



CENTRAL BANK OF CYPRUS
ECONOMIC RESEARCH DEPARTMENT

MONETARY POLICY REPORT

OCTOBER 2005



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Symbols, conventions and abbreviations

1. The following symbols are used:

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

2. Thousands, millions and billions are separated by a dot (.) and decimals are separated by a comma (,). In some cases the totals in the tables may not add up due to rounding.

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

1. INTRODUCTION

In the aftermath of the Katrina and Rita hurricanes the price of oil, in nominal terms, reached record levels. As a result growth projections for the world economy have been revised downwards both for the current year and 2006. At the same time, the risks of inflationary pressures have risen, at least in the short-term, and consequently the US Federal Reserve has continued to pursue a contractionary monetary policy. Most economic analysts expect that it will continue to raise its official interest rate gradually until the end of 2005. On the other side of the Atlantic, the ECB and the Bank of England, in weighing up on the one hand the negative developments on the inflationary front and the fragile economic growth on the other hand, chose to continue their wait-and-see stance, thus maintaining their official interest rates unchanged. Notwithstanding weak economic activity, international stock exchanges registered important gains.

As far as the domestic economy is concerned, inflation rose to 2,93% in September 2005 compared with 2,11% in the previous month and 2,37% in the corresponding month of 2004. On average, for the first nine months of 2005, inflation rose to 2,54% compared with 1,96% during the corresponding period of 2004. This acceleration reflects the dissipation of the impact of the reduction in excise taxes on motor vehicles that took place in November 2003 as well as the rise in oil prices. In the monetary field, the year-on-year growth of credit to the private sector from domestic banks was 4,9% in August, slightly below the 5,1% registered in the same month of 2004. More specifically, foreign currency lending remains at high levels and this is partly reflected in the increased foreign

currency inflows. M2 grew by 6,8% year-on-year, compared with 8,2% in August 2004. In the same month the annual rate of growth of residents' domestic currency deposits was 2,8%, compared with 5,3% in August 2004, while foreign currency deposits registered a slowdown. During August and September excess bank liquidity continued to prevail in the money market.

As regards external transactions, tourist arrivals increased by 7,7% during the first eight months of 2005, compared with an increase of 2,4% in the corresponding period of 2004. Receipts from tourists increased by 3,1% during the first eight months of 2005, compared with a decrease of 4,9% during the corresponding period of 2004.

According to provisional data for the first eight months of 2005 total imports of goods decelerated, increasing by 5,7% compared with a 13,2% increase in the corresponding period of 2004. This partly reflected the reduction in car imports, as well as the reduction in the imports of intermediate goods and raw materials. Total exports of goods on the other hand, recorded a significant rebound, thereby increasing by 23,3% during the first eight months of 2005 compared with a 5% increase in the corresponding period of 2004. It should, however, be noted that the significant increase in total exports of goods was mainly the result of re-exports.

As a result of the above-mentioned developments, the trade deficit increased moderately to £1.383,3 million during the first eight months of 2005 compared with a deficit of £1.365,1 recorded in the corresponding period of 2004.

The turnover volume index of retail trade rose by 6,2% in the period January-June 2005 compared with a 4,5% increase in the corresponding period of the previous year. In the labour market, unemployment as a percentage of the economically active population rose to 3,8% in the first nine months of 2005, compared with the 3,5% registered in the same period of 2004. In the secondary sector of the economy, positive developments have been posted, despite the fall in industrial production during the first seven months of 2005.

The growth of the construction sector continued to be satisfactory despite some signs of deceleration. More specifically, the volume index of building permits as well as the local sales of cement exhibited an acceleration in the first eight months of 2005.

In accordance with the preliminary fiscal data of the Ministry of Finance covering the central government and the social security funds, a fiscal deficit of £46,9 million (or 0,6% of GDP) was recorded for the period January – July 2005, compared with a deficit of 2,4% of GDP in the corresponding period of 2004.

2. INTERNATIONAL DEVELOPMENTS

2.1 INTERNATIONAL DEVELOPMENTS AND EXCHANGE RATES

International economic developments

The Katrina hurricane in the **USA** resulted in disruptions to the production and refinement of oil in the Gulf of Mexico and thus led to further upward pressures on its price. Notwithstanding the fact that statistical data do not as yet present a clear picture regarding the effects of the hurricane on the US economy, analysts believe that these will be of a short-term nature. The persistence of high oil prices is thought to have negatively affected economic growth for the current year. Despite this fact, restructuring works in the areas affected by the hurricane may be able to provide support to economic activity in the fourth quarter of 2005.

On 20 September the US Federal Reserve, taking into account, among other things, that inflationary pressures have become more intense, decided to raise its official interest rate by 25 basis points and hinted at possible further equivalent increases until the end of the year. Data for August show an increase in prices of 3,6%, compared with 3,2% in July and 2,7% in August 2004. Unemployment remained unaltered at 4,9% compared with the previous month, quite lower than that in August of the previous year when it had reached 5,4%.

In the **euro area** there are mixed signals regarding economic growth, especially after the chancellorship elections in Germany. The final outcome, which resulted in Angela Merkel forming a coalition government with the Social Democrats, has caused uncertainty regarding the future of structural reforms in the country and the general

course of the German economy. This will inevitably have an impact on the EU economy. The high oil price is also negatively affecting economic activity. Despite the aforementioned developments, analysts predict that the EU economy will show signs of moderate growth in the second half of the year, based on evidence from industrial production and retail sales. During the last meeting of the Governing Council, the President of the ECB emphasised for the first time the need for “strong vigilance” on the inflationary front. According to provisional data from Eurostat, inflation was 2,5% in September, compared with 2,2% in the previous month and 2,1% in September 2004. Unemployment reached 8,6% in August, compared with 8,7% in July and 8,9% in August of the previous year.

In the **UK** recent data show inflationary pressures and a slowdown in economic growth owing to high oil prices. At the same time consumption and investment expenditure remain at low levels. The Bank of England at its meeting on 6 October decided to maintain its official interest rate unchanged at 4,5%. Inflation reached 2,4% in August, compared with 2,3% in July and 1,3% in August 2004. Unemployment in the period May – July was 4,7%, remaining at the same level compared with both the preceding quarter and the corresponding quarter of 2004.

In contrast, statistical data in **Japan** point to a more positive economic outlook. Domestic demand has been registering an increase and

both labour market conditions and investment expenditure have exhibited an improvement. Notwithstanding these developments deflationary conditions persist. More specifically, the consumer price index fell by 0,3% in August, compared with a fall of 0,2% both in the preceding month and in August 2004. Unemployment stood at 4,3% in August 2005, compared with 4,4% in July and 5,1% in August 2004. Industrial production rose by 1,6% during the month under review, compared with a fall of 0,4% in July and a rise of 8,4% in August of the previous year.

Chart 1 presents some **selected international stock market indices**. During September the Nikkei 225 rose by about 9%. Eurostoxx 50 registered a mixed trend, closing at about 6% higher in September compared with the end of August. Finally, the S&P 500 registered the smallest fluctuations, rising by 2% during September, compared with the end of the preceding month. In the last three months the aforementioned indices rose by about 16%, 6% and 2%, respectively. The main reason for the bullish trend was the improved corporate profitability especially of the companies in the energy sector.

In the crude oil market, concerns about the duration of high oil prices have intensified, especially after the Katrina and Rita hurricanes in the US that resulted in disruptions to oil refining activities in the Gulf of Mexico and the destruction of several oil rigs. The average price in August reached \$63,9 per barrel, while it declined somewhat to \$62,9 per barrel in September. Despite the recent fall in oil prices, market concerns continue regarding the constant interruptions in oil refinement, the geopolitical uncertainty and the climatic conditions which are a major factor for oil demand. Market analysts point out that the disequilibrium between supply and demand will persist, despite the notable increase in oil prices. OPEC is close to its production limits and any additional quantities it supplies will have to be properly refined. This causes additional upward pressures on the price of oil, since the lack of sufficient refineries hinders both refinement and industrial usage.

Table 1

GDP projections⁽¹⁾
(annual percentage change)

	The Economist Poll GDP forecasts ⁽²⁾			Lehman Brothers Weekly Outlook - GDP ⁽³⁾				International Monetary Fund World Economic Outlook ⁽⁴⁾			European Commission Economic Forecasts ⁽⁵⁾						
	2004	2005	2006	2004	2005	2006	2004	2005	2006	2004	2005	2006					
World				3,2	(3,1)	2,5	2,0	(2,1)	5,1	4,3	4,3	(4,4)	5,0	4,2	4,1	(4,2)	
Euro area	1,8	1,2	(1,3)	1,5	(1,7)	1,8	(1,7)	1,2	(1,3)	0,9	(1,0)	2,0	1,2	(1,6)	1,8	(2,3)	
USA	4,3	3,5	(3,6)	3,2	(3,3)	4,2	3,6	(3,7)	3,1	(3,2)	4,2	(4,4)	3,5	(3,6)	3,3	(3,6)	
Japan	3,0	2,2	(1,7)	2,0	(1,7)	2,7	2,2	(1,7)	1,2	(1,1)	2,7	(2,6)	2,0	(0,8)	2,0	(1,9)	
UK	3,0	1,9	(2,1)	2,1	3,2	1,6	(1,8)	1,5	(1,7)	3,2	(3,1)	1,9	(2,6)	2,2	(2,6)	3,1	(3,3)

(1) Figures in parentheses indicate the corresponding projection in the previous Monetary Policy Report, in case of change. In the case of the International Monetary Fund and European Commission, the figures indicate the projections in April 2005 and October 2004, respectively.

(2) The Economist, 8 October 2005.

(3) Lehman Brothers Global Weekly Economic Monitor, 7 October 2005.

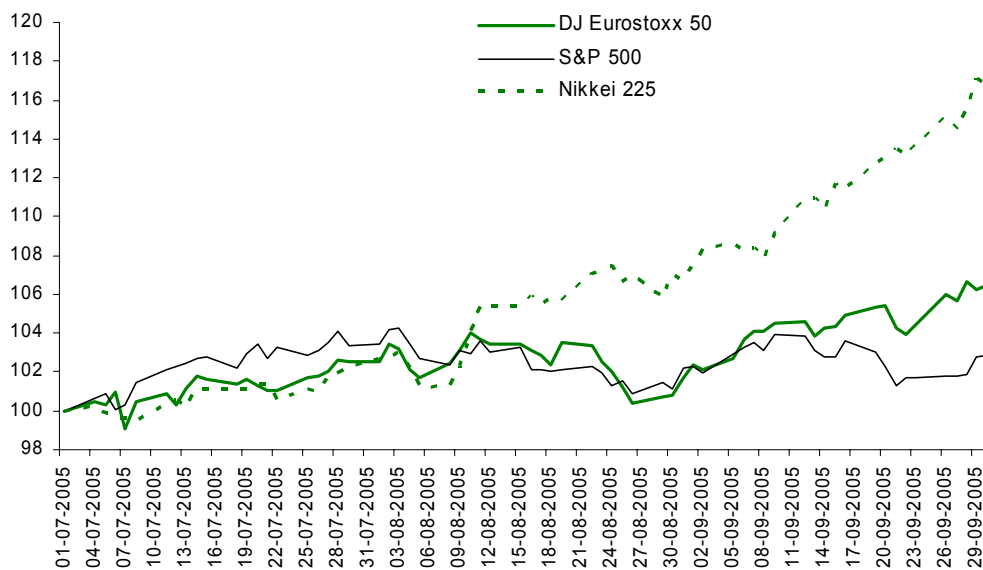
(4) International Monetary Fund, World Economic Outlook, September 2005.

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

Chart 1

Selected international stock market indices

(1 July 2005 = 100, daily data)



Source: Bloomberg.

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

	GDP				Industrial production August (annual)	Retail sales August (annual)	Unemployment August (annual)	Inflation ⁽²⁾ August (annual)
	2005 (Q1)		2005 (Q2)					
	(quarterly) ⁽¹⁾	(annual)	(quarterly) ⁽¹⁾	(annual)				
UK	2,0	2,7	2,0	1,5	-1,9	0,8	4,7 ⁽³⁾	2,4
Japan	4,9	1,3	3,3	1,4	1,6	3,6 ⁽⁴⁾	4,3	-0,3
USA	3,5	3,7	3,3	3,6	3,1	7,5 ⁽⁵⁾	4,9	3,6
Euro area	2,0	1,3	1,2	1,1	0,5 ⁽⁵⁾	2,0	8,6	2,5 ⁽⁶⁾

Source: *The Economist*, 8 October 2005.

(1) Percentage change on previous quarter at an annualised rate.

(2) Based on the consumer price index.

(3) May-July 2005.

(4) June 2005.

(5) July 2005.

(6) September 2005.

International currencies

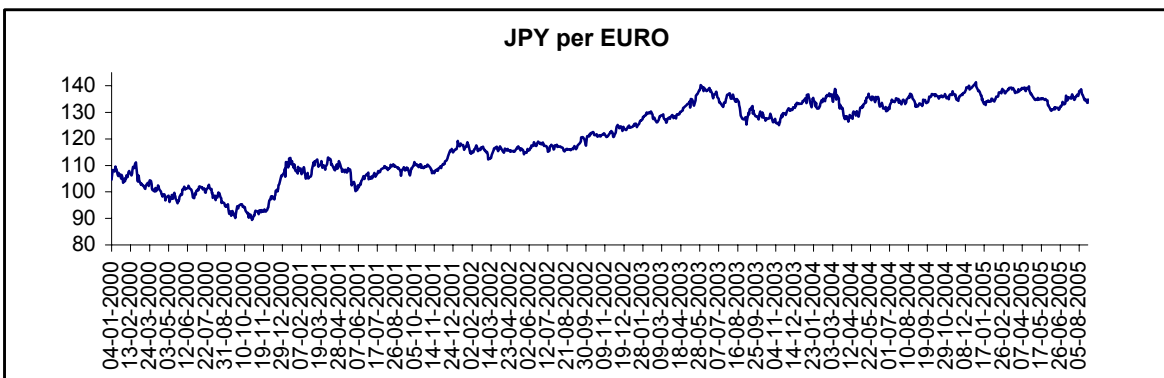
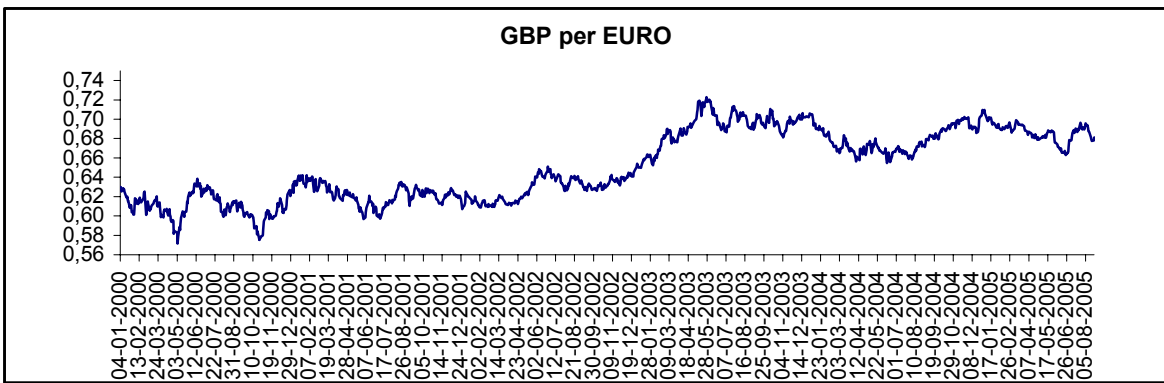
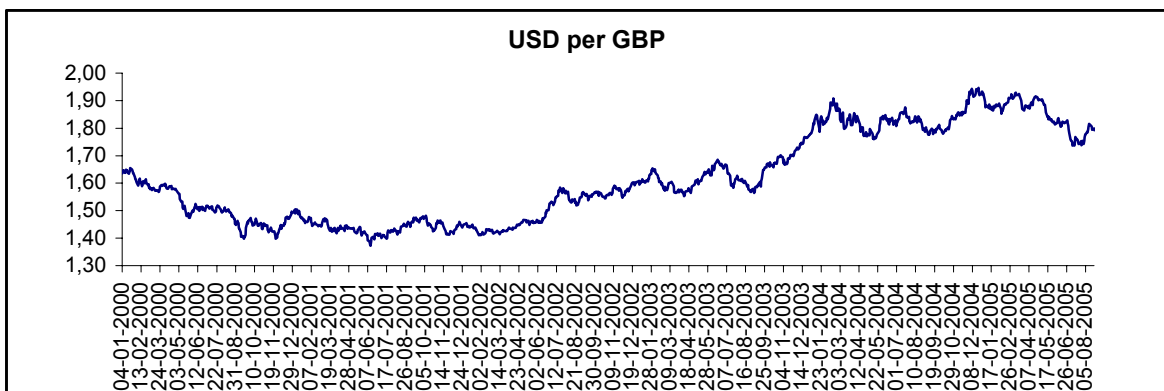
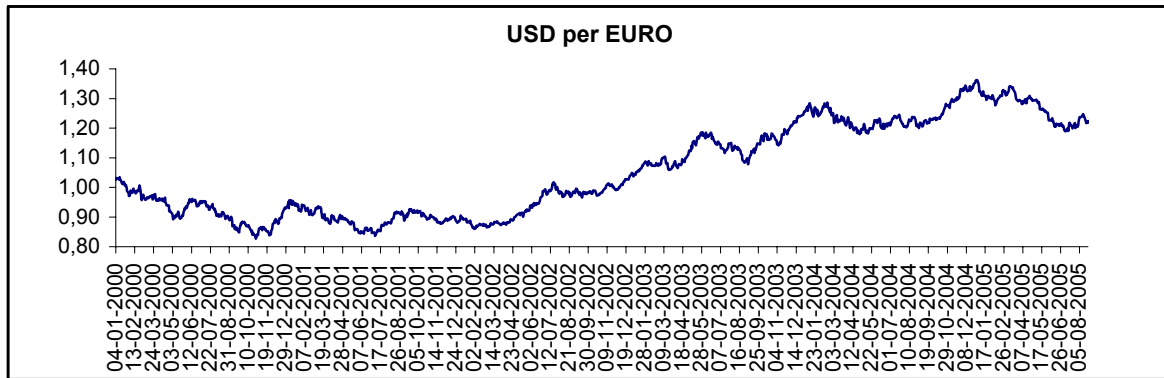
The euro reached 122 cents against the dollar on 7 October 2005, compared with 124 cents on 1 September 2005. The dollar recorded significant fluctuations relative to the euro in September and the first week of October, registering its lowest value at 119 cents and its highest value at 126 cents. The notable fluctuations were mainly the result of the problems caused by the tornados Katrina and Rita hurricanes. As was stated earlier, the US Federal Reserve is of the opinion that the two hurricanes are a temporary obstacle to the further rebound of the US economy. It has, therefore, continued its tight monetary policy, increasing interest rates by 25 basis points on 20 September.

On 7 October, sterling was 69 pence to the euro compared with 68 pence on 1 September 2005. It is noted that during the period under review, as well as during the last few months sterling did not display significant fluctuations.

The Japanese yen did not show significant fluctuations during the period under consideration, reaching ¥137,70 to the euro on 7 October 2005, compared with ¥136,86 to the euro on 1 September 2005.

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

Chart 2
Major international currencies
 (middle rate)



Source: Central Bank of Cyprus.

Cyprus pound

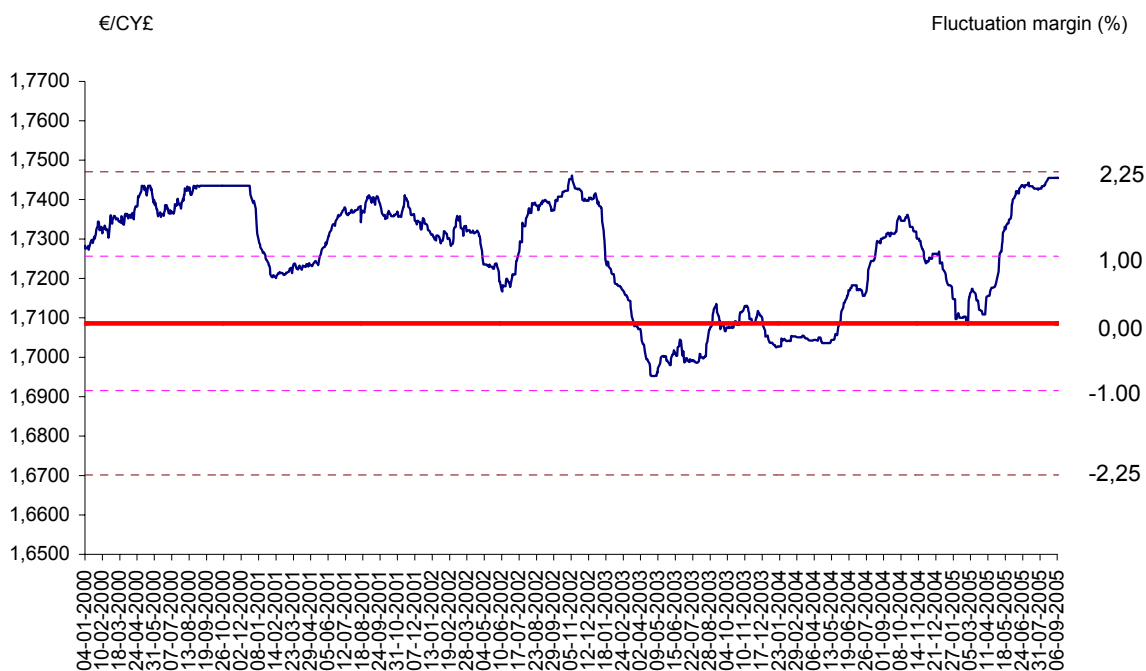
During September and the first week of October 2005, the Cyprus pound exhibited minor fluctuations relative to the euro reaching €1,7449 on 7 October 2005 compared with €1,7455 on 1 September 2005. Reflecting the fluctuations of foreign currencies during the period under consideration, the Cyprus pound reached \$2,1209 on 7 October exhibiting weakening when compared with \$2,1596 on 1 September 2005.

During the same period the Cyprus pound exhibited minor fluctuations relative to sterling reaching ST£1,986 on 7 October 2005, compared with ST£1,1942 on 1 September 2005.

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

Chart 3

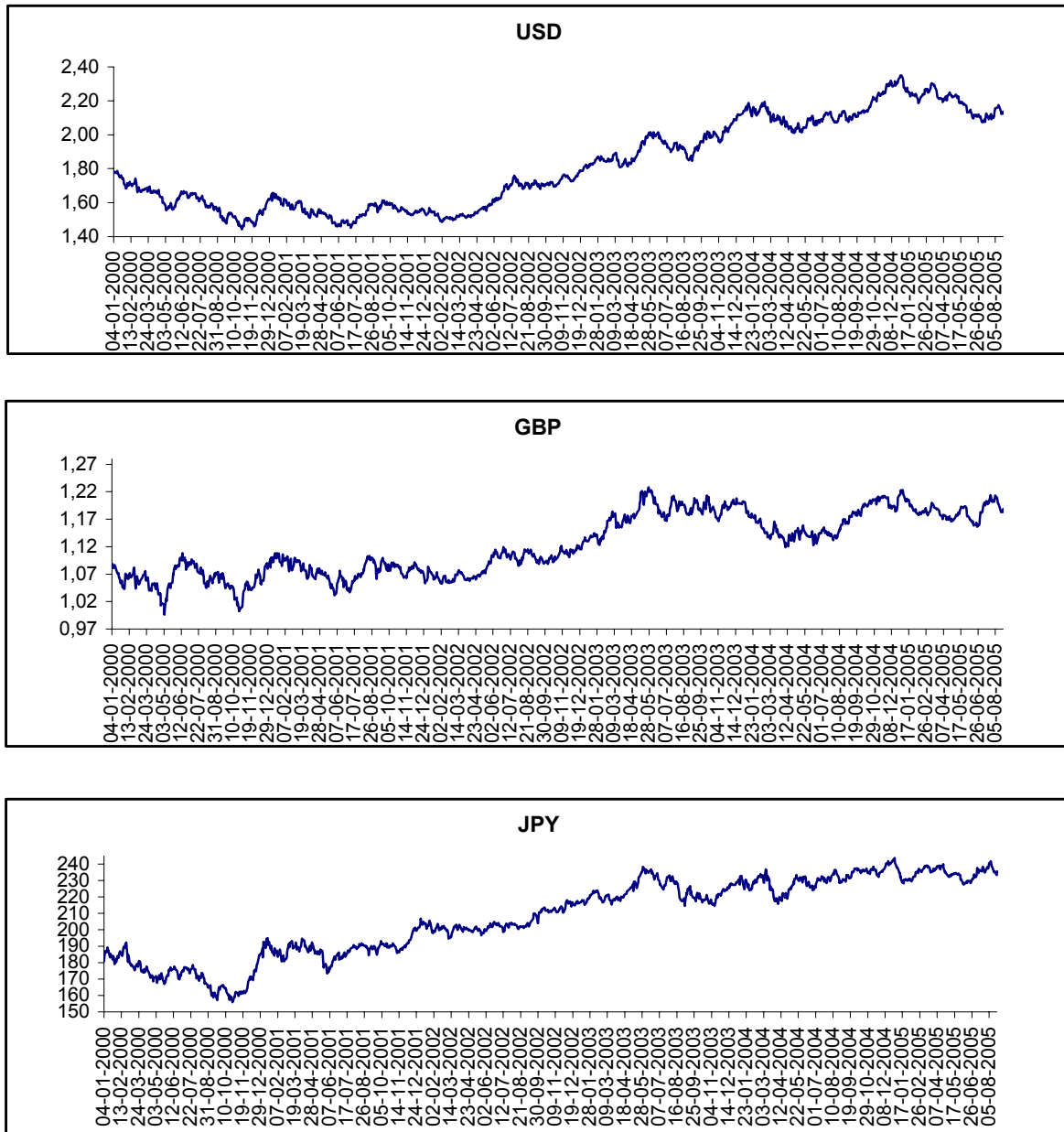
Exchange rate of the euro against the Cyprus pound



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

Chart 4

Cyprus pound against major international currencies
(middle rate)



Source: Central Bank of Cyprus.

BOX 1

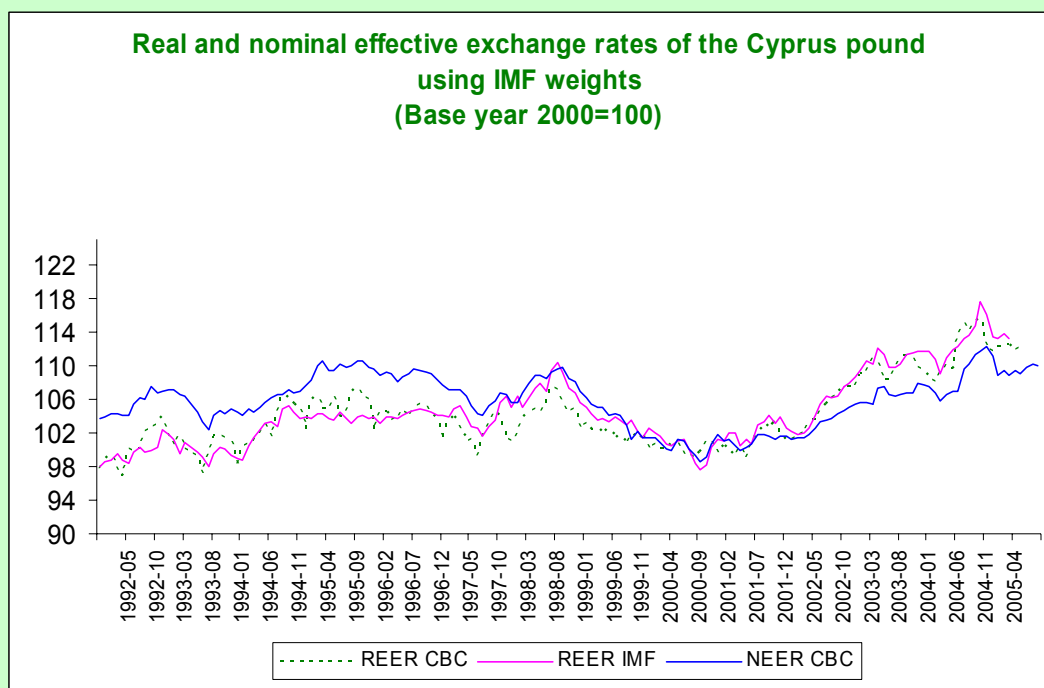
Effective exchange rate indices of the Cyprus pound

Effective exchange rate indices reflect the average fluctuation of a currency relative to the currencies of its trading partners. The effective exchange rate expressed in real terms represents the deflated value of the corresponding nominal effective exchange rate, where the deflator can be either the consumer price index or any other price or cost variable such as unit labour cost.

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

The real effective exchange rate of the Cyprus pound, REER IMF, shown in Chart 2B is calculated by the International Monetary Fund (IMF) and is a third country competition weighted index, taking into account 19 countries. The weights are estimated using data on trade and tourism for the years 1988-1991 and the consumer price index is used to deflate the series. Using 2000=100 as the base year, REER IMF reached 113,5 units in February 2005. Due to the time lag in reporting, the Central Bank of Cyprus calculates its own index, based on the IMF index, using 8 instead of 19 countries. The Central Bank of Cyprus index, REER CBC, shown in the chart follows the IMF index very closely. The most recent available data for this index, with a base year 2000=100, are for April 2005 in real terms and May 2005 in nominal terms. In the first four months of 2005 the REER CBC index averaged 115 displaying a deceleration compared with the last quarter of 2005.

The outlook indicated by the nominal index is different from the one indicated by the real index. The sharper appreciation observed in real terms is primarily attributable to the higher inflation recorded in Cyprus compared with other European countries, largely as a result of the progressive increase in the rate of VAT from 10% to 15% during 2002 and 2003 as well as increases in other consumption taxes (particularly those on petroleum products). More recent data pertaining to May 2005, place the index at 110,8 units, thus showing a decrease compared with the last quarter of 2004.



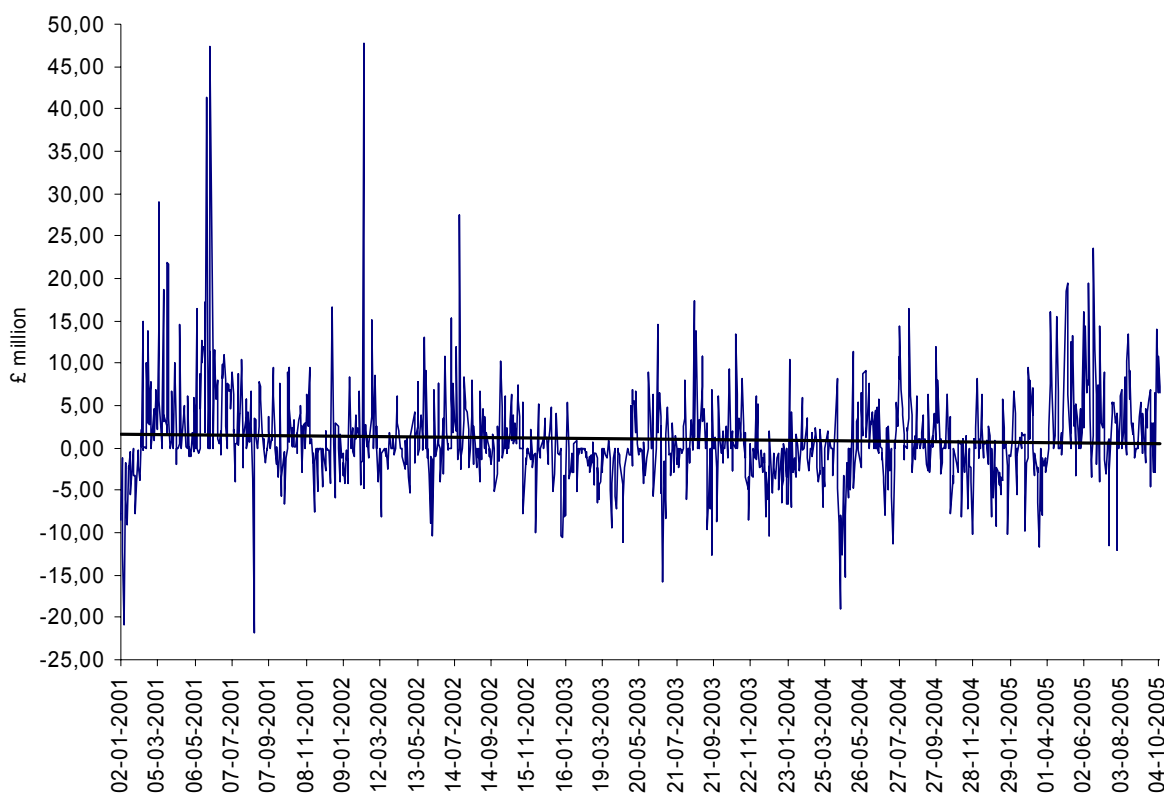
Sources: Central Bank of Cyprus and International Monetary Fund.

Table 3 illustrates the Central Bank’s total foreign currency transactions until 7 October on the basis of their transaction dates. The corresponding daily total transactions in foreign currency by the Central Bank from 2001 until now are illustrated in Chart 5. During September 2005, net inflows of £38,46 million were recorded compared with net inflows of £38,49 million in the

corresponding period of 2004. During the first week of October net inflows of £45,10 million were recorded compared with net outflows of £5,3 million in the corresponding period of 2004. For the period 1 January – 7 October 2005, net inflows of £390,59 million were recorded, compared with £23,99 million net inflows in the corresponding period of 2004.

Chart 5

Daily purchases / sales of foreign exchange by the Central Bank of Cyprus from / to domestic banks



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

Table 3**Domestic foreign exchange market: purchases and sales by the Central Bank of Cyprus**

Period	Average exchange rate intervention Foreign currency per Cyprus pound (period average)			Purchases (+)/Sales(-) of foreign exchange by the Central Bank (based on transaction date)			
				In foreign currency (million)			In Cyprus pounds (million)
	Euro	US dollar	Pound sterling	Euro	US Dollar	Pound sterling	
<u>Yearly</u>							
2001	1,7314	1,5602	1,0805	755,82	242,99	76,39	663,30
2002	1,7383	1,6445	1,0934	321,55	64,75	53,05	273,13
2003	1,7121	1,9378	1,1849	-259,75	5,16	19,50	-134,01
2004	1,7187	2,1357	1,1663	-91,40	15,75	25,70	-25,52
<u>Quarterly</u>							
2004 Q1	1,7060	2,1398	1,1604	-155,75	2,00	30,20	-64,23
2004 Q2	1,7099	2,0579	1,1409	-19,05	6,50	1,10	-7,49
2004 Q3	1,7271	2,1107	1,1612	199,60	4,95	-19,20	101,02
2004 Q4	1,7317	2,2394	1,2033	-116,20	2,30	13,60	-54,82
2005 Q1	1,7161	2,2496	1,1902	40,10	10,50	30,10	-64,10
2005 Q2	1,7297	2,1785	1,1742	518,15	22,30	4,40	312,86
2005 Q3	1,7443	2,1278	1,1928	250,45	-3,55	0,10	141,83
<u>2004</u>							
January	1,7051	2,1497	1,1799	-83,20	-0,20	9,70	-40,62
February	1,7064	2,1595	1,1555	-23,55	0,00	11,00	-4,25
March	1,7066	2,0954	1,1457	-49,00	2,20	9,50	-19,36
April	1,7058	2,0416	1,1355	-161,15	0,00	1,00	-93,62
May	1,7068	2,0483	1,1471	49,95	0,00	0,00	29,22
June	1,7171	2,0838	1,1402	92,15	6,50	0,10	56,90
July	1,7190	2,1083	1,1454	54,70	5,40	-23,70	13,64
August	1,7290	2,1063	1,1574	78,00	-0,30	4,50	48,89
September	1,7332	2,1175	1,1809	66,90	-0,15	0,00	38,49
October	1,7363	2,1681	1,2007	-23,10	-0,15	2,50	-11,31
November	1,7320	2,2346	1,2084	-85,20	3,35	4,40	-44,14
December	1,7269	2,3156	1,2007	-7,90	-0,90	6,70	0,63
<u>2005</u>							
January	1,7189	2,2561	1,2009	-100,60	0,00	10,90	-49,46
February	1,7149	2,2324	1,1878	-18,00	0,00	12,30	-0,11
March	1,7145	2,2602	1,1868	-42,50	10,05	6,90	-14,53
April	1,7159	2,2208	1,1722	91,35	20,75	4,40	66,32
May	1,7312	2,1958	1,1852	175,45	0,05	0,00	101,53
June	1,7419	2,1189	1,1653	251,35	1,50	0,00	145,01
July	1,7432	2,0992	1,1992	49,00	0,00	0,00	28,10
August	1,7440	2,1488	1,1997	123,90	-3,00	0,00	69,64
September	1,7445	2,1447	1,1960	67,40	-0,15	-0,10	38,46
October*	1,7449	2,0943	1,1882	78,70	0,00	0,00	45,10

Source: Central Bank of Cyprus.

*Until and including 19 August 2005.

2.2 MONETARY DEVELOPMENTS

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

Analysis of monetary aggregates

In the monetary sector, large capital inflows were observed partly as a result of increased foreign currency lending. Another significant development was the commencement of the harmonisation process regarding minimum reserve requirements with a view to decreasing the minimum requirement to the 2% target, currently in effect in the euro area. On 1

September the reserve ratio decreased to 5,75% from 6,5% with the aim of reaching the euro area's level by 2007. The aforementioned developments led to a rise in excess bank liquidity.

According to provisional data, the annual growth rate of total money supply M2C¹, which includes the deposits with banks and CCIs, reached 7,7% in August, compared with 5,7% in July and 8,7% in August 2004. Total domestic bank and CCI deposits of Cypriot residents, excluding the deposits of CCIs with the Co-operative Central Bank, rose by 7,6% year-on-year in August, compared with 8,5% in the same period of the previous year. Total credit growth remained unaltered at 6,6%, compared with the same period of 2004.

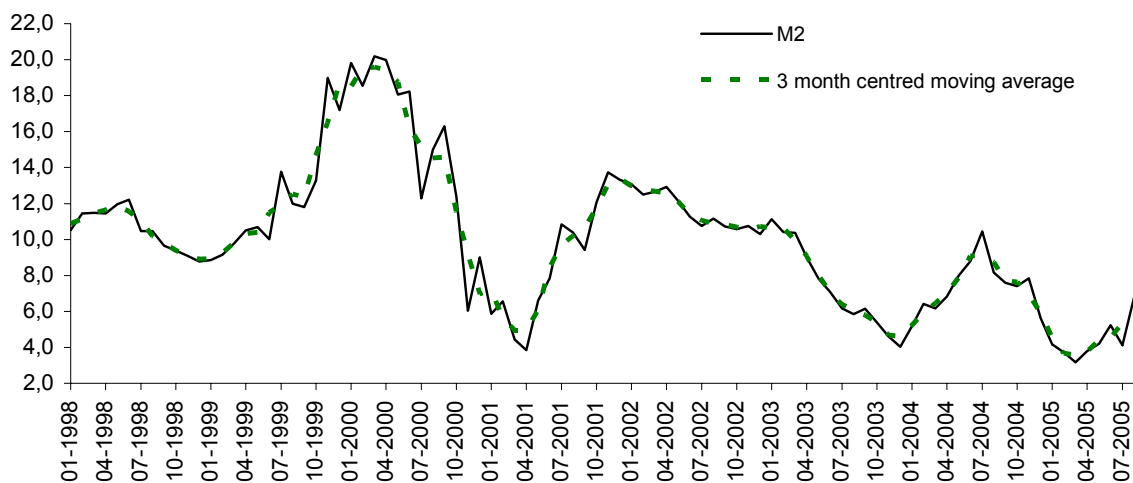
Based on domestic bank data, the rate of M2 growth accelerated in August compared with July. The annual growth of credit also accelerated marginally in August, compared with July while it has decelerated with respect to the previous year's rate.

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

Chart 6

M2 growth

(annual percentage change, monthly data)

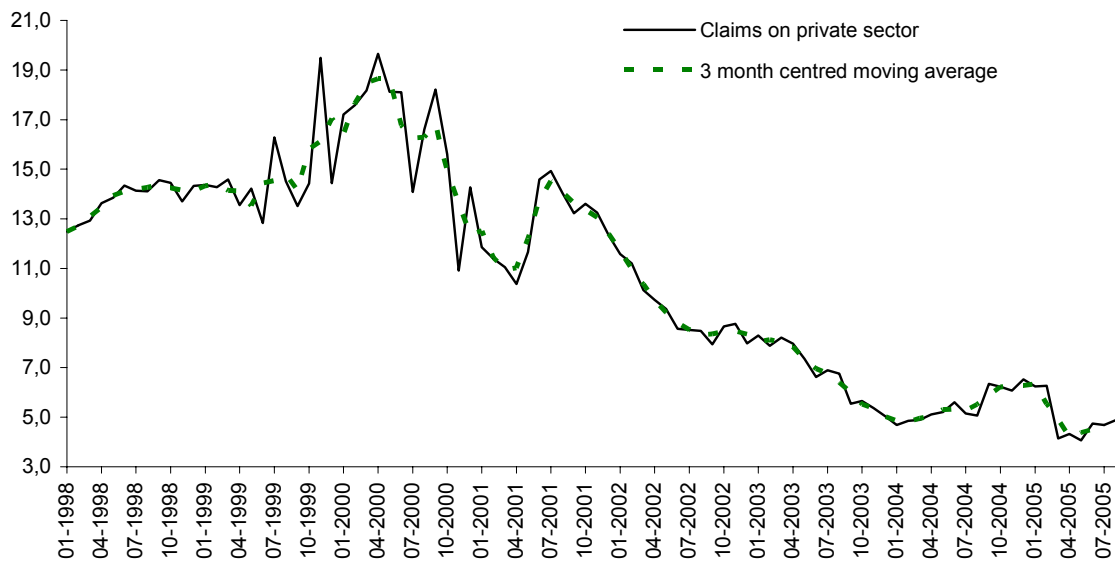


Source: Central Bank of Cyprus.

Chart 7

Growth of claims on private sector

(annual percentage change, monthly data)



Source: Central Bank of Cyprus.

More specifically, total money supply (M2) grew on a year-on-year basis by 6,8% in August, compared with 4,1% in July while in August 2004 it had reached 8,2%. The three-month moving average shows that in the period June – August 2005, M2 grew by 5,4% from 4,5% in the period May – July.

Table 4 presents the annual percentage changes of components and factors affecting total money supply. Regarding the components of M2, the narrow money aggregate M1 registered an annual increase of 14,4% in August 2005, compared with 13,7% in July and 12,3% in August 2004.

Quasi-money rose by 5,3% year-on-year in August 2005, compared with 2,3% in July while in August 2004 it had risen by 7,4%. It is noted that at the end of August quasi-money held 83% of total money supply while M1 held 17%.

A notable development concerns residents' foreign currency deposits which rose by £339,8 million in the twelve months to August 2005, compared with £222,4 million in the same period of the previous year.

In general, the slowdown in M2 compared with the previous year's levels is mainly due to the slowdown in the growth of net foreign assets. In contrast, the increase in credit to the public sector had a positive impact on M2 growth, as analysed below.

Credit to the private sector² rose by 4,9% year-on-year in August, compared with 4,7% in July. In both July and August 2004 the growth rate had been 5,1%. The three-month moving average of credit growth was 4,8% in the period June – August, compared with 4,5% in the three month period May – July.

The year-on-year increase in net foreign currency loans reached 18,9% in August, compared with 17,4% in July and 3,4% in August 2004. Credit to the public sector rose by 4,7% in August, compared with an increase of 8,9% in July and a decrease of 3,5% in August 2004, which had emanated from the eurobond (EMTN) issued by the government in July 2004.

2. A marked slowdown in credit growth has been observed since March due to debt write-offs by certain banking institutions, the largest part of which affected the personal-professional loans category. If we ignore these write-offs, then the growth rates in July and August 2005 were 6,4% and 6,6%, respectively. It is noted that this is not a final write-off but relates to accounting adjustments.

Table 4**Main monetary indicators**

	Outstanding amount as a percentage % of M2 ⁽¹⁾	Annual percentage change			
		2004 July	2004 Aug.	2005 July	2005 Aug.
Money supply (M1)	17,0	18,9	12,3	13,7	14,4
Currency in circulation	5,5	18,1	13,1	8,6	9,5
Demand deposits	11,5	19,3	12,0	16,4	16,9
Quasi-money	83,0	9,0	7,4	2,3	5,3
Total money supply (M2)	100,0	10,4	8,2	4,1	6,8
Claims on private sector ⁽²⁾		5,1	5,1	4,7	4,9
of which in foreign currency		1,9	3,4	17,4	18,9
Claims on public sector		-7,7	-3,5	8,9	4,7

Source: Central Bank of Cyprus.

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

(2) In March 2005 the banks wrote off a number of loans, for which provisions had already been made. As a result the growth of claims on the private sector was reduced. Adjusting for the above, the growth rates for July and August 2005 are 6,4% and 6,6%, respectively.

The breakdown of bank credit by sector of economic activity (Table 5) shows that in August 2005 personal–professional loans³ grew by 12,2%, compared with a rise of 12% in July and 7,9% in August 2004. Credit to public corporations and institutions, including the government, registered a notable rise. More specifically they rose by 12%, compared with a rise of 8,8% in July and 0,8% in August of the previous year. This increase is attributed to the high domestic borrowing of the government in the current year, compared with an increase in its foreign borrowing effected through the EMTN issue in July 2004. Credit to the construction

sector also rose at an annual rate of 11,3%, in August, compared with a rise of 10,8% in July and 15,2% in August 2004. Credit to the transport and communications sector decreased by 19,8% year-on-year in August, compared with a decrease of 23,6% in July and a fall by 10,8% in August 2004. It is noted, however, that the share of this loan category to total credit is only 1%. Personal-professional loans absorbed the largest part of total outstanding credit, holding 46,5% as at the end of August 2005, followed by the construction sector with 17,5% and the trade sector with 16%.

3. See footnote 2.

Table 5
Bank credit by sector⁽¹⁾

	Outstanding amount as a percentage % of total ⁽²⁾	Annual percentage change			
		2004 July	2004 Aug.	2005 July	2005 Aug.
Public institutions and corporations ⁽³⁾	3,19	3,1	0,8	8,8	12,0
Agriculture	1,19	0,5	1,6	2,4	0,5
Mining	0,30	-4,9	-1,6	2,9	2,4
Manufacturing	5,57	-5,4	-5,9	0,8	1,0
Transport and communications	0,98	-0,5	-10,8	-23,6	-19,8
Foreign and domestic trade	16,00	-2,1	-3,1	-4,0	-4,3
Building and construction	17,48	16,2	15,2	10,8	11,3
Tourism	8,71	0,8	1,3	-3,0	-3,0
Personal and professional loans	46,54	7,5	7,9	12,0	12,2
Bills discounted: Local	0,03	-23,7	-24,4	-2,2	-5,9
Foreign	0,02	0,8	-8,8	27,0	-2,8
Total	100,00				

Source: Central Bank of Cyprus.

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

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

(3) Including government loans.

In the twelve months to August 2005 loans in foreign currency by domestic banks to residents increased by £165,2 million, compared with an increase of £29,1 million in the same period of the previous year. The share of new foreign currency loans to total new loans in the twelve months to August rose to 39,6%, compared with 7,1% in the same period of 2004. The share of new loans to total loans outstanding at the end of August 2005 increased to 11,6%, compared with 10,2% at the end of August 2004 (Table 6).

At the end of August 2005, the share of loans in euro reached 67%, in dollars 8,4%, in yen 2,8% and in Swiss francs 20,6% of foreign currency loans.

According to data covering medium and long-term lending in foreign currency, in the period January-August 2005, 14,9% of new loans were used in the construction sector in Cyprus, 46,9% was used for refinancing⁴ and 30% for purchase of fixed assets. The respective figures for the same period of 2004 were 4,1%, 54,3% and 36,6%.

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

Table 6
Claims on private sector ⁽¹⁾

	2002	2003	2004	2004 Aug.	2005 July	2005 Aug.
<i>(outstanding amounts at end of period, CYP million)</i>						
Foreign currency loans to residents	785,2	799,0	909,9	873,8	1018,6	1039,1
Claims on private sector	7.904,1	8.302,0	8.844,2	8.556,7	8.997,4	8.974,2
Share %	9,9	9,6	10,3	10,2	11,3	11,6
<i>(12 month change, CYP million)</i>						
Foreign currency loans to residents	52,1	13,8	110,9	29,1	150,8	165,2
Claims on private sector	584,0	397,9	542,2	412,1	402,8	417,6
Share %	8,9	3,5	20,5	7,1	37,4	39,6

Source: Central Bank of Cyprus.

(1) From local banks.

According to provisional balance of payments data referring to residents' borrowing by banks abroad, net loans in the period January – June 2005 amounted to £75,8 million, compared with net repayments of £28,9 million in the same period of the previous year. For the whole of 2004 net repayments amounted to £64,7 million.

Net repayments in foreign currency by international banking units reached £1,9 million in the first eight months of 2005, compared with net loans amounting to £4,6 million in the same period of 2004.

Domestic expenditure of Cyprus credit card holders rose by 13,1% year-on-year in September 2005, compared with 8,1% in the same month of 2004. During the first nine months of 2005 this type of expenditure rose by

10,2%, compared with a rise of 13,3% in the same period of the preceding year. Expenditure of Cyprus card holders abroad rose at an annual rate of 23,4% in September, compared with an increase of 14,9% in the same month of 2004. During the period January-September 2005 this type of expenditure rose by 20,2% compared with an increase of 8,6% in the same period of the previous year. Finally, foreign card holders' expenditure in Cyprus rose by 3,4% in September 2005, compared with an increase of 3,8% in September 2004. During the first nine months of the current year this type of expenditure rose by 5,3% compared with an increase of 9,5% in the previous year (Table 7).

Table 7
Credit card transactions

	2003	2004	September		Jan.-Sep.	
			2004	2005	2004	2005
Foreign cardholder spending in Cyprus						
Value (CYP thousand)	214.208	232.671	27.300	28.224	177.356	186.748
Annual % change	4,0	8,6	3,8	3,4	9,5	5,3
Local cardholder spending in Cyprus						
Value (CYP thousand)	526.847	591.912	45.513	51.494	424.159	467.327
Annual % change	15,0	12,3	8,1	13,1	13,3	10,2
Local cardholder spending abroad						
Value (CYP thousand)	178.470	195.009	17.927	22.126	143.448	172.357
Annual % change	13,1	9,3	14,9	23,4	8,6	20,2

Source: JCC Payment Systems.

Co-operative Credit Institutions (CCIs)⁵

In August local currency deposits with CCIs amounted to 37,5% of total deposits (in CCIs and banking institutions), compared with 36,8% in the same month of 2004. In August 2005 the share of CCI loans in local currency was estimated at around 29,6%, compared with 28,3% in August 2004. Deposits with CCIs are estimated to have registered a year-on-year increase of 6,7% in August 2005, compared with 9,7% in the same period of 2004. Local currency deposits with commercial banks (excluding CCI deposits with the Co-operative Central Bank) grew by 8,2% in August 2005, compared with an increase of 7,9% in the same month of 2004.

Regarding CCI loans, these are estimated to have risen by 10,7% in August 2005 which is very close to the levels of the same month of 2004.

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

Money market

Both during August and September surplus liquidity conditions prevailed in the money market.

Table 8 presents the factors affecting bank liquidity⁶. As can be seen, the increase in the average daily value of net foreign assets and the decrease in the reserve requirement from 6,5% to 5,75% on 1 September were the main factors that affected positively surplus liquidity.

Three auctions for the acceptance of deposits were held in September whereby £200 million was absorbed by the first two and £180 million by the third. At the last auction of September, the average interest rate decreased to 2,53%, reflecting, in part, the notable increase in surplus bank liquidity.

6. The box on page 22 presents the liquidity conditions for the period 16 June – 28 September 2005. Any differences in the amounts are due to the different periods being analysed.

Table 8

Banking system's liquidity position

(CYP million, period averages of daily positions)

	Liquidity - providing factors					Liquidity - absorbing factors						Credit institutions current accounts (MRA)	Base money (6+7+9+12)
	Net assets in gold and foreign currency (NFA)	Monetary policy operations				Deposit facility (overnight)	Other liquidity-absorbing operations (additional, special & S.M.E. dep.)	Rev-repos & depots	Currency in circulation	Central govern. deposits (net) ⁽¹⁾	Other factors (net)		
		Main refinancing operations (repos)	Long-term refinancing operations	Marginal lending facility (lombard)	Other liquidity providing operations (swap)								
	1	2	3	4	5	6	7	8	9	10	11	12	13
2003 Sep.	1.144,1	0,0	0,0	2,6	0,0	14,0	79,7	174,5	465,9	-302,2	184,8	530,0	1.089,6
Oct.	1.079,8	0,0	0,0	0,3	0,0	23,0	79,4	123,6	467,2	-330,6	185,2	532,3	1.101,9
Nov.	1.122,7	0,0	0,0	0,6	0,0	31,2	79,3	107,7	461,5	-286,9	199,2	531,4	1.103,4
Dec.	1.173,1	0,0	0,0	4,8	0,0	17,8	79,5	47,4	496,3	-217,9	222,7	532,1	1.125,7
2004 Jan.	1.214,1	0,0	0,0	0,0	0,0	55,4	79,3	151,9	491,2	-290,8	192,9	534,2	1.160,1
Feb.	1.185,3	0,0	0,0	0,0	0,0	22,2	79,4	169,0	477,0	-304,4	194,2	547,9	1.126,5
Mar.	1.151,2	0,0	0,0	2,2	0,0	17,4	79,6	140,3	478,6	-313,8	199,7	551,5	1.127,2
Apr.	1.121,0	0,0	0,0	0,7	0,0	29,7	79,3	93,3	503,7	-365,8	226,1	555,2	1.168,0
May	1.038,5	0,0	0,0	6,0	0,2	8,0	79,3	0,0	509,8	-416,2	223,1	640,6	1.237,7
June	1.108,4	0,0	0,0	0,0	0,0	32,9	79,4	0,0	519,6	-374,9	214,7	636,8	1.268,6
July	1.340,1	0,0	0,0	0,0	0,0	42,1	79,5	61,2	533,4	-190,3	175,0	639,4	1.294,3
Aug.	1.499,7	0,0	0,0	0,0	0,0	44,5	79,4	151,6	536,1	-140,6	185,9	642,9	1.302,8
Sep.	1.429,8	0,0	0,0	2,0	0,0	31,9	79,3	162,7	531,1	-208,9	191,0	644,6	1.286,9
Oct.	1.393,1	0,0	0,0	0,0	0,0	24,3	79,4	121,1	529,0	-192,1	185,5	645,8	1.278,6
Nov.	1.376,0	0,0	0,0	0,0	0,0	15,8	79,3	82,2	516,3	-144,9	184,1	643,2	1.254,6
Dec.	1.441,6	0,0	0,0	10,0	0,0	12,9	79,3	0,0	543,5	-29,0	201,9	642,9	1.278,6
2005 Jan.	1.419,9	0,0	0,0	0,6	0,0	50,7	79,6	114,2	537,8	-142,3	139,9	640,8	1.308,8
Feb.	1.425,9	0,0	0,0	0,6	0,3	11,4	79,4	55,0	520,7	-36,0	149,0	647,3	1.258,8
Mar.	1.432,9	0,0	0,0	0,3	0,0	25,2	79,3	28,4	524,0	-48,4	178,9	646,2	1.274,8
Apr.	1.361,7	0,0	0,0	0,1	0,0	63,7	79,3	17,3	537,7	-191,8	208,2	647,7	1.328,1
May	1.395,2	0,0	0,0	0,0	0,0	33,4	79,3	72,9	554,6	-204,1	210,1	648,9	1.316,3
Jun.	1.510,9	0,0	0,0	6,2	0,1	36,2	79,7	68,3	568,4	-114,8	224,1	655,2	1.339,6
Jul.	1.571,9	0,0	0,0	0,4	0,0	31,9	79,6	88,1	586,5	-62,2	182,6	665,8	1.363,8
Aug.	1.596,2	0,0	0,0	0,0	0,0	37,7	79,4	93,5	587,6	-58,1	185,2	670,8	1.375,5
Sep.	1.638,9	0,0	0,0	0,0	0,0	87,5	79,4	198,7	579,4	-119,0	200,2	612,7	1.359,1

Source: Central Bank of Cyprus.

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

Table 9 depicts the decrease in yields on all government securities that was observed in September, compared with July (which was the latest month during which auctions were held). During September no auctions were held on 13-week treasury bills, 2-year, 5-year and 15-year government bonds.

In September the average interest rate on 52-week treasury bills decreased to 3,51% from 4,01% in July, and the rate on 10-year government bonds fell to 4,22% from 4,84% in June.

The marked fall in yields on government securities partly reflects market expectations of a gradual decline in the interest rate differential between Cyprus and the EU.

The interbank overnight interest rate fell to 2,55% in September from 2,75% in August, partly reflecting the surplus liquidity conditions in the money market.

Table 9
Interest rates

(percent per annum, period averages)

	2002	2003	2004	2004 Sep.	2005 Jul.	2005 Aug.	2005 Sep.
Interbank (1day)	3,42	3,35	3,92	4,11	2,70	2,75	2,55
Acceptance of deposits operations	3,91	3,45	3,89	4,27	2,63	2,68	2,61
Treasury bills (13 weeks)	4,02	3,51	4,21	-	-	-	-
Treasury bills (52 weeks)	4,30	3,70	4,76	5,14	4,01	-	3,51
Development stocks (2 years)	4,56	3,83	5,14	5,25	4,03	-	-
Development stocks (5 years)	5,07	4,49	5,93	6,29	-	-	-
Development stocks (10 years)	5,37	4,70	6,07	-	-	-	4,22
Development stocks (15 years)	5,60	4,81	6,31	-	-	-	-

Source: Central Bank of Cyprus.

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

This box reviews the Central Bank of Cyprus (CBC) liquidity management from 16 June to 28 September 2005. Figure 1 summarises the liquidity absorption and provision through monetary policy operations, while figure 2 presents the developments of the main short-term interest rates.

Liquidity conditions in the banking system

The net liquidity impact of the autonomous factors, i.e. the factors not related to monetary policy operations, resulted in an increase in the liquidity position of the banking system. In addition, from 1 September 2005 the liquidity position of the banking system was further enhanced (by £63 million) as a result of the decrease in the minimum reserve ratio applied to liabilities in Cyprus pounds from 6,5% to 5,75%.

Monetary policy operations and interest rates

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

Open market operations

(CYP million; interest rates in percentages per annum)

Operation	Date of settlement	Date of maturity	Bids (amount)	Allotment (amount)	Bid-cover ratio	Weighted average allotment rate	Running for (...) days
LAO	16/06/2005	30/06/2005	88,5	30,0	2,95	2,60	14
LAO	30/06/2005	14/07/2005	159,5	110,0	1,45	2,64	14
LAO	14/07/2005	28/07/2005	151,5	70,0	2,16	2,62	14
LAO	28/07/2005	11/08/2005	122,0	80,0	1,53	2,62	14
LAO	11/08/2005	25/08/2005	122,0	80,0	1,53	2,69	14
LAO	25/08/2005	01/09/2005	209,0	140,0	1,49	2,73	7
LAO	01/09/2005	15/09/2005	317,2	200,0	1,59	2,65	14
LAO	15/09/2005	29/09/2005	327,5	200,0	1,64	2,57	14

Source: Central Bank of Cyprus.

The LAOs were carried out through variable rate tenders with a maximum bid rate of 3,25%. The absorbed liquidity ranged between £30 million and £200 million, whereas the weighted average allotment rate remained within the range of 2,57% and 2,73%. The ratio of the amount bid to the volume allotted, ranged between 1,45 and 2,95 with an average of 1,79, while the number of participating counterparties varied between 3 and 8.

Standing facilities

(period averages of daily recourse in CYP million)

Period	Deposit facility	Marginal lending facility
16/06 - 29/06/2005	42,5	10,7
30/06 - 13/07/2005	61,5	0,0
14/07 - 27/07/2005	12,5	0,0
28/07 - 10/08/2005	10,1	0,8
11/08 - 24/08/2005	36,7	0,0
25/08 - 31/08/2005	73,5	0,0
01/09 - 14/09/2005	85,5	0,0
15/09 - 28/09/2005	90,9	0,0

Source: Central Bank of Cyprus.

In view of the aforementioned liquidity conditions during the above periods, averages of daily recourse to the deposit facility ranged between £10,1 million and £90,9 million. This is in contrast to the very limited recourse to the marginal lending facility for which the respective average recourse ranged between zero and £10,7 million.

Figure 1. Monetary policy operations

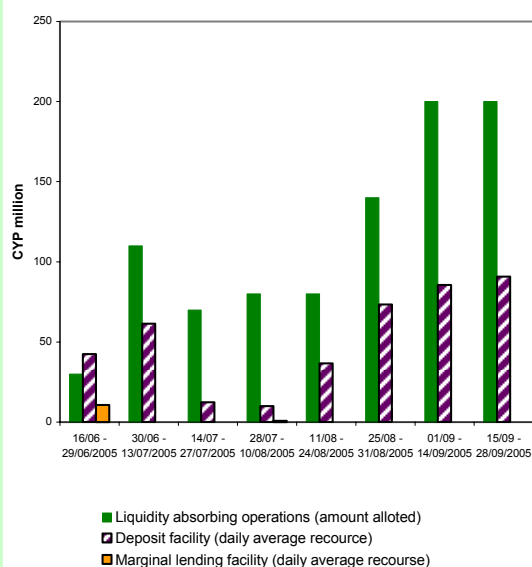
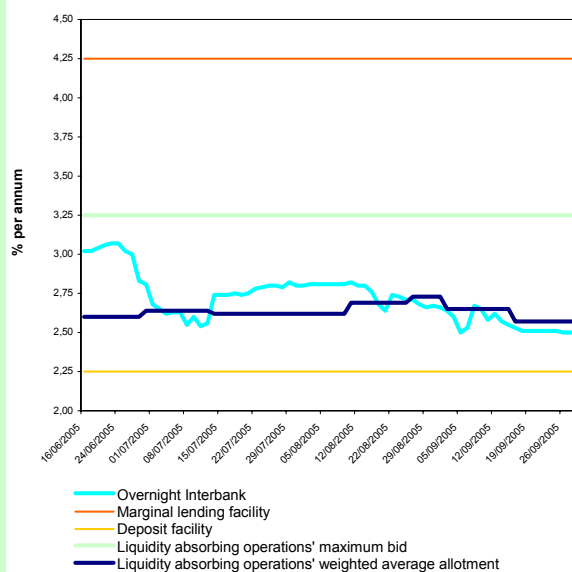


Figure 2. Interest rates



Overnight interbank interest rate

(percent per annum)

Period	Minimum rate	Maximum rate	Average rate
16/06 - 29/06/2005	2,83	3,07	3,01
30/06 - 13/07/2005	2,54	2,81	2,63
14/07 - 27/07/2005	2,74	2,80	2,76
28/07 - 10/08/2005	2,79	2,82	2,81
11/08 - 24/08/2005	2,64	2,82	2,74
25/08 - 31/08/2005	2,66	2,71	2,68
01/09 - 14/09/2005	2,50	2,67	2,59
15/09 - 28/09/2005	2,50	2,53	2,51

Source: Central Bank of Cyprus.

During the period under review the overnight interbank interest rate ranged between 2,50% and 3,07%. The average rate stood at around 2,72%.

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

the corresponding European rates by 186 basis points, compared with 183 basis points in the previous 12-month period.

Table 10

Inflation and interest rates in Europe and Cyprus - August 2005

(latest 12-month average)

	Inflation (HICP) (%)	Long-term interest rates (%)	Long-term real interest rates (%)
Austria	2,20	3,59	1,39
Belgium	2,40	3,62	1,22
Czech Republic	1,80	3,88	2,08
Denmark	1,40	3,69	2,29
Estonia	4,10	4,10	0,00
Finland	0,50	3,58	3,08
France	2,00	3,60	1,60
Germany	1,80	3,53	1,73
Greece	3,30	3,76	0,46
Hungary	4,40	7,08	2,68
Ireland	2,20	3,53	1,33
Italy	2,10	3,74	1,64
Latvia	6,90	4,19	-2,71
Lithuania	2,70	3,93	1,23
Luxembourg	3,60	3,57	-0,03
Malta	2,30	4,66	2,36
Netherlands	1,40	3,57	2,17
Poland	3,20	5,73	2,53
Portugal	2,10	3,60	1,50
Slovakia	3,60	4,02	0,42
Slovenia	2,70	4,04	1,34
Spain	3,30	3,58	0,28
Sweden	0,80	3,70	2,90
United Kingdom	1,80	4,61	2,81
Eurozone	2,10	3,61	1,51
EU -25	2,10	3,91	1,81
Cyprus	2,20	5,87	3,67

Sources: Eurostat and European Central Bank.

International and domestic official interest rates

At their recent meetings the ECB and the Bank of England maintained their official interest rates unchanged. In contrast, the US Federal Reserve raised its federal funds rate by 25 basis points for the eleventh consecutive time. On 2 September 2005 the Central Bank of Cyprus maintained its

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

Table 11
Selected official interest rates
(percent per annum, changes in percentage points)

		change
European Central Bank		
<i>(6 October 2005)</i>		
Minimum bid rate on the main refinancing operations	2,00	-
Interest rate on the marginal lending facility	3,00	-
Interest rate on the deposit facility	1,00	-
Bank of England		
<i>(6 October 2005)</i>		
Repo rate	4,50	-
Federal Reserve		
<i>(20 September 2005)</i>		
Federal funds rate	3,75	+0,25
Discount rate	4,75	+0,25
Central Bank of Cyprus		
<i>(2 September 2005)</i>		
Minimum bid rate on the main refinancing operations	3,25	-
Maximum bid rate on the liquidity absorbing operations	3,25	-
Interest rate on the marginal lending facility	4,25	-
Interest rate on the deposit facility	2,25	-

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

Cyprus Stock Exchange (CSE)

In September the All-share CSE index registered an increase mainly due to the improved banking sector's performance in the first half of the year and announcements for rights issues by the banks (Chart 8). The index fluctuated between 88,7 and 99,1 reaching a monthly average of 95,4. During the first nine months of the year the average value of the index was 86,2. The average daily value of transactions rose notably to £1,3 million from £0,6 million in August. The average daily volume of transactions also increased to 1.018 in September from 564 in the previous month. The companies with the largest volume of transactions were the Bank of Cyprus and Laiki Bank, with respective shares of 37,4% and 22,2%.

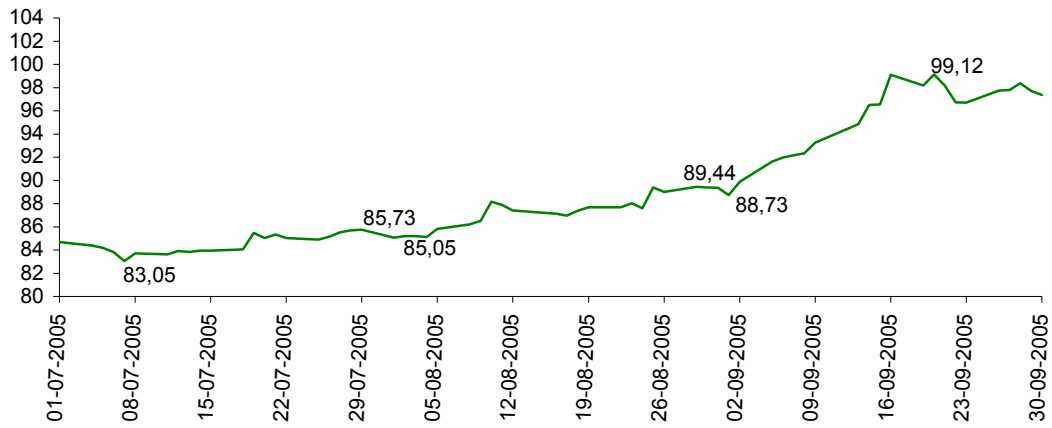
At the last session of the month, the main indices as well as the sectoral index of banks and hotels exhibited a rise compared with the previous month's closing.

On 13 September 2005 the CSE Council decided to suspend the compilation and publication of the CSE General Index which was launched on 29 March 1996. The Index will continue to exist until the end of 2005. The Monetary Policy Report will include both indices until the end of the current year for historical comparability as well as to aid the public to familiarise itself with the new index of Main and Parallel Market Index (Chart 9). An analysis of the purchases/sales of listed shares by non-residents is shown in the Annex (Table 13).

Chart 8

Cyprus Stock Exchange general index

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

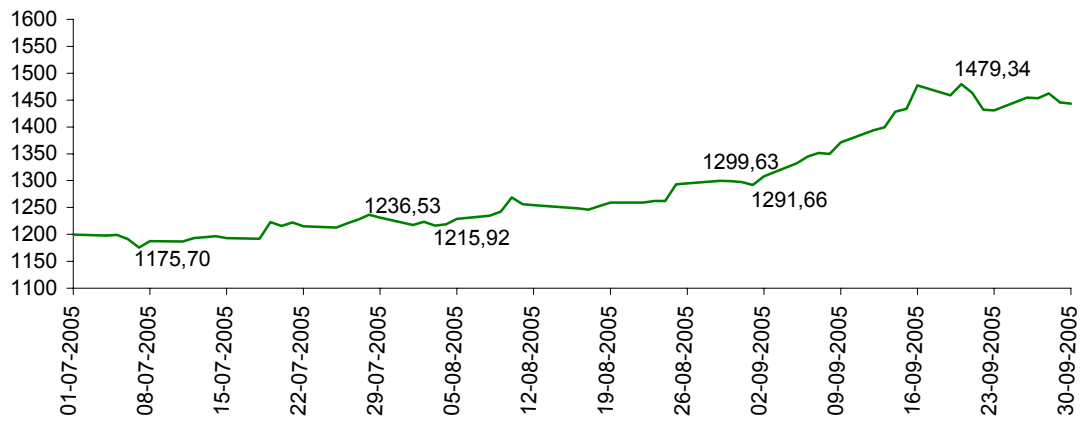


Source: Cyprus Stock Exchange.

Chart 9

Main and parallel market index

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



Source: Cyprus Stock Exchange.

2.3 INFLATION

In September 2005 prices recorded an increase of 2,93%, compared with 2,11% in the previous month and 2,37% in September 2004. As Table 12 shows the rise in the rate of inflation in September compared with August, reflects the acceleration in the prices of agricultural products, electricity and fuel. The price of services also displayed a small acceleration. A further fall, though smaller compared with the previous month, was reported by the prices of imported products.

For the first nine months of the year, inflation reached 2,54% compared with 1,96% in the corresponding period of 2004. This acceleration reflects the dissipation of the impact of the reduction in excise taxes on cars which took place in November 2003, as well as the acceleration in the prices of electricity and services, especially rents, government services, education and personal services. A more detailed analysis of inflation by economic origin is given in Tables 9 to 12 in the Annex.

A noticeable development in the category of domestic goods that took place in September 2005, was the rise in agricultural product prices

by 6,62% as against an increase of 1,44% in the previous month (Table 12). At the same time, an acceleration was observed in the prices of electricity and fuel which rose by 16,38% and 19,36% respectively, compared with 15,29% and 15,87% the previous month.

The prices of imported goods exhibited a further decline of 3,24% in September 2005, following a 3,28% reduction in August. In particular, car prices fell by 3,15% compared with a reduction of 3,98% in August.

The prices of services increased by 2,81% in September compared with a rise of 2,56% in August. This small price acceleration is mainly attributed to the acceleration in the prices of public services, rents and transport.

Finally, it is noted that rents (the most significant category of services), which constitutes an important indicator of the property market's performance, recorded a rise of 3,83% in the first nine months of 2005 compared with a rise of 3,40% in the corresponding nine months of 2004.

Table 12

Consumer price index by economic origin

(CYP thousand)

		2003	2004	Sept. 2004/2003	Aug. 2005/2004	Sept. 2005/2004
	All items	4,14	2,28	2,37	2,11	2,93
A	Domestic goods	7,30	5,03	5,42	3,91	5,70
A.1	Agricultural	4,54	3,32	-2,09	1,44	6,62
A.2	Industrial	7,90	6,09	8,05	3,84	4,73
A.2.1	<i>Industrial, non-oil</i>	6,46	3,36	3,37	0,29	0,46
A.2.2	<i>Fuel and gas</i>	14,16	17,18	27,82	15,87	19,36
A.3	Electricity	10,20	-3,13	-0,50	15,29	16,38
B	Imported goods	-2,38	-5,55	-5,92	-3,28	-3,24
B.1	Motor vehicles	-8,31	-13,65	-14,68	-3,98	-3,15
B.2	Other imported goods	1,81	-0,39	-0,31	-2,88	-3,29
C	Services	4,38	3,23	3,22	2,56	2,81

For comparison purposes Table 13 shows the latest available monthly data on inflation in Cyprus, the euro area and other industrial countries, as well as forecasts for 2005.

In 2005 inflation will greatly depend on developments in the oil market. Assuming that the price of oil increases significantly (at \$57 per barrel) and there is a small acceleration in the exchange rate, inflation is expected to be around 2,7%. This forecast is also based on the assumption that there will be a small acceleration in overall economic activity and that the prices of agricultural products and services will rise by 2% and 3,5%, respectively, by the end of the year.

Table 13
Inflation : Cyprus and other countries

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

(1) Source: *The Economist*, 10 October 2005.

(2) Source: Central Bank of Cyprus.

2.4 PRODUCTION, DEMAND AND THE LABOUR MARKET

According to quarterly figures published by Cystat, the growth rate of real GDP reached 3,8% and 3,5% in the first and second quarters of 2005 respectively, compared with 3,9% and 4,1% in the same quarters of 2004. In the labour market, unemployment as a percentage of the economically active population, reached 3,8% in the first eight months of 2005, compared with 3,6% in the corresponding period of 2004.

Production

In the services sector, tourist arrivals registered an increase of 7,7% in the first eight months of 2005, compared with an increase of 2,4% in the same period of 2004. At the same time, receipts from tourism rose by 3,1% compared with a fall of 4,9% in the corresponding period of 2004.

In the secondary sectors, the overall picture is mixed.

More specifically, the volume index of building permits increased by 11,8% in the first six months of 2005, compared with an increase of 15,1% in the same period of 2004. During the first eight months of 2005, local sales of cement increased by 5% compared with an increase of 19,5% in the same period of the previous year.

The volume index of manufacturing production fell by 1,7% in the first seven months of 2005, compared with an increase of 1,8% in the corresponding period of 2004. It should be noted that the growth rate of the volume index of manufacturing (Table 16) has been adversely affected by the termination of oil refining as from 1 May 2004.

Table 14

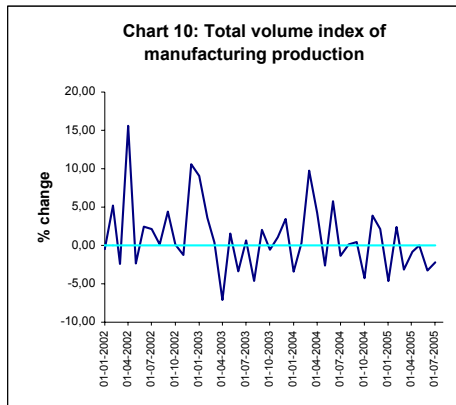
Manufacturing production volume index

(percentage change by category)

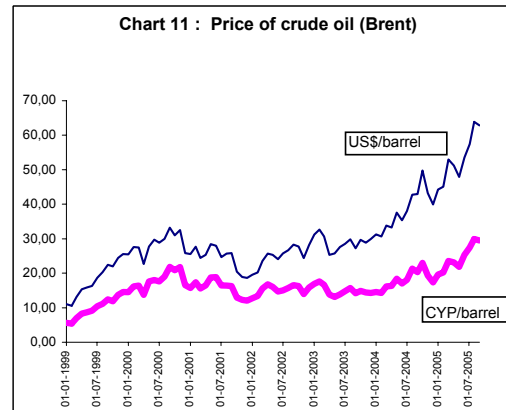
	July 04/03	July 05/04	Jan.-July 04/03	Jan.-July 05/04
General index	-1,3	-2,2	1,8	-1,7
Food products, beverages & tobacco	-13,5	3,2	-0,7	2,4
Textiles & textile products	-18,3	0,3	-12,3	-10,8
Leather & leather products	-45,9	-17,6	-21,9	-40,3
Wood & wood products	30,5	-2,5	18,5	1,3
Paper, paper products, publishing & printing	-2,2	-5,2	1,1	-4,3
Refined petroleum products	-96,3	-14,7	-49,8	-93,8
Chemicals, chemical products & man-made fibres	14,2	-8,3	4,8	-0,3
Rubber & plastic products	-3,8	-7,9	-0,4	-6,3
Other non-metallic mineral products	18,2	-9,9	7,2	1,3
Basic metals & fabricated metal products	-2,3	2,5	1,7	-0,6
Machinery & equipment n.e.c.	18,1	2,4	6,5	-3,0
Electrical & optical equipment	4,1	-4,6	-8,6	-8,7
Transport equipment	-8,6	4,4	-15,2	2,3
Manufacturing n.e.c.	5,2	-3,2	2,4	-3,9

Source: Cystat.

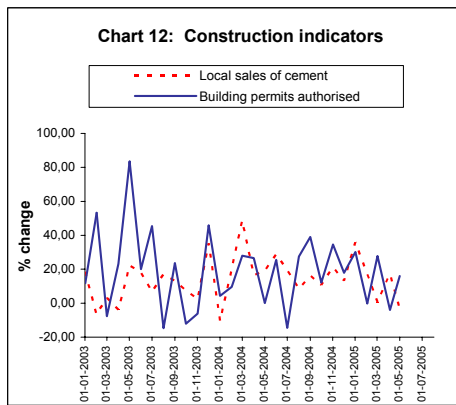
Charts 10 - 13



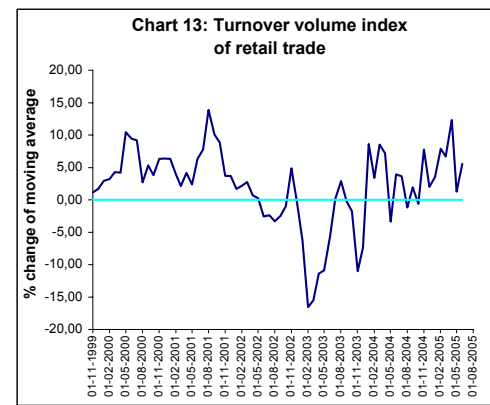
Source: Cystat.



Source: Reuters.



Source: Cystat.



Source: Cystat.

Consumption

The turnover volume index of retail trade registered a rise of 6,2% in the period January-June 2005, compared with an increase of 4,5% in the corresponding period of 2004. In addition, according to the "Business and Consumer Survey Results" of

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

Table 15

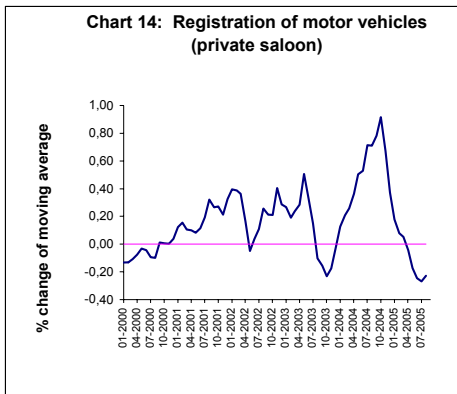
Turnover volume index of retail trade

(percentage change by category)

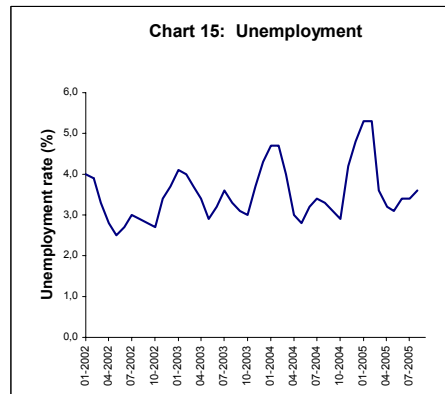
	April 04/03	April 05/04	Jan.- Apr. 04/03	Jan.- Apr. 05/04
General index	3,90	5,54	4,49	6,19
Retail sale in non-specialised stores with food, beverages or tobacco predominating	3,15	10,79	1,79	12,51
Other retail sale in non-specialised stores	2,39	6,43	2,56	3,28
Retail sale of food, beverages and tobacco in specialised stores	-0,65	4,08	3,46	9,07
Retail sale of pharmaceutical and medical goods, cosmetics and toilet articles	10,45	28,57	5,60	35,35
Retail sale of textiles, clothing, footwear and leather goods	8,16	7,81	14,12	0,32
Retail sale of furniture, lighting equipment and household articles, electrical household appliances and radio and television goods hardware, paints and glass	19,65	6,32	14,02	8,31
Retail sale of books, newspapers and stationery and other retail sale in specialised stores	-7,27	-10,90	-2,38	-5,98
Retail sale of second-hand goods in stores	-19,31	-13,86	-1,77	-14,91
Retail sale not in stores	-13,00	21,14	-9,58	2,79

Source: Cystat.

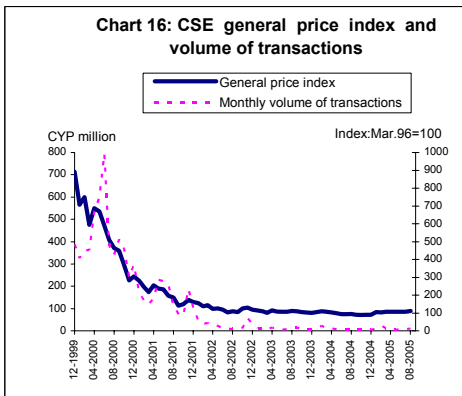
Charts 14 -17



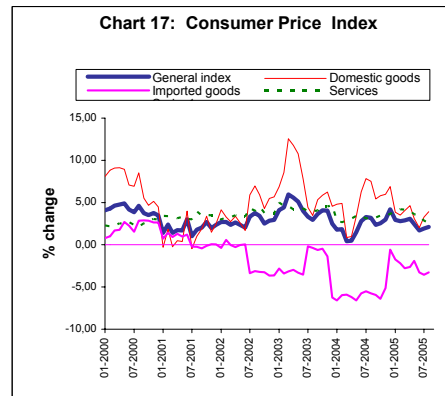
Source: Cystat.



Source: Cystat.



Source: CSE.



Source: Cystat.

Due to the reduction in excise taxes for cars that took place in November 2003, registrations of private saloon cars, which provides another important indicator of consumer expenditure, exhibited a fall of the order of 10,1%

for the first seven months of 2005, compared with an increase of 37,6% in the corresponding period of the previous year.

Labour market

In September 2005 the number of registered unemployed increased by 6,5% while the unemployment rate, as a percentage of the economically active population, fluctuated at around 3,3%, compared with 3,1% in the corresponding month of the previous year. For the first nine months of 2005, the number of registered unemployed increased by 8,5% compared with an increase of 4% in the corresponding nine months of 2004. The unemployment rate rose to 3,8% from 3,5% in the corresponding period of 2004.

Confidence indicators

Chart 15 tracks the movement of confidence indicators for the Cyprus economy since May 2001, when the European Commission first started publishing them⁷. The trends in these indicators are generally consistent with the overall picture of the economy presented in this report.

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

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

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

2.5. PUBLIC FINANCES

According to preliminary data published by Cystat and covering the general government sector for the period January - June 2005, public revenue reached £1.493,5 million and public expenditure £1.456,4 million. As a result, a fiscal surplus of £37,1 million or 0,5% of GDP was recorded compared with a fiscal deficit of £98 million or 1,4% of GDP in the corresponding 2004 period.

As regards the preliminary consolidated accounts of the Ministry of Finance, which cover only the central government and social insurance funds (and exclude local authorities), revenue and expenditure for the period January – July 2005 amounted to £1.586,8 million and £1.633,7 million, respectively. As a result, a fiscal deficit of £46,9 million or 0,6% of GDP was recorded. This compares favourably with the deficit of 2,4% recorded in the corresponding seven-month period of 2004. However, if we exclude the tax amnesty receipts of £68 million and the dividend payment of £35 million from CYTA, the improvement of the fiscal deficit is restricted to 0,5 percentage points.

Comparing the figures for the respective 2004 and 2005 seven month periods, public revenue increased by 17,7% reaching £1.586,5 million. More specifically, tax revenue rose to £1.333,1 million thus recording an increase of 19,5%. However, by excluding the tax amnesty proceeds, this increase is restricted to 13,4%. Direct taxes increased by 55,6% mainly due to the 134,3% increase in “other direct taxes” (which includes the £68 million from the tax

amnesty), while income tax revenue also increased by 14,2%. Total tax revenue recorded a small increase of 5% during the first seven-month period of 2005 compared with that of 2004, mainly due to the income tax receipts from public service employees as well as the revenue collected from defence. As far as revenues from direct taxes are concerned, increases were recorded in corporation tax (9,5%) defence tax (21,5%) and income tax (6,1%), while reductions were recorded in capital gains tax (-6,8%) and income tax of the self-employed (-22,1%). Revenue from indirect taxes increased by 10,1% reaching £683,3 million with proceeds from excises increasing by 11,2% and proceeds from import duties declining by 38,6%. Other indirect tax revenues were also reduced by 9,1% while VAT proceeds increased by 19,5%. These include the additional revenue resulting from the retail price increases of oil products as well as the recovery in economic activity . Another reason for the increase in VAT receipts is the methodological change in collecting VAT as a result of EU accession, where collection is effected at the point of consumption instead of at the point of importation.

Non-tax revenue increased by only 3,1% reaching £202,9 million, which includes the £35 million paid by CYTA as a dividend income during the first six months of 2005. By excluding this amount, however, the figure is reversed to a 14,6% reduction which, in part, is explained by non- payment of rents by Cyprus Airways in 2005 for the duty-free shops at Larnaca and Paphos airports as well as by the sales of permits by the

government for third generation mobile telecommunications in 2004.

Comparing the respective seven month periods of 2004 and 2005, public expenditure increased by 7,6% reaching £1.633,7 million compared with £1.517,9 million. More analytically, subsidies were contained at £23,7 million thus recording a reduction of 43%, due to the payment of agricultural subsidies for 2004 early in the year, while for 2005 these are scheduled for payment during the remainder of the year. Current transfers reached £447,4 million, thus registering an increase of 14,1%. It is noted that, an amount of £39,5 million has already been contributed towards the funding of the EU budget, in contrast to 2004 where such contributions had been paid post- July 2004. Defence outlays recorded a reduction of 43,7% and capital expenditure registered an increase of 33,9%, due to the acceleration in the completion of approved government projects.

On the basis of developments so far, the fiscal deficit as a percentage of GDP is projected to decline below 3%, provided that the government does not diverge from the

fiscal consolidation programme. The successful accession of Cyprus in ERM II presupposes an intensification of the efforts towards public consolidation, while the government is expected to implement additional correcting measures, in the event of adverse developments emerging. Following accession to ERM II, it is imperative to adopt structural measures in support of the viability of public finances both in the medium and long-term.

On 23 June 2005, the majority of the House of Representatives approved a Bill submitted by the Ministry of Finance, relating to the gradual extension of the retirement age in the public sector from 60 to 63 years of age. The said measure will be implemented within the context of the agreement reached with the civil servants' union (PASDYD) and it is binding on public sector employees. The semi-governmental organisations' employees are, at this stage, excluded, despite their initial inclusion since their unions (SEK and PEO) have strongly opposed this proposal. This issue is still pending with teachers working in the public sector.

Table 16**Accounts of general government sector (analysis of expenditure and revenue)***(CYP million)*

	Jan-June 2004	Jan-Mar. 2005	April-June. 2005	Jan- June. 2005
EXPENDITURE				
Intermediate consumption	126,2	48,3	72	120,3
Capital formation	80,3	55	68	123
Compensation of employees	512,4	264,4	268,1	532,5
Other taxes on productions	0,1	0,1	0,1	0,2
Subsidies	28,3	2,1	2,9	5
Interest paid	110,5	71,8	42,7	114,5
Social benefits	371,6	193,7	225,6	419,3
Other current transfers	111,6	68,1	50,6	118,7
Capital transfers	26,1	11,5	11,4	22,9
Total expenditure	1.367,10	715,00	741,40	1.456,40
REVENUE				
Market output & output for own final use	92,4	51,5	48,2	99,7
Taxes on production and imports	552,7	307,4	312,3	619,7
<i>of which VAT</i>	312,9	181,8	180	361,8
Property income	18,4	41	8,2	49,2
Current taxes on income, wealth, etc	281,2	194,7	108,4	303,1
Social contributions	277,8	137,1	144,1	281,2
Other current transfers	41,0	26,1	39,9	66
Capital transfers	5,6	71	3,6	74,6
Total revenue	1.269,10	828,80	664,70	1.493,50
Surplus (+) / Deficit (-)	-98,0	113,8	-76,7	37,1

Source: Cystat.

2.6 EXTERNAL TRANSACTIONS

Goods

An overview of the trade balance is given in Table 17 for the first eight months of 2005, in line with the preliminary data published by Cystat. It should be noted that since May 2004, the collection of data which refers to trade with EU countries (intra-EU) has been produced using a new methodology introduced by Eurostat.

During the first eight months of 2005, total imports of goods decelerated, increasing by 5,7% compared with a significant increase of 13,2% in the corresponding period of 2004. The deceleration is partly due to exogenous factors, such as the reduction in car imports and the reduction in imports of intermediate goods and raw materials.

During the first eight months of 2005, total exports of goods recorded a significant increase of 23,3% compared with a rise of 5% in the corresponding period of 2004. This was largely due to the increase in re-exports.

As a result of the above, the trade balance showed a minor deterioration registering a deficit of £1.383,3 million during the first eight months of 2005, compared with a deficit of £1.365,1 million in the corresponding period of 2004.

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

For the period January-July 2005, total imports of goods recorded a deceleration, thereby increasing by 5,4% relative to 2004. This deceleration was mainly due to the reduction in

car imports by 9,9% as a result of the base effect following the reduction in import duties in November 2004. The reduction in the imports of cars is partly outweighed by the significant increase in oil products which increased by 58,3% in the period January – July 2005 relative to the corresponding period of 2004.

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

Tourism

Arrivals from tourists, as shown in Table 18, increased by 10% in August 2005 compared with a 6% decrease in the corresponding month of 2004. For the period January – August 2005 a 7,7% increase was recorded compared with a 2,4% increase in the corresponding period of 2004.

Revenue from tourism increased by 8,9% in August 2005 compared with a 10,4% decrease in the corresponding month of 2004. During the first eight months of 2005 a 3,1% increase in revenue was recorded compared with a 2,9% decrease in the corresponding period of 2004.

The significant increase in arrivals and revenue in August can be attributed to the base effect following the disappointing performance of the tourism sector in 2004.

Table 17**Trade balance data**

(CYP million)

Period	TOTAL TRADE		EXTRA-EU TRADE			INTRA-EU TRADE	
	Total Imports/ Arrivals (cif)	Total Exports/ Dispatches (fob)	Total Imports (cif)	Total Exports (fob)	Arrivals (cif)	Dispatches (fob)	
2000	2.402,0	591,9	1.140,9	364,5	1.261,1	227,4	
2001	2.528,7	627,9	1.208,8	376,5	1.320,0	251,4	
2002	2.486,6	511,3	1.140,9	240,9	1.345,8	270,4	
2003	2.304,1	476,8	992,8	198,3	1.311,3	278,5	
2004							
May	169,0	56,3	47,0	14,2	0,0	122,0	
June	225,1	47,3	70,6	16,4	0,0	154,5	
July	221,2	45,5	66,8	16,4	0,0	154,4	
August	197,6	35,7	65,1	11,7	0,0	132,4	
September	212,7	49,6	68,2	22,5	0,0	144,5	
October	238,2	55,7	56,6	24,3	0,0	181,6	
November	256,8	52,7	78,6	24,3	0,0	178,2	
December	263,9	47,5	86,1	15,0	0,0	177,9	
2005							
January	193,1	43,3	62,9	14,4	0,0	130,2	
February	209,0	46,8	76,5	18,1	0,0	132,5	
March	255,2	61,3	74,0	22,8	0,0	181,2	
April	223,6	50,6	78,1	19,0	0,0	145,4	
May	238,6	56,2	74,5	16,8	0,0	164,1	
June	235,3	57,0	85,3	20,1	0,0	149,9	
July	237,1	55,5	78,6	19,6	0,0	158,5	
August(p)	213,9	51,7	63,9	18,2	0,0	150,0	
Jan. - Aug. 2003	1.508,3	326,1	660,6	131,6	0,0	847,7	
Jan. - Aug. 2004(p)	1.707,6	342,5	632,2	116,5	0,0	1.075,4	
Jan. - Aug. 2005(p)	1.805,7	422,4	593,7	148,9	0,0	1.211,9	
% change 2004/2003	13,2	5,0	-4,3	-11,5	0,0	26,9	
% change 2005/2004	5,7	23,3	-6,1	27,8	0,0	12,7	

Source :Cystat

Note: Care should be taken when comparing data for May 2004 onwards with pre-May 2004 data due to methodological changes resulting from accession to the EU. Figures are not strictly comparable since data prior to May 2004 for intra-Eu and extra-EU trade on arrivals/imports are recorded by country of origin while for dispatches/exports by country of final destination, whereas data for May 2004 onwards for intra-EU trade on arrivals are recorded by country of consignment and for dispatches by country of dispatch. Intra-EU trade refers to trade with EU 25 Member States, while extra-EU trade refers to trade with third countries. "Arrivals" denote goods within the European Union which enter the statistical territory of Cyprus and "Dispatches" denote goods which leave the statistical territory of Cyprus in order to enter another Member State. Data on countries and territories not specified and stores and provisions prior to May 2004 are included in extra-EU trade.

Balance of payments

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

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

the first half of 2005 in conjunction with the significant increase in the expenditure of Cypriots travelling abroad. The usage of Cypriot credit cards abroad, which is used as an indication of outflows, reported a 20,2% increase in the period January to September 2005, compared with an 8,6% increase in the corresponding period in 2004.

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

Table 18
Tourist arrivals⁽¹⁾

(number of persons)

	2000	2001	2002	2003	2004	2005	% change 2003/2002	% change 2004/2003	% change 2005/2004
January	63.553	64.214	54.067	59.529	56.504	58.894	10,1	-5,1	4,2
February	87.243	83.569	71.950	77.972	75.705	72.600	8,4	-2,9	-4,1
March	135.487	137.578	138.625	91.634	111.946	137.075	-33,9	22,2	22,4
April	221.785	237.228	180.481	169.891	191.251	183.561	-5,9	12,6	-4,0
May	299.355	324.901	279.070	231.527	261.646	284.132	-17,0	13,0	8,6
June	302.011	322.835	293.192	262.100	264.799	282.652	-10,6	1,0	6,7
July	362.299	373.385	327.404	318.143	305.978	338.972	-2,8	-3,8	10,8
August	356.686	371.536	301.724	325.390	305.926	336.587	7,8	-6,0	10,0
September	329.964	329.400	306.731	287.358	303.506	<i>n.y.a.</i>	-6,3	5,6	<i>n.y.a.</i>
October	300.597	269.744	275.840	271.980	278.976	<i>n.y.a.</i>	-1,4	2,6	<i>n.y.a.</i>
November	133.500	107.454	111.327	123.800	114.048	<i>n.y.a.</i>	11,2	-7,9	<i>n.y.a.</i>
December	93.722	74.887	77.822	83.919	78.723	<i>n.y.a.</i>	7,8	-6,2	<i>n.y.a.</i>
Jan. - Dec.	2.686.202	2.696.731	2.418.233	2.303.243	2.349.008	<i>n.y.a.</i>	-4,8	2,0	<i>n.y.a.</i>
Jan. - Aug.	1.471.733	1.543.710	1.646.513	1.536.280	1.517.251	1.694.473	-6,7	2,4	7,7

Source: Cystat.

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

Table 19
Receipts from tourism⁽¹⁾

(CYP million)

	2000	2001	2002	2003	2004	2005	% change 2004/2003	% change 2005/2004
January	-	24,9	21,6	25,6	21,8	20,7	-15,0	-5,0
February	-	29,1	28,9	31,4	25,4	23,5	-19,1	-7,5
March	-	49,7	59,2	37,8	42,1	47,6	11,2	13,2
April	-	89,9	77,0	67,1	72,1	62,0	7,4	-14,0
May	-	139,1	119,5	92,5	99,5	105,4	7,6	5,9
June	122,9	157,4	139,3	114,8	109,3	113,3	-4,8	3,7
July	162,7	192,0	160,7	152,4	135,1	140,1	-11,4	3,7
August	173,7	205,0	153,8	165,3	148,1	161,3	-10,4	8,9
September	161,9	176,3	157,4	134,1	141,2	<i>n.y.a.</i>	5,3	<i>n.y.a.</i>
October	135,1	130,2	128,0	112,4	115,9	<i>n.y.a.</i>	3,1	<i>n.y.a.</i>
November	54,1	48,8	51,4	48,7	43,1	<i>n.y.a.</i>	-11,5	<i>n.y.a.</i>
December	36,2	29,2	35,6	32,9	28,8	<i>n.y.a.</i>	-12,4	<i>n.y.a.</i>
Jan. - Dec.	-	1.271,6	1.132,4	1.015,0	982,3	<i>n.y.a.</i>	-3,2	<i>n.y.a.</i>
Jan. - Aug.	-	887,1	760,0	687,0	653,3	673,9	-4,9	3,1

Source: Cystat.

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

2.7. PROSPECTS FOR 2005

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

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

As regards public finances, it is assumed that the fiscal deficit will fall to below 3% of GDP and the public debt will begin to decline.

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

Inflation during 2005 is expected to fluctuate at around 2,7% on the basis of both developments so far and future developments in the oil market. This evaluation is based on the small revaluation observed in the value of the Cyprus pound in relation to its average value during 2004. Also, it is assumed that the prices of agricultural products will increase by 2% for the whole of 2005, while the prices of services will increase by 3,5%. The reduction in the prices of pharmaceutical products, which are government controlled, and the continuation of the reduction in telecommunications prices are expected to restrain inflation in 2005.

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

Table 20
Official interest rates
 (percent per annum)

Date of monetary policy decision	Deposit facility	Open market operations			Marginal lending facility	
		Main refinancing operations	Liquidity absorbing operations			
		Repo operations	Reverse repo operations	Acceptance of deposits operations ⁽¹⁾		
		Minimum bid rate	Maximum bid rate	Maximum bid rate		
2001	10 Aug.	3,50	5,00	5,00	-	6,50
	18 Sep.	3,00	4,50	4,50	-	6,00
	02 Nov.	2,50	4,00	4,00	4,00	5,50
2002	13 Dec.	2,50	3,75	3,75	3,75	5,00
2003	04 Apr.	2,50	3,50	3,50	3,50	4,50
2004	30 Apr.	3,50	4,50	4,50	4,50	5,50
2005	25 Feb.	3,25	4,25	4,25	4,25	5,25
	20 May	2,75	3,75	3,75	3,75	4,75
	09 Jun.	2,25	3,25	3,25	3,25	4,25

Source: Central Bank of Cyprus.

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

Table 21
Open market operations allotted through tenders - liquidity absorbing operations ⁽¹⁾
 (CYP million, interest rates in percent per annum)

Date of settlement	Bids (amount)	Allotment (amount)	Variable rate tenders				Running for (...) days	
			Maximum bid rate	Weighted average allotment rate	Minimum allotment rate	Maximum allotment rate		
2005	17 Feb.	100,0	70,0	4,50	4,14	4,13	4,16	14
	17 Mar.	82,0	50,0	4,25	3,95	3,84	3,99	14
	31 Mar.	90,0	40,0	4,25	3,89	3,88	3,93	14
	05 May	101,0	50,0	4,25	3,84	3,83	3,85	14
	19 May	164,0	120,0	4,25	3,65	3,62	3,73	14
	02 Jun.	223,0	140,0	3,75	3,23	3,00	3,74	7
	09 Jun.	141,0	60,0	3,75	3,60	3,12	3,75	7
	16 Jun.	88,5	30,0	3,25	2,60	2,60	2,60	14
	30 Jun.	159,5	110,0	3,25	2,64	2,56	2,90	14
	14 Jul.	151,5	70,0	3,25	2,62	2,60	2,67	14
	28 Jul.	122,0	80,0	3,25	2,62	2,58	2,78	14
	11 Aug.	122,0	80,0	3,25	2,69	2,65	2,72	14
	25 Aug.	209,0	140,0	3,25	2,73	2,61	3,24	7
	01 Sep.	317,2	200,0	3,25	2,65	2,60	2,72	14
	15 Sep.	327,5	200,0	3,25	2,57	2,56	2,59	14
	29 Sep.	303,0	180,0	3,25	2,53	2,52	2,55	14
	13 Oct.	290,0	200,0	3,25	3,22	2,58	3,25	14

Source: Central Bank of Cyprus.

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

3. ANNEX

Table 1
Monetary aggregates and counterparts

(outstanding amounts at end of period, CYP thousand)

	2004 July	2004 Aug.	2005 July	2005 Aug.
Money supply (M1)	1.424.883	1.408.645	1.619.602	1.611.697
Currency in circulation	497.915	473.689	540.625	518.575
Demand deposits	846.868	859.748	962.824	972.959
Deposits in foreign currency	80.100	75.208	116.153	120.163
Quasi-money	7.584.104	7.457.640	7.759.889	7.853.437
Saving deposits	306.657	303.489	330.533	332.592
Time deposits	6.574.776	6.604.823	6.612.881	6.676.707
Deposits in foreign currency	702.671	549.328	816.475	844.138
Total money supply (M2)	9.008.987	8.866.285	9.379.491	9.465.134
Net foreign assets	1.344.465	1.138.079	1.500.215	1.595.873
Claims on private sector	8.594.571	8.556.663	8.997.409	8.974.228
of which in foreign currency	867.715	873.840	1.018.560	1.039.064
Claims on public sector	1.809.974	1.899.363	1.971.565	1.989.345
Unclassified items	-2.740.023	-2.727.820	-3.089.698	-3.094.312

Source: Central Bank of Cyprus.

Table 2
Bank credit by sector⁽¹⁾

(outstanding amounts at end of period, CYP thousand)

	2004 July	2004 Aug.	2005 July	2005 Aug.
Public institutions and corporations ⁽²⁾	272.298	271.017	296.125	303.600
Agriculture	112.552	112.174	115.202	112.782
Mining	26.878	27.393	27.645	28.056
Manufacturing	528.219	524.773	532.599	529.886
Transport and communications	129.567	116.148	98.943	93.195
Foreign and domