



CENTRAL BANK OF CYPRUS
ECONOMIC RESEARCH DEPARTMENT

MONETARY
POLICY
REPORT

JULY 2002



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The Monetary Policy Report is drafted by the Economic Research Department of the Central Bank of Cyprus as an overview of current economic developments in Cyprus, in preparation for the meeting - normally held monthly - of the Monetary Policy Committee. The Report is available in greek on the website the day following the meeting and in english two weeks later.

**CENTRAL BANK OF CYPRUS, 2002
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CONTENTS

1. INTRODUCTION	1
2. ECONOMIC DEVELOPMENTS	2
2.1 INTERNATIONAL DEVELOPMENTS AND EXCHANGE RATES.....	2
2.2 MONETARY DEVELOPMENTS.....	12
2.3 INFLATION	25
2.4 DOMESTIC ECONOMY	27
2.5 EXTERNAL TRANSACTIONS	38
3. ANNEX	45

1. INTRODUCTION

Economic recovery appears to be continuing in the United States, Europe and Japan. In the United States, recovery seems fragile and uncertain, as the recent fall in share prices may adversely affect household consumption expenditure, which is the main driving force of the US economy. These developments, combined with the persistence of low inflation, in spite of the weakening of the US dollar, have allowed the US monetary authorities to maintain interest rates unchanged, a policy expected to continue until early 2003. On the other side of the Atlantic, economic recovery in the euro area appears more robust and the need for a tight monetary policy is still present. However, the strengthening of the euro has allowed the European Central Bank to postpone at this stage, but probably in the near future as well, the interest rate increases anticipated by the markets. In Great Britain, interest rates have also remained unchanged, but they are expected to increase by August, against the background of the sharp rise in house prices and the weakening of the pound sterling.

In the domestic economy, the inflation rate declined to 2,03% in June, from 2,35% in May, a development attributable to the decrease in domestic agricultural product prices. In contrast, the prices of domestic industrial goods accelerated, while those of imported goods remained broadly stable. Prices of services continued their uptrend, registering an increase of 3,34% in June.

Unstable international political developments feed expectations for high oil prices and inflationary pressures in general, which are enhanced by domestic factors, such as the increases in indirect taxes effected since July. Opposite forces seem to be influencing the future course of inflation. On

the one hand, the strengthening of the euro, and consequently of the Cyprus pound, against the US dollar and the pound sterling contain domestic inflationary pressures. On the other hand, wage increases in the public sector together with the release of liquidity through the tax reform and the net repayments of government securities underpin inflationary pressures.

Surplus liquidity conditions in June were mitigated by foreign exchange outflows, contrary to the usual seasonal trend of large foreign exchange inflows due to increased receipts from tourism. Moreover, the impact of excess liquidity on inflation and the current account balance was limited by the continuing low growth of credit to the private sector. In particular, the annual growth rate of credit to the private sector fell to 9,4% in May, compared with a growth rate of 12,0% in the same month of 2001. The slowdown in credit expansion is mainly attributable to weak demand due to the slowdown in domestic economic activity, but also to the fact that banks are more cautious when assessing applications for credit.

In order to maintain interest rates consistent with its anti-inflationary policy, the Central Bank had to intervene in the money market through auctions (depos) absorbing increased surplus liquidity.

Turning to other domestic developments, an upward trend in unemployment compared with 2001 has been observed, while tourist arrivals continue to register a sizeable decrease. The outlook for the tourist sector and the overall economy in 2002 seems to be linked to the strength and the time of recovery of the world economy.

As regards tourism, the evidence is still discouraging. Specifically, tourist arrivals fell by 14,2% in May, while receipts from tourism, owing to the rise in expenditure per tourist, decreased by only 3,6% in the first four months of the year, despite the decrease in tourist arrivals by 14,8% in the same period. For the first five months of the year, the decrease in tourist arrivals reached 14,6%, compared with an increase of 5,0% in the corresponding period of 2001.

Concerning external trade, after increasing by 3,8% and 21,5% in January and February, respectively, total imports fell by 13,8% in March 2002, compared with an increase of 22,2% in March 2001. Imports for home consumption excluding imports of fuels and military equipment also decreased in March. At the same time, total exports fell by 15,1%, on account of the fall of re-exports, compared with an increase of 2,1% in March 2001. As a result, the crude trade deficit was of the order of £462,6 million in the first quarter of 2002, compared with £438,8 million in the first quarter of the previous year.

Private consumption, as reflected by the retail sales index, grew by 5,6% in April, compared with an increase of 2,7% in the same month of the previous year. For the first four months of 2002, a small deceleration in private consumption was registered, in comparison with the corresponding period of 2001, according to the retail sales volume index, which rose by 3,1%, compared with an increase of 3,6% in the corresponding period of 2001. It is, however, pointed out that the increase in the retail sales index in 2002, as well as in 2001, mostly stemmed from the growth of car sales until mid-May due to the expected increase in the VAT rate in July. Excluding car sales, the retail sales index declined by 1,0% in the period January-April 2002.

In the labour market, unemployment as a percentage of the economically active population rose to 2,9% in June 2002, compared with 2,7% in June 2001. The number of registered unemployed also continued the uptrend observed since November 2001. Rising unemployment was recorded in all sectors of the economy except for construction.

In the secondary sector of the economy both positive and negative developments were recorded. After increasing slightly in February, the manufacturing production volume index declined again in March. In contrast to manufacturing, construction continued to perform well. Indicatively, the volume index of building permits registered a large increase in March, as did cement sales in June.

As regards public finances, the latest available data show that the fiscal deficit reached 2,8% of GDP in 2001, compared with 2,7% in 2000. In absolute numbers, the fiscal deficit increased to £164,31 million in 2001, from £150,48 million in the previous year. The small increase in the fiscal deficit as a percentage of GDP stemmed mainly from the slowdown in public revenue, which grew by 11,3% in 2001, compared with 17,3% in 2000, while public expenditure decelerated less.

2. ECONOMIC DEVELOPMENTS

2.1 INTERNATIONAL DEVELOPMENTS AND EXCHANGE RATES

International economic developments

In international markets, the weakening of the US dollar, the pound sterling and the yen against the euro, and the fall in the major stock markets dominated economic developments in June.

These developments cast doubt on the sustainability of recovery. Nevertheless, most economic analysts anticipate a slight improvement in the world economy, albeit some economic indicators do not seem consistent with this view. In this economic climate, the US Federal Reserve System, the European Central Bank and the Bank of England, at their recent meetings, decided to leave interest rates unchanged. Concerning the former two central banks, unchanged interest rates are expected for the near future. In contrast, the Bank of England, against the background of the sharp rise in house prices and the weakening of the pound sterling, is expected to raise interest rates by August.

Accounting alchemies, with the recent example of the telecommunications company WorldCom, have shaken confidence in equity securities and have negatively influenced the US dollar. The Dow Jones, S&P 500 and Nasdaq stock price indices continued their downtrend in June, declining by 6,9%, 7,3% and 9,9%, respectively, in comparison with the previous month.

The crisis in business confidence in the United States spread in other stock markets. European stock markets declined significantly in June compared with the previous month. The German DAX index fell by 10,2%, the French CAC 40 index fell by 10,1%, while the Italian BCI index decreased by 8,0% and the FTSE 100 index registered a monthly decrease of 8,4%. In Japan, the Nikkei index fell by 10,4%.

In the **United States** the Federal Reserve's decision to leave interest rates unchanged was based on the expectation of an increase in the growth rate of final demand as well as productivity, even though the size of the increase remains uncertain. At the same time, economic recovery is considered fragile, as the continuing

fall in equity prices threatens to adversely affect household consumption expenditure – the main driving force of the US economy. According to the latest data, the inflation rate declined to 1,2% in May, from 1,6% in April. The unemployment rate decreased slightly to 5,8% in May, compared with 6,0% in April, while on the contrary, industrial production contracted at an annual rate of 1,6% in May.

In the **euro area**, inflation fell to 2,0% in May, from 2,4% in April, while unemployment remained nearly unchanged at 8,3% in April, compared with 8,4% in March. Industrial production decreased at an annual rate of 1,2% in April, after the decrease of 2,9% recorded in March. Real GDP grew by 0,9% in the first quarter of 2002 compared with the previous quarter, but recorded only a marginal growth of 0,1% compared with the first quarter of 2001.

Inflation also fell in **Britain**, from 1,5% in April to 1,1% in May. The unemployment rate remained broadly stable at 5,2% in April, compared with 5,1% in March. Industrial production contracted at an annual rate of 4,1% in April, after the fall of 5,9% recorded in March.

The **Japanese** economy seems to have started to recover, growing at an annual rate of 5,7% in the first quarter of 2002 compared with the previous quarter. However, the appreciation of the yen in the last two months is still a threat for the country's exports, which according to analysts, are the backbone for further growth of the economy. The volume of industrial production contracted at the lower rate of 2,7% in April, compared with 4,3% in March, while unemployment remained stable at 5,2%.

In view of the aforementioned developments, projections of growth rates internationally have been revised slightly downwards. Developments

in oil markets play an important role in projections of world growth rates. Crude oil prices decreased

to an average of USD24,06 per barrel in June, from USD25,33 per barrel in May.

Table 1

Main share indices

(closing prices)

	from 29/05/02	to 28/06/02	% change
USA			
Dow Jones	9.923,0	9.243,3	-6,9
S&P 500	1.067,7	989,8	-7,3
Nasdaq	1.624,4	1.463,2	-9,9
Germany			
DAX	4.881,8	4.382,6	-10,2
France			
CAC 40	4.334,9	3.898,0	-10,1
Italy			
BCI	1.396,7	1285,2*	-8,0
Britain			
FTSE 100	5.083,0	4.656,4	-8,4
Japan			
Nikkei	11.853,0	10.621,8	-10,4

* Closing price as at 01/07/2002

Table 2

Main economic indicators

(percentage change)

	GDP				Industrial production (annual)	Retail sales (annual)	Unemployment April (annual)	Inflation ¹ May (annual)
	Q4 (quarterly)	Q4 (annual)	Q1 (quarterly)	Q1 (annual)				
Britain	0,0	1,6	0,0	1,0	-4,1 (Apr.)	5,4 (?ay)	5,2 ²	1,1
Japan	-4,8	-1,9	5,7	-1,6	-6,1 (?pr.)	-2,7 (?pr.)	5,2	-1,1 ⁴
USA	1,7	0,5	5,6	1,5	-1,6 (?ay)	5,7 (?pr.)	5,8 ³	1,2
Euro area	-0,8	0,7	0,9	0,1	-1,2 (?pr.)	2,0 (?ar.)	8,3	2,0

Source: The Economist, 29 June 2002

¹ Based on the Consumer Price Index

² February - April 2002

³ Data of May 2002

⁴ Data of April 2002

Table 3**GDP projections***(annual percentage change)¹*

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

¹ Figures in parentheses indicate the corresponding previous month projection, in case of change² The Economist, 29 June 2002³ Lehman Brothers Global Weekly Economic Monitor, 5 July 2002⁴ International Monetary Fund, World Economic Outlook, April 2002**International currencies**

During June the euro continued its significant and steady recovery against the US dollar and exceeded USD0,99 on 28 June 2002, the last working day of the month, compared with about USD0,93 per euro at the end of May and USD0,87 per euro at the end of March. This course is primarily attributable to the weakness of the US currency, partly due to the weakness of the US equity markets and the widening of both the trade deficit and the current account deficit of the United States.

The pound sterling weakened somewhat against the euro in June, while it strengthened significantly against the US currency. On 28 June 2002, the respective exchange rates were USD1,53 per GBP and GBP0,65 per EUR, compared with USD1,47 per GBP and GBP0,64 per EUR a month earlier.

Partly reflecting signs of recovery in the Japanese economy as well as the weakness of the US currency, the Japanese yen appreciated against the US dollar in June 2002. At the end of the month, the exchange rate reached JPY119,43 per USD, corresponding to 3,0% appreciation

compared with the exchange rate at the end of May. The strengthening of the yen triggered interventions by the Bank of Japan in the foreign exchange market, aiming to moderate the appreciation of the yen.

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

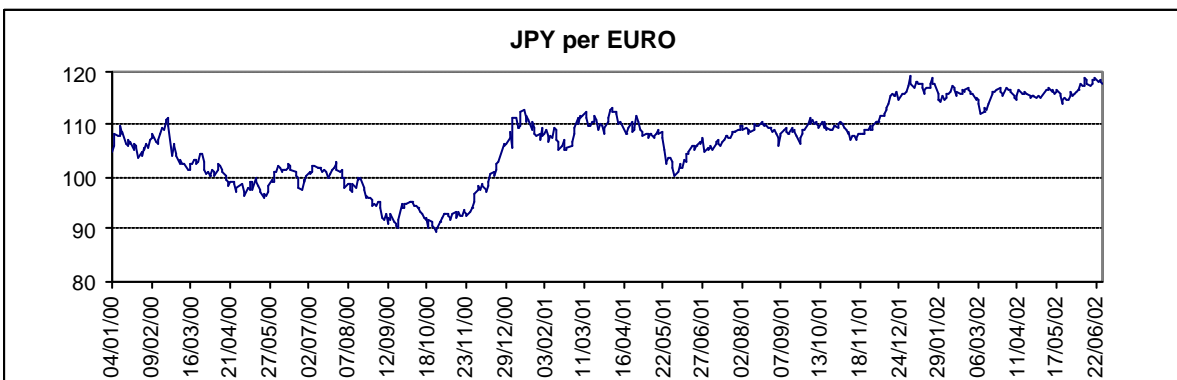
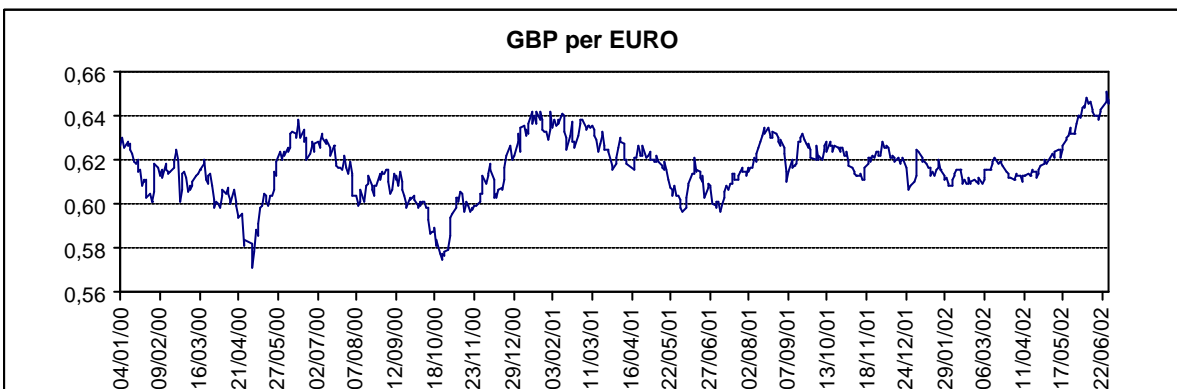
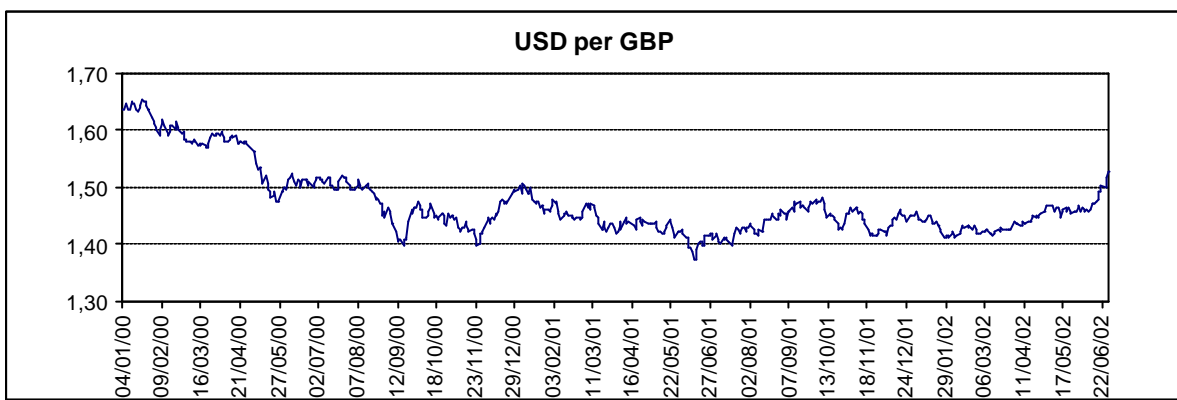
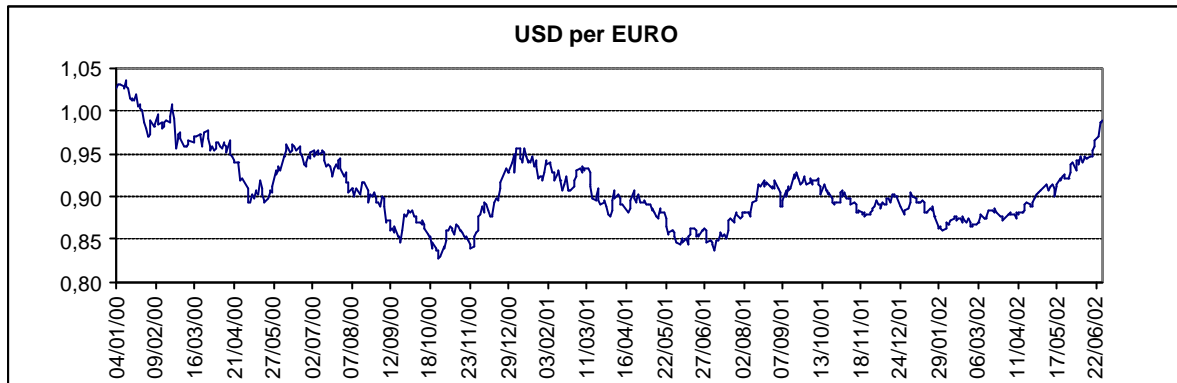
Chart 1**Major international currencies
4/1/2000 - 28/06/2002***(opening, selling values)*

Table 4 shows the forecasts of a large number of internationally recognized financial institutions for the course of international exchange rates in the near future, as recorded in the monthly survey of Reuters. According to this table, markets expect

that the euro will remain strong against the US dollar and the pound sterling in the next twelve months, while the yen is anticipated to depreciate against the euro and the US dollar.

