



CENTRAL BANK OF CYPRUS
ECONOMIC RESEARCH DEPARTMENT

MONETARY
POLICY
REPORT

FEBRUARY 2002



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

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

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1. INTRODUCTION

Signs that the worst are over and the global economy will soon recover are becoming clearer. The time and strength of the recovery, however, are still uncertain. Against this background, several central banks, including among others the Bank of England, the European Central Bank and the Central Bank of Cyprus, continued to maintain official interest rates unchanged. The US Federal Reserve System (Fed) also refrained from a further interest rate reduction.

A significant development in the domestic economy in January was the sizeable rise in the price level. Inflation rose to 2,70% in January 2002, compared with 2,37% in December 2001 and 1,44% in January 2001. The increase in the inflation rate emanated mainly from the acceleration in the prices of domestic agricultural products, while a small increase was also recorded in the prices of domestic industrial products. By contrast, electricity prices decreased further, while prices of services slowed somewhat.

In the monetary sector, in the first month of the current year a distinct decline in new credit extended was observed. Moreover, foreign exchange inflows decreased in the first six weeks of the year, due to the decline in foreign currency borrowing by Cypriots as well as to seasonal factors. Notwithstanding these developments, bank liquidity remained excessive and the Central Bank continued to intervene in the money market through deposit collection auctions (depos) in order to maintain interest rates consistent with its anti-inflationary policy.

As regards the remaining sectors of the economy, available data refer to the previous year and

indicate both positive and negative developments. This mixed picture is especially evident in the secondary sector, where on the one hand manufacturing continued to decline, at least until October 2001, for which data are available, while on the other hand construction continued to perform well overall, although a sizeable decrease in local cement sales was recorded in December. In the primary sector, particularly in agriculture, a marked recovery has been observed, as agricultural production rose in 2001 after the sizeable fall recorded in the previous year.

Turning to external trade, after the substantial decrease in total imports recorded in September 2001, total imports also decreased in October in comparison with the same month of 2000. For the whole period January-October 2001, total imports displayed a significant slowdown, with a growth rate of 6,1% compared with 29,5% in the corresponding period of the previous year. Concurrently, however, a slowdown in total exports was recorded, with a growth rate of 6,2% compared with 12,5% in the corresponding period of 2000. As a result of these developments, the crude trade deficit reached £1.604,7 million in the first ten months of 2001, compared with £1.512,5 million in the corresponding period of 2000. Overall, the current account deficit is estimated to have decreased in 2001, due to the slowdown in total imports.

Private consumption slowed in October 2001 in comparison with the corresponding month of 2000. Specifically, the retail sales volume index rose by 4,3% in October, compared with an increase of 8,3% in the corresponding month of 2000 and an increase of 13,2% in September

2001. The observed slowdown in retail sales in October 2001 seems to be consistent with the fall in imports for home consumption (excluding imports of military equipment and fuels) in September and the slowdown registered in October 2001, in comparison with the corresponding months of 2000. It should be noted that in the entire period January-October 2001 retail sales accelerated somewhat compared with the previous year, while imports decelerated.

The adverse international environment had an impact on the Cypriot economy, with tourism being affected the most. Tourist arrivals fell by 20,1% in December 2001, while for the whole year 2001 the increase in tourist arrivals was reduced to 0,4%, after an increase of 10,3% in 2000. Despite the unfavourable international climate, economic growth is estimated to have reached about 3,7% in 2001, down from 5,1% in the previous year. As regards the labour market, in December 2001 the unemployment rate increased to 3,6% of the economically active population, compared with 3,4% in December 2000. The average unemployment rate in 2001 was 3,0%, down from 3,4% in the previous year. These rates, however, represent exclusively the registered unemployed in district labour offices, while according to the labour force survey (a method widely used in the European Union), the unemployment rate reached 3,9% in 2001, or 3,0% if the unemployed seeking only part-time employment are excluded.

Concerning public finances, the latest available data refer to the first nine months of 2001, in which the fiscal deficit expanded to £133,3 million compared with £69,1 million in the corresponding period of the previous year. This expansion mainly reflected the slowdown in public revenue. For the whole year, the fiscal deficit is estimated

to have exceeded 2,7% of GDP, which was recorded in 2000, and to have reached about 3% of GDP.

2. ECONOMIC DEVELOPMENTS

2.1 INTERNATIONAL DEVELOPMENTS AND EXCHANGE RATES

International economic developments

A climate of optimism seems to prevail in the international economy for fast recovery from recession. In the United States, after the latest report of the Fed and the latest data released, signs of optimism have strengthened. In the euro area, with the exception of Germany, an improved picture has emerged, while the Japanese economy does not seem to stabilise.

In the light of a steady improvement in macroeconomic data for the **United States** the Fed maintained interest rates unchanged at its first meeting in 2002, after 11 reductions in 2001 amounting to 4,75 percentage points. Specifically, the growth rate of GDP exceeded expectations, reaching 0,2% in the fourth quarter against projections of a fall of the order of 1,0%. Moreover, all consumer confidence indicators showed upward tendencies, reflecting the optimism prevailing concerning the labour market, while the annualised growth rate of consumer expenditure reached 5,4% in the fourth quarter. By contrast, industrial production contracted further in December and the overall fall in 2001 reached 5,8%.

The collapse of Enron and Wall Street's concerns for the accounting practices of large companies, as well as for the role played by auditors in the accurate portrayal of official corporate results, led to a new fall of stock markets. The Dow Jones

index fell by about 3,0% in January 2002, compared with an increase of 0,3% in the last week of the month. In the same month the S&P500 index fell by 3,6% and the Nasdaq Composite index fell by 3,3%.

The severity of last year's recession in the **euro area** was shown by the latest data. In the year to November 2001 industrial production fell by 4,8% in Germany, 9,3% in Belgium and 0,9% in France. Overall industrial production in the euro area contracted at an annual rate of 4,3% in November, while retail sales in October fell by 0,5%. Unemployment reached 8,5% in November, and at the same time producer prices fell in many European countries.

Nevertheless, it seems that recession will be overcome sooner than originally expected. GDP growth in the euro area reached an annual rate of 1,4% in the third quarter of 2001. Even though a decrease in GDP is forecast for the fourth quarter, economic analysts anticipate that this decrease will be reversed in 2002. The IFO and the Purchasing Managers indices point to this direction, displaying a rise in business confidence.

An important negative development in the euro area was the increase in the fiscal deficit in many euro area countries, as a result of the continuing recession and government efforts to stabilise their economies. In fact, the European Commission has recommended the issue of a warning to Germany and Portugal for excessive fiscal deficits, which however was not adopted by the Council.

In **Britain**, GDP growth in 2001 declined to 2% due to the sharp fall in industrial production in the last quarter. Specifically, industrial production fell by 4,8% in the twelve months to November – the

largest fall in the last decade. By contrast, retail sales rose by 5,7% in 2001. In January 2002 the FTSE 200 index showed a fall of 2,5%.

In **Japan**, a worsening of the economy was once again recorded. Industrial production contracted by 14,9% in 2001, the unemployment rate rose to 5,6%, and consumer prices fell by 1,2%. Domestic demand declined substantially, while both nominal and real wages seem to have decreased at the fastest rates recorded in the last three years. Moreover, there are still concerns about the stability of the banking system, especially after the downgrading of the ten largest Japanese banks by Moody's. The weak yen does not seem to help in the stabilisation of the economy, although the strengthening of the US dollar raises objections by the US business community.

Developments in international oil markets play an important role in estimates of world growth rates. In January 2002 the average price of Brent crude oil increased to USD19,52, from USD18,63 in the previous month.

Table 1**Main economic indicators***(percentage change)*

	GDP				Industrial production <i>annual</i>	Retail Sales <i>Annual</i>	Unemployment	Inflation (CPI) <i>December</i>
	<i>Quarterly Q2</i>	<i>Annual Q2</i>	<i>Quarterly Q3</i>	<i>Annual Q3</i>				
Britain	3,6	2,3	1,7	2,2	- 4,8 (Nov.)	5,7 (Dec.)	5,1 (Nov.)	0,7
Japan	-2,9	-0,7	-2,2	-0,5	-14,9 (Dec.)	-1,9 (Nov.)	5,6 (Dec.)	-1,2
USA	0,3	1,2	-1,1	0,6	- 5,8 (Dec.)	5,4 (Nov.)	5,4 (Nov.)	1,6
Euro area	0,2	1,7	0,4	1,4	- 4,3 (Nov.)	-0,5 (Oct.)	8,5 (Nov.)	2,1

*Source: The Economist***Table 2****GDP projections***(annual percentage change)¹*

	<i>Annual</i>	The Economist Poll GDP Forecast 12 - 18 January ²				Lehman Brothers Weekly Outlook – GDP 1 February ³			
	2000	2001		2002		2001		2002	
Britain	2,2	2,2		1,8	(1,7)	2,4	(2,2)	2,0	(1,6)
Japan	1,6	-0,4	(-0,6)	-1,2	(-0,8)	-0,4	(-1,2)	-1,0	(-0,5)
USA	4,1	1,1	(1,0)	0,7	(0,6)	1,0		1,0	(0,6)
Euro area	3,4	1,5		1,0		1,5		1,5	
World	3,9					1,2	(1,0)	1,2	

¹ *Figures in parentheses indicate the corresponding previous month projection, in change of change*² *Source: The Economist, 12 - 18 January 2002*³ *Lehman Brothers Global Weekly Economic Monitor, 1 February 2002***International currencies**

In January the euro fell against the US dollar, which benefited from the generally more optimistic prospects of the US economy in 2002, compared with the course of the euro area. The smooth and successful euro cash changeover on 1 January 2002 gave a temporary boost to the euro, which reached nearly USD0,91 but soon returned to the December levels, around USD0,89. In the remainder of January as well as in February the euro declined further, and by the end of the first week of February it was quoted at around USD0,87.

During January and until the first week of February, the pound sterling followed a downward course against the US dollar, while it appreciated marginally against the euro. Economic data and projections recently released contributed to this course of the British currency. In particular, recent data on the UK trade deficit rekindled concerns about the strengthening of the pound sterling in the last few years.

Problems continue to accumulate in the Japanese economy, maintaining a very negative climate for the prospects of the country and the

course of its currency. After a significant depreciation in December 2001, the yen depreciated further against the US dollar and moved marginally against other international currencies.

An overview of international exchange rate fluctuations in the recent past until 7 February 2002 is presented in chart 1.

