the time being, there are updated figures on local banks, while data on CCIs are available with approximately three months delay. For this reason in the following analysis data on local banks are mainly presented as they are available to the Central Bank while estimations or preliminary data are used in the case of CCIs. As regards IBUs, a partial analysis of the foreign currency loans they provide is presented.

According to provisional data, in October the rate of growth of the monetary aggregate M2C¹, which includes deposits in local banks as well as in CCIs, reached 8,5%, compared with 6,5% in the same month of the previous year.

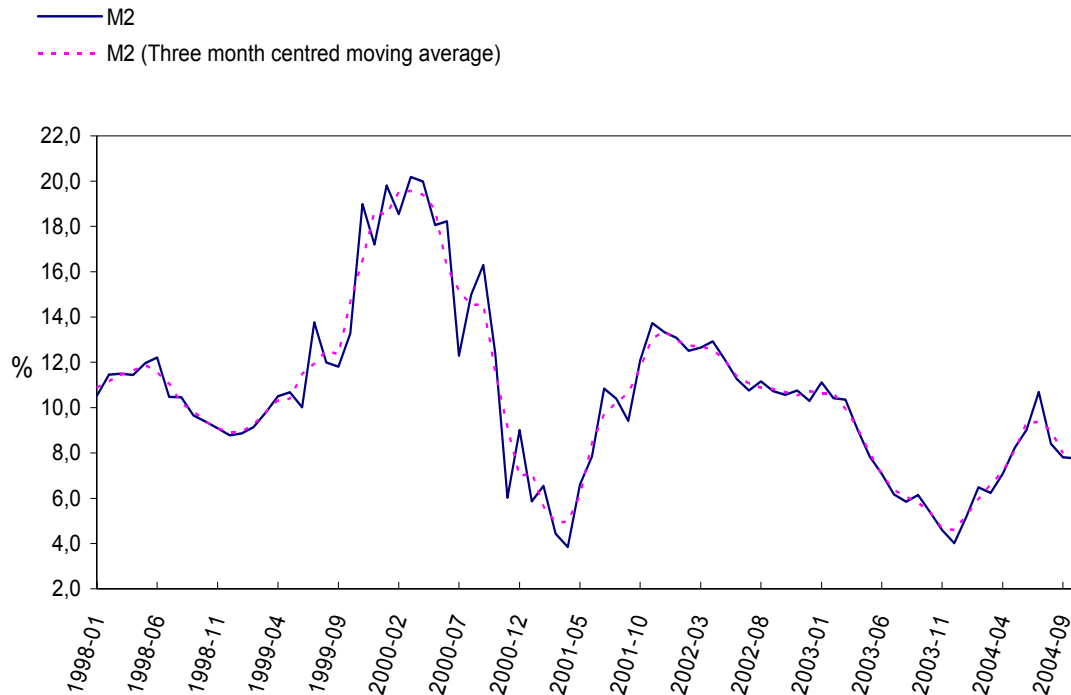
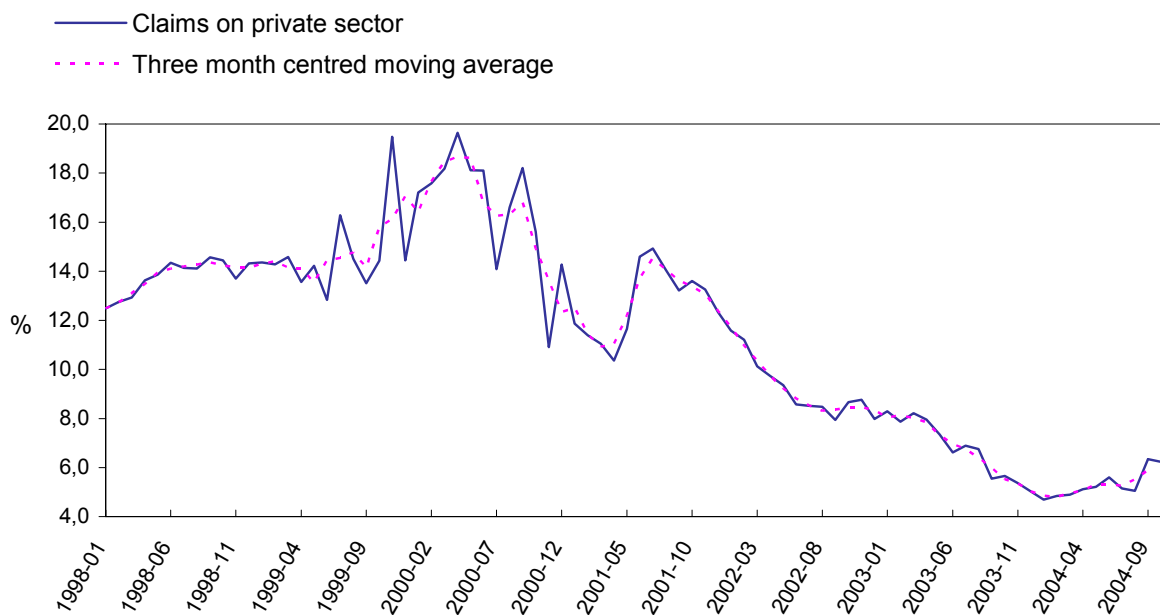
Total deposits of Cypriot residents in local banks and CCIs rose by 8,5% in October, compared with 6,1% in October 2003 while total credit grew by an annual rate of 7,7%, compared with 7% in the same period of 2003.

More specifically, the annual rate of growth of total money supply (M2) that consists of local banks only decelerated in September compared with the previous month while it remained constant in October. In contrast, the annual rate of growth of credit remained unaltered in the two month period from September to October 2004. In parallel, there was surplus banking liquidity both in September and in October while after mid-November balanced liquidity was observed.

1. The monetary aggregate M2C should be treated with caution since the co-operative credit institutions are not supervised by the Central Bank of Cyprus and, in addition, the automation undertaken by the Co-operative Computers Society (SEM) Ltd. does not yet cover all the co-operative credit institutions.

Graph 4

Source: Central Bank of Cyprus

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

Source: Central Bank of Cyprus

Table 5**Main monetary indicators***(annual percentage change)*

	2000	2001	2002	2003	2003 Oct.	2004 Sep.	2004 Oct.
Money supply (M1)	-3,8	1,1	2,6	32,6	34,9	10,2	11,4
Total money supply (M2)	9,0	13,3	10,3	4,0	5,4	7,8	7,8
Claims on private sector	14,3	12,3	8,0	5,0	5,7	6,3	6,2

Source: Central Bank of Cyprus

The annual growth rate of M2 was 7,8% both in September and in October while in October 2003 it had been 5,4%. According to the three-month moving average, M2 slowed to 8% in the period August - October from 9% in the period July - September 2004.

Credit to the private sector in September rose at an annual rate of 6,3%, while in October the increase was 6,2% (Table 5). In the same months of 2003, the annual rate of credit growth was 5,5% and 5,7%. The increase in credit growth is consistent with the general economic upturn. The three-month moving average

exhibited a rise of 5,9% in credit during the period August to October, from 5,5% in the three months from July to September.

According to provisional weekly data for credit to the private sector in the period 1 January to 19 November 2004, new credit amounted to £329,3 million, which is equivalent to an annual rate of 6,4%.

Table 6 presents the factors affecting M2, in absolute terms. As shown, the level of bank credit granted to the private sector in the period January to October is considerably above the corresponding level in the previous year. In the same period, credit to the public sector decreased. Specifically, credit to the private sector increased by £300,8 million in the first ten months of 2004, compared with an increase of £193,6 million in the same period of the previous year. Credit to the public sector rose by £44,2 million, compared with an increase of £273,6 million registered in the same period of 2003.

Net foreign assets exhibited a significant increase, compared with a decrease registered in the ten month period of 2003. Specifically, net foreign assets increased by £262,4 million, compared with a decrease of £33,1 million in the same period of the previous year.

The increase in net foreign assets is mainly due to the Eurobond issue by the government that took place in July 2004 amounting to €500

million. This is partly reflected in the decrease in credit by the commercial banks to the public sector. In contrast, unclassified items decreased by £251,4 million in the first ten months of the year, compared with a decrease of £386,2 million in the same period of 2003. This reduction is partly explained by the loan capital issues undertaken by certain banks in 2003.

As regards the components of M2, during the first ten months of the year the narrow monetary aggregate M1 rose by £19,9 million while quasi-money rose by £336,1 million, compared with an increase of £215,1 million and a decrease of £167,2 million during the first ten months of the year, respectively. A notable development is the increase in long-term foreign currency deposits by Cypriots which rose by £211,1 million.

Table 6**Factors affecting total money supply***(change, CYP thousand)*

	Oct. 2004	Jan. - Oct.		Sep. 2003/2004	Oct. 2003/2004
		2003	2004		
Foreign assets (net)	-14.823	-33.113	262.423	726.171	647.700
Claims on private sector	838	193.572	300.771	513.109	505.092
Claims on public sector	21.538	273.626	44.174	-62.144	-60.031
Unclassified items	-39.109	-386.152	-251.366	-533.313	-456.236
Total money supply (M2)	-31.556	47.933	356.002	643.823	636.525
Money supply (M1)	-16.647	215.133	19.883	130.303	143.089
Currency in circulation	-13.250	29.276	8.529	68.846	53.646
Demand deposits	-3.397	185.857	11.354	61.457	89.443
Quasi-money	-14.909	-167.200	336.119	513.520	493.436

Source: Central Bank of Cyprus

The analysis of bank credit by sector of economic activity (Table 7) shows that during the period January – October net repayments were observed in most sectors while the personal-professional loans and the construction sectors absorbed the largest share of new credit. Specifically, these sectors absorbed 84,8% and 37,1% of new credit, respectively. In absolute numbers, personal loans increased by £328,4 million in the period from January to October 2004, compared with an increase of £108,3 million in the same period of 2003. It is noted that 36,2% of personal loans was used for house purchases. That is, out of £328,4 million absorbed by this sector, £118,9 million was used for house purchases. In addition, net credit in the construction sector amounted to £143,6

million during the period under review, compared with £121,8 million in the same period of 2003. That is, during the first ten months of 2004, 67,7% of new credit was channelled either to house purchases or construction.

In the foreign and domestic trade sector there were net repayments worth £56,2² million, compared with net repayments £12,8 million in the same period of the previous year. In the tourism sector there were net repayments of £4,2 million, compared with net repayments of £10,2 million in the first ten months of 2003. New loans to public institutions and corporations (including the government) rose by £12,8 million, compared with a rise of £17,1 million in the previous year.

2. It is noted that part of the marked decrease in this sector is due to corrections of input data by some banks.

Table 7
Bank credit by sector

	January - October			
	2003		2004	
	change CYP' 000	share %	change CYP' 000	share %
Public institutions and corporations ⁽¹⁾	17.067	8,9	12.772	3,3
Agriculture	-259	-0,1	3.363	0,9
Mining	1.529	0,8	-2.613	-0,7
Manufacturing	-20.073	-10,5	-11.434	-3,0
Transport and communications	-13.941	-7,3	-24.167	-6,2
Foreign and domestic trade	-12.802	-6,7	-56.212	-14,5
Building and construction	121.765	63,8	143.594	37,1
Tourism	-10.179	-5,3	-4.240	-1,1
Personal and professional loans	108.310	56,8	328.420	84,8
Bills discounted: Local	121	0,1	-1.106	-0,3
Foreign	-711	-0,4	-950	-0,2
Total	190.827	100,0	387.427	100,0

Source: Central Bank of Cyprus

(1) Including government loans

Foreign currency loans to residents of Cyprus increased in October by £7,7 million. In September there had been a slight increase of £1,3 million. The proportion of foreign currency credit to total credit was virtually unchanged at 10,3% in October, while it stood at 9,6% in October of last year (Table 8). For the period 1 January to 19 November 2004 provisional data indicate an increase in foreign currency loans to residents by approximately £98 million.

It is noted that lending in foreign currency by banks abroad and IBUs is at relatively low levels. According to preliminary balance of payments data on loans to Cypriots provided by banks abroad, in September 2004 there were net repayments of £6,6 million. As regards long-term lending to Cypriots by IBUs, net loans in foreign currency reached £4,4 million for the first nine months of 2004.

Table 8**Claims on private sector⁽¹⁾***(change, CYP million)*

	2004 Aug.	2004 Sep.	2004 Oct.
Foreign currency loans to residents	6,1	1,3	7,7
Claims on private sector	-37,9	45,3	0,8

(end of period balances, CYP million)

	2001	2002	2003	2003 Oct.	2004 Sep.	2004 Oct.
Foreign currency loans to residents	733,0	785,2	799,0	774,9	875,2	882,8
Claims on private sector	7320,1	7904,1	8302,0	8097,7	8601,9	8602,8
Share %	10,0	9,9	9,6	9,6	10,2	10,3

*Source: Central Bank of Cyprus**(1) From local banks.*

Data on foreign currency lending to Cypriots show that at the end of September 2004, the proportion of euro loans to total loans in foreign currency stood at 67,5%. The proportion of loans in dollars, yen and Swiss francs was 10%, 5,3% and 15,2%, respectively. According to data on medium and long-term foreign currency loans, in the period January-September 2004 about 14,5% of these were used in the domestic construction sector, 52% for refinancing³ and 28,1% for the acquisition of fixed assets.

