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## 1. INTRODUCTION

A cautious optimism has appeared among economic analysts that the global economy will recover from recession sooner than originally expected. Even though the latest available data are insufficient to fully support this optimism, the introduction of the euro, increased consumption expenditure, as well as the abatement of anti-terrorist military operations in Afghanistan seem to have a favourable effect on the international economy. This improved and at the same time uncertain picture has prompted, among others, the European Central Bank (ECB), the Bank of England and the Central Bank of Cyprus to leave official interest rates unchanged in December. In contrast, the US Federal Reserve System (Fed) further reduced its key interest rate by 25 basis points.

As regards projections for domestic economic activity in the current year, although increased uncertainty surrounds these projections, a slowdown in economic growth to 2,5% is forecast, while full employment conditions are expected to continue to prevail. The rate of inflation is forecast to be between 2% and 2,5% without taking into account the effect of forthcoming increases in VAT rates and other indirect taxes. The fiscal deficit, in spite of the slowdown in economic activity, is anticipated to remain around 3% of GDP in 2002, while a small widening of the current account deficit is expected, from a preliminary 4,3% of GDP in 2001. On the basis of the above projections, the expansion of broad money supply is expected to decelerate to 8,5% from an estimated growth rate of 12,9% in 2001. Based on the expected financial flows in 2002, the growth in credit to the private sector is envisaged to be in the region of 11%, compared with a growth rate of 13,4% provisionally

estimated for 2001.

The adverse international environment has an impact on the Cypriot economy, with tourism being hardest hit and presenting a marked fall of 19,7% in November 2001. Despite the unfavourable international climate, economic growth is estimated to have reached the satisfactory level of about 3,7% in 2001, compared with 5,1% in the previous year. As regards the labour market, the unemployment rate increased to 3,6% of the economically active population in December 2001, 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 at 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.

Turning to prices, the inflation rate increased to 2,37% in December 2001, from 2,00% in November of the same year, but remained well below the inflation rate of 3,49% recorded in December 2000. The increase in inflation in December emanated primarily from the significant acceleration in the prices of domestic agricultural products, while electricity and fuel prices again registered a substantial decrease, reflecting mainly the fall in international oil prices. The inflation rate for the year 2001 stood at 1,97%, compared with 4,14% in the corresponding period of 2000.

The fiscal deficit expanded to £133,3 million in the first nine months of 2001, compared with £69,1 million in the corresponding period of the

previous year. This expansion mainly reflects the slowdown in public revenue. For the whole year 2001 the fiscal deficit is assessed to have exceeded 2,7% of GDP, which was recorded in 2000, and to have reached about 3% of GDP.

Available data for the remaining sectors of the economy 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 September 2001, for which data are available, while on the other hand construction continued its uptrend. In the primary sector, particularly in agriculture, a marked recovery has been observed, as agricultural production in 2001 was substantially higher than in the previous year, in which a sizeable decrease was recorded.

As regards external trade, after the substantial deceleration in total imports recorded in August 2001, total imports fell in September 2001 in comparison with the same month in 2000. For the period January-September 2001 total imports displayed a significant slowdown, with a growth rate of 7,4% compared with 27,3% in the corresponding period of the previous year. Concurrently, however, a slowdown in total exports was registered, with a growth rate of 3,9% compared with 12,2% in the corresponding period of the previous year. As a result of these developments, the crude trade deficit reached £1.437,1 million in January-September 2001, compared with £1.323,0 million in the corresponding period of the previous year. For the whole year 2001, the slowdown in imports is estimated to have offset not only the slowdown in exports but also the slowdown in tourism, leading to a narrowing of the current account deficit to 4,3% of GDP from 5,2% in 2000.

accelerated in comparison with the same month in 2000. Specifically, the retail sales volume index rose by 13,2% in September 2001, compared with 0,8% in September 2000. The observed increase in retail sales in September 2001, however, does not seem to be consistent with the decrease in imports for home consumption (excluding imports of military equipment and fuels) in the same month. It should be noted that in the entire period January-September 2001 retail sales presented a small acceleration compared with the previous year, while imports decelerated.

Private consumption in September 2001

## 2. ECONOMIC DEVELOPMENTS

### 2.1 INTERNATIONAL DEVELOPMENTS AND EXCHANGE RATES

#### *International economic developments*

The introduction of the euro, the increase in consumer spending in the holiday season, as well as the abatement of anti-terrorist military operations in Afghanistan seem to have had a favourable influence on the international economy. Reflecting these developments, the latest data present a more optimistic picture, while economic analysts forecast a faster recovery of the global economy than originally expected. Nevertheless, it is generally acceptable among economic circles that available data are not sufficient to fully support this optimistic view.

The latest data for the **United States** show mixed signs. Specifically, a rise in the unemployment rate to 5,7% was registered in November, from 5,4% in October. Industrial production in October contracted at an annual rate of 5,9%, while in the same month retail sales increased by 8,4% and increased further by 5,4% in November. The increase in retail sales was due to car financing schemes with zero interest rates and general sales. A more positive signal is given by the Institute for Supply Management's index of factory activity, which rose to 48,2 in December from 44,5 in the previous month, even though a number below 50 indicates a decline of manufacturing production. New orders and production displayed an increase for the first time since September, while the Conference Board's consumer confidence index rose to 93,7 in December, from 84,9 in November.

As in November, markets continued to give optimistic signals in December as well. Specifically, stock markets registered further gains in December, albeit smaller than in the previous month, with the Dow Jones index rising by 3,7% and the Nasdaq Composite index rising by 4,8%.

Economic developments in the **euro area** were dominated by the euro cash changeover on 1 January and the expectation of a decrease in production cost, which will lead to increased competitiveness. As a result, the day after the euro temporarily strengthened against both the pound sterling and the US dollar. As regards other euro area indicators, money supply grew at an annual rate of 8,0% in November, while industrial production declined in October by 2,2% on an annual basis. By contrast, retail sales increased by 1,8% in September.

Unemployment in France increased by 0,1% in November and reached 9,0%. In Germany industrial production fell in October at an annual rate of 4,0%, while consumer prices rose by 1,7% in 2001. In Britain industrial production contracted by 4,2% in October, while unemployment reached 5,1%.

In **Japan** the economic downturn is continuing. The unemployment rate reached a new record level of 5,5% in November, corresponding to 3,5 million unemployed persons. Industrial production fell by 13,1% in the twelve months to November, reaching its lowest level in fourteen years. Consumer prices continued their downward course, decreasing by 1% until November.

Against the background of these developments, the ECB stated in its monthly report for December that "despite a projected recovery in the course of

2002, average real GDP growth for the year [in the euro area] is projected to remain in a range from 0,7% to 1,7%." The current economic slowdown, particularly in Germany, and efforts of national governments to help recovery caused an expansion of fiscal deficits in the countries of the euro area having deficits close to the upper limit. Economic growth in Greece is projected to be the strongest in all euro area countries, as a result of projects under way for the Olympic Games. At the same time, the International Monetary Fund forecast a world growth rate of the order of 2,4% in 2001, about half the growth rate in 2000, while

Lehman Brothers have projected a growth rate of 1,2%.

An important role in estimates of world growth rates is played by developments in international oil markets. In November 2001 the average price of Brent crude oil decreased further to USD18,96, while in December it decreased marginally to USD18,63.

**Table 1**

**Main Economic Indicators<sup>1</sup>**

% change

	GDP				Industrial Production <i>annual</i>	Retail Sales <i>annual</i>	Unemployment	Inflation (CPI) <i>November</i>
	<i>Quarterly</i> Q2	<i>Annual</i> Q2	<i>Quarterly</i> Q3	<i>Annual</i> Q3				
Britain	3,6	2,3	1,7	2,2	- 4,2 (Oct.)	7,1 (Nov.)	5,1 (Oct.)	0,9
Japan	-2,9	-0,7	-2,2	-0,5	-13,1 (Nov.)	-2,1 (Sep.)	5,5 (Nov.)	-1,0
USA	0,3	1,2	-1,1	0,6	- 5,9 (Nov.)	5,4 (Nov.)	5,7 (Nov.)	1,9
Euro area	0,2	1,7	0,4	1,3	- 2,2 (Oct.)	1,8 (Sep.)	8,4 (Oct.)	2,1

<sup>1</sup> Source: The Economist

**Table 2**

**GDP Projections**

% annual change<sup>1</sup>

	<i>Annual</i>	The Economist Poll GDP Forecast				Lehman Brothers Weekly Outlook – GDP			
	2000	12 - 18 January <sup>2</sup>				11 - 18 January <sup>3</sup>			
		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		0,6 (0,3)	
Euro area	3,4	1,5		1,0		1,5		1,5	
World	3,9					1,2 (1,0)		1,2	

<sup>1</sup> Figures in parentheses indicate the corresponding previous month projection, in case of change.

<sup>2</sup> Source: The Economist, 12 - 18 January 2002

<sup>3</sup> Lehman Brothers Global Weekly Economic Monitor, 11 January 2002.



### *International currencies*

In December the euro moved marginally against the US dollar, ranging mostly between USD0,89 and USD0,90. 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 and was quoted at USD0,89 on 10 January 2002. This transitory “euro-euphoria” had a stronger but equally short-lived effect on the exchange rate of the euro vis-à-vis the pound sterling.

During December 2001 and in the first ten days of January 2002 the pound sterling followed an upward course against all other major international currencies, mainly due to the continuing good performance of the economy as well as its positive prospects, particularly in comparison with the economies of the United States, the euro area and Japan. It is noted that dynamic domestic expenditure plays an especially important role in the course of the United Kingdom economy. The course of the yen, which during the same period weakened by about 7% against the US dollar, reflects the opposite picture of the Japanese economy. Problems continue to accumulate in the Japanese economy, creating a very negative climate for the country’s prospects and reinforcing the view that the depreciation of the yen was unavoidable and acceptable to the Japanese authorities.

An overview of international exchange rate fluctuations in the recent past up to 10 January 2002 is presented in chart 1.

