



**CENTRAL BANK OF CYPRUS**  
**ECONOMIC RESEARCH DEPARTMENT**

# **MONETARY POLICY REPORT**

**DECEMBER 2005**



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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 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.

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## Symbols, conventions and abbreviations

1. The following symbols are used:

-	no figures to be expected	CYP and £	Cyprus pound
n.y.a.	not yet available	€	euro
0	nil or negligible	\$	US dollar
Q	quarter	ST£	pound sterling
p	provisional	¥	Japanese yen

2. Thousands, millions and billions are separated by a dot (.) and decimals are separated by a comma (,). In some cases the totals in the tables may not add up due to rounding. Some figures in the text (e.g. inflation) have also been rounded.

3. CCIs	Co-operative Credit Institutions
CPI	Consumer Price Index
CSE	Cyprus Stock Exchange
Cystat	Statistical Service of the Republic of Cyprus
ECB	European Central Bank
ERM II	Exchange Rate Mechanism II
Eurostat	Statistical Office of the European Communities
IBUs	International Banking Units
IMF	International Monetary Fund
MPC	Monetary Policy Committee



## 1. INTRODUCTION

World economic growth for the current year continued at a satisfactory pace. Its main driver is the persistent growth of the US economy, which is being fuelled on private consumption and of Asia, which in turn is based on buoyant export growth. Despite the price of oil receding from September's levels, inflationary pressures in the euro area are thought to have risen. Consequently, the first calls for an increase in euro area official interest rates have begun to be heard from the ECB. Analysts believe that a firm recovery in Japan is well founded, as shown by various indicators, and it is anticipated that the period of loose monetary policy with zero nominal interest rates will come to an end by the middle of next year. Stock market indices in Europe and the US registered a decline during October while small fluctuations were observed in the Japanese stock market.

Inflation rose to 3,1% in October 2005, compared with 2,9% in the previous month and 2,5% in the corresponding month of 2004. For the first ten months of 2005, inflation rose, on average, to 2,6% compared with 2% during the corresponding period of 2004. This acceleration reflects the dissipation of the impact of the reduction in excise taxes on motor vehicles that took place in November 2003 as well as the rise in oil prices.

In the monetary sector the annual growth rate of credit by domestic banks rose by 5,2% in October, lower than the 6,2% registered in the same month of 2004. More specifically, foreign currency lending continued at high levels, partly reflecting increased foreign currency inflows. M2

grew by an annual rate of 9,3% in October, compared with 7,4% in the same month of the previous year. At the same time during October and November excess bank liquidity conditions continued to prevail in the money market.

As regards external transactions, tourist arrivals increased by 6,2% during the first ten months of 2005, compared with an increase of 2,9% in the corresponding period of 2004. Receipts from tourists increased by 2,2% during the first nine months of 2005, compared with a decrease of 3,2% during the corresponding period of 2004.

According to provisional data, during the first nine months of 2005 total imports of goods decelerated, increasing by 7,7% compared with a 12,6% increase in the corresponding period of 2004. This partly reflected the reduction in car imports, as well as the reduction in the imports of intermediate goods and raw materials. Total exports of goods on the other hand recorded a significant rebound, increasing by 23,5% during the first nine months of 2005 compared with a 6,2% increase in the corresponding period of 2004. It should, however, be noted that the significant increase in total exports of goods was mainly the result of re-exports.

As a result of the aforementioned developments, the trade deficit increased moderately to £1.583,9 million during the first nine months of 2005 compared with a deficit of £1.528,2 recorded in the corresponding period of 2004.

The turnover volume index of retail trade rose by 4,5% in the period January-August 2005

compared with 3,7% in the corresponding period of the previous year. In the labour market, unemployment as a percentage of the economically active population rose to 3,7% in the first ten months of 2005. The growth of the construction sector continued to be satisfactory despite some signs of deceleration in the sales of cement, while at the same time manufacturing displayed a decline in the first eight months of the year.

According to with preliminary fiscal data published by the Ministry of Finance, a fiscal deficit of £19,5 million or 0,3% of GDP was recorded for the period January to October 2005, compared with a deficit of £167,1 million or 2,3% of GDP in the corresponding period of 2004.

## 2. ECONOMIC DEVELOPMENTS

### 2.1 INTERNATIONAL DEVELOPMENTS AND EXCHANGE RATES

#### *International economic developments*

In the **US** third quarter GDP grew by 3,6% year-on-year mainly due to increased public expenditure and investment. Statistical data show that the Katrina and Rita hurricanes had no significant effect on the US economy. Unemployment was 5% in October, compared with 5,5% in the same month of 2004. Inflation reached 4,3% in October, lower than the 4,7% registered in September which was a result of the fall in oil prices. Despite the aforementioned developments, the US Federal Reserve decided at its most recent meeting to raise for the twelfth time its official interest rate, currently standing at 4%.

The **euro area** has been showing stronger signs of growth. Third quarter GDP grew by 1,5% year-on-year. Germany, Spain and France registered the largest growth rates, whereas growth in Italy and the Netherlands was subdued. Economic growth in the euro area was mainly attributed to exports but analysts believe that consumption must also rise if economic recovery is to be maintained. Consumer and business surveys have started reporting positive sentiments. At the same time, inflationary pressures have become more pronounced. The CPI rose by 2,5% year-on-year in October 2005, compared with 2,4% in the same period of the previous year. In addition, there are medium-term inflationary expectations. The President of the ECB, Jean-Claude Trichet, has stated that the Governing Council is ready to implement a small interest rate increase. Analysts believe the increase will be 25 basis points and will probably be announced at the meeting on 1 December. Unemployment reached 8,4% in September, compared with 8,8% in the same month of the previous year. The European

Commission's Autumn Economic Forecasts estimate for GDP growth in the euro area is 1,3% for the current year, 1,9% for 2006 and 2,1% for 2007. The projections point to a recovery in domestic demand, especially in private investment.

In the **UK**, growth has also been moderate. According to data for the third quarter GDP grew by 1,6% year-on-year. The main factors that contributed to the slowdown in GDP growth were the weak consumption and investment expenditures of households. Inflation rose to 2,3% in October, compared with 1,2% in October of the previous year while unemployment reached 4,7% in the period July-September, unchanged from the same period of 2004.

As seen from the **selected international stock market indices** depicted in Chart 1, Japan's Nikkei 225 continued its upward trend until the beginning of October, then declined somewhat, finally closing at the end of October at the same level as at the start of the month. During the month under review, the Eurostoxx 50 declined by about 3% and the S&P 500 fell by about 2%. During the last three months the aforementioned indices rose by 13%, 2% and fell by 2%, respectively. In Europe, stock market indices were negatively affected by the political instability in Germany and France, the rise in long-term European interest rates and the inflationary pressures in the world economy. A positive influence was exerted by the profit projections of listed companies. The main factor that negatively affected share values in the US markets was the uncertainty for the future profitability of firms as well as the upward trend in long-term interest rates.



The daily average price of **Brent crude** decreased compared with the previous month, reaching \$56,91 per barrel on 18 November, compared with \$58,43 in October. The mild weather conditions in the US and Europe led to demand for heating oil below usual levels. This development allowed time for American companies to increase their oil stocks. In addition, OPEC reassured the markets that oil

supplies would be undisrupted. Oil exporters believe that OPEC will not cut down production unless prices register significant falls. At the same time in the Gulf of Mexico oil refinement has recommenced while only a small number of units remain closed after the Rita hurricane. Bad weather conditions in the northern hemisphere are forecast and this is expected to cause an upward pressure on oil prices soon.

**Table 1**  
**GDP projections<sup>(1)</sup>**  
*(annual percentage change)*

	The Economist Poll GDP forecasts <sup>(2)</sup>			Lehman Brothers Weekly Outlook - GDP <sup>(3)</sup>			International Monetary Fund World Economic Outlook <sup>(4)</sup>			European Commission Economic Forecasts <sup>(5)</sup>		
	2004	2005	2006	2004	2005	2006	2004	2005	2006	2004	2005	2006
World				3,2	2,6 (2,5)	2,3 (2,0)	5,1	4,3	4,3 (4,4)	5,2 (5,0)	4,3 (4,2)	4,3 (4,1)
Euro area	1,8	1,3 (1,2)	1,6 (1,5)	1,8	1,3 (1,2)	1,0 (0,9)	2,0	1,2 (1,6)	1,8 (2,3)	2,1 (2,0)	1,3 (1,6)	1,9 (2,1)
USA	4,3	3,6 (3,5)	3,3 (3,2)	4,2	3,6 (3,6)	3,3 (3,1)	4,2 (4,4)	3,5 (3,6)	3,3 (3,6)	4,2 (4,4)	3,5 (3,6)	3,2 (3,0)
Japan	3,0	2,3 (2,2)	2,0	2,7	2,4 (2,2)	2,5 (1,2)	2,7 (2,6)	2,0 (0,8)	2,0 (1,9)	2,7	2,5 (1,1)	2,2 (1,7)
UK	3,0	1,8 (1,9)	2,1	3,2	1,6	1,5	3,2 (3,1)	1,9 (2,6)	2,2 (2,6)	3,2 (3,1)	1,6 (2,8)	2,3 (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 International Monetary Fund and European Commission, the figures indicate the projections in April 2005 and March 2005, respectively.

(2) The Economist, 19 November 2005.

(3) Lehman Brothers Global Weekly Economic Monitor, 18 November 2005.

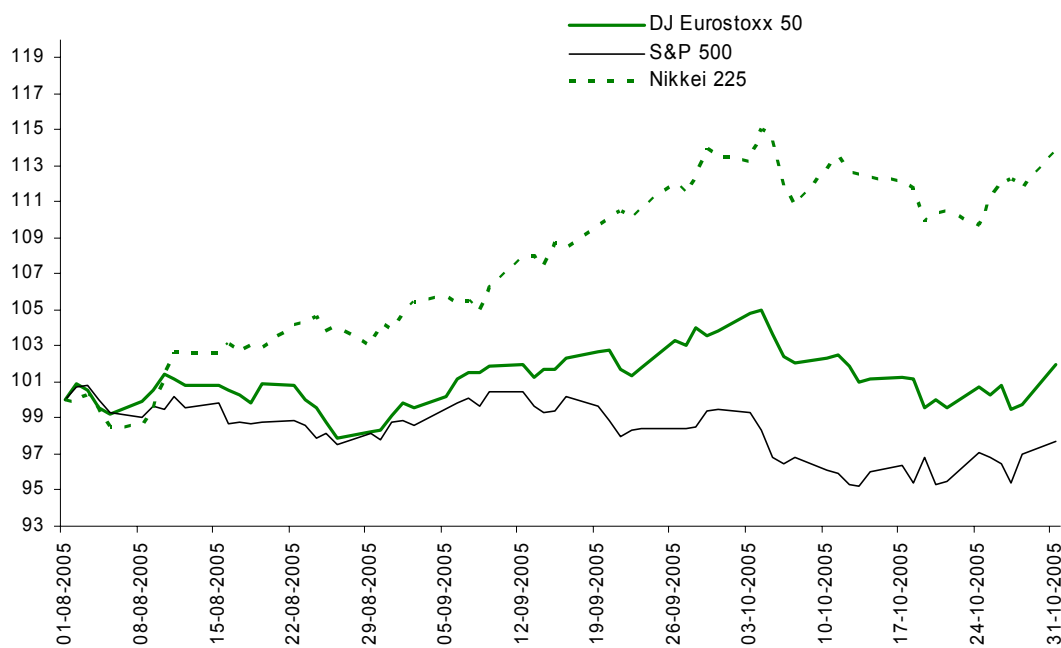
(4) International Monetary Fund, World Economic Outlook, September 2005.

(5) European Commission, Economic Forecasts, Autumn 2005.

**Chart 1**

**Selected international stock market indices**

*(1 August 2005 = 100, daily data)*



Source: Bloomberg.

**Table 2****Main economic indicators***(percentage change year-on-year)*

	GDP				Industrial production September (annual)	Retail sales September (annual)	Unemployment September (annual)	Inflation <sup>(2)</sup> October (annual)
	2005 (Q2)		2005 (Q3)					
	(quarterly) <sup>(1)</sup>	(annual)	(quarterly) <sup>(1)</sup>	(annual)				
UK	2,0	1,5	1,6	1,6	-1,1	1,5 <sup>(3)</sup>	4,7 <sup>(4)</sup>	2,3
Japan	3,3	1,4	1,7	3,0	1,2	0,4	4,2	-0,3 <sup>(5)</sup>
USA	3,3	3,6	3,8	3,6	2,0	2,6	5,0 <sup>(3)</sup>	4,3
Euro area	1,2	1,1	2,6	1,5	2,6 <sup>(6)</sup>	0,9	8,4	2,5

Source: *The Economist*, 19 November 2005.*(1) Percentage change on previous quarter at an annualised rate.**(2) Based on the consumer price index.**(3) October 2005.**(4) July-September 2005.**(5) September 2005.**(6) August 2005.***International currencies**

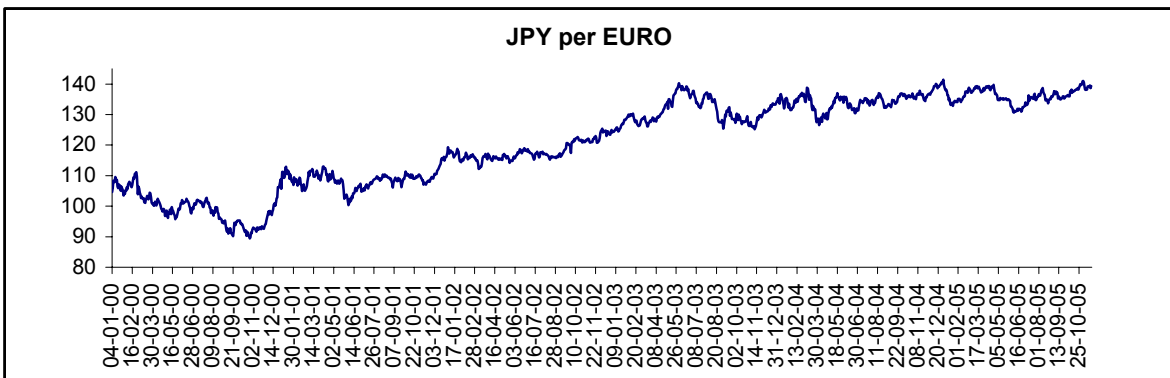
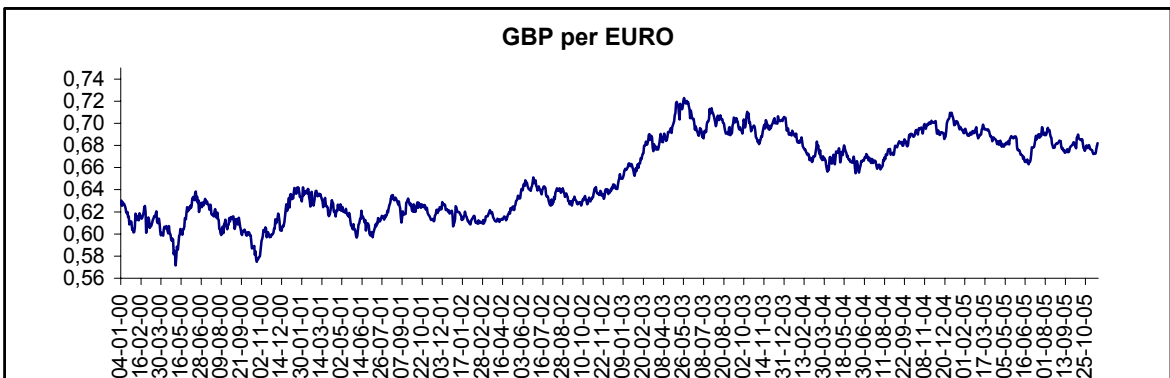
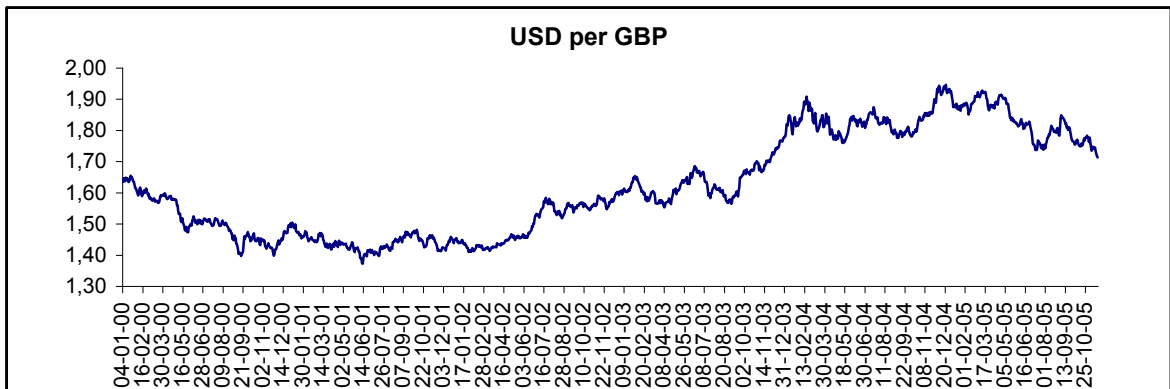
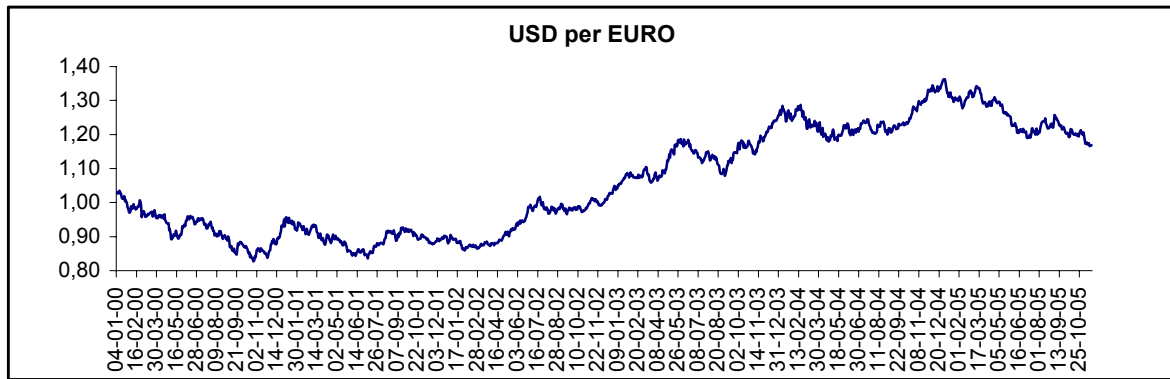
During the first three weeks of November the dollar strengthened reaching 117 cents per euro on 18 November, compared with 120 cents per euro on 1 November. The strengthening of the dollar was mainly the result of the anticipation of interest rate increases. As far as the eurozone is concerned, the president of the ECB, Jean-Claude Trichet, speaking to the Economics and Monetary Affairs Committee of the European Parliament, insinuated that interest rates would increase on 1 December. However, this should by no means imply that a new round of increases will begin.