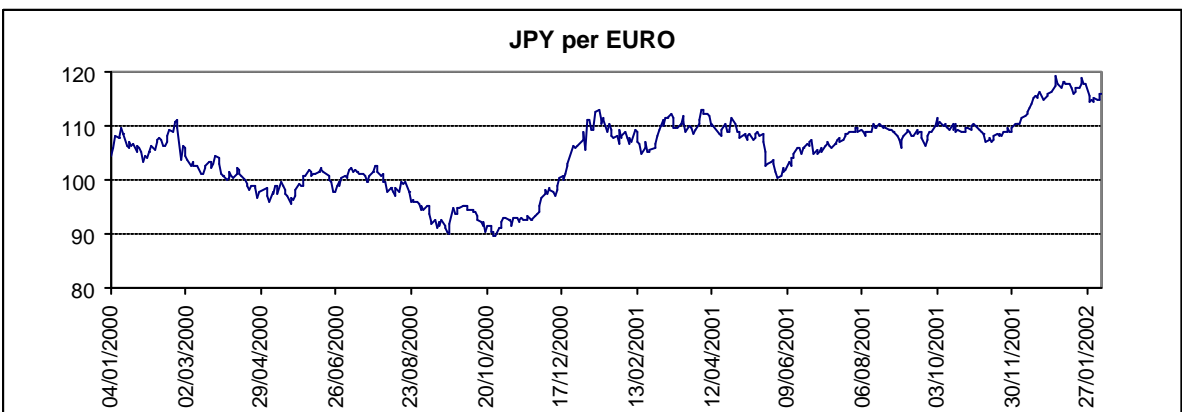
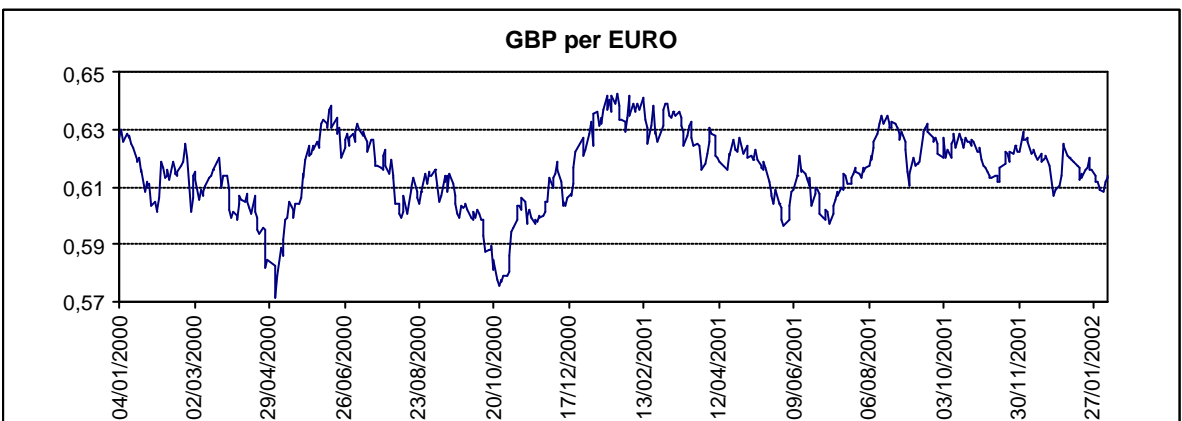
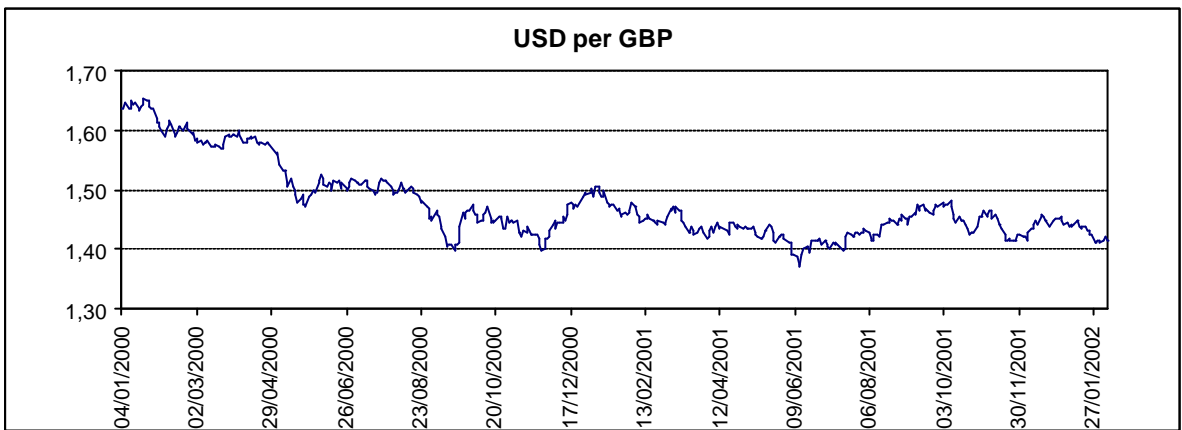
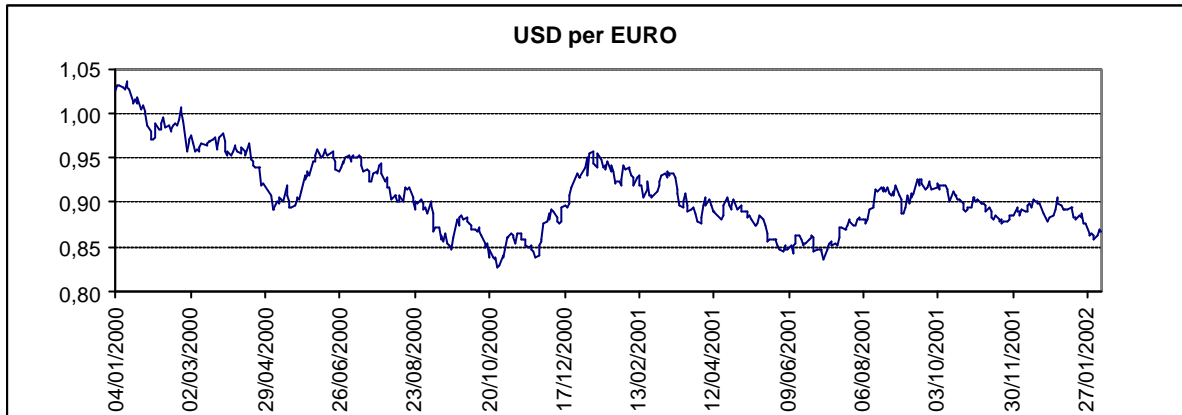
Chart 1**Major international currencies****4/1/2000 - 7/2/2002**

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

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

Table 3

International market expectations for exchange rates: Monthly poll by Reuters

(February 2002)

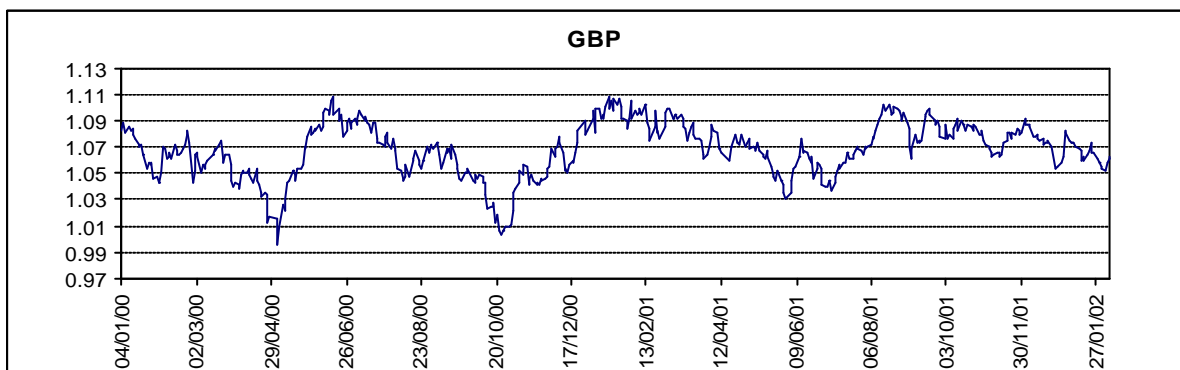
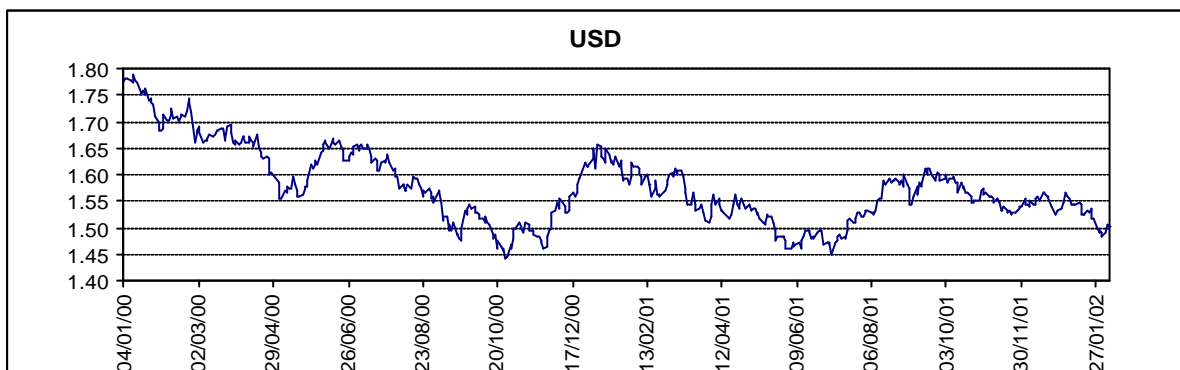
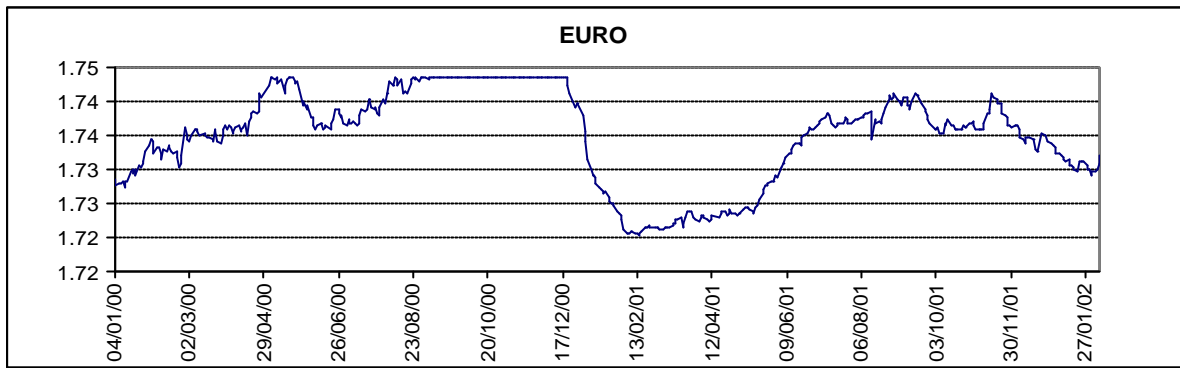
Currency	Statistical data	Exchange rate forecasts			
		1 month	3 months	6 months	12 months
USD per EUR	Mean	0,86	0,87	0,88	0,91
	Minimum	0,84	0,82	0,80	0,77
	Maximum	0,90	0,94	0,95	1,01
	Number of forecasts	49	49	49	48
USD per GBP	Mean	1,42	1,42	1,43	1,42
	Minimum	1,37	1,35	1,32	1,24
	Maximum	1,45	1,47	1,50	1,52
	Number of forecasts	49	49	49	48
JPY per USD	Mean	133	135	136	135
	Minimum	128	128	122	117
	Maximum	138	145	150	150
	Number of forecasts	48	48	48	47
GBP per EUR	Mean	0,61	0,61	0,62	0,64
	Minimum	0,58	0,58	0,59	0,59
	Maximum	0,63	0,65	0,65	0,68

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

Cyprus pound

The Cyprus pound fluctuated marginally against the euro in January and the first week of February, reaching EUR1,7372 (average fixing price) on 7 February 2002 compared with EUR1,7383 on 2 January 2002. Reflecting

fluctuations in international currencies in this period, the Cyprus pound weakened somewhat against the pound sterling and the US dollar. Chart 2 presents an overview of recent fluctuations in the exchange rates of the Cyprus pound vis-à-vis the euro, the US dollar, the sterling and the yen.

Chart 2**Cyprus Pound against major international currencies
4/1/2000 - 7/2/2002**

As regards the domestic foreign exchange market, the results of the fixing sessions held until 7 February 2002, based on transaction date, are summarised in table 4. As this table shows, the Central Bank absorbed foreign exchange from the banking system amounting to £499,05 million in the sessions during 2001, while in the first six weeks of 2002 foreign exchange inflows equivalent to £4,39 million were recorded. The decrease in foreign exchange flows recorded in the fixing sessions since December 2001 and until the first week of February 2002 are attributable to the continuing decline of foreign currency borrowing by Cypriots as well as to seasonal factors. As a result of this decrease in foreign exchange flows, the fluctuations of the

Cyprus pound against the euro in the same period were generally marginal.

Overall, including interventions and other operations in the interbank market (specifically, execution of forward foreign exchange contracts), between 1 January 2001 and 7 February 2002 the Central Bank absorbed from the banking system foreign exchange equivalent to £658,6 million. Over 50% of these inflows correspond to borrowing by Cypriots in foreign currencies, mainly in euro, from domestic banks. Daily purchases and sales of foreign exchange by the Central Bank from domestic banks since 1999 are shown in chart 3.