**Chart 1**

**Major international currencies**  
**4/1/2000 - 10/01/2002**

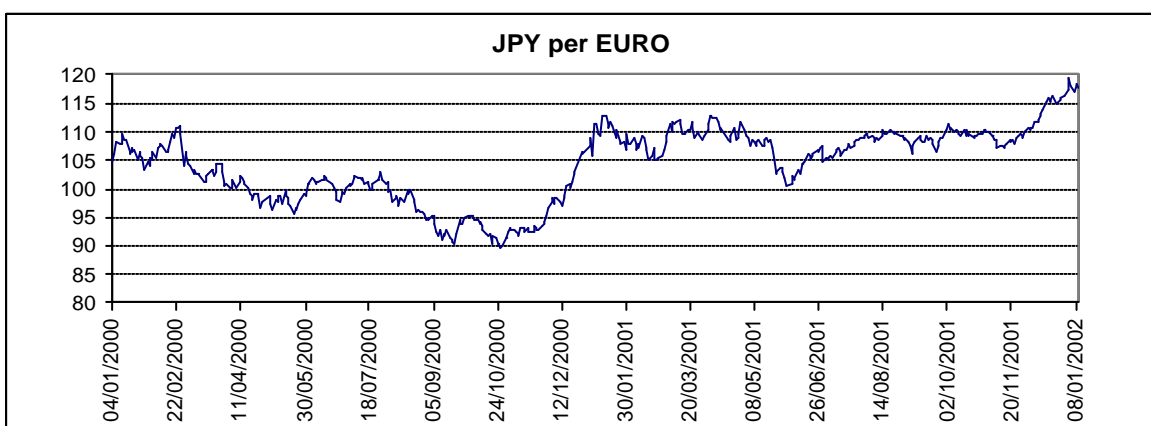
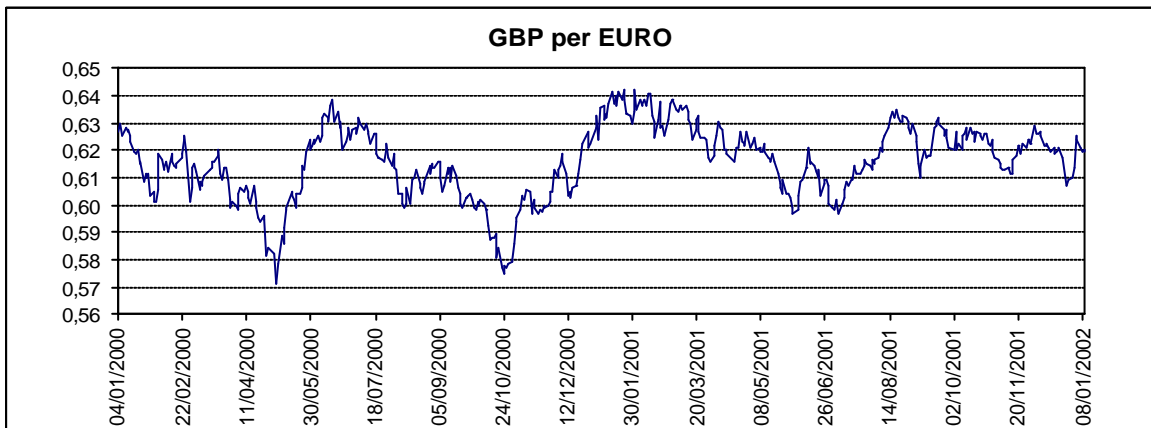
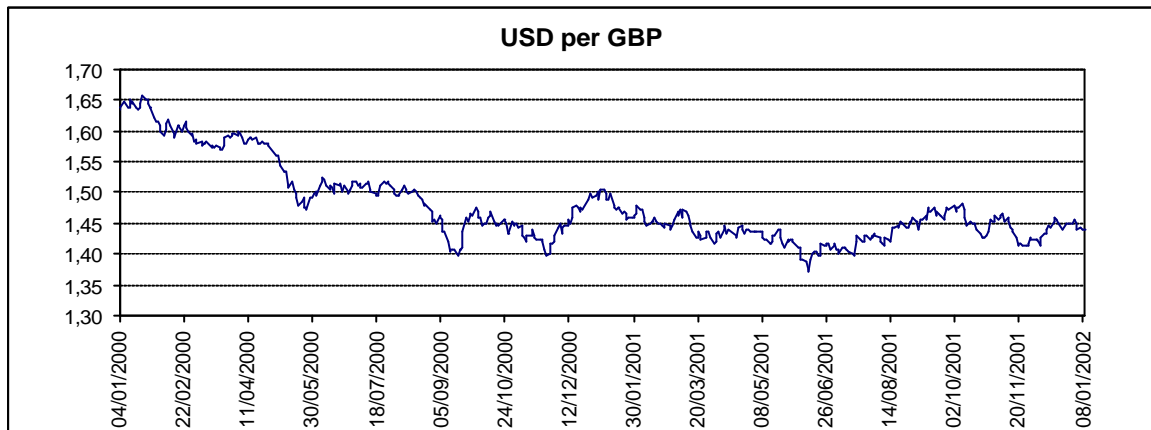
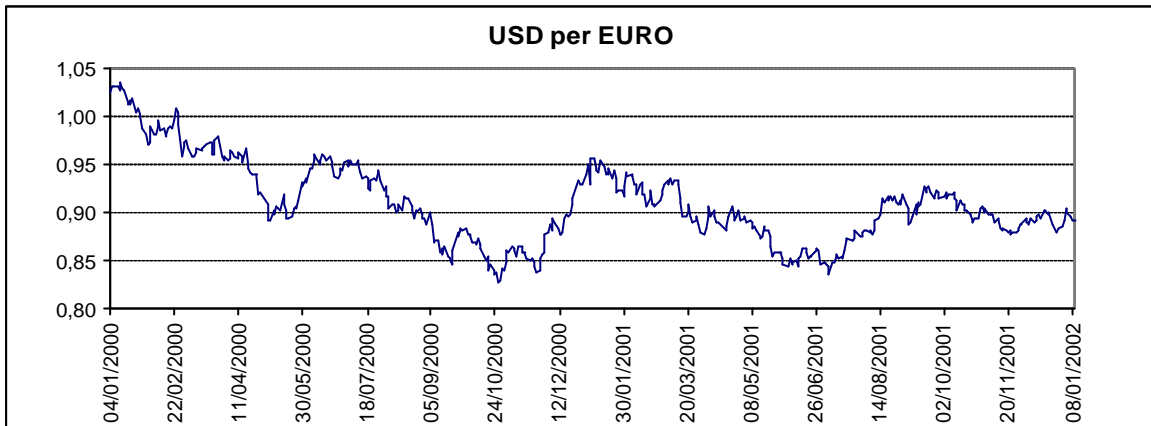


Table 13 shows the forecasts of a large number of internationally recognised financial institutions for the course of international exchange rates in the near future, as recorded in a survey by Reuters. According to this survey, markets expect a marginal strengthening of the euro

against the US dollar and the pound sterling by the end of 2002, while the yen is not expected to rebound against other currencies, due to the serious problems still afflicting the Japanese economy.

**Table 3**

**International market expectations for exchange rates  
Monthly poll by Reuters**

*(January 2002)*

Currency	Statistical data	Exchange rate forecasts			
		1 month	3 months	6 months	12 months
USD per EUR	Mean	0,89	0,90	0,91	0,92
	Minimum	0,86	0,83	0,80	0,80
	Maximum	0,92	0,96	0,98	1,03
	Number of forecasts	47	47	46	47
USD per GBP	Mean	1,44	1,45	1,45	1,44
	Minimum	1,42	1,37	1,33	1,25
	Maximum	1,47	1,53	1,51	1,55
	Number of forecasts	43	45	44	45
JPY per USD	Mean	132	133	133	132
	Minimum	127	125	122	117
	Maximum	138	140	145	145
	Number of forecasts	45	47	45	47
GBP per EUR	Mean	0,62	0,62	0,63	0,64
	Minimum	0,60	0,58	0,57	0,55
	Maximum	0,63	0,67	0,65	0,67

*Source: Reuters. The poll was taken in the period 7-9 January 2002.*

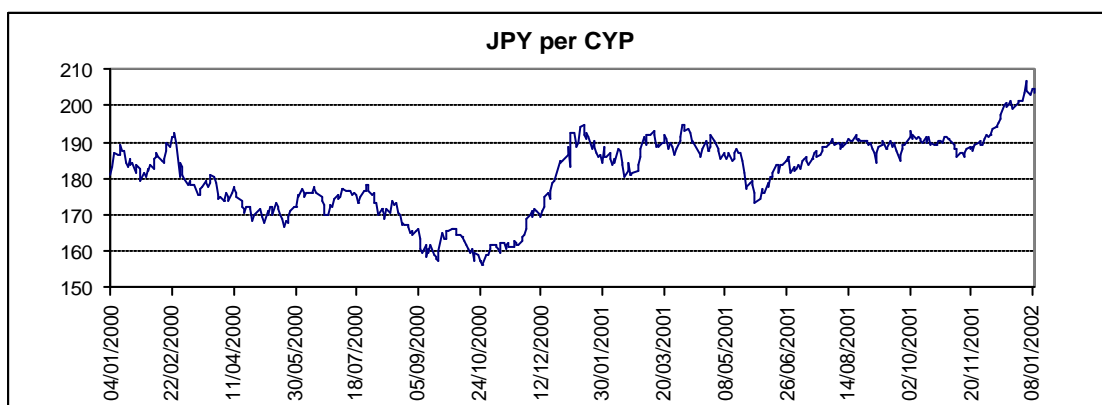
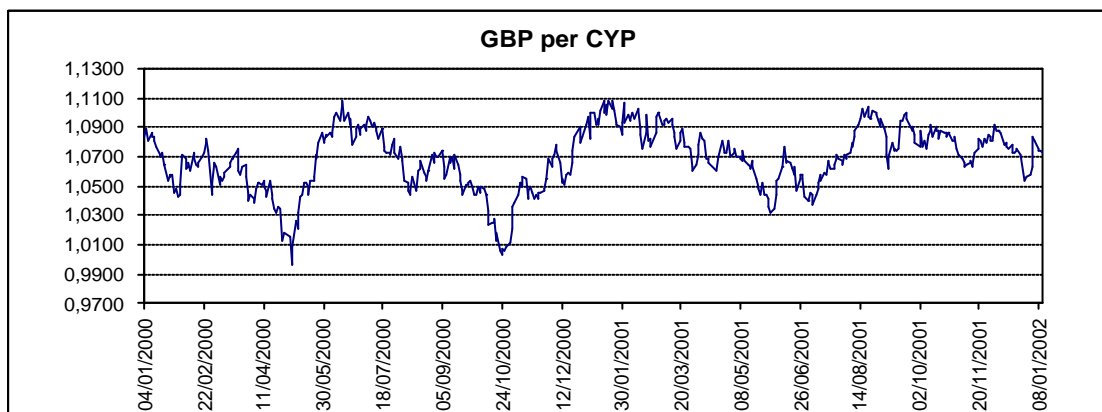
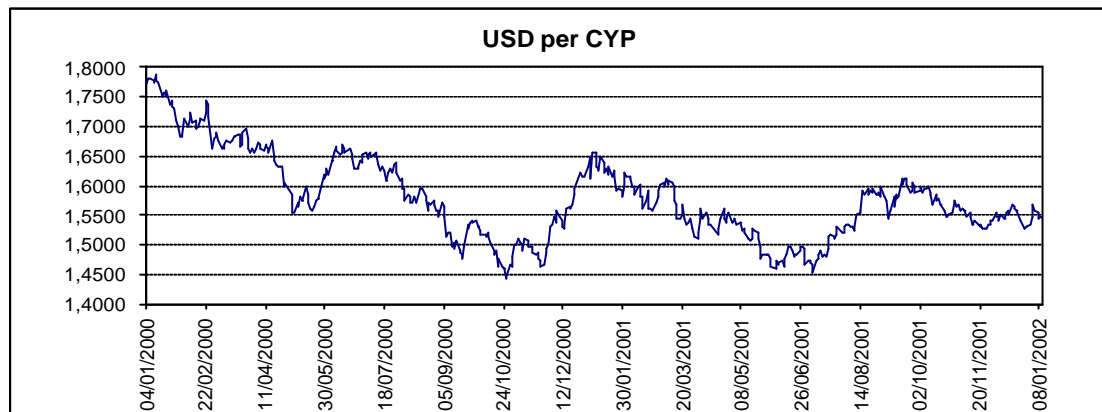
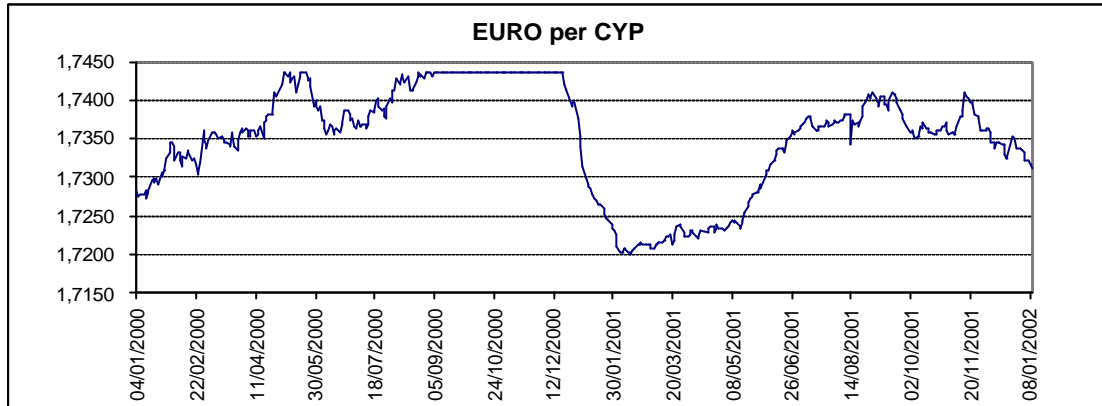
**Cyprus pound**

The Cyprus pound weakened marginally against the euro in December 2001 and in the first 10 days of January 2002, reaching EUR1,7362 (average fixing price) on 10 January 2002 compared with EUR1,7415 on 3 December 2001. Reflecting recent fluctuations in international currencies, the Cyprus pound weakened somewhat against the pound sterling,

strengthened significantly against the yen and fluctuated marginally against 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 - 10/01/2002**



As regards the domestic foreign exchange market, the results of the fixing sessions held until 10 January 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 ten days of 2002 outflows of foreign exchange equivalent to £9,09 million were recorded. Foreign exchange outflows have been recorded in fixing sessions since December 2001 and are attributable to the continuing decline of foreign currency borrowing by Cypriots as well as to seasonal factors.

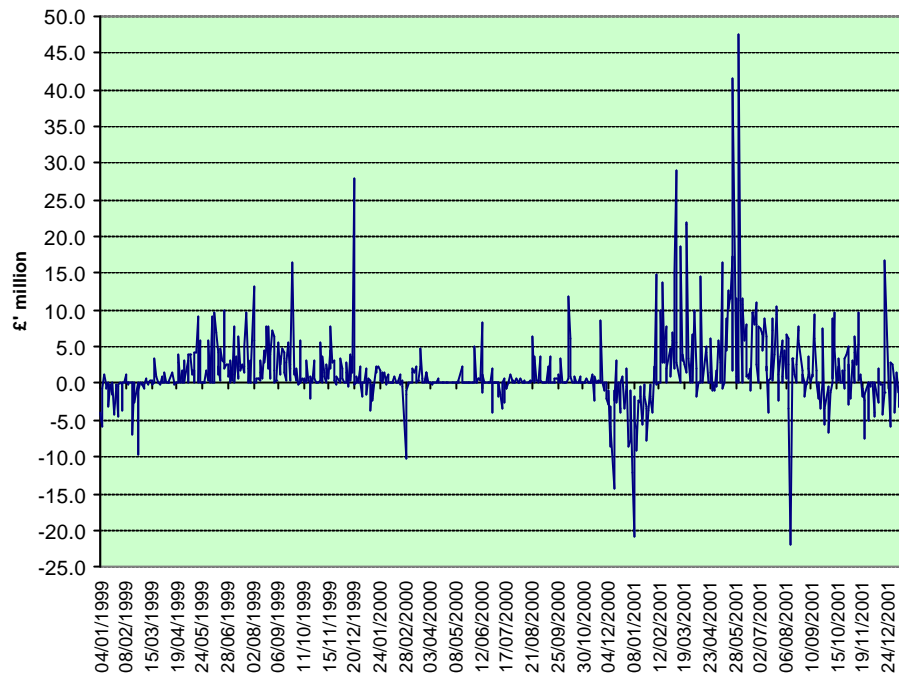
Overall, including interventions and other operations in the interbank market (specifically, execution of forward foreign exchange contracts), between 1 January 2001 and 10 January 2002 the Central Bank absorbed from the banking system foreign exchange equivalent to £654,2 million. Over 50% of these outflows 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 since 1999 are shown in chart 3.

**Table 4**

Summary of results of fixing sessions							
Month	Average fixing exchange rate Foreign currency per CYP (last day of period)			Purchases (+) / Sales (-) of foreign exchange by the Central Bank (based on transaction date)			
				In foreign currency (million)			In Cyprus pounds (million)
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
<b>Total 2001</b>				<b>756,95</b>	<b>65,55</b>	<b>22,40</b>	<b>499,05</b>
2002							
1-10 January	1,7362	1,5501	1,0726	-15,00	5,00	3,00	-9,09

**Chart 3**

**DAILY PURCHASES/SALES OF FOREIGN EXCHANGE  
BY THE CENTRAL BANK FROM THE DOMESTIC BANKS  
4/1/1999 - 10/01/2002**



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

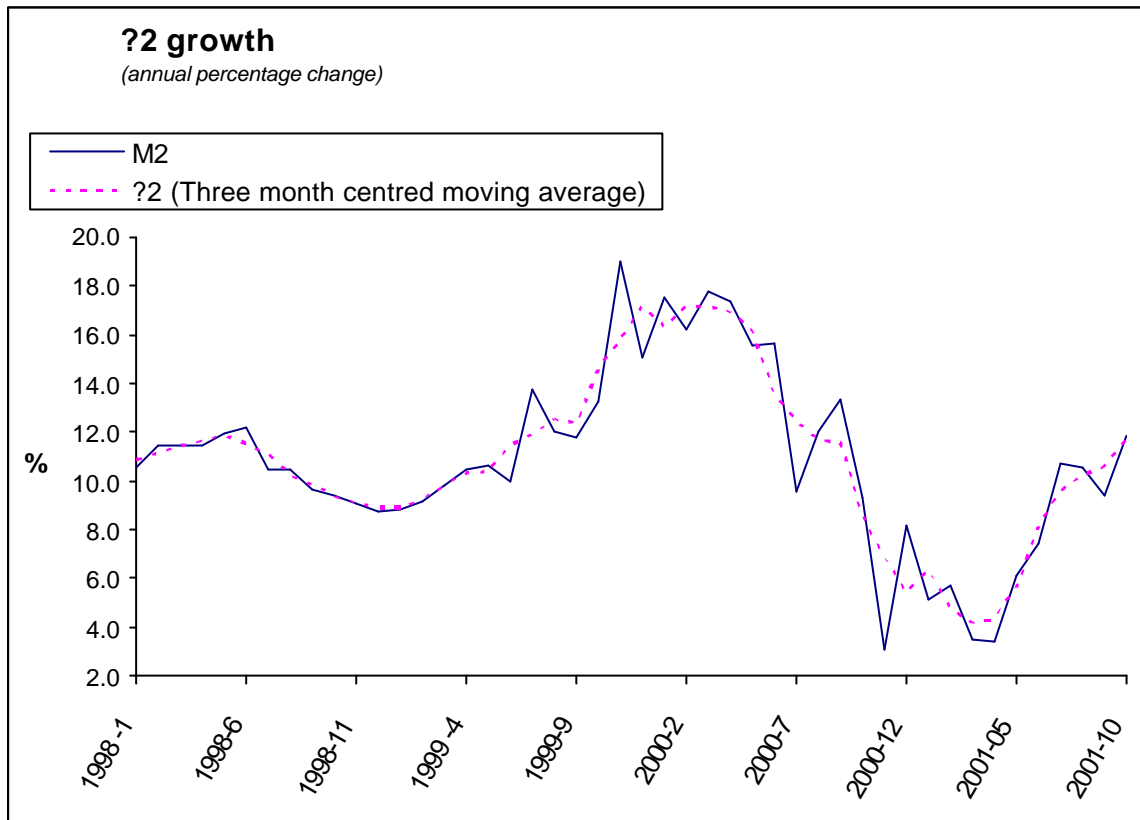
## 2.2 MONETARY DEVELOPMENTS\*

Against the background of international developments and considering that the global economy may recover faster than previously thought, the Central Bank decided on 24 December 2001 to leave official interest rates unchanged. The Central Bank, in the context of its anti-inflationary policy, continued to intervene in the money market in November and December, absorbing part of the surplus liquidity through deposit collection auctions (depos)<sup>1</sup>. A deceleration in foreign exchange inflows was also observed in November and December.

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\* 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.

<sup>1</sup>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 15 days.

**Chart 4****Table 5**

Annual percentage change (%)	1997	1998	1999	2000	2000 Nov.	2001 Oct.	2001 Nov.
M1 (Primary liquidity)	8,2	3,6	41,9	3,8	-8,6	-1,1	1,4
M2 (Total liquidity)	10,7	8,8	15,1	8,2	3,1	11,9	13,6
Claims on private sector	12,2	14,3	13,9	14,9	10,9	14,5	14,1

Total liquidity accelerated further in November 2001, reaching a growth rate of 13,6%, compared with 11,9% in the previous month and 3,1% in November 2000. The three-month moving average of annual growth rates in the period from September to November registered a smaller acceleration, reaching 11,6% compared with 10,6% in the period from August to October.

As table 6 indicates, the acceleration in the growth of broad money supply in November, in

comparison with the growth rate recorded in the previous month, stemmed mainly from the expansion of claims on the public sector. Specifically, in the 12 months to November the increase in claims on the public sector was nearly double the increase in the 12 months to October, while claims on the private sector increased by £877,8 million, compared with an increase of £898,9 million in the 12 months to October. Net foreign assets increased by £132,4 million,



compared with an increase of £230,5 million in October.

As already indicated, claims on the private sector exerted an expansionary effect on broad money supply. In terms of annual growth rates, claims on the private sector decelerated somewhat in November in comparison with the previous month, growing by 14,1% compared with a growth rate of 14,5% in October and 10,9% in November of the previous year. According to the three-month moving average method (box 1), credit expansion was 14,2% in September-November, compared with 14,3% in August-October. Annualised seasonally adjusted credit expansion in January-November 2001 reached 14,6%, compared with 15,5% in the corresponding period of the previous year. In absolute terms, bank financing of the private sector in January-November 2001 increased by £605,6 million and based on the monthly distribution method (box 1) exceeded the reference value by £205 million in November, compared with a difference of £226 million in October.

Foreign currency lending declined further in November to £7,3 million, from £10,8 million in October.<sup>2</sup> However, the proportion of credit in foreign currency to total credit remained stable, reaching 10,0% compared with 9,9% in the previous month. The decline in foreign currency lending in comparison with the months February to September seems to have continued in December, according to data available up to 28

December, which show foreign currency lending amounting to £11,6 million.

The euro was the dominant choice of borrowers according to data on long-term loans in foreign currency in 2001, which show that 82% of foreign currency loans granted were denominated in euro. According to the same data, over 53% of foreign currency loans were used for re-financing<sup>3</sup>, while 40% of such loans were equally distributed to construction in Cyprus and acquisition of fixed assets.

According to preliminary data for the period from 1 January to 28 December 2001, credit expanded by £643,9 million, of which £351,5 million emanated from foreign currency lending, compared with an increase of £778,2 million in the corresponding period of the previous year. The growth rate of loans to the private sector for the whole year 2001 is estimated at 13,4% compared with 14,9% in 2000<sup>4</sup>.

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<sup>2</sup> 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.

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<sup>3</sup> Re-financing refers to repayment of existing loans in Cyprus pounds as well as conversion of existing foreign currency loans to a different currency.

<sup>4</sup> Corresponding growth rates in previous years were 13,9%, 14,3% and 12,2% in 1999, 1998 and 1997, respectively.

**Table 6**

<b>Factors Affecting Total Liquidity – All Banks</b> (£ thousand)					
	<b>Change</b>				
	<b>November</b>	<b>January</b>	<b>- November</b>	<b>October</b>	<b>November</b>
	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000/2001</b>	<b>2000/2001</b>
<b>Foreign assets (net)</b>	56.263	91.732	222.209	230.463	132.421
<b>Claims on private sector</b>	16.117	571.834	605.619	898.925	877.778
<b>Claims on public sector</b>	56.929	-111.647	133.048	126.700	251.714
<b>Unclassified items</b>	-86.915	-378.118	-446.208	-530.677	-437.580
<b>Total liquidity (?2)</b>	42.394	173.801	514.668	725.411	824.333
<b>Primary liquidity (?1)</b> (Money supply)	5.481	-71.723	-97.573	-11.078	13.352
Currency in circulation	3.385	-18.957	642	23.659	39.290
Demand deposits	2.096	-52.766	-98.215	-34.737	-25.938
<b>Secondary liquidity</b> (Quasi-Money)	36.913	245.524	612.241	736.489	810.981

**Table 7**

<b>Change – 2001</b>	<b>Jan.</b>	<b>Mar.</b>	<b>June</b>	<b>Sep.</b>	<b>Oct.</b>	<b>Nov.</b>
Foreign currency loans to residents (£ million)	9,2	55,4	42,4	26,4	10,8	7,3
Claims on private sector (£ million)	59,7	135,7	205,3	99,5	-48,0	16,1

	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001 (Oct.)</b>	<b>2001 (Nov.)</b>
Foreign currency loans to residents (£ million)	158,7	246,0	355,2	373,5	705,0	712,3
Claims on private sector (£ million)	4358,4	4982,7	5673,5	6517,5	7107,0	7123,1
%	3,6	4,9	6,3	5,7	9,9	10,0

**Box 1****Credit expansion monitoring**

In accordance with the Financial Programme the reference value for credit expansion in 2001 was set at 11% for the whole year. Attainment of the reference value implies that credit as a percentage of GDP rises to 132% in 2001 from 119% in 2000\*.

<b>Credit as a percentage of GDP</b>					
	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>
Credit/GDP	100%	106%	113%	119%	132%

The continuous increase in credit 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 2000 to end-November 2001 was £605,6 million. This absolute change converted to an annualised growth rate seasonally adjusted gives:

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

14,6%

**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 compared 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 November was:

\* 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.

	12-month	Reference value
	14,1%	11,0%
Moving average	14,2%	

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, as was November 2000 in this case. To alleviate the 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 £717 million and reach £7234 million at the end of 2001. This amount (reference value) may be distributed in the months of 2001 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 line gives actual credit to date. As the table shows, credit expansion has exceeded the reference value.

Table of bank financing (£ million)												
	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
Reference value	6531	6595	6682	6701	6725	6796	6812	6786	6844	6881	6918	7234
Actual	6577,1	6636,5	6772,2	6809,0	6869,3	7074,5	7067,3	7055,5	7155,0	7107,0	7123,1	

\* Credit expansion includes all banks.

\*\* 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 6 years was also taken into account.

## Money market

Surplus liquidity conditions continued to prevail in the money market during November and December, notwithstanding the decline in foreign exchange flows. Specifically, foreign exchange inflows of £16,4 million were registered in November, while in December net inflows of foreign exchange fell to £0,4 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 November the Central Bank absorbed liquidity amounting to £240,0 million at an average interest rate of 3,88%, and in an equal number of auctions in December liquidity amounting to £216,0 million was absorbed at an average interest rate of 3,75%. Part of the excess liquidity in December was channelled to government securities, the net sales of which rose to £21,8 million, from the insignificant amount of £0,1 million in November.

The official interest rate reduction resulted in a decrease in the average overnight interest rate on the interbank market to less than 4% in November and December. The average overnight interest rate for 2001 was 4,93%, down from 5,96% in the previous year. Table 8 shows that yields on certain government securities, such as the 13-week and 52-week treasury bills and ten-year bonds, were higher in 2001 than the corresponding yields in 2000. This is due to the fact that the government's domestic financing needs were satisfied mostly in the first half of 2001, and hence the resulting average yields on the aforementioned securities for 2001 do not reflect the official interest rate reductions, which took place in the second half of the year. It is worth mentioning that, after six months in which no bids were accepted, in the first three-month

treasury bill auction in 2002 the average yield based on the bids accepted declined to 4,00%, compared with 5,49% in June 2001, fully reflecting the official interest rate cuts.

A similar pattern was observed for one-year treasury bills. While the annual average yield in 2001 stood at 6,35% compared with 6,21% in 2000, in the first auction during 2002 the average yield declined to 4,25%, from 5,50% in the auction of 12 September 2001, where bids were accepted, and 6,10% in the auction of 8 August 2001.

In the only two auctions of long-term securities of two-year and five-year maturity in 2001 in which bids were accepted after the latest interest rate reduction, average yields decreased substantially. Specifically, in the auction of 11 December the average two-year and five-year bond yields fell to 4,70% and 5,04%, respectively, compared with the corresponding yields of 5,20% and 5,70% in the auction of 26 October. These yields decreased further in the first auction in 2002, to 4,55% and 5,00% for two-year and five-year bonds, respectively. 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 increased significantly in October, reaching 257 basis points compared with 246 basis points in the previous month. 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 306 basis points in October, compared with a differential of 279 basis points in September (table 9).

### *International and domestic interest rates*

With regard to international interest rates, facing world recession, several central banks, including the Fed, the ECB, the Bank of England and the Central Bank of Cyprus, reduced their key interest rates in November 2001. Then a series of improved economic indicators generated a cautious optimism for a faster economic recovery and averted further interest rate reductions in most countries.

As a result of the reduction of official interest rates in Cyprus by 0,5 percentage point in November together with the equivalent reduction of official interest rates by the ECB (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.

In their meetings in December 2001 the ECB and the Bank of England maintained official interest rates unchanged, while the Fed further reduced interest rates by 25 basis points.

**Table 8**

Interest rates (% per annum)	1998	1999	2000	2001	2000 Dec.	2001 Nov.	2001 Dec.
Interbank (one day)	4,83	5,15	5,96	4,93	6,11	3,46	3,88
Repos	4,68	5,45	5,97	6,39			
Reverse Repos/Depos			4,44	4,59		3,88	3,75
Treasury bills (13 weeks)	5,50	5,54	5,75	6,00	6,01		
Treasury bills (52 weeks)	5,99	6,00	6,21	6,35	6,54		
Development stocks (2 years)			6,55	6,11			4,70
Development stocks (5 years)	6,95	7,27	7,45	6,96	7,54		5,04
Development stocks (10 years)	7,22	7,36	7,55	7,66	7,69		
Development stocks (15 years)				6,47			

*Note:* Simple average of the weighted average interest rates for the period

**Table 9**

<b>Inflation and Interest Rates of Europe and Cyprus</b>			
	<b>Harmonised Indices of Consumer Prices</b>	<b>Long-term Interest Rates</b>	<b>Long-term Real Interest Rates</b>
	Oct. - Latest month (12 month average)	Oct. - Latest month (12 month average)	
Belgium	2,70	5,30	2,60
Denmark	2,40	5,20	2,80
Germany	2,60	4,90	2,30
Greece	3,80	5,50	1,70
Spain	3,90	5,20	1,30
France	1,90	5,10	3,20
Ireland	4,20	5,10	0,90
Italy	2,70	5,30	2,60
Luxembourg	2,90	5,10	2,20
Netherlands	4,80	5,10	0,30
Austria	2,40	5,20	2,80
Portugal	4,40	5,30	0,90
Finland	2,80	5,20	2,40
Sweden	2,40	5,10	2,70
United Kingdom	1,20	5,10	3,90
Euro zone	2,70	5,10	2,40
EU -15	2,50	5,10	2,60
Cyprus	2,21	7,67	5,46

### **Cyprus Stock Exchange**

The Cyprus Stock Exchange (CSE) General Index registered a further increase in November, which was accompanied with an increase in the traded volume in comparison with October. On the last day of November the CSE General Price Index stood at 138,4 points, after having reached a maximum of 146,8 points during the month, compared with 119,5 points on the last day of October. On a sectoral level, all particular indices registered an increase. The average daily volume rose to £10,6 million, from £3,9 million in the previous month, and the average daily number of transactions also increased to 7957 from 4143. The shares with the largest proportion of the monthly traded volume were the

shares of the Bank of Cyprus and the Popular Bank, which accounted for 9,40% and 7,93% of the traded volume, respectively.

Table 10

## OFFICIAL INTEREST RATES

### European Central Bank

(January 3, 2002)

	%	%*
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

(December 5, 2001)

	%	%*
Repo Rate	4,00	-

### Federal Reserve System

(December 11, 2001)

	%	%*
Federal Funds Rate	1,75	-0,25
Discount Rate	1,25	-0,25

### Central Bank of Cyprus

(December 20, 2001)

	%	%*
Minimum bid rate on the main refinancing operations	3,50	-
Interest rate on the marginal lending facility	5,50	-
Interest rate on the deposit facility	2,50	-

\* Change from the previous decision.



**Table 11****BANKING SYSTEM'S LIQUIDITY POSITION***(£ million, period averages of daily positions)*

PERIOD MONTHLY	LIQUIDITY - PROVIDING FACTORS					LIQUIDITY - ABSORBING FACTORS						CREDIT INSTITU- TIONS CURRENT ACCOUNTS	BASE MONEY
	MONETARY POLICY OPERATIONS												
	NET ASSETS IN GOLD AND FOREIGN CURRENCY	MAIN REFINANCING OPERATIONS	LONG TERM REFINANCING OPERATIONS	MARGINAL LENDING FACILITY	OTHER LIQUIDITY - PROVIDING OPERATIONS	DEPOSIT FACILITY	OTHER LIQUIDITY - ABSORBING OPERATIONS	REV- REPOS & DEPOS	CURRENCY IN CIRCU- LATION	CENTRAL GOVERN. DEPOSITS (NET)	OTHER FACTORS (NET)		
	NFA	REPOS		LOMBARD	SWAP	OVERNIGHT	ADDITIONAL & SPECIAL & S.M.E. DEPOSITS						
	1	2	3	4	5	6	7	8	9	10	11	12	13
Jan-00	960,6	0,0	0,0	0,0	0,0	88,8	0,0	0,0	333,3	-41,9	139,0	441,4	774,7
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

## 2.3 INFLATION

Prices increased by 2,37% in December 2001, compared with 2,00% in the previous month. As table 12 shows, the increase in the inflation rate was mainly due to the acceleration in agricultural product prices, while a small acceleration was

also recorded in the prices of non-oil industrial goods. By contrast, fuel and electricity prices fell significantly, as in the previous month. The average inflation rate in 2001 was 1,97%, well below the inflation rate of 4,14% recorded in 2000.

**Table 12**

**Percentage change in the consumer price index  
by economic origin**

		2000	2001	December 2000/1999	November 2001/2000	December 2001/2000
	<b>All items</b>	<b>4,14</b>	<b>1,97</b>	<b>3,49</b>	<b>2,00</b>	<b>2,37</b>
<b>A</b>	<b>Domestic goods</b>	<b>7,15</b>	<b>1,34</b>	<b>4,48</b>	<b>1,50</b>	<b>2,50</b>
A.1	Agricultural	8,98	4,50	0,97	11,32	17,60
A.2	Industrial	4,47	0,79	4,50	-0,64	-0,52
A.2.1	Industrial, non-oil	2,50	0,11	1,52	0,78	0,92
A.2.2	Fuel and gas	14,86	3,99	19,63	-6,73	-6,73
A.3	Electricity and water	36,04	-2,66	15,96	-5,99	-11,45
<b>B</b>	<b>Imported goods</b>	<b>2,13</b>	<b>0,47</b>	<b>2,63</b>	<b>0,09</b>	<b>0,03</b>
B.1	Motor vehicles	3,78	0,55	3,50	-0,50	-0,59
B.2	Other imported goods	0,93	0,41	1,98	0,52	0,49
<b>C</b>	<b>Services</b>	<b>2,52</b>	<b>3,35</b>	<b>3,01</b>	<b>3,47</b>	<b>3,48</b>

As regards domestic goods, the most significant change in comparison with November 2001 was the aforementioned acceleration in agricultural product prices, which increased by 17,60% in December compared with 11,32% in the previous month. The large increase in agricultural product prices in the last quarter of 2001 is partly attributed to the destruction of vegetable crops due to unstable weather conditions, which resulted in a sharp rise in the prices of these products compared with the previous months of the year. The continuing fall in electricity as well as fuel prices is also worth noting. The decrease in fuel prices in Cyprus primarily reflects international developments in oil markets. Indicatively, while prices of oil (Brent) in 2000 averaged USD28 per barrel, in 2001 the average price was about USD24 per barrel.

Prices of imported goods decelerated in December, increasing by 0,03% compared with an increase of 0,09% in November 2001 and 2,63% in December 2000. Finally, prices of services increased by 3,48%, compared with an increase of 3,47% in November 2001 and 3,01% in December 2000.

As a result of the aforementioned developments in December, the average inflation rate in 2001 stood at 1,97%, maintaining a significant slowdown compared with 2000, when it reached 4,14%. All product categories, with the exception of services, contributed to this slowdown, especially agricultural products, fuels and imported goods (mainly motor vehicles). A more detailed analysis of developments on the inflation

front by economic origin is presented in tables 3 and 4 in the annex<sup>5</sup>.

In 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 year<sup>6</sup>. This preliminary projection, which is based on the framework of price analysis by economic origin as presented above<sup>7</sup>, 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 data on inflation in Cyprus, the euro area and selected other countries, as well as the corresponding projections for 2002.

**Table 13**

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

Country	Yearly change	Month 2001	Forecast for 2002 <sup>1</sup>
Cyprus	2,4	Dec.	2,2 <sup>2</sup>
Euro area	2,1	Nov.	1,5
U.S.A.	1,9	Nov.	1,6
Britain	0,9	Nov.	2,1
Germany	1,7	Dec.	1,2
Italy	2,4	Nov.	1,6
Denmark	1,9	Nov.	1,9
France	1,2	Nov.	1,2
Austria	2,0	Nov.	1,5
Belgium	2,2	Dec.	1,6
Spain	2,7	Nov.	2,3
Sweden	2,7	Nov.	1,9
Switzerland	0,3	Nov.	0,6
Japan	-1,0	Nov.	-0,8
Canada	0,7	Nov.	1,7

<sup>1</sup> Source: The Economist

<sup>2</sup> Source: Central Bank of Cyprus

<sup>5</sup> Table 3 shows percentage changes in the consumer price index from 1998 to December 2001, 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.

<sup>6</sup> The effect of these tax increases on the annual inflation rate is estimated at 2,0 points. Even though the imposition of these increases is considered very likely, the exact timing of their imposition is uncertain.

## 2.4 DOMESTIC ECONOMY

### Production

According to the latest available data, the primary sector of the economy, specifically agriculture,

<sup>7</sup> These conclusions are also supported by preliminary econometric analyses using autoregressive models,

displayed a significant improvement in 2001 in comparison with the previous year. In the secondary sector, construction continued its upward course, while on the contrary the performance of manufacturing is not satisfactory. The tertiary sector, which is the driving force of the economy, and particularly tourism, showed strong signs of decline at the end of the year. Overall, according to the latest information, GDP growth in 2001 is estimated to have slowed to about 3,7% from 5,1% in 2000.

Analytically, in the primary sector agricultural output displayed a substantial recovery in 2001, after the downturn observed in the previous year, registering an increase of 13,4% in January-August 2001, compared with a fall of 14,9% in the corresponding period of 2000. More specifically, crop production and livestock production increased by 26,7% and 0,9%, respectively, in the first eight months of 2001, compared with a decrease of 27,6% and an increase of 1,9%, respectively, in the corresponding period of 2000.

In the secondary sector the picture is mixed, as construction showed a strong recovery, while in parallel manufacturing continued its downward course. Specifically, the volume index of building permits, which indicates prospects in the construction sector in the following few months, after declining in June and July 2001, rebounded in August and September, registering an increase of 11,9% and 22,1%, respectively, compared with a decrease of 13,0% and an increase of 0,5% in the corresponding months of 2000. In parallel, the value index of building permits continued its upward trend, registering an increase of 13,3% and 31,6% in August and September, respectively, compared with a decrease of 11,7% and an increase of 11,5% in the corresponding

months of 2000. For the first nine months of 2001, the volume (value) index of building permits rose by 22,3% (25,2%), compared with an increase of 0,1% (4,6%) in January-September 2000. Local cement sales continued their upward trend in November, increasing by 19,1% compared with a decrease of 3,3% in the same month of 2000. For the whole period January-November 2001, local cement sales grew by 13,8%, compared with an increase of 1,2% in the corresponding period of the previous year.

As regards manufacturing, the situation is still gloomy. After the marginal increase in manufacturing output recorded in August 2001, signs of contraction were again evident in September. Specifically, the volume index of manufacturing production declined by 5,6% in September 2001, compared with an increase of 1,1% in the same month of 2000. For January-September 2001, the index registered a fall of 3,3%, compared with an increase of 5,5% in the corresponding period of the previous year. The performance of manufacturing by product category is presented in table 14.

Chart 5

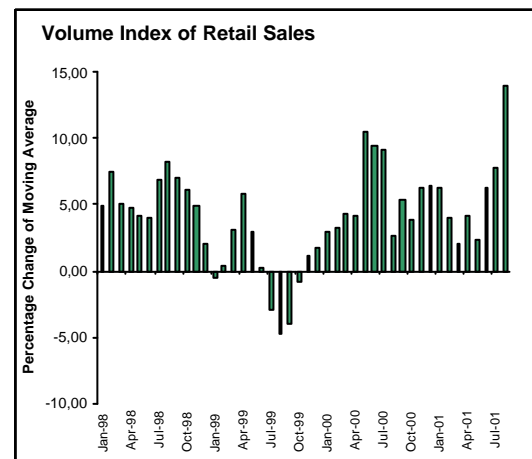
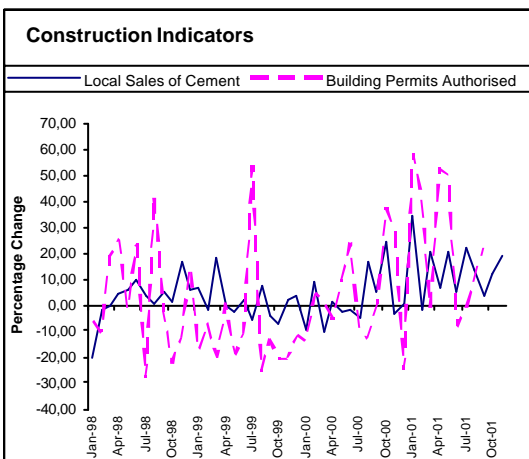
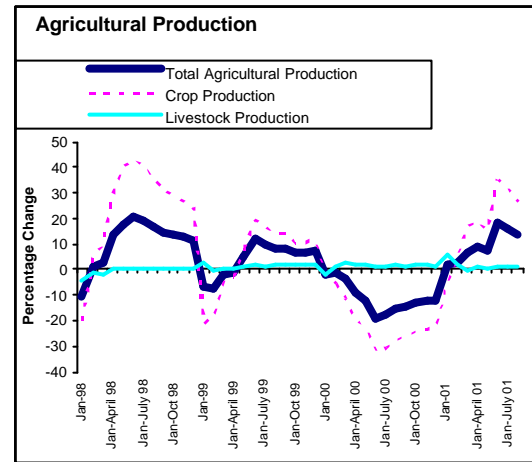
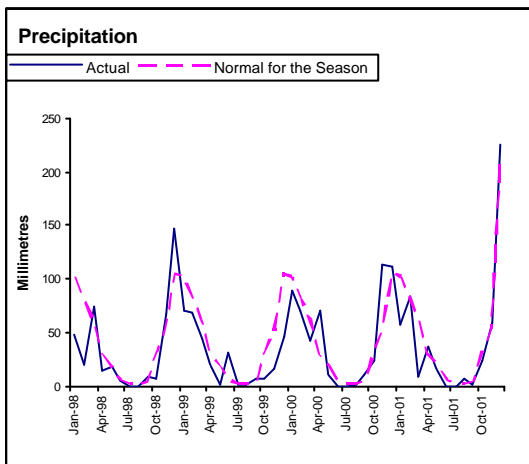
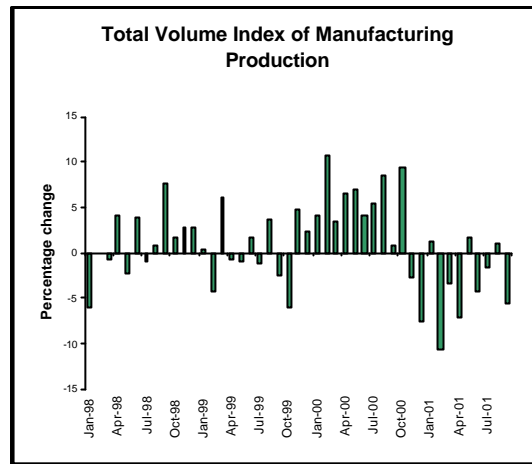
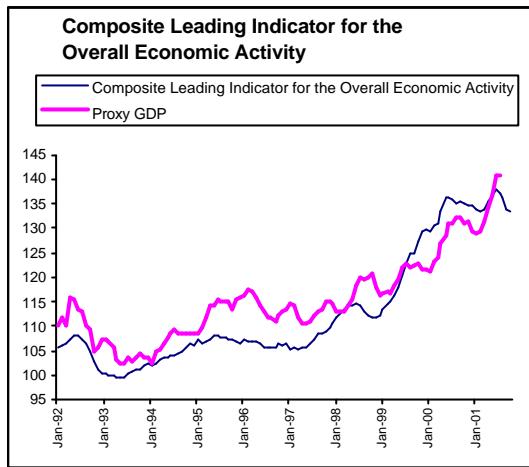
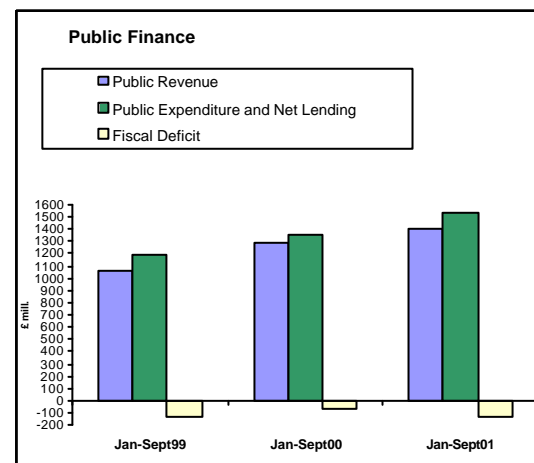
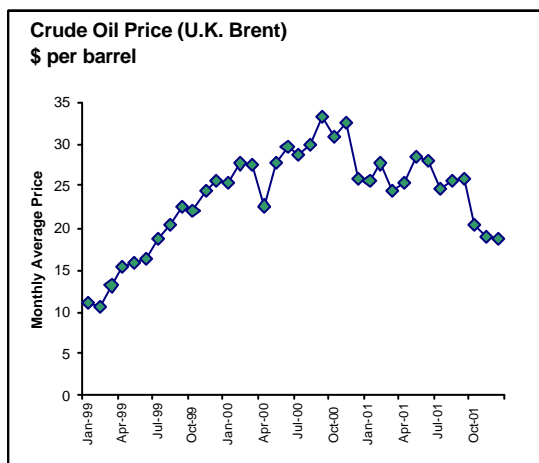
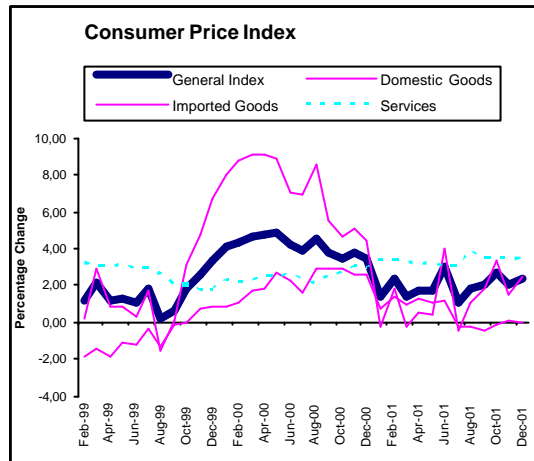
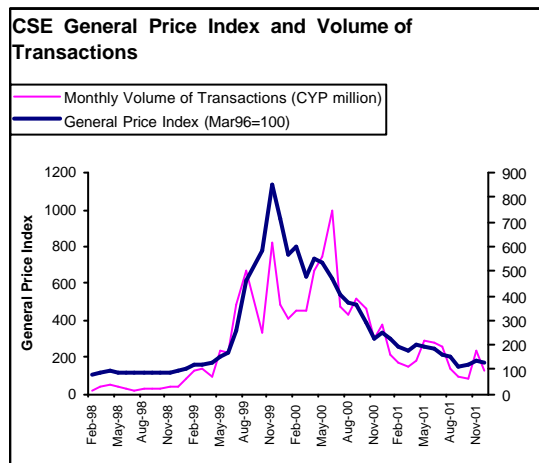
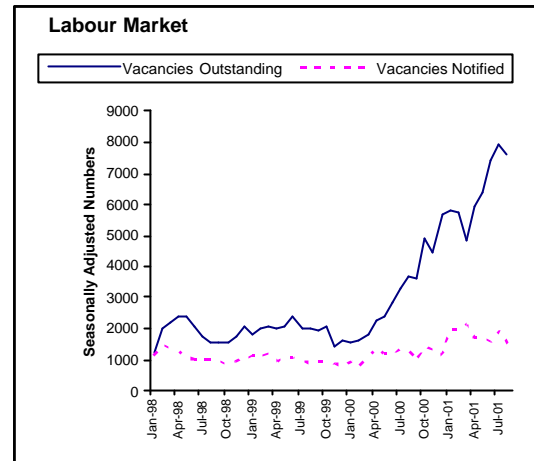
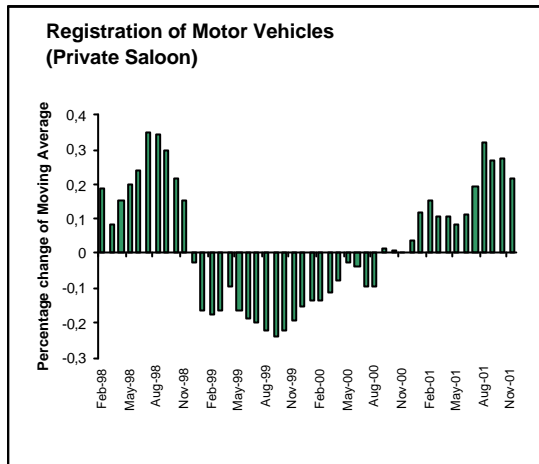


Chart 6



**Table 14****Manufacturing Production Volume Index - % Change by Category**

	September 01/00	September 00/99	Jan-Sept 01/00	Jan-Sept 00/99
<b>Total Index</b>	<b>-5,63</b>	<b>1,14</b>	<b>-3,29</b>	<b>5,45</b>
Food Products, Beverages & Tobacco	-14,73	0,59	-8,04	7,27
Textiles & Textile Products	-2,31	-17,52	-3,52	-8,3
Leather and Leather Products	-8,74	-19,74	-7,34	-13,81
Wood & Wood Products	-6,67	2,16	-5,5	7,94
Paper, Paper Products, Publishing & Printing	3,25	15,07	6,19	12,83
Refined Petroleum Products	-14,37	0,38	-1,82	-0,21
Chemicals, Chemical Products and Man-Made Fibres	18,35	-4,14	9,16	2,88
Rubber and Plastic Products	-4,05	-5,1	-5,47	-1,82
Other Non-Metallic Mineral Products	-0,09	16,16	2,2	6,35
Basic Metals & Fabricated Metal Products	5,21	5,46	0,72	10,55
Machinery and Equipment N.e.c.	-5,15	7,58	2,86	10,22
Electrical & Optical Equipment	9,44	-4,69	-2,34	5,44
Transport Equipment	-10,02	-1,55	-20,54	4,33
Manufacturing N.e.c.	-3,1	-4,8	-6,21	3,93

Turning to the services sector, tourism, the driving force of the economy, has been adversely affected by international developments, as shown by data for the last months of 2001. Specifically, tourist arrivals fell by 10,3% and 19,5% in October and November 2001, respectively, compared with increases of 11,0% and 13,0% in the corresponding months of the previous year. For the entire period January-November 2001, tourist arrivals increased by 1,1%, down from an increase of 10,3% in the corresponding period of 2000. Due to the increase in tourist expenditure per person, however, receipts from tourism in January-November 2001 grew by 7,9% to £1.242,4 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

Private consumption continued to expand at a relatively fast rate in September 2001. A

substantial acceleration was recorded in September, as the retail sales volume index rose by 13,2%, compared with an increase of 0,8% in the same month of the previous year. The course of retail sales by product category is presented in table 15. For the first nine months of 2001, the retail sales volume index continued to show an acceleration, rising by 6,6% compared with 5,5% in the corresponding period of 2000.

Moreover, the continuing increase in private saloon car registrations indicates that consumption continued to be high after September as well. Specifically, private saloon car registrations increased by 15,4% in December 2001, compared with a fall of 6,8% in the corresponding period of 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 the corresponding period of 2000.

Developments in imports for home consumption (excluding imports of military equipment and fuels) do not seem consistent with the increase in retail sales registered in September 2001. The aforementioned imports declined by 9,9% in September 2001, compared with an increase of 23,9% in August of the same year and 20,6% in September 2000. This may indicate a decrease in stocks. For the first nine months of 2001, imports for home consumption (excluding imports of military equipment and fuels) decelerated to a growth rate of 12,2%, compared with a rise of 15,2% in the corresponding period of 2000.