Table 4

**International market expectations for exchange rates
Reuters monthly survey**

(July 2002)

		Exchange rate forecasts			
	Statistical data	1-month	3-month	6-month	12-month
USD per EUR	Mean	0,99	1,00	1,00	1,00
	Minimum	0,95	0,94	0,90	0,85
	Maximum	1,02	1,07	1,08	1,15
	Number of forecasts	48	49	49	48
USD per GBP	Mean	1,53	1,54	1,54	1,54
	Minimum	1,45	1,43	1,42	1,31
	Maximum	1,58	1,59	1,66	1,68
	Number of forecasts	47	48	48	47
JPY per USD	Mean	118,67	119,88	121,26	122,28
	Minimum	115,00	112,00	110,00	105,00
	Maximum	123,00	128,00	138,80	145,00
	Number of forecasts	48	47	48	47
GBP per EUR	Mean	0,65	0,65	0,65	0,65
	Minimum	0,66	0,66	0,63	0,65
	Maximum	0,65	0,67	0,65	0,68

Source: Reuters. The survey was conducted in the period 8-10 July 2002.

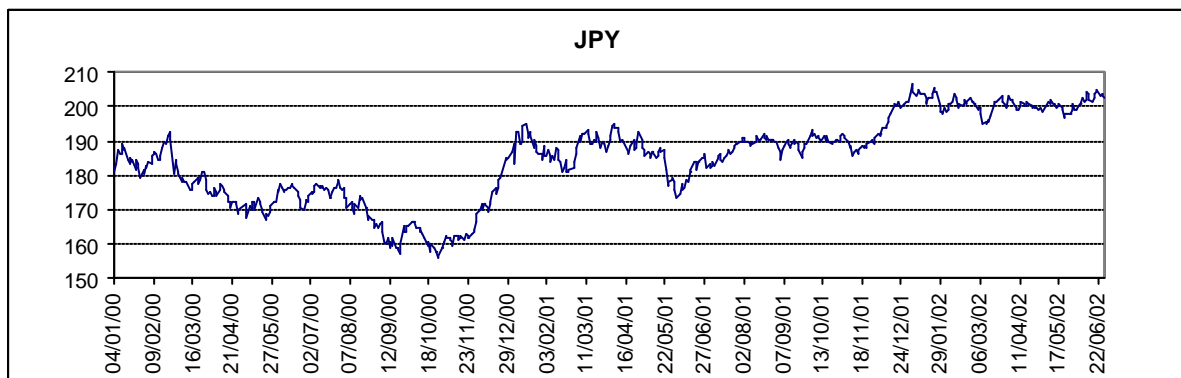
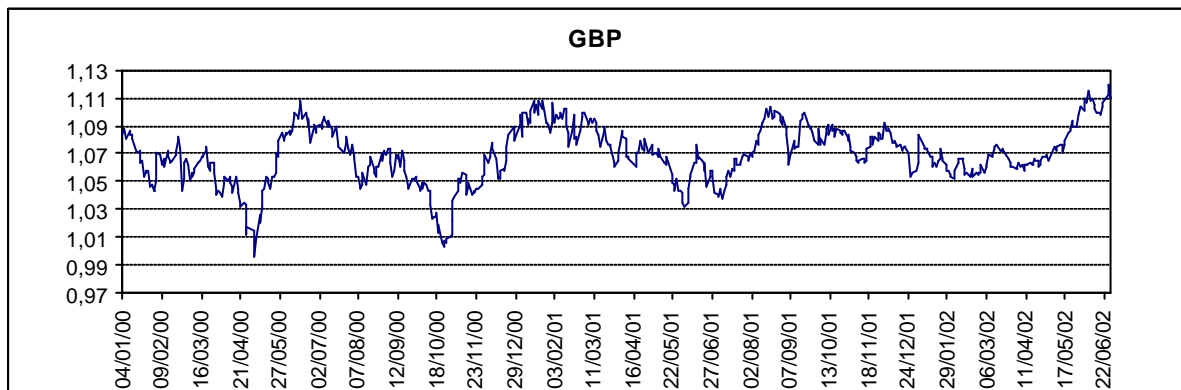
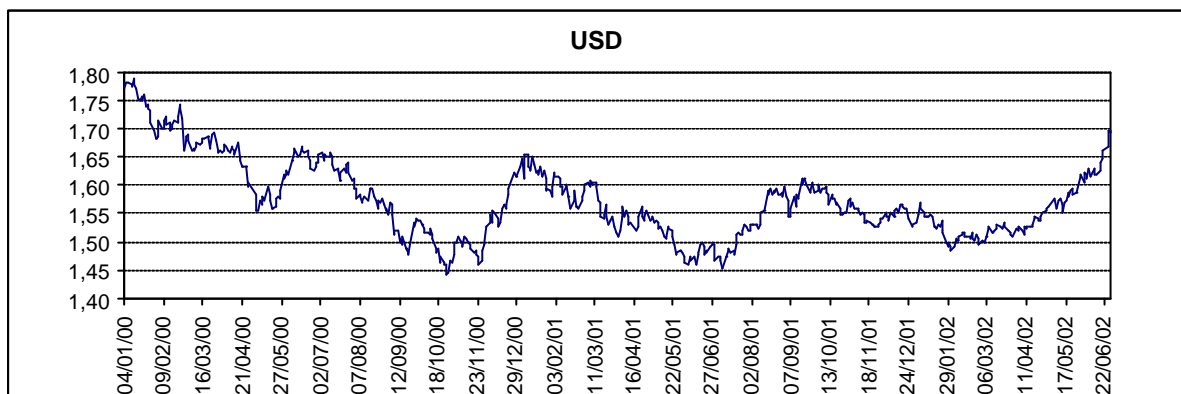
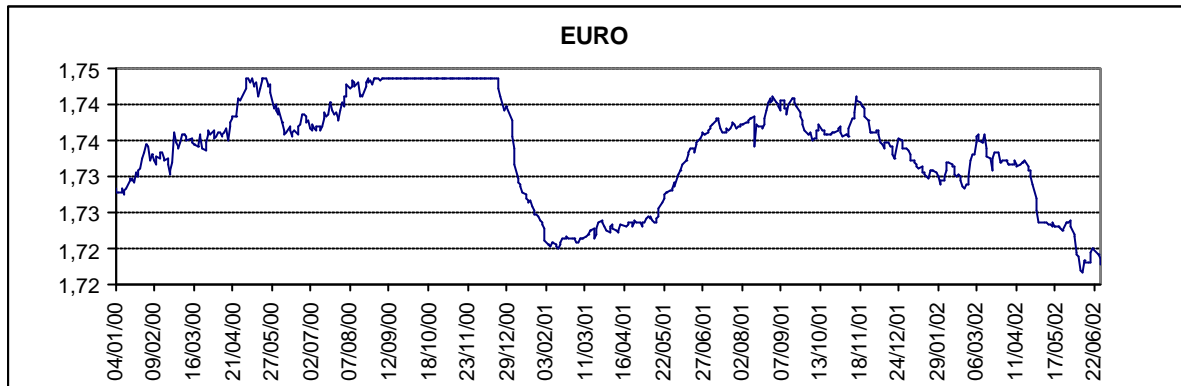
Cyprus pound

The Cyprus pound fluctuated marginally against the euro in June, reaching EUR1,725 on 28 June 2002 (average fixing price). Reflecting fluctuations in international currencies during this period, the Cyprus pound strengthened

significantly against the US dollar and marginally against the pound sterling and the Japanese yen. Chart 2 presents an overview of recent fluctuations in the exchange rates of the Cyprus pound vis-à-vis the euro, the US dollar, the sterling and the yen.

The recent weakening of the US dollar against the euro as well as the Cyprus pound is expected to influence various areas of the Cypriot economy, assuming these trends are not reversed soon. For example, a favourable effect on the inflation front is anticipated, especially on account of the downward effect of the depreciation of the US dollar on oil prices denominated in Cyprus pounds. A favourable effect on fuel imports and hence the trade balance is also anticipated. On the other hand, the appreciation of the Cyprus pound may have a

negative effect on the competitiveness of Cypriot products, particularly to the extent that the pound sterling follows the course of the US dollar, since the UK is an important export market for Cyprus, particularly concerning tourism. Furthermore, the weakening of the US dollar facilitates the servicing of external debt in US dollars, by the public and private sectors, albeit the proportion of external debt denominated in US dollars is generally very small.

Chart 2**Cyprus Pound against major international currencies****4/1/2000 - 28/6/2002***(opening, selling values)*

As regards the domestic foreign exchange market, the results of the fixing sessions held until 28 June 2002, based on transaction date, are summarised in table 5. As this table shows, between 1 January 2002 and 28 June 2002, net foreign inflows totaled £56,82 million, compared with £343,67 million in the first half of 2001. During June 2002, outflows of foreign exchange of the order of £6 million were recorded, in contrast to inflows amounting to £42 million in May.

Overall, including interventions and other operations in the interbank market (specifically,

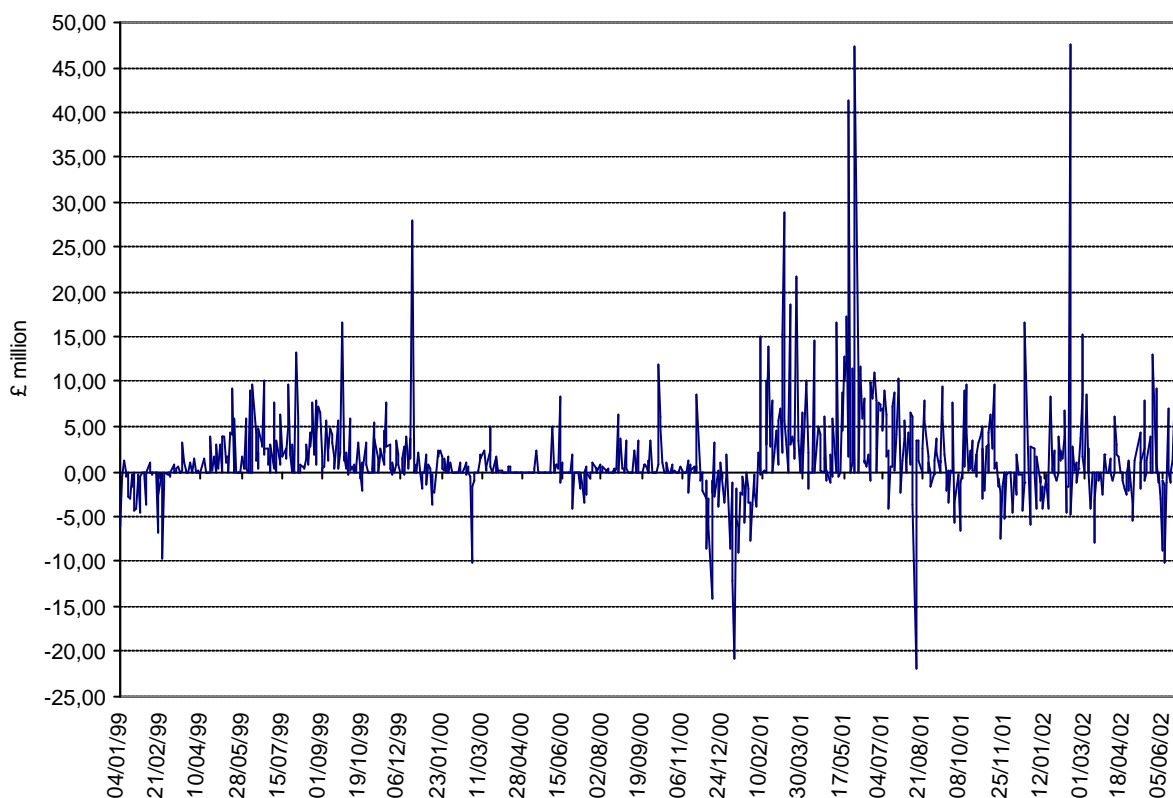
execution of forward foreign exchange contracts), between 1 January 2001 and 28 June 2002, the Central Bank absorbed from the banking system foreign exchange equivalent to £770,28 million. Over 50% of these inflows correspond to borrowing in foreign currency by residents of Cyprus from domestic banks. It is pointed out that interventions by the Central Bank in the domestic foreign exchange market decreased markedly in the first half of 2002 to £106,9 million, compared with £474,5 million in the first half of 2001. Daily purchases and sales of foreign exchange by the Central Bank from domestic banks since 1999 are shown in chart 3.

Table 5
Summary of results of fixing sessions

Month	Average fixing exchange rate Foreign currency per Cyprus pound (last day of period)			Purchases (+) / Sales (-) of foreign exchange by the Central Bank (based on transaction date)			
				In foreign currency (millions)			In Cyprus pounds (millions)
2001	Euro	US dollar	Pound sterling	Euro	US dollar	Pound sterling	
January	1,7278	1,6060	1,0983	-169,80	-9,55	-7,00	-110,17
February	1,7264	1,5916	1,1016	49,25	-0,20	1,20	29,51
March	1,7275	1,5209	1,0670	130,40	38,00	-0,10	99,37
April	1,7283	1,5369	1,0713	81,25	-5,30	0,00	43,59
May	1,7338	1,4716	1,0382	233,25	5,30	0,00	138,17
June	1,7413	1,4743	1,0490	250,00	-1,00	0,00	143,20
July	1,7425	1,5265	1,0712	148,25	0,00	0,02	85,11
August	1,7455	1,5989	1,0962	39,45	0,00	0,00	22,58
September	1,7411	1,5968	1,0852	0,75	9,50	5,30	11,28
October	1,7414	1,5766	1,0833	15,90	15,50	10,28	28,46
November	1,7414	1,5464	1,0861	-14,65	6,35	9,20	10,70
December	1,7387	1,5380	1,0622	-7,60	-3,05	3,50	-2,74
2002	Total 2001			756,95	65,55	22,40	499,05
January	1,7347	1,4977	1,0612	-13,45	-3,60	4,60	-5,76
February	1,7381	1,5053	1,0631	39,70	8,10	4,90	32,89
March	1,7374	1,5160	1,0626	-6,00	0,00	-1,40	-4,75
April	1,7287	1,5563	1,0685	-18,70	-0,80	10,30	-1,65
May	1,7272	1,6192	1,1045	19,10	20,85	19,50	42,07
June	1,7249	1,7189	1,1201	-12,65	-3,75	4,00	-5,98
	Total 2002			8,00	20,8	41,90	56,82

Chart 3

**Daily purchases / sales of foreign exchange by the Central Bank
from the domestic banks
4/1/1999-28/6/2002**



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

2.2 MONETARY DEVELOPMENTS *

The dominant developments in the monetary sector in June were the continuing slowdown in the growth rate of credit to the private sector and the continuing surplus liquidity conditions. Net repayments of government securities again enhanced surplus bank liquidity. The Central Bank, in the context of its anti-inflationary policy, continued to intervene in the money market in May and June, absorbing part of the excess liquidity through deposit collection auctions (depos)¹. Foreign exchange outflows resumed in June, reaching £6,0 million, in contrast to net inflows of £42,7 million in May.