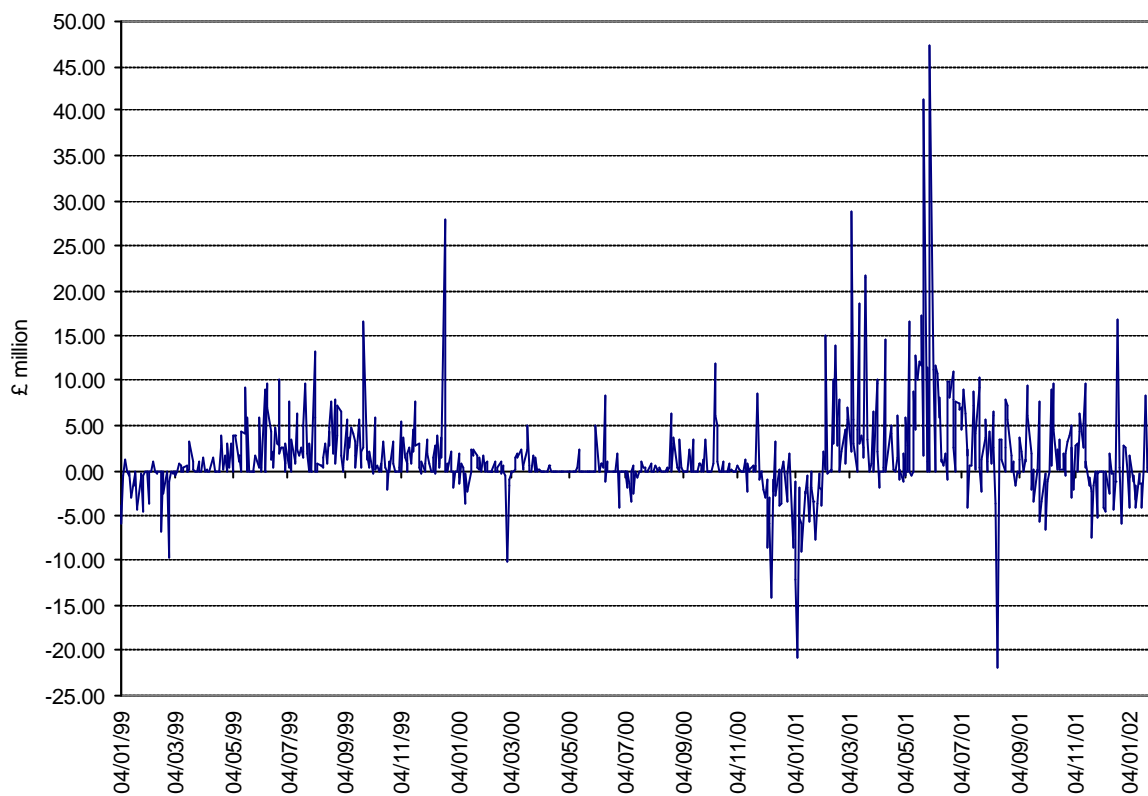
Table 4

Summary of results of fixing sessions							
Month	Average fixing exchange rate Foreign currency per Cyprus pound (last day of period)			Purchases (+) / Sales (-) of foreign exchange by the Central Bank (based on transaction date)			
				In foreign currency (millions)			In Cyprus pounds (millions)
2001	Euro	US dollar	Pound sterling	Euro	US dollar	Pound sterling	
January	1,7278	1,6060	1,0983	-169,80	-9,55	-7,00	-110,17
February	1,7264	1,5916	1,1016	49,25	-0,20	1,20	29,51
March	1,7275	1,5209	1,0670	130,40	38,00	-0,10	99,37
April	1,7283	1,5369	1,0713	81,25	-5,30	0,00	43,59
May	1,7338	1,4716	1,0382	233,25	5,30	0,00	138,17
June	1,7413	1,4743	1,0490	250,00	-1,00	0,00	143,20
July	1,7425	1,5265	1,0712	148,25	0,00	0,02	85,11
August	1,7455	1,5989	1,0962	39,45	0,00	0,00	22,58
September	1,7411	1,5968	1,0852	0,75	9,50	5,30	11,28
October	1,7414	1,5766	1,0833	15,90	15,50	10,28	28,46
November	1,7414	1,5464	1,0861	-14,65	6,35	9,20	10,70
December	1,7387	1,5380	1,0622	-7,60	-3,05	3,50	-2,74
Total 2001				756,95	65,55	22,40	499,05
2002							
January	1,7347	1,4977	1,0612	-13,45	-3,60	4,60	-5,76
February*	1,7372	1,5056	1,0676	19,85	2,00	-2,80	10,15
Total 2002				6,40	-1,60	1,80	4,39

* Data until 7 February 2002

Chart 3

**Daily purchases / sales of foreign exchange by the Central Bank
from the domestic banks
4/1/1999-7/2/2002**



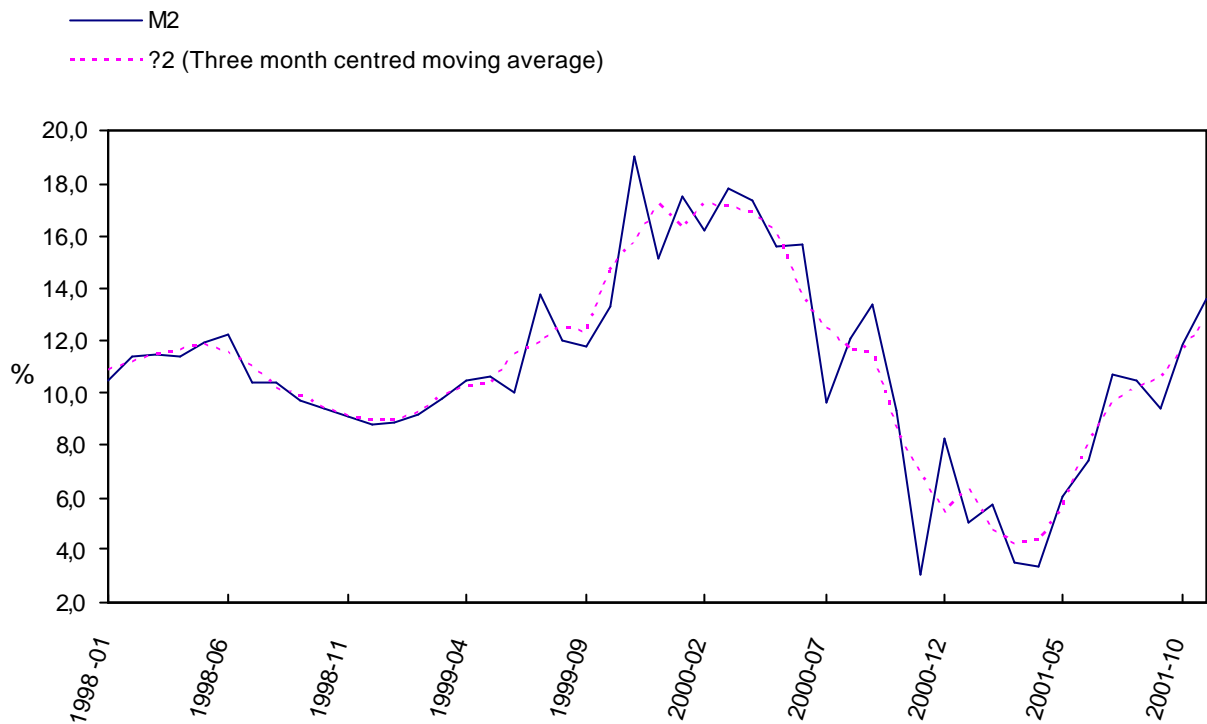
Note: Purchases of foreign exchange by the Central Bank are shown with a positive sign.

2.2 MONETARY DEVELOPMENTS*

Against the background of international developments and taking into account the cautious optimism prevailing in economic circles for a fast recovery of the global economy, the Central Bank decided on 24 January 2002 to maintain official interest rates unchanged. The Central Bank, in the context of its anti-inflationary policy, continued to intervene in the money market in December and January, absorbing part of the surplus liquidity through deposit collection auctions (depos)¹. Concurrently, the slowdown in foreign exchange inflows recorded in November and December 2001 temporarily turned into foreign exchange outflows in January 2002, but in the first week of February inflows resumed.

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

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

Chart 4**? 2 growth***(annual percentage changes, monthly data)***Table 5****Annual percentage change**
(%)

	1997	1998	1999	2000	2001
M1 (Primary liquidity)	8,2	3,6	41,9	3,8	0,2
M2 (Total Liquidity)	10,7	8,8	15,1	8,2	12,9
Claims on private sector	12,2	14,3	13,9	14,9	13,4

Total liquidity decelerated somewhat in December 2001 relative to the previous month, expanding by 12,9% down from a growth rate of 13,6% in November. The three-month moving average of annual growth rates in the period from October to December registered an acceleration, reaching 12,8%, compared with 11,6% in the period from September to November. For the whole year 2001 broad money supply accelerated

substantially, expanding by 12,9%, compared with a growth rate of 8,2% in the previous year.

As table 6 indicates, the acceleration in the annual growth of broad money supply in 2001, in comparison with the previous year, stemmed mainly from the expansion of claims on the public sector and net foreign assets. Specifically, claims on the public sector increased by £224,4 million

in 2001, compared with an increase of only £7,0 million in the previous year. Net foreign assets increased by £141,4 million in 2001, compared with an increase of £1,9 million in 2000. Credit to the private sector expanded by £870,5 million, compared with an increase of £844,0 million in the previous year.

In terms of annual growth rates, claims on the private sector decelerated somewhat in 2001, growing by 13,4%, compared with a growth rate of 14,9% in 2000. According to the three-month moving average, credit expansion was 14,3% in the period September-November, compared with 14,1% in October-December.

The growth of credit in the current year seems to be moderate. According to preliminary data for the period from 1 January to 1 February 2002, new credit amounting to £29,5 million was granted, compared with £89,7 million in the corresponding period of 2001. The annualised seasonally adjusted growth rate of credit was 15,8%, compared with 26,7% in the corresponding period of 2001. According to the monthly distribution method (box 1), bank financing exceeded the reference value by about £17,7 million in January.

Foreign currency lending to residents of Cyprus increased in December 2001 to £28,1 million, from £24,4 million in November.² The proportion of credit in foreign currency to total credit remained roughly stable, reaching 10,3% in December compared with 10,2% in the previous month. The increase in foreign currency lending

seems to have been arrested in January 2002, according to preliminary data up to 1 February, which indicate that foreign currency lending amounted to only £13,6 million.

The euro continued to be the dominant choice of borrowers, according to data for long-term foreign currency loans granted in 2001, which show that 82% of these loans were denominated in euro. According to the same data, about 52% of foreign currency loans were used for refinancing³, while 40% of such loans were used for construction in Cyprus and for the acquisition of fixed assets.

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

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

Table 6**Factors affecting total liquidity - all banks***(Change, £ thousand)*

	December 2001	December		November 2000/2001
		1999/2000	2000/2001	
Foreign assets (net)	-64.810	1.944	141.433	116.455
Claims on private sector	247.850	843.993	870.501	894.810
Claims on public sector	91.341	7.019	224.389	251.714
Unclassified items	34.429	-369.490	-412.845	-438.646
Total Liquidity (M2)	308.810	483.466	823.478	824.333
Primary liquidity (M1) (Money supply)	99.289	39.202	1.716	13.352
Currency in circulation	22.628	19.691	23.270	39.290
Demand deposits	76.661	19.511	-21.554	-25.938
Secondary liquidity (Quasi-money)	209.521	444.264	821.762	810.981

Table 7**Claims on Private Sector***(Change - 2001, £ million)*

	Jan.	Mar.	Jun.	Sep.	Nov.	Dec.
Foreign Currency loans to residents	9,2	55,4	42,4	33,0	24,4	28,1
Claims on private sector	59,7	135,7	205,3	106,1	33,1	247,9

(End of period balances, £ million)

	1997	1998	1999	2000	2001 (Nov.)	2001 (Dec.)
Foreign Currency loans to residents	158,7	246,0	355,2	373,5	729,3	757,5
Claims on private sector	4358,4	4982,7	5673,5	6517,5	7140,1	7388,0
%	3,6	4,9	6,3	5,7	10,2	10,3

Box 1**Credit expansion* monitoring**

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

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

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

(1) Annualised growth rate

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

For example, credit expansion in absolute terms from end-December 2001 to end-January 2002 was £29,5 million. This absolute change converted to an annualised growth rate seasonally adjusted gives:

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

15,8%

Reference value

11%

(2) 12-month growth rate

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

* Credit expansion includes all banks.

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

*** Data were seasonally adjusted by the X11 method including a 15-year period. Because the seasonal pattern of banks may have changed during the years, the proportion of credit granted each month in the last six years was also taken into account.

	12-month	Reference value
	12,3%	11,0%
Moving average	13,5%	

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

(3) Monthly distribution method

The Central Bank has estimated that credit could expand by up to £813 million and reach £8201 million at the end of 2002. This amount (reference value) may be distributed in the months of 2002 in accordance with the seasonal pattern of previous years. Monitoring may be effected through the following table, where the first row gives the distribution of credit in accordance with the reference value and the second row gives actual credit. As the table shows, credit expansion in January exceeded the reference value somewhat.

Table of bank financing

(2002, £ million)

	Jan.	Feb.	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Reference value	7404	7477	7575	7597	7624	7704	7723	7693	7759	7801	7843	8201
Actual	7421,7											

* Data for January are provisional.

Money market

Surplus liquidity conditions continued to prevail in the money market during December and January, notwithstanding the decline in foreign exchange flows. Specifically, net foreign exchange inflows of £0,4 million were recorded in December 2001, while in January 2002 outflows of £5,76 million were recorded.⁴ Surplus liquidity conditions were strengthened by the release of frozen treasury bills of £97,8 million.

The Central Bank, aiming to maintain interest rates consistent with its anti-inflationary policy, intervened in the money market through auctions (depos). In two auctions in December 2001 the Central Bank absorbed liquidity amounting to £216,0 million at an average interest rate of 3,75%, and in three auctions in January 2002 liquidity amounting to £493,0 million was absorbed at an average interest rate of 3,82%. Part of the excess liquidity in January was channelled to government securities, the net sales of which increased sharply to £151,8 million, from £21,8 million in December 2001.

The money market interest rates remained at low levels, following the three reductions in official interest rates. The average overnight interest rate on the interbank market decreased to 3,39% in January 2002, from 3,88% in the previous month. In the single three-month treasury bill auction in which bids were accepted in 2002, the average yield declined to 4,0%, compared with 5,49% in the auction of June 2001, in which bids were last accepted in 2001.

A similar pattern was observed for one-year treasury bills. In the first auction during 2002 the average yield declined to 4,25%, compared with 5,50% in the auction of 12 September 2001, in which bids were accepted, and 6,10% in the auction of 8 August 2001. In the auction of 6 February 2002 the average yield declined further to 4,21%.