Domestic expenditure by Cypriots through credit cards rose at an annual rate of 9,1% in October as compared with 13,3% in the same month of the previous year. For the ten months to October this type of expenditure rose by 12,8%, compared with an increase of 13,8% in the same period of 2003. Expenditure of Cypriots abroad through the

use of credit cards increased by 10,9% in October, compared with a rise of 2,5% in the same month of 2003. For the period January - October 2004, there was a rise of 8,8%, compared with a rise of 14,2% in the corresponding period of the previous year. Finally, foreign credit card holders spent 5,3% more in Cyprus in October, compared with 2,1% in the same month of 2003. During the first ten months of the year this type of expenditure rose by 8,9%, compared with a rise of 3% in the previous year.

3. Refinancing refers to the repayment of existing loans in Cyprus pounds or the conversion of existing foreign currency loans into a different currency.

Co-operative Credit Institutions (CCIs)⁴

The share of local currency deposits in CCIs to the total amount of deposits remained unchanged at 37% in October 2004, compared with October 2003. The share of local currency loans provided by CCIs is estimated at 28,5% for October, compared with 27,4% in the same month of the previous year. According to provisional data the annual growth rate of deposits in CCIs is estimated at 8,5% for October while the growth rate of credit provided by CCIs is estimated at 11,3% for the same month. The respective growth rates in the previous year were 14,1% for deposits and 10,4% for credit. The corresponding figures for banks were 4,2% growth in deposits and 6,2% growth in credit during October 2004.

Money market

In October there was a decrease in excess banking liquidity as compared with September while from mid-November there were balanced liquidity conditions.

Table 9 presents the factors affecting bank liquidity⁵. The decrease in the daily average value of net foreign assets to £1.393,1 million in October from £1.429,8 million in September, as well as the increase in the average value of government deposits were the main factors that restrained excess liquidity.

The daily average value of government deposits rose to £766,7 million in October, compared with £752,1 million in the previous month. Despite the fact that there were net repayments of government securities in October worth £48,2 million, these took place towards the end of the month. As a result the daily average value of government deposits was not affected.

In October there were two auctions held for the acceptance of deposits as a result of excess banking liquidity by which £120 million and £145 million was absorbed, respectively. On 4 November there was one auction by which £145 million was absorbed at an average interest rate of 4,25%. It is noted that as from mid-November there were balanced liquidity conditions, mainly as a result of auctions held on 17 November in most government securities by which tenders amounting to £166,3 million were accepted. It is noted that in October no auctions were held in government securities. The ratio of the total value of securities auctioned to the total value announced by the government was 76,8% in September and it rose to 92,4% in November. In parallel, the ratio of the value of securities auctioned to the total value of tenders was 66,3% in November, compared with 49,1% in September.

4. The data for CCIs are estimated by the Central Bank of Cyprus using a sample of 192 CCIs which amounts to approximately 96% of the total deposits and loans.

5. Box 2 on p. 25 presents liquidity conditions for the period 23 September – 18 November 2004. Any differences in the amounts are due to the different periods analysed.

Table 9**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												
		Net assets in gold and foreign currency (NFA)	Main refinancing operations (repos)	Long-term refinancing operations	Marginal lending facility (lombard)	Other liquidity providing operations (swap)	Deposit facility (overnight)	Other liquidity-absorbing operations (additional & special & S.M.E. dep.)	Rev-repos & depos	Currency in circulation	Central Govern. deposits (net) ⁽¹⁾	Other factors (net)		
		1	2	3	4	5	6	7	8	9	10	11	12	13
2002	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	399,9	-135,9	201,8	512,1	996,2
	Dec.	1.371,4	0,0	0,0	0,0	0,0	36,2	79,3	412,0	425,4	-330,1	231,9	516,6	1.057,6
2003	Jan.	1.340,4	0,0	0,0	3,5	0,0	29,3	79,3	438,9	413,6	-315,3	172,7	525,3	1.047,6
	Feb.	1.280,1	0,0	0,0	0,4	0,0	32,4	79,3	325,0	402,2	-276,0	181,8	535,8	1.049,7
	Mar.	1.210,2	0,0	0,0	10,3	0,0	11,1	79,4	308,5	404,4	-309,5	188,5	538,1	1.032,9
	Apr.	1.141,6	0,0	0,0	0,2	0,0	14,7	79,4	210,4	422,4	-328,7	208,4	535,0	1.051,6
	May	1.112,4	0,0	0,0	3,2	0,0	13,4	79,4	152,3	438,8	-315,7	214,8	532,6	1.064,2
	June	1.095,7	0,0	0,0	1,6	0,0	9,9	79,3	136,7	447,1	-309,5	204,0	529,8	1.066,1
	July	1.075,1	0,0	0,0	0,0	0,0	27,6	79,3	117,7	462,2	-332,7	193,2	527,8	1.096,9
	Aug.	1.104,4	0,0	0,0	0,0	0,0	24,0	79,3	146,8	471,3	-343,6	196,6	530,0	1.104,6
	Sep.	1.144,1	0,0	0,0	2,6	0,0	14,0	79,7	174,5	465,9	-301,8	184,4	530,0	1.089,6
	Oct.	1.079,8	0,0	0,0	0,3	0,0	23,0	79,4	123,6	467,2	-330,3	184,9	532,3	1.101,9
	Nov.	1.122,7	0,0	0,0	0,6	0,0	31,2	79,3	107,7	461,5	-286,9	199,2	531,4	1.103,4
	Dec.	1.173,1	0,0	0,0	4,8	0,0	17,8	79,5	47,4	496,3	-217,9	222,7	532,1	1.125,7
2004	Jan.	1.214,1	0,0	0,0	0,0	0,0	55,4	79,3	151,9	491,2	-290,5	192,6	534,2	1.160,1
	Feb.	1.185,3	0,0	0,0	0,0	0,0	22,2	79,4	169,0	477,0	-304,4	194,1	547,9	1.126,5
	Mar.	1.151,2	0,0	0,0	2,2	0,0	17,4	79,6	140,3	478,6	-313,8	199,7	551,5	1.127,2
	Apr.	1.121,0	0,0	0,0	0,7	0,0	29,7	79,3	93,3	503,7	-366,2	226,5	555,2	1.168,0
	May	1.038,5	0,0	0,0	6,0	0,2	8,0	79,3	0,0	509,8	-415,8	222,8	640,6	1.237,7
	June	1.108,4	0,0	0,0	0,0	0,0	32,9	79,4	0,0	519,6	-374,5	214,3	636,8	1.268,6
	July	1.340,1	0,0	0,0	0,0	0,0	42,1	79,5	61,2	533,4	-189,9	174,6	639,4	1.294,3
	Aug.	1.499,7	0,0	0,0	0,0	0,0	44,5	79,4	151,6	536,1	-140,5	185,8	642,9	1.302,8
	Sep.	1.429,8	0,0	0,0	2,0	0,0	31,9	79,3	162,7	531,1	-209,0	191,1	644,6	1.286,9
	Oct.	1.393,1	0,0	0,0	0,0	0,0	24,3	79,4	121,1	529,0	-194,4	187,8	645,8	1.278,6

Source: Central Bank of Cyprus

(1) The negative sign of net central government deposits is due to the inclusion of the government loan amounting to £961,1 million. Following the prohibition of public sector financing by the Central Bank in July 2002, outstanding claims of the Central Bank on the government were converted to a loan with a maturity of 30 years, the repayment of which will commence in 2007.

Table 10 shows that in November there was a decrease in the yields, compared with September, of almost all government securities in which auctions were held.

Specifically, the average interest rate of 13-week treasury bills fell to 4,62% from 4,70% in August and that of 52-week treasury bills fell to 5,09% in November from 5,14% in September. The average interest rate for five-year government bonds decreased to 6,22% in November from

6,29% in September, while the yield for ten-year bonds fell to 6,27% from 6,58% registered in June 2004, the most recent auction at which tenders were accepted by the government. Finally, the average interest rate on two-year government bonds remained virtually unchanged at 5,24%. Turning to the average overnight interbank interest rate, this also remained virtually unaltered at 4,10% in the period September – October while the average interest rate rose slightly to 4,14% by 24 November.

Table 10

Interest rates

(percentages per annum, period averages)

	2001	2002	2003	2003 Nov.	2004 Sep.	2004 Oct.	2004 Nov. ⁽¹⁾
Interbank (1day)	4,93	3,42	3,35	3,34	4,11	4,10	4,14
Repos	6,39						
Reverse repos/depos	4,59	3,91	3,45	3,35	4,27	4,20	4,24
Treasury bills (13 weeks)	6,00	4,02	3,51				4,62
Treasury bills (52 weeks)	6,35	4,30	3,70	3,58	5,14		5,09
Development stocks (2 years)	6,11	4,56	3,83	3,90	5,25		5,24
Development stocks (5 years)	6,96	5,07	4,49	4,56	6,29		6,22
Development stocks (10 years)	7,66	5,37	4,70				6,27
Development stocks (15 years)	6,47	5,60	4,81				

Source: Central Bank of Cyprus

(1) Until 24 November 2004

BOX 2**Liquidity conditions and monetary policy operations
for the period 23 September - 18 November 2004**

This box reviews the Central Bank of Cyprus (CBC) liquidity management from 23 September to 18 November 2004. Figure 1 summarises the liquidity absorption and provision through monetary policy operations, while figure 2 presents the developments of the main short-term interest rates.

Liquidity conditions in the banking system

The net liquidity impact of the autonomous factors, i.e. the factors not related to monetary policy operations, resulted in the formation of balanced liquidity conditions at the end of the reviewed period.

Monetary policy operations and interest rates

The CBC settled four Liquidity Absorbing Operations (LAOs) through auctions for the acceptance of deposits. At the auctions of government securities settled on 17 November with value date 18 November, bids amounting to £166,3 million were accepted. As a result, balanced liquidity conditions were formed and no LAO was carried out on 18 November.

Open market operations

(CYP millions; interest rates in percentages per annum)

Operation	Date of settlement	Date of maturity	Bids (amount)	Allotment (amount)	Bid-cover ratio	Weighted average allotment rate	Running for (...) days
LAO	23/09/2004	07/10/2004	121,0	80,0	1,51	4,17	14
LAO	07/10/2004	21/10/2004	146,0	120,0	1,22	4,21	14
LAO	21/10/2004	04/11/2004	163,0	145,0	1,12	4,21	14
LAO	04/11/2004	18/11/2004	147,0	145,0	1,01	4,25	14

Source: Central Bank of Cyprus

The LAOs were carried out through variable rate tenders with a maximum bid rate of 4,50%. The absorbed liquidity ranged between £80,0 million and £145,0 million, whereas the weighted average allotment rate remained within a range of 4,17% and 4,25%. The ratio of the amount bid to the volume allotted, varied between 1,01 and 1,51 with an average of 1,22, while the number of participating counterparties was between 5 and 7.

Standing facilities

(period averages of daily recourse in CYP millions)

Period	Deposit facility	Marginal lending facility
23/09 - 06/10/2004	32,8	0,0
07/10 - 20/10/2004	12,0	0,0
21/10 - 03/11/2004	24,6	0,0
04/11 - 18/11/2004	21,0	0,0

Source: Central Bank of Cyprus

In view of the aforementioned liquidity conditions during the above periods, averages of daily recourse to the deposit facility ranging between £12 million and £32,8 million were recorded. In contrast there was no recourse to the marginal lending facility.

Figure 1. Monetary policy operations

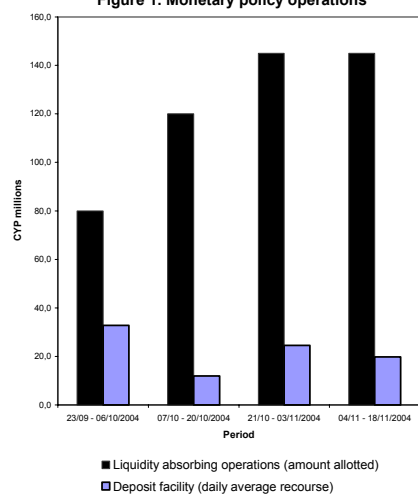
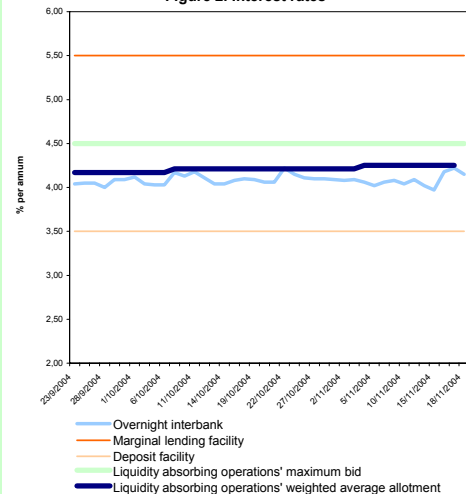


Figure 2. Interest rates



Overnight interbank interest rate

(percentages per annum)

Period	Minimum rate	Maximum rate	Average rate
23/09 - 06/10/2004	4,00	4,12	4,05
07/10 - 20/10/2004	4,04	4,18	4,10
21/10 - 03/11/2004	4,06	4,22	4,11
04/11 - 18/11/2004	3,97	4,22	4,08

Source: Central Bank of Cyprus

During the period under review the overnight interbank interest rate ranged between 3,97% and 4,22%. The average rate stood at around 4,09%.