The annual growth rate of total liquidity (M2) declined somewhat in May compared with the previous month, reaching 12,3%, but was substantially higher than the growth rate of 6,1% recorded in May 2001 (table 7). The three-month moving average of the annual growth rates of total liquidity registered a marginal slowdown, declining to 12,8% in the period from March to May 2002, from 12,9% in the period from February to April 2002. This development emanated from the fall of primary liquidity, combined with the slowdown in secondary liquidity.

Table 6 presents the factors affecting total liquidity. As this table shows, net foreign assets and claims on the private sector increased in May compared with the previous month, while unclassified items and claims on the public sector fell. In the twelve months to May 2002, the

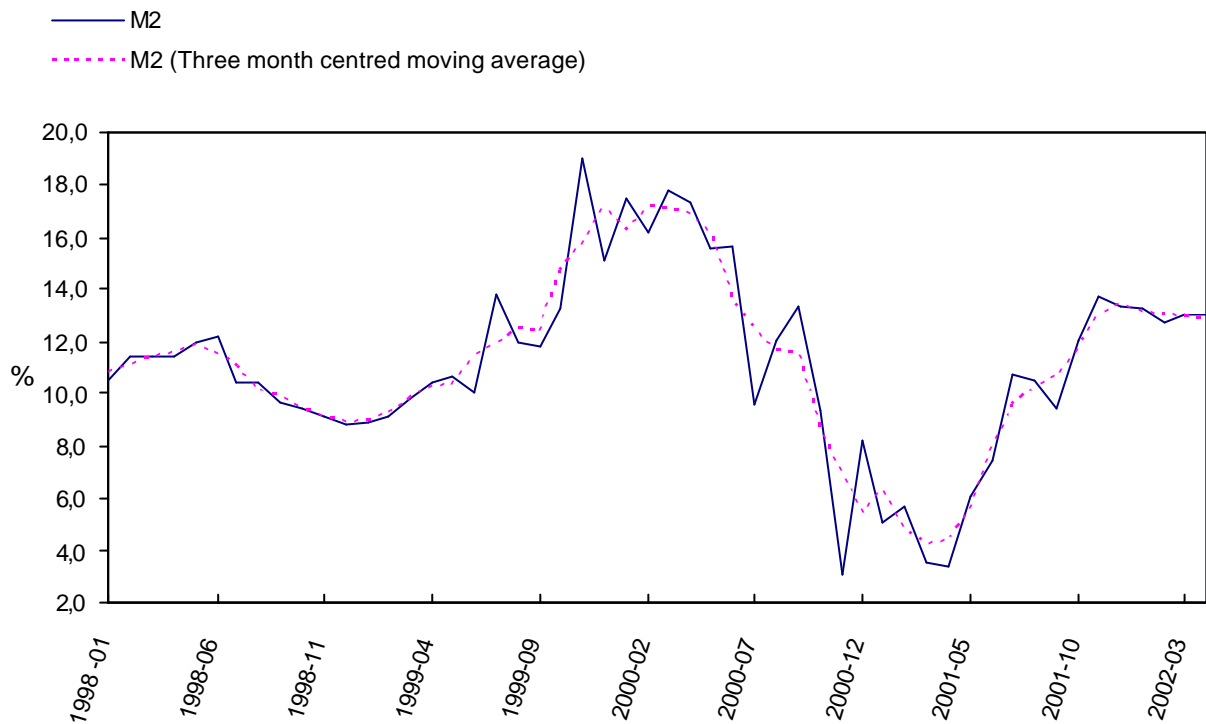
increase in claims on the public sector reached £75,0 million, compared with an increase of £103,3 million in the twelve months to April. In the same period, net foreign assets increased by £448,2 million, compared with a rise of £452,3 million in April. Credit to the private sector grew by £646,8 million in May, compared with an increase of £670,4 million in the previous month. Adjusted for government foreign borrowing, the increase in credit extended to the public sector rises to £387,7 million, while the increase in net foreign assets diminishes to £135 million.

In terms of annual growth rates, credit to the private sector slowed further in May 2002, growing by 9,4%, compared with a growth rate of 9,8% in April and 12,0% in May 2001. According to the moving average of annual growth rates, credit expanded by 9,8% in the period from March to May 2002, down from 10,5% in the period from February to April 2002.

The low rate of expansion of bank lending is attributable to decreased demand for loans by the private sector due to the slowdown in economic activity, as well as to stricter bank policies in examining applications for credit. As a result of low credit expansion in the first five months of 2002, bank financing was below the reference value by £61,9 million, according to the monthly distribution method (box 1).

* Monetary figures refer to all banks, i.e. they also include the Cyprus Development Bank, the Mortgage Bank of Cyprus 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**M2 growth***(annual percentage changes, monthly data)*

The breakdown of bank credit by sector of economic activity (table 8) shows that in the period January-May 2002, the sectors of tourism, domestic and foreign trade, and personal and professional loans absorbed the largest part of new credit, amounting to 31,1%, 27,3% and 24,3%, respectively, in contrast to the same period of the previous year, when personal and professional loans dominated with a share of 48,4% of new credit. However, in absolute terms, the amount of new credit channelled to trade in this period decreased from £81,4 million in 2001 to £41,2 million 2002, while for tourism the amount increased slightly from £45,8 million to £46,9 million. The growth of personal and professional loans declined to £36,6 million, from £162,6 million in the first five months of 2001. Another interesting development is the rise of credit card transactions observed in May. Domestic expenditure by Cypriots through credit cards rose by 30,6% compared with the same

month of the previous year. During the same period, expenditure abroad by Cypriots through credit cards decreased by 0,7% compared with May 2001, while expenditure in Cyprus by foreign credit card holders decreased by 0,5%.

Credit expansion seems to have been slow in June as well. According to preliminary data for the period from 1 to 28 June 2002, new credit amounting to £156,7 million was granted, compared with £163,9 million in the corresponding period of 2001. In the twelve months to 28 June 2002, the amount of new credit granted was £660,7 million, indicating an annual growth rate of 9,4%, down from 14,4% in the corresponding period of the previous year.

Table 6**Factors affecting total liquidity***(change, Cyprus pounds thousand)*

	May 2002	Jan.-May		Apr. 2001/2002	May 2001/2002
		2001	2002		
Foreign assets (net)	53.165	-172.421	153.634	452.283	448.179
Claims on private sector	36.592	351.786	171.291	670.434	646.807
Claims on public sector	-19.189	7.477	-256.456	103.258	75.039
Unclassified items	-4.810	-41.125	28.288	-389.828	-368.836
Total Liquidity (M2)	65.758	145.717	96.757	836.147	801.189
Primary liquidity (M1) (Money supply)	-248	-68.251	-97.642	18.159	-7.843
Currency in circulation	3.286	-407	3.090	35.822	26.766
Demand deposits	-3.534	-67.844	-100.732	-17.663	-34.609
Secondary liquidity (Quasi-money)	66.006	213.968	194.399	817.988	809.032

Table 7**Main monetary indicators***(annual percentage change)*

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

Table 8**Bank credit by sector**

	Jan.-May			
	2001		2002	
	change CYP' 000	share %	change CYP' 000	share %
Public institutions and corporations	16.377	4,9	-6.834	-4,5
Agriculture	-3.209	-1,0	-4.825	-3,2
Mining	1.435	0,4	2.213	1,5
Manufacture	-16.202	-4,8	270	0,2
Transport and communication	7.704	2,3	9.186	6,1
Foreign and domestic trade	81.440	24,3	41.166	27,3
Building and construction	40.395	12,0	27.215	18,0
Tourism	45.780	13,6	46.905	31,1
Personal and professional loans	162.561	48,4	36.633	24,3
Bills discounted: Local	-691	-0,2	247	0,2
Foreign	97	0,0	-1.296	-0,9
Total	335.687	100,0	150.880	100,0

Net foreign currency lending to residents of Cyprus increased somewhat in May and reached £13,6 million, compared with £12,9 million in April.² Consequently, the proportion of credit in foreign currency to total credit increased to 10,5%, from 10,3% in the previous month. By contrast, preliminary data for June indicate net repayments of foreign currency loans of the order of £10,2 million.

As pointed out in last month's *Monetary Policy Report*, Cypriots have shown increased preference for foreign currencies other than the euro. According to information from domestic banks, foreign currency borrowing by Cypriots is increasingly denominated in US dollars, Swiss francs and Japanese yen, and thus the proportion

of new loans denominated in euros to new credit in foreign currency has fallen to about 75%, from over 80% in the previous year. Also according to last year's data for long-term loans in foreign currency, about 52% of foreign currency loans were used for refinancing,³ while 40% of such loans were used for construction in Cyprus and for the acquisition of fixed assets.

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

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 9**Claims on Private Sector***(change - 2002, Cyprus pounds million)*

	Mar.	Apr.	May
Foreign Currency loans to residents	-0,7	12,9	13,6
Claims on private sector	70,6	14,2	25,0

(end of period balances, Cyprus pounds million)

	1999	2000	2001	2001 May	2002 Apr.	2002 May
Foreign Currency loans to residents	355,2	373,5	729,9	545,8	772,3	785,9
Claims on private sector	5673,5	6517,5	7317,0	6869,3	7472,9	7497,9
Share %	6,3	5,7	10,0	7,9	10,3	10,5

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 131% in 2002, from 125% in 2001**.

Credit as a percentage of GDP

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

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

(1) Annualised growth rate

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

For example, credit expansion in absolute terms from end-December 2001 to end-May 2002 was £171,3 million. This absolute change converted to an annualised growth rate seasonally adjusted gives:

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

8,6%

Reference value

11%

(2) Twelve-month growth rate

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

* Credit expansion includes all banks.

** If loans granted by the co-operative credit institutions are included, then total credit as a percentage of GDP rises to 139% in 1997, 145% in 1998, 154% in 1999, 158% in 2000 and 162% t? 2001.

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

12-month growth rate**Reference value**

9,4%

11,0%

Moving average

9,8%

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

(3) Monthly distribution method

The Central Bank has estimated that credit could expand by up to £808 million and reach £8150 million at the end of 2002. This amount (reference value) may be distributed in the months of 2002 in accordance with the seasonal pattern of previous years. Monitoring may be effected through the following table, where the first row gives the distribution of credit in accordance with the reference value and the second row gives actual credit to date. As seen in the table, credit expansion until May was below the reference value.

Table of bank financing 2002

(Cyprus pounds million)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Reference value*	7359	7431	7529	7550	7578	7658	7676	7646	7712	7753	7795	8150
Actual	7360,6	7394,7	7465,2	7479,5	7516,1							

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

Money market

Surplus bank liquidity conditions prevailed in the money market in June. Changes in government deposits with the Central Bank contributed significantly to the enhancement of surplus liquidity conditions. Specifically, net government deposits fell from an average of £80,2 million in May to an overdrawn of £47,4 million, on average, in June (table 11). Part of the government deposits was used for the repayment of government securities, which reached a net amount of £75,0 million. On the other hand, the decline in net foreign assets moderated excess liquidity. Specifically, the average daily value of the Central Bank's foreign assets decreased to £1576,3 million in June, from £1632,1 million in the previous month.

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 May, the Central Bank absorbed liquidity amounting to £599,5 million at an average interest rate of

3,96%, and in four auctions in June liquidity of £526,0 million was absorbed at an average interest rate of 3,91%. In two occasions, on 6 and 10 June, fixed rate auctions were held at an interest rate of 4,00% and 3,90%, respectively, for a term of 42 and 38 days, respectively.

It is a matter of concern that for the second consecutive month the government did not carry out the scheduled bi-weekly auctions of three-month treasury bills, and thus the released liquidity had to be absorbed by the Central Bank. In particular, in June, there were no auctions of three-month or one-year treasury bills and no auctions of five-year or ten-year bonds. It is pointed out that, in general, the proportion of acceptance of offers for government securities, that is the ratio of the value of securities sold to the total value announced for the auctions, was around 40% in the first four months of 2002 (April was the last month during which auctions were held), while the ratio of the value of securities sold to the total value of bids was even lower at 30%.

Table 10

Interest rates

(% per annum)

	1998	1999	2000	2001	2001 June	2002 May	2002 June
Interbank (1day)	4,83	5,15	5,96	4,93	4,73	3,28	3,42
Repos	4,68	5,45	5,97	6,39			
Reverse repos/depos			4,44	4,59	5,39	3,96	3,91
Treasury bills (13 weeks)	5,50	5,54	5,75	6,00	5,49		
Treasury bills (52 weeks)	5,99	6,00	6,21	6,35	6,45		
Development stocks (2 years)			6,55	6,11	6,71		
Development stocks (5 years)	6,95	7,27	7,45	6,96	7,36		
Development stocks (10 years)	7,22	7,36	7,55	7,66			
Development stocks (15 years)				6,47			

Note: Simple average of the weighted averages for the period

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

	Liquidity - providing factors					Liquidity - absorbing factors							Credit institutions current accounts (MRA)	Base money (6+7+9+12)
	Monetary policy operations								Currency in circulation	Central Govern. Deposits (net)	Other factors (net)			
	Net assets in gold and foreign currency (NFA)	Main refinancing operations (repos)	Long term refinancing operations	Marginal lending facility (lombard)	Other liquidity-providing operations (swap)	Deposit facility (overnight)	Other liquidity-absorbing operations (additional & special & S.M.E. dep.)	Rev-repos & depos						
	1	2	3	4	5	6	7	8	9	10	11	12	13	
2000	Jun.	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.	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.	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.	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.	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.	1.056,5	0,0	0,0	6,3	1,8	3,7	0,0	0,0	341,5	9,8	199,8	509,8	851,2
	Dec.	1.007,1	0,0	0,0	18,9	1,1	4,1	0,5	0,0	353,8	-22,4	184,1	507,0	861,2
2001	Jan.	892,6	10,2	0,0	8,6	1,1	3,9	94,5	0,0	346,9	51,8	-15,9	431,3	876,6
	Feb.	876,0	49,5	0,0	0,5	1,2	12,5	93,9	0,0	336,2	-6,8	47,8	443,6	886,1
	Mar.	991,3	16,3	0,0	5,0	1,0	2,9	93,0	0,0	337,5	38,2	97,0	444,9	878,3
	Apr.	1.075,1	0,0	0,0	18,2	0,7	0,3	90,7	0,0	358,7	0,0	194,4	449,7	899,5
	May	1.109,6	0,0	0,0	28,2	1,2	1,0	84,2	0,0	369,4	58,4	175,7	450,3	904,9
	Jun.	1.316,1	0,0	0,0	0,0	0,0	57,9	79,7	26,4	382,7	132,3	198,2	439,1	959,3
	Jul.	1.379,0	0,0	0,0	1,2	0,0	9,2	79,6	92,0	393,8	159,8	194,5	451,1	933,8
	Aug.	1.333,2	0,0	0,0	0,5	0,0	39,3	79,6	58,6	393,9	125,6	179,4	457,2	970,2
	Sep.	1.359,6	0,0	0,0	0,0	0,0	58,7	79,6	94,8	386,0	89,4	189,3	461,8	986,1
	Oct.	1.358,1	0,0	0,0	2,3	0,1	19,4	79,6	104,7	384,3	58,0	250,0	464,5	947,8
	Nov.	1.372,1	0,0	0,0	2,3	0,0	13,3	79,4	118,5	366,5	54,6	275,5	466,6	925,8
	Dec.	1.334,4	0,0	0,0	3,6	0,0	8,3	79,4	111,9	385,3	10,5	274,6	468,1	941,1
2002	Jan.	1.309,0	0,0	0,0	0,8	0,0	16,4	79,4	174,3	377,6	64,7	124,2	473,1	946,6
	Feb.	1.384,4	0,0	0,0	0,6	0,0	14,5	79,4	131,3	363,9	169,8	137,7	488,6	946,4
	Mar.	1.684,4	0,0	0,0	3,3	0,0	24,8	79,4	189,9	367,4	369,6	167,3	489,2	960,9
	Apr.	1.637,5	0,0	0,0	3,4	0,0	17,6	79,4	267,7	379,4	116,5	289,7	490,7	967,0
	May	1.632,1	0,0	0,0	1,0	0,0	11,2	79,4	287,6	400,1	80,2	281,2	493,4	984,1
	Jun.	1.576,3	0,0	0,0	0,6	0,0	26,0	79,4	366,9	403,1	-47,4	252,7	496,3	1.004,7

Money market interest rates remained at about the same low levels, following the three reductions in official interest rates. The average overnight interest rate in the interbank market rose from 3,28% in May to 3,42% in June, remaining well below the intervention rate (depos). The average yield on three-month treasury bills reached 4,00% in March, while the monthly average interest rate on 52-week treasury bills stood at 4,50% in April. Concerning long-term government securities, the average yield on five-year bonds was 5,08% in April, while no auction for ten-year bonds took place in the period from March to June 2002.