On 18 November sterling was 68 pence to the euro. It is noted that during the period under review, sterling did not display significant fluctuations.

The Japanese yen did not show significant fluctuations during the period under consideration, reaching ¥139,88 to the euro on 7 November 2005, compared with ¥140,00 to the euro on 1 November 2005.

The fluctuations of the aforementioned currencies since 2000 onwards are shown in Chart 2.

**Chart 2**  
**Major international currencies**  
 (middle rate)



Source: Central Bank of Cyprus.

**Cyprus pound**

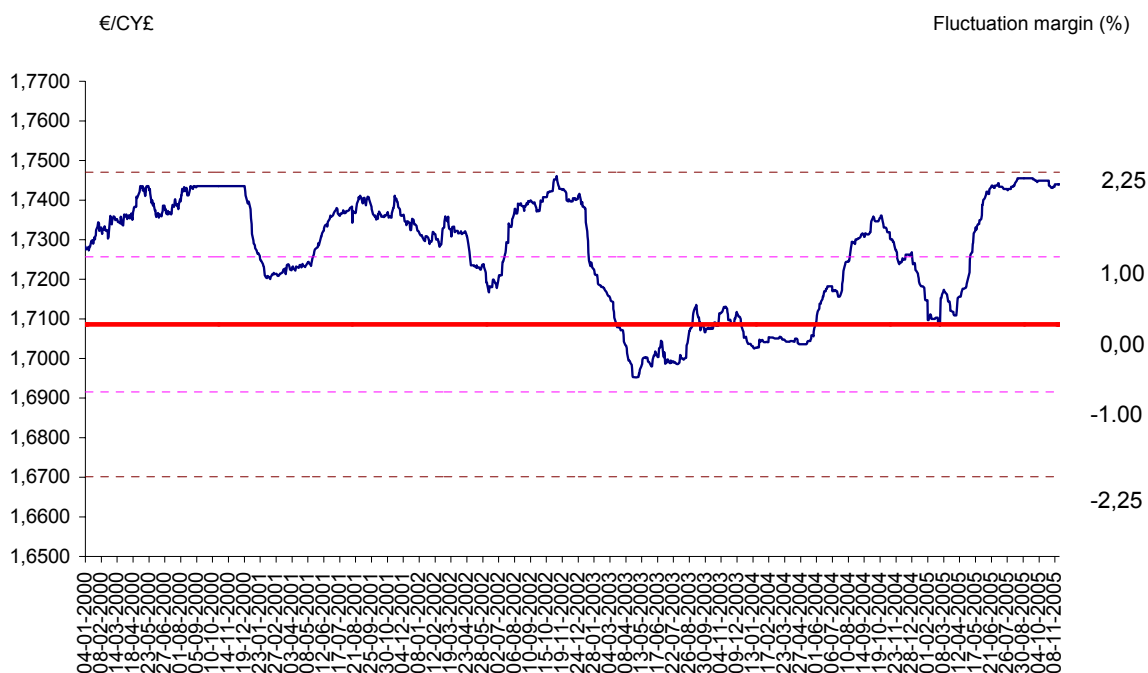
In November 2005, the Cyprus pound exhibited minor fluctuations relative to the euro reaching £0,5734 on 18 November compared with £0,5737 on 1 November. Reflecting the fluctuations of foreign currencies during the period under consideration, the Cyprus pound reached \$2,0382 on 18 November exhibiting a weakening when compared with \$2,0921 on 1 November 2005.

During the same period the Cyprus pound exhibited minor fluctuations relative to sterling reaching ST£1,1898 on 18 November, compared with ST£1,1827 on 1 November.

Recent exchange rate fluctuations of the Cyprus pound relative to the euro, dollar, sterling and yen are reported in Charts 3 & 4.

**Chart 3**

**Exchange rate of the euro against the Cyprus pound**

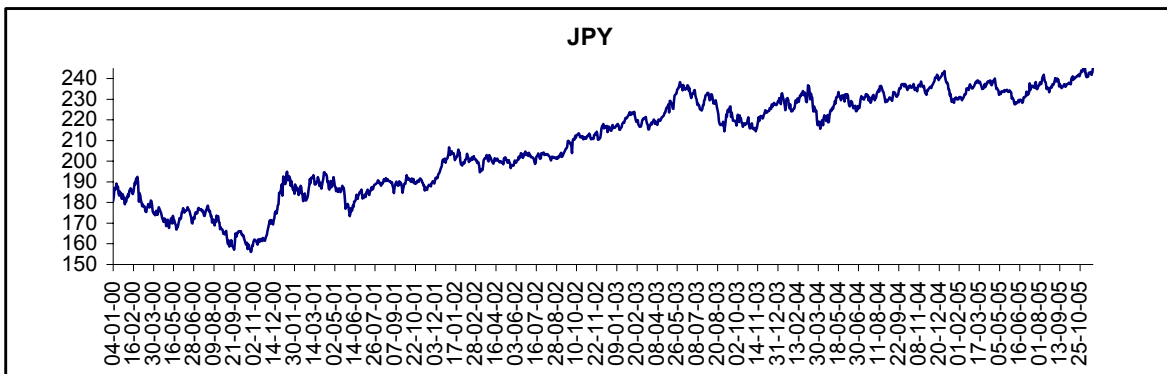
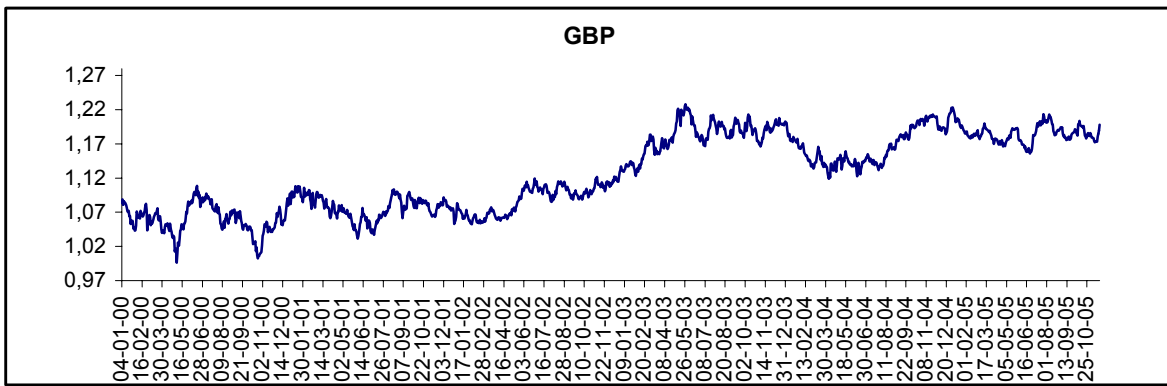
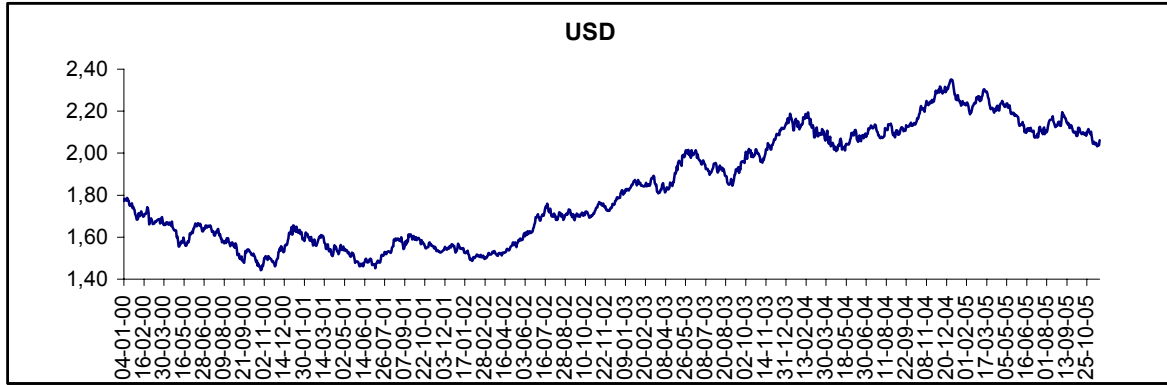


Source: Central Bank of Cyprus.

Note: The official fluctuation margins of the Cyprus pound against the euro are set equal to ±15%.

**Chart 4**

**Cyprus pound against major international currencies**  
(middle rate)



Source: Central Bank of Cyprus.

## BOX 1

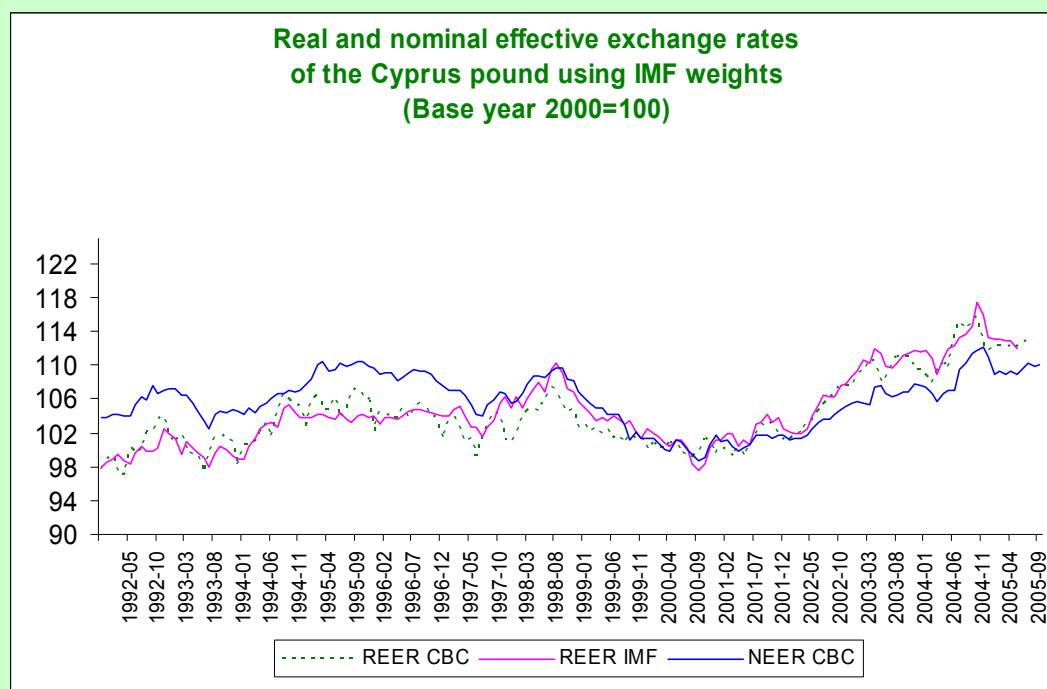
### Effective exchange rate indices of the Cyprus pound

Effective exchange rate indices reflect the average fluctuation of a currency relative to the currencies of its trading partners. The effective exchange rate expressed in real terms represents 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.

The chart below illustrates the monthly nominal and real effective exchange rates of the Cyprus pound from January 1992 to September and October 2005 respectively. An upward trend of the overall index reflects an appreciation of the domestic currency in real or nominal terms, thus indicating weakening of the competitiveness for exported products.

The real effective exchange rate of the Cyprus pound, REER IMF, shown in Chart 2B is calculated by the International Monetary Fund (IMF) and is a third country competition weighted index, taking into account 19 countries. The weights are estimated using data on trade and tourism for the years 1988-1991 and the consumer price index is used to deflate the series. Using 2000=100 as the base year, REER IMF reached 112,04 units in June 2005. Due to the time lag in reporting, the Central Bank of Cyprus calculates its own index, based on the IMF index, using 8 instead of 19 countries. The Central Bank of Cyprus index, REER CBC, shown in the chart follows the IMF index very closely. The most recent available data for this index, with a base year 2000=100, are for September 2005 in real terms and October 2005 in nominal terms. The REER CBC index averaged at 113,06 units in September, 2005 whereas for the period January-September the index fluctuated close to 112,3 units, therefore recording a significant deceleration compared with the last few months of 2004.

The outlook indicated by the nominal index is different from the one indicated by the real index. The sharper appreciation observed in real terms is primarily attributable to the higher inflation recorded in Cyprus compared with other European countries, largely as a result of the progressive increase in 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 October 2005 place the index at 110 units. For the first 10 months of 2005 the average level of the index was close to 109,5 units.



Sources: Central Bank of Cyprus and International Monetary Fund.

**Table 3**
**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	US dollar	Pound sterling	Euro	US Dollar	Pound 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	1,7121	1,9378	1,1849	-259,75	5,16	19,50	-134,01
2004	1,7187	2,1357	1,1663	-91,40	15,75	25,70	-25,52
<u>Quarterly</u>							
2004 Q1	1,7060	2,1398	1,1604	-155,75	2,00	30,20	-64,23
2004 Q2	1,7099	2,0579	1,1409	-19,05	6,50	1,10	-7,49
2004 Q3	1,7271	2,1107	1,1612	199,60	4,95	-19,20	101,02
2004 Q4	1,7317	2,2394	1,2033	-116,20	2,30	13,60	-54,82
2005 Q1	1,7161	2,2496	1,1902	40,10	10,50	30,10	-64,10
2005 Q2	1,7297	2,1785	1,1742	518,15	22,30	4,40	312,86
2005 Q3	1,7443	2,1278	1,1928	250,45	-3,55	0,10	141,83
<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	1,7066	2,0954	1,1457	-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	-85,20	3,35	4,40	-44,14
December	1,7269	2,3156	1,2007	-7,90	-0,90	6,70	0,63
<u>2005</u>							
January	1,7189	2,2561	1,2009	-100,60	0,00	10,90	-49,46
February	1,7149	2,2324	1,1878	-18,00	0,00	12,30	-0,11
March	1,7145	2,2602	1,1868	-42,50	10,05	6,90	-14,53
April	1,7159	2,2208	1,1722	91,35	20,75	4,40	66,32
May	1,7312	2,1958	1,1852	175,45	0,05	0,00	101,53
June	1,7419	2,1189	1,1653	251,35	1,50	0,00	145,01
July	1,7432	2,0992	1,1992	49,00	0,00	0,00	28,10
August	1,7453	2,1395	1,1831	134,05	-3,40	0,00	75,27
September	1,7445	2,1447	1,1960	67,40	-0,15	-0,10	38,46
October	1,7447	2,0961	1,1892	140,30	0,80	0,00	80,78
November*	1,7437	2,0579	1,1797	123,95	-0,15	0,00	71,01

Source: Central Bank of Cyprus.

\*Until and including 18 November 2005.

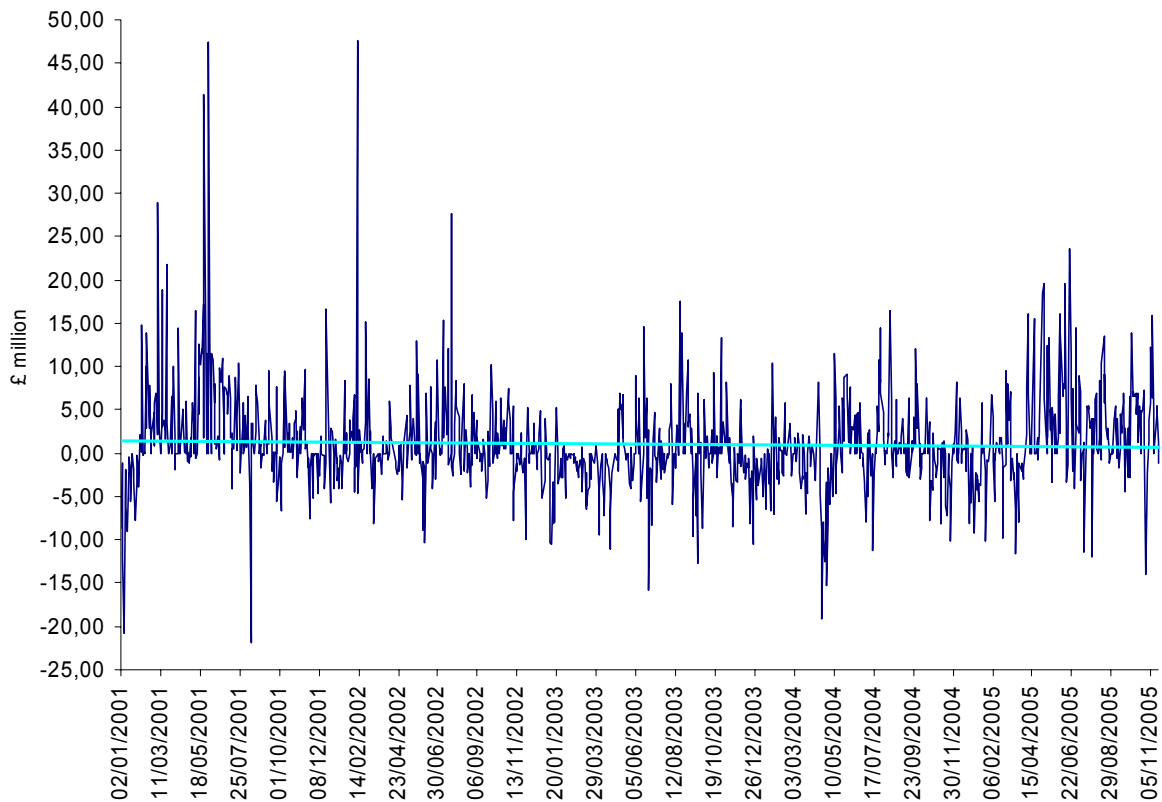


Table 3 illustrates the Central Bank's total foreign currency transactions until 18 November on the basis of their transaction dates. The corresponding daily total transactions in foreign currency by the Central Bank from 2001 until 18 November are illustrated in Chart 5. During the first three weeks of November, net inflows of

£71,01 million were recorded compared with net outflows of £18,50 million in the corresponding period of 2004. For the period 1 January – 18 November 2005, net inflows of £542,38 million were recorded, compared with £0,51 million net outflows in the corresponding period of 2004.