In the two auctions of long-term securities of two-year and five-year maturity during 2002, yields decreased marginally. Specifically, in the auctions of 4 and 25 January, the average two-year and five-year bond yields were about 4,55% and 5,00%, respectively, compared with the corresponding yields of 4,70% and 5,04% in the auction of 11 December 2001. Concerning ten-year bonds no offer has been accepted since 30 July 2001, while on 26 October 2001 fifteen-year bonds were auctioned for the first time, for a value of £4,1 million at a yield of 6,47%.

As a result of the non-acceptance of bids for ten-year bonds, the divergence of long-term nominal interest rates from corresponding European rates remained stable at 257 basis points. At the same time, the differential between real interest rates in the euro area and corresponding domestic interest rates widened further, due to the de-escalation of domestic inflation, and reached 321 basis points in November 2001, compared with a differential of 306 basis points in October (table 9).

⁴ It is worth noting that in January foreign exchange outflows in euro and US dollars were registered, in contrast to the inflows registered in pound sterling.

International and domestic interest rates

With regard to international interest rates, a series of improved economic indicators generated a cautious optimism for a faster than previously expected economic recovery and averted further interest rate reductions in most countries. As a

result of the maintenance of unchanged interest rates by both the European Central Bank and the Central Bank of Cyprus (table 10), the width of the gap between official interest rates remained at 125 basis points for the marginal lending facility and 25 basis points for the overnight deposit facility.

Table 8

Interest rates

(% per annum)

	1998	1999	2000	2001	2001 Jan.	2001 Dec.	2002 Jan.
Interbank (1day)	4,83	5,15	5,96	4,93	5,77	3,88	3,39
Repos	4,68	5,45	5,97	6,39	6,50		
Reverse repos/depos			4,44	4,59		3,75	3,82
Treasury bills (13 weeks)	5,50	5,54	5,75	6,00	6,03		4,00
Treasury bills (52 weeks)	5,99	6,00	6,21	6,35	6,45		4,25
Development stocks (2 years)			6,55	6,11		4,70	4,54
Development stocks (5 years)	6,95	7,27	7,45	6,96	7,46	5,04	4,99
Development stocks (10 years)	7,22	7,36	7,55	7,66	7,68		
Development stocks (15 years)				6,47			

Note: Simple average of the weighted averages for the period

Table 9**Inflation and interest rates of Europe and Cyprus - November 2001***(Latest 12 month average)*

	Inflation (HICP)	Long-term interest rates	Long-term real interest rates
Belgium	2,50	5,20	2,70
Denmark	2,30	5,20	2,90
Germany	2,50	4,90	2,40
Greece	3,70	5,40	1,70
Spain	3,80	5,20	1,40
France	1,80	5,00	3,20
Ireland	4,00	5,10	1,10
Italy	2,70	5,30	2,60
Luxembourg	2,70	5,00	2,30
Netherlands	4,90	5,00	0,10
Austria	2,30	5,20	2,90
Portugal	4,40	5,30	0,90
Finland	2,70	5,10	2,40
Sweden	2,50	5,10	2,60
United Kingdom	1,20	5,10	3,90
Euro zone	2,70	5,10	2,40
EU -15	2,40	5,10	2,70
Cyprus	2,06	7,67*	5,61*

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

Cyprus Stock Exchange

The Cyprus Stock Exchange (CSE) General Index registered two consecutive decreases in December 2001 and January 2002, which were accompanied by a decrease in traded volume. On the last day of November the CSE General Price Index stood at 138,4 points, and at the end of December and January it fell to 129,09 points and 124,35 points, respectively (chart 6). On a sectoral level, all indices, with the exception of building materials, registered a fall in December. The average daily volume decreased to £7,2 million in December, from £10,6 million in the previous month, and the average daily number of transactions also decreased to 4877 from 7957.

The shares with the largest proportion of the monthly traded volume were the shares of the Bank of Cyprus and Popular Bank, which accounted for 9,30% and 6,85% of the traded volume, respectively.

Table 10**Official interest rates***(levels in percentages per annum; change in percentage points)*

		change
European Central Bank		
<i>(January 17, 2002)</i>		
Minimum bid rate on the main refinancing operations	3,25	-
Interest rate on the marginal lending facility	4,25	-
Interest rate on the deposit facility	2,25	-
 Bank of England		
<i>(January 10, 2002)</i>		
Repo Rate	4,00	-
 Federal Reserve System		
<i>(January 30, 2002)</i>		
Federal Funds Rate	1,75	-
Discount Rate	1,25	-
 Central Bank of Cyprus		
<i>(January 25, 2002)</i>		
Minimum bid rate on the main refinancing operations	4,00	-
Interest rate on the marginal lending facility	5,50	-
Interest rate on the deposit facility	2,50	-

Table 11**Banking system's liquidity position***(£ million, period averages of daily positions)*

Period monthly	Liquidity - providing factors					Liquidity - absorbing factors						Credit institutions current accounts (MRA)	Base money (6+7+9+12)
	Monetary policy operations					Deposit facility (overnight)	Other liquidity- absorbing operations (additional & S.M.E. dep.)	Rev- repos & depos	Currency in circulation	Central Govern. Deposits (net)	Other factors (net)		
	Net assets in gold and foreign currency (NFA)	Main refinancing operations (repos)	Long term refinancing operations	Marginal lending facility (lombard)	Other liquidity- providing operations (swap)								
	1	2	3	4	5	6	7	8	9	10	11	12	13
Feb-00	947,0	0,0	0,0	1,6	0,1	40,6	2,3	14,5	313,6	-27,3	174,6	430,4	746,3
Mar-00	931,1	57,5	0,0	7,6	4,3	3,2	5,3	0,0	315,0	68,8	171,4	436,8	757,2
Apr-00	939,2	60,9	0,0	0,8	4,5	8,6	2,4	0,0	331,1	-6,1	226,6	442,9	776,4
May-00	931,3	21,8	0,0	9,6	8,7	0,2	0,2	0,0	349,0	-53,2	232,4	442,8	792,0
Jun-00	987,8	0,0	0,0	17,3	4,0	1,1	0,6	0,0	354,2	-44,6	249,1	448,8	803,5
Jul-00	998,1	0,0	0,0	20,3	2,0	0,1	0,0	0,0	363,3	14,7	123,0	519,3	882,6
Aug-00	1.006,0	0,0	0,0	11,5	1,8	0,5	1,7	0,0	365,1	50,6	92,9	508,5	875,3
Sep-00	1.028,0	0,0	0,0	4,0	0,4	3,7	0,5	0,0	358,6	48,2	112,1	509,3	868,4
Oct-00	1.018,1	0,0	0,0	18,6	4,3	0,3	0,0	0,0	354,7	-26,8	194,9	517,8	872,5
Nov-00	1.056,5	0,0	0,0	6,3	1,8	3,7	0,0	0,0	341,5	9,8	199,8	509,8	851,2
Dec-00	1.007,1	0,0	0,0	18,9	1,1	4,1	0,5	0,0	353,8	-22,4	184,1	507,0	861,2
Jan-01	892,8	10,2	0,0	8,6	1,1	3,9	94,5	0,0	337,3	51,8	11,5	413,6	845,4
Feb-01	876,0	49,5	0,0	0,5	1,2	12,5	93,9	0,0	326,6	-6,4	75,0	425,7	846,1
Mar-01	991,4	16,3	0,0	5,0	1,0	2,9	93,0	0,0	328,7	40,0	122,9	426,9	848,6
Apr-01	1.075,2	0,0	0,0	18,2	0,7	0,3	90,7	0,0	358,7	-14,1	208,8	449,6	899,4
May-01	1.109,6	0,0	0,0	28,2	1,2	1,0	84,2	0,0	369,4	48,0	186,3	450,2	904,8
Jun-01	1.316,1	0,0	0,0	0,0	0,0	57,9	79,7	26,4	382,7	117,9	212,5	439,1	959,3
Jul-01	1.379,0	0,0	0,0	1,2	0,0	9,2	79,6	92,0	393,8	148,5	205,8	451,1	933,8
Aug-01	1.333,2	0,0	0,0	0,5	0,0	39,3	79,6	58,6	393,9	114,1	190,8	457,2	970,2
Sep-01	1.359,6	0,0	0,0	0,0	0,0	58,7	79,6	94,8	386,0	78,1	200,6	461,8	986,1
Oct-01	1.358,1	0,0	0,0	2,3	0,1	19,4	79,6	104,7	384,3	47,3	260,7	464,5	947,8
Nov-01	1.372,1	0,0	0,0	2,3	0,0	13,3	79,4	118,5	366,5	43,9	286,3	466,6	925,8
Dec-01	1.334,4	0,0	0,0	3,6	0,0	8,3	79,4	111,9	385,3	-1,3	286,4	468,1	941,1
Jan-02	1.309,0	0,0	0,0	0,8	0,0	16,4	79,4	174,3	377,6	54,8	134,2	473,1	946,6

2.3 INFLATION

Prices increased by 2,70% in January 2002, compared with 2,37% in December 2001. As table 12 shows, the increase in the inflation rate was mainly due to the acceleration in the prices of domestic agricultural products, while a marginal increase was recorded in the prices of domestic industrial goods. By contrast, electricity prices decreased further, while prices of services registered a small deceleration.

As regards domestic goods, the most significant development in January 2002 was the continuing acceleration in agricultural product prices, which rose by 21,82%, compared with an increase of 17,60% in the previous month. The large increase in agricultural product prices this winter is partly attributable to the destruction of vegetable crops due to unstable weather conditions, which resulted in a sharp rise in the prices of these products in comparison with the previous months. The continuing fall in electricity prices is also worth noting, while the administratively specified fuel prices remained

unchanged in January 2002. The decrease in fuel prices in Cyprus in the last few months primarily reflects developments in international oil markets. Indicatively, while prices of oil (Brent) averaged USD30 per barrel in the last quarter of 2000, in the corresponding period of 2001 the average price was about USD19 per barrel.

Prices of imported goods continued to contribute to the maintenance of inflation at a low level, as they decreased by 0,37% in January 2002, compared with an increase of 0,03% in December 2001 and 0,75% in January 2001.

Finally, prices of services increased by 2,97% in January 2002, compared with an increase of 3,48% in December 2001 and 3,42% in January 2001. This deceleration was partly due to changes in telecommunications prices, specifically to base effects arising from the increase in rates in January 2001, which was followed by a downward course.

Table 12

Consumer price index by economic origin

(percentage change)

		2000	2001	January 2001/2000	December 2001/2000	January 2002/2001
	All items	4,14	1,97	1,44	2,37	2,70
?	Domestic goods	7,15	1,34	-0,30	2,50	4,14
?.1	Agricultural	8,98	4,50	-0,33	17,60	21,82
?.2	Industrial	4,47	0,79	-0,71	-0,52	0,09
?.2.1	Industrial, non-oil	2,50	0,11	-3,13	0,92	0,12
?.2.2	Fuel and gas	14,86	3,99	11,59	-6,73	0,00
?.3	Electricity and water	36,04	-2,66	14,22	-11,45	-6,77
?	Imported goods	2,13	0,47	0,75	0,03	-0,37
?.1	Motor vehicles	3,78	0,55	2,97	-0,59	0,41
?.2	Other imported goods	0,93	0,41	-0,88	0,49	-0,96
C	Services	2,52	3,35	3,42	3,48	2,97

A more detailed analysis of developments on the inflation front by economic origin is presented in tables 3 and 4 of the annex⁵.

Turning to prospects for 2002, the inflation rate is expected to be in the range of 2,0% to 2,5%, excluding the effects of the forthcoming increase in the VAT rate and other indirect taxes during this year⁶. This preliminary projection, which is based on the framework of price analysis by economic origin as presented above⁷, adopts the following assumptions:

- International oil prices will remain around USD22 per barrel during the year, an assumption which given current evidence may be considered as conservative.
- No wide fluctuations of the Cyprus pound against the euro, the US dollar, the pound sterling and the yen will occur.
- Agricultural product prices will increase at the same rate as in 2001, and finally,
- Monetary policy in Cyprus will be accommodative to international developments to the extent macroeconomic stability is not affected.

It is pointed out that the more pronounced the slowdown in the growth rate of the Cypriot

economy in 2002 turns out to be, due to unfavourable international developments, the greater the likelihood of a lower inflation trend, and vice versa.

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

Table 13

Inflation : Cyprus and other countries

(annual percentage change in consumer prices)

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

(1) Source: *The Economist*

(2) Source: Central Bank of Cyprus

2.4 DOMESTIC ECONOMY

Production

According to the latest available data for the secondary sector, construction activity rose significantly, although local cement sales decreased in December, for the first time in 2001, while the performance of manufacturing is not satisfactory. The tertiary sector, which is the driving force of the economy, and particularly tourism, declined substantially in the last quarter

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

⁶ The effect of these tax increases on the annual inflation rate is estimated at 2,0 points. Even though the imposition of these increases in 2002 is considered very likely, the exact time of their imposition is uncertain.