**Table 15**

**Retail Sales Volume Index - % Change by Category**

	September 01/00	September 00/99	Jan-Sept 01/00	Jan-Sept 00/99
<b>Total Index</b>	<b>13,23</b>	<b>0,77</b>	<b>6,61</b>	<b>5,53</b>
Food, Drinks and Tobacco	-4,67	11,14	3,33	1,58
Clothing and Textiles	-14,96	20,75	-3,71	20,11
Footwear & Leather Products	-8,00	36,28	1,89	21,65
Electrical Goods & Appliances	7,45	13,54	-7,20	19,06
Vehicles, Machinery & Spare Parts	63,91	-16,11	24,53	-0,95
Supermarkets	0,22	1,44	0,47	12,30
Pharmacies	9,45	-12,18	6,31	-12,17
Furniture	11,21	12,34	6,04	11,61
Petrol Stations	3,28	-1,53	1,43	4,50
Toys	3,25	-19,39	-0,23	-6,27

**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, in October 2001 the overall fall in the industrial confidence indicator was 5 points, while in Cyprus a fall of 9 points was recorded. In November,

however, this confidence 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 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 for 2001, continuing to decline in some countries while improving in others. Table 16 also shows the industrial confidence indicator in the accession countries.

### ***Labour market***

In the labour market, the number of registered unemployed 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 in 2000. The average unemployment rate for the whole year 2001 fell by 14,2% 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.

**Table 16****Business and consumer surveys in the accession countries (AC)(s.a.)<sup>(a)</sup>**

		Since 01/1990				2000		2001									
		Minimum		Maximum		Dec	Jan	Feb	Mar	April	May	June	July	Aug	Sept	Oct	Nov
		Value	Date	Value	Date												
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 <sup>(n)</sup>	-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 <sup>(n)</sup>	-27	08-01	-22	09-01	:	:	:	:	:	-26	-25	-25	-27	-22	-24	-25
	BG <sup>(n)</sup>	-31	11-01	-12	08-01	:	:	:	:	:	-25	-21	-13	-12	-20	-30	-31
	CY <sup>(n)</sup>	-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 <sup>(n)</sup>	-33	05-01	-24	08-01	:	:	:	:	:	-33	-30	-24	-24	-25	-30	-28
	PL <sup>(n)</sup>	-40	08-01	-27	09-01	:	:	:	:	:	-38	-36	-35	-40	-27	-31	-33
	RO <sup>(n)</sup>	-27	11-01	-20	06-01	:	:	:	:	:	-22	-20	-21	-22	-23	-26	-27
	SK <sup>(n)</sup>	-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

(a) All data are balances

(n) not seasonally adjusted

Source: Surveys conducted by national statistical (and other) institutions and harmonised by the European Commission.

### **Public finances**

The fiscal deficit in January-September 2001 increased substantially 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 the year, compared with an increase of 21,2% in the corresponding period of 2000, while public expenditure increased by 13,3%, displaying a small deceleration. For 2001 as a whole, the fiscal deficit is estimated to have reached 3,0% of GDP, up from 2,7% in the previous year.

In 2002, despite the expected slowdown in economic growth, the fiscal deficit is projected to remain around 3% of GDP. 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 to some extent 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.

## **2.5 EXTERNAL TRANSACTIONS**

In September 2001 a decrease in imports as well as exports was recorded. As a result, both total

imports and exports slowed further in the period January-September 2001. For the entire year, the slowdown in imports is projected to have offset not only the slowdown in exports but also the slowdown in tourism, leading to a narrowing of the current account deficit to about 4,3% of GDP, from 5,2% in 2000.

### **Trade in goods**

The latest available data on trade are summarised in table 17. The slowdown in both imports and exports in comparison with 2000 is evident. It is clarified that data for September 2001 are provisional, while detailed data are available for January-August 2001. Tables 18 and 19 present an analysis of imports and exports by category of goods.

Although no data on trade after September 2001 are as yet available from the Statistical Service, there are some indications that the slowdown in imports continued in the last quarter of 2001. Specifically, a decrease in VAT receipts from imports of goods was registered in November and December 2001 in comparison with the corresponding months of 2000.

As regards imports for home consumption excluding imports of military equipment and fuels, the decrease registered in September 2001, for the first time after January 2000, is worth noting. The decrease was of the order of 9,9%, compared with an increase of 20,6% in September 2000. The growth rate of imports for home consumption excluding imports of military equipment and fuels declined to 12,2% in the period January-September 2001, compared with 14,8% in the first half of 2001 and 15,2% in January-September 2000. As table 18 shows, this deceleration emanated mainly from the

deceleration in imports of consumer goods, which may be partly attributable to the negative wealth effect of the fall in share prices on the Cyprus Stock Exchange. By contrast, an acceleration was registered in imports of cars.

Domestic exports as well as re-exports also decreased in September 2001 by 26,8% and 2,6%, respectively, compared with an increase of 18,4% and a decrease of 26,0%, respectively, in September 2000. The decrease in September partly offset the recovery recorded in the previous months since May, and as a result the growth

rates of exports and re-exports declined to 3,4% and 6,7%, respectively, in January-September 2001, from 4,5% and 9,5%, respectively, in the first half of the year. As table 19 shows, the slowdown in domestic exports emanated from the marked deceleration in exports of industrial products, while exports of raw agricultural products, particularly potatoes, recovered after the fall recorded in 2000. These trends seem to reflect the poor performance of the domestic manufacturing sector, on the one hand, and the remarkable recovery of the agricultural sector, on the other.

**Table 17**

**Trade balance data**  
**January – September\* (£ million)**

	1999	2000	2001	% change 2001/2000	% change 2000/1999
<b>Total imports (cif)</b>	1.398,9	1.781,1	1.912,9	7,4	27,3
<b>Imports for home consumption (cif)</b>	1.146,2	1.465,2	1.634,7	11,6	27,8
<b>Imports for home consumption (cif)     excluding     imports of military equipment and fuels</b>	1.046,9	1.205,6	1.353,0	12,2	15,2
<b>Total exports (fob)</b>	408,1	458,1	475,8	3,9	12,2
<b>Domestic exports (fob)</b>	153,7	171,6	177,5	3,4	11,7
<b>Re-exports (fob)</b>	228,0	235,4	251,1	6,7	3,3
<b>Goods procured in ports by carriers</b>	26,4	51,0	47,2	-7,5	93,2
<b>Crude trade balance</b>	-990,8	-1.323,0	-1.437,1		

\* Data for September are provisional.

Table 18

<b>Imports (cif) by economic destination</b>								
January – August (£ million)								
	<b>1999</b>		<b>2000</b>		<b>2001</b>		<b>% change</b>	<b>% change</b>
	Value	%	Value	%	Value	%	2001/2000	2000/1999
<b>Consumer goods</b>	<b>298,8</b>	<b>29,3</b>	<b>359,3</b>	<b>27,7</b>	<b>411,1</b>	<b>27,8</b>	<b>14,4</b>	<b>20,2</b>
Non-durable	164,9	16,2	200,1	15,4	226,0	15,3	13,0	21,3
Semi-durable	79,8	7,8	92,7	7,1	109,1	7,4	17,7	16,1
Durable	54,1	5,3	66,6	5,1	76,0	5,1	14,1	22,9
<b>Intermediate inputs</b>	<b>381,8</b>	<b>37,5</b>	<b>433,2</b>	<b>33,3</b>	<b>480,6</b>	<b>32,5</b>	<b>10,9</b>	<b>13,5</b>
Agricultural	20,8	2,0	24,0	1,8	24,1	1,6	0,5	15,3
Construction and mining	62,3	6,1	70,7	5,4	83,8	5,7	18,5	13,4
Manufacturing	234,4	23,0	260,6	20,1	285,3	19,3	9,5	11,2
Transport, storage and communication	23,1	2,3	28,2	2,2	22,0	1,5	-21,9	21,9
Other	41,1	4,0	49,7	3,8	65,4	4,4	31,7	20,9
<b>Capital goods</b>	<b>126,4</b>	<b>12,4</b>	<b>150,6</b>	<b>11,6</b>	<b>180,1</b>	<b>12,2</b>	<b>19,5</b>	<b>19,2</b>
Agricultural	5,7	0,6	6,2	0,5	6,3	0,4	1,6	8,3
Construction and mining	16,0	1,6	9,6	0,7	14,1	1,0	46,9	-40,0
Manufacturing	34,4	3,4	39,5	3,0	49,1	3,3	24,3	15,0
Transport, storage and communication	18,1	1,8	28,1	2,2	36,4	2,5	29,7	55,4
Other	52,3	5,1	67,3	5,2	74,2	5,0	10,3	28,8
<b>Transport equipment and parts thereof</b>	<b>124,6</b>	<b>12,2</b>	<b>123,7</b>	<b>9,5</b>	<b>156,0</b>	<b>10,6</b>	<b>26,1</b>	<b>-0,8</b>
Of which:								
Passenger cars	45,4	4,5	50,7	3,9	63,3	4,3	25,0	11,7
Spare parts	38,2	3,8	34,6	2,7	43,0	2,9	24,1	-9,4
<b>Fuels and lubricants</b>	<b>72,5</b>	<b>7,1</b>	<b>154,0</b>	<b>11,9</b>	<b>182,5</b>	<b>12,4</b>	<b>18,5</b>	<b>112,4</b>
<b>Unclassified</b>	<b>14,8</b>	<b>1,5</b>	<b>78,4</b>	<b>6,0</b>	<b>67,5</b>	<b>4,6</b>	<b>-13,9</b>	<b>430,6</b>
<b>Imports for home consumption</b>	<b>1.019,0</b>	<b>82,1</b>	<b>1.299,2</b>	<b>82,1</b>	<b>1.477,7</b>	<b>85,4</b>	<b>13,7</b>	<b>27,5</b>
<b>Imports destined for re-exports</b>	<b>222,6</b>	<b>17,9</b>	<b>283,0</b>	<b>17,9</b>	<b>252,2</b>	<b>14,6</b>	<b>-10,9</b>	<b>27,1</b>
<b>TOTAL</b>	<b>1.241,6</b>	<b>100,0</b>	<b>1.582,2</b>	<b>100,0</b>	<b>1.729,9</b>	<b>100,0</b>	<b>9,3</b>	<b>27,4</b>

**Table 19**

<b>Exports (fob) by economic origin</b>								
January – August (£ million)								
	<b>1999</b>		<b>2000</b>		<b>2001</b>		<b>% change</b>	<b>% change</b>
	Value	%	Value	%	Value	%	<b>2001/2000</b>	<b>2000/1999</b>
<b>Agricultural products (raw)</b>	<b>31,6</b>	<b>22,7</b>	<b>30,5</b>	<b>19,8</b>	<b>37,7</b>	<b>22,9</b>	<b>23,6</b>	<b>-3,4</b>
Of which:								
Potatoes	13,7	9,8	12,3	8,0	16,7	10,1	35,2	-9,7
Other vegetables, fresh, frozen or dried	2,3	1,6	2,2	1,4	2,9	1,8	30,1	-1,6
Citrus fruit	11,1	8,0	11,2	7,3	12,4	7,6	11,3	1,0
<b>Minerals and industrial products of mineral origin</b>	<b>7,2</b>	<b>5,2</b>	<b>7,5</b>	<b>4,9</b>	<b>8,3</b>	<b>5,0</b>	<b>10,4</b>	<b>3,3</b>
<b>Industrial products of agricultural origin</b>	<b>15,7</b>	<b>11,4</b>	<b>18,5</b>	<b>12,0</b>	<b>19,0</b>	<b>11,6</b>	<b>2,9</b>	<b>17,5</b>
Of which:								
Halloumi cheese	3,7	2,6	4,9	3,2	5,1	3,1	4,3	33,3
Fruit preserved	1,0	0,7	0,7	0,4	0,4	0,2	-40,3	-30,6
Fruit and vegetable juices	2,1	1,5	2,5	1,6	2,9	1,8	13,9	19,9
Beer	1,0	0,7	0,9	0,6	0,8	0,5	-10,9	-3,0
Wines	4,3	3,1	4,3	2,8	3,3	2,0	-21,8	-0,5
<b>Industrial products of manufacturing origin</b>	<b>84,0</b>	<b>60,5</b>	<b>97,3</b>	<b>63,2</b>	<b>99,5</b>	<b>60,5</b>	<b>2,3</b>	<b>15,9</b>
Of which:								
Cigarettes	8,6	6,2	11,4	7,4	7,7	4,7	-31,9	31,7
Cement	5,1	3,7	7,4	4,8	5,2	3,1	-30,2	43,9
Pharmaceutical products	15,8	11,4	19,7	12,8	24,7	15,0	25,2	24,8
Articles of paper or of paperboard	2,6	1,9	3,1	2,0	3,7	2,2	19,7	18,1
Clothing	14,9	10,7	15,2	9,9	13,6	8,2	-10,9	2,0
Footwear	4,5	3,3	4,5	2,9	2,8	1,7	-38,1	-1,0
Furniture	4,5	3,2	5,2	3,4	5,0	3,0	-4,4	16,5
<b>Unclassified</b>	<b>0,2</b>	<b>0,2</b>	<b>0,1</b>	<b>0,1</b>	<b>0,0</b>	<b>0,0</b>	<b>-82,6</b>	<b>-39,7</b>
<b>Total domestic exports</b>	<b>138,7</b>	<b>39,2</b>	<b>153,9</b>	<b>37,9</b>	<b>164,5</b>	<b>38,2</b>	<b>6,9</b>	<b>10,9</b>
Re-exports	193,3	54,7	209,8	51,6	226,1	52,5	7,8	8,5
Goods procured in ports by carriers	21,6	6,1	42,7	10,5	40,2	9,3	-6,0	97,4
<b>TOTAL</b>	<b>353,7</b>	<b>100,0</b>	<b>406,4</b>	<b>100,0</b>	<b>430,8</b>	<b>100,0</b>	<b>6,0</b>	<b>14,9</b>

## **Tourism**

The impact of the 11 September events on tourism is shown in tables 20 and 21, which present the latest available data on tourist arrivals and receipts from tourism.<sup>8</sup>

While tourist arrivals increased by only 1,1% in the period January-November 2001, compared with 10,3% in the corresponding period of 2000, receipts from tourism rose by 7,9% and reached £1.242,4 million, that is the average tourist expenditure per person increased by 6,7%. An increase in tourist expenditure per person of the order of 6% was also recorded in 2000 as well as in 1999. Thus, it appears that despite the substantial decrease in the number of tourist arrivals in the last months of 2001, which may be attributed to the international environment of uncertainty and insecurity created by the 11 September events, receipts for tourism for year 2001 as a whole displayed a relatively satisfactory growth, which is estimated to have reached 7,5%, compared with 16,5% in 2000.

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<sup>8</sup> Estimates of receipts from tourism as well as tourist arrivals do not include same-day visitors.

**Table 20****Tourist arrivals**

(number of persons \*)

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
Jan. - Nov.	2.139.985	2.350.011	2.592.480	2.621.845	1,1	10,3	9,8

\* Does not include arrivals of same-day visitors.

**Table 21****Receipts from tourism\***

(£ )

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	138.712.657	130.241.548	-6,1
November	54.126.724	48.791.595	-9,9
January – November	1.151.045.883	1.242.405.132	7,9

\* Does not include receipts from same-day visitors.



### **Investments by non-residents on the Cyprus Stock Exchange**

As shown in table 22, purchases by non-residents of shares quoted on the Cyprus Stock Exchange increased in November 2001, but at the same time sales increased much more, resulting in negative net investments of £781,3 thousand. In December both purchases and sales decreased, and negative net investments

of £209,7 thousand were recorded. During the whole year 2001, total net investments by non-residents on the Cyprus Stock Exchange were of the order of £2 million.

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

**Table 22**

### **Investments by non-residents on the Cyprus Stock Exchange**

January– December 2001 (£ thousand)

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
<b>Purchases</b>	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
<b>Sales</b>	962,3*	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
<b>Net investments</b>	—*	298,9	599,6	218,2	720,3	-94,2	29,5	555,5	100,9	-174,3	-781,3	-209,7

\*Data for sales in January 2001 only cover the period 17.01.2001 to 31.01.2001.

### **Balance of payments projections**

In view of the new data mentioned above, balance of payments projections for 2001 as well as 2002 have been revised. The new projections are presented in table 23.

As shown by data on imports of goods in September 2001, the slowdown in imports in 2001 was greater than previously expected, while the latest data on tourism seem to support the projection of an increase in tourism receipts by 7,5% to £1.284,0 million (down from a growth rate of 16,5% in 2000). Specifically, while projections in November 2001 were based on an increase in imports by 4,3% (down from 23,2% in 2000), in the light of new data a growth rate of only 0,9% is

now projected. Thus, the marked slowdown in imports is estimated to have offset the slowdown in tourism, resulting in a narrowing – instead of a broadening as previously projected – of the current account deficit in 2001 to £250,0 million or 4,3% of GDP, from £284,1 million or 5,2% of GDP in 2000.

In 2002 a small increase in imports,<sup>9</sup> 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 prices 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 (which has been manifested since mid-2001) 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.

Turning to capital movements, a marked increase in long-term capital inflows was recorded in 2001, mainly due to the issue of bonds abroad by Cypriot banks, which generated inflows on the order of £319 million, and also due to long-term borrowing by other banks (which are branches or subsidiaries of foreign banks) from head offices abroad. In contrast, net repayments of long-term loans by the public sector were recorded, while only a small increase in long-term borrowing from abroad by the private non-bank sector was observed. As a result of these developments, public external debt decreased, while private (mostly banking sector) external debt increased. In 2002 significant capital inflows are expected, albeit not as large as in 2001. In particular, the scheduled new issue of European medium-term notes (EMTN) by the Republic of Cyprus is expected to generate net inflows (after subtraction of EMTN repayments) of about £100 million.

<sup>9</sup> 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.

Table 23

## Balance of payments summary

£ million

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001 (Prov.)	2002 (Proj.)	% change 2001/2000	% change 2000/1999
Exports (fob)	404,0	396,6	387,1	432,9	510,2	597,1	605,6	519,9	504,4	523,5	549,5	553,5	5,0	3,8
Imports (fob)	-1.186,0	-1.483,8	-1.181,1	-1.330,5	-1.499,4	-1.667,4	-1.704,7	-1.807,4	-1.796,9	-2.213,7	-2.233,9	-2.267,1	0,9	23,2
<b>Trade balance</b>	<b>-782,0</b>	<b>-1.087,2</b>	<b>-794,0</b>	<b>-897,6</b>	<b>-989,2</b>	<b>-1.070,3</b>	<b>-1.099,1</b>	<b>-1.287,5</b>	<b>-1.292,6</b>	<b>-1.690,1</b>	<b>-1.684,4</b>	<b>-1.713,6</b>	<b>0,3</b>	<b>30,8</b>
Invisible receipts	1.031,4	1.311,2	1.332,5	1.474,8	1.587,8	1.579,1	1.705,0	1.802,9	2.059,6	2.469,9	2.593,7	2.671,8	5,0	19,9
Invisible payments	-450,1	-505,2	-488,6	-533,6	-671,4	-724,2	-779,8	-827,7	-885,1	-1.063,9	-1.159,2	-1.236,1	9,0	20,2
<b>Invisible balance</b>	<b>581,3</b>	<b>806,0</b>	<b>843,9</b>	<b>941,2</b>	<b>916,4</b>	<b>854,9</b>	<b>925,2</b>	<b>975,2</b>	<b>1.174,6</b>	<b>1.406,0</b>	<b>1.434,4</b>	<b>1.435,7</b>	<b>2,0</b>	<b>19,7</b>
<b>Current account balance</b>	<b>-200,7</b>	<b>-281,2</b>	<b>49,9</b>	<b>43,6</b>	<b>-72,8</b>	<b>-215,4</b>	<b>-173,9</b>	<b>-312,3</b>	<b>-118,0</b>	<b>-284,1</b>	<b>-250,0</b>	<b>-277,8</b>	<b>12,0</b>	<b>140,8</b>
Short-term capital	82,4	45,9	-31,6	63,2	6,7	4,4	-22,5	-36,7	41,5	5,7	13,7	10,0	140,3	-86,3
Long-term loans	14,6	30,4	-24,0	-70,7	-34,0	-39,4	-44,4	49,3	-172,7	47,0	167,5	179,0	256,4	127,2
Other long-term capital	21,1	31,5	23,3	9,4	22,3	45,0	169,0	181,7	178,7	62,4	286,3	155,3	358,8	-65,1
<b>Net capital movement</b>	<b>118,1</b>	<b>107,8</b>	<b>-32,3</b>	<b>1,9</b>	<b>-5,0</b>	<b>10,0</b>	<b>102,1</b>	<b>194,3</b>	<b>47,6</b>	<b>115,1</b>	<b>467,5</b>	<b>344,3</b>	<b>306,2</b>	<b>141,8</b>
Net errors and omissions	50,1	39,9	33,2	20,5	-33,1	-14,1	-47,3	-71,3	-81,8	104,6	62,5	53,5		
<b>Overall balance</b>	<b>-32,5</b>	<b>-133,5</b>	<b>50,8</b>	<b>66,0</b>	<b>-110,9</b>	<b>-219,5</b>	<b>-119,1</b>	<b>-189,3</b>	<b>-152,2</b>	<b>-64,4</b>	<b>280,0</b>	<b>120,0</b>		
Nominal GDP	2.674,7	3.102,9	3.274,6	3.650,7	4.006,6	4.161,0	4.369,3	4.693,7	5.017,6	5.486,1	5.867,8	6.229,6		
<b>Current account balance as a percentage (%) of GDP</b>	<b>-7,5</b>	<b>-9,1</b>	<b>1,5</b>	<b>1,2</b>	<b>-1,8</b>	<b>-5,2</b>	<b>-4,0</b>	<b>-6,7</b>	<b>-2,4</b>	<b>-5,2</b>	<b>-4,3</b>	<b>-4,5</b>		

### 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	3,89	3,88	4,40	2,52	4,01	7,19	6,40	10,32	6,29
Feb-01	1,01	3,84	3,84	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	3,77	3,76	4,27	2,50	3,91	7,07	6,34	10,24	6,14
May-01	1,01	3,75	3,74	4,28	2,48	3,91	7,03	6,34	10,22	6,17
Jun-01	0,98	3,66	3,65	4,25	2,46	3,85	6,98	6,25	10,17	6,13
Jul-01	0,97	3,66	3,65	4,22	2,44	3,80	6,90	6,20	10,10	6,05
Aug-01	0,96	3,60	3,60	4,15	2,41	3,68	6,89	6,19	10,16	5,96
Sep-01	0,91	3,29	3,29	3,99	2,36	3,33	6,71	6,07	10,08	5,86
Oct-01	0,83	3,07	3,07	3,84	2,30	3,01	6,56	5,90	10,02	5,69

**Table 2****MONEY MARKET INTEREST RATES****Cyprus**

	Overnight deposits	2-7 days deposits	1-month deposits	Over 1-month deposits	12-month deposits
<b>2000</b>					
July	6,66	6,68	6,81	-	6,50
August	6,57	6,58	6,50	-	6,50
September	5,76	5,90	-	6,50	6,50
October	6,40	6,34	6,25	-	6,50
November	5,99	6,11	6,35	6,35	6,50
December	6,06	6,27	6,24	7,00	6,50

**2001**

January	5,77	5,88	6,31	-	6,50
February	5,51	5,80	6,28	6,59	6,50
March	5,82	5,85	6,05	6,83	6,50
April	6,37	6,42	6,39	-	6,50
May	6,66	6,57	6,60	6,72	6,50
June	4,72	4,73	5,00	6,55	6,50
July	4,94	4,95	5,95	6,50	6,50
August	4,34	4,30	4,85	5,84	6,50*
September	4,03	4,07	5,21	6,10	6,50*
October	3,72	3,81	4,78	-	6,50*
November	3,44	3,55	4,58	-	5,00

Source: Central Bank of Cyprus

**Euro area**

Overnight deposits	1-month deposits	3-month deposits	6-month deposits	12-month deposits
4,31	4,41	4,58	4,84	5,11
4,42	4,57	4,78	5,01	5,25
4,59	4,70	4,85	5,04	5,22
4,76	4,85	5,04	5,10	5,22
4,83	4,92	5,09	5,13	5,19
4,83	4,94	4,93	4,91	4,87

4,75	4,81	4,77	4,68	4,58
4,99	4,80	4,76	4,67	4,59
4,78	4,78	4,71	4,58	4,47
5,06	4,79	4,69	4,57	4,49
4,65	4,67	4,64	4,57	4,53
4,54	4,53	4,45	4,35	4,31
4,51	4,52	4,47	4,39	4,31
4,49	4,46	4,35	4,22	4,11
3,99	4,05	3,98	3,88	3,77
3,97	3,72	3,60	3,46	3,37
3,51	3,43	3,39	3,26	3,20

Source: ECB Monthly Bulletin - December 2001 -

European Central Bank

\* 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 (%)**  
**1998-2001**

		Yearly			Quarterly			Dec. 2000/ 1999	Nov. 2001/ 2000	Dec. 2001/ 2000	Jan.-Dec. 2000/ 1999	Jan.-Nov. 2001/ 2000	Jan.-Dec. 2001/ 2000	Weights	
		1998	1999	2000	2001 I?	2001 I??	2001 IV							1992=100 <sup>2</sup>	1998=100 <sup>1</sup>
	GENERAL INDEX	2,23	1,74	4,14	2,15	1,62	2,36	3,49	2,00	2,37	4,14	1,94	1,97	100,00	100,00
?	LOCAL GOODS	2,08	1,73	7,15	1,61	0,81	2,46	4,48	1,50	2,50	7,15	1,23	1,34	42,99	36,69
? .1	Agricultural	1,65	-1,86	8,98	1,55	4,55	15,97	0,97	11,32	17,60	8,98	3,29	4,50	11,31	7,93
? .2	Industrial	3,11	2,96	4,47	2,34	0,51	-0,48	4,50	-0,64	-0,52	4,47	0,91	0,79	29,70	26,75
? .2.1	industrial non-petroleum	3,66	3,20	2,50	0,28	0,47	0,97	1,52	0,78	0,92	2,50	0,03	0,11	24,97	22,42
? .2.2	fuel and gas	0,00	1,52	14,86	12,93	0,66	-6,73	19,63	-6,73	-6,73	14,86	5,08	3,99	4,73	4,33
? .3	Electricity and Water	-11,07	0,93	36,04	-5,70	-7,04	-7,41	15,96	-5,99	-11,45	36,04	-1,81	-2,66	1,98	2,01
?	IMPORTED GOODS	0,29	-0,83	2,13	1,16	-0,29	0,00	2,63	0,09	0,03	2,13	0,51	0,47	23,17	22,20
B.1	Motor Vehicles	-0,54	-1,52	3,78	1,32	-0,37	-0,76	3,50	-0,50	-0,59	3,78	0,65	0,55	11,88	9,43
B.2	Other Imported	1,08	-0,19	0,93	1,04	-0,24	0,57	1,98	0,52	0,49	0,93	0,40	0,41	11,29	12,77
C	SERVICES	3,54	3,23	2,52	3,17	3,37	3,50	3,01	3,47	3,48	2,52	3,34	3,35	33,84	41,11
Underlying inflation for Cyprus <sup>3</sup>		2,8	2,3	2,4	1,9	1,7	1,9	2,5	1,9	1,9	2,4	1,7	1,7		
Euro area inflation		1,2	1,1	2,4	3,2	2,7									

<sup>1</sup> For the years 2000 and 2001<sup>2</sup> For the years 1998 and 1999<sup>3</sup> Excluding changes in the prices of the following categories: A.1, A.2.2 and A.3

**Table 4**

**Weighted contribution to the total change in the Consumer Price Index by economic origin (%)**  
**1998-2001**

		Yearly			Quarterly			Dec. 2000/ 1999	Nov. 2001/ 2000	Dec. 2001/ 2000	Jan.-Dec. 2000/ 1999	Jan.-Nov. 2001/ 2000	Jan.-Dec. 2001/ 2000	Weights	
		1998	1999	2000	2001 I?	2001 I??	2001 IV							1992=100 <sup>2</sup>	1998=100 <sup>1</sup>
	<b>GENERAL INDEX</b>	<b>2,23</b>	<b>1,74</b>	<b>4,14</b>	<b>2,15</b>	<b>1,62</b>	<b>2,36</b>	<b>3,49</b>	<b>2,00</b>	<b>2,37</b>	<b>4,14</b>	<b>1,94</b>	<b>1,97</b>	<b>100,00</b>	<b>100,00</b>
?	<b>LOCAL GOODS</b>	<b>0,89</b>	<b>0,75</b>	<b>2,63</b>	<b>0,61</b>	<b>0,31</b>	<b>0,94</b>	<b>1,70</b>	<b>0,57</b>	<b>0,96</b>	<b>2,63</b>	<b>0,47</b>	<b>0,51</b>	<b>42,99</b>	<b>36,69</b>
? .1	Agricultural	0,17	-0,19	0,69	0,12	0,36	1,27	0,08	0,91	1,41	0,69	0,27	0,36	11,31	7,93
? .2	Industrial	0,95	0,92	1,21	0,64	0,14	-0,13	1,23	-0,18	-0,14	1,21	0,25	0,21	29,70	26,75
? .2.1	<i>industrial non-petroleum</i>	0,96	0,85	0,57	0,06	0,10	0,22	0,35	0,17	0,21	0,57	0,01	0,02	24,97	22,42
? .2.2	<i>fuel and gas</i>	0,00	0,07	0,64	0,57	0,03	-0,35	0,88	-0,35	-0,35	0,64	0,24	0,19	4,73	4,33
? .3	Electricity and Water	-0,23	0,02	0,73	-0,15	-0,19	-0,20	0,39	-0,16	-0,31	0,73	-0,05	-0,07	1,98	2,01
?	<b>IMPORTED GOODS</b>	<b>0,06</b>	<b>-0,17</b>	<b>0,46</b>	<b>0,25</b>	<b>-0,06</b>	<b>0,00</b>	<b>0,56</b>	<b>0,02</b>	<b>0,01</b>	<b>0,46</b>	<b>0,11</b>	<b>0,10</b>	<b>23,17</b>	<b>22,20</b>
B.1	Motor Vehicles	-0,06	-0,15	0,35	0,12	-0,03	-0,07	0,32	-0,04	-0,05	0,35	0,06	0,05	11,88	9,43
B.2	Other Imported	0,12	-0,02	0,12	0,13	-0,03	0,07	0,24	0,06	0,06	0,12	0,05	0,05	11,29	12,77
<b>C</b>	<b>SERVICES</b>	<b>1,27</b>	<b>1,17</b>	<b>1,05</b>	<b>1,29</b>	<b>1,38</b>	<b>1,42</b>	<b>1,23</b>	<b>1,41</b>	<b>1,41</b>	<b>1,05</b>	<b>1,37</b>	<b>1,37</b>	<b>33,84</b>	<b>41,11</b>

<sup>1</sup> For the years 2000 and 2001<sup>2</sup> For the years 1998 and 1999



**Table 5**

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

		Quarterly			Dec. 2000/ 1999	Nov. 2001/ 2000	Dec. 2001/ 2000	Jan.-Dec. 2000/ 1999	Jan.-Nov. 2001/ 2000	Jan.-Dec. 2001/ 2000	Weights
	2000	2001 ?I	2001 ?II	2001 ?V							1998=100
<b>GENERAL INDEX</b>	<b>4,14</b>	<b>2,15</b>	<b>1,62</b>	<b>2,36</b>	<b>3,49</b>	<b>2,00</b>	<b>2,37</b>	<b>4,14</b>	<b>1,94</b>	<b>1,97</b>	<b>100,00</b>
Food & non-alcoholic beverages	5,49	3,06	3,97	8,64	2,53	6,48	9,43	5,49	3,60	4,09	18,20
Alcoholic beverages & tobacco	8,16	4,38	1,61	1,30	3,32	1,35	0,95	8,16	2,96	2,79	1,78
Clothing and footwear	-0,46	-6,75	-5,24	-2,12	-3,27	-2,17	-2,39	-0,46	-7,15	-6,75	8,22
Housing, water, electricity and gas	5,46	1,56	0,81	0,77	4,01	0,91	0,49	5,46	1,69	1,59	21,27
Furnishings, household equipment and supplies	1,47	0,80	-0,84	0,34	1,87	0,25	0,80	1,47	0,09	0,15	7,08
Health	6,18	5,79	4,81	5,05	8,14	5,31	4,48	6,18	5,50	5,41	4,92
Transport	5,70	4,77	0,83	-1,23	7,64	-1,19	-1,26	5,70	2,63	2,29	17,42
Communication	-10,36	-1,79	6,04	4,85	-11,78	5,31	4,57	-10,36	1,49	1,73	1,79
Recreation & culture	-0,20	-2,23	0,96	1,40	-1,46	1,43	1,30	-0,20	-0,66	-0,50	5,88
Education	3,87	4,05	4,15	6,63	3,23	6,63	6,63	3,87	4,41	4,60	2,33
Restaurants & hotels	5,80	6,58	5,43	3,96	7,92	3,70	3,62	5,80	6,22	6,00	6,07
Miscellaneous goods and services	4,16	4,50	3,16	2,95	4,98	2,84	2,76	4,16	4,08	3,97	5,04

**Table 6**

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

		Quarterly			Dec. 2000/ 1999	Nov. 2001/ 2000	Dec. 2001/ 2000	Jan.-Dec. 2000/ 1999	Jan.-Nov. 2001/ 2000	Jan.-Dec. 2001/ 2000	Weights
	2000	2001 ?I	2001 ?II	2001 ?V							1998=100
<b>GENERAL INDEX</b>	<b>4,14</b>	<b>2,15</b>	<b>1,62</b>	<b>2,36</b>	<b>3,49</b>	<b>2,00</b>	<b>2,37</b>	<b>4,14</b>	<b>1,94</b>	<b>1,97</b>	<b>100,00</b>
Food & non-alcoholic beverages	0,99	0,56	0,72	1,57	0,47	1,18	1,72	0,99	0,66	0,75	18,20
Alcoholic beverages & tobacco	0,16	0,09	0,03	0,03	0,07	0,03	0,02	0,16	0,06	0,06	1,78
Clothing and footwear	-0,04	-0,57	-0,39	-0,17	-0,28	-0,17	-0,19	-0,04	-0,57	-0,54	8,22
Housing, water, electricity and gas	1,17	0,34	0,18	0,17	0,87	0,20	0,11	1,17	0,37	0,34	21,27
Furnishings, household equipment and supplies	0,10	0,05	-0,06	0,02	0,13	0,02	0,05	0,10	0,01	0,01	7,08
Health	0,31	0,29	0,25	0,26	0,40	0,27	0,23	0,31	0,28	0,27	4,92
Transport	0,97	0,81	0,15	-0,22	1,29	-0,21	-0,22	0,97	0,46	0,40	17,42
Communication	-0,17	-0,03	0,09	0,06	-0,18	0,07	0,06	-0,17	0,02	0,03	1,79
Recreation & culture	-0,01	-0,13	0,05	0,08	-0,08	0,08	0,07	-0,01	-0,04	-0,03	5,88
Education	0,09	0,10	0,10	0,16	0,08	0,16	0,16	0,09	0,11	0,11	2,33
Restaurants & hotels	0,36	0,41	0,35	0,25	0,48	0,24	0,23	0,36	0,39	0,38	6,07
Miscellaneous goods and services	0,21	0,22	0,16	0,15	0,25	0,14	0,14	0,21	0,21	0,20	5,04

Table 7

### CALENDAR OF INTEREST RATES ANNOUNCEMENTS IN 2002

DEC '01	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
<u>?CB</u> 6 3,25	<u>?CB</u> 3 3,25	<u>?CB</u> 7	<u>?CB</u> 7	<u>?CB</u> 4	<u>?CB</u> 2	<u>?CB</u> 6	<u>?CB</u> 4	<u>?CB</u> 1	<u>?CB</u> 12	<u>?CB</u> 10	<u>?CB</u> 7	<u>?CB</u> 5
20 3,25	17	21	21	18	16	20	18	29	26	24	21	19
<u>BOE</u> 5 4,00	<u>BOE</u> 10	<u>BOE</u> 7	<u>BOE</u> 7	<u>BOE</u> 4	<u>BOE</u> 9	<u>BOE</u> 6	<u>BOE</u> 4	<u>BOE</u> 1	<u>BOE</u> 5	<u>BOE</u> 10	<u>BOE</u> 7	<u>BOE</u> 5
<u>FED</u> 11 1,75	<u>FED</u> 29/30		<u>FED</u> 19		<u>FED</u> 7	<u>FED</u> 25/26		<u>FED</u> 13	<u>FED</u> 24		<u>FED</u> 6	<u>FED</u> 10
<u>CBC</u> 20 5,50	<u>CBC</u> 25	<u>CBC</u> 21	<u>CBC</u> 14	<u>CBC</u> 11	<u>CBC</u> 9	<u>CBC</u> 13	<u>CBC</u> 11	<u>CBC</u> 8	<u>CBC</u> 12	<u>CBC</u> 10	<u>CBC</u> 14	<u>CBC</u> 12

- (1) Minimum bid rate on the main refinancing operations  
 (2) Repo Rate  
 (3) Federal Funds Rate  
 (4) Interest rate on the marginal lending facility

**Table 8****Inward Portfolio Flows** (stocks traded on the Cyprus Stock Exchange)**Purchase of shares by non - residents (£)**

	July 2001	August 2001	September 2001	October 2001	November 2001	December 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
UAE	326,2	0,0	0,0	0,0	0,0	0,0
UK	59.735,4	53.605,9	107.362,7	20.567,0	136.951,7	44.640,4
Ukraine	55.382,2	29.124,6	36.606,0	10.602,6	98.428,9	14.935,0
USA	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
<b>Total</b>	<b>688.483,9</b>	<b>1.261.589,2</b>	<b>872.682,8</b>	<b>915.903,2</b>	<b>1.226.041,1</b>	<b>367.328,5</b>

**Table 9****Inward Portfolio Flows** (stocks traded on the Cyprus Stock Exchange)**Sale of shares by non - residents (£)**

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