**Chart 5**

**Daily purchases / sales of foreign exchange by the Central Bank of Cyprus from / to domestic banks  
2/1/2001-18/11/2005**



Source: Central Bank of Cyprus.

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

## 2.2 MONETARY DEVELOPMENTS

The banking system in Cyprus consists of the domestic banks, the co-operative credit institutions (CCIs) and the international banking units (IBUs). Although there are updated figures for commercial banks, data for CCIs are available with a delay of approximately three months. For this reason, in the analysis that follows it is mainly commercial bank data that are described as they are readily available, whereas in the case of CCIs our comments are based on estimates or preliminary data. Regarding IBUs, a concise analysis is presented which is specific to the loans provided in foreign currency. Following the complete liberalisation of capital movements, IBUs are free to provide credit to Cypriots.

### *Analysis of monetary aggregates*

In the monetary sector the main development continued to be the foreign currency inflows, partly because of the increase in foreign currency borrowing of residents. In addition the harmonisation process as regards the minimum reserve requirement, in conjunction with the high foreign currency inflows, led to excess bank liquidity.

It is noted that on 1 September the minimum reserve requirement was decreased from 6,5% to 5,75%, with a further decrease to 5% on 1 November 2005. The aim is to decrease the requirement to 2%, currently in effect in the euro area, by 2007.

According to provisional data, the annual growth rate of total money supply M2C<sup>1</sup>, which includes the deposits with banks and CCIs, reached 9,2% in October, compared with 8,1% in September and 8,2% in October 2004. Total credit grew by 6,5%, compared with a rise of 7,6% in the same period of 2004.

Based on domestic bank data, the rate of M2 growth accelerated slightly in October compared with September but was lower than the growth exhibited in October of the previous year.

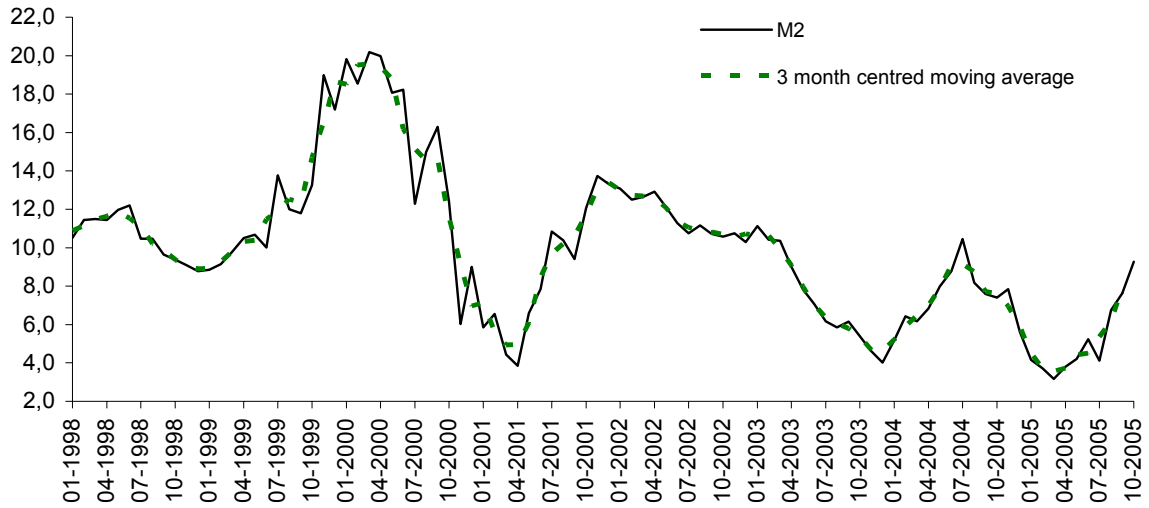
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1. The monetary aggregate M2C should be treated with caution since the co-operative credit institutions are not supervised by the Central Bank of Cyprus and, in addition, the automation undertaken by the Co-operative Computers Society (SEM) Ltd, does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

**Chart 6**

**M2 growth**

(annual percentage change, monthly data)

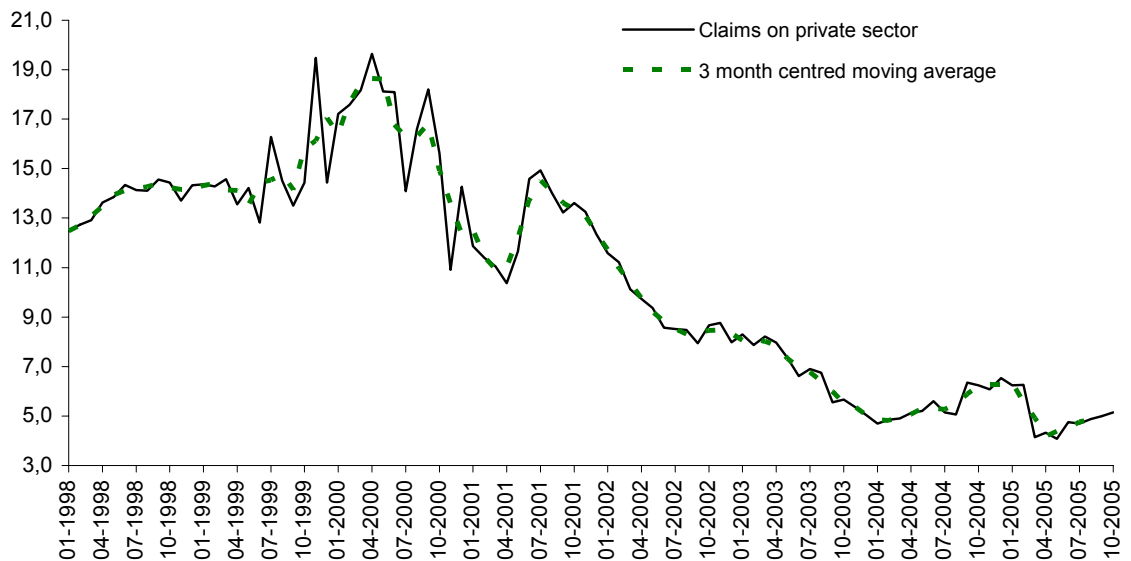


Source: Central Bank of Cyprus.

**Chart 7**

**Growth of claims on private sector**

(annual percentage change, monthly data)



Source: Central Bank of Cyprus.

More specifically, the annual growth rate of total money supply (M2) was 9,3% in October 2005 compared with 7,6% in September and 7,4% in October 2004. The three-month moving average of M2 accelerated to 7,9% in the period August-October, from 6,2% in the period July-September 2005.

Table 4 presents the annual percentage changes of components and factors affecting total money supply. Regarding the components of M2, the narrow money aggregate M1 registered an annual increase of 20,3% in October, compared with 16% in September 2005 and 11,4% in October of the previous year. Quasi-money rose by 7,2% in October, compared with 6% in September 2005, while in October 2004 it had risen by 6,7%. At the end of October quasi-money accounted for 82,6% of total money supply while M1 accounted for 17,4%.

The annual growth rate of residents' deposits in local currency rose by 4,9% in October 2005, compared with 3,9% in October 2004, while the annual rate of growth of residents' deposits in foreign currency continued to be high.

More specifically and in absolute amounts, residents' deposits in foreign currency rose by £397,7 million in the twelve months to October 2005, compared with a rise of £264 million in the same period of the previous year.

The acceleration in M2 growth was mainly due to the increase in net foreign assets and the rise in credit to the public sector. Credit to the private sector<sup>2</sup> rose at an annual rate of 5,2% in October, compared with 5% in the previous month. In September and October 2004 the respective growth rates were 6,3% and 6,2%. The three-month moving average of credit growth was 5% during the period August – October, slightly up from 4,9% in the three-month period July-September. Foreign currency lending rose by 25,2% in the twelve months to October, compared with 22% year-on-year to September 2005 and 13,9% year-on-year to October 2004.

Credit to the public sector rose by 1,6% in October, compared with an increase of 2,3% in September and a decrease of 3% in October 2004, which had emanated from the Eurobond (EMTN) issued by the government in July 2004.

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2. A marked slowdown in credit growth has been observed since March due to debt write-offs by some banking institutions, the largest part of which affected the personal-professional loans category. If we ignore these write-offs, then the growth rates in September and October reached 6,7% and 6,9%, respectively. It is noted that this is not a final debt write-off but relates to accounting adjustments.

**Table 4****Main monetary indicators**

	Outstanding amount as a percentage % of M2 <sup>(1)</sup>	Annual percentage change			
		2004 Sep.	2004 Oct.	2005 Sep.	2005 Oct.
<b>Money supply (M1)</b>	<b>17,4</b>	<b>10,2</b>	<b>11,4</b>	<b>16,0</b>	<b>20,3</b>
Currency in circulation	5,4	16,4	12,7	9,2	8,9
Demand deposits	12,1	7,1	10,8	19,5	26,1
<b>Quasi-money</b>	<b>82,6</b>	<b>7,1</b>	<b>6,7</b>	<b>6,0</b>	<b>7,2</b>
<b>Total money supply (M2)</b>	<b>100,0</b>	<b>7,6</b>	<b>7,4</b>	<b>7,6</b>	<b>9,3</b>
Claims on private sector <sup>(2)</sup>		6,3	6,2	5,0	5,2
of which in foreign currency		13,3	13,9	22,0	25,2
Claims on public sector		-3,1	-3,0	2,3	1,6

Source: Central Bank of Cyprus.

(1) As at the end of the last month available.

(2) In March 2005 the banks wrote off a number of old loans, for which provisions had already been made. As a result the growth of claims on the private sector was reduced. Adjusting for the above, the growth rates for September and October 2005 are 6,7% and 6,9%, respectively.

The breakdown of bank credit by sector of economic activity (Table 5) shows that in October personal and professional loans<sup>3</sup> grew at an annual rate of 10,3% compared with 11,8% in September 2005 and 11,5% in October 2004. Credit to public corporations and institutions, including the government, registered a notable rise. More specifically, they rose by 7,2%, compared with 7,7% in the twelve months to September and 5,7% year-on-year to October 2004. This increase is attributed to high domestic borrowing by the government in the current year, whereas in the previous year there

was an increase in its foreign borrowing effected through the EMTN issue in July 2004. Credit to the construction sector rose by an annual rate of 9,3% in October, compared with 9,2% in September 2005 and 15,3% in October of the previous year. The rest of the categories, with the exception of mining, registered a fall. The largest share of total outstanding amounts at the end of October was maintained by personal and professional loans with 47,1%, followed by credit to the construction sector with 17,4%, foreign and domestic trade with 16% and tourism with 8,6%.

3. See footnote 2.

**Table 5**  
**Bank credit by sector<sup>(1)</sup>**

	Outstanding amount as a percentage % of total <sup>(2)</sup>	Annual percentage change			
		2004 Sep.	2004 Oct.	2005 Sep.	2005 Oct.
Public institutions and corporations <sup>(3)</sup>	3,14	4,3	5,7	7,7	7,2
Agriculture	1,09	2,3	2,1	-2,1	-9,3
Mining	0,30	-8,1	-5,6	7,3	5,5
Manufacturing	5,42	-4,4	-2,2	1,2	-1,8
Transport and communications	0,94	-14,1	-10,4	-21,6	-17,6
Foreign and domestic trade	15,99	-2,9	-3,3	-2,2	-1,1
Building and construction	17,36	15,2	15,3	9,2	9,3
Tourism	8,61	5,1	4,5	-2,1	-2,4
Personal and professional loans	47,10	10,0	11,5	11,8	10,3
Bills discounted: Local	0,03	-33,9	-26,5	-15,3	-17,4
Foreign	0,02	-5,2	-14,4	-20,1	-30,2
<b>Total</b>	<b>100,00</b>				

Source: Central Bank of Cyprus.

(1) This refers to loans in local and foreign currency, given to residents and non-residents of Cyprus.

(2) As at the end of the last month available.

(3) Including government loans.

Foreign currency lending to residents by domestic banks rose by £222,6 million in the twelve months to October 2005, compared with a rise of £107,9 million in the same period of the previous year. The share of new foreign currency loans to total new loans given out in the twelve months to October rose to 50,2%, compared with 21,4% in the same period of the previous year. The share of new foreign currency loans to total loans outstanding at the end of October 2005 was 12,2%, compared with 10,3% at the end of October 2004 (Table 6).

At the end of September 2005, 66,7% of foreign currency loans was accounted for by euros, 20,9% by Swiss francs, 8,5% by dollars and 2,6% by yen.

According to data covering medium and long-term lending in foreign currency, in the period January-October 2005, 10,5% of new loans was used in the local construction sector, 46,6% was used for refinancing<sup>4</sup> and 17,6% for the purchase of fixed assets. The respective figures for the same period of 2004 were 15,5%, 51,2% and 28%.

<sup>4</sup> Refinancing refers to the repayment of existing loans in Cyprus pounds or the conversion of existing foreign currency loans into a different currency.

**Table 6**  
**Claims on private sector <sup>(1)</sup>**

	2002	2003	2004	2004 Oct.	2005 Sep.	2005 Oct.
<i>(outstanding amounts at end of period, CYP million)</i>						
Foreign currency loans to residents	785,2	799,0	909,9	882,8	1067,9	1105,4
Claims on private sector	7904,1	8302,0	8844,2	8602,8	9032,0	9045,8
Share %	9,9	9,6	10,3	10,3	11,8	12,2
<i>(12 month change, CYP million)</i>						
Foreign currency loans to residents	52,1	13,8	110,9	107,9	192,8	222,6
Claims on private sector	584,0	397,9	542,2	505,1	430,0	443,1
Share %	8,9	3,5	20,5	21,4	44,8	50,2

Source: Central Bank of Cyprus.

(1) From local banks.

According to provisional balance of payments data referring to residents' borrowing by banks abroad, in the period January - September 2005 net credit amounted to £147,3 million, compared with net repayments of £45,2 million in the same period of the previous year. For the whole of 2004 net repayments amounted to £64,7 million. Net repayments in foreign currency by IBUs reached £2,6 million in the first ten months of 2005, compared with net loans amounting to £4,8 million in the same period of 2004.

Domestic expenditure by holders of Cypriot credit cards rose by 20,2% in October 2005, compared with 9,1% in the same month of 2004. During the first ten months of 2005 this type of

expenditure rose by 11,1%, compared with an increase of 12,8% in the same period of the previous year. Expenditure by Cypriot card holders abroad rose at an annual rate of 38,1% in October, compared with an increase of 10,9% in the same month of 2004. During the period January – October 2005 this type of expenditure rose by 22,1% compared with a rise of 8,8% in the same period of the previous year. Finally, foreign card holders' expenditure in Cyprus rose by 8,2% in October 2005, compared with a rise of 5,3% in the same month of the previous year. During the first ten months of the current year this type of expenditure rose by 5,7% compared with an increase of 8,9% in the first ten months of the previous year (Table 7).

**Table 7**  
**Credit card transactions**

	2003	2004	October		Jan.- Oct.	
			2004	2005	2004	2005
<b>Foreign cardholder spending in Cyprus</b>						
Value (CYP thousand)	214.208	232.671	27.905	30.192	205.261	216.940
Annual % change	4,0	8,6	5,3	8,2	8,9	5,7
<b>Local cardholder spending in Cyprus</b>						
Value (CYP thousand)	526.847	591.912	45.519	54.717	469.678	522.044
Annual % change	15,0	12,3	9,1	20,2	12,8	11,1
<b>Local cardholder spending abroad</b>						
Value (CYP thousand)	178.470	195.009	17.459	24.117	160.907	196.474
Annual % change	13,1	9,3	10,9	38,1	8,8	22,1

Source: JCC Payment Systems.

### Co-operative Credit Institutions (CCIs)<sup>5</sup>

During October local currency deposits with CCIs amounted to 37,5% of total deposits (in CCIs and banking institutions), compared with 37% in the same month of 2004. In October 2005 the share of CCI loans in local currency was estimated at around 29,7%, compared with 28,4% in the same month of the previous year. Deposits with CCIs are estimated to have increased by 6,9% in the twelve months to October 2005, compared with 8,4% in the same period of 2004. Regarding CCI loans, these are estimated to have risen by an annual rate of 9,7% in October 2005, compared with 10,9% in the same month of 2004.

### Money market

Both during October and November surplus liquidity conditions prevailed in the money market.

Table 8 presents the factors affecting bank liquidity<sup>6</sup>. As can be seen, the increase in the average daily value of net foreign assets was the main factor that affected positively surplus liquidity in October. In contrast, the increase in net government deposits with the Central Bank of Cyprus lowered excess liquidity. The decrease in the reserve requirement from 5,75% to 5% on 1 November was an additional factor for surplus liquidity during November.

At the last auction of November, the average interest rate decreased to 2,53%, reflecting, in part, the notable increase in surplus bank liquidity.

5. The data for the CCIs are estimated by the Central Bank based on a sample of 210 CCIs, which make up about 96% of total deposits and loans.

6. The box on page 22 presents the liquidity conditions for the period 29 September-23 November 2005. Any differences in the amounts are due to the different periods being analysed.



**Table 8****Banking system's liquidity position***(CYP million, period averages of daily positions)*

	Liquidity - providing factors					Liquidity - absorbing factors						Credit institutions current accounts (MRA)	Base money  (6+7+9+12)
	Net assets in gold and foreign currency (NFA)	Monetary policy operations				Deposit facility (overnight)	Other liquidity-absorbing operations (additional, special & S.M.E. dep.)	Rev-repos & depots	Currency in circulation	Central govern. deposits (net) <sup>(1)</sup>	Other factors (net)		
		Main refinancing operations (repos)	Long-term refinancing operations	Marginal lending facility (lombard)	Other liquidity providing operations (swap)								
	1	2	3	4	5	6	7	8	9	10	11	12	13
2003 Oct.	1.079,8	0,0	0,0	0,3	0,0	23,0	79,4	123,6	467,2	-330,6	185,2	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	-290,8	192,9	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	194,2	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	-365,8	226,1	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	-416,2	223,1	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	-374,9	214,7	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	-190,3	175,0	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	-140,6	185,9	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	-208,9	191,0	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	-192,1	185,5	645,8	1.278,6
Nov.	1.376,0	0,0	0,0	0,0	0,0	15,8	79,3	82,2	516,3	-144,9	184,1	643,2	1.254,6
Dec.	1.441,6	0,0	0,0	10,0	0,0	12,9	79,3	0,0	543,5	-29,0	201,9	642,9	1.278,6
2005 Jan.	1.419,9	0,0	0,0	0,6	0,0	50,7	79,6	114,2	537,8	-142,3	139,9	640,8	1.308,8
Feb.	1.425,9	0,0	0,0	0,6	0,3	11,4	79,4	55,0	520,7	-36,0	149,0	647,3	1.258,8
Mar.	1.432,9	0,0	0,0	0,3	0,0	25,2	79,3	28,4	524,0	-48,4	178,9	646,2	1.274,8
Apr.	1.361,7	0,0	0,0	0,1	0,0	63,7	79,3	17,3	537,7	-191,8	208,2	647,7	1.328,1
May	1.395,2	0,0	0,0	0,0	0,0	33,4	79,3	72,9	554,6	-204,1	210,1	648,9	1.316,3
Jun.	1.510,9	0,0	0,0	6,2	0,1	36,2	79,7	68,3	568,4	-114,8	224,1	655,2	1.339,6
Jul.	1.571,9	0,0	0,0	0,4	0,0	31,9	79,6	88,1	586,5	-62,2	182,6	665,8	1.363,8
Aug.	1.596,2	0,0	0,0	0,0	0,0	37,7	79,4	93,5	587,6	-58,1	185,2	670,8	1.375,5
Sep.	1.638,9	0,0	0,0	0,0	0,0	87,5	79,4	198,7	579,4	-119,0	200,2	612,7	1.359,1
Oct.	1.712,1	0,0	0,0	7,3	0,0	55,1	79,3	168,1	579,7	-12,5	231,5	618,1	1.332,3

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 into a loan with a maturity of 30 years, the repayment of which will commence in 2007.

As shown in Table 9, no auctions were held in government securities during October.

The interbank overnight interest rate rose to 2,85% in October from 2,55% in September

**Table 9**

**Interest rates**

(percent per annum, period averages)

	2002	2003	2004	2004 Oct.	2005 Aug.	2005 Sep.	2005 Oct.
Interbank (1day)	3,42	3,35	3,92	4,10	2,75	2,55	2,85
Acceptance of deposits operations	3,91	3,45	3,89	4,20	2,68	2,61	2,90
Treasury bills (13 weeks)	4,02	3,51	4,21	-	-	-	-
Treasury bills (52 weeks)	4,30	3,70	4,76	-	-	3,51	-
Development stocks (2 years)	4,56	3,83	5,14	-	-	-	-
Development stocks (5 years)	5,07	4,49	5,93	-	-	-	-
Development stocks (10 years)	5,37	4,70	6,07	-	-	4,22	-
Development stocks (15 years)	5,60	4,81	6,31	-	-	-	-

Source: Central Bank of Cyprus.

**BOX 2****Liquidity conditions and monetary policy operations**

This box reviews the Central Bank of Cyprus (CBC) liquidity management from 29 September to 23 November 2005. 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 an increase in the liquidity position of the banking system. In addition, from 1 November 2005 the liquidity position of the banking system was further enhanced (by £62 million) as a result of the decrease in the minimum reserve ratio applied to liabilities in Cyprus pounds from 5,75% to 5%.

**Monetary policy operations and interest rates**

The CBC conducted four Liquidity Absorbing Operations (LAOs) through auctions for the acceptance of deposits.

**Open market operations**

(CYP million; 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	29/09/2005	13/10/2005	303,0	180,0	1,68	2,53	14
LAO	13/10/2005	27/10/2005	290,0	200,0	1,45	3,22	14
LAO	27/10/2005	10/11/2005	150,0	50,0	3,00	2,55	14
LAO	10/11/2005	24/11/2005	417,5	250,0	1,67	2,91	14

Source: Central Bank of Cyprus.

The LAOs were carried out through variable rate tenders with a maximum bid rate of 3,25%. The absorbed liquidity ranged between £50 million and £250 million, whereas the weighted average allotment rate remained within the range of 2,53% and 3,22%. The ratio of the amount bid to the volume allotted, ranged between 1,45 and 3,00 with an average of 1,95, while the number of participating counterparties varied between 4 and 6.

**Standing facilities**

(period averages of daily recourse in CYP million)

Period	Deposit facility	Marginal lending facility
29/09 - 12/10/2005	41,0	7,2
13/10 - 26/10/2005	22,3	8,9
27/10 - 09/11/2005	241,9	0,0
10/11 - 23/11/2005	133,6	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 ranged between £22,3 million and £241,9 million. This is in contrast to the very limited recourse to the marginal lending facility for which the respective average recourse ranged between zero and £8,9 million.

Figure 1. Monetary policy operations

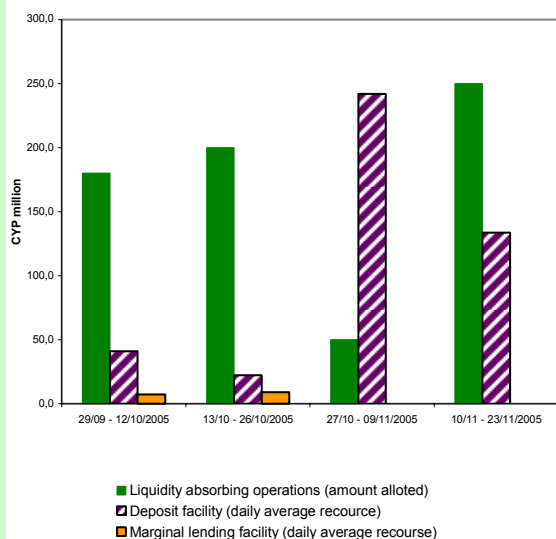
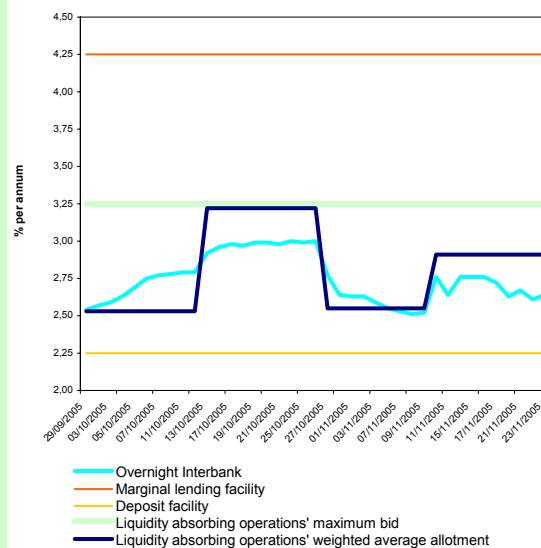


Figure 2. Interest rates



**Overnight interbank interest rate**

(percent per annum)

Period	Minimum rate	Maximum rate	Average rate
29/09 - 12/10/2005	2,54	2,79	2,69
13/10 - 26/10/2005	2,92	3,00	2,98
27/10 - 09/11/2005	2,51	2,77	2,60
10/11 - 23/11/2005	2,61	2,76	2,70

Source: Central Bank of Cyprus.

During the period under review the overnight interbank interest rate ranged between 2,51% and 3,00%. The average rate stood at around 2,74%.

Table 10 provides a comparison between domestic and European long-term interest rates. The most recent data refer to the latest twelve-month average until October 2005 and show

that domestic long-term real interest rates exceeded the corresponding euro area rates by 196 basis points, compared with 210 basis points in the previous 12-month period.

**Table 10****Inflation and interest rates in Europe and Cyprus - October 2005***(latest 12-month average)*

	Inflation ( HICP) (%)	Long-term interest rates (%)	Long-term real interest rates (%)
Austria	2,20	3,44	1,24
Belgium	2,50	3,48	0,98
Czech Republic	1,70	3,62	1,92
Denmark	1,50	3,50	2,00
Estonia <sup>(1)</sup>	4,20	4,10	-0,10
Finland	0,60	3,42	2,82
France	2,00	3,46	1,46
Germany	1,90	3,40	1,50
Greece	3,40	3,63	0,23
Hungary	3,90	6,69	2,79
Ireland	2,30	3,40	1,10
Italy	2,20	3,60	1,40
Latvia	6,90	4,04	-2,86
Lithuania	2,70	3,76	1,06
Luxembourg	3,80	3,42	-0,38
Malta	2,20	4,61	2,41
Netherlands	1,40	3,43	2,03
Poland	2,70	5,38	2,68
Portugal	2,10	3,48	1,38
Slovakia	3,20	3,70	0,50
Slovenia	2,70	3,90	1,20
Spain	3,40	3,44	0,04
Sweden	0,80	3,49	2,69
United Kingdom	2,00	4,52	2,52
Eurozone	2,20	3,47	1,27
Cyprus	2,30	5,53	3,23

Sources: Eurostat and European Central Bank.

(1) Data for September 2005.

## International and domestic official interest rates

At their recent meetings the ECB and the Bank of England maintained their official interest rates unchanged. In contrast, the US Federal Reserve raised its federal funds rate by 25 basis points for the twelfth consecutive time. On 21 October 2005 the Central Bank of Cyprus maintained its official

interest rates unchanged, thus the differential between domestic and European official interest rates remained at 125 basis points both for the marginal lending facility rate and the deposit facility rate (Table 11).

**Table 11**

### Selected official interest rates

(percent per annum, changes in percentage points)

		change
<b>European Central Bank</b>		
<i>(3 November 2005)</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	-
<b>Bank of England</b>		
<i>(10 November 2005)</i>		
Repo rate	4,50	-
<b>Federal Reserve</b>		
<i>(1 November 2005)</i>		
Federal funds rate	4,00	+0,25
Discount rate	5,00	+0,25
<b>Central Bank of Cyprus</b>		
<i>(21 October 2005)</i>		
Minimum bid rate on the main refinancing operations	3,25	-
Maximum bid rate on the liquidity absorbing operations	3,25	-
Interest rate on the marginal lending facility	4,25	-
Interest rate on the deposit facility	2,25	-

Sources: European Central Bank, Bank of England, Federal Reserve and Central Bank of Cyprus.

### Cyprus Stock Exchange (CSE)

During October the all-share CSE index continued its upward trend, but receded slightly towards the end of the month (Chart 8). The index fluctuated between 96,8 and 107, reaching a monthly average of 101,4. During the first ten months of the year the average value of the index was 87,7. In October the main and parallel index fluctuated between 1.433,7 and 1.645, reaching a monthly average of 1.532,5. Compared with September, the average daily value of transactions remained unchanged at £1,3 million. The average daily volume of transactions fell to 888 in October, from 1.018 in

the preceding month. The companies with the largest volume of transactions were Bank of Cyprus and Laiki Bank, with respective shares of 51,9% and 18,4%.

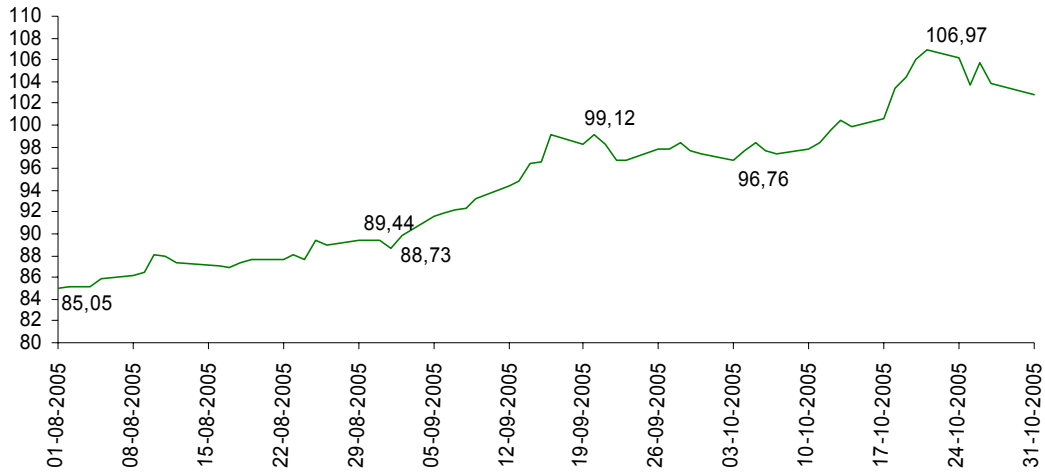
At the last meeting of the month, the main indices as well as the sectoral index of banks and hotels exhibited a rise compared with the previous month's closing.

An analysis of the purchases/sales of listed shares by non-residents is shown in the Annex (Table 13).

**Chart 8**

**Cyprus Stock Exchange general index**

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

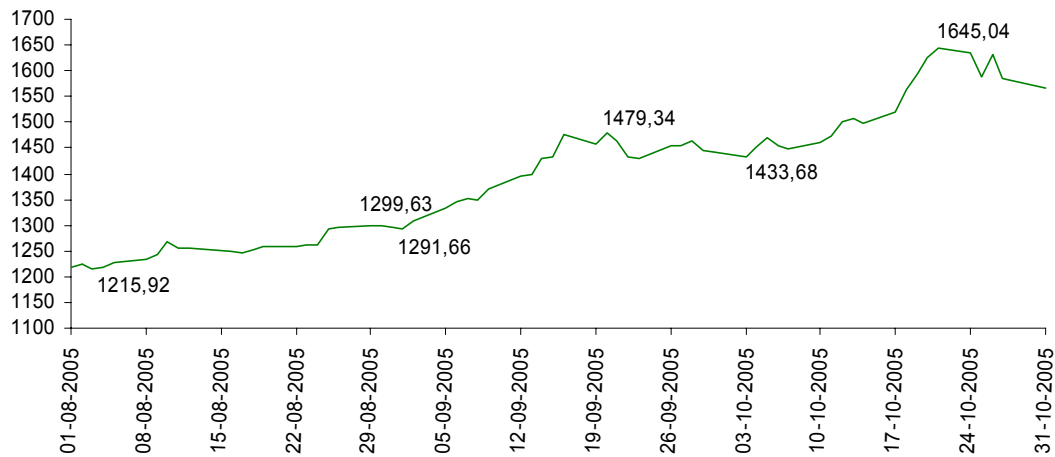


Source: Cyprus Stock Exchange.

**Chart 9**

**Main and parallel market index**

(daily data, 3/9/2004=1000)



Source: Cyprus Stock Exchange.



## 2.3 INFLATION

In October 2005 prices recorded an increase of 3,1%, compared with 2,9% in the previous month and 2,5% in September 2004. As Table 12 shows the rise in the rate of inflation in October (compared with September), reflects the acceleration in the prices of agricultural products, electricity and services. A further fall, though smaller compared with the previous month, was recorded by the prices of imported products.

For the first nine months of the year, inflation reached 2,6% compared with 2% in the corresponding period of 2004. This acceleration reflects the dissipation of the impact of the reduction in excise taxes on cars which took place in November 2003, as well as the acceleration in the prices of electricity and services, especially rents, government services, education and personal services. A more detailed analysis of inflation by economic origin is given in Tables 9 to 12 in the Annex.

In the category of domestic goods there was a 6,9% rise in agricultural product prices in October, compared with an increase of 6,6% in the previous month (Table 12). At the

same time, an acceleration was observed in the price of electricity which rose by 19% compared with 16,4% in the previous month.

The prices of imported goods exhibited a further decline of 4% in October 2005, following a 3,2% reduction in September. In particular, car prices fell by 1,9% compared with a reduction of 3,1% in September.

The prices of services increased by 3% in October compared with a rise of 2,8% in September. This small increase is mainly attributed to the acceleration in the prices of public services, restaurants, transport and personal services.

Finally, it is noted that rents (the most significant category of services), which constitutes an important indicator of the property market's performance, recorded a rise of 3,8% in the first ten months of 2005 compared with a rise of 3,4% in the corresponding ten months of 2004.

**Table 12**
**Consumer price index by economic origin**

(CYP thousand)

	2003	2004	Oct. 2004/2003	Sept. 2005/2004	Oct. 2005/2004
<b>All items</b>	<b>4,14</b>	<b>2,28</b>	<b>2,54</b>	<b>2,93</b>	<b>3,07</b>
<b>A Domestic goods</b>	<b>7,30</b>	<b>5,03</b>	<b>5,80</b>	<b>5,70</b>	<b>5,28</b>
A.1 Agricultural	4,54	3,32	-1,75	6,62	6,91
A.2 Industrial	7,90	6,09	7,52	4,73	3,97
A.2.1 <i>Industrial, non-oil</i>	6,46	3,36	3,16	0,46	-0,01
A.2.2 <i>Fuel and gas</i>	14,16	17,18	25,56	19,36	17,49
A.3 Electricity	10,20	-3,13	-2,46	16,38	19,01
<b>B Imported goods</b>	<b>-2,38</b>	<b>-5,55</b>	<b>-6,39</b>	<b>-3,24</b>	<b>-1,96</b>
B.1 Motor vehicles	-8,31	-13,65	-14,76	-3,15	-1,92
B.2 Other imported goods	1,81	-0,39	-1,08	-3,29	-1,97
<b>C Services</b>	<b>4,38</b>	<b>3,23</b>	<b>3,44</b>	<b>2,81</b>	<b>2,97</b>

Source:Cystat.

For purposes of comparison, Table 13 shows the latest available monthly data on inflation in Cyprus, the euro area and other industrial countries, as well as forecasts for 2005. In 2005 inflation is expected to be around 2,7%.

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

	Inflation rate	Month	Forecast for 2005 <sup>(1)</sup>
Austria	2,0	Oct.	2,2
Belgium	2,5	Oct.	2,5
Canada	3,4	Sept.	2,4
Cyprus	2,6	Oct.	2,7 <sup>(2)</sup>
Denmark	2,0	Oct.	1,8
Euro area	2,5	Oct.	2,2
France	1,8	Oct.	1,9
Germany	2,3	Oct.	2,0
Italy	2,2	Oct.	2,1
Japan	-0,3	Sept.	-0,1
Spain	3,5	Oct.	3,3
Sweden	0,5	Oct.	0,8
Switzerland	1,3	Oct.	1,3
UK	2,3	Oct.	2,2
USA	4,3	Oct.	3,4

*(1) Source: The Economist, 19 November 2005.**(2) Source: Central Bank of Cyprus.*

## 2.4 PRODUCTION, DEMAND AND THE LABOUR MARKET

According to quarterly figures published by Cystat, the growth rate of real GDP reached 3,8% and 3,5% in the first and second quarters of 2005, respectively, compared with 3,9% and 4,1% in the same quarters of 2004. In the labour market, unemployment as a percentage of the economically active population, reached 3,9% in the first ten months of 2005, compared with 3,5% in the corresponding period of 2004.

### Production

In the services sector, tourist arrivals registered an increase of 6,2% in the first ten months of 2005, compared with an increase of 2,9% in the same period of 2004. At the same time, receipts from tourism rose by 2,2% in the first nine months of the year, compared with a fall of 3,2% in the corresponding period of 2004.

In the secondary sectors, the overall picture is positive, despite the problems faced by manufacturing.

More specifically, the volume index of building permits increased by 16,7% in the first eight months of 2005, compared with an increase of 11,6% in the same period of 2004. During the first ten months of 2005, local sales of cement increased by 3,3% compared with an increase of 18,1% in the same period of the previous year.

The volume index of manufacturing production fell by 1% in the first eight months of 2005, compared with an increase of 1,6% in the corresponding period of 2004. It should be noted that the growth rate of the volume index of manufacturing (Table 16) has been adversely affected by the termination of oil refining as from 1 May 2004.

**Table 14**

### Manufacturing production volume index

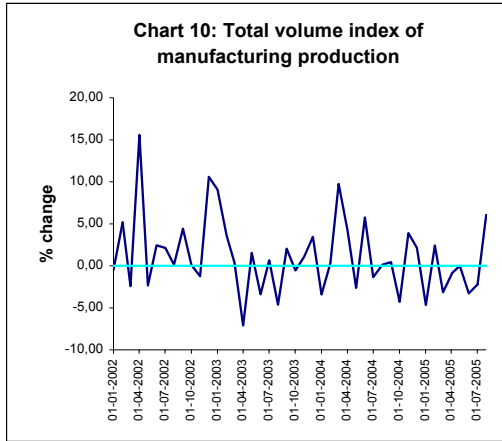
(percentage change by category)

	August 04/03	August 05/04	Jan.-Aug. 04/03	Jan.-Aug. 05/04
General index	0,1	6,1	1,6	-1,0
Food products, beverages & tobacco	-0,1	7,4	-0,7	3,0
Textiles & textile products	14,8	-17,0	-10,3	-11,3
Leather & leather products	-41,2	22,1	-22,5	-38,9
Wood & wood products	-2,7	2,7	17,5	1,3
Paper, paper products, publishing & printing	6,7	2,0	1,6	-3,7
Refined petroleum products	-97,0	-6,3	-57,0	-92,9
Chemicals, chemical products & man-made fibres	26,0	0,8	6,5	-0,2
Rubber & plastic products	13,9	2,7	0,6	-5,6
Other non-metallic mineral products	-12,8	27,9	5,6	3,0
Basic metals & fabricated metal products	7,3	3,8	2,0	-0,4
Machinery & equipment n.e.c.	-7,4	0,3	5,3	-2,7
Electrical & optical equipment	-3,9	1,1	-8,3	-8,0
Transport equipment	-2,4	15,4	-14,5	3,1
Manufacturing n.e.c.	8,2	-0,6	2,8	-3,7

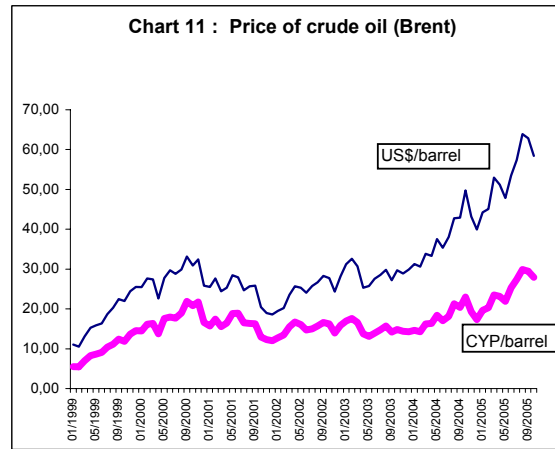
Source: Cystat.

**Charts 10 - 13**

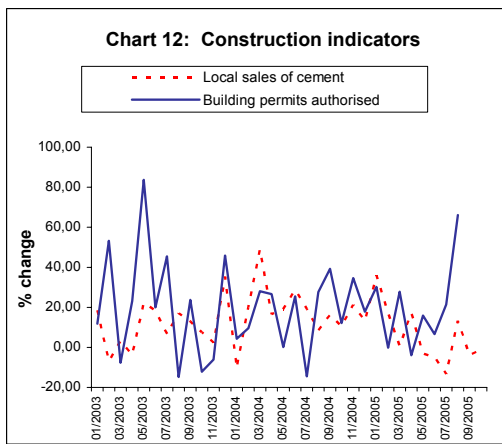
**Selected economic indicators**



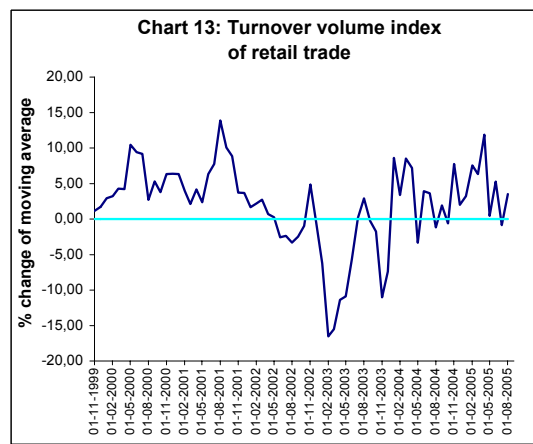
Source: Cystat.



Source: Reuters.

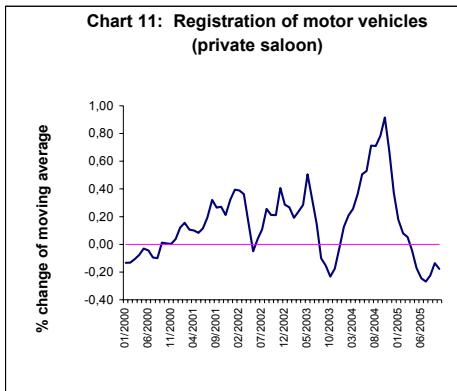


Source: Cystat.

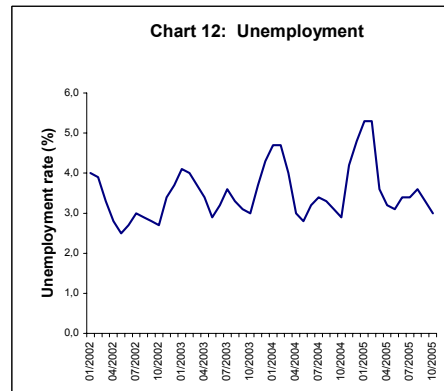


Source: Cystat.

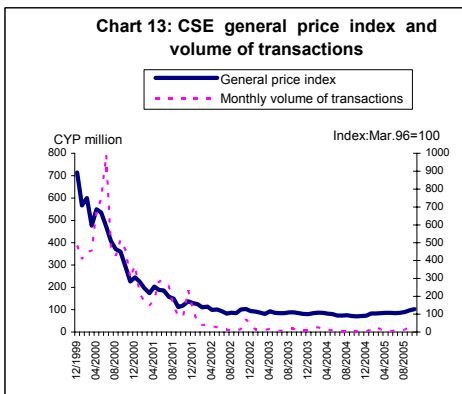
**Charts 14 -17**  
**Selected economic indicators**



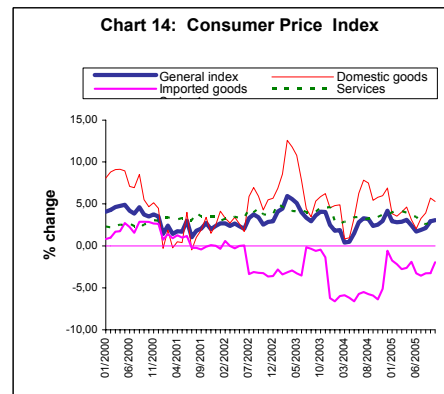
Source: Cystat.



Source: Cystat.



Source: CSE.



Source: Cystat.

Due to the dissipation of the impact of the reduction in excise taxes that took place in November 2003, registrations of private saloon cars, which provide another important indicator of consumer expenditure,

exhibited a fall of the order of 11,6% for the first ten months of 2005, compared with an increase of 47,5% in the corresponding period of the previous year.

### Consumption

The turnover volume index of retail trade registered a rise of 4,5% in the period January-August 2005, compared with an increase of 3,6% in the corresponding period of 2004. In addition, according to the Business and Consumer Survey Results of

the European Commission, the purchasing intentions of Cypriot consumers for the next 12 months are not clear. The intentions were positive for the last quarter of 2004 while for the first ten months of 2005 the index showed significant fluctuations.

**Table 15**

### Turnover volume index of retail trade

(percentage change by category)

	August 04/03	August 05/04	Jan.- Aug. 04/03	Jan.- Aug. 05/04
General index	-1,19	3,53	3,58	4,48
Retail sale in non-specialised stores with food, beverages or tobacco predominating	6,64	4,50	2,71	10,60
Other retail sale in non-specialised stores	-2,70	0,49	2,00	1,92
Retail sale of food, beverages and tobacco in specialised stores	-6,27	10,04	1,99	7,72
Retail sale of pharmaceutical and medical goods, cosmetics and toilet articles	20,05	23,79	9,46	18,25
Retail sale of textiles, clothing, footwear and leather goods	-2,02	10,04	10,35	1,77
Retail sale of furniture, lighting equipment and household articles, electrical household appliances and radio and television goods hardware, paints and glass	11,09	10,53	13,97	7,18
Retail sale of books, newspapers and stationery and other retail sale in specialised stores	-15,16	-6,89	-5,44	-6,93
Retail sale of second-hand goods in stores	47,54	-34,41	-1,36	-18,59
Retail sale not in stores	-4,63	-7,59	-9,49	-0,86

Source: Cystat.

### **Labour market**

In October 2005 the number of registered unemployed increased by 5,2% while the unemployment rate, as a percentage of the economically active population, fluctuated at around 3%, compared with 3,3% in the corresponding month of the previous year. For the first ten months of 2005, the number of registered unemployed increased by 8,3% compared with an increase of 3,7% in the corresponding ten months of 2004. The unemployment rate rose to 3,7% from 3,5% in the corresponding period of 2004.

### **Confidence indicators**

Chart 15 tracks the movement of confidence indicators for the Cyprus economy since May 2001, when the European Commission first started publishing them<sup>7</sup>. The trends in these indicators are generally consistent with the overall picture of the economy presented in this report.

In particular, the construction confidence indicator registered an overall positive trend in the first five months of 2005. This development is consistent with the positive performance of the construction sector as reflected by the volume index of building permits and the cement sales indicator. However, between June and October this was negative, probably reflecting the deceleration observed in local sales of cement and building permits. The positive path observed in the services confidence indicator in the January to October period reflects the recovery in the tourism sector.

In the first ten months of 2005, the consumer confidence indicator was not in line with the acceleration in retail sales and the performance of many other economic indicators. The retail sales confidence indicator as well as the industrial confidence indicator registered large fluctuations.

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7. The European Commission publishes monthly confidence indicators for consumer, industry, construction and retail trade in the EU 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.



## 2.5. PUBLIC FINANCES

In accordance with the preliminary consolidated accounts of the central government and the social security funds, and covering the first nine months of 2005, the fiscal balance reported a surplus of £19,6 million or 0,3% of GDP compared with a fiscal deficit of £167,1 million or 2,3% of GDP in the corresponding 2004 period.

For data comparison purposes, it should be borne in mind that certain one-off receipts have been included in the first nine-month figures for 2005. Such receipts include the proceeds resulting from the tax amnesty as well as the dividend income from CYTA. By excluding these proceeds the fiscal balance for this period is improved by 1,3 percentage points of GDP, compared with the corresponding nine-month period of 2004.

Analytically, comparing the figures for the respective 2004 and 2005 nine-month periods, public revenue increased by 19,3% reaching £2.093,6 million. Tax receipts, which are the main source of income, reached £1.763,2 million during the first nine months of the year compared with £1.493,3 million in the corresponding 2004 period, thus registering an increase by 18,1%. However, by excluding the tax amnesty proceeds this increase is readjusted downwards to 11,5%.

Proceeds arising from direct taxation increased by 46,3% but if we exclude the tax amnesty proceeds, this increase is 21,4%.

Indirect taxes, which form the main source of tax income, increased by 10% reaching £897,7 million. Proceeds from import duties fell by 15,1%. Furthermore, proceeds from excises noted a small reduction of 4,9%, partly due to the reduction in revenue from excises of motor-vehicles. VAT proceeds increased significantly

by 18,5%, due to the large increase in private consumption, the imposition of between 5% and 15% VAT on certain products, as well as the fact that, following EU accession, VAT is paid at the point of consumption rather than at the point of importation. This change had a negative impact on the 2004 receipts and subsequently boosted the positive base effect in 2005.

Social security fund contributions increased by 2%, while non-tax revenue increased by 26,5%. This development is due to the £35 million paid by CYTA as dividend income. By excluding this amount, however, the increase is smaller i.e. 9,8%. Comparing the respective nine month periods of 2004 and 2005, public expenditure increased by 7,9%, reaching £2.074,1 million. Current expenditure increased by 7,1%, while capital expenditure by 23,6%. For certain categories such as purchases of goods and services, subsidies and defence outlays reductions were recorded. However, for certain other categories, such as current transfers and investment expenditure, significant increases were registered.

More analytically, wages and salaries noted a significant deceleration increasing by only 3,9% and reaching £570,1 million. This development is partly due to the reduction in the rate of growth of permanent employees as well as to the employment of a smaller number of temporary staff. Current transfers noted an increase of 15,2% reaching £569,3 million during the first nine months of 2005, compared with £494,2 million in the corresponding period of the previous year. This is mainly the result of the payment of £53,8 million towards the funding of the EU budget, whereas in 2004 the corresponding payment had been only £38,4 million. It should be noted that the rate of growth of current transfers is expected to

increase, following the approval of two social support packages within the 2005 Supplementary Budget.

Finally, despite the reduction in domestic interest rates, interest payments continued to grow by 9,9%. This development is mainly due to the fact that the interest rate reduction has no impact on the long-term public debt accumulated over the past years.

The fiscal situation until October, as outlined above, is expected to change significantly by the end of the year for two main reasons. First, the approval and implementation of the two packages of social support measures as well as the recent supplementary budget. These are expected to reduce the deficit by 0,3 and 1 percentage points, respectively. Second, it has

been observed that the fiscal deficit usually deteriorates by the end of the year. As a result, the fiscal deficit for 2005 is anticipated to settle below the initial target of 2,9% of GDP. It must be noted, however, that the expected reduction of the fiscal deficit is mainly the outcome of temporary measures which will not be repeated in future. For this reason, fiscal consolidation efforts, particularly for the critical year of 2006, need to be intensified and to be based on structural measures, such as the constraint of various categories of public expenditure. The successful participation of the Cyprus pound in ERM II must continue and the path towards the eurozone must be safeguarded. There is no room for complacency nor does Cyprus have the luxury of delays in dealing with challenging economic issues.

## 2.6 EXTERNAL TRANSACTIONS

### Goods

An overview of the trade balance is given in Table 16 for the first nine months of 2005, in line with the preliminary data published by Cystat. It should be noted that since 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.

During the first nine months of 2005, total imports of goods decelerated, increasing by 7,7% compared with a significant increase of 12,6% in the corresponding period of 2004. The deceleration is partly due to exogenous factors, such as the reduction in car imports and the reduction in imports of intermediate goods and raw materials.

During the first nine months of 2005, total exports of goods recorded a significant increase of 23,5% compared with a rise of 6,2% in the corresponding period of 2004. This was largely due to the increase in re-exports.

As a result of the above, the trade balance showed a minor deterioration registering a deficit of £1.583,9 million during the first nine months of 2005, compared with a deficit of £1.528,2 million in the corresponding period of 2004.

Detailed data concerning imports and exports of goods are available until August 2005 (tables 15-16 Annex).

For the period January-August 2005, total imports of goods recorded a deceleration, increasing by 5,8% relative to the corresponding period of 2004 due to the reduction in car imports by 11,2% as a result of the base effect following the reduction in import duties in November 2004. The reduction in the imports of cars is partly outweighed by the significant increase in oil products which increased by 46,2% in the period January-August 2005 relative to the corresponding period of 2004.

As far as exports of goods are concerned, a significant increase of 22,9% was recorded in the period January-August 2005/2004, which was mainly attributed to the increase in re-exports.

### Tourism

Arrivals from tourists, as shown in Table 17, increased by 4,8% in October 2005 compared with a 2,6% increase in the corresponding month of 2004. For the period January-October 2005, a 6,2% increase was recorded compared with a 2,9% increase in the corresponding period of 2004.

Revenue from tourism decreased by 2,3% in September 2005, compared with a 5,3% decrease in the corresponding month of 2004. During the first nine months of 2005 a 2,2% increase in revenue was recorded, compared with a 3,2% decrease in the corresponding period of 2004.

**Table 16****Trade balance data**

(CYP million)

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)
<b>2000</b>	2.402,0	591,9	1.140,9	364,5	1.261,1	227,4
<b>2001</b>	2.528,7	627,9	1.208,8	376,5	1.320,0	251,4
<b>2002</b>	2.486,6	511,3	1.140,9	240,9	1.345,8	270,4
<b>2003</b>	2.304,1	476,8	992,8	198,3	1.311,3	278,5
<b>2004</b>						
May	169,0	56,3	47,0	14,2	122,0	42,1
June	225,1	47,3	70,6	16,4	154,5	30,9
July	221,2	45,5	66,8	16,4	154,4	29,1
August	197,6	35,7	65,1	11,7	132,4	24,0
September	212,7	49,6	68,2	22,5	144,5	27,1
October	238,2	55,7	56,6	24,3	181,6	31,5
November	256,8	52,7	78,6	24,3	178,2	28,5
December	263,9	47,5	86,1	15,0	177,9	32,6
<b>2005</b>						
January	193,1	43,3	62,9	14,4	130,2	29,0
February	209,0	46,8	76,5	18,1	132,5	28,7
March	255,2	61,3	74,0	22,8	181,2	38,5
April	223,6	50,6	78,1	19,0	145,4	31,7
May	238,6	56,2	74,5	16,8	164,1	39,4
June	235,3	57,0	85,3	20,1	149,9	36,8
July	237,1	55,5	78,6	19,6	158,5	35,9
August	215,2	50,3	64,5	18,2	150,7	32,1
September (p)	261,2	63,3	92,8	18,3	168,4	47,0
Jan. -Sept. 2003	1.705,6	369,3	751,5	152,3	954,1	217,0
Jan. - Sept. 2004	1.920,3	392,1	700,4	139,0	1.219,9	253,0
Jan. - Sept.2005 (p)	2.068,2	484,3	687,2	165,2	1.381,1	319,1
% change 2004/2003	12,6	6,2	-6,8	-8,7	27,9	16,6
% change 2005/2004 (p)	7,7	23,5	-1,9	18,8	13,2	26,1

Source :Cystat

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

### **Balance of payments**

Table 14 of the Annex presents preliminary data relating to the balance of payments for the first six months of 2005. This data, which was compiled by the Central Bank of Cyprus, reveals a marginal worsening of the current account deficit, although an improvement is expected in the following quarters, partly due to the anticipated slowdown in the imports of goods and the positive performance in the tourist sector.

As regards the services account, a net surplus of £685,9 million was registered in the first six months of 2005, compared with £742 million in the corresponding period of 2004. Part of this difference is attributed to the negative developments in a number of sectors. More specifically, the surplus recorded in the travel account reached £207,3 million during the first half of 2005, compared with a surplus of £263,7 million in the corresponding period of 2004. This partly reflects the negative course of tourism in

the first half of 2005 in conjunction with the significant increase in the expenditure of Cypriots travelling abroad. The use of Cypriot credit cards abroad, which is an indication of outflows, reported a 22,1% increase in the period January to October 2005, compared with an 8,8% increase in the corresponding period in 2004.

The services surplus, excluding tourism, reached £478,6 million in the first half of 2005 compared with £478,3 million in 2004. A positive performance was recorded by the “transportation” sector whereas the “other business services” sector recorded a decrease, partly as a result of the abolition of the requirement to obtain Central Bank approval for the establishment of a business by non-residents. Therefore, this source of income, mainly for lawyers and accountants, no longer exists.

**Table 17**
**Tourist arrivals<sup>(1)</sup>**

(number of persons)

	2000	2001	2002	2003	2004	2005	% change 2003/2002	% change 2004/2003	% change 2005/2004
January	63.553	64.214	54.067	59.529	56.504	58.894	10,1	-5,1	4,2
February	87.243	83.569	71.950	77.972	75.705	72.600	8,4	-2,9	-4,1
March	135.487	137.578	138.625	91.634	111.946	137.075	-33,9	22,2	22,4
April	221.785	237.228	180.481	169.891	191.251	183.561	-5,9	12,6	-4,0
May	299.355	324.901	279.070	231.527	261.646	284.132	-17,0	13,0	8,6
June	302.011	322.835	293.192	262.100	264.799	282.652	-10,6	1,0	6,7
July	362.299	373.385	327.404	318.143	305.978	338.972	-2,8	-3,8	10,8
August	356.686	371.536	301.724	325.390	305.926	336.587	7,8	-6,0	10,0
September	329.964	329.400	306.731	287.358	303.506	302.833	-6,3	5,6	-0,2
October	300.597	269.744	275.840	271.980	278.976	292.273	-1,4	2,6	4,8
November	133.500	107.454	111.327	123.800	114.048	<i>n.y.a.</i>	11,2	-7,9	<i>n.y.a.</i>
December	93.722	74.887	77.822	83.919	78.723	<i>n.y.a.</i>	7,8	-6,2	<i>n.y.a.</i>
Jan. - Dec.	2.686.202	2.696.731	2.418.233	2.303.243	2.349.008	<i>n.y.a.</i>	-4,8	2,0	<i>n.y.a.</i>
Jan. - Oct.	2.158.383	2.244.646	1.953.244	1.823.544	1.877.261	1.997.306	-6,0	2,9	6,2

Source: Cystat.

(1) Arrivals of same-day visitors are not included.

**Table 18**
**Receipts from tourism<sup>(1)</sup>**

(CYP million)

	2000	2001	2002	2003	2004	2005	% change 2004/2003	% change 2005/2004
January	-	24,9	21,6	25,6	21,8	20,7	-15,0	-5,0
February	-	29,1	28,9	31,4	25,4	23,5	-19,1	-7,5
March	-	49,7	59,2	37,8	42,1	47,6	11,2	13,2
April	-	89,9	77,0	67,1	72,1	62,0	7,4	-14,0
May	-	139,1	119,5	92,5	99,5	105,4	7,6	5,9
June	122,9	157,4	139,3	114,8	109,3	113,3	-4,8	3,7
July	162,7	192,0	160,7	152,4	135,1	140,1	-11,4	3,7
August	173,7	205,0	153,8	165,3	148,1	161,3	-10,4	8,9
September	161,9	176,3	157,4	134,1	141,2	137,9	5,3	-2,3
October	135,1	130,2	128,0	112,4	115,9	<i>n.y.a.</i>	3,1	<i>n.y.a.</i>
November	54,1	48,8	51,4	48,7	43,1	<i>n.y.a.</i>	-11,5	<i>n.y.a.</i>
December	36,2	29,2	35,6	32,9	28,8	<i>n.y.a.</i>	-12,4	<i>n.y.a.</i>
Jan. - Dec.	-	1.271,6	1.132,4	1.015,0	982,3	<i>n.y.a.</i>	-3,2	<i>n.y.a.</i>
Jan. - Sept.	-	1.063,4	917,4	821,1	794,5	811,8	-3,2	2,2

Source: Cystat.

(1) Receipts from same-day visitors are not included.

## 2.7. PROSPECTS FOR 2005 AND 2006

In 2005 the real rate of growth is expected to fluctuate at about the 2004 level. It is anticipated that the growth of domestic demand will be adversely affected by the slowdown in private consumption and fixed capital formation, mainly due to the recent developments in and prospects for oil prices. In contrast, a small increase is expected in public consumption compared with a reduction in the previous year. At the same time, it is anticipated that external demand will accelerate, partly reflecting the positive developments in the tourist sector.

As regards the labour market, unemployment is expected to increase to 3,8% in 2005, compared with 3,6% in 2004, mainly due to the increased presence of foreign workers originating, to a large extent, from EU countries as well as Turkish Cypriots.

As regards public finances, it is assumed that the fiscal deficit will fall to below 2,9% of GDP and the public debt will begin to decline.

In 2005 a small improvement is expected in the current account balance. It should be noted that this anticipated improvement depends mainly on oil price developments for the remainder of the year. It is assumed that the price of oil during the whole of 2005 will average close to \$57 per barrel.

Inflation during 2005 is expected to fluctuate at around 2,7% on the basis of both developments so far and future developments in the oil market. This assessment is based on the small

revaluation of the Cyprus pound in relation to its average value during 2004. Also, it is assumed that the prices of agricultural products will increase by 2% for the whole of 2005, while the prices of services will increase by 3,5%. The reduction in the prices of pharmaceutical products, which are government controlled, and the continuation of the reduction in telecommunications prices are expected to restrain inflation in 2005.

The prices of imported and industrial products, excluding oil products, experienced a slowdown which is expected to continue during the remainder of the year. This can be partly attributed to the gradually increasing competition in the imported goods sector and, consequently, in the total traded goods sector, following EU accession.

In 2006 GDP is expected to grow at about the same rate as in 2004. External demand will play a major role due to the expected improvement in the international environment.

The rate of unemployment is expected to fluctuate around the same level as in 2004, provided that the number of foreign workers remains roughly the same.

The rate of inflation is also expected to remain at the 2005 level, provided that oil prices do not alter significantly. In addition, the actual rate of inflation will be influenced by the new competitive environment that has prevailed post- EU accession.

### **3. ANNEX**



**Table 1**  
**Official interest rates**  
(percent 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	Acceptance of deposits operations <sup>(1)</sup>		
		Minimum bid rate	Maximum bid rate	Maximum bid rate		
2001	10 Aug.	3,50	5,00	5,00	-	6,50
	18 Sep.	3,00	4,50	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
2005	25 Feb.	3,25	4,25	4,25	4,25	5,25
	20 May	2,75	3,75	3,75	3,75	4,75
	09 Jun.	2,25	3,25	3,25	3,25	4,25

Source: Central Bank of Cyprus.

(1) The first operation for the acceptance of deposits was conducted on 9 October 2001 with a maximum bid rate of 4,50%.

**Table 2**  
**Open market operations allotted through tenders - liquidity absorbing operations <sup>(1)</sup>**  
(CYP million, interest rates in percent 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		
2005	05 May	101,0	50,0	4,25	3,84	3,83	3,85	14
	19 May	164,0	120,0	4,25	3,65	3,62	3,73	14
	02 Jun.	223,0	140,0	3,75	3,23	3,00	3,74	7
	09 Jun.	141,0	60,0	3,75	3,60	3,12	3,75	7
	16 Jun.	88,5	30,0	3,25	2,60	2,60	2,60	14
	30 Jun.	159,5	110,0	3,25	2,64	2,56	2,90	14
	14 Jul.	151,5	70,0	3,25	2,62	2,60	2,67	14
	28 Jul.	122,0	80,0	3,25	2,62	2,58	2,78	14
	11 Aug.	122,0	80,0	3,25	2,69	2,65	2,72	14
	25 Aug.	209,0	140,0	3,25	2,73	2,61	3,24	7
	01 Sep.	317,2	200,0	3,25	2,65	2,60	2,72	14
	15 Sep.	327,5	200,0	3,25	2,57	2,56	2,59	14
	29 Sep.	303,0	180,0	3,25	2,53	2,52	2,55	14
	13 Oct.	290,0	200,0	3,25	3,22	2,58	3,25	14
	27 Oct.	150,0	50,0	3,25	2,55	2,47	2,59	14
	10 Nov.	417,5	250,0	3,25	2,91	2,48	3,12	14
24 Nov.	396,5	180,0	3,25	2,53	2,50	2,54	14	

Source: Central Bank of Cyprus.

(1) Since 9 October 2001, open market operations for the absorption of liquidity have been conducted through auctions for the acceptance of deposits (depos).

**Table 3****Monetary aggregates and counterparts***(outstanding amounts at end of period, CYP thousand)*

	2004 Sep.	2004 Oct.	2005 Sep.	2005 Oct.
<b>Money supply (M1)</b>	<b>1.413.632</b>	<b>1.396.985</b>	<b>1.639.274</b>	<b>1.679.998</b>
Currency in circulation	489.016	475.766	534.198	518.122
Demand deposits	824.962	830.496	977.544	1.008.454
Deposits in foreign currency	99.654	90.723	127.532	153.422
<b>Quasi-money</b>	<b>7.448.592</b>	<b>7.424.649</b>	<b>7.898.138</b>	<b>7.958.922</b>
Saving deposits	309.400	305.501	335.298	337.548
Time deposits	6.597.327	6.553.291	6.686.983	6.720.535
Deposits in foreign currency	541.865	565.857	875.857	900.839
<b>Total money supply (M2)</b>	<b>8.862.224</b>	<b>8.821.634</b>	<b>9.537.412</b>	<b>9.638.920</b>
Net foreign assets	1.093.590	1.069.731	1.698.726	1.762.732
Claims on private sector	8.601.932	8.602.770	9.031.955	9.045.824
of which in foreign currency	875.179	882.846	1.067.946	1.105.413
Claims on public sector	1.930.889	1.952.429	1.975.967	1.984.638
Unclassified items	-2.764.187	-2.803.296	-3.169.236	-3.154.274

*Source: Central Bank of Cyprus.***Table 4****Bank credit by sector<sup>(1)</sup>***(outstanding amounts at end of period, CYP thousand)*

	2004 Sep.	2004 Oct.	2005 Sep.	2005 Oct.
Public institutions and corporations <sup>(2)</sup>	278.319	280.602	299.730	300.920
Agriculture	115.598	114.935	113.125	104.290
Mining	26.602	26.915	28.544	28.397
Manufacturing	523.717	528.728	530.045	519.230
Transport and communications	115.948	109.609	90.955	90.365
Foreign and domestic trade	1.561.909	1.548.623	1.527.506	1.531.533
Building and construction	1.512.206	1.521.482	1.651.156	1.662.929
Tourism	849.625	845.268	831.645	824.796
Personal and professional loans	4.014.090	4.088.820	4.488.331	4.510.513
Bills discounted: Local	2.814	2.975	2.384	2.456
Foreign	2.131	2.237	1.702	1.562
<b>Total</b>	<b>9.002.959</b>	<b>9.070.194</b>	<b>9.565.123</b>	<b>9.576.991</b>

*Source: Central Bank of Cyprus.**(1) This refers to loans in local and foreign currency, given to residents and non-residents of Cyprus.**(2) Including government loans.*

**Table 5****Money market interest rates***(percent 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 (EONIA)	1-month deposits (EURIBOR)	3-month deposits (EURIBOR)	6-month deposits (EURIBOR)	12-month deposits (EURIBOR)
2004 Sep.	4,11	4,39	4,56	5,33	5,50	2,05	2,08	2,12	2,20	2,38
Oct.	4,10	4,45	4,69	-	-	2,11	2,09	2,15	2,19	2,32
Nov.	4,20	4,44	4,83	5,38	-	2,09	2,11	2,17	2,22	2,33
Dec.	4,73	4,82	5,00	5,55	-	2,05	2,17	2,17	2,21	2,30
2005 Jan.	4,25	4,42	4,83	4,44	-	2,08	2,11	2,15	2,19	2,31
Feb.	4,38	4,53	4,60	-	5,18	2,06	2,10	2,14	2,18	2,31
Mar.	4,16	4,43	4,63	4,89	5,15	2,06	2,10	2,14	2,19	2,34
Apr.	3,83	4,14	4,55	-	5,15	2,08	2,10	2,14	2,17	2,27
May	3,47	4,10	-	4,30	5,10	2,07	2,10	2,13	2,14	2,19
June	3,11	3,49	3,31	3,75	-	2,06	2,10	2,11	2,11	2,10
July	2,70	3,12	2,85	3,44	-	2,07	2,11	2,12	2,13	2,17
Aug.	2,75	3,01	2,90	-	4,10	2,06	2,11	2,13	2,16	2,22
Sep.	2,55	2,91	2,83	-	-	2,09	2,12	2,14	2,17	2,22
Oct.	2,85	2,99	2,87	3,98	-					

Sources: Central Bank of Cyprus and European Central Bank.

**Table 6**  
**Bank interest rates** <sup>(1,2)</sup>  
 (percent 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
2003 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.	7,92	7,92	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
Nov.	7,92	7,92	8,55	7,30	11,50	0,64	4,44	4,21
Dec.	7,92	7,92	8,55	7,30	11,50	0,63	4,44	4,21
2005 Jan.	7,92	7,92	8,55	7,30	11,50	0,66	4,47	4,32
Feb.	7,90	7,91	8,60	7,30	11,67	0,67	4,39	4,36
Mar.	7,61	7,63	8,38	6,76	11,83	0,65	4,37	4,38
Apr.	7,61	7,63	8,38	6,76	11,75	0,64	4,30	4,38
May	7,18	7,20	7,97	6,33	11,83	0,55	4,04	4,07
June	6,69	6,70	7,58	5,76	12,00	0,39	3,47	3,88
July	6,69	6,70	7,47	5,76	12,00	0,42	3,47	3,85
Aug.	6,70	6,69	7,49	5,74	12,00	0,45	3,47	3,82
Sep.	6,69	6,69	7,49	5,74	12,00	0,46	3,47	3,79
Oct.	6,69	6,68	7,29	5,74	12,00	0,47	3,47	3,75

Source: Domestic banks.

(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 7****Interest rates - European monetary financial institutions***(percent per annum, outstanding amounts as at 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 <sup>(1)</sup>		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
2004 Aug.	0,72	1,90	3,24	1,95	2,53	0,87	2,10	3,99
Sep.	0,72	1,90	3,22	2,00	2,52	0,90	2,12	3,97
Oct.	0,72	1,90	3,27	2,00	2,52	0,89	2,10	3,89
Nov.	0,73	1,90	3,26	2,01	2,51	0,90	2,12	3,86
Dec.	0,73	1,92	3,24	2,00	2,52	0,90	2,16	3,77
2005 Jan.	0,74	1,91	3,23	1,98	2,49	0,93	2,12	3,73
Feb.	0,74	1,92	3,26	1,97	2,49	0,93	2,11	3,70
Mar.	0,74	1,92	3,22	1,96	2,47	0,94	2,09	3,70
Apr.	0,74	1,93	3,22	1,95	2,45	0,95	2,10	3,57
May	0,75	1,92	3,19	1,97	2,43	0,95	2,10	3,50
June	0,69	1,92	3,22	2,17	2,38	0,91	2,11	3,55
July	0,68	1,91	3,18	2,15	2,34	0,94	2,11	3,50

**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
2004 Aug.	4,81	4,61	4,91	8,17	7,06	5,86	4,42	3,97	4,51
Sep.	4,82	4,58	4,90	8,06	7,13	5,85	4,45	3,99	4,52
Oct.	4,69	4,54	4,88	8,05	7,07	5,80	4,41	3,97	4,48
Nov.	4,67	4,52	4,86	7,94	6,98	5,82	4,40	3,96	4,48
Dec.	4,78	4,50	4,83	7,94	7,00	5,80	4,34	3,97	4,44
2005 Jan.	4,78	4,45	4,79	8,07	6,97	5,77	4,41	3,90	4,41
Feb.	4,74	4,45	4,76	8,07	7,03	5,76	4,39	3,92	4,46
Mar.	4,75	4,41	4,78	8,08	6,97	5,77	4,38	3,91	4,40
Apr.	4,69	4,38	4,74	8,02	6,94	5,76	4,34	3,86	4,37
May	4,63	4,36	4,71	8,00	6,87	5,74	4,33	3,85	4,35
June	4,63	4,33	4,67	7,92	6,93	5,72	4,32	3,85	4,35
July	4,58	4,29	4,64	7,89	6,86	5,70	4,30	3,82	4,29

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 8**
**Interest rate announcements in 2005**

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
European Central Bank <sup>(1)</sup>	13 <b>2,00</b>	3 <b>2,00</b>	3 <b>2,00</b>	7 <b>2,00</b>	4 <b>2,00</b>	2 <b>2,00</b>	7 <b>2,00</b>	4 <b>2,00</b>	1 <b>2,00</b>	6 <b>2,00</b>	3 <b>2,00</b>	1
Bank of England <sup>(2)</sup>	13 <b>4,75</b>	10 <b>4,75</b>	10 <b>4,75</b>	7 <b>4,75</b>	9 <b>4,75</b>	9 <b>4,75</b>	7 <b>4,75</b>	4 <b>4,50</b>	8 <b>4,50</b>	6 <b>4,50</b>	10 <b>4,50</b>	8
Federal Reserve <sup>(3)</sup>		1/2 <b>2,50</b>	22 <b>2,75</b>		3 <b>3,00</b>	29/30 <b>3,25</b>		9 <b>3,50</b>	20 <b>3,75</b>		1 <b>4,00</b>	13
Central Bank of Cyprus <sup>(4)</sup>	14 <b>5,50</b>	25 <b>5,25</b>		8 <b>5,25</b>	20 <b>4,75</b>	9 <b>4,25</b>	8 <b>4,25</b>		2 <b>4,25</b>	21 <b>4,25</b>		2

(unscheduled meeting)

(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 9****Percentage change in the consumer price index by economic origin (%)**

(2002 – 2005)

	Yearly			Quarterly			Oct.	Sept.	Oct.	Jan.-	Jan.-	Jan.-	Weights 1998=100
	2002	2003	2004	2005 I	2005 II	2005 III	2004/ 2003	2005/ 2004	2005/ 2004	2004/ 2003	2005/ 2004	2005/ 2004	
<b>GENERAL INDEX</b>	<b>2,81</b>	<b>4,14</b>	<b>2,28</b>	<b>2,88</b>	<b>2,41</b>	<b>2,32</b>	<b>2,54</b>	<b>2,93</b>	<b>3,07</b>	<b>2,02</b>	<b>2,54</b>	<b>2,59</b>	<b>100,00</b>
<b>A LOCAL GOODS</b>	<b>4,35</b>	<b>7,30</b>	<b>5,03</b>	<b>3,81</b>	<b>3,25</b>	<b>4,29</b>	<b>5,80</b>	<b>5,70</b>	<b>5,28</b>	<b>4,73</b>	<b>3,78</b>	<b>3,93</b>	<b>36,69</b>
A.1 Agricultural	1,79	4,54	3,32	2,82	-2,22	2,19	1,75	6,62	6,91	2,67	0,93	1,53	7,93
A.2 Industrial	5,62	7,90	6,09	4,33	4,38	4,17	7,52	4,73	3,97	5,94	4,30	4,26	27,24
A.2.1 industrial non-petroleum	4,55	6,46	3,36	1,87	1,57	0,44	3,16	0,46	-0,01	3,36	1,29	1,16	22,91
A.2.2 fuel and gas	10,57	14,16	17,18	13,59	14,96	16,94	25,56	19,36	17,49	16,40	15,16	15,40	4,33
A.3 Electricity	-2,26	10,20	-3,13	0,27	8,78	14,59	-2,46	16,38	19,01	-3,88	7,88	9,00	1,52
<b>B IMPORTED GOODS</b>	<b>-1,69</b>	<b>-2,38</b>	<b>-5,55</b>	<b>-2,23</b>	<b>-2,60</b>	<b>-3,36</b>	<b>-6,39</b>	<b>-3,24</b>	<b>-1,96</b>	<b>-6,06</b>	<b>-2,73</b>	<b>-2,65</b>	<b>22,20</b>
B.1 Motor vehicles	-5,07	-8,31	-13,65	-1,81	-2,61	-3,71	-14,76	-3,15	-1,92	-14,99	-2,71	-2,63	9,43
B.2 Other	0,85	1,81	-0,39	-2,46	-2,59	-3,16	-1,08	-3,29	-1,97	-0,26	-2,74	-2,66	12,77
<b>C SERVICES</b>	<b>3,67</b>	<b>4,38</b>	<b>3,23</b>	<b>4,13</b>	<b>3,69</b>	<b>2,74</b>	<b>3,44</b>	<b>2,81</b>	<b>2,97</b>	<b>3,14</b>	<b>3,52</b>	<b>3,46</b>	<b>41,11</b>
<b>HICP</b>	<b>2,8</b>	<b>4,0</b>	<b>1,9</b>	<b>2,5</b>	<b>2,1</b>	<b>1,6</b>	<b>2,0</b>	<b>2,1</b>	<b>2,2</b>	<b>1,6</b>	<b>2,1</b>	<b>2,1</b>	
<b>Core inflation</b>	<b>2,5</b>	<b>2,5</b>	<b>2,5</b>	<b>2,4</b>	<b>1,5</b>	<b>1,0</b>	<b>2,6</b>	<b>1,1</b>	<b>1,4</b>	<b>2,4</b>	<b>1,9</b>	<b>1,8</b>	
<b>Euro area inflation</b>	<b>2,3</b>	<b>2,1</b>	<b>2,1</b>	<b>2,0</b>	<b>2,1</b>	<b>2,3</b>	<b>2,3</b>	<b>2,5</b>		<b>2,1</b>	<b>2,1</b>		

Source: Cystat.

**Table 10**
**Weighted contribution to the total change in the consumer price index by economic origin (%)**

(2002 – 2005)

	Yearly			Quarterly			Oct.	Sept.	Oct.	Jan.-	Jan.-	Jan.-	Weights 1998=100
	2002	2003	2004	2005 I	2005 II	2005 III	2004/ 2003	2005/ 2004	2005/ 2004	Oct. 2004/ 2003	Sept. 2005/ 2004	Oct. 2005/ 2004	
<b>GENERAL INDEX</b>	<b>2,81</b>	<b>4,14</b>	<b>2,28</b>	<b>2,88</b>	<b>2,41</b>	<b>2,32</b>	<b>2,54</b>	<b>2,93</b>	<b>3,07</b>	<b>2,02</b>	<b>2,54</b>	<b>2,59</b>	<b>100,00</b>
<b>A LOCAL GOODS</b>	<b>1,64</b>	<b>2,79</b>	<b>1,98</b>	<b>1,52</b>	<b>1,31</b>	<b>1,73</b>	<b>2,30</b>	<b>2,30</b>	<b>2,16</b>	<b>1,86</b>	<b>1,52</b>	<b>1,58</b>	<b>36,69</b>
A.1 Agricultural	0,15	0,37	0,27	0,24	-0,18	0,18	0,14	0,53	0,56	0,22	0,08	0,13	7,93
A.2 Industrial	1,53	2,22	1,77	1,28	1,32	1,26	2,21	1,44	1,22	1,72	1,29	1,28	27,24
A.2.1 industrial non-petroleum	1,02	1,47	0,78	0,44	0,37	0,10	0,75	0,11	0,00	0,78	0,30	0,27	22,91
A.2.2 fuel and gas	0,51	0,74	0,99	0,84	0,95	1,15	1,46	1,33	1,22	0,94	0,98	1,01	4,33
A.3 Electricity	-0,05	0,20	-0,07	0,00	0,17	0,29	-0,05	0,33	0,38	-0,08	0,15	0,19	1,52
<b>B IMPORTED GOODS</b>	<b>-0,35</b>	<b>-0,48</b>	<b>-1,04</b>	<b>-0,39</b>	<b>-0,45</b>	<b>-0,58</b>	<b>-1,19</b>	<b>-0,56</b>	<b>-0,33</b>	<b>-1,15</b>	<b>-0,48</b>	<b>-0,46</b>	<b>22,20</b>
B.1 Motor vehicles	-0,46	-0,69	-1,00	-0,11	-0,16	-0,23	-1,07	-0,19	-0,12	-1,12	-0,17	-0,16	9,43
B.2 Other	0,10	0,21	-0,04	-0,28	-0,29	-0,35	-0,12	-0,37	-0,22	-0,03	-0,31	-0,30	12,77
<b>C SERVICES</b>	<b>1,52</b>	<b>1,83</b>	<b>1,35</b>	<b>1,75</b>	<b>1,55</b>	<b>1,17</b>	<b>1,44</b>	<b>1,19</b>	<b>1,25</b>	<b>1,31</b>	<b>1,49</b>	<b>1,47</b>	<b>41,11</b>

Source: Cystat.



**Table 11****Percentage change in the consumer price index by category of goods and services (%)**

(2002 – 2005)

	Yearly			Quarterly			Oct.	Sept.	Oct.	Jan.-	Jan.-	Jan.-	Weights
	2002	2003	2004	2005 I	2005 II	2005 III	2004/ 2003	2005/ 2004	2005/ 2004	2004/ 2003	2005/ 2004	2005/ 2004	
<b>GENERAL INDEX</b>	<b>2,81</b>	<b>4,14</b>	<b>2,28</b>	<b>2,88</b>	<b>2,41</b>	<b>2,31</b>	<b>2,54</b>	<b>2,93</b>	<b>3,07</b>	<b>2,02</b>	<b>2,54</b>	<b>2,59</b>	<b>100,00</b>
Food & non-alcoholic beverages	4,58	5,11	<b>3,97</b>	2,57	0,06	1,50	3,05	3,61	3,88	3,79	1,38	1,63	18,20
Alcoholic beverages & tobacco	13,32	24,22	<b>10,57</b>	1,44	0,79	-0,72	2,52	-0,68	-1,05	12,27	0,50	0,35	1,78
Clothing & footwear	-3,46	1,19	<b>-0,79</b>	-2,40	-0,67	-4,49	1,43	-4,11	-3,74	-1,19	-2,52	-2,64	8,22
Housing, water, electricity & gas	4,08	5,04	<b>4,19</b>	4,72	5,35	5,59	4,92	6,17	6,34	3,94	5,22	5,33	21,27
Furnishings, household equipment & supplies	0,81	3,59	<b>-0,45</b>	0,30	0,26	1,43	-0,12	0,86	0,80	-0,63	0,66	0,68	7,08
Health	4,70	5,66	<b>3,72</b>	2,09	0,47	-0,08	3,34	-0,28	-0,51	3,65	0,83	0,69	4,92
Transport	0,39	0,35	<b>-3,06</b>	3,38	3,28	3,93	-1,42	5,41	5,38	-4,02	3,53	3,72	17,42
Communications	-8,81	-7,16	<b>-8,48</b>	-9,87	-7,56	-11,52	-11,11	-12,46	-12,39	-8,02	-9,65	-9,93	1,79
Recreation & culture	2,20	3,55	<b>2,26</b>	2,42	2,50	0,00	2,82	-0,77	-0,70	2,12	1,64	1,41	5,88
Education	5,71	4,02	<b>3,96</b>	5,60	5,60	5,32	5,32	4,75	4,51	3,63	5,51	5,41	2,33
Restaurants & hotels	3,97	5,31	<b>4,69</b>	4,95	3,67	2,39	5,14	2,01	2,59	4,53	3,67	3,56	6,07
Miscellaneous goods and services	5,49	5,50	<b>5,16</b>	4,53	4,17	2,86	4,80	2,51	3,51	5,20	3,85	3,82	5,04

Source: Cystat.

**Table 12**
**Weighted contribution to the total change in the consumer price index by category of goods and services (%)**

(2002 – 2005)

	Yearly			Quarterly			Oct.	Sept.	Oct.	Jan.-	Jan.-	Jan.-	Weights 1998=100
	2002	2003	2004	2005 I	2005 II	2005 III	2004/ 2003	2005/ 2004	2005/ 2004	Oct. 2004/ 2003	Sept. 2005/ 2004	Oct. 2005/ 2004	
<b>GENERAL INDEX</b>	<b>2,81</b>	<b>4,14</b>	<b>2,28</b>	<b>2,88</b>	<b>2,41</b>	<b>2,31</b>	<b>2,54</b>	<b>2,93</b>	<b>3,07</b>	<b>2,02</b>	<b>2,54</b>	<b>2,59</b>	<b>100,00</b>
Food & non-alcoholic beverages	0,86	0,97	<b>0,76</b>	0,51	0,01	0,29	0,58	0,70	0,74	0,73	0,27	0,32	18,20
Alcoholic beverages & tobacco	0,27	0,54	<b>0,28</b>	0,04	0,02	-0,02	0,07	-0,02	-0,03	0,32	0,01	0,01	1,78
Clothing & footwear	-0,25	0,08	<b>-0,05</b>	-0,15	-0,05	-0,27	0,10	-0,26	-0,26	-0,08	-0,15	-0,16	8,22
Housing, water, electricity & gas	0,88	1,10	<b>0,93</b>	1,06	1,20	1,27	1,08	1,40	1,43	0,87	1,18	1,20	21,27
Furnishings, household equipment & supplies	0,05	0,23	<b>-0,03</b>	0,02	0,02	0,09	-0,01	0,05	0,05	-0,04	0,04	0,04	7,08
Health	0,25	0,30	<b>0,20</b>	0,12	0,03	0,00	0,18	-0,02	-0,03	0,20	0,05	0,04	4,92
Transport	0,07	0,06	<b>-0,51</b>	0,52	0,51	0,62	-0,23	0,85	0,84	-0,67	0,55	0,58	17,42
Communications	-0,13	-0,09	<b>-0,10</b>	-0,11	-0,08	-0,12	-0,13	-0,12	-0,12	-0,09	-0,10	-0,10	1,79
Recreation & culture	0,12	0,19	<b>0,12</b>	0,13	0,13	0,00	0,15	-0,04	-0,04	0,11	0,09	0,08	5,88
Education	0,14	0,10	<b>0,10</b>	0,15	0,14	0,14	0,14	0,12	0,12	0,09	0,14	0,14	2,33
Restaurants & hotels	0,26	0,35	<b>0,31</b>	0,34	0,25	0,17	0,34	0,14	0,18	0,30	0,25	0,24	6,07
Miscellaneous goods and services	0,28	0,29	<b>0,28</b>	0,25	0,23	0,16	0,26	0,14	0,19	0,28	0,21	0,21	5,04

Source: Cystat.