Table 11 gives a comparison of domestic long-term interest rates and EU rates. According to the latest data which refer to September, domestic long-term real interest rates remained above corresponding rates in the EU, with a

differential of 81 basis points, compared with 54 basis points in the previous month. The increase is mainly due to the higher nominal interest rate in Cyprus.

Table 11
Inflation and interest rates in Europe and Cyprus - September 2004

(latest 12-month average)

	Inflation (HICP)	Long-term interest rates	Long-term real interest rates
Belgium	1,70	4,29	2,59
Czech Republic	2,10	4,81	2,71
Denmark	0,90	4,42	3,52
Germany	1,50	4,17	2,67
Estonia ⁽¹⁾	2,00	4,61	2,61
Greece	3,00	4,38	1,38
Spain	2,90	4,23	1,33
France	2,40	4,23	1,83
Ireland	2,50	4,22	1,72
Italy	2,40	4,38	1,98
Latvia	5,30	4,96	-0,34
Lithuania	0,10	4,66	4,56
Luxembourg	2,80	4,36	1,56
Hungary	6,70	8,20	1,50
Malta	2,80	4,68	1,88
Netherlands	1,50	4,23	2,73
Austria	1,70	4,29	2,59
Poland	2,80	6,96	4,16
Portugal	2,50	4,29	1,79
Slovenia	4,00	5,03	1,03
Slovakia	8,20	5,13	-3,07
Finland	0,30	4,23	3,93
Sweden	1,20	4,63	3,43
United Kingdom	1,30	5,00	3,70
Eurozone	2,10	4,26	2,16
EU -25	2,00	4,56	2,56
Cyprus	2,00	5,37	3,37

Source: Eurostat

(1) Data for August 2004

**International and domestic
official interest rates**

The ECB and the Bank of England maintained their official interest rates unchanged at their recent meetings. In contrast, the US Federal Reserve raised its official rates by 25 basis points. At its meeting on 11 October the CBC maintained a cautionary stance.

Consequently, the official interest rate differential between Cyprus and the euro area remained at 250 basis points for both the marginal lending facility and the overnight deposit facility (Table 12).

Table 12

Official interest rates

(levels in percentages per annum, changes in percentage points)

		change
European Central Bank (ECB)		
<i>(4 November 2004)</i>		
Minimum bid rate on the main refinancing operations	2,00	-
Interest rate on the marginal lending facility	3,00	-
Interest rate on the deposit facility	1,00	-
Bank of England (BOE)		
<i>(4 November 2004)</i>		
Repo rate	4,75	-
Federal Reserve (FR)		
<i>(10 November 2004)</i>		
Federal funds rate	2,00	+0,25
Discount rate	3,00	+0,25
Central Bank of Cyprus (CBC)		
<i>(11 October 2004)</i>		
Minimum bid rate on the main refinancing operations	4,50	-
Maximum bid rate on the liquidity absorbing operations	4,50	-
Interest rate on the marginal lending facility	5,50	-
Interest rate on the deposit facility	3,50	-

Sources: ECB, BOE, FR and CBC

Cyprus Stock Exchange (CSE)

The General Price Index of the CSE displayed a downward trend during October (Chart 6). More specifically, the index fluctuated in the range of 70,1 and 72,4 points while the average level for the month was 71,4 points, equivalent to an annual fall of 18,3% when compared with October 2003. The average level for the first ten months of the year was 79 points, down by 10% compared with the same period of the 2003.

The average daily traded volume increased, reaching £0,34 million from £0,28 million in September. The average daily number of transactions also rose to 450 in October from 421 in the previous month. The securities with the largest proportion of the traded volume in October were the shares of Bank of Cyprus and Laiki Bank, with corresponding proportions of 33,5% and 14,1%.

On 6 September, as part of the general plan for restructuring of services and harmonisation with

international capital markets, five new markets and a new system of categorisation of listed companies were introduced on the CSE. Following the classification of the listed companies in the new markets of the CSE, five new indices were launched:

- The General Index which includes the stocks listed in the main and parallel markets
- Main Market Index
- Parallel Market Index
- Alternative Market Index
- Investment Companies Market Index.

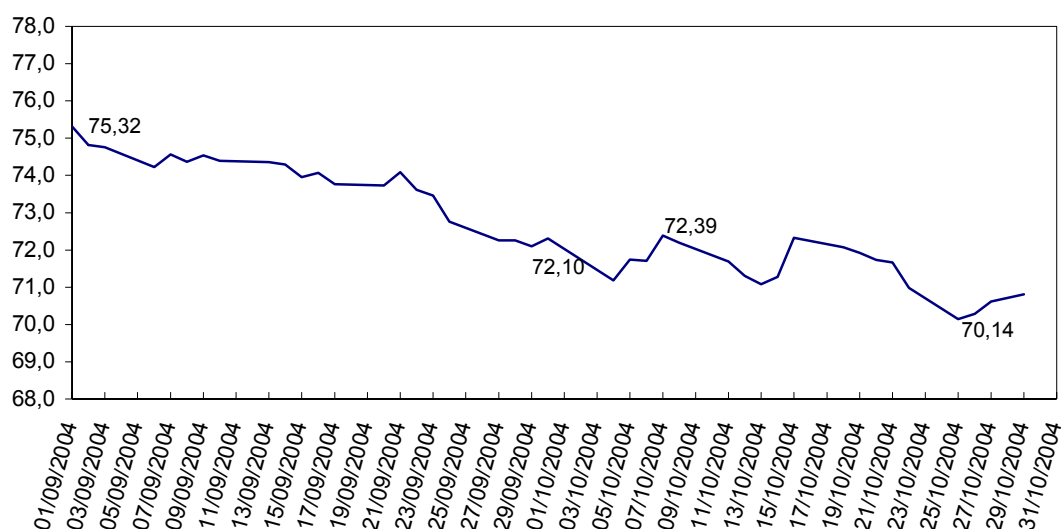
All the aforementioned indices as well as the sector indices of banks and hotel companies exhibited a fall in October, compared with the previous month.

Graph 6

Cyprus Stock Exchange (CSE) General Index

September - October 2004

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



Source: Cyprus Stock Exchange

Table 13 shows that there were net outflows by non-residents from the CSE during October, compared with September. Specifically, purchases of listed shares reached £0,3 million,

while sales reached £0,8 million, compared with £0,3 million and £0,3 million, respectively, in the previous month.

Table 13

Investments by non-residents on the Cyprus Stock Exchange

(CYP thousand)

	2002 ⁽¹⁾	2003	2004					
	Dec.	Dec.	May	June	July	Aug.	Sep.	Oct.
Purchases	50	495	613	469	1.076	647	328	342
Sales	0	358	99	139	636	524	306	834
Net investments	50	137	514	330	440	123	22	-492

Source: Cyprus Stock Exchange

(1) The data for 2002 refer only to purchases and sales of shares not included in the dematerialisation process.

2.3 INFLATION

In October 2004, prices recorded an increase of 2,54% compared with 2,37% in the previous month and 4,09% in October 2003. As table 14 shows, the marginal acceleration of inflation in October compared with September, reflects the increase in the prices of agricultural products, as well as the small acceleration recorded by the prices of services. In contrast, the prices of industrial non-oil products and of fuel displayed a deceleration while a further reduction was recorded by electricity prices.

For the first ten months of the year, inflation reached 2,02% compared with 4,32% in the corresponding period of 2003. This deceleration reflects the dissipation of the impact of VAT increases that took place in July 2002 (from 10% to 13%) and January 2003 (from 13% to 15%). The large fall in car prices due to the reduction in excise taxes also contributed to the lower inflation rate. In contrast, the increase in the price of fuel increased inflation by 0,9 percentage units. A more detailed analysis of the developments on the inflation front by economic origin is given in tables 7 to 10 of the annex.

As table 14 shows, a noticeable development that took place in October 2004 was the increase in agricultural product prices, compared with the price falls of the previous month. In contrast, fuel prices decelerated and electricity prices fell by 2,46% compared with 0,50% in the previous month. So far, electricity prices have not been directly affected by the increase in the international price of crude oil as heavy oil constitutes the main input in electricity production, the price of which is not subject to significant fluctuations.

In addition, electricity prices have not been affected so far by the large increases in oil prices, due to the oil reserves maintained in previous months by the Cyprus Electricity Authority as well as the strengthening of the Cypriot currency against the dollar this year. Prices of industrial non-oil products also decelerated during October.

Prices of imported goods showed a further decline of 6,39% in October 2004, after a 5,92% reduction in September. In particular, the prices of motor vehicles fell by 14,76%, reflecting the reduction in excise taxes on various types of vehicles at the end of November 2003.

Finally, the prices of services increased by 3,44% in October 2004, compared with an increase of 3,22% in September 2004 and 4,56% in October 2003. This small acceleration in the prices of services is mainly attributed to the acceleration in prices in the health, education and other goods and services sectors.

Due to the dampening of the impact of tax measures implemented in 2003, and taking into consideration the significant reductions in the prices of motor vehicles as well as the steadily increasing price of crude oil, inflation in 2004 is anticipated to reach slightly above 2%.

This projection is based on the price analysis by economic origin, as presented above, and on the assumption that oil prices will remain at the same high level, for the rest of the year.

Table 14**Consumer price index by economic origin**

		2002	2003	October 2003/2002	September 2004/2003	October 2004/2003
	All items	2,81	4,14	4,09	2,37	2,54
A	Domestic goods	4,35	7,30	5,86	5,42	5,80
A.1	Agricultural	1,79	4,54	6,88	-2,09	1,75
A.2	Industrial	5,62	7,90	5,38	8,05	7,52
A.2.1	Industrial, non-oil	4,55	6,46	5,38	3,37	3,16
A.2.2	Fuel and gas	10,57	14,16	5,37	27,82	25,56
A.3	Electricity	-2,26	10,20	8,77	-0,50	-2,46
B	Imported goods	-1,69	-2,38	-0,46	-5,92	-6,39
B.1	Motor vehicles	-5,07	-8,31	-2,45	-14,68	-14,76
B.2	Other imported goods	0,85	1,81	0,84	-0,31	-1,08
C	Services	3,67	4,38	4,56	3,22	3,44

Source: Statistical Service of Cyprus (Cystat)

In 2005, inflation will greatly depend on the developments in the price of crude oil. Assuming that the price of oil is reduced slightly compared to its average price in 2004 and there is no significant change in the exchange rate, inflation is expected to be around 2,5%. This inflation forecast is also based on the assumption that there will be small acceleration in overall economic activity and that the prices of agricultural products will experience a normal upward trend of around 2,5%. It is noted, however, that this inflation forecast does not take into account any possible increase in the prices of public services.

For comparison purposes table 15 shows the latest available monthly data on inflation in Cyprus, the euro area and other industrial countries as well as forecasts for 2004.

Table 15**Inflation : Cyprus and other countries**

(annual percentage change in consumer prices)

	Inflation rate	month	forecast for 2004 ¹
Cyprus	2,5	October	2,2 ²
Euro area	2,4	October	2,1
USA	3,2	October	2,6
G.Britain	1,2	October	1,4
Germany	2,0	October	1,8
Italy	2,0	October	2,3
Denmark	1,7	October	1,2
France	2,1	October	2,3
Austria	2,6	October	1,7
Belgium	2,9	October	2,0
Spain	3,6	October	2,9
Sweden	0,8	October	0,7
Switzerland	1,3	October	0,7
Japan	0,0	September	-0,1
Canada	1,8	September	2,0

(1) Source: The Economist (20/11/04)

(2) Source: Central Bank of Cyprus

2.4 DOMESTIC ECONOMY

In 2004 the Cyprus economy exhibited signs of recovery despite the weak performance of tourism and the increase in the price of oil. In the first and second quarters of 2004, real GDP growth reached 3,6% and 4,1% respectively, compared with 1,9% and 1,2% respectively in the corresponding quarters of 2003. Tourist arrivals exhibited a rebound during the first ten months of 2004, compared with the corresponding period of 2003, even though in July and August tourist arrivals decreased significantly compared with last year. Tourism receipts up to September recorded a downturn. In the labour market, unemployment, as a percentage of the economically active population, reached 3,7% in the first ten months of 2004, compared with 3,4% in the corresponding period of 2003.

Production

In the services sector, tourist arrivals registered an increase of 2,9% in the first ten months of 2004, compared with a decrease of 6% in the same period of 2003. At the same time, receipts from tourism fell by 3,2% in the first nine months of 2004, compared with a reduction of 10,5% in the same period of 2003. It should be noted that in the first ten months of 2004, despite the increase in tourist arrivals and the increase in the consumer price index in the category of restaurants and hotels as well as the 8,9% increase in the usage of foreign bank credit cards, compared with the first ten months of last year, tourist receipts registered a decrease. This negative development possibly reflects the change in the purchasing attitude of tourists who are either buying tourist packages at the last minute and at lower prices or are staying at privately owned homes.

In the secondary sector, the overall picture is positive. Construction continued its positive path, with some signs of deceleration as regards building permits while manufacturing showed an upturn.

More specifically, the volume index of building permits, which mirrors the prospects for the construction sector in the following few months, increased by 27,6% in August 2004, compared with a decrease of 14,8% in the same month of 2003. For the first half of 2004, the volume index of building permits registered an increase of 11,6%, compared with an increase of 25,5% during the same period of 2003.

Local sales of cement increased by 16,1% in September 2004, compared with an increase of 16,1% in September 2003. For the first nine months of 2004, the sales of cement increased by 19,1%, compared with an increase of 9% in the same period of the previous year.

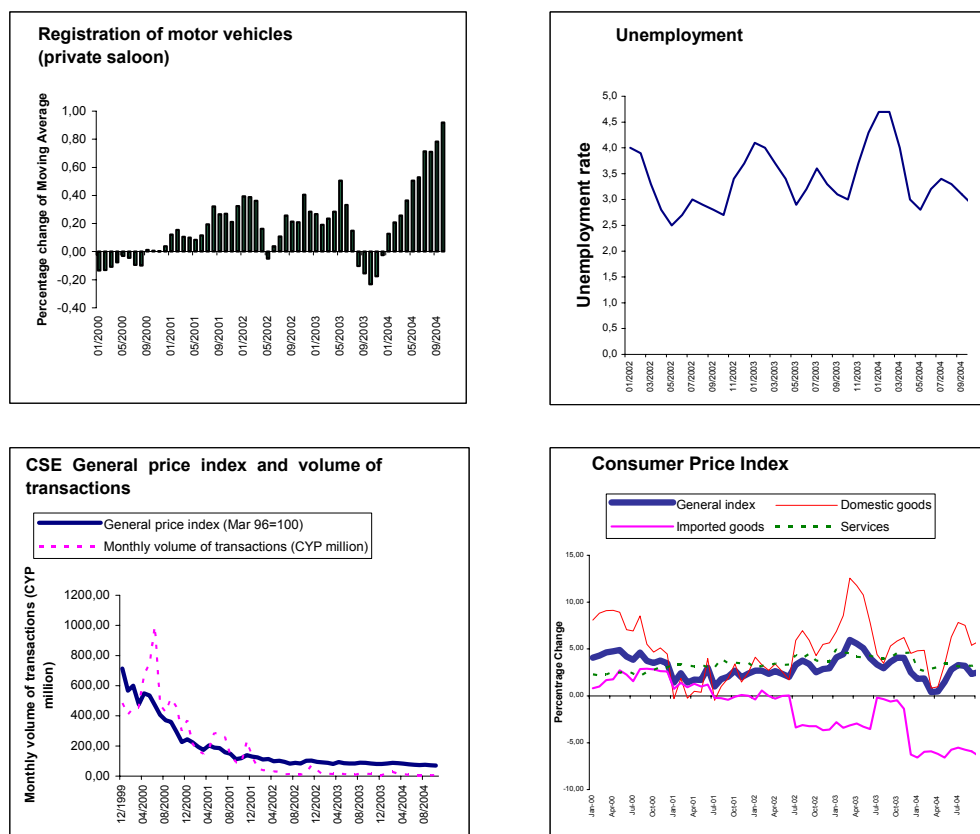
The volume index of manufacturing production rose by 0,1% in August 2004, compared with a decrease of 3,6% in the same month of 2003. For the first eight months of the year, the volume index of manufacturing production grew by 0,6%, compared with 0,4% in the corresponding period of 2003 (table 16). It is worth noting that according to monthly data published in the "Business and Consumer Survey Results" of the European Committee, the level of capacity utilization in the manufacturing sector, based on October's data, is expected to be reduced in the fourth quarter of the year.

Table 16**Manufacturing production volume index***(percentage change by category)*

	Aug. 03/02	Aug. 04/03	Jan.-Aug. 03/02	Jan.-Aug. 04/03
General index	-3,6	0,1	0,4	0,6
Food products, beverages & tobacco	-1,2	-0,2	-0,6	-0,2
Textiles & textile products	24,2	14,6	10,1	-8,6
Leather and leather products	-59,3	-41,2	-41,3	-22,5
Wood & wood products	55,1	-0,8	11,0	4,3
Paper, paper products, publishing & printing	-1,4	6,4	0,2	1,3
Refined petroleum products	2,5	-97,0	-5,9	-57,1
Chemicals, chemical products and man-made fibres	-11,1	26,0	-3,6	7,3
Rubber and plastic products	-10,8	13,9	-3,2	0,6
Other non-metallic mineral products	-7,7	-12,8	7,7	5,2
Basic metals & fabricated metal products	3,0	7,3	-2,3	2,0
Machinery and equipment n.e.c.	5,1	-0,3	-13,8	3,5
Electrical & optical equipment	-34,9	-3,9	-17,7	-7,9
Transport equipment	-51,4	-2,4	9,3	-10,0
Manufacturing n.e.c.	34,9	4,6	9,9	4,4

Source: Cystat

Graph 7



Consumption

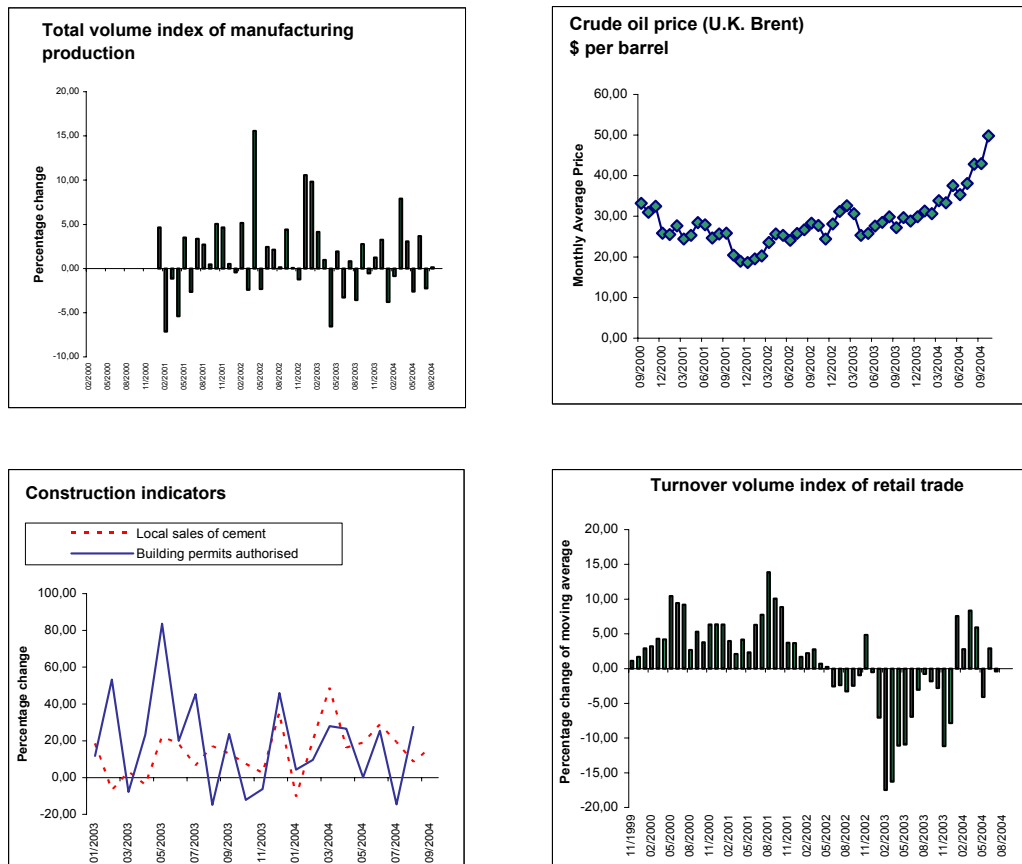
The turnover volume index or retail trade, which has replaced the volume index of retail trade (the new index which does not include the sales of cars and fuel), registered a fall of 0.4% in July 2004, while for the first seven months of the year it displayed an increase of 3%. As far as the purchasing intentions of Cypriot consumers are concerned for the next six months, there are positive indications

according to the “Business and Consumer Survey Results” of the European Committee. More specifically, these intentions are positive for July, August, September and October of the current year.

Table 17**Turnover volume index of retail trade***(percentage change by category)*

	July 04/03	Jan.-July 04/03
General index	-0,41	2,97
Retail sale in non-specialised stores with food, beverages or tobacco predominating	-0,09	0,14
Other retail sale in non-specialised stores	5,49	2,34
Retail sale of food, beverages and tobacco in specialised stores	3,64	3,54
Retail sale of pharmaceutical and medical goods, cosmetics and toilet articles	19,90	8,11
Retail sale of textiles, clothing, footwear and leather goods	1,38	12,51
Retail sale of furniture, lighting equipment and household articles, electrical household appliances and radio and television goods hardware, paints and glass	11,50	13,04
Retail sale of books, newspapers and stationery and other retail sale in specialised stores	-18,09	-6,92
Retail sale of second-hand goods in stores	-10,04	-3,12
Retail sale of in stores	-12,80	-10,11

*Source: Cystat**Note.: A comparison between 2003 and 2002 could not be made as revised figures for 2002 have not been calculated yet.*

Graph 8

Private saloon car registrations, which provide another important indicator of consumer expenditure behaviour, exhibited sizeable increases following the reduction in excise taxes last November.

More specifically, for the first ten months of 2004, car registrations increased by 47,5% compared with an increase of 12% during the same period of the previous year.

Confidence Indicators

Chart 9 tracks the movement of confidence indicators for the Cyprus economy since May 2001, when the European Commission first started publishing them⁶. The trends in these indicators are generally consistent with the overall picture of the Cypriot economy presented in this report. In particular, despite its fluctuations, the construction confidence indicator registered an overall positive trend in 2004. This development is consistent with the positive performance of the construction sector as deflected by the volume index of building permits and cement sales.

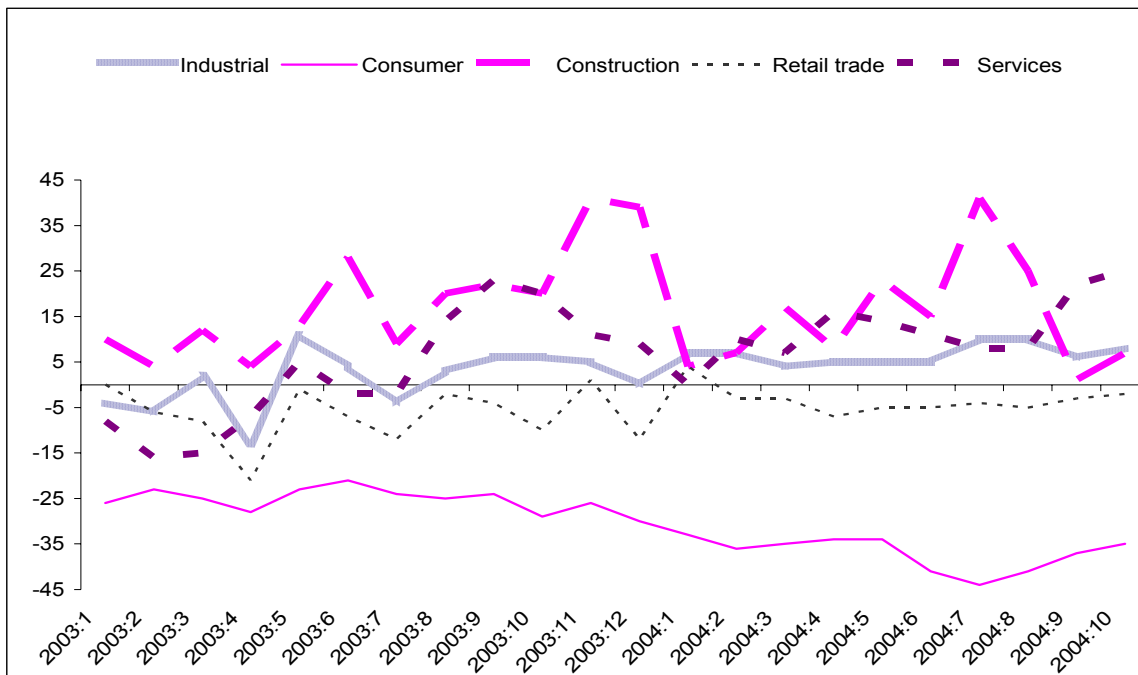
The down trend observed in the services confidence indicator from May to August 2004, rebounded in September and October, reflecting the positive signs in tourism after August.

The consumer confidence indicator followed a negative path until October 2004, which is not in line with the acceleration in retail sales and the performance of other indicators of economic activity. The retail sales confidence indicator followed a negative path during the first ten months of 2004, with the exception of January. Finally, the industrial confidence indicator registered fluctuations in the first ten months of 2004, while its overall movement was positive.

6. The European Commission publishes monthly confidence indicators for consumer, industry, construction and retail trade in the European Union member states and in the accession countries. The released data refer to the end of each month and are based on surveys conducted by the national statistics institutes and harmonised by the European Commission.

Graph 9**Confidence indicators***(seasonally adjusted, end of month)*

	Industrial	Consumer	Construction	Retail trade	Services
2003:1	-4	-26	10	0	-8
2003:2	-6	-23	4	-6	-16
2003:3	2	-25	12	-8	-15
2003:4	-13	-28	4	-21	-7
2003:5	11	-23	13	-1	5
2003:6	4	-21	28	-7	-2
2003:7	-4	-24	9	-12	-2
2003:8	3	-25	20	-2	14
2003:9	6	-24	22	-4	23
2003:10	6	-29	20	-10	20
2003:11	5	-26	41	1	11
2003:12	0	-30	39	-12	9
2004:1	7	-33	4	4	0
2004:2	7	-36	7	-3	10
2004:3	4	-35	17	-3	7
2004:4	5	-34	8	-7	16
2004:5	5	-34	23	-5	14
2004:6	5	-41	15	-5	11
2004:7	10	-44	41	-4	8
2004:8	10	-41	25	-5	8
2004:9	6	-37	1	-3	22
2004:10	8	-35	7	-2	25



Source: European Commission

Labour market

According to the latest available data unemployment increased by 0,3% in October 2004. The unemployment rate, as a percentage of the economically active population, fluctuated around 2,9% compared with 3% in the corresponding month of the previous year. For the first ten months of 2004, the number of registered unemployed increased by 3,7% compared with an increase of 13% in the same period of 2003. The unemployment rate rose to 3,5% from 3,4% in the corresponding period of 2003.

Public finances

It should be noted that the quarterly data for the first three quarters of the general government consolidated accounts prepared by Cystat will be officially announced at the beginning of December 2004. Because of this, the analysis below refers only to the first two quarters of the year.

In accordance with the preliminary data of the government consolidated accounts issued by the Ministry of Finance and covering the period from 1 January until 30 June 2004, public revenue increased to £1.283,1, public expenditure reached £1.371,1 and the fiscal deficit increased to £88 million, or 1,2% of GDP.

It should be clarified that the above figures refer to the accounts of the general government which include the accounts of central government as these are defined in the government budget, as well as a number of semi-governmental organisations, a number of funds that are not covered by the

Governmentbudget, local authorities and the social securities funds.

At present, no comparison can be made with the first half of 2003 as the figures for the general government for this period have not been published by Cystat. Table 18 shows the figures for the General Government for both quarters of 2004.

Despite the noted reduction in the fiscal deficit, this improved performance may reverse in the second half of 2004, as the loss of income, mainly import duties, due to Cyprus's accession to the EU will be reflected in the second half of 2004, while some of the expenditure will accelerate during the second half of 2004.

Against the background of a revised target set in the convergence criteria announced by the Minister of Finance during his speech in Parliament on 25 November 2004, the fiscal deficit of the general government is expected to be reduced to 4,8% of GDP during 2004, with a further reduction 2,9% of GDP in 2005. In accordance with the projection made by the Ministry of Finance, public debt is expected to reach 74,9% of GDP and 71,9% of GDP for the years 2004 and 2005, respectively. It is becoming increasingly more important to achieve real and nominal convergence in accordance with the stipulated Maastricht criteria, and more specifically to reverse the existing fiscal imbalances.

Cyprus continues not to satisfy the nominal convergence criteria as stipulated by the Maastricht Treaty, while on 1 May 2004, the Excessive Deficit Procedure was initiated in the

context of the established procedures of the
European Council, the Economic and Financial

Committee, as well as ECOFIN.

Table 18

Accounts of general government (analysis of expenditure and revenue)

	Jan.-Mar. 2004	Apr. - June 2004	Jan. - June 2004
	<i>(In million CY pounds)</i>		
EXPENDITURE			
Intermediate consumption	52,7	73,5	126,2
Capital formation	30,4	49,9	80,3
Compensation of employees	251,8	260,6	512,4
Other taxes on production	0,1	0,0	0,1
Subsidies	12,4	15,9	28,3
Interest paid	101,5	9,0	110,5
Social benefits	158,3	217,3	375,6
Other current transfers	39,9	71,7	111,6
Capital transfers	10,2	15,9	26,1
Total expenditure	657,3	713,8	1371,1
REVENUE			
Market output & output for own final use	48,6	43,8	92,4
Taxes on production and imports	272,6	280,1	552,7
<i>of which VAT</i>	<i>163,2</i>	<i>149,7</i>	<i>312,9</i>
Property income	1,3	17,1	18,4
Current taxes on income, wealth, etc	144,3	136,9	281,2
Social contributions	128,2	149,6	277,8
Other current transfers	12,1	28,9	41,0
Capital transfers	1,3	18,3	19,6
Total revenue	608,4	674,7	1283,1
Surplus (+) / Deficit (-)	-48,9	-39,1	-88,0

Source: Cystat

2.5 EXTERNAL TRANSACTIONS

Goods

An overview of the trade balance for the first eight months of 2004 is given in table 19 .The data is provisional.

It should be noted that from May 2004 the collection of data, which refers to trade with EU countries (intra-EU) has been produced using a new methodology introduced by Eurostat. For this reason and until this method is improved, data will only be available for total imports and exports without the breakdowns.

Total imports rebounded in the first eight months of 2004, with an increase of 16,9% compared with a decrease of 8,1% in the same period of the previous year. This increase is partly due to the recovery of the Cyprus economy, and partly as a result of the significant increase in the imports of cars following the reduction in excise taxes in November 2003.

Turning to exports, provisional data indicate a marginal 0,9% decrease in the first eight months, compared with a decrease of 6,2% in the same period of 2003.

These developments, led to a crude trade deficit of £1.440,6 million in the first eight months of 2004, compared with £1182,2 million in the same period of 2003.

It should be noted that the increase of imports in the first eight months of 2004, was mainly registered in April 2004. More specifically total imports increased by 54% in April 2004 compared with April 2003. This was mainly attributed to the negative rumors that were circulating regarding the value of the Cyprus pound, forcing importers to pay in full for goods imported prior to a possible devaluation of the Cyprus pound. Another factor effecting imports was the forthcoming referendum of 24 April which also lead to uncertainties as regards the value of the Cyprus pound.

Table 19**Trade balance data***(Cyprus Pounds in millions)*

Period	TOTAL TRADE		EXTRA-EU TRADE		INTRA-EU TRADE	
	Total Imports/ Arrivals (cif)	Total Exports/ Dispatches (fob)	Total Imports (cif)	Total Exports (fob)	Arrivals (cif)	Dispatches (fob)
2000	2.401.950	591.864	1.140.885	364.466	1.261.065	227.398
2001	2.528.720	627.910	1.208.750	376.488	1.319.970	251.422
2002	2.486.612	511.277	1.140.858	240.919	1.345.754	270.358
2003						
January	170.464	31.737	74.516	11.869	95.952	19.868
February	150.176	37.112	57.045	15.137	93.128	21.975
March	214.836	44.146	99.893	16.929	114.940	27.217
April	205.135	40.228	86.781	17.622	118.351	22.606
May	195.240	46.547	83.208	18.474	112.028	28.073
June	182.106	45.954	76.875	20.483	105.228	25.471
July	242.434	49.198	119.340	17.287	123.090	31.911
August	147.935	31.163	62.920	13.844	85.013	17.319
September	197.280	43.227	90.950	20.658	106.328	22.569
October	199.871	40.557	81.321	16.067	118.547	24.490
November	189.588	32.558	73.067	14.379	116.503	18.179
December	209.017	34.372	86.865	15.570	122.149	18.802
2004						
January	176.934	29.041	85.689	12.715	91.243	16.326
February	159.384	33.525	60.702	13.029	98.680	20.496
March	241.688	49.479	97.701	16.892	143.986	32.587
April	316.788	45.418	138.609	15.303	178.179	30.115
May	197.920	57.265	47.412	12.488	150.508	44.777
June	239.936	43.797	71.170	14.923	168.766	28.874
July	232.394	40.291	67.921	15.095	164.473	25.196
August*	198.703	24.358	65.732	10.100	132.971	14.258
Jan. - Aug. 2003	1.508.326	326.085	660.578	131.645	847.730	194.440
Jan. - Aug.* 2004	1.763.747	323.174	634.936	110.545	1.128.806	212.629
% Change 2004/2003	16,93	-0,89	-3,88	-16,03	33,16	9,35

* Provisional

Note: Care should be taken when comparing data for May 2004 onwards with pre-May 2004 data due to methodological changes resulting from the accession to EU.

Data are not strictly comparable since data prior to May 2004 for intra-EU and extra-EU trade on arrivals/imports are recorded by country of origin while for dispatches/exports by country of final destination, whereas data for May 2004 onwards for intra-EU trade on arrivals are recorded by country of consignment and on dispatches by country of dispatch.

Intra-EU trade refers to trade with EU 25 Member States, while extra-EU trade refers to trade with third countries.

Arrivals denote goods within the European Union which enter the statistical territory of Cyprus and "Dispatches" denote goods which leave the statistical territory of Cyprus to enter another Member State.

Data on countries and territories not specified and stores and provisions prior to May 2004 are included in extra-EU trade.

Because of rounding there may be slight discrepancies between the totals shown and the sum of constituent items.

Tourism

Tourist arrivals fell by 2,6% in October (table 20). For the first ten months of 2004, an increase of 2,9% was recorded in comparison with a decrease of 6% for the same period of the previous year. Tourism receipts recorded a downturn of the order of 5,3% in September. In the first nine months of 2004, they fell by 3,2% compared with a fall of 10,5% in same period of the previous year. The 2,9% increase in tourist arrivals combined with the significant decrease in tourist revenue, indicates that there has been a decrease in the per capita spending of tourists.

Balance of payments prospects

Table 13 shows data relating to the balance of payments for the first six months of 2004. This data was collected from the banking system by the Statistical Department of the Central Bank of Cyprus and reveals a widening of £120 million in the current account deficit compared with the corresponding period of 2003. This is due to the increase in the imports of goods.

In general, the observed rise in private consumption, reflected by an increase in imports, is in contrast to the negative performance in tourism. Coupled with the increase in the price of oil in the international markets, especially in the second half of the year, this has had negative affects on the balance of payments. Bearing in mind the above, and the performance of the economy, it is expected that the balance of payments deficit will be widened further compared.

Table 20**Tourist arrivals⁽¹⁾***(number of persons)*

	2000	2001	2002	2003	2004	% change 2002/2001	% change 2003/2002	% change 2004/2003
January	63.553	64.214	54.067	59.529	56.504	-15,8	10,1	-5,1
February	87.243	83.569	71.950	77.972	75.705	-13,9	8,4	-2,9
March	135.487	137.578	138.625	91.634	111.946	0,8	-33,9	22,2
April	221.785	237.228	180.481	169.891	191.251	-23,9	-5,9	12,6
May	299.355	324.901	279.070	231.527	261.646	8,5	-17,0	13,0
June	302.011	322.835	293.192	262.100	264.799	6,9	-10,6	1,0
July	362.299	373.385	327.404	318.143	305.978	3,1	-2,8	-3,8
August	356.686	371.536	301.724	325.390	305.926	4,2	7,8	-6,0
September	329.964	329.400	306.731	287.358	303.506	-0,2	-6,3	5,6
October	300.597	269.744	275.840	271.980	278.976	-10,3	-1,4	
November	133.500	107.454	111.327	123.800		-19,5	11,2	
December	93.722	74.887	77.822	83.919		-20,1	7,8	
Jan. - Oct.	2.458.980	2.514.390	2.229.084	2.095.524	2.156.237	-11,3	-6,0	2,9
Jan. - Dec.	2.686.202	2.696.731	2.418.233	2.303.243		-10,3	-4,8	

*Source: Cystat**(1) Arrivals of same - day visitors are not included***Table 21****Receipts from tourism⁽¹⁾***(Cyprus pounds in millions)*

	2000	2001	2002	2003	2004	% change 2003/2002	% change 2004/2003
January		24,9	21,6	25,6	21,8	18,8	-15,0
February		29,1	28,9	31,4	25,4	8,9	-19,1
March		49,7	59,2	37,8	42,1	-36,1	11,2
April		89,9	77,0	67,1	72,1	-12,9	7,4
May		139,1	119,5	92,5	99,5	-22,6	7,6
June	122,9	157,4	139,3	114,8	109,3	-17,6	-4,8
July	162,7	192,0	160,7	152,4	135,1	-5,2	-11,4
August	173,7	205,0	153,8	165,3	148,1	7,5	-10,4
September	161,9	176,3	157,4	134,1	141,2	-14,8	5,3
October	135,1	130,2	128,0	112,4		-12,2	
November	54,1	48,8	51,4	48,7		-5,3	
December	36,2	29,2	35,6	32,9		-7,6	
Jan. - Sept.		1.063,4	917,4	821,1	794,5	-10,5	-3,2
Jan. - Dec.		1.271,6	1.132,4	1.015,1		-10,4	

*Source: Cystat**(1) Receipts from same - day visitors are not included*

3. ANNEX

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

Date of monetary policy decision		Deposit facility	Open market operations			Marginal lending facility
			Main refinancing operations	Liquidity absorbing operations		
				Repo operations	Reverse repo operations	
			Minimum bid rate	Maximum bid rate	Maximum bid rate	
2001	10 Aug.	3,50		5,00		6,50
	18 Sep.	3,00		4,50		6,00
	02 Nov.	2,50	4,00	4,00	4,00	5,50
2002	13 Dec.	2,50	3,75	3,75	3,75	5,00
2003	04 Apr.	2,50	3,50	3,50	3,50	4,50
2004	30 Apr.	3,50	4,50	4,50	4,50	5,50

*Source: Central Bank of Cyprus***Table 2****Open market operations allotted through tenders****Liquidity absorbing operations⁽¹⁾***(Cyprus pounds millions, interest rates in percentages per annum)*

Date of settlement		Bids (amount)	Allotment (amount)	Variable rate tenders				Running for (...) days
				Maximum bid rate	Weighted average allotment rate	Minimum allotment rate	Maximum allotment rate	
2004	05 Jan.	200,0	180,0	3,50	3,38	3,25	3,45	10
	15 Jan.	263,5	200,0	3,50	3,37	3,27	3,44	6
	22 Jan.	169,8	169,8	3,50	3,31	3,24	3,43	7
	29 Jan.	177,5	160,0	3,50	3,47	3,36	3,50	14
	12 Feb.	198,0	170,0	3,50	3,47	3,41	3,50	14
	26 Feb.	202,0	190,0	3,50	3,47	3,41	3,50	14
	11 Mar.	201,0	150,0	3,50	3,47	3,42	3,50	7
	18 Mar.	165,0	100,0	3,50	3,37	3,33	3,39	15
	02 Apr.	164,0	100,0	3,50	3,31	3,29	3,50	13
	15 Apr.	152,0	100,0	3,50	3,29	3,29	3,29	14
	08 Jul.	125,5	70,0	4,50	4,45	4,44	4,46	7
	15 Jul.	79,0	79,0	4,50	4,34	4,32	4,47	14
	29 Jul.	122,0	100,0	4,50	4,39	4,33	4,43	14
	12 Aug.	182,5	180,0	4,50	4,37	4,32	4,43	14
	26 Aug.	209,0	180,0	4,50	4,29	4,14	4,41	14
	09 Sept.	256,0	200,0	4,50	4,28	4,24	4,48	14
	23 Sept.	121,0	80,0	4,50	4,17	4,14	4,19	14
	07 Oct.	146,0	120,0	4,50	4,21	4,09	4,29	14
	21 Oct.	163,0	145,0	4,50	4,21	4,10	4,27	14
	04 Nov.	147,0	145,0	4,50	4,25	4,14	4,31	14

*Source: Central Bank of Cyprus**(1) Since 9 October 2001, open market operations for the absorption of liquidity are conducted through auctions for the acceptance of deposits (depos).*

Table 3**Money market interest rates***(percentages per annum, period averages)*

		Cyprus					Euro area				
		Overnight deposits	2-7 days deposits	1-month deposits	1-6 months deposits	6-12 months deposits	Overnight deposits	1-month deposits	3-month deposits	6-month deposits	12-month deposits
2003	Oct.	3,18	3,42	3,56	3,58	3,90	2,01	2,10	2,14	2,17	2,30
	Nov.	3,34	3,54	3,55	3,70	4,00	1,97	2,09	2,16	2,22	2,41
	Dec.	3,31	3,60	3,50	3,65	-	2,06	2,13	2,15	2,20	2,38
2004	Jan.	3,10	-	3,52	-	3,25	2,02	2,08	2,09	2,12	2,22
	Feb.	3,03	-	3,57	3,86	4,18	2,03	2,06	2,07	2,09	2,16
	Mar.	3,21	3,18	3,58	3,85	4,17	2,01	2,04	2,03	2,02	2,06
	Apr.	3,25	3,44	3,46	-	4,25	2,08	2,05	2,05	2,06	2,16
	May	4,73	4,51	4,91	5,08	4,88	2,02	2,06	2,09	2,14	2,30
	June	4,22	4,41	4,67	5,20	5,20	2,03	2,08	2,11	2,19	2,40
	July	4,15	4,42	5,15	-	5,20	2,07	2,08	2,12	2,19	2,36
	Aug.	4,16	4,30	5,15	5,25	-	2,04	2,08	2,11	2,17	2,30
	Sep.	4,11	4,50	4,70	5,33	5,50	2,05	2,08	2,12	2,20	2,38
	Oct.	4,10	-	4,75	-	-	2,11	2,09	2,15	2,19	2,32

Sources: Central Bank of Cyprus and European Central Bank

Table 4**Bank interest rates** ^{(1), (2)}*(percentages per annum)*

	Lending rates					Deposit rates		
	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
2002 Oct.	7,15	7,33	7,90	7,21	10,50	0,84	4,37	4,88
Nov.	7,15	7,33	7,90	7,21	10,50	0,83	4,40	4,84
Dec.	6,98	6,88	7,52	6,78	10,33	0,66	3,80	4,56
2003 Jan.	7,40	7,32	7,70	6,78	10,50	0,71	3,85	4,43
Feb.	7,22	7,21	7,70	6,78	10,50	0,65	3,84	4,40
Mar.	7,23	7,22	7,70	6,78	10,50	0,68	3,85	4,37
Apr.	6,77	6,74	7,13	6,18	10,50	0,45	3,33	3,68
May	6,66	6,68	7,10	6,18	10,50	0,45	3,34	3,64
June	6,76	6,72	7,20	6,18	10,50	0,45	3,33	3,60
July	6,97	6,98	7,40	6,30	10,50	0,42	3,34	3,57
Aug.	6,92	6,90	7,40	6,30	10,50	0,40	3,34	3,55
Sep.	6,92	6,90	7,40	6,30	10,50	0,46	3,34	3,52
Oct.	6,92	6,90	7,53	6,30	10,50	0,44	3,35	3,50
Nov.	6,92	6,90	7,53	6,30	10,50	0,42	3,35	3,48
Dec.	6,92	6,90	7,53	6,30	10,50	0,44	3,35	3,45
2004 Jan.	6,92	6,90	7,53	6,30	10,50	0,44	3,35	3,43
Feb.	6,92	6,90	7,53	6,30	10,50	0,45	3,35	3,42
Mar.	6,92	6,90	7,53	6,30	10,50	0,44	3,35	3,43
Apr.	6,92	6,90	7,53	6,30	10,50	0,42	3,35	3,40
May	7,92	7,90	8,53	7,30	11,50	0,69	4,41	3,88
June	7,92	7,90	8,53	7,30	11,50	0,66	4,42	4,04
July	7,92	7,90	8,53	7,30	11,50	0,66	4,43	4,08
Aug.	7,92	7,90	8,53	7,30	11,50	0,67	4,61	4,11
Sep.	7,83	7,85	8,55	7,30	11,50	0,66	4,44	4,14
Oct.	7,92	7,92	8,55	7,30	11,50	0,66	4,44	4,18

*(1) Reported as end of month.**(2) Data refer to the average of the representative interest rates as defined by the three largest banks.*

Table 5**European Monetary Financial Institutions (MFI) interest rates***(percentages per annum, outstanding amounts as end-of-period)***1. Interest rates on euro-denominated deposits by euro area residents**

	Deposits from households					Deposits from non-financial corporations		
	Overnight	With agreed maturity		Redeemable at notice ⁽¹⁾		Overnight	With agreed maturity	
		Up to 2 years	Over 2 years	Up to 3 months	Over 3 months		Up to 2 years	Over 2 years
2003 Sep.	0,69	2,01	3,44	2,00	2,85	0,87	2,23	4,32
Oct.	0,69	1,97	3,47	2,05	2,73	0,88	2,12	4,33
Nov.	0,70	1,98	3,44	2,01	2,70	0,87	2,13	4,43
Dec.	0,69	1,97	3,54	2,02	2,68	0,86	2,14	4,25
2004 Jan.	0,69	1,94	3,36	2,03	2,65	0,93	2,09	4,28
Feb.	0,69	1,93	3,42	2,02	2,63	0,86	2,09	4,22
Mar.	0,70	1,92	3,32	2,00	2,59	0,86	2,08	4,17
Apr.	0,70	1,90	3,35	2,02	2,57	0,85	2,09	4,17
May	0,70	1,89	3,28	2,00	2,55	0,86	2,07	4,15
June	0,70	1,89	3,27	2,00	2,55	0,87	2,09	4,11
July	0,70	1,89	3,25	1,99	2,55	0,86	2,10	4,10
Aug.	0,71	1,89	3,22	2,00	2,53	0,87	2,13	4,02

2. Interest rates on euro-denominated loans by euro area residents

	Loans to households						Loans to non-financial corporations		
	Lending for house purchase, with maturity			Consumer credit and other loans, with maturity			With maturity		
	Up to 1 year	Over 1 and up to 5 years	Over 5 years	Up to 1 year	Over 1 and up to 5 years	Over 5 years	Up to 1 year	Over 1 and up to 5 years	Over 5 years
2003 Sep.	5,00	4,95	5,24	8,30	7,27	6,00	4,55	4,20	4,75
Oct.	5,00	4,92	5,20	8,13	7,13	5,84	4,56	4,12	4,71
Nov.	4,97	4,90	5,17	7,98	7,09	5,82	4,52	4,18	4,67
Dec.	5,09	4,88	5,14	8,04	7,05	6,00	4,56	4,23	4,66
2004 Jan.	5,05	4,89	5,11	8,15	7,02	5,92	4,58	4,07	4,56
Feb.	5,01	4,91	5,11	8,13	7,16	5,95	4,62	4,06	4,58
Mar.	4,98	4,82	5,03	8,05	7,17	5,89	4,56	3,96	4,61
Apr.	4,90	4,75	5,01	8,03	7,08	5,85	4,51	3,91	4,59
May	4,89	4,72	4,99	7,99	7,04	5,82	4,50	3,87	4,55
June	4,87	4,69	4,97	7,93	6,99	5,80	4,47	3,89	4,53
July	4,90	4,63	4,94	7,94	6,98	5,76	4,48	3,88	4,50
Aug.	4,88	4,58	4,91	7,94	6,95	5,77	4,46	3,85	4,48

Source: European Central Bank

(1) For this instrument category, households and non-financial corporations are merged and allocated to the household sector, since the outstanding amounts of non-financial corporations are negligible compared with those of the household sector in all participating Member States combined.

Table 6**Interest rate announcements in 2004**

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
European Central Bank ⁽¹⁾	8 2,00	5 2,00	4 2,00	1 2,00	6 2,00	3 2,00	1 2,00	5 2,00	2 2,00	7 2,00	4 2,00	2
Bank of England ⁽²⁾	8 3,75	5 4,00	4 4,00	8 4,00	6 4,25	10 4,50	8 4,50	5 4,75	9 4,75	7 4,75	4 4,75	9
Federal Reserve ⁽³⁾	27/28 1,00		16 1,00		4 1,00	29/30 1,25		10 1,50	21 1,75		10 2,00	14
Central Bank of Cyprus ⁽⁴⁾	16 4,50	27 4,50		7 4,50		4 5,50	9 5,50		3 5,50	11 5,50		3
				30 5,50								

(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 (%)
2002 - 2004

			Quarterly			Oct. 2003/ 2002	Sept. 2004/ 2003	Oct. 2004/ 2003	Jan.- Oct. 2003/ 2002	Jan.- Sept. 2004/ 2003	Jan.- Oct. 2004/ 2003	Weights 1998=100
	2002	2003	2004 I	2004 II	2004 III							
GENERAL INDEX	2,81	4,14	1,35	1,59	2,95	4,09	2,37	2,54	4,32	1,96	2,02	100,00
A LOCAL GOODS	4,35	7,30	3,51	3,53	6,92	5,86	5,42	5,80	7,70	4,61	4,73	36,69
A.1 Agricultural	1,79	4,54	0,88	3,14	5,04	6,88	-2,09	1,75	4,34	2,77	2,67	7,93
A.2 Industrial	5,62	7,90	4,78	4,53	8,05	5,38	8,05	7,52	8,40	5,76	5,94	27,24
A.2.1 industrial non-petroleum	4,55	6,46	3,24	3,12	3,79	5,38	3,37	3,16	6,72	3,38	3,36	22,91
A.2.2 fuel and gas	10,57	14,16	11,17	10,33	25,71	5,37	27,82	25,56	15,79	15,36	16,40	4,33
A.3 Electricity	-2,26	10,20	-2,92	-5,93	-0,66	8,77	-0,50	-2,46	11,94	-4,04	-3,88	1,52
B IMPORTED GOODS	-1,69	-2,38	-6,15	-6,18	-5,72	-0,46	-5,92	-6,39	-2,10	-6,02	-6,06	22,20
B.1 Motor Vehicles	-5,07	-8,31	-15,75	-14,90	-14,38	-2,45	-14,68	-14,76	-7,82	-15,01	-14,99	9,43
B.2 Other Imported	0,85	1,81	0,15	-0,58	-0,08	0,84	-0,31	-1,08	2,01	-0,17	-0,26	12,77
C SERVICES	3,67	4,38	2,81	3,31	3,20	4,56	3,22	3,44	4,33	3,11	3,14	41,11
HICP	2,8	4,0	1,0	1,2	2,5	3,7	1,8	2,0	4,2	1,6	1,6	
Core inflation	2,5	2,5	2,2	2,4	2,6	2,6	2,4	2,6	2,5	2,4	2,4	
Euro area inflation	2,3	2,1	1,7	2,3	2,3	2,0	2,2		2,1	2,1		

Source : Cystat

Table 8

Weighted contribution to the total change in the consumer price index by economic origin (%)
2002 - 2004

			Quarterly			Oct.	Sept.	Oct.	Jan.-	Jan.-	Jan.-	Weights
	2002	2003	2004 I	2004 II	2004 III	2003/ 2002	2004/ 2003	2004/ 2003	Oct. 2003/ 2002	Sept. 2004/ 2003	Oct. 2004/ 2003	
GENERAL INDEX	2,81	4,14	1,36	1,59	2,95	4,09	2,37	2,54	4,32	1,96	2,02	100,00
A LOCAL GOODS	1,64	2,79	1,36	1,39	2,68	2,28	2,13	2,30	2,93	1,81	1,86	36,69
A.1 Agricultural	0,15	0,37	0,06	0,25	0,38	0,54	-0,18	0,14	0,36	0,23	0,22	7,93
A.2 Industrial	1,53	2,22	1,36	1,32	2,31	1,56	2,31	2,21	2,34	1,66	1,72	27,24
A.2.1 industrial non-petroleum	1,02	1,47	0,74	0,73	0,87	1,26	0,78	0,75	1,52	0,78	0,78	22,91
A.2.2 fuel and gas	0,51	0,74	0,62	0,59	1,43	0,30	1,53	1,46	0,81	0,88	0,94	4,33
A.3 Electricity	-0,05	0,20	-0,06	-0,18	-0,01	0,18	-0,01	-0,05	0,23	-0,08	-0,08	1,52
B IMPORTED GOODS	-0,35	-0,48	-1,18	-1,17	-1,08	-0,09	-1,11	-1,19	-0,42	-1,14	-1,15	22,20
B.1 Motor Vehicles	-0,46	-0,69	-1,19	-1,10	-1,07	-0,19	-1,07	-1,07	-0,66	-1,12	-1,12	9,43
B.2 Other Imported	0,10	0,21	0,02	-0,07	-0,01	0,10	-0,03	-0,12	0,24	-0,02	-0,03	12,77
C SERVICES	1,52	1,83	1,17	1,37	1,36	1,89	1,35	1,44	1,81	1,30	1,31	41,11

Source: Cystat

Table 9

Percentage change in the consumer price index by category of goods and services (%)
2002 - 2004

	Yearly		Quarterly			Oct. 2003/ 2002	Sept. 2004/ 2003	Oct. 2004/ 2003	Jan.- Oct. 2003/ 2002	Jan.- Sept. 2004/ 2003	Jan.- Oct. 2004/ 2003	Weights 1998=100
	2002	2003	2004 I	2004 II	2004 III							
GENERAL INDEX	2,81	4,14	1,35	1,59	2,96	4,09	2,37	2,54	4,32	1,96	2,02	100,00
Food & non-alcoholic beverages	4,58	5,11	3,11	3,73	4,93	5,51	1,76	3,05	5,11	3,88	3,79	18,20
Alcoholic beverages & tobacco	13,32	24,22	13,36	13,09	13,60	25,17	13,92	2,52	24,22	13,35	12,27	1,78
Clothing and footwear	-3,46	1,19	-2,11	-1,71	-0,61	1,20	-2,23	1,43	1,14	-1,48	-1,19	8,22
Housing, water, electricity and gas	4,08	5,04	3,79	2,85	4,86	4,75	5,33	4,92	5,19	3,83	3,94	21,27
Furnishings, household equipment and supplies	0,81	3,59	-0,37	-0,88	-0,80	1,40	-0,55	-0,12	4,06	-0,68	-0,63	7,08
Health	4,70	5,66	3,63	4,39	3,02	5,39	3,23	3,34	5,73	3,68	3,65	4,92
Transport	0,39	0,35	-6,41	-5,04	-1,49	0,80	-1,45	-1,42	1,04	-4,31	-4,02	17,42
Communication	-8,81	-7,16	-5,05	-8,61	-9,37	4,18	-11,28	-11,11	-9,12	-7,68	-8,02	1,79
Recreation & culture	2,20	3,55	1,59	1,53	3,00	2,85	3,01	2,82	3,70	2,04	2,12	5,88
Education	5,71	4,02	3,25	3,25	3,83	3,34	5,00	5,32	4,18	3,44	3,63	2,33
Restaurants & hotels	3,97	5,31	3,62	4,57	5,21	4,60	5,18	5,14	5,46	4,47	4,53	6,07
Miscellaneous goods and services	5,49	5,50	4,81	6,34	4,59	4,11	4,42	4,80	5,69	5,25	5,20	5,04

Source: Cystat

Table 10

Weighted contribution to the total change in the consumer price index by category of goods and services (%)
2002 - 2004

	Yearly		Quarterly			Oct. 2003/ 2002	Sept. 2004/ 2003	Oct. 2004/ 2003	Jan.- Oct. 2003/ 2002	Jan.- Sept. 2004/ 2003	Jan.- Oct. 2004/ 2003	Weights 1998=100
	2002	2003	2004 I	2004 II	2004 III							
GENERAL INDEX	2,81	4,14	1,35	1,59	2,96	4,09	2,37	2,54	4,32	1,96	2,02	100,00
Food & non-alcoholic beverages	0,86	0,97	0,60	0,71	0,94	1,04	0,34	0,58	0,97	0,74	0,73	18,20
Alcoholic beverages & tobacco	0,27	0,54	0,35	0,34	0,36	0,60	0,36	0,07	0,54	0,35	0,32	1,78
Clothing and footwear	-0,25	0,08	-0,13	-0,12	-0,04	0,09	-0,15	0,10	0,08	-0,10	-0,08	8,22
Housing, water, electricity and gas	0,88	1,10	0,84	0,63	1,08	1,04	1,17	1,08	1,14	0,85	0,87	21,27
Furnishings, household equipment and supplies	0,05	0,23	-0,02	-0,06	-0,05	0,09	-0,04	-0,01	0,26	-0,04	-0,04	7,08
Health	0,25	0,30	0,20	0,23	0,17	0,29	0,17	0,18	0,31	0,20	0,20	4,92
Transport	0,07	0,06	-1,07	-0,84	-0,24	0,13	-0,24	-0,23	0,18	-0,72	-0,67	17,42
Communication	-0,13	-0,09	-0,06	-0,10	-0,11	0,05	-0,13	-0,13	-0,12	-0,09	-0,09	1,79
Recreation & culture	0,12	0,19	0,09	0,08	0,16	0,15	0,16	0,15	0,20	0,11	0,11	5,88
Education	0,14	0,10	0,08	0,08	0,10	0,09	0,13	0,14	0,11	0,09	0,09	2,33
Restaurants & hotels	0,26	0,35	0,24	0,30	0,35	0,30	0,35	0,34	0,36	0,30	0,30	6,07
Miscellaneous goods and services	0,28	0,29	0,26	0,33	0,25	0,22	0,24	0,26	0,30	0,28	0,28	5,04

Source: Cystat

Table 11**Cyprus Stock Exchange: purchase of listed shares by non-residents⁽¹⁾***(CYP thousand)*

Geographic origin of non-resident investors	2002 Jan.-Dec.	2003 Jan.	2003 Feb.	2003 Mar.	2003 Apr.	2003 May	2003 June	2003 July	2003 Aug.	2003 Sep.	2003 Oct.	2003 Nov.	2003 Dec.	2003 Jan.-Dec.	2004 Jan.	2004 Feb.	2004 Mar.	2004 Apr.	2004 May	2004 June	2004 July	2004 Aug.	2004 Sep.	2004 Oct.
EUROPE	2.490,6	40,2	41,1	141,0	146,2	202,4	457,5	347,9	507,5	2.018,5	531,6	166,0	414,3	5.014,3	1.597,3	1.011,7	301,2	702,6	574,6	439,3	1.054,2	628,5	302,4	239,0
European Union ⁽²⁾	2.392,8	37,0	32,2	140,2	135,5	200,1	456,6	345,2	506,3	2.013,0	529,5	165,4	414,3	4.975,2	1.596,1	1.006,4	301,0	696,1	574,3	427,5	634,7	239,8	186,4	49,5
Greece	1.582,5	8,8	13,1	73,1	22,2	106,0	34,9	331,6	431,0	1.991,7	523,2	154,5	411,1	4.101,0	1.595,7	926,6	110,3	589,2	562,0	413,1	616,0	224,3	117,7	37,1
United Kingdom	742,6	12,3	5,5	37,8	81,3	45,0	409,5	5,8	52,0	13,0	5,5	10,9	0,1	678,7	0,0	9,5	120,6	105,9	11,2	10,3	0,3	0,3	0,2	3,4
Acceding countries ⁽³⁾	24,4	0,0	0,0	0,0	0,5	0,3	0,0	0,0	0,0	0,0	1,4	0,0	0,0	2,2	0,7	5,3	0,2	3,9	1,2	1,1	2,1	2,2	63,8	8,5
Other European countries	73,4	3,2	8,9	0,8	10,2	2,0	1,0	2,7	1,2	5,6	0,7	0,6	0,0	36,8	0,4	0,0	0,0	2,5	0,3	11,8	419,5	388,6	116,0	189,5
Russian Federation	50,2	0,4	2,4	0,7	10,0	2,0	0,3	1,8	0,0	0,0	0,2	0,0	0,0	17,9	0,2	0,0	0,0	0,0	0,0	5,9	379,5	333,6	101,4	161,0
AFRICA	792,6	0,5	0,0	0,0	0,0	0,0	0,0	0,0	0,0	137,1	127,0	14,0	5,6	284,1	147,9	145,2	37,6	29,7	20,8	3,7	2,0	11,6	4,1	5,6
North African countries	6,6	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,9	0,0
Other African countries	786,0	0,5	0,0	0,0	0,0	0,0	0,0	0,0	0,0	137,1	127,0	14,0	5,6	284,1	147,9	145,2	37,6	29,7	20,8	3,7	2,0	11,6	3,2	5,6
South Africa	773,6	0,5	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,5	5,0	20,0	0,0	12,5	0,0	0,0	0,7	11,6	3,2	2,9
AMERICA	338,0	4,7	0,7	0,0	4,6	56,4	3,0	54,5	83,1	21,3	9,8	13,1	51,8	303,0	489,6	138,0	20,8	76,8	0,0	26,2	0,0	0,0	19,4	92,2
North American countries	150,3	0,0	0,0	0,0	0,0	0,4	3,0	4,3	29,9	17,4	9,8	13,1	51,8	129,7	424,6	130,9	5,7	55,8	0,0	0,0	0,0	0,0	6,1	8,9
United States of America	84,4	0,0	0,0	0,0	0,0	0,4	3,0	4,3	28,0	17,4	7,7	13,1	51,8	125,7	424,6	130,2	5,7	55,8	0,0	0,0	0,0	0,0	6,1	8,9
Central American countries	187,6	4,7	0,7	0,0	4,6	56,0	0,0	50,2	53,1	4,0	0,0	0,0	0,0	173,3	65,1	7,1	15,1	21,0	0,0	26,2	0,0	0,0	13,2	83,2
British Virgin Islands	159,0	0,0	0,0	0,0	4,6	55,7	0,0	50,2	49,1	0,0	0,0	0,0	0,0	159,6	0,0	0,0	0,0	0,0	0,0	13,3	0,0	0,0	11,7	71,2
South American countries	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
ASIA	112,1	0,2	1,4	0,8	2,8	3,4	0,0	4,6	2,6	4,2	4,2	0,0	0,0	24,1	0,0	0,0	0,7	0,0	0,0	0,0	20,2	7,3	1,7	5,4
West Asia	108,5	0,2	1,4	0,8	2,8	2,6	0,0	4,6	2,6	4,2	4,2	0,0	0,0	23,3	0,0	0,0	0,7	0,0	0,0	0,0	3,2	3,8	0,8	3,6
Lebanon	73,0	0,2	1,4	0,8	2,8	2,6	0,0	4,6	2,6	3,8	3,7	0,0	0,0	22,4	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,1	0,0	0,0
Other Asian countries	3,6	0,0	0,0	0,0	0,0	0,8	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,8	0,0	0,0	0,0	0,0	0,0	0,0	16,9	3,5	0,9	1,8
OCEANIA	2,4	0,0	0,0	0,0	0,4	0,0	0,0	1,7	0,9	0,8	0,0	0,0	23,0	26,8	0,0	0,0	1,0	0,0	17,5	0,0	0,0	0,0	0,0	0,0
Total	3.735,6	45,6	43,2	141,8	153,9	262,2	460,5	408,7	594,1	2.181,9	672,5	193,1	494,7	5.652,2	2.234,8	1.294,9	361,3	809,1	613,0	469,2	1.076,3	647,4	327,7	342,2

*(1) Purchase of shares included in the central securities depository as well as shares not included in the central securities depository.**(2) Up to April 2004 the sum for the European Union includes the 15 member states: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom. As of May 2004 the sum for the European Union also includes the countries that acceded to the European Union on 1 May 2004.**(3) The countries (other than Cyprus) that acceded to the European Union on 1 May 2004 (Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia).*

Table 12**Cyprus Stock Exchange: sale of listed shares by non-residents⁽¹⁾***(CYP thousand)*

Geographic origin of non-resident investors	2002 Jan.-Dec.	2003 Jan.	2003 Feb.	2003 Mar.	2003 Apr.	2003 May	2003 June	2003 July	2003 Aug.	2003 Sep.	2003 Oct.	2003 Nov.	2003 Dec.	2003 Jan.-Dec.	2004 Jan.	2004 Feb.	2004 Mar.	2004 Apr.	2004 May	2004 June	2004 July	2004 Aug.	2004 Sep.	2004 Oct.
EUROPE	1.285,1	14,9	12,0	36,9	35,0	9,9	70,9	24,3	112,6	96,9	137,3	292,9	355,7	1.199,3	484,6	171,7	186,4	989,0	85,7	129,1	177,1	93,8	117,6	651,9
European Union ⁽²⁾	1.165,7	14,9	11,4	36,5	34,7	9,2	66,4	24,3	106,6	63,2	135,3	290,9	355,7	1.148,9	484,0	169,3	183,4	983,0	85,0	81,4	173,0	65,0	115,0	603,5
Greece	729,7	14,7	9,5	23,6	11,8	3,7	55,3	11,6	91,5	44,0	29,4	238,6	345,7	879,3	381,9	132,7	89,8	957,6	41,7	73,8	164,0	45,5	96,6	602,2
United Kingdom	411,2	0,3	1,9	12,8	22,6	4,3	11,1	8,6	5,1	14,8	81,6	47,1	6,1	216,1	7,9	30,6	89,8	6,8	5,7	7,6	7,6	7,5	12,2	1,4
Acceding countries ⁽³⁾	37,7	0,0	0,0	0,2	0,0	0,6	0,0	0,0	0,0	0,2	0,0	0,0	0,0	0,9	0,2	0,8	1,1	0,0	1,6	0,0	1,5	1,2	0,0	0,0
Other European countries	81,8	0,0	0,6	0,3	0,3	0,1	4,6	0,0	6,0	33,5	2,0	2,0	0,0	49,5	0,5	1,6	1,9	6,1	0,7	47,7	4,1	28,8	2,7	48,3
Russian Federation	71,1	0,0	0,2	0,0	0,0	0,0	2,9	0,0	0,0	0,4	0,0	0,0	0,0	3,5	0,0	0,0	0,0	0,0	0,0	15,0	0,0	0,5	10,4	
AFRICA	305,8	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	2,6	12,4	2,1	17,1	69,3	124,3	36,9	28,4	11,7	0,0	2,6	22,5	0,0	0,0
North African countries	7,5	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	0,0	0,0	0,0
Other African countries	298,3	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	2,6	12,4	2,1	17,1	69,3	124,3	36,9	28,4	11,7	0,0	2,6	22,5	0,0	0,0
South Africa	298,3	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	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
AMERICA	459,8	3,9	1,1	6,3	0,0	0,0	3,4	0,0	2,4	4,0	0,5	0,0	0,0	21,6	18,0	30,5	15,2	0,0	0,0	10,4	455,2	407,2	182,7	182,6
North American countries	393,3	0,0	0,0	0,0	0,0	0,0	3,4	0,0	0,0	0,2	0,0	0,0	0,0	3,7	0,0	1,0	0,0	0,0	0,0	0,0	5,8	0,0	0,1	5,8
United States of America	392,5	0,0	0,0	0,0	0,0	0,0	3,4	0,0	0,0	0,2	0,0	0,0	0,0	3,7	0,0	0,0	0,0	0,0	0,0	0,0	3,4	0,0	0,1	3,8
Central American countries	66,5	3,9	1,1	6,3	0,0	0,0	0,0	0,0	2,4	3,8	0,5	0,0	0,0	18,0	18,0	29,5	15,2	0,0	0,0	10,4	449,4	407,2	182,6	176,8
British Virgin Islands	42,9	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	10,4	449,4	407,2	182,6	176,8
South American countries	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
ASIA	15,4	0,3	0,9	0,7	0,0	0,3	0,0	1,3	1,8	4,4	4,8	0,0	0,0	14,6	0,0	0,0	1,8	0,0	1,6	0,0	1,3	0,0	5,4	0,0
West Asia	15,2	0,3	0,9	0,7	0,0	0,3	0,0	1,3	1,8	4,4	4,8	0,0	0,0	14,6	0,0	0,0	1,8	0,0	1,6	0,0	1,3	0,0	5,4	0,0
Lebanon	15,0	0,3	0,2	0,7	0,0	0,3	0,0	1,3	1,8	4,4	4,8	0,0	0,0	13,9	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Other Asian countries	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	0,0	0,0	0,0	0,0	0,0
OCEANIA	16,3	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	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Total	2.082,4	19,2	14,0	43,9	35,0	10,2	74,4	25,6	116,8	105,3	145,3	305,3	357,8	1.252,6	572,0	326,6	240,3	1.017,4	99,1	139,4	636,1	523,6	305,7	834,5

*(1) Sale of shares included in the central securities depository as well as shares not included in the central securities depository.**(2) Up to April 2004 the sum for the European Union includes the 15 member states: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom. As of May 2004 the sum for the European Union also includes the countries that acceded to the European Union on 1 May 2004.**(3) The countries (other than Cyprus) that acceded to the European Union on 1 May 2004 (Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia).*

Table 13**Balance of payments**

(CYP million)

CATEGORIES	2003 (Annual)			2003 (1st quarter)			2003 (2nd quarter)			2004 (1st quarter)			2004 (2nd quarter)		
	CREDIT	DEBIT	NET	CREDIT	DEBIT	NET	CREDIT	DEBIT	NET	CREDIT	DEBIT	NET	CREDIT	DEBIT	NET
CURRENT ACCOUNT	3,624.2	3,858.3	-234.1	591.7	853.5	-261.8	838.1	880.2	-42.1	735.4	941.5	-206.1	901.3	1,119.5	-218.2
Goods, services and income	3,427.0	3,734.5	-307.5	565.4	836.7	-271.2	817.6	858.4	-40.8	666.5	906.3	-239.8	850.0	1,080.4	-230.4
Goods and services	3,176.3	3,285.7	-109.4	519.1	750.4	-231.3	775.3	802.0	-26.7	572.8	826.7	-253.9	800.9	961.8	-160.9
Goods	494.1	2,111.2	-1,617.1	117.3	480.2	-373.0	137.7	536.5	-398.8	112.6	521.8	-409.2	148.9	690.4	-540.6
General merchandise	446.4	2,070.0	-1,623.6	106.7	482.0	-375.3	123.7	523.9	-400.2	105.4	520.4	-415.0	146.3	689.5	-543.2
Repairs on goods	1.4	22.9	-21.5	0.6	5.6	-5.0	0.0	8.0	-8.0	0.5	0.8	-0.3	0.1	0.6	-0.6
Goods procured in ports by carriers	46.4	17.9	28.5	9.9	2.6	7.3	14.0	4.6	9.4	6.6	0.3	6.3	3.4	0.0	3.4
Non-monetary gold	0.1	0.5	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3	-0.3	0.0	0.2	-0.2
Services	2,682.2	1,174.5	1,507.7	401.8	260.1	141.7	637.6	265.5	372.1	460.3	305.0	155.3	651.0	291.4	359.7
Transport	631.2	571.9	59.3	99.5	130.4	-30.9	136.7	144.7	-7.9	82.0	128.5	-46.5	132.9	136.2	-3.2
Sea transport	397.2	373.7	23.4	62.9	88.1	-25.2	76.8	99.2	-22.4	65.0	80.8	-15.8	103.0	81.8	21.2
Passenger transport on sea	0.9	4.2	-3.3	0.3	0.3	-0.1	0.2	1.3	-1.2	0.3	0.2	0.1	0.0	0.2	-0.1
Freight transport on sea	133.6	153.4	-19.8	11.2	35.7	-24.5	15.1	38.8	-23.7	46.5	38.6	7.9	38.0	58.5	-20.5
Supporting, auxiliary and other services	262.7	216.1	46.5	51.5	52.1	-0.6	61.5	59.0	2.5	18.3	42.1	-23.8	65.0	23.2	41.8
Air transport	231.2	179.6	51.6	35.9	41.0	-5.0	59.6	41.0	18.5	12.5	46.3	-33.8	28.0	51.0	-23.0
Passenger transport by air	116.7	42.4	74.4	20.5	11.9	8.6	27.5	8.3	19.2	2.4	10.6	-8.2	3.6	11.8	-8.2
Freight transport by air	9.0	76.7	-67.7	2.8	17.9	-15.0	1.9	19.4	-17.6	1.5	19.3	-17.8	2.1	18.1	-16.0
Supporting, auxiliary and other services	105.4	60.5	44.9	12.6	11.3	1.4	30.2	13.3	16.9	8.6	16.4	-7.8	22.4	21.1	1.2
Other transportation	2.8	18.6	-15.8	0.7	1.3	-0.6	0.3	4.4	-4.1	4.4	1.4	3.0	1.9	3.3	-1.4
Travel	1,039.7	325.7	714.0	103.4	70.0	33.4	278.2	58.9	219.4	90.8	97.4	-6.6	283.3	86.7	196.6
Business travel	52.4	8.1	44.3	10.6	2.9	7.7	14.7	1.1	13.6	0.2	2.9	-2.6	0.7	3.5	-2.8
Personal travel	987.4	317.7	669.7	92.8	67.1	25.6	263.5	57.8	205.7	90.6	94.6	-4.0	282.7	83.3	199.4
Communication services	25.5	34.5	-9.0	1.8	7.3	-5.5	2.0	7.9	-6.0	2.7	12.8	-10.1	4.2	7.8	-3.6
Construction services	79.3	7.6	71.7	15.1	3.9	11.2	18.2	1.0	17.2	26.8	1.4	25.5	18.4	1.0	17.4
Insurance services	17.6	23.9	-6.3	3.0	5.4	-2.5	3.4	5.0	-1.6	3.5	8.6	-5.1	4.8	5.6	-0.8
Financial services	97.0	23.4	73.7	14.1	2.5	11.6	11.8	7.8	4.1	42.1	11.0	31.1	25.1	10.5	14.6
Computer and information services	47.7	19.1	28.7	18.1	3.7	14.4	3.7	3.2	0.4	17.1	3.3	13.8	20.8	2.5	18.3
Royalties and licence fees	7.8	20.0	-12.2	0.7	5.2	-4.5	2.7	5.2	-2.5	0.2	3.8	-3.6	1.3	1.8	-0.5
Other business services	543.2	61.3	481.8	97.1	15.2	82.0	131.5	13.6	117.9	154.9	22.2	132.7	119.6	23.4	96.2
Merchandising and other trade-related services	109.1	2.3	106.8	0.6	0.3	0.3	29.5	0.4	29.0	11.5	4.7	6.8	3.4	2.2	1.2
Operational leasing	25.1	8.3	16.8	5.3	3.6	1.7	5.3	1.0	4.3	0.1	0.0	0.0	8.1	0.0	8.0
Miscellaneous business, professional and technical services	408.9	50.7	358.2	91.2	11.3	79.9	96.7	12.1	84.6	143.3	17.4	125.9	108.1	21.2	87.0
Personal, cultural and recreational services	5.1	11.5	-6.4	1.5	2.4	-0.9	1.0	2.4	-1.4	2.0	5.2	-3.2	2.5	5.9	-3.3
Government services, n.i.e.	188.0	75.4	112.6	47.5	14.1	33.4	48.3	15.8	32.5	38.3	10.8	27.5	38.1	10.2	28.0
Income	290.6	448.8	-158.1	46.3	86.3	-40.0	42.3	56.3	-14.1	35.7	79.6	-43.9	49.1	98.6	-49.5
Compensation of employees	48.4	44.1	4.3	2.2	10.3	-8.0	1.7	11.1	-9.4	49.1	9.7	39.3	12.7	10.3	2.4
Investment income	202.3	404.7	-202.4	44.1	76.0	-31.9	40.6	45.2	-4.7	44.6	69.8	-25.2	36.4	88.3	-51.9
Of which:															
Reinvested earnings	82.9	204.7	-121.8	13.0	29.1	-16.1	13.0	10.5	2.5	4.8	22.7	-17.8	8.4	56.3	-47.9
Portfolio investment income	32.3	46.6	-14.3	9.9	20.4	-10.5	6.8	10.9	-4.1	11.0	9.2	1.8	10.1	3.1	7.0
Current transfers	197.5	123.8	73.4	28.3	16.8	11.5	20.5	21.9	-1.4	88.9	39.3	33.6	51.3	39.1	12.2
General government	25.0	1.4	23.7	3.2	0.2	2.9	3.4	0.2	3.2	2.9	0.5	2.4	2.0	0.5	1.5
Other sectors	172.2	122.5	49.8	23.1	16.6	6.5	17.1	21.7	-4.5	66.0	34.7	31.2	49.3	38.6	10.6
CAPITAL AND FINANCIAL ACCOUNT															
Capital account	21.3	10.8	10.4	3.1	2.2	0.9	5.5	2.0	3.5	9.8	4.5	5.3	25.4	7.6	17.8
Financial account			199.6			268.9			86.4			174.3			192.5
Direct investment			251.9			81.1			-1.7			77.1			62.5
Abroad			-271.1			-37.2			-30.9			-29.3			-56.1
In Cyprus			523.0			118.3			106.5			106.5			118.6
Portfolio investment			147.5			-99.5			-158.2			-76.2			-265.9
Assets			-253.8			-80.6			-167.6			-90.7			-482.1
Liabilities			401.3			-18.9			9.4			14.5			216.2
Financial derivatives			8.6			-4.4			5.7			-3.2			-1.9
Other investment			-319.6			86.2			119.4			97.5			496.6
Assets			-1,252.2			-128.9			-141.1			185.9			139.6
Liabilities			932.6			215.1			260.5			-88.4			357.0
Reserve assets			111.2			205.5			121.2			79.1			-98.8
NET ERRORS AND OMISSIONS			24.0			-8.0			-47.8			26.5			7.9

*Note: The totals may not be equal to the sum of constituent items due to rounding.

The Monetary Policy Report (MPR) is drafted by the Central Bank's Economic Research Department in preparation for the meetings of the Monetary Policy Committee (MPC), and summarises current economic developments in Cyprus. The MPR appears about eight times a year. Of these eight issues, four (March, June, September and December) are more extensive and comprehensive than the others.

The Greek version of the MPR as well as the English version of the statistical tables are available on the Bank's website on the same day as the MPC meeting. The entire English version of the MPR is posted on the Bank's website during the following month. The English edition of the more extensive version is also available in printed form.