⁷ These conclusions are also supported by preliminary econometric analyses using autoregressive models, with quarterly data for the period 1992(1)-2001(2).

of 2001. By contrast, the primary sector of the economy, specifically agriculture, showed a strong improvement in 2001. Overall, GDP growth in 2001 is estimated to have slowed to about 3,7%, from 5,1% in 2000.

Analytically, in the primary sector, after the downturn observed in 2000, agricultural output recovered strongly in 2001, registering an increase of 10,1% in January-October, compared with a fall of 13,0% in the corresponding period of the previous year. More specifically, crop production and livestock production increased by 19,9% and 0,7%, respectively, in January-October 2001, compared with a decrease of 24,3% and an increase of 1,8%, respectively, in the same period of 2000.

In the secondary sector the picture is still mixed. According to most indicators, prospects in construction are good. Specifically, the volume index of building permits, which indicates prospects in the construction sector in the following few months, continued to rise, by 19,0% in October and 18,2% in November 2001, compared with increases of 37,7% and 29,0% in the corresponding months of 2000. In parallel, the value index of building permits continued its upward course, registering an increase of 22,3% and 22,9% in October and November, respectively, compared with increases of 35,5% and 29,4% in the corresponding months of 2000. For the whole period January-November 2001, the volume (value) index of building permits rose by 21,6% (24,7%), compared with an increase of 5,4% (9,1%) in January-November 2000.

Local cement sales fell in December, for the first time in 2001. The fall was of the order of 14,2%, compared with an increase of 0,1% in December 2000. For the whole year 2001, local cement

sales rose by 11,6%, compared with an increase of 1,1% in 2000.

Manufacturing continues to present a negative picture. The volume index of manufacturing production declined further in October 2001 by 0,1%, compared with an increase of 9,4% in the same month of 2000. For the whole period January-October 2001, the index registered a fall of 4,3%, compared with an increase of 6,0% in the corresponding period of the previous year. The performance of manufacturing by product category is presented in table 14.

Chart 5

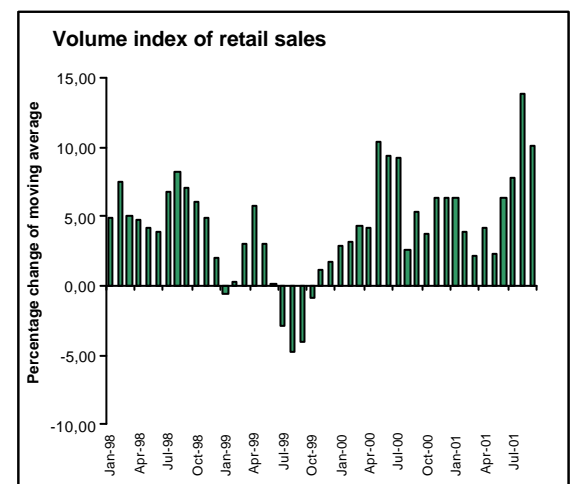
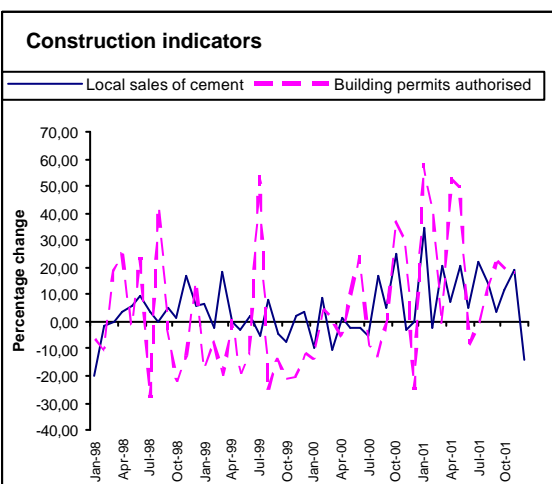
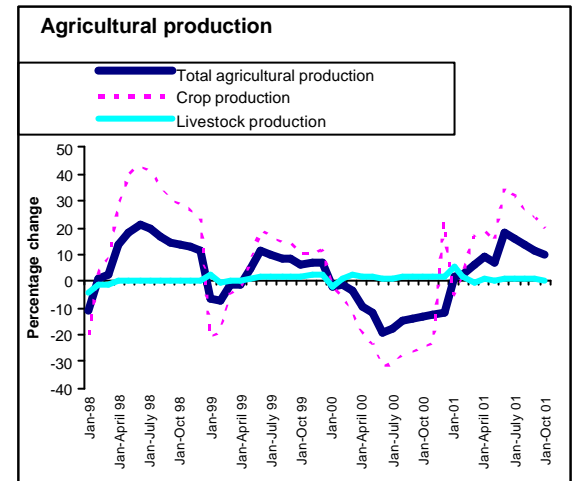
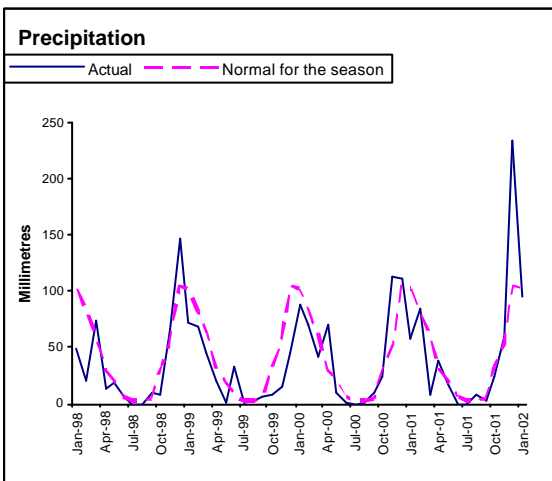
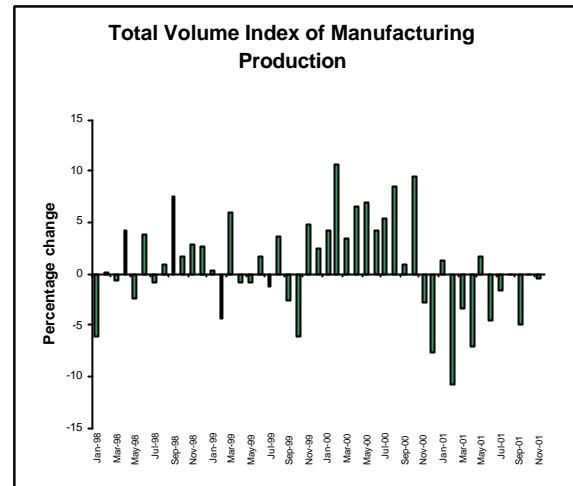
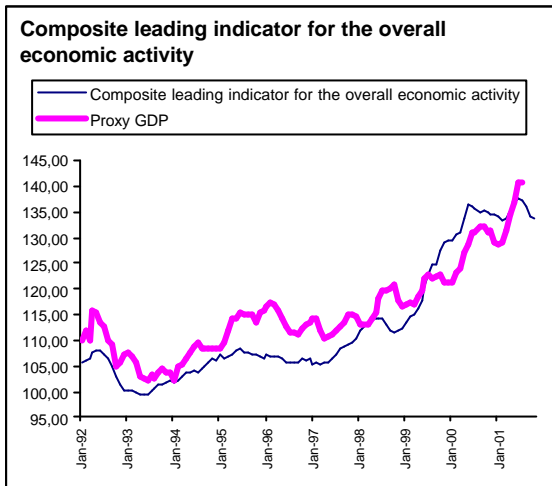


Chart 6

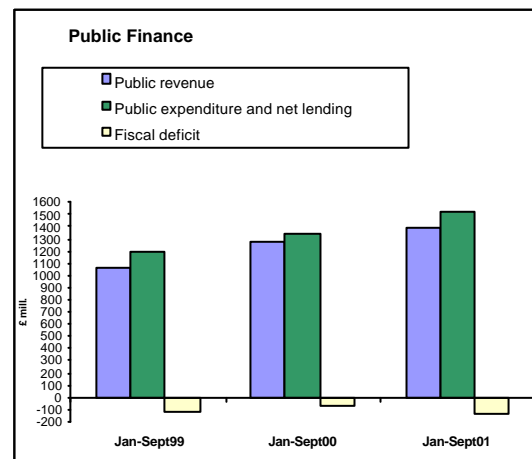
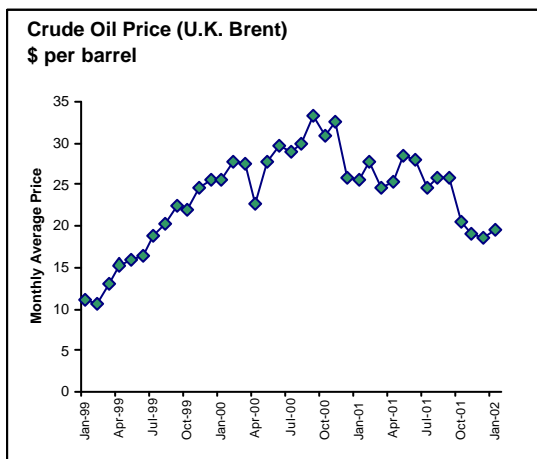
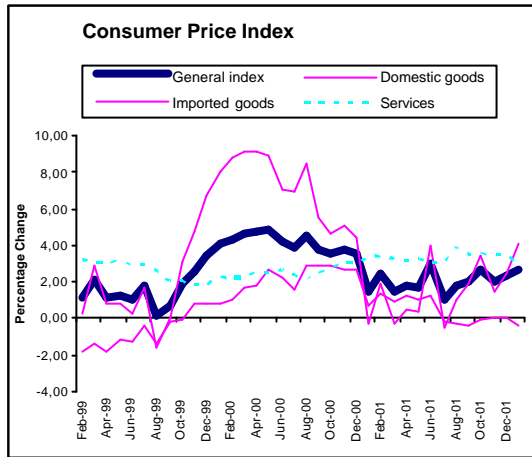
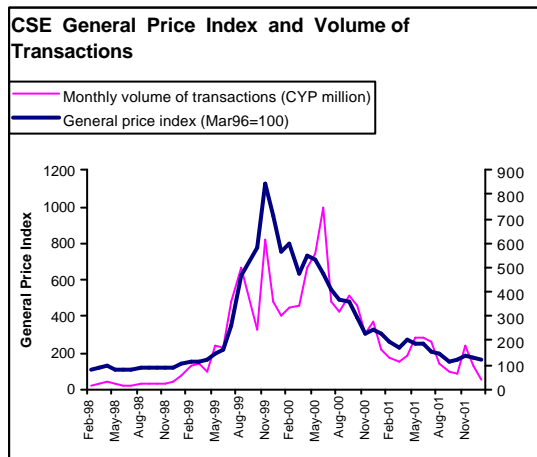
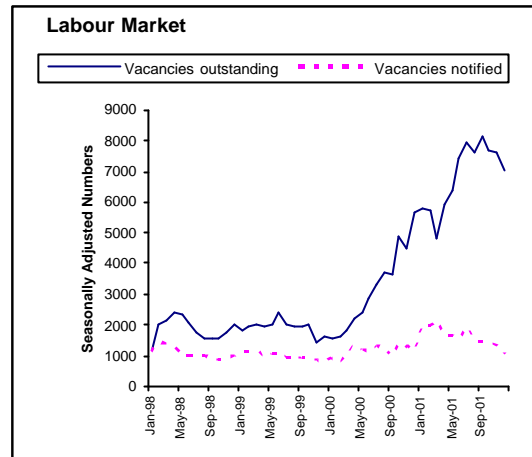
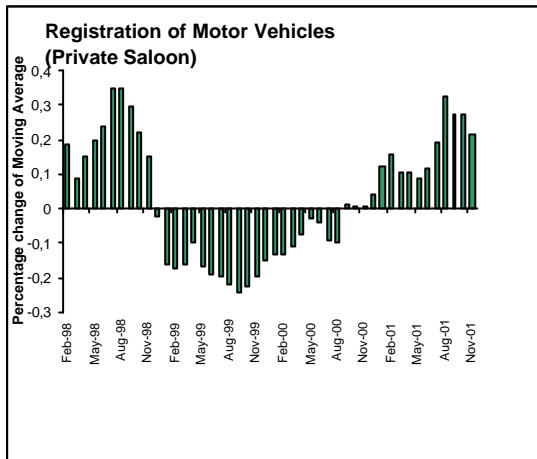


Table 14

Manufacturing production volume index
(percentage change by category)

	October 2001/2000	October 2000/1999	Jan.-Oct. 2001/2000	Jan.-Oct. 2000/1999
General index	-0,09	9,38	-4,34	6,02
Food products, beverages & tobacco	-3,11	6,26	-7,57	7,17
Textiles & textile products	-6,88	0,82	-2,71	-7,38
Leather and leather products	-12,02	-4,31	-8,04	-12,84
Wood & wood products	-3,44	12,30	-4,25	8,40
Paper, paper products, publishing & printing	7,20	12,28	6,16	12,77
Refined petroleum products	-14,37	-1,55	-3,28	-0,37
Chemicals, chemical products and man-made fibres	17,53	14,06	10,62	4,00
Rubber and plastic products	-5,23	10,23	-5,62	-0,61
Other non-metallic mineral products	5,29	18,51	2,48	7,60
Basic metals & fabricated metal products	3,33	16,71	0,09	11,19
Machinery and equipment n.e.c.	-8,62	21,55	0,90	11,42
Electrical & optical equipment	5,04	19,98	-2,22	6,88
Transport equipment	12,61	-7,29	-17,19	3,30
Manufacturing n.e.c.	1,38	4,47	-6,72	3,98

Turning to the services sector, tourism, which is the driving force of the economy, was adversely affected by international developments in the last months of 2001. Specifically, tourist arrivals fell by 10,3%, 19,5% and 20,1% in October, November and December 2001, respectively, compared with increases of 11,0%, 13,0% and 11,2% in the corresponding months of the previous year. Arrivals during the whole year 2001 decelerated substantially, increasing by only 0,4% compared with an increase of 10,3% in 2000. Due to the increase in expenditure per tourist, however, receipts from tourism increased by 7,0% in 2001 to £1.271,6 million.

The slowdown in tourism is strongly reflected in the decline of business confidence of hotel owners, as portrayed in the Business Trends Survey conducted by the Statistical Service in November 2001. The proportion of hotels reporting in November that they expected a deterioration in their business situation in the next six months greatly exceeded the proportion

of those anticipating an improvement, compared with a much smaller proportion in the same month of 2000. Furthermore, the proportion of hotels reporting that they considered their current business position as not satisfactory for the season exceeded the proportion of those assessing it as more than satisfactory by 69 percentage points, while in the same month of 2000 the majority of hotels considered their business position as more than satisfactory. At the same time, the proportion of hotels reporting that demand in November 2001 was normal or lower than normal for the season was much greater than the corresponding proportion in November 2000, while the proportion of hotels reporting that demand levels in the next three months were expected to be lower than normal reached 82%, compared with 23% in the same month of the previous year.

Consumption

About a month after the 11 September events, private consumption slowed. The retail sales volume index increased by 4,3% in October 2001, compared with an increase of 8,3% in the same month of the previous year and 13,2% in September 2001. The course of retail sales by product category is presented in table 15. For the period January-October 2001, the retail sales volume index continued to show a small acceleration, rising by 6,4% compared with an increase of 5,8% in the corresponding period of 2000.

Notwithstanding the slowdown recorded in October, the continuing increase in private saloon car registrations indicates that consumption may have remained high in the remainder of 2001. Specifically, private saloon car registrations increased by 15,4% in December 2001, compared with a fall of 6,8% in December 2000 and a rise of 38,6% in November 2001. During

the whole year 2001 private saloon car registrations increased by 19,4%, compared with a decrease of 6,5% in 2000.

Developments in imports for home consumption (excluding imports of military equipment and fuels) seem to be consistent to some extent with the slowdown registered in retail sales in October 2001. The aforementioned imports decreased by 4,1% in September, and increased by 0,6% in October, compared with increases of 20,6% and 35,8% in the corresponding months of 2000. In January-October 2001 imports for home consumption (excluding imports of military equipment and fuels) decelerated to a growth rate of 11,5%, compared with a rise of 17,2% in the corresponding period of 2000.

Table 15

Retail sales volume index

(percentage change by category)

	? ctober 2001/2000	?ctober 2000/1999	Jan.-Oct. 2001/2000	Jan.-Oct. 2000/1999
General index	4,25	8,32	6,37	5,80
Food, drinks and tobacco	-8,24	5,71	2,13	2,00
Clothing and textiles	-7,55	39,54	-4,10	21,83
Footwear & leather products	-11,17	57,31	0,62	24,42
Electrical goods & appliances	27,03	8,71	-4,52	18,18
Vehicles, machinery & spare parts	14,91	14,15	23,51	0,47
Supermarkets	6,14	-8,12	1,01	9,96
Pharmacies	12,83	-7,98	6,94	-11,78
Furniture	8,71	18,44	6,32	12,29
Petrol stations	4,35	0,36	1,72	4,07
Toys	1,11	-7,87	-0,08	-6,45

Confidence Indicators

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

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

Labour market

In the labour market, the number of registered unemployment increased by 4,2% in December 2001, compared with a decrease of 7,4% in December 2000, while unemployment as a percentage of the economically active population rose to 3,6%, compared with 3,4% in the same month of 2000. Unemployment in 2001 fell by 14,2% and amounted to 3,0% of the economically active population, compared with 3,4% in 2000. A fall in unemployment was observed in nearly all sectors of the economy, with the main exceptions of new entrants to the labour market, where an increase of 13,1% was registered, and the sector of finance, insurance, real estate and business

services, where an increase of 10,6% was recorded.

Public finances

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

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

Table 16**Business and consumer surveys in the accession countries (AC)***(balances, seasonally adjusted)*

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

*(1) not seasonally adjusted**Source: Surveys conducted by national statistical (and other) institutions and harmonised by the European Commission.*

2.5 EXTERNAL TRANSACTIONS

In October 2001, as in the previous month, a decrease in total exports was observed in comparison with the corresponding month of 2000. In contrast, total exports reversed the decrease recorded in September and rose significantly in October 2001, due to increased re-exports, while domestic exports fell. As regards tourism, despite the impact of the 11 September events and the marginal increase in tourist arrivals, receipts from tourism during 2001 registered a satisfactory increase of the order of 7,0%, compared with a rise of 16,5% in 2000.

Trade in goods

The latest available data on trade, which are summarised in table 17, show a significant slowdown in imports as well as exports in 2001 in comparison with 2000. It is clarified that data for October are provisional, while detailed data are available for the period January-September 2001. Tables 18 and 19 present an analysis of imports and exports by category of goods.

The slowdown in imports seems to have continued in the last months of 2001, according to data for VAT receipts from imports of goods. Specifically, VAT receipts from imports decreased by 10,5% in November and 8,5% in December 2001 in comparison with the corresponding months of 2000.

In October 2001 total imports decreased by 3,7% in comparison with October 2000, although they were higher than those recorded in September 2001. The decrease in total imports in October 2001 in comparison with October 2000 is mainly due to the fall in imports of fuels by 22,9% (£10,1 million). Imports for home consumption excluding imports of military equipment and fuels increased

marginally in October, after a decrease of 4,1% in the previous month⁸. The growth rate of imports for home consumption excluding imports of military equipment and fuels declined to 11,5%, in the period January-October 2001, compared with 14,8% in the first half of 2001 and 17,2% in January-October 2000. As table 18 shows, a slowdown was recorded in all major categories of imports except imports of transport equipment and parts thereof, which accelerated substantially, mainly due to the sizeable increase in imports of cars. The slowdown in imports of intermediate inputs and capital goods, with the exception of capital goods for construction and mining, which rose significantly after the fall recorded in 2000, seems to be consistent with the observed downturn of the domestic manufacturing sector and the rise of the construction sector.

In October 2001 re-exports rose by 63,0%, compared with a marginal increase of 0,5% in September 2001 and a decrease of 4,5% in October 2000. After falling by 18,6% in September 2001, domestic exports decreased further by 3,4% in October 2001, compared with an increase of 30,0% in October 2000. The growth rates of domestic exports and re-exports in January-October 2001 were 3,6% and 11,8%, respectively, compared with 4,5% and 9,5%, respectively, in the first half of 2001. As table 19 shows, the slowdown in domestic exports emanated from the stagnation of industrial exports, while exports of raw agricultural products, particularly potatoes, recovered after the decrease recorded in 2000. These trends seem to reflect the poor performance of the domestic manufacturing sector, on the one hand, and the recovery of the agricultural sector, on the other.

⁸ According to provisional data for September 2001, which were presented in the Monetary Policy Report of January 2002, the decrease was of the order of 9,9%.

Table 17**Trade balance data***(January – October¹, £ millions)*

	1999	2000	2001	% change 2001/2000	% change 2000/1999
Total imports (cif)	1.559,0	2.018,8	2.142,5	6,1	29,5
Imports for home consumption (cif)	1.278,8	1.667,8	1.838,6	10,2	30,4
Imports for home consumption (cif) excluding imports of military equipment and fuels	1.164,1	1.364,8	1.521,1	11,5	17,2
Total exports (fob)	450,0	506,3	537,8	6,2	12,5
Domestic exports (fob)	167,3	189,2	196,0	3,6	13,1
Re-exports (fob)	251,1	257,5	287,9	11,8	2,6
Goods procured in ports by carriers	31,6	59,5	53,9	-9,4	88,3
Crude trade balance	-1.109,0	-1.512,5	-1.604,7		

(1) Data for October 2001 are provisional.

Table 18**Imports (cif) by economic destination***(January - September, £ millions)*

	1999 Value	%	2000 Value	%	2001 Value	%	% change 2001/2000	% change 2000/1999
Consumer goods	341,4	29,8	407,9	27,8	458,9	28,0	12,5	19,5
Non-durable	189,3	16,5	226,4	15,5	252,2	15,4	11,4	19,6
Semi-durable	92,6	8,1	108,1	7,4	125,0	7,6	15,7	16,8
Durable	59,6	5,2	73,5	5,0	81,6	5,0	11,1	23,2
Intermediate inputs	425,3	37,1	487,5	33,3	531,2	32,4	9,0	14,6
Agricultural	24,2	2,1	26,2	1,8	26,9	1,6	2,4	8,5
Construction and mining	68,7	6,0	79,3	5,4	91,2	5,6	14,9	15,5
Manufacturing	261,2	22,8	292,4	20,0	317,6	19,4	8,6	11,9
Transport, storage and communication	24,8	2,2	33,0	2,3	23,5	1,4	-28,8	32,9
Other	46,4	4,0	56,6	3,9	72,0	4,4	27,3	22,0
Capital goods	141,8	12,4	171,6	11,7	195,7	11,9	14,1	21,0
Agricultural	6,4	0,6	6,8	0,5	6,8	0,4	0,3	6,6
Construction and mining	17,9	1,6	11,0	0,8	15,4	0,9	39,8	-38,4
Manufacturing	38,2	3,3	47,1	3,2	53,5	3,3	13,4	23,4
Transport, storage and communication	21,5	1,9	31,9	2,2	39,8	2,4	24,8	48,5
Other	57,8	5,0	74,7	5,1	80,2	4,9	7,3	29,2
Transport equipment and parts thereof	138,3	12,1	138,6	9,5	175,0	10,7	26,3	0,2
Of which:								
Passenger cars	51,4	4,5	56,8	3,9	73,1	4,5	28,7	10,4
Spare parts	42,4	3,7	39,0	2,7	47,3	2,9	21,1	-7,9
Fuels and lubricants	84,6	7,4	178,2	12,2	204,0	12,4	14,5	110,6
Unclassified	14,8	1,3	81,4	5,6	75,8	4,6	-6,9	450,6
Imports for home consumption	1.146,2	81,9	1.465,2	82,3	1.640,6	85,7	12,0	27,8
Imports destined for re-exports	252,7	18,1	316,0	17,7	272,9	14,3	-13,6	25,0
Total imports	1.398,9	100,0	1.781,2	100,0	1.913,5	100,0	7,4	27,3

Source: Cyprus Statistical Service

Table 19**Exports (fob) by economic origin***(January – September, £ millions)*

	1999		2000		2001		% change 2001/2000	% change 2000/1999
	Value	%	Value	%	Value	%		
Agricultural products (raw)	31,9	7,8	31,0	6,8	39,3	8,2	26,8	-2,7
Of which:								
Potatoes	13,7	3,3	12,3	2,7	17,5	3,7	42,0	-9,7
Other vegetables, fresh, frozen or dried	2,4	0,6	2,3	0,5	3,1	0,6	31,8	-2,2
Citrus fruit	11,1	2,7	11,2	2,4	12,4	2,6	11,3	1,0
Minerals and industrial products of mineral origin	8,0	2,0	8,4	1,8	9,2	1,9	9,1	4,4
Industrial products of agricultural origin	18,1	4,4	21,5	4,7	20,7	4,3	-3,6	18,8
Of which:								
Halloumi cheese	4,1	1,0	5,7	1,3	5,6	1,2	-1,7	38,3
Fruit preserved	1,2	0,3	1,3	0,3	0,6	0,1	-54,6	9,2
Fruit and vegetable juices	2,3	0,6	2,7	0,6	3,1	0,6	13,4	17,2
Beer	1,0	0,3	0,9	0,2	0,9	0,2	-10,3	-8,9
Wines	5,1	1,2	4,8	1,0	3,6	0,7	-25,5	-5,4
Industrial products of manufacturing origin	95,5	23,4	110,6	24,1	110,6	23,1	0,0	15,8
Of which:								
Cigarettes	10,0	2,5	12,8	2,8	8,1	1,7	-36,6	28,0
Cement	5,7	1,4	8,6	1,9	5,9	1,2	-31,7	50,5
Pharmaceutical products	17,8	4,4	22,1	4,8	27,7	5,8	25,1	24,2
Articles of paper or of paperboard	3,0	0,7	3,7	0,8	4,3	0,9	17,4	23,7
Clothing	17,3	4,3	17,1	3,7	15,6	3,3	-8,9	-1,6
Footwear	5,0	1,2	4,8	1,1	2,9	0,6	-38,9	-4,1
Furniture	4,7	1,2	5,9	1,3	5,2	1,1	-11,8	25,9
Unclassified	0,2	0,1	0,1	0,0	0,0	0,0	-100,0	-40,4
Total domestic exports	153,7	37,7	171,6	37,5	179,8	37,6	4,7	11,6
Re-exports	228,0	55,9	235,4	51,4	251,9	52,7	7,0	3,3
Goods procured in ports by carriers	26,4	6,5	51,0	11,1	46,0	9,6	-10,0	93,1
Total exports	408,1	100,0	458,1	100,0	477,7	100,0	4,3	12,2

Source: Cyprus Statistical Service

Tourism

Tables 20 and 21 show tourist arrivals and receipts from tourism in 2001.⁹ The large decrease in tourist arrivals in the last quarter of the year, which led to a decrease in receipts from tourism in the same period, is attributable to the events of 11 September and their aftermath. The final result for 2001 was a marginal increase in tourist arrivals of 0,4% and a 7,0% increase in receipts from tourism, compared with an increase of 16,5% in 2000.