**Table 13****Cyprus Stock Exchange: purchase and sale of listed shares by non-residents<sup>(1)</sup>***(CYP thousand)*

Geographic origin of non-resident investors	Purchase of listed shares by non-residents							Sale of listed shares by non-residents						
	2003	2004	2005					2003	2004	2005				
			June	Jul.	Aug.	Sep.	Oct.			June	July	Aug.	Sep.	Oct.
<b>EUROPE</b>	<b>5.014,2</b>	<b>7.416,2</b>	<b>92,3</b>	<b>94,5</b>	<b>189,1</b>	<b>770,8</b>	<b>704,2</b>	<b>1.199,3</b>	<b>3.938,7</b>	<b>82,9</b>	<b>255,5</b>	<b>220,2</b>	<b>266,1</b>	<b>389,9</b>
EU-25	4.977,4	6.064,4	50,4	64,4	155,0	734,0	651,3	1.149,8	3.710,1	54,2	225,1	181,8	197,2	342,0
Greece	4.101,0	5.519,5	41,2	46,9	125,4	331,7	628,1	879,3	3.328,1	42,6	158,2	139,0	172,3	168,5
United Kingdom	678,7	265,2	5,8	6,2	18,5	125,2	11,4	216,1	182,5	11,6	29,9	35,0	3,5	1,2
Other European countries	36,8	1.351,8	42,0	30,1	34,1	36,8	52,9	49,5	228,6	28,6	30,4	38,3	68,9	47,8
Russian Federation	17,9	1.131,5	25,1	18,1	22,5	21,9	39,3	3,5	59,3	11,7	4,8	31,1	30,6	36,1
<b>AFRICA</b>	<b>284,1</b>	<b>415,8</b>	<b>5,3</b>	<b>4,4</b>	<b>0,0</b>	<b>0,0</b>	<b>3,9</b>	<b>17,1</b>	<b>295,7</b>	<b>2,3</b>	<b>2,7</b>	<b>0,3</b>	<b>10,3</b>	<b>1,7</b>
North African countries	0,0	0,9	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	1,8	0,0	0,0	0,0
Other African countries	284,1	414,9	5,3	4,4	0,0	0,0	3,9	17,1	295,7	2,3	0,9	0,3	10,3	1,7
South Africa	0,5	56,7	0,0	2,6	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	5,2	0,0
<b>AMERICA</b>	<b>303,0</b>	<b>888,6</b>	<b>0,0</b>	<b>0,0</b>	<b>15,9</b>	<b>95,9</b>	<b>51,5</b>	<b>21,6</b>	<b>1.643,7</b>	<b>33,2</b>	<b>0,0</b>	<b>36,0</b>	<b>115,8</b>	<b>34,7</b>
North American countries	129,7	635,6	0,0	0,0	0,0	1,6	8,7	3,7	80,0	0,0	0,0	7,2	0,0	6,4
United States of America	125,7	634,9	0,0	0,0	0,0	0,0	8,7	3,7	28,7	0,0	0,0	7,2	0,0	6,4
Canada	4,0	0,7	0,0	0,0	0,0	1,6	0,0	0,0	51,3	0,0	0,0	0,0	0,0	0,0
Central American countries	173,3	253,0	0,0	0,0	15,9	94,3	42,8	18,0	1.563,7	33,2	0,0	28,8	115,8	28,3
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
<b>ASIA</b>	<b>24,1</b>	<b>61,7</b>	<b>7,4</b>	<b>13,3</b>	<b>162,0</b>	<b>11,5</b>	<b>3,0</b>	<b>14,6</b>	<b>12,2</b>	<b>20,1</b>	<b>49,2</b>	<b>11,7</b>	<b>14,5</b>	<b>23,8</b>
West Asia	23,3	17,0	6,0	12,8	159,7	9,7	3,0	14,6	12,2	0,0	45,0	11,7	14,5	0,9
Other Asian countries	0,8	44,8	1,4	0,5	2,3	1,8	0,0	0,0	0,0	20,1	4,2	0,0	0,0	22,9
<b>OCEANIA</b>	<b>26,8</b>	<b>18,5</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>8,2</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>
<b>Total</b>	<b>5.652,2</b>	<b>8.800,8</b>	<b>105,1</b>	<b>112,2</b>	<b>367,0</b>	<b>878,2</b>	<b>762,5</b>	<b>1.252,6</b>	<b>5.898,5</b>	<b>138,5</b>	<b>307,4</b>	<b>268,2</b>	<b>406,8</b>	<b>450,2</b>

Source: Cyprus Stock Exchange.

<sup>(1)</sup> Purchase of shares included in the central securities depository as well as shares not included in the central securities depository.

**Table 14**  
**Balance of payments**  
 (CYP million)

CATEGORIES	2004 Annual (P)			2004 Q1(P)			2004 Q2(P)			2005 Q1(P)			2005 Q2(P)		
	CREDIT	DEBIT	NET	CREDIT	DEBIT	NET	CREDIT	DEBIT	NET	CREDIT	DEBIT	NET	CREDIT	DEBIT	NET
<b>CURRENT ACCOUNT</b>	4.038,1	4.454,4	-416,3	764,3	906,9	-142,6	1.014,4	1.067,6	-53,3	827,3	1.066,3	-239,0	1.081,7	1.059,8	22,0
<b>Goods, services and income</b>	3.760,1	4.259,7	-499,6	717,6	874,1	-156,5	938,4	1.018,8	-80,4	749,2	1.034,5	-285,3	1.014,5	1.010,8	3,8
<b>Goods and services</b>	3.458,6	3.673,0	-214,4	676,5	810,5	-134,0	898,7	927,7	-28,9	683,7	916,2	-232,6	936,4	951,8	-15,4
<b>Goods</b>	541,0	2.440,3	-1.899,3	109,9	526,6	-416,8	147,7	655,8	-508,1	151,6	591,8	-440,2	164,6	639,0	-474,5
<b>Services</b>	2.917,6	1.232,7	1.684,9	566,7	283,9	282,8	751,0	271,9	479,1	532,1	324,4	207,7	771,8	312,7	459,1
Transport	676,6	523,1	153,5	149,8	130,9	18,9	170,5	129,6	40,9	152,7	146,3	6,4	187,5	147,1	40,4
Sea transport	499,2	307,8	191,4	114,4	83,6	30,8	130,6	70,9	59,8	119,0	103,0	16,0	135,6	93,4	42,1
Air transport	168,6	205,4	-36,8	31,0	45,9	-14,9	37,9	55,9	-18,0	33,0	42,3	-9,2	51,1	52,5	-1,5
Other transportation	8,8	9,9	-1,1	4,4	1,4	3,0	1,9	2,8	-0,9	0,7	1,1	-0,4	0,9	1,2	-0,3
Travel	1.054,4	378,2	676,2	107,6	78,3	29,3	298,8	65,5	233,4	104,9	100,9	4,0	296,6	92,8	203,8
Business travel	56,0	13,3	42,7	11,9	3,4	8,5	16,1	4,1	12,0	0,9	1,8	-1,0	0,2	1,9	-1,7
Personal travel	998,4	364,8	633,6	95,7	74,9	20,8	282,8	61,4	221,4	104,0	99,1	5,0	296,5	90,9	205,6
Communication services	16,5	36,6	-20,1	2,7	8,0	-5,3	4,2	6,9	-2,7	3,2	9,2	-6,0	2,1	10,3	-8,2
Construction services	68,4	6,9	61,5	25,7	1,2	24,4	18,4	0,9	17,6	20,2	0,7	19,5	20,4	0,9	19,5
Insurance services	20,9	33,3	-12,4	3,5	9,5	-6,0	4,8	6,5	-1,6	4,4	9,1	-4,6	6,2	7,3	-1,1
Financial services	104,6	46,8	57,8	24,9	6,4	18,5	22,7	10,3	12,4	29,2	12,0	17,1	28,2	6,9	21,3
Computer and information services	112,4	11,7	100,7	16,0	2,0	13,9	20,0	1,8	18,2	17,5	6,2	11,3	19,1	2,8	16,3
Royalties and licence fees	8,3	25,0	-16,7	1,2	7,7	-6,5	2,8	5,7	-3,0	1,2	1,4	-0,1	0,1	1,0	-0,9
Other business services	687,5	105,5	582,0	195,1	23,8	171,3	168,3	28,8	139,6	156,8	22,7	134,0	167,5	28,4	139,0
Personal, cultural and recreational services	11,6	22,7	-11,1	1,9	5,2	-3,2	2,4	5,8	-3,4	3,6	6,4	-2,8	3,6	6,7	-3,1
Government services, n.i.e.	156,3	42,8	113,5	38,3	10,8	27,5	38,1	10,2	27,9	38,4	9,5	28,9	40,6	8,6	32,0
<b>Income</b>	301,5	586,7	-285,2	41,1	63,7	-22,6	39,7	91,1	-51,5	65,5	118,3	-52,8	78,1	59,0	19,1
Compensation of employees	14,3	79,2	-64,9	3,1	10,8	-7,8	3,3	11,1	-7,8	3,8	18,1	-14,3	3,4	13,7	-10,3
Investment income	287,2	507,6	-220,3	38,1	52,8	-14,8	36,3	80,0	-43,7	61,7	100,2	-38,5	74,8	45,3	29,4
<b>Current transfers</b>	278,0	194,7	83,3	46,7	32,7	13,9	75,9	48,8	27,1	78,2	31,8	46,3	67,2	49,0	18,2
General government	85,9	61,3	24,6	3,8	0,5	3,3	28,0	11,9	16,1	32,1	0,9	31,2	29,0	15,6	13,5
Other sectors	192,1	133,4	58,8	42,9	32,2	10,6	48,0	36,9	11,0	46,1	31,0	15,1	38,2	33,4	4,7
<b>Capital and financial account</b>			434,5			162,4			67,2			269,4			-52,6
<b>Capital account</b>	86,1	27,1	59,0	9,1	4,4	4,7	26,4	7,6	18,8	13,5	14,1	-0,5	14,5	5,9	8,6
<b>Financial account</b>			375,5			157,7			48,4			269,9			-61,1
Direct investment			215,8			55,2			38,8			79,4			26,7
Abroad			-289,9			-15,7			-29,0			-44,2			-47,9
In Cyprus			505,7			71,0			67,9			123,6			74,6
Portfolio investment			551,8			335,3			26,2			311,1			-32,3
Assets			-839,9			-118,7			-359,0			-132,4			-178,2
Liabilities			1.391,7			454,0			385,2			443,5			145,9
Financial derivatives			-21,2			-6,8			-2,2			-4,1			-3,5
Other investment			-191,6			-305,1			84,4			-170,1			106,3
Assets			-1.383,9			-260,6			-282,1			-884,4			-39,0
Liabilities			1.192,3			-44,5			366,5			714,3			145,3
Reserve assets			-179,3			79,1			-98,8			53,6			-158,3
<b>NET ERRORS AND OMISSIONS</b>			-18,2			-19,9			-13,9			-30,3			30,6

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

**Table 15****Public finances summary: central government and social security fund <sup>(1)</sup>**

	Jan.- Sept. 2005	Jan.- Sept. 2004	Jan.-Sept. 05/04
	CYP million		% change
<b>Total revenue and grants</b>	<b>2.093,60</b>	<b>1.754,80</b>	<b>19,3</b>
Direct taxes	576,4	393,9	46,3
Income tax	325,5	269,9	20,6
Other direct taxes	250,9	124,0	102,4
Indirect taxes	897,7	815,9	10,0
Value added tax	515,2	434,6	18,5
Excise taxes	255,8	243,8	4,9
Import duty	24,9	29,3	-15,1
Social security contributions	289,2	283,5	2,0
Non-tax revenue	265,4	209,8	26,5
Foreign grants	65,0	51,6	25,8
<b>Total expenditure and net lending</b>	<b>2.074,10</b>	<b>1.921,90</b>	<b>7,9</b>
Current expenditure	1.951,70	1.822,90	7,1
Goods and services	136,4	147,9	-7,8
Wages and salaries	570,1	548,7	3,9
Pensions and gratuities	124,2	120,3	3,2
Social pensions	20,3	19,6	3,7
Other current transfers <sup>(2)</sup>	415,1	330,7	25,5
Unallocable expenses <sup>(3)</sup>	9,7	23,6	-58,7
Social security funds payments	346,9	323,4	7,2
Subsidies	39,1	44,8	-12,8
Interest	290,0	263,8	9,9
Capital expenditure	122,4	99,1	23,6
Investment	122,4	99,1	23,6
Capital transfers	0,0	0,0	0,0
Net lending	0,0	0,0	0,0
<b>Fiscal surplus (+)/deficit(-)</b>	<b>19,5</b>	<b>-167,1</b>	
<i>As % of GDP</i>	<i>0,25</i>	<i>-2,29</i>	

Source: Ministry of Finance.

(1) The above figures are prepared on a cash basis methodology. Therefore, they are not identical with the figures submitted officially by Cystat to Eurostat as these refer to general government finances and are compiled on an accrual basis.

(2) Includes transfers to semi-governmental organisations, local authorities, pensioners and students.

(3) Includes only expenditure on military equipment.

**Table 16**
**Imports (cif) by economic destination**

(CYP million)

	2004 Yearly Value	2004 Aug.	2005 Aug.	2004 Jan.- Aug.	2005 Jan.- Aug.	2004/2003 Yearly % change	2005/2004 Aug. % change	2005/2004 Jan.- Aug. % change
<b>Consumer goods</b>	<b>742,3</b>	<b>59,7</b>	<b>64,8</b>	<b>420,8</b>	<b>511,3</b>	<b>11,2</b>	<b>8,6</b>	<b>6,1</b>
Non-durable	438,2	38,3	40,5	247,1	311,8			
Semi-durable	176,4	12,7	14,8	98,9	114,1			
Durable	127,6	8,7	9,5	74,8	75,9			
<b>Intermediate inputs</b>	<b>805,4</b>	<b>52,4</b>	<b>56,6</b>	<b>480,1</b>	<b>462,2</b>	<b>10,8</b>	<b>1,3</b>	<b>-3,7</b>
Agricultural	42,2	2,5	2,8	23,5	24,7			
Construction and mining	185,7	11,4	11,7	110,4	106,0			
Manufacturing	462,9	28,8	33,4	280,1	266,3			
Transport, storage and communications	27,4	2,7	1,3	15,6	12,5			
Other sectors of the economy	87,1	6,9	7,5	50,3	52,7			
<b>Capital goods</b>	<b>325,5</b>	<b>20,5</b>	<b>32,3</b>	<b>182,1</b>	<b>197,8</b>	<b>23,6</b>	<b>33,5</b>	<b>8,6</b>
Agricultural	9,4	0,5	0,8	6,0	4,4			
Construction and mining	24,5	1,5	2,1	15,3	15,3			
Manufacturing	65,5	5,4	4,8	35,5	34,6			
Transport, storage and communications	104,7	4,6	16,3	51,0	77,1			
Other sectors of the economy	121,4	8,5	8,4	74,3	66,5			
<b>Transport equipment and parts thereof</b>	<b>452,2</b>	<b>33,7</b>	<b>33,8</b>	<b>258,6</b>	<b>225,9</b>	<b>38,3</b>	<b>-29,1</b>	<b>-12,7</b>
<i>of which:</i>								
passenger cars	360,9	24,2	20,3	166,2	149,8			
spare parts	68,5	5,6	5,4	39,4	39,1			
aircraft and parts	0,1	0,0	0,0	0,1	0,0			
<b>Fuels and lubricants</b>	<b>320,0</b>	<b>30,6</b>	<b>26,6</b>	<b>150,4</b>	<b>238,1</b>	<b>41,1</b>	<b>43,8</b>	<b>58,3</b>
<b>Unclassified</b>	<b>33,8</b>	<b>0,8</b>	<b>1,1</b>	<b>18,1</b>	<b>21,2</b>	<b>0,0</b>	<b>263,8</b>	<b>17,1</b>
<b>Total imports</b>	<b>2.679,3</b>	<b>197,6</b>	<b>215,2</b>	<b>1.707,6</b>	<b>1.807,0</b>	<b>16,3</b>	<b>7,2</b>	<b>5,4</b>

Source: Cystat.

**Table 17**  
**Exports (fob) by economic origin**  
 (CYP million)

	2004 Yearly Value	2004 Aug.	2005 Aug.	2004 Jan.- Aug.	2005 Jan.- Aug.	2004/2003 Yearly % change	2005/2004 Aug. % change	2005/2004 Jan.- Aug. % change
<b>Agricultural products (raw)</b>	<b>57,4</b>	<b>5,5</b>	<b>1,0</b>	<b>40,8</b>	<b>34,6</b>	<b>31,8</b>	<b>-2,8</b>	<b>-15,3</b>
<i>of which:</i>								
potatoes	16,0	0,0	0,0	15,2	10,7			
other vegetables								
fresh, frozen or dried	4,8	0,4	0,3	2,8	2,8			
citrus fruit	22,3	0,0	0,0	17,0	16,4			
<b>Minerals and industrial products of mineral origin</b>	<b>5,5</b>	<b>0,3</b>	<b>0,4</b>	<b>5,3</b>	<b>4,2</b>	<b>-18,1</b>	<b>-50,1</b>	<b>-20,7</b>
<b>Industrial products of agricultural origin</b>	<b>34,1</b>	<b>2,6</b>	<b>3,7</b>	<b>22,1</b>	<b>30,9</b>	<b>4,2</b>	<b>39,1</b>	<b>39,5</b>
<i>of which:</i>								
halloumi cheese	4,2	1,0	1,2	7,4	11,3			
fruit preserved	0,6	0,1	0,0	0,3	0,3			
fruit and vegetable juices	4,9	0,5	0,4	2,4	2,6			
beer	0,7	0,2	0,2	0,3	0,6			
wines	5,2	0,3	0,3	2,9	3,1			
meat	4,1	0,1	0,8	0,7	2,2			
<b>Industrial products of manufacturing origin</b>	<b>132,1</b>	<b>7,6</b>	<b>8,8</b>	<b>89,3</b>	<b>88,5</b>	<b>10,0</b>	<b>16,0</b>	<b>-1,0</b>
<i>of which:</i>								
cigarettes	11,9	0,4	0,9	7,1	7,1			
cement	3,3	0,2	0,7	2,2	2,3			
pharmaceutical products	49,6	2,3	2,8	31,5	32,5			
articles of paper or of paperboard	5,2	0,4	0,3	2,8	2,3			
clothing	7,7	0,0	0,4	3,4	2,2			
footwear	0,9	0,8	0,2	0,6	0,3			
furniture	4,2	0,5	0,4	2,1	2,5			
<b>Unclassified</b>	<b>0,2</b>	<b>0,3</b>	<b>0,5</b>	<b>0,2</b>	<b>0,8</b>			
<b>Domestic exports</b>	<b>232,3</b>	<b>11,7</b>	<b>13,8</b>	<b>157,7</b>	<b>158,2</b>	<b>12,7</b>	<b>-5,7</b>	<b>0,3</b>
re-exports	273,4	18,7	23,0	156,5	196,6	21,9	23,0	25,6
shipstores	42,4	5,3	13,5	28,3	66,2			
<b>Total exports</b>	<b>548,0</b>	<b>35,7</b>	<b>50,3</b>	<b>342,5</b>	<b>421,0</b>	<b>14,9</b>	<b>41,0</b>	<b>22,9</b>

Source: Cystat.