Although the last auction of ten-year bonds took place in February at an average interest rate of 5,37%, the latest twelve-month average of long-term interest rates declined to 6,89% in April. Also owing to the increase in the corresponding rates in the European Union, the differential between domestic and European long-term interest rates narrowed to 179 basis points. The real interest rate spread between the European Union and Cyprus narrowed even more, due to the increase in domestic inflation, reaching 183 basis points in April, compared with 232 basis points in March (table 12).

Table 12
Inflation and interest rates of Europe and Cyprus - April 2002
(latest 12 month average)

	Inflation (HICP)	Long-term interest rates	Long-term real interest rates
Belgium	2,40	5,20	2,80
Denmark	2,30	5,10	2,80
Germany	2,20	4,90	2,70
Greece	3,90	5,30	1,40
Spain	2,90	5,20	2,30
France	2,00	5,00	3,00
Ireland	4,30	5,10	0,80
Italy	2,40	5,20	2,80
Luxembourg	2,10	4,90	2,80
Netherlands	4,90	5,00	0,10
Austria	2,20	5,10	2,90
Portugal	4,00	5,20	1,20
Finland	2,60	5,10	2,50
Sweden	2,90	5,30	2,40
United Kingdom	1,40	5,10	3,70
Euro zone	2,50	5,10	2,60
EU -15	2,30	5,10	2,80
Cyprus	2,26	6,89	4,63

International and domestic interest rates

The improvement of economic conditions contributed to the maintenance of unchanged official interest rates in June by the European Central Bank, the US Federal Reserve System and the Bank of England. Economic analysts share the view that the period of interest rate reductions has been completed and the preconditions for a more reserved monetary policy are emerging. As already mentioned, in the case of Great Britain, an increase in interest

rates is expected by August, while for the United States and the euro area the prospect of an increase in official rates is now considered to be more distant. Due to the maintenance of unchanged interest rates by both the European Central Bank and the Central Bank of Cyprus (table 13), the differential between their official interest rates remained at 125 basis points for the marginal lending facility and 25 basis points for the overnight deposit facility.

Table 13

Official interest rates

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

		change
European Central Bank		
<i>(June 6, 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>(June 6, 2002)</i>		
Repo Rate	4,00	-
Federal Reserve System		
<i>(June 26, 2002)</i>		
Federal Funds Rate	1,75	-
Discount Rate	1,25	-
Central Bank of Cyprus		
<i>(June 14, 2002)</i>		
Minimum bid rate on the main refinancing operations	4,00	-
Interest rate on the marginal lending facility	5,50	-
Interest rate on the deposit facility	2,50	-

Cyprus Stock Exchange

The General Price Index registered a brief upward course after the end of April, reaching up to 105,22 points on 9 May, but declined in the following days and registered an overall downward trend. The decline of the price index was accompanied by a decrease in traded volume compared with April. On the last day of May the General Price Index stood at 101,1 points, compared with 96,8 in April (chart 5). It is noted that in April the index moved within a range of 96,8 to 112,8 points, while in May the index moved in a narrower range, between 97,2 and 105,2 points.

In the same month, the average daily volume was £1,5 million, the same level as in April, while the average daily number of transactions decreased from 2088 to 1949. Most sectoral indices recorded a rise in May. The securities with the largest proportion of the monthly traded volume were the shares of Bank of Cyprus and CLR Investment Fund, which accounted for 13,7% and 11,3% of the traded volume, respectively, while in April the shares of Bank of Cyprus and Popular Bank accounted for 14,8% and 6,8% of the traded volume, respectively.

Chart 5

Cyprus Stock Exchange (CSE) General Index

April - May 2002

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

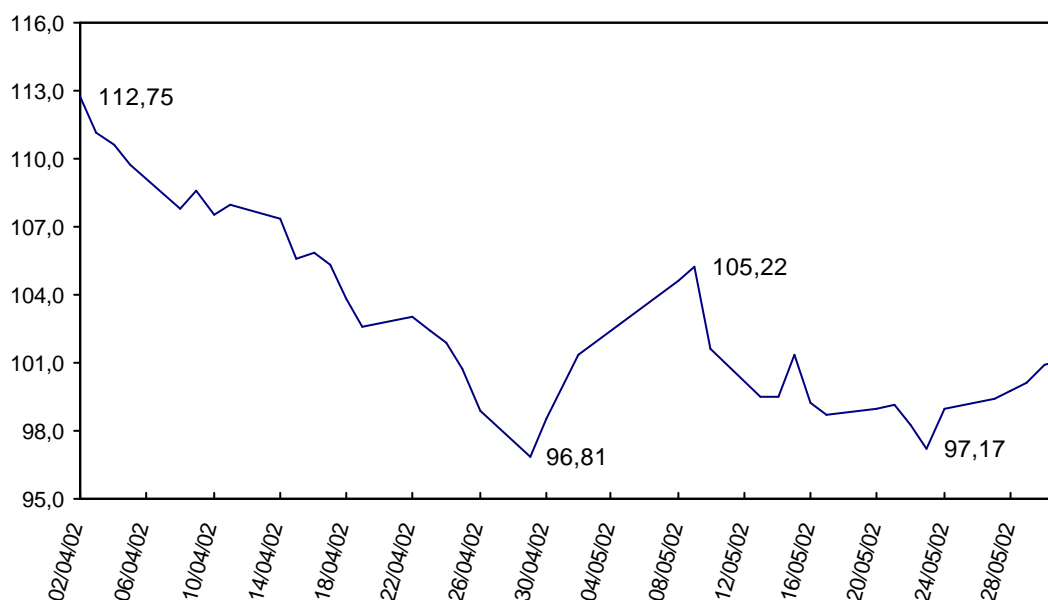


Table 14 shows that the small capital outflows observed in February and March were reversed. In April, purchases of shares on the Cyprus Stock Exchange by non-residents exceeded sales by £0,372 million, while in May net purchases

decreased to £0,183 million. Tables 11 and 12 in the annex present purchases and sales of shares by non-residents analysed by country of residence.

Table 14

Investments by non-residents on the Cyprus Stock Exchange

(Cyprus pounds millions)

	2001 Apr.	2001 May	2001 June	2001 July	2001 Aug.	2001 Sep.	2001 Oct.	2001 Nov.	2001 Dec.	2002 Jan.	2002 Feb.	2002 Mar.	2002 Apr.	2002 May
Purchases	1,206	1,817	0,795	0,689	1,262	0,873	0,916	1,226	0,367	0,570	0,292	0,215	0,429	0,207
Sales	0,988	1,097	0,889	0,659	0,706	0,772	1,090	2,007	0,577	0,362	0,347	0,223	0,057	0,024
Net investment	0,218	0,720	-0,094	0,030	0,556	0,101	-0,174	-0,781	-0,210	0,208	-0,055	-0,008	0,372	0,183

2.3 INFLATION

Prices increased by 2,03% in June 2002, compared with an increase of 2,35% in May. As table 15 shows, the decline of the inflation rate is mainly attributable to the decrease in domestic agricultural product prices. By contrast, the prices of domestic industrial goods accelerated, while prices of imported goods remained essentially stable. Finally, services prices accelerated marginally.

As regards domestic goods, an important development in June 2002 was the decline in agricultural product prices by 5,11%, after an increase of 2,61% in the previous month. The downward trend in agricultural product prices in the last few months is partly attributable to high

precipitation during this winter, which resulted in an increase in spring's agricultural output, in a period of weak demand. However, what may seem paradoxical is that the same weather conditions contributed to high agricultural product prices in the first months of the year, due to the destruction and other damages brought about by the rain, frost and generally adverse weather conditions in the winter months of 2002.

Electricity prices also fell in June 2002, while the administratively set fuel prices registered a deceleration. The course of the latter is mainly a result of developments in international oil markets. In particular, the average price of Brent crude oil declined to USD25 per barrel in May and USD24 per barrel in June, slightly below the respective prices in 2001.

Table 15
Consumer price index by economic origin

(annual percentage change)

		2000	2001	June 2001/2000	May 2002/2001	June 2002/2001
	All items	4,14	1,97	3,00	2,35	2,03
A	Domestic goods	7,15	1,34	4,00	2,62	1,72
A.1	Agricultural	8,98	4,50	11,52	2,61	-5,11
A.2	Industrial	4,40	0,78	2,98	3,09	3,88
A.2.1	Industrial, non-oil	2,45	0,10	0,58	2,59	4,35
A.2.2	Fuel and gas	14,86	3,99	15,61	5,44	1,76
A.3	Electricity	47,32	-3,23	-9,03	-3,86	-0,11
B	Imported goods	2,13	0,47	1,19	-0,01	0,05
B.1	Motor vehicles	3,78	0,55	1,23	-0,30	-0,39
B.2	Other imported goods	0,93	0,41	1,17	0,21	0,38
C	Services	2,52	3,35	3,04	3,31	3,34

Prices of imported goods increased negligibly by 0,05% in June 2002, compared with a decrease of 0,01% in May 2002 and an increase of 1,19% in June 2001. Prices of motor vehicles declined marginally, while prices of other imported goods increased marginally.

Finally, services prices rose by 3,34% in June, compared with an increase of 3,31% in May 2002 and 3,04% in June 2001. The greatest increases were recorded in the sectors of health, restaurants and hotels, recreation and culture, as well as in the category of miscellaneous goods and services.

As a result of the aforementioned developments in June, the inflation rate for the first half of 2002 reached 2,46%, compared with 1,95% in the first half of 2001. This rise stemmed mainly from the sharp increase in agricultural product prices and was mitigated by the fall in fuel prices. A more detailed analysis of developments on the inflation front by economic origin is presented in tables 7 to 10 in the annex⁴. It should be noted that an increase was recorded in core inflation as well, which reached 2,2% in the first half of 2002, compared with 1,7% in the first half of 2001 (see table 7 in the annex).

Turning to prospects for 2002, an inflation rate around 2,5% is projected, excluding the effects of the increase in the VAT rate and other indirect taxes that were recently enacted by the Parliament. This projection is based on the framework of price analysis by economic origin,

as presented above,⁵ and the assumption that international oil prices will remain around USD24 per barrel during the year,⁶ while no wide fluctuations of the Cyprus pound against the euro, the US dollar, the pound sterling and the yen will occur. It is also assumed that agricultural product prices will register a small acceleration in comparison with 2001, mostly on account of the large increases recorded in the first four months of the year, followed by price decreases in the remainder of the year.

Taking into account the effect of the recently enacted tax measures, the inflation rate is expected to exceed 2,5% for 2002. This effect should be significantly smaller than originally estimated, mainly owing to the decrease in excise duties on saloon cars, which was recently proposed and agreed as part of the tax package, along with other tax measures which directly affect inflation, namely, the increase in the VAT rate and the increase in excise duties on cigarettes, alcoholic beverages and fuel, which were under discussion for several months. Specifically, the decrease in excise duties on cars is anticipated to result in significant reductions in car prices, which are estimated to lead, *ceteris paribus*, to a fall in the inflation rate by up to 1,5 percentage points annually, or 0,75 points for the remainder of the year. This will offset to a significant extent the direct negative impact of the aforementioned tax hikes, which is estimated to be two percentage points annually, or one percentage point for the second half of 2002. These tax hikes, in particular those concerning fuels, are expected to have further

⁴ Table 7 shows percentage changes in the consumer price index from 2000 until June 2002, and table 8 shows the corresponding weighted contributions of the particular economic categories to the general index in the same period. In addition, tables 9 and 10 in the annex present the corresponding analysis of recent developments on the inflation front by product category.

⁵ These conclusions are also supported by preliminary econometric analysis using autoregressive models, with quarterly data for the period 1992(1)-2002(1).

⁶ According to the latest projections of the European Commission, oil prices are expected to remain around USD24 per barrel in 2002, substantially above the prices during the last quarter of 2001.

indirect chain effects on inflation. Based on the above, the inflation rate for 2002 is expected to be in the range of 3% to 3,5%.

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

Table 16

Inflation : Cyprus and other countries

(annual percentage change in consumer prices)

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

(1) Source: *The Economist*

(2) Source: *Central Bank of Cyprus*

2.4 DOMESTIC ECONOMY

An overview of the domestic economy is presented in table 17, which gives the latest economic indicators. Perhaps the most distinct development in 2002 is the continuing substantial decline in tourist arrivals. Receipts from tourism recorded a decrease, albeit smaller than arrivals, for the first four months of the year. In parallel, several indicators of supply and demand suggest a slowdown in economic activity compared with 2001, while unemployment continued its upward

trend compared with the corresponding months of 2001.

Production

As regards the services sector, tourist arrivals fell by 14,2% in May 2002, compared with an increase of 8,5% in the same month of the previous year. For the first five months of 2002, tourist arrivals registered a decrease of 14,6%, compared with an increase of 5,0% in the corresponding period of 2001. Receipts from tourism in the first four months of 2002 decreased by 3,6% and are estimated at £186,7 million. This relatively small decrease in receipts from tourism is attributable to the sizeable increase in expenditure per tourist.

The slowdown in tourism in 2002 is reflected in the decline of business confidence of hotel owners, as portrayed in the Business Trends Survey conducted by the Statistical Service in April 2002. In particular, the proportion of hotels reporting that they considered their current business position as not satisfactory for this time of the year exceeded the proportion of those assessing it as more than satisfactory by 83 percentage points, compared with a difference of only 10 percentage points in the same month of the previous year. Furthermore, the proportion of hotels reporting that demand levels in April 2002 were lower than normal for the season was more than double the corresponding proportion in April 2001, while the proportion of hotels reporting that they expected demand within the coming three months to be lower than normal reached 82%, compared with 3% in the same month of the previous year. At the same time, the proportion of hotels reporting that they expected an improvement in their business position during the next six months (obviously due to seasonal factors) exceeded the proportion of those

expecting a deterioration, but the difference was much smaller than in April 2001.

The Business Trends Survey also records trends in business services. According to the results of the survey conducted in April, business confidence in this category of services was broadly stable compared with January 2002. The proportion of enterprises reporting that they anticipated a further improvement in their business position within the next few months was marginally lower than the corresponding proportion in January, but the proportion of enterprises expecting a deterioration was also lower, while a greater majority reported that they did not anticipate any change. Furthermore, a higher proportion of enterprises reported that they expected stable demand for their services and no change in the size of their permanent staff. There was also an increase in the proportion of enterprises reporting that they anticipated stable prices for their services compared with expectations recorded in January 2002.

In the secondary sector, both positive and negative developments were recorded. On the one hand, construction continued to show encouraging signs, while on the other hand, manufacturing continued to display a decline. Specifically, the volume index of building permits, which indicates prospects for manufacturing in the following few months, climbed by 93,9% in March 2002, compared with a decrease of 1,2% in the same month of 2001, and the value index of building permits rose by 26,2%, compared with an increase of 3,1% in March 2001. For the entire first quarter of 2002, the volume and value indices of building permits rose by 26,1% and 12,9%, respectively, compared with respective increases of 29,4% and 25,2% in the first quarter of the previous year. Furthermore, local cement

sales rose by 9,3% in June 2002, compared with an increase of 5,1% in the same month of 2001. For the first half of the year, local cement sales grew by 10,0%, compared with an increase of 13,6% in the first half of the previous year.

The signs for manufacturing are still negative, as the volume index of manufacturing production fell by 6,1% in March 2002, compared with a decrease of 3,4% in the same month of the previous year. In the first quarter of 2002, this index declined by 3,8%, compared with a decrease of 4,4% in the first quarter of 2001. The time of recovery from the observed downturn in manufacturing is difficult to predict. The performance of manufacturing by product category is shown in table 18.

The decline in economic activity in manufacturing appears to have affected business confidence in this sector. According to the Business Trends Survey conducted by the Statistical Service in April 2002, a lower proportion of manufacturers anticipated an improvement in their business situation in the next six months compared with expectations recorded in January 2002. On the contrary, a proportion greater than in January expected an increase in production levels as well as an increase in their staff numbers. Finally, the proportion of manufacturers responding in April that they would increase the selling prices of their products was smaller than the corresponding proportion in January.

Table 17

Latest Economic Indicators

	2000	2001	Latest month with available data		Corresponding month of the previous year		Latest period with available data		Corresponding period of the previous year	
Consumer price index (%change)	4,1	2,0	Jun 2002	2,0	Jun. 2001	3,0	Jan.-Jun. 2002	2,5	Jan.-Jun. 2001	2,0
Unemployment rate (% of E.A.P)	3,4	3,0	Jun 2002	2,9	Jun. 2001	2,7	Jan.-Jun. 2002	3,4	Jan.-Jun. 2001	3,0
Fiscal deficit(-)/surplus(+) (%of GDP)	-2,7	-2,8	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Tourist arrivals (%change)	10,3	0,4	May 2002	-14,2	May 2001	8,5	Jan.-May 2002	-14,6	Jan.-May 2001	5,0
Tourist revenue (%change)	16,5	7,0	Apr.2002	-14,3	Apr.2001	n/a	Jan.-Apr.2002	-3,6	Jan.-Apr.2001	n/a
Tourist per capita spending (%change)	5,6	6,6	Apr.2002	12,7	Apr.2001	n/a	Jan.-Apr.2002	13,1	Jan.-Apr.2001	n/a
Cypriots traveling abroad (%change)	4,2	16,8	Apr.2002	6,7	Apr.2001	n/a	Jan.-Apr.2002	0,8	Jan.-Apr.2001	n/a
Volume index of retail sales (%change)	5,7	5,9	Apr.2002	5,6	Apr.2001	2,7	Jan.-Apr.2002	3,1	Jan.-Apr.2001	3,6
Volume index of retail sales excluding cars(%change)	6,9	1,2	Apr.2002	2,0	Apr.2001	-0,1	Jan.-Apr.2002	-1,0	Jan.-Apr.2001	0,0
Private car registration (%change)	-6,5	19,4	Jun.2002	-38,6	Jun. 2001	1,6	Jan.-Jun. 2002	15,7	Jan.-Jun. 2001	11,6
Volume index of manufacturing production (%change)	4,0	-2,6	Mar.2002	-6,1	Mar.2001	-3,4	Jan.-?ar.2002	-3,8	Jan.-?ar.2001	-4,4
Volume index of building permits authorised (%change)	2,6	23,4	Mar.2002	93,9	Mar.2001	-1,2	Jan.-?ar.2002	26,1	Jan.-?ar.2001	29,4
Value index of building permits authorised (%change)	7,2	26,2	Mar.2002	26,2	Mar.2001	3,1	Jan.-?ar.2002	12,9	Jan.-?ar.2001	25,2
Local sales of cement (%change)	1,1	11,6	Jun.2002	9,3	Jun. 2001	5,1	Jan.-Jun. 2002	10,0	Jan.-Jun. 2001	13,6
Total imports (c.i.f.) (%change)	23,2	2,4	Mar.2002	-13,8	Mar.2001	22,2	Jan.-?ar.2002	1,1	Jan.-?ar.2001	14,7
Imports for home consumption (c.i.f.) (%change) ¹	16,5	8,7	Mar.2002	-6,8	Mar.2001	14,6	Jan.-?ar.2002	2,3	Jan.-?ar.2001	18,4
Total exports (f.o.b.) (%change)	9,0	6,1	Mar.2002	-15,1	Mar.2001	2,1	Jan.-?ar.2002	-12,2	Jan.-?ar.2001	-0,5
Domestic exports(f.o.b.) (%change)	8,4	4,5	Mar.2002	-4,2	Mar.2001	4,9	Jan.-?ar.2002	7,0	Jan.-?ar.2001	-3,4
Trade deficit (£ mil.)	-1877.0	-1900.7	Mar.2002	-165.0	Mar.2001	-190.6	Jan.-?ar.2002	-462.6	Jan.-?ar.2001	-438.8

(1) Non oil civil imports

Table 18**Manufacturing production volume index***(percentage change by category)*

	March 02/01	March 01/00	Jan.-Mar. 02/01	Jan.-Mar. 01/00
General index	-6,1	-3,4	-3,8	-4,4
Food products, beverages & tobacco	-12,2	-9,7	-9,4	-9,1
Textiles & textile products	-1,5	-5,5	-3,6	-6,5
Leather and leather products	-3,5	-4,9	4,1	-5,0
Wood & wood products	-2,8	1,1	-0,7	-3,2
Paper, paper products, publishing & printing	-4,9	4,1	-0,5	7,8
Refined petroleum products	3,2	-6,8	-10,0	-9,4
Chemicals, chemical products and man-made fibres	1,3	2,0	5,4	3,0
Rubber and plastic products	-2,0	-3,5	1,8	-1,5
Other non-metallic mineral products	-0,9	8,1	1,3	3,9
Basic metals & fabricated metal products	0,2	-3,7	0,8	-4,7
Machinery and equipment n.e.c.	-10,3	8,3	-6,4	3,2
Electrical & optical equipment	12,1	-16,4	11,7	-19,9
Transport equipment	10,2	-8,3	10,6	-19,2
Manufacturing n.e.c.	-14,6	-1,7	-11,5	-8,0

Chart 6

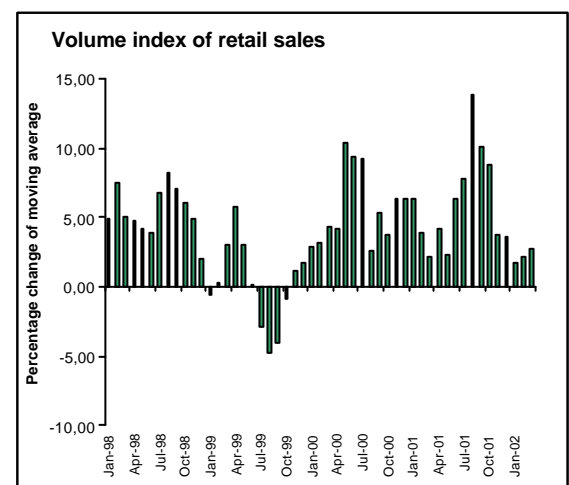
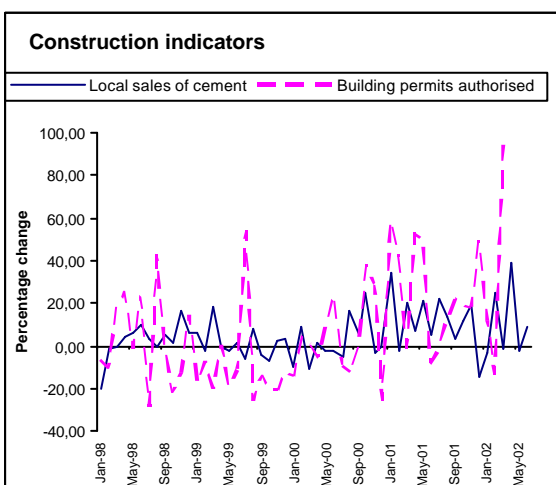
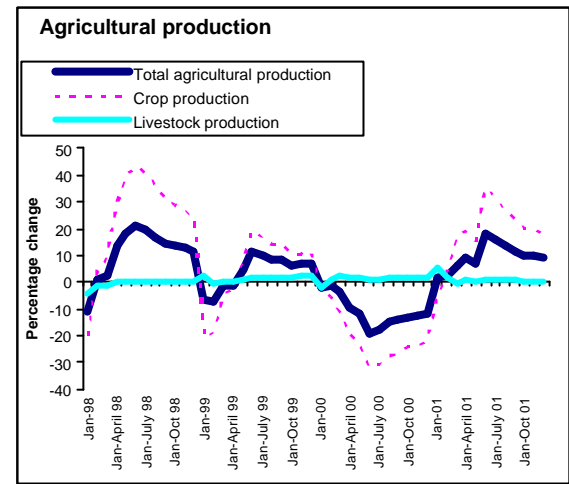
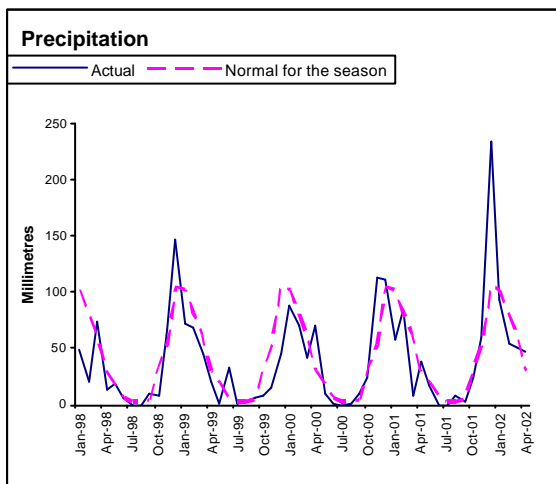
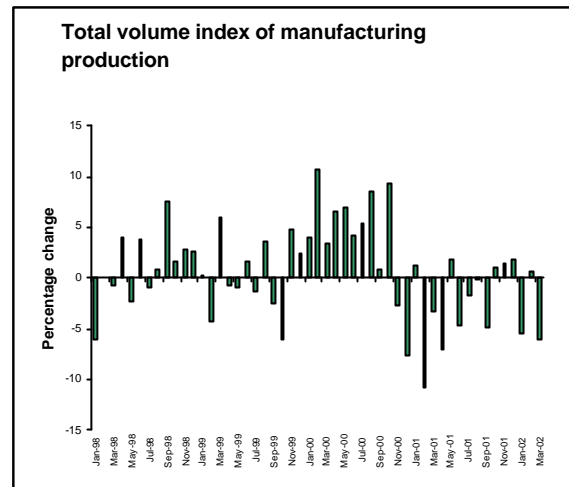
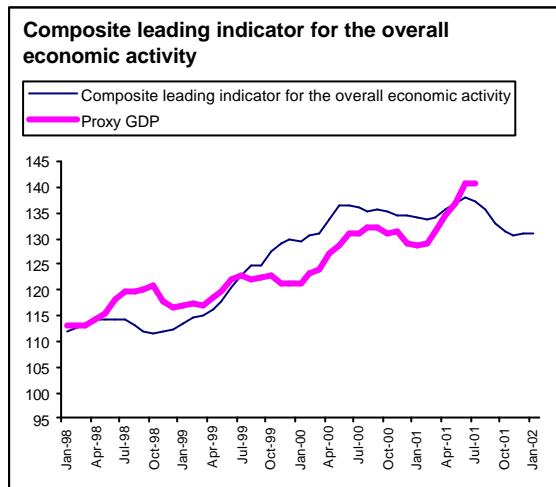
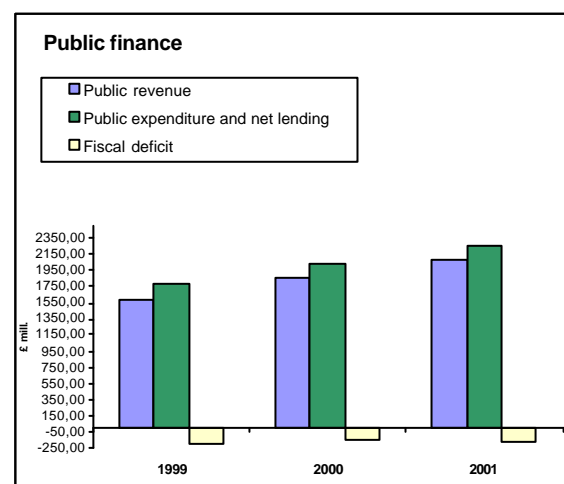
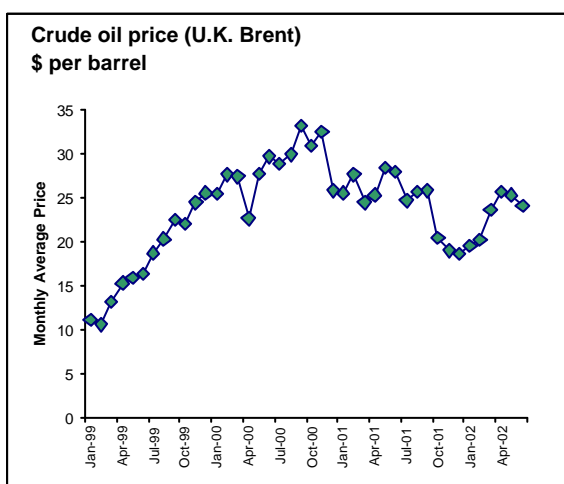
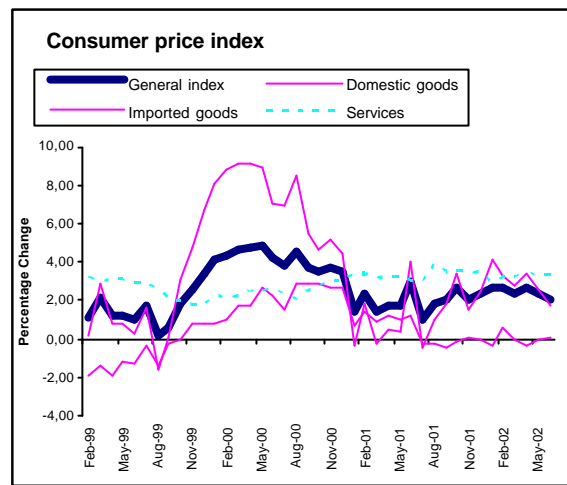
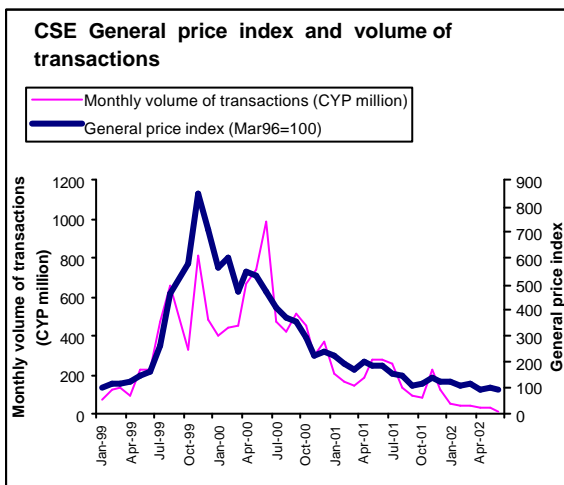
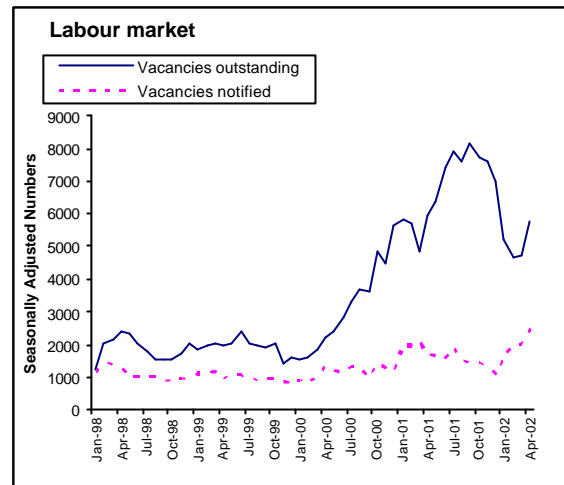
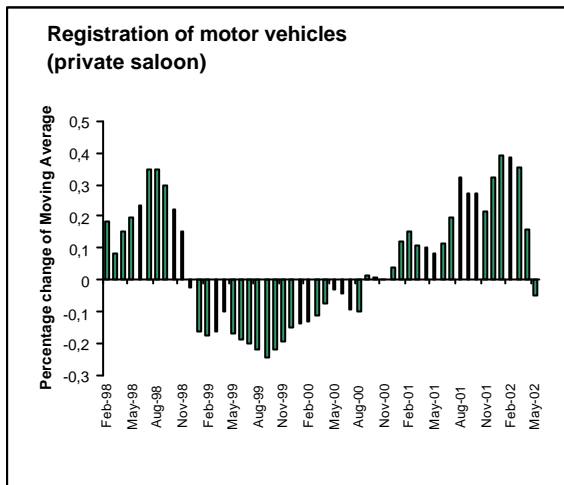


Chart 7



Concerning the primary sector, no data are yet available for 2002. In 2001 agricultural output recovered strongly, increasing by 9,1% after the fall of 11,5% recorded in 2000. More specifically, owing to more favourable weather conditions,

crop production rose sharply by 18,1%, compared with a fall of 22,0% in 2000, while the growth of livestock production slowed to 0,5%.

Table 19

Retail sales volume index

(percentage change by category)

	April 02/01	April 01/00	Jan.-Apr. 02/01	Jan.-Apr. 01/00
General index	5,6	2,7	3,1	3,6
Food, drinks and tobacco	-9,4	-1,4	-7,7	2,4
Clothing and textiles	2,4	-4,1	-1,4	3,2
Footwear & leather products	-7,5	-2,4	-0,1	6,2
Electrical goods & appliances	23,1	-0,7	8,5	-3,0
Vehicles, machinery & spare parts	15,9	11,9	14,6	15,3
Supermarkets	-6,5	1,1	0,5	-4,6
Pharmacies	20,6	2,5	8,0	3,7
Furniture	29,8	-8,7	8,8	2,4
Petrol stations	10,1	3,6	2,3	-2,0
Toys	13,6	5,9	8,2	4,1

Consumption

Private consumption seems to have slowed somewhat in the first four months of 2002. The retail sales volume index increased by 3,1% in January-April 2002, compared with an increase of 3,6% in the same period of the previous year, although in April the index rose by 5,6%, compared with an increase of 2,7% in the same month of 2001. It is pointed out that the retail sales volume index was greatly influenced by car sales, which, besides not being directly related to domestic production, were boosted in the first months of the year by the expected increase in the VAT rate from 10% to 13%. Excluding car sales, which expanded by 15,3% in January-April 2002, the change in the retail sales volume index for this period becomes negative, of the order of -1,0%. Similarly for April, excluding car sales, which increased by 11,9%, retail sales increased by only 2,0%. Moreover, if sales of all durable goods⁷ are excluded, then retail sales show a decline of 2,3% in the first four months of the year, compared with an increase of 0,2% in the corresponding period of 2001. The course of retail sales by product category is presented in table 19.

Concerning May and June, developments in private saloon car registrations suggest a weakening of total consumption, including cars, as a substantial deceleration in private saloon car registrations was recorded in May, followed by a sizeable decrease in June. Specifically, as a result of the inclusion in the tax reform of a provision for a decrease in excise taxes on saloon cars, which started to be discussed in May, registrations of private saloon cars

increased by only 0,6% in May and fell by 38,6% in June. For the first half of the year, saloon car registrations increased by 15,7%, compared with an increase of 11,6% in the first half of 2001.

Developments in imports for home consumption (excluding imports of military equipment and fuels) seem consistent with the observed slowdown in domestic consumption compared with 2001. These imports increased by 2,3% in the first quarter of 2002, compared with a growth rate of 18,4% in the first quarter of 2001. Data on travel abroad by Cypriots also suggest a slowdown in consumer demand. Specifically, the number of Cypriot travellers increased by only 0,8% in the first four months of 2002, compared with an increase of 16,8% recorded for year 2001 as a whole. This slowdown, however, is partly attributable to the decline in travel abroad in January (as in the last quarter of 2001), especially to the United Kingdom, mainly reflecting the fear of travel to this country after the terrorist attacks of 11 September.

Consumer and business confidence

A consumer survey as well as a survey of the manufacturing sector is carried out monthly by the CMR company (a member of the Cypronetwork Consultancy Group), on behalf of the European Commission and the Ministry of Finance. The surveys aim to assess the perceptions of consumers and entrepreneurs about the economic climate in Cyprus in specific periods. According to these surveys, the consumers assessment of the economic position of their household as well as the overall state of the Cypriot economy was in general less optimistic in May 2002 compared with the previous month, as regards both the current situation and expectations for the next twelve months. The manufacturers' assessment of their

⁷ Durable goods comprise the categories of vehicles, machinery and spare parts, furniture, and electrical goods and appliances.

current business position as well as of the outlook for the coming months was broadly stable in May compared with the previous month.

Analytically, concerning their current economic position relative to that in the previous twelve months, in May 2002, 56% of consumers reported no change, 16% saw an improvement, and 27% reported a deterioration. The respective proportions in the previous month were 54%, 18% and 27%. Concerning the state of the Cypriot economy compared with the situation twelve months earlier, 48% of consumers saw a deterioration, 29% saw no change, while 18% considered that there was an improvement. The corresponding proportions in April 2002 were 41%, 31% and 22%.

As regards expectations for the economic position of their household in the next twelve months, 15% of consumers reported in May that they anticipated an improvement, while 25% expected a worsening. The corresponding proportions in April 2002 were 22% and 21%. Finally, concerning the outlook for the Cypriot economy in the next twelve months, in May 19% of consumers anticipated an improvement, and 40% expected a deterioration, compared with proportions of 26% and 31%, respectively, in the previous month.

Turning to the business survey carried out in May 2002, the majority of manufacturers considered that their orders/sales remained stable and their stocks of finished goods were at normal levels. Somewhat improved production trends were reported in comparison with April, and exports were considered as overall satisfactory. Concerning prospects for manufacturing, business confidence was stable in May compared with previous months.

Labour market

According to the latest available data, the number of registered unemployed increased by 6,0% in June 2002, while the unemployment rate, as a percentage of the economically active population, rose to 2,9%, from 2,7% in the same month of the previous year. For the first half of the year, the number of registered unemployed increased by 13,3%, compared with a decrease of 19,5% in the first half of 2001, and the unemployment rate rose from 3,0% to 3,4%. A rise in unemployment in the first half of the year was recorded in nearly all sectors of the economy. Rising unemployment has been observed since November 2001 and is consistent with the recorded slowdown in overall economic activity in comparison with 2001. It is noted that in May and June 2002, the increase in unemployment decelerated, mainly owing to seasonal factors.

Public finance

According to the latest available information from the Ministry of Finance, which remains the same as in the previous *Monetary Policy Report*, the fiscal deficit in 2001 grew marginally to 2,8% of GDP, from 2,7% of GDP in the previous year. In 2002, despite the expected slowdown in economic activity, the Ministry of Finance projects a fiscal deficit below 3% of GDP, again within the relevant Maastricht criterion.

Analytically, the fiscal deficit reached £164,3 million in 2001, compared with £150,5 million in the previous year. Public revenue slowed significantly, growing by 11,3% compared with 17,3% in 2000, while public expenditure registered a smaller deceleration, increasing by 11,2% compared with 12,5% in 2000. As regards public expenditure, subsidies recorded a

substantial slowdown, as subsidies to oil companies fell sharply owing to the fall in oil prices. Wages and salaries also decelerated due to base effects associated with retroactive salary increases in 2000 and due to the non-increase in basic salaries in 2001. In addition, a significant deceleration in interest payments was recorded, as a consequence of the successive interest rate

reductions by the Central Bank during 2001. Turning to public revenue, a slowdown in tax receipts was recorded. Indirect tax receipts and non-tax revenue decelerated, while direct tax receipts, Social Security Fund contributions and capital revenue accelerated. Developments in public finances are shown in table 20.

Table 20

Public finances summary 2001

(percentage change over the previous year)

	2000/1999	2001/2000
Total revenue and grants	17,26	11,31
Revenue	17,17	11,32
Current revenue	17,17	11,32
Direct taxes	12,96	18,16
Indirect taxes	16,12	14,94
Social security funds contributions	7,56	9,86
Non-tax revenue	33,03	1,89
Capital revenue	8,20	22,73
Grants	168,09	-1,59
Total expenditure and net lending	12,48	11,15
Expenditure	12,19	10,89
Current expenditure	12,22	12,12
Wages and salaries	9,03	6,34
Other goods and services	8,52	13,26
Subsidies	103,74	14,90
Interest payments	9,41	5,80
Social security funds payments	11,43	3,80
Social pension	15,14	5,51
Other transfers	11,67	15,75
Unallocable	5,70	114,49
Capital expenditure	11,90	0,68
Investment	16,92	1,53
Capital transfers	1,26	-1,42
Net lending	127,90	61,10

2.5 EXTERNAL TRANSACTIONS

Imports for home consumption excluding imports of fuels and military equipment recorded a substantial slowdown in the first quarter of 2002 compared with the first quarter of the previous year. Imports in March seem to have contributed significantly to this slowdown, as they registered a decrease of the order of 6,8%, according to provisional data. At the same time, domestic exports continued their uptrend and recorded a sizeable increase in the first quarter of 2002 compared with the same quarter of 2001.

Concerning tourism, provisional data for May show a continuing decrease in tourist arrivals, compared with the same month of the previous year. By contrast, expenditure per tourist registered a sizeable increase in the first four months of 2002 compared with the corresponding period of the previous year. This increase partly offset the large decrease in the number of tourist arrivals, and consequently, receipts from tourism in the first four months of the year registered a relatively small decrease.

Trade in goods

Table 21 presents an overview of the trade balance for the first quarter of 2002, including provisional data for March. Total imports increased slightly by 1,1% in the first quarter of 2002, compared with a rise of 14,7% in the same period of the previous year. Imports for home consumption excluding imports of fuels and military equipment also recorded a marked slowdown, as they increased by 2,3%, compared

with a growth rate of 18,4% in the first quarter of 2001.

VAT receipts from imports of goods⁸ suggest a small increase in imports in May 2002 compared with the same month of the previous year. Specifically, VAT receipts from imports increased by 3,7% in May 2002 compared with the same month of the previous year. The corresponding increase in VAT receipts in May 2001 was 33,6%.

Turning to total exports, the provisional data indicate a continuing decline in March 2002, mainly due to the fall of re-exports. The decrease in total exports in the first quarter of 2002 was of the order of 12,2%, compared with a decrease of 0,5% in the first quarter of 2001. By contrast, domestic exports grew by 7,0%, compared with a decrease of 3,4% in the first quarter of 2001.

Based on the aforementioned provisional data, the crude trade deficit reached £462,6 million in the first quarter of the year, compared with £438,8 million in the same quarter of 2001.

Overall, a slowdown in imports for home consumption is anticipated for 2002, as a result of the expected slowdown in economic activity. Although the available data cover only the first quarter, they may be considered indicative of trends for the whole year.

Tables 22 and 23 present the most recent data on imports for home consumption and domestic exports broken down by category of goods, which cover the period up to February 2002.

⁸ Imports of defence equipment are not subject to VAT.

As regards imports for home consumption, table 22 shows that in the first two months of 2002, imports of intermediate inputs and imports of transport equipment recorded a significant slowdown, compared with the corresponding period of 2001, while imports of capital goods fell by 11,2%, compared with an increase of 36,5% in the previous year. By contrast, imports of fuels and lubricants increased sharply and reached £45,9 million. Imports of consumer goods also recorded a sizeable increase of 20,7%, compared with an increase of 12,8% in the corresponding period of 2001.

Overall, imports for home consumption excluding imports of fuels and military equipment grew by 8,3% in the first two months of 2002, compared

with a growth rate of 21,0% in the same period of 2001. As previously mentioned, the provisional data for March indicate that the slowdown was even greater in the first quarter of 2002.

As regards exports (table 23), domestic exports rose by 15,3% in the first two months of 2002, compared with a decrease of 8,8% in the same period of 2001. All major categories of goods contributed to this increase in domestic exports.

Table 21

Trade balance data

(Cyprus pounds in millions)

	2001	2001/2000 % change	2002 Jan.-Mar.	2001/2000 % change Jan.-Mar.	2002/2001 % change Jan.-Mar.
Total imports (cif)	2.528,7	2,4	589,0	14,7	1,1
Imports for home consumption (cif)	2.176,8	6,9	523,7	18,4	6,5
<i>Non oil civil imports for home consumption (cif)</i>	1.813,0	8,7	433,7	18,4	2,3
Imports destined for re-exports	351,9	-18,8	65,3	-1,8	-28,3
Total exports	628,0	6,1	126,4	-0,5	-12,2
Domestic exports (fob)	233,9	4,5	57,6	-3,4	7,0
Re-exports (fob)	337,0	12,5	62,0	-0,9	-22,5
Shipstores	57,1	-16,4	6,8	23,5	-32,5
Trade balance	-1.900,7	-15,4	-462,6	20,8	5,4

(1) Figures for March 2002 are provisional.

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

	2000 year	2001 year	2000 Jan.-Feb.	2001 Jan.-Feb.	2002 Jan.-Feb.		2000/1999 year % change	2001/2000 year % change	2001/2000 Jan.-Feb. % change	2002/2001 Jan.-Feb. % change
Consumer goods	569,6	617,7	63,5	71,6	86,4		18,3	8,4	12,8	20,7
Non-durable	308,7	338,1	38,5	40,7	51,8		16,8	9,5	5,7	27,3
Semi-durable	157,4	170,4	13,3	17,4	19,6		18,5	8,3	30,8	12,6
Durable	103,5	109,2	11,7	13,5	15,0		22,4	5,5	15,4	11,1
Intermediate inputs	675,1	710,3	93,7	110,1	116,4		16,5	5,2	17,5	5,7
Agricultural	42,0	42,2	6,2	5,4	6,0		19,2	0,3	-12,9	11,1
Construction and mining	110,4	120,7	14,2	19,6	23,4		19,4	9,4	38,0	19,4
Manufacturing	398,8	421,8	55,1	63,1	70,0		12,0	5,8	14,5	10,9
Transport, storage and communication	44,9	29,4	8,0	5,6	3,5		52,1	-34,6	-30,0	-37,5
Other sectors of the economy	79,0	96,2	10,2	16,4	13,4		18,9	21,7	60,8	-18,3
Capital goods	237,1	258,3	30,1	41,1	36,5		25,1	8,9	36,5	-11,2
Agricultural	8,8	8,8	1,7	1,2	1,3		1,4	0,7	-29,4	8,3
Construction and mining	15,7	20,6	1,9	3,2	2,5		-37,7	31,3	68,4	-21,9
Manufacturing	67,0	69,6	6,7	11,7	9,2		34,7	4,0	74,6	-21,4
Transport, storage and communication	43,8	52,3	6,1	9,6	7,7		49,9	19,3	57,4	-19,8
Other sectors of the economy	101,9	107,0	13,6	15,4	15,9		32,8	5,0	13,2	3,2
Transport equipment and parts thereof	186,4	226,6	25,1	34,3	39,0		3,1	21,6	36,7	13,7
of which:										
passenger cars	74,9	94,6	17,1	23,5	27,5		10,3	26,3	37,4	17,0
spare parts	53,3	61,3	8,0	10,8	11,5		-3,0	15,1	35,0	6,5
Fuels and lubricants	269,3	266,1	34,0	27,6	45,9		76,8	-1,2	-18,8	66,3
Unclassified	31,1	97,9	0,0	0,0	17,5		25,0	-0,2		
Imports for home consumption	1968,7	2176,8	246,5	284,6	341,7		22,4	6,9	15,5	20,1
Imports destined for re-exports	433,3	351,9	60,0	52,2	35,3		26,9	-18,8	-13,0	-32,4
Total imports	2401,9	2528,7	306,5	336,8	377,0		23,2	2,4	9,9	11,9
Memo item										
Non oil civil imports for home consumption	1668,0	1813,0		257,0	268,0		16,5	8,7	21,0	9,2

Source: Statistical Service of Cyprus

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

	2000 year	2001 year	2001 Jan.-Feb.	2002 Jan.-Feb.		2000/1999 year % change	2001/2000 year % change	2001/2000 Jan.-Feb. % change	2002/2001 Jan.-Feb. % change
Agricultural products (raw)	34,4	43,8	5,9	6,5		-5,7	27,4	-19,2	10,2
of which:									
potatoes	12,3	17,5	0,3	0,6					
other vegetables	3,2	4,2	1,1	1,1					
fresh, frozen or dried									
citrus fruit	12,8	14,7	3,9	4,6					
Minerals and industrial products of mineral origin	12,4	11,6	1,6	1,7		7,8	-6,3	0,0	6,2
Industrial products of agricultural origin	28,2	28,0	3,3	4,6		11,4	-0,7	-19,5	39,4
of which:									
halloumi cheese	7,6	7,7	1,0	1,8					
fruit preserved	1,5	0,9	0,1	0,1					
fruit and vegetable juices	3,5	4,1	0,3	0,6					
beer	1,0	1,0	0,0	0,0					
wines	6,2	5,3	0,3	0,6					
meat	3,2	2,9	0,4	0,7					
Industrial products of manufacturing origin	148,8	150,5	20,1	22,8		11,9	1,1	-3,8	13,4
of which:									
cigarettes	16,2	10,8	1,8	0,5					
cement	10,8	8,4	0,7	1,2					
pharmaceutical products	30,9	39,4	5,2	6,7		22,6	27,7	23,8	28,8
articles of paper or of paperboard	4,8	6,0	0,0	0,0					
clothing	22,5	19,7	2,8	2,5		-1,3	-12,3	-9,7	-10,7
footwear	6,1	3,8	0,5	0,6					
furniture	7,9	6,8	1,3	0,9					
Unclassified	0,0	0,1	0,0	0,0					
Domestic exports	224,0	233,9	30,9	35,6		8,4	4,5	-8,8	15,3
re-exports	299,6	337,0	50,6	40,0		0,6	12,5	-2,1	-20,9
shipstores	68,3	57,1	7,0	3,7		76,4	-16,4	45,8	-47,1
Total exports	591,9	628,0	88,6	79,4		9,0	6,1	-2,0	-10,4

Source: Statistical service of Cyprus

Tourism

As seen in table 24, tourist arrivals decreased by 14,2% in May, indicating an improvement after the sizeable decrease of 23,9% recorded in April. For the first five months of the year, the decrease in tourist arrivals stood at 14,6%.

In spite of the large decrease in tourist arrivals, receipts from tourism declined by only 3,6% in the first four months of the current year compared with the corresponding period of 2001 (table 25).

This relatively small decrease in receipts from tourism is attributable to the significant increase in expenditure per tourist in Cyprus. Specifically, in the first four months of 2002, tourist arrivals fell by 14,8%, while receipts from tourism decreased by 3,6%, implying a rise of expenditure per tourist of the order of 13% to about £419, compared with nearly £371 in the corresponding period of 2001. This increase is analysed in table 26, which shows tourist receipts and arrivals by country of usual residence in the first four months of 2002 and 2001.

As table 26 shows, expenditure per tourist from the UK, the primary source of tourism, rose substantially by 8,7%. For most other countries a much larger increase in per tourist expenditure was recorded. Further analysis indicates that these increases emanated primarily from the increase in tourist expenditure other than for accommodation, especially recreational and cultural expenditure.

Table 24**Tourist arrivals***(number of persons ¹)*

	1999	2000	2001	2002	% change 2000/1999	% change 2001/2000	% change 2002/2001
January	57.740	63.553	64.214	54.067	10,1	1	-15,8
February	74.041	87.243	83.569	71.950	17,8	-4,2	-13,9
March	126.494	135.487	137.578	138.625	7,1	1,5	0,8
April	180.076	221.785	237.228	180.481	23,2	7	-23,9
May	273.317	299.355	324.901	278.682	9,5	8,5	-14,2
June	276.879	302.011	322.835		9,1	6,9	
July	322.041	362.299	373.385		12,5	3,1	
August	341.088	356.686	371.536		4,6	4,2	
September	309.498	329.964	329.400		6,6	-0,2	
October	270.732	300.597	269.744		11	-10,3	
November	118.105	133.500	107.454		13	-19,5	
December	84.274	93.722	74.887		11,2	-20,1	
Jan. - May	711.668	807.423	847.490	723.805	13,5	5,0	-14,6
Jan. - Dec	2.434.285	2.686.202	2.696.731		10,3	0,4	

Source: Statistical Service of Cyprus

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

Table 25**Receipts from tourism ¹***(Cyprus pounds in millions)*

	2000	2001	2002	% change 2002/2001
January		24,9	21,6	-13,5
February		29,1	28,9	-0,9
March		49,7	59,2	18,9
April		89,9	77,0	-14,3
May		139,1		
June	122,9	157,4		
July	162,7	192,0		
August	173,7	205,0		
September	161,9	176,3		
October	135,1	130,2		
November	54,1	48,8		
December	36,2	29,2		
Jan.- Dec.		1.271,6		
Jan. - April		193,6	186,7	-3,6

Source: Statistical service of Cyprus

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

Table 26**Arrivals and Revenue from Tourism during the first four months of 2001 and 2002**

	Arrivals 2001 Jan.- April	Arrivals 2002 Jan.- April	% change Jan.- April 2002/2001	Revenue £'000 2001 Jan.- April	Revenue £'000 2002 Jan.- April	% change Q1 2002/2001	% change Jan.- April 2002/2001	Revenue per head 2001 Jan.-April	Revenue per head 2002 Jan.-April	% change Q1 2002/2001	% change Jan.- April 2002/2001
U.K.	252.530	226.910	-10,1	95.522	93.334	8,98	-2,29	378	411	8,4	8,7
Germany	61.598	50.208	-18,5	20.545	18.814	3,96	-8,43	334	375	11,9	12,3
Greece	27.777	24.389	-12,2	7.904	8.472	17,98	7,19	285	347	26,8	22,1
Sweden	17.548	12.404	-29,3	5.838	5.089	29,89	-12,83	333	410	64,4	23,3
Norway	6.600	5.030	-23,8	3.076	3.235	30,71	5,17	466	643	27,3	38,0
Finland	10.145	10.760	6,1	3.218	3.151	-18,53	-2,08	317	293	-17,5	-7,7
Denmark	6.289	7.301	16,1	2.192	2.826	66,02	28,92	349	387	7,8	11,1
France	10.789	6.655	-38,3	3.812	2.904	-24,97	-23,82	353	436	27,9	23,5
Switzerland	13.260	10.023	-24,4	5.616	4.705	2,41	-16,22	424	469	24,0	10,8
Netherlands	11.055	7.913	-28,4	3.690	3.191	-29,14	-13,52	334	403	27,3	20,8
Belgium	8.388	5.930	-29,3	3.236	2.218	-21,67	-31,46	386	374	4,4	-3,0
Ireland	6.573	4.097	-37,7	2.366	1.810	-48,68	-23,50	360	442	10,5	22,7
Russia	23.071	21.581	-6,5	14.112	13.204	-10,30	-6,43	612	612	23,1	0,0
Israel	8.878	9.602	8,2	2.378	3.111	75,54	30,82	268	324	28,8	21,0
Other Countries	56.298	42.320	-24,8	20.174	20.547	-1,05	1,85	358	486	57,7	35,5

Source: Statistical Service of Cyprus

3. ANNEX

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

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

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

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

Date of settlement		Bids (amount)	Allotment (amount)	Variable rate tenders				Fixed rate tenders	Running for (...) days
				Maximum bid rate	Weighted average rate	Minimum allotted rate	Maximum allotted rate	Fixed allotted rate	
2001	23 Oct.	123,0	123,0	4,50	4,18	3,74	4,50		14
	06 Nov.	123,5	100,0	4,00	3,83	3,50	3,90		14
	20 Nov.	152,0	140,0	4,00	3,80	3,40	3,85		14
	04 Dec.	145,0	120,0	4,00	3,72	3,40	3,77		15
	19 Dec.	96,0	96,0	4,00	3,78	3,75	3,98		15
2002	03 Jan.	203,0	203,0	4,00	3,82	3,49	3,91		14
	17 Jan.	185,0	160,0	4,00	3,82	3,50	3,90		14
	31 Jan.	158,0	130,0	4,00	3,84	3,70	3,89		14
	14 Feb.	185,0	130,0	4,00	3,72	3,65	3,80		14
	28 Feb.	189,0	160,0	4,00	3,84	3,65	3,98		14
	14 Mar.	268,0	200,0	4,00	3,65	3,64	3,80		14
	28 Mar.	252,0	252,0	4,00	3,92	3,65	3,98		14
	11 Apr.	349,0	280,0	4,00	3,90	3,70	4,00		14
	25 Apr.	281,0	265,0	4,00	3,93	3,80	4,00		14
	09 May	289,5	280,0	4,00	3,96	3,89	4,00		14
	23 May	319,5	319,5	4,00	3,98	3,94	4,00		14
	06 Jun.	166,0	166,0					4,00	42
	06 Jun.	201,5	100,0	4,00	3,64	3,5	3,97		14
	10 Jun.	125,0	100,0					3,90	38
	20 Jun.	161,0	160,0	4,00	3,86	3,74	3,98		14

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

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

		Cyprus					Euro area				
		Overnight deposits	2-7 days deposits	1-month deposits	2-6 months deposits	6-12-months deposits	Overnight deposits	1-month deposits	3-month deposits	6-month deposits	12-month deposits
2001	Jan.	5,77	6,06	6,31	-	6,50	4,75	4,81	4,77	4,68	4,58
	Feb.	5,52	6,10	6,28	6,36	7,50	4,99	4,80	4,76	4,67	4,59
	Mar.	5,78	-	6,05	6,83	-	4,78	4,78	4,71	4,58	4,47
	Apr.	6,40	6,10	6,39	-	-	5,06	4,79	4,69	4,57	4,49
	May	6,63	6,75	6,60	6,68	7,20	4,65	4,67	4,64	4,57	4,53
	Jun.	4,73	-	5,00	-	6,55	4,54	4,53	4,45	4,35	4,31
	Jul.	4,94	4,88	5,95	-	6,50	4,51	4,52	4,47	4,39	4,31
	Aug.	4,33	4,60	4,85	5,84	-	4,49	4,46	4,35	4,22	4,11
	Sep.	3,97	4,55	5,19	6,10	-	3,99	4,05	3,98	3,88	3,77
	Oct.	3,71	4,10	4,78	-	-	3,97	3,72	3,60	3,46	3,37
	Nov.	3,46	-	4,58	-	5,00	3,51	3,43	3,39	3,26	3,20
	Dec.	3,88	4,67	4,62	5,00	4,50	3,34	3,42	3,34	3,26	3,30
2002	Jan.	3,39	3,82	4,09	-	-	3,29	3,35	3,34	3,34	3,48
	Feb.	3,22	3,66	3,83	-	4,50	3,28	3,34	3,36	3,40	3,59
	Mar.	3,20	-	4,10	5,05	4,57	3,26	3,35	3,39	3,50	3,82
	Apr.	3,29	-	4,10	5,10	-	3,32	3,34	3,41	3,54	3,86
	May	3,28	3,74	4,25	4,60	5,02	3,31	3,37	3,46	3,62	3,95
	Jun.	3,42	3,77	3,96	4,88	5,55					

Sources: Central Bank of Cyprus and European Central Bank

Table 4**Bank Interest Rates***(percentages per annum)*

	Lending interest rates ^{1, 2}					Deposit interest rates ^{1, 3}		
	Enterprises: overdraft within limits	Enterprises: secured loans	Personal: secured loans	Housing: loans secured by assignment of life policy	Credit cards	Current accounts	3 month notice - over CYP5000	1 year fixed deposits - over CYP5000
2001 Jan.	7,90	7,90	8,95	8,70	10,50	2,00	5,25	6,50
Feb.	7,90	7,90	8,95	8,70	10,50	2,00	5,25	6,50
Mar.	7,90	7,90	8,95	8,70	10,50	2,00	5,25	6,50
Apr.	7,90	7,90	8,95	8,70	10,50	2,00	5,25	6,50
May	7,90	7,90	8,95	8,70	10,50	2,00	5,25	6,50
Jun.	7,90	7,90	8,95	8,70	10,50	2,00	5,25	6,50
Jul.	7,90	7,90	8,95	8,70	10,50	2,00	5,25	6,50
Aug.	7,40	7,40	8,45	8,20	10,00	1,50	4,75	6,00
Sept.	6,90	6,90	7,95	7,70	9,70	1,00	4,25	5,40
Oct.	6,90	6,90	7,95	7,70	9,70	1,00	4,25	5,40
Nov.	6,40	6,40	7,45	7,20	9,00	0,50	3,75	4,90
Dec.	7,10	7,10	7,95	7,00	9,00	0,90	4,00	4,95
2002 Jan.	7,10	7,10	8,05	7,00	10,00	0,90	4,00	4,95
Feb.	7,10	7,10	8,10	7,10	10,50	0,95	4,05	4,95
Mar.	6,80	7,15	7,90	7,15	10,50	0,95	4,05	4,80
Apr.	6,80	7,15	7,90	7,15	10,50	0,95	4,05	4,80
May	6,80	7,15	7,90	7,15	10,50	0,95	4,05	4,80

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

Table 5**European retail bank interest rates***(percentages per annum, period averages)*

		Deposit Interest Rates						Lending Interest Rates			
		Overnight	With agreed maturity			Redeemable at notice		To enterprises		To households	
			Up to 1 year	Up to 2 years	Over 2 years	Up to 3 months	Over 3 months	Up to 1 year	Over 1 year	Consumer lending	For house purchase
2000	Apr.	0,76	3,04	3,05	4,28	2,09	3,44	6,24	6,00	9,64	6,12
	May	0,78	3,26	3,26	4,45	2,13	3,65	6,41	6,16	9,72	6,30
	Jun.	0,83	3,49	3,49	4,48	2,16	3,87	6,56	6,23	9,84	6,34
	Jul.	0,87	3,58	3,58	4,71	2,33	3,94	6,77	6,37	9,95	6,46
	Aug.	0,89	3,67	3,67	4,75	2,36	4,06	6,81	6,44	10,00	6,51
	Sep.	0,94	3,85	3,83	4,77	2,38	4,20	6,92	6,44	10,03	6,56
	Oct.	0,97	3,96	3,96	4,76	2,40	4,14	7,13	6,60	10,15	6,57
	Nov.	0,99	4,04	4,03	4,77	2,47	4,25	7,16	6,63	10,20	6,56
	Dec.	1,01	3,96	3,96	4,58	2,49	4,21	7,18	6,45	10,19	6,43
2001	Jan. *	1,01	3,88	3,88	4,39	2,52	4,01	7,19	6,40	10,32	6,29
	Feb.	1,01	3,84	3,83	4,35	2,50	3,99	7,11	6,44	10,26	6,24
	Mar.	1,02	3,82	3,82	4,32	2,50	3,99	7,04	6,32	10,22	6,18
	Apr.	1,03	3,76	3,76	4,26	2,50	3,91	7,07	6,34	10,25	6,14
	May	1,01	3,75	3,74	4,27	2,48	3,91	7,03	6,34	10,22	6,17
	Jun.	0,98	3,65	3,65	4,25	2,45	3,85	6,97	6,25	10,17	6,13
	Jul.	0,97	3,65	3,65	4,22	2,44	3,80	6,90	6,20	10,11	6,05
	Aug.	0,96	3,59	3,59	4,14	2,40	3,68	6,89	6,19	10,16	5,96
	Sep.	0,91	3,28	3,28	3,98	2,36	3,33	6,70	6,07	10,08	5,86
2002	Oct.	0,84	3,06	3,06	3,84	2,29	3,01	6,46	5,82	9,99	5,65
	Nov.	0,78	2,84	2,83	3,65	2,19	2,75	6,31	5,71	9,87	5,48
	Dec.	0,74	2,79	2,78	3,77	2,17	2,79	6,26	5,69	9,81	5,52
	Jan.	0,73	2,77	2,77	3,83	2,17	2,80	6,18	5,63	9,78	5,53
	Feb.	0,74	2,78	2,79	3,95	2,15	2,91	6,16	5,75	9,81	5,61
	Mar.	0,74	2,83	2,84	4,07	2,15	3,00	6,07	5,85	9,76	5,74
	Apr.	0,74	2,88	2,89	4,13	2,16	3,07	6,08	5,90	9,77	5,81

* From January 2001 data refer to Euro area enlargement

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

	Jan.	Feb.	Mar.	Apr.	May.	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
European Central Bank ¹	3 3,25	7 3,25	7 3,25	4 3,25	2 3,25	6 3,25	4	1	12	10	7	5
Bank of England ²	10 4,00	7 4,00	7 4,00	4 4,00	9 4,00	6 4,00	4	1	5	10	7	5
Federal Reserve System ³	29/30 1,75		19 1,75		7 1,75	25/26 1,75		13	24		6	10
Central Bank of Cyprus ⁴	25 5,50	21 5,50		11 5,50	16 5,50	14 5,50	19		20	11	15	13

(1) Minimum bid rate on the main refinancing operations

(2) Repo Rate

(3) Federal Funds Rate

(4) Interest rate on the marginal lending facility

Table 7

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

	Yearly		Quarterly			Jun. 2001/ 2000	May 2002/ 2001	Jun. 2002/ 2001	Jan.-Jun. 2001/ 2000	Jan.-May 2002/ 2001	Jan.-Jun. 2002/ 2001	Weights 1998=100
	2000	2001	2001 IV	2002 I	2002 II							
GENERAL INDEX	4,14	1,97	2,36	2,58	2,35	3,00	2,35	2,03	1,95	2,55	2,46	100,00
A LOCAL GOODS	7,15	1,34	2,46	3,39	2,57	4,00	2,62	1,72	1,02	3,24	2,98	36,69
A.1 Agricultural	8,98	4,50	15,97	16,74	2,98	11,52	2,61	-5,11	-1,24	12,91	9,73	7,93
A.2 Industrial	4,40	0,78	-0,48	0,93	2,91	2,98	3,09	3,88	1,57	1,54	1,94	27,24
A.2.1 industrial non-petroleum	2,45	0,10	0,95	1,60	3,09	0,58	2,59	4,35	-0,50	1,95	2,36	22,91
A.2.2 fuel and gas	14,86	3,99	-6,73	-2,11	2,08	15,61	5,44	1,76	12,26	-0,37	0,00	4,33
A.3 Electricity	47,32	-3,23	-8,94	-13,28	-3,71	-9,03	-3,86	-0,11	2,65	-10,33	-8,73	1,52
B IMPORTED GOODS	2,13	0,47	0,00	0,07	-0,08	1,19	-0,01	0,05	1,09	-0,02	-0,01	22,20
B.1 Motor Vehicles	3,78	0,55	-0,76	0,35	-0,43	1,23	-0,30	-0,39	1,68	0,03	-0,04	9,43
B.2 Other Imported	0,93	0,41	0,57	-0,14	0,18	1,17	0,21	0,38	0,65	-0,05	0,02	12,77
C SERVICES	2,52	3,35	3,50	3,15	3,37	3,04	3,31	3,34	3,27	3,25	3,26	41,11
Euro area inflation	2,3	2,5	2,1	2,6		3,1	2,0		2,9	2,4		
Underlying inflation for Cyprus¹	2,4	1,7	1,9	2,0	2,4	1,9	2,3	2,8	1,7	2,1	2,2	

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

Table 8

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

	Yearly		Quarterly			Jun. 2001/ 2000	May 2002/ 2001	Jun. 2002/ 2001	Jan.-Jun. 2001/ 2000	Jan.-May 2002/ 2001	Jan.-Jun. 2002/ 2001	Weights 1998=100
	2000	2001	2001 IV	2002 I	2002 II							
GENERAL INDEX	4,14	1,97	2,36	2,58	2,35	3,00	2,35	2,03	1,95	2,55	2,46	100,00
A LOCAL GOODS	2,63	0,51	0,94	1,26	0,97	1,50	0,98	0,65	0,39	1,21	1,11	36,69
A.1 Agricultural	0,69	0,36	1,27	1,31	0,24	0,88	0,21	-0,42	-0,10	1,01	0,77	7,93
A.2 Industrial	1,21	0,21	-0,13	0,25	0,81	0,83	0,86	1,08	0,43	0,42	0,53	27,24
A.2.1 industrial non-petroleum	0,57	0,02	0,22	0,36	0,70	0,13	0,59	0,99	-0,11	0,44	0,53	22,91
A.2.2 fuel and gas	0,64	0,19	-0,35	-0,10	0,10	0,69	0,26	0,09	0,55	-0,02	0,00	4,33
A.3 Electricity	0,73	-0,07	-0,20	-0,30	-0,07	-0,20	-0,08	0,00	0,06	-0,22	-0,19	1,52
B IMPORTED GOODS	0,46	0,10	0,00	0,01	-0,02	0,25	0,00	0,01	0,23	0,00	0,00	22,20
B.1 Motor Vehicles	0,35	0,05	-0,07	0,03	-0,04	0,11	-0,03	-0,03	0,15	0,00	0,00	9,43
B.2 Other Imported	0,12	0,05	0,07	-0,02	0,02	0,14	0,03	0,04	0,08	-0,01	0,00	12,77
C SERVICES	1,05	1,37	1,42	1,31	1,39	1,25	1,37	1,37	1,34	1,35	1,35	41,11

Table 9

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

	Yearly		Quarterly			Jun. 2001/ 2000	May 2002/ 2001	Jun. 2002/ 2001	Jan.-Jun. 2001/ 2000	Jan.-May 2002/ 2001	Jan.-Jun. 2002/ 2001	Weights 1998=100
	2000	2001	2001 IV	2002 I	2002 II							
GENERAL INDEX	4,14	1,97	2,36	2,58	2,35	3,00	2,35	2,03	1,95	2,55	2,46	100,00
Food & non-alcoholic beverages	5,49	4,09	8,64	9,31	5,09	7,41	5,12	1,71	1,84	8,31	7,18	18,20
Alcoholic beverages & tobacco	8,16	2,79	1,30	0,98	7,66	4,32	2,36	19,30	4,16	1,33	4,34	1,78
Clothing and footwear	-0,46	-6,75	-2,12	-3,06	-4,00	-6,08	-4,21	-4,13	-9,72	-3,44	-3,56	8,22
Housing, water, electricity and gas	5,46	1,59	0,77	1,82	3,46	1,39	3,62	3,78	2,40	2,41	2,64	21,27
Furnishings, household equipment and supplies	1,47	0,15	0,34	-1,21	-0,99	0,94	-0,70	-0,77	0,55	-1,17	-1,10	7,08
Health	6,18	5,41	5,05	4,30	5,03	6,10	4,41	4,54	5,90	4,70	4,67	4,92
Transport	5,70	2,29	-1,23	0,25	0,65	5,23	1,40	0,57	4,92	0,43	0,45	17,42
Communication	-10,36	1,73	4,85	-7,13	-7,77	-1,55	-7,87	-7,88	-1,68	-7,37	-7,45	1,79
Recreation & culture	-0,20	-0,50	1,40	1,16	1,46	-2,06	1,54	1,83	-2,15	1,20	1,31	5,88
Education	3,87	4,60	6,63	6,35	5,79	4,05	5,79	5,79	3,77	6,13	6,07	2,33
Restaurants & hotels	5,80	6,00	3,96	3,30	3,14	6,23	2,95	3,20	7,37	3,22	3,22	6,07
Miscellaneous goods and services	4,16	3,97	2,95	3,03	3,83	3,79	3,59	4,26	4,91	3,27	3,43	5,04

Table 10

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

	Yearly		Quarterly			Jun. 2001/ 2000	May 2002/ 2001	Jun. 2002/ 2001	Jan.-Jun. 2001/ 2000	Jan.-May 2002/ 2001	Jan.-Jun. 2002/ 2001	Weights 1998=100
	2000	2001	2001 IV	2002 I	2002 II							
GENERAL INDEX	4,14	1,97	2,36	2,58	2,35	3,00	2,35	2,03	1,95	2,55	2,46	100,00
Food & non-alcoholic beverages	0,99	0,75	1,57	1,70	0,94	1,32	0,93	0,32	0,34	1,52	1,32	18,20
Alcoholic beverages & tobacco	0,16	0,06	0,03	0,02	0,16	0,09	0,05	0,39	0,08	0,03	0,09	1,78
Clothing and footwear	-0,04	-0,54	-0,17	-0,21	-0,31	-0,52	-0,33	-0,32	-0,80	-0,25	-0,26	8,22
Housing, water, electricity and gas	1,17	0,34	0,17	0,40	0,75	0,30	0,78	0,81	0,52	0,53	0,57	21,27
Furnishings, household equipment and supplies	0,10	0,01	0,02	-0,08	-0,07	0,06	-0,05	-0,05	0,04	-0,08	-0,07	7,08
Health	0,31	0,27	0,26	0,22	0,26	0,31	0,23	0,24	0,30	0,25	0,24	4,92
Transport	0,97	0,40	-0,22	0,04	0,11	0,89	0,24	0,10	0,84	0,08	0,08	17,42
Communication	-0,17	0,03	0,06	-0,11	-0,11	-0,02	-0,11	-0,11	-0,03	-0,11	-0,11	1,79
Recreation & culture	-0,01	-0,03	0,08	0,06	0,08	-0,12	0,08	0,10	-0,12	0,07	0,07	5,88
Education	0,09	0,11	0,16	0,16	0,14	0,10	0,14	0,14	0,09	0,15	0,15	2,33
Restaurants & hotels	0,36	0,38	0,25	0,22	0,20	0,39	0,19	0,21	0,46	0,21	0,21	6,07
Miscellaneous goods and services	0,21	0,20	0,15	0,16	0,20	0,19	0,18	0,22	0,25	0,17	0,18	5,04

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

Country	2001	2001 Jan.	2001 Feb.	2001 Mar.	2001 Apr.	2001 May	2001 June	2001 July	2001 Aug.	2001 Sep.	2001 Oct.	2001 Nov.	2001 Dec.	2002 Jan.	2002 Feb.	2002 Mar.	2002 Apr.	2002 May
Australia	207,9	26,2	27,4	19,4	11,8	6,1	55,6	13,2	34,6	5,3	3,6	0,4	4,4	0,9	0,0	1,8	0,0	0,6
Austria	210,4	0,0	174,8	13,6	0,2	21,7	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Belgium	16,2	6,0	4,7	0,0	0,0	5,5	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
British Virgin Islands	175,5	0,0	0,0	0,0	0,0	0,0	0,0	1,2	33,2	23,1	36,0	56,9	25,1	67,1	76,7	9,3	0,0	0,0
Canada	66,1	34,1	2,6	2,9	0,3	12,3	11,7	0,6	0,0	0,6	0,9	0,1	0,0	0,5	7,4	1,8	39,8	0,0
Cuba	0,7	0,0	0,7	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Czech Republic	4,4	0,0	0,0	0,0	0,0	4,4	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Egypt	30,1	4,6	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	17,1	8,4	0,0	0,5	2,0	0,0	0,0
France	68,9	0,0	68,9	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Georgia	1,5	0,0	0,0	0,0	0,0	0,0	1,5	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Germany	260,4	56,8	24,2	35,1	53,7	52,7	19,7	9,3	2,1	0,0	0,0	3,6	3,3	15,6	0,0	4,8	0,0	0,0
Greece	8.753,2	799,8	1.414,3	1.125,7	723,1	1.089,6	394,6	427,5	912,9	468,4	710,6	577,8	108,9	221,9	34,3	92,4	245,2	88,8
Iran	22,8	0,0	0,0	0,0	0,0	0,0	0,0	0,0	3,6	1,5	6,4	10,9	0,4	0,2	0,0	9,2	0,0	0,0
Ireland	112,3	7,7	0,0	55,9	35,8	6,2	0,0	0,0	0,0	0,0	0,0	4,4	2,3	2,4	0,0	0,0	0,0	4,6
Italy	0,3	0,0	0,0	0,0	0,0	0,3	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	4,2	0,0	0,0	0,0
Jordan	40,1	0,0	0,0	0,0	20,1	0,0	14,7	5,3	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Latvia	39,7	0,0	0,0	0,0	0,0	0,0	11,6	0,0	0,0	0,0	4,8	23,3	0,0	0,0	0,0	0,0	0,0	0,0
Lebanon	10,9	0,0	0,6	0,0	7,6	2,8	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Libya	0,7	0,0	0,7	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Mexico	22,1	0,0	0,0	0,0	0,0	0,0	0,0	22,1	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Moldova	7,1	0,0	5,7	1,5	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Netherlands	3,5	0,0	2,6	0,9	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	1,0	0,0
Panama	29,4	0,0	0,0	29,3	0,1	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Philippines	1,5	0,0	0,0	0,0	0,0	0,0	0,0	1,5	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Russia	949,7	312,4	116,6	78,1	17,6	105,6	41,2	26,6	48,7	35,2	45,0	41,3	81,5	22,1	3,0	0,6	0,0	8,1
Saudi Arabia	174,7	0,0	0,0	19,5	10,4	18,8	0,0	6,8	41,7	77,5	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
South Africa	664,9	18,0	32,5	18,0	11,9	41,8	8,0	28,4	58,4	117,1	26,5	235,6	68,6	139,1	122,7	61,8	94,3	68,7
Spain	15,0	1,8	0,6	0,0	0,0	8,0	0,0	0,0	0,0	0,0	4,6	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Switzerland	25,6	0,0	0,0	0,0	11,8	6,4	1,7	3,5	0,0	0,0	0,0	2,2	0,0	0,0	0,0	0,0	0,0	0,0
Syria	5,0	0,0	5,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Ukraine	522,0	48,2	30,0	26,1	54,7	59,3	58,6	55,4	29,1	36,6	10,6	98,4	14,9	14,6	0,0	0,6	0,0	0,0
United Arab Emirates	0,3	0,0	0,0	0,0	0,0	0,0	0,0	0,3	0,0	0,0	0,0	0,0	0,0	0,7	0,0	0,0	0,0	0,0
United Kingdom	2.157,3	615,1	342,8	203,9	169,0	271,1	132,5	59,7	53,6	107,4	20,6	137,0	44,6	68,9	35,0	25,3	13,5	12,3
United States of America	268,2	19,6	71,7	9,7	56,4	50,1	3,0	10,6	3,3	0,0	39,9	3,9	0,0	14,8	0,0	0,0	35,6	22,7
Yugoslavia	159,6	62,4	13,6	33,0	20,9	0,0	22,6	7,2	0,0	0,0	0,0	0,0	0,0	0,4	0,8	0,4	0,0	1,2
Zambia	109,8	0,0	0,0	0,0	0,0	31,2	16,5	5,5	34,3	0,0	5,5	12,0	5,0	0,7	7,2	4,6	0,0	0,0
Zimbabwe	8,9	0,0	0,0	0,0	0,8	0,0	0,0	3,8	2,1	0,0	0,9	1,2	0,0	0,0	0,0	0,0	0,0	0,0
Unidentified	118,9	32,0	44,7	13,7	0,0	23,5	1,2	0,0	3,7	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Total	15.265,8	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	569,9	291,9	214,7	429,5	207,0

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

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

Country	2001 ²	2001 Jan. ²	2001 Feb.	2001 Mar.	2001 Apr.	2001 May	2001 June	2001 July	2001 Aug.	2001 Sep.	2001 Oct.	2001 Nov.	2001 Dec.	2002 Jan.	2002 Feb.	2002 Mar.	2002 Apr.	2002 May
Australia	55,3	0,3	0,3	3,8	0,0	5,6	0,0	0,0	15,6	14,0	0,0	5,0	10,7	0,4	2,5	1,0	0,0	2,5
Austria	27,7	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	27,7	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
British Virgin Islands	201,8	0,0	0,0	0,0	0,0	0,0	37,8	15,0	44,7	22,8	9,1	51,4	20,9	39,6	0,1	0,0	0,0	0,0
Canada	6,8	0,5	1,7	1,7	0,3	0,0	2,2	0,0	0,5	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Cuba	0,4	0,0	0,4	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Egypt	14,7	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	5,9	8,8	0,0	0,9	0,5	0,0	0,0
France	109,4	0,0	109,4	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Germany	14,8	0,3	8,0	0,0	0,0	0,7	4,2	1,5	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Greece	5.814,2	371,1	1.123,3	567,7	447,5	811,2	461,9	269,3	331,6	391,7	348,2	555,8	135,0	22,9	65,1	111,4	1,3	5,8
Iran	3,9	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	2,9	1,0	0,0	0,0	0,0	0,0	0,0
Italy	13,6	13,6	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Latvia	7,9	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	7,4	0,5	0,0	4,9	1,8	0,0	0,0	0,0
Lebanon	2,2	0,0	2,2	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Libya	0,7	0,0	0,7	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Moldova	5,8	0,0	5,8	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Netherlands	2,9	0,0	1,9	1,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Norway	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Philippines	21,1	5,6	0,0	0,0	15,5	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Russia	602,9	347,1	139,5	56,7	0,0	0,2	0,1	0,2	0,3	5,0	20,1	10,6	23,2	23,2	9,8	2,6	31,7	0,0
South Africa	367,3	0,0	0,1	0,0	0,0	0,3	0,0	1,0	44,1	36,0	165,3	20,1	100,6	46,8	157,3	9,2	23,4	0,0
Spain	5,5	0,0	0,0	0,0	0,0	5,5	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Switzerland	453,7	0,0	0,0	0,0	0,0	0,0	27,5	176,2	59,1	152,9	30,5	7,4	0,0	0,0	0,0	0,0	0,0	0,0
Syria	2,0	0,0	0,0	0,0	2,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Ukraine	46,3	0,0	0,0	0,0	0,0	9,2	17,5	0,4	11,5	0,0	0,0	1,3	6,4	1,7	0,0	0,0	0,0	0,0
United Kingdom	1.101,1	143,4	278,0	24,5	125,7	80,4	210,2	64,2	32,9	43,0	19,2	60,6	19,1	14,4	12,4	18,4	1,0	4,0
United States of America	3.874,0	1,3	381,3	406,3	388,9	183,8	115,5	131,3	165,8	73,1	490,2	1.286,1	250,4	202,1	97,2	78,1	0,0	10,8
Yugoslavia	160,2	79,0	31,7	22,9	8,1	0,0	11,9	0,0	0,0	5,5	0,0	0,0	1,1	5,8	0,1	1,4	0,0	0,6
Unidentified	3,9	0,2	1,6	2,1	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Total	12.920,1	962,3	2.085,9	1.086,6	988,0	1.097,0	888,8	659,0	706,1	771,8	1.090,2	2.007,4	577,1	361,7	347,3	222,6	57,4	23,7

*(1) These figures refer to shares not included in the dematerialisation process.**(2) Data for sales in January 2001 only cover the period 17.01.2001 to 31.01.2001.*

Table 13

Tax reform

Indirect taxation

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

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

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

Excise duties

Petroleum increase by 5 cent per litre effective 1.7.2002.

increase by 4 cent per litre effective 1.1.2003.

increase by 3 cent per litre effective 1.10.2003.

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

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

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

Alcoholic beverages

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

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

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

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

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

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

Cigarettes

Increase by 20 cent per packet effective 30.5.2002.

Increase by 10 cent per packet effective 1.7.2003.

Motor vehicles

Decrease in excise duties on saloon cars as follows:

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

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

For 2001-2500 cc, no change.

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

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

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

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

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

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

Luxury goods

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

Direct taxationNatural persons

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

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

Effective 1.1.2003, the tax brackets are amended as follows:

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

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

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

Professional tax

Abolition of the professional tax effective 1.1.2003.

Taxation of interest

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

Corporation tax

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

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

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

Social cohesion fund

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

Defence fund

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

Compensatory measures

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