It is pointed out that the slowdown in receipts from tourism in 2001 in comparison with 2000 may be partly attributed to the economic slowdown in Europe, which is the main source of tourism for Cyprus, that was already under way before the 11 September events and is reflected in the slowdown in tourist arrivals in January-August 2001.

The European Union accounted for over 81% of receipts from tourism. The United Kingdom remained the primary tourist market for Cyprus, increasing its share to 58,3% of receipts, from 55,5% in 2000. Germany was the second most important source of tourism, accounting for 6,8% of receipts compared with 7,8% in 2000, followed by Russia and other countries of the former Soviet Union, with a proportion of 6,7% in 2001 compared with 6,2% in 2000. Other important tourist markets were Sweden (3,7% of receipts), Switzerland (3,0%), Greece (2,6%) and Ireland (2,2%).

⁹ Estimates of receipts from tourism as well as tourist arrivals do not include same-day visitors.

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

Period	1998	1999	2000	2001	% change 2001/2000	% change 2000/1999	% change 1999/1998
Jan.-Aug.	1.535.048	1.651.676	1.828.419	1.915.247	4,7	10,7	7,6
September	270.283	309.498	329.964	329.400	-0,2	6,6	14,5
October	228.881	270.732	300.597	269.744	-10,3	11,0	18,3
November	105.773	118.105	133.500	107.454	-19,5	13,0	11,7
December	82.716	84.274	93.722	74.887	-20,1	11,2	1,9
Jan.-Dec.	2.222.701	2.434.285	2.686.202	2.696.732	0,4	10,3	9,5

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

Period	2000	2001	% change 2001/2000
January – August	790.521.445	887.071.589	12,2
September	167.685.056	176.300.401	5,1
October	138.712.667	130.241.548	-6,1
November	54.126.724	48.791.595	-9,9
December	36.734.945	29.224.911	-20,4
January – December	1.188.153.968	1.271.630.044	7,0

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

Investments by non-residents on the Cyprus Stock Exchange

Table 22 presents non-resident investments on the Cyprus Stock Exchange during 2001. As this table shows, in the last three months of the year net capital outflows were recorded, that is sales of shares exceeded purchases, while in the previous months except June net inflows were recorded. In January 2002 purchases of shares by non-residents reached £569,9 thousand, while sales amounted to £361,7 thousand.

Net investments (purchases minus sales) by non-residents on the Cyprus Stock Exchange were of the order of £2 million in 2001. Tables 8 and 9 in the annex present purchases and sales by non-residents of shares quoted on the Cyprus Stock

Exchange by country of residence. The main source of investments in 2001 was Greece, which accounted for 57% of purchases and 45% of sales. Net investments by residents of Greece amounted to about £3 million. The second most important source of investments was the United Kingdom, which accounted for 14% of purchases and 8% of sales, resulting in net inflows of the order of £1 million. A total of over £1 million of net inflows emanated from the Ukraine, Russia, South Africa and Germany. By contrast, investments by residents of the United States amounted to net outflows of nearly £4 million, as investments by US residents accounted for 30% of sales and only 2% of purchases.

Table 22

Investments by non-residents on the Cyprus Stock Exchange in 2001

(£ thousand)

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
Purchases	2.044,7	2.384,7	1.686,2	1.206,2	1.817,3	794,6	688,5	1.261,6	872,7	915,9	1.226,0	367,3
Sales	962,3 ¹	2.085,8	1.086,6	988,0	1.097,0	888,8	659,0	706,1	771,8	1.090,2	2.007,4	577,1
Net investments	- ¹	298,9	599,6	218,2	720,3	-94,2	29,5	555,5	100,9	-174,3	-781,3	-209,7

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

Balance of payments projections

Table 23 presents provisional balance of payments statistics for 2001 as well as projections for 2002, as revised in January 2002. These estimates and projections were first published in last month's Monetary Policy Report.

According to these estimates, the substantial slowdown in imports offset the slowdown in tourism in 2001 and led to a narrowing of the current account deficit to £250,0 million or 4,3% of GDP, from £284,1 million or 5,2% of GDP in 2000. It should be noted that this result strongly depends on the value of imports in the last two months of 2001. As previously mentioned, there are indications that imports in November and

December 2001 were lower than imports in the corresponding months of 2000, but the size of the decrease cannot be accurately estimated at present.

In 2002 a small increase in imports, of the order of 1,5%, is projected and a marginal decrease in receipts from tourism, of the order of 1%, due to the effects of the 11 September events. The subdued import growth anticipated in 2002 is attributable to the same factors that restrained import growth in 2001, namely the fall in oil prices¹⁰ and the relatively weak growth in domestic consumption expenditure, in comparison with 2000, due to the negative wealth effect of the fall in share prices and the lower growth rate of the economy resulting from the expected slowdown or decline in receipts from tourism. Overall, the current account deficit is projected to widen somewhat in 2002. It should be noted that the increased uncertainty still prevailing globally affects the accuracy of projections for 2002. These projections will be revised in the light of developments.

It is worth noting that as a result of developments in external transactions during 2001, reserve assets (official international reserves) increased by nearly £400 million and reached £1550 million at the end of the year, an amount corresponding to 6,2 months of imports of goods and services. A further increase of the order of £150 million is projected in 2002.

¹⁰ The projections for imports of fuels are based on an expected average oil price of USD22,0 per barrel in 2002, compared with USD24,5 in 2001 and USD28,5 in 2000. In January 2002 the average price was USD19,5 per barrel.

Table 23**Balance of payments***(£ millions)*

	1995	1996	1997	1998	1999	2000	2001 (prov.)	2002 (proj.)
Current account balance	-72,8	-215,4	-173,9	-312,3	-118,0	-284,1	-250,0	-277,8
Goods and services	-90,6	-220,1	-181,6	-312,6	-144,8	-352,0	-236,3	-256,7
Goods	-943,5	-1.018,1	-1.064,5	-1.256,1	-1.253,8	-1.621,8	-1.617,6	-1.646,6
Exports (f.o.b.)	555,9	649,3	640,2	551,3	543,1	591,9	616,3	620,5
Imports (f.o.b.)	-1.499,4	-1.667,4	-1.704,7	-1.807,4	-1.796,9	-2.213,7	-2.233,9	-2.267,1
Services	852,9	798,0	883,0	943,5	1.109,1	1.269,8	1.381,3	1.389,8
Receipts	1.353,2	1.339,4	1.453,0	1.530,0	1.732,0	1.991,7	2.143,5	2.188,1
Payments	-500,3	-541,4	-570,1	-586,5	-622,9	-721,9	-762,2	-798,3
Income	4,8	-10,7	-5,6	-14,8	-20,7	-10,4	-26,1	-34,3
Receipts	167,9	167,5	196,4	215,8	227,2	314,5	352,5	384,5
Payments	-163,1	-178,2	-202,0	-230,6	-247,9	-324,9	-378,6	-418,8
Current transfers	13,0	15,5	13,3	15,1	47,4	78,3	12,4	13,2
Receipts	21,0	20,1	21,0	25,7	61,7	95,4	30,9	32,2
Payments	-8,0	-4,6	-7,7	-10,5	-14,3	-17,1	-18,5	-19,0
Capital account	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Financial account	106,0	229,4	221,3	383,4	199,7	179,5	187,5	224,3
Direct investment	31,7	8,9	22,2	-0,1	-13,5	-24,8	-35,0	49,0
Abroad	-7,1	-16,4	-16,8	-35,7	-79,4	-126,0	-140,0	-98,0
In Cyprus	38,8	25,3	39,0	35,6	65,9	101,2	105,0	147,0
Portfolio investment	-32,5	-22,3	73,2	101,9	0,9	-126,6	52,0	-41,0
Assets	-20,1	-54,8	-64,7	-55,0	-257,8	-182,2	-285,0	-161,0
Liabilities	-12,4	32,5	137,9	156,9	258,7	55,6	337,0	120,0
Other investment	-57,5	214,9	101,8	238,9	559,0	325,8	564,3	366,3
Assets	-486,6	-73,7	-360,0	341,3	-211,6	-864,3	-428,2	-222,7
Monetary authorities	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
General government	-5,4	-3,6	-11,7	16,8	0,3	-2,8	0,3	-1,7
Banks	-481,2	-70,1	-348,3	324,5	-211,9	-861,5	-428,5	-221,0
Other sectors	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Liabilities	429,1	288,6	461,8	-102,4	770,6	1.190,1	992,5	589,0
Monetary authorities	13,2	-16,9	10,6	-12,6	-3,1	-12,5	10,3	0,0
General government	-66,6	-44,5	-58,0	-3,7	-21,5	19,8	-67,0	2,1
Banks	436,3	323,3	448,1	-65,1	766,1	1.095,0	1.026,0	500,0
Other sectors	46,2	26,7	61,1	-21,0	29,1	87,8	23,2	86,9
Reserve assets	164,3	27,9	24,1	42,7	-346,7	5,1	-393,8	-150,0
Net errors and omissions	-33,2	-14,1	-47,4	-71,2	-81,6	104,6	62,5	53,5
Nominal GDP	4.006,6	4.159,6	4.369,3	4.693,8	5.017,6	5.486,1	5.867,8	6.229,6
Current account balance as a percentage (%) of GDP	-1,8	-5,2	-4,0	-6,7	-2,4	-5,2	-4,3	-4,5

3. ANNEX

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

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

* From January 2001 data refer to Euro area enlargement

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

	Cyprus					Euro area				
	Overnight deposits	2-7 days deposits	1-month deposits	Over 1-month deposits	12-month deposits	Overnight deposits	1-month deposits	3-month deposits	6-month deposits	12-month deposits
2000										
July	6,66	6,68	6,81	-	6,50	4,31	4,41	4,58	4,84	5,11
August	6,57	6,58	6,50	-	6,50	4,42	4,57	4,78	5,01	5,25
September	5,76	5,90	-	6,50	6,50	4,59	4,70	4,85	5,04	5,22
October	6,40	6,34	6,25	-	6,50	4,76	4,85	5,04	5,10	5,22
November	5,99	6,11	6,35	6,35	6,50	4,83	4,92	5,09	5,13	5,19
December	6,06	6,27	6,24	7,00	6,50	4,83	4,94	4,93	4,91	4,87
2001										
January	5,77	5,88	6,31	-	6,50	4,75	4,81	4,77	4,68	4,58
February	5,51	5,80	6,28	6,59	6,50	4,99	4,80	4,76	4,67	4,59
March	5,82	5,85	6,05	6,83	6,50	4,78	4,78	4,71	4,58	4,47
April	6,37	6,42	6,39	-	6,50	5,06	4,79	4,69	4,57	4,49
May	6,66	6,57	6,60	6,72	6,50	4,65	4,67	4,64	4,57	4,53
June	4,72	4,73	5,00	6,55	6,50	4,54	4,53	4,45	4,35	4,31
July	4,94	4,95	5,95	6,50	6,50	4,51	4,52	4,47	4,39	4,31
August	4,34	4,30	4,85	5,84	6,50*	4,49	4,46	4,35	4,22	4,11
September	4,03	4,07	5,21	6,10	6,50*	3,99	4,05	3,98	3,88	3,77
October	3,72	3,81	4,78	-	6,50*	3,97	3,72	3,60	3,46	3,37
November	3,44	3,55	4,58	-	5,00	3,51	3,43	3,39	3,26	3,20
December	3,84	3,96	4,62	4,75	5,00					

Source: Central Bank of Cyprus

Source: ECB Monthly Bulletin - December 2001 - ECB

(* The previous 12-month deposit occurred on July 18, at an interest rate of 6,50%).

Table 3

Percentage change in the Consumer Price Index by economic origin (%)
1999-2002

		Yearly			Quarterly			Jan. 2001/ 2000	Dec. 2001/ 2000	Jan. 2002/ 2001	Weights	
		1999	2000	2001	2001 I?	2001 I??	2001 IV				1992=100 ²	1998=100 ¹
	GENERAL INDEX	1,74	4,14	1,97	2,15	1,62	2,36	1,44	2,37	2,70	100,00	100,00
?	LOCAL GOODS	1,73	7,15	1,34	1,61	0,81	2,46	-0,30	2,50	4,14	42,99	36,69
? .1	Agricultural	-1,86	8,98	4,50	1,55	4,55	15,97	-3,33	17,60	21,82	11,31	7,93
? .2	Industrial	2,96	4,47	0,79	2,34	0,51	-0,48	-0,71	-0,52	0,09	29,70	26,75
? .2.1	<i>industrial non-petroleum</i>	3,20	2,50	0,11	0,28	0,47	0,97	-3,13	0,92	0,12	24,97	22,42
? .2.2	<i>fuel and gas</i>	1,52	14,86	3,99	12,93	0,66	-6,73	11,59	-6,73	0,00	4,73	4,33
? .3	Electricity and Water	0,93	36,04	-2,66	-5,70	-7,04	-7,41	14,22	-11,45	-6,77	1,98	2,01
?	IMPORTED GOODS	-0,83	2,13	0,47	1,16	-0,29	0,00	0,75	0,03	-0,37	23,17	22,20
B.1	Motor Vehicles	-1,52	3,78	0,55	1,32	-0,37	-0,76	2,97	-0,59	0,41	11,88	9,43
B.2	Other Imported	-0,19	0,93	0,41	1,04	-0,24	0,57	-0,88	0,49	-0,96	11,29	12,77
C	SERVICES	3,23	2,52	3,35	3,17	3,37	3,50	3,42	3,48	2,97	33,84	41,11

**Underlying inflation for
Cyprus³**

2,3 2,4 1,7 1,9 1,7 1,9 1,0 1,9 1,4

Euro area inflation

1,1 2,4 3,2 2,7 2,5

1) For the years 2000 and 2001

2) For the years 1998 and 1999

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

Table 4

Weighted contribution to the total change in the Consumer Price Index by economic origin (%)
1999-2002

		Yearly			Quarterly			Jan. 2001/ 2000	Dec. 2001/ 2000	Jan. 2002/ 2001	Weights	
		1999	2000	2001	2001 I?	2001 I??	2001 IV				1992=100 ²	1998=100 ¹
	GENERAL INDEX	1,74	4,14	1,97	2,15	1,62	2,36	1,44	2,37	2,70	100,00	100,00
?	LOCAL GOODS	0,75	2,63	0,51	0,61	0,31	0,94	-0,11	0,96	1,54	42,99	36,69
? .1	Agricultural	-0,19	0,69	0,36	0,12	0,36	1,27	-0,27	1,41	1,70	11,31	7,93
? .2	Industrial	0,92	1,21	0,21	0,64	0,14	-0,13	-0,19	-0,14	0,03	29,70	26,75
? .2.1	<i>industrial non-petroleum</i>	<i>0,85</i>	<i>0,57</i>	<i>0,02</i>	<i>0,06</i>	<i>0,10</i>	<i>0,22</i>	<i>-0,71</i>	<i>0,21</i>	<i>0,03</i>	<i>24,97</i>	<i>22,42</i>
? .2.2	<i>fuel and gas</i>	<i>0,07</i>	<i>0,64</i>	<i>0,19</i>	<i>0,57</i>	<i>0,03</i>	<i>-0,35</i>	<i>0,52</i>	<i>-0,35</i>	<i>0,00</i>	<i>4,73</i>	<i>4,33</i>
? .3	Electricity and Water	0,02	0,73	-0,07	-0,15	-0,19	-0,20	0,35	-0,31	-0,19	1,98	2,01
?	IMPORTED GOODS	-0,17	0,46	0,10	0,25	-0,06	0,00	0,16	0,01	-0,08	23,17	22,20
B.1	Motor Vehicles	-0,15	0,35	0,05	0,12	-0,03	-0,07	0,27	-0,05	0,04	11,88	9,43
B.2	Other Imported	-0,02	0,12	0,05	0,13	-0,03	0,07	-0,11	0,06	-0,12	11,29	12,77
C	SERVICES	1,17	1,05	1,37	1,29	1,38	1,42	1,40	1,41	1,24	33,84	41,11

1) For the years 2000 and 2001

2) For the years 1998 and 1999

Table 5

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

	Yearly		Quarterly			Jan. 2001/ 2000	Dec. 2001/ 2000	Jan. 2002/ 2001	Weights
	2000	2001	2001 ?I	2001 ?II	2001 ?IV				1998=100
GENERAL INDEX	4,14	1,97	2,15	1,62	2,36	1,44	2,37	2,70	100,00
Food & non-alcoholic beverages	5,49	4,09	3,06	3,97	8,64	0,60	9,43	11,14	18,20
Alcoholic beverages & tobacco	8,16	2,79	4,38	1,61	1,30	3,42	0,95	1,12	1,78
Clothing and footwear	-0,46	-6,75	-6,75	-5,24	-2,12	-17,70	-2,39	-5,39	8,22
Housing, water, electricity and gas	5,46	1,59	1,56	0,81	0,77	3,59	0,49	1,55	21,27
Furnishings, household equipment and supplies	1,47	0,15	0,80	-0,84	0,34	-0,24	0,80	-2,03	7,08
Health	6,18	5,41	5,79	4,81	5,05	7,20	4,48	4,00	4,92
Transport	5,70	2,29	4,77	0,83	-1,23	5,47	-1,26	0,76	17,42
Communication	-10,36	1,73	-1,79	6,04	4,85	-0,67	4,57	-7,48	1,79
Recreation & culture	-0,20	-0,50	-2,23	0,96	1,40	-1,70	1,30	1,12	5,88
Education	3,87	4,60	4,05	4,15	6,63	3,23	6,63	6,63	2,33
Restaurants & hotels	5,80	6,00	6,58	5,43	3,96	8,20	3,62	3,45	6,07
Miscellaneous goods and services	4,16	3,97	4,50	3,16	2,95	5,31	2,76	2,55	5,04

Table 6

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

	Yearly		Quarterly			Jan. 2001/ 2000	Dec. 2001/ 2000	Jan. 2002/ 2001	Weights
	2000	2001	2001 ?I	2001 ?II	2001 ?IV				1998=100
GENERAL INDEX	4,14	1,97	2,15	1,62	2,36	1,44	2,37	2,70	100,00
Food & non-alcoholic beverages	0,99	0,75	0,56	0,72	1,57	0,11	1,72	2,03	18,20
Alcoholic beverages & tobacco	0,16	0,06	0,09	0,03	0,03	0,07	0,02	0,02	1,78
Clothing and footwear	-0,04	-0,54	-0,57	-0,39	-0,17	-1,51	-0,19	-0,37	8,22
Housing, water, electricity and gas	1,17	0,34	0,34	0,18	0,17	0,78	0,11	0,34	21,27
Furnishings, household equipment and supplies	0,10	0,01	0,05	-0,06	0,02	-0,02	0,05	-0,14	7,08
Health	0,31	0,27	0,29	0,25	0,26	0,36	0,23	0,21	4,92
Transport	0,97	0,40	0,81	0,15	-0,22	0,93	-0,22	0,13	17,42
Communication	-0,17	0,03	-0,03	0,09	0,06	-0,01	0,06	-0,11	1,79
Recreation & culture	-0,01	-0,03	-0,13	0,05	0,08	-0,10	0,07	0,06	5,88
Education	0,09	0,11	0,10	0,10	0,16	0,08	0,16	0,16	2,33
Restaurants & hotels	0,36	0,38	0,41	0,35	0,25	0,50	0,23	0,22	6,07
Miscellaneous goods and services	0,21	0,20	0,22	0,16	0,15	0,26	0,14	0,13	5,04

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

(* date)

	Jan.	Feb.	Mar.	Apr.	May.	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
European Central Bank ¹	3*	7	7	4	2	6	4	1	12	10	7	5
	3,25											
	17	21	21	18	16	20	18	29	26	24	21	19
	3,25											
Bank of England ²	10	7	7	4	9	6	4	1	5	10	7	5
	4,00											
Federal Reserve System ³	29/30		19		7	25/26		13	24		6	10
	1,75											
Central Bank of Cyprus ⁴	25	21	14	11	9	13	11	8	12	10	14	12
	5,50											

(1) Minimum bid rate on the main refinancing operations

(2) Repo Rate

(3) Federal Funds Rate

(4) Interest rate on the marginal lending facility

Table 8**Inward portfolio investment: Purchase of shares¹ by non-residents**

(£)

Country	July 2001	Aug. 2001	Sep. 2001	Oct. 2001	Nov. 2001	Dec. 2001
Australia	13.208,8	34.625,6	5.305,0	3.620,1	353,0	4.352,0
British Virgin Islands	1.248,6	33.196,0	23.056,7	35.980,7	56.913,4	25.097,6
Canada	561,6	4,6	619,0	900,6	126,4	0,0
Egypt	0,0	0,0	0,0	0,0	17.069,6	8.395,0
Germany	9.294,0	2.100,0	0,0	0,0	3.585,3	3.321,8
Greece	427.524,2	912.929,6	468.446,6	710.639,2	577.776,3	108.923,4
Iran	0,0	3.648,0	1.517,0	6.415,0	10.852,4	399,2
Ireland	0,0	0,0	0,0	0,0	4.408,7	2.251,2
Jordan	5.280,0	0,0	0,0	0,0	0,0	0,0
Latvia	0,0	0,0	0,0	4.813,5	23.323,3	0,0
Mexico	22.125,0	0,0	0,0	0,0	0,0	0,0
Philippines	1.465,0	0,0	0,0	0,0	0,0	0,0
Russia	26.556,0	48.742,6	35.233,7	44.957,5	41.298,9	81.480,7
Saudi Arabia	6.847,5	41.718,0	77.483,9	0,0	0,0	0,0
South Africa	28.409,3	58.448,0	117.052,1	26.543,3	235.644,1	68.575,4
Spain	0,0	0,0	0,0	4.575,0	0,0	0,0
Switzerland	3.465,0	0,0	0,0	0,0	2.227,0	0,0
Ukraine	55.382,2	29.124,6	36.606,0	10.602,6	98.428,9	14.935,0
United Arab Emirates	326,2	0,0	0,0	0,0	0,0	0,0
United Kingdom	59.735,4	53.605,9	107.362,7	20.567,0	136.951,7	44.640,4
United States	10.585,4	3.275,0	0,0	39.931,3	3.880,0	0,0
Yugoslavia	7.160,0	0,0	0,0	0,0	0,0	0,0
Zambia	5.469,8	34.309,0	0,0	5.457,3	11.968,2	4.957,0
Zimbabwe	3.840,0	2.127,2	0,0	900,0	1.234,0	0,0
Unidentified	0,0	3.735,2	0,0	0,0	0,0	0,0
Total	688.483,9	1.261.589,2	872.682,8	915.903,2	1.226.041,1	367.328,5

(1) shares traded on the Cyprus Stock Exchange.

Table 9**Inward portfolio investment: Sale of shares¹ by non-residents***(£)*

Country	July 2001	Aug. 2001	Sep. 2001	Oct. 2001	Nov. 2001	Dec. 2001
Australia	0,0	15.614,4	14.039,2	0,0	4.973,6	10.706,0
Austria	0,0	0,0	27.746,1	0,0	0,0	0,0
British Virgin Islands	14.979,9	44.700,5	22.843,4	9.118,8	51.401,4	20.868,0
Canada	0,0	520,0	0,0	0,0	0,0	0,0
Egypt	0,0	0,0	0,0	0,0	8.689,2	8.815,1
France	0,0	0,0	40,0	0,0	0,0	0,0
Germany	1.477,0	0,0	0,0	0,0	0,0	0,0
Greece	269.280,0	331.569,6	391.667,3	348.232,6	555.760,5	134.986,1
Iran	0,0	0,0	0,0	0,0	2.922,0	951,0
Latvia	0,0	0,0	0,0	7.423,0	450,0	0,0
Russia	172,4	256,0	4.954,3	20.111,5	7.813,5	23.179,7
South Africa	954,0	44.075,0	35.970,0	165.300,0	20.100,0	100.554,0
Switzerland	176.221,0	59.136,4	152.913,4	30.543,4	7.351,2	0,0
Ukraine	357,4	11.548,5	0,0	0,0	1.274,3	6.432,0
United Kingdom	64.247,9	32.886,3	42.953,9	19.227,1	60.587,6	19.068,8
United States	131.272,8	165.842,9	73.130,7	490.249,9	1.286.063,0	250.380,6
Yugoslavia	0,0	0,0	5.537,6	0,0	0,0	1.120,0
Total	658.962,4	706.149,6	771.795,8	1.090.206,3	2.007.386,3	577.061,3

(1) shares traded on the Cyprus Stock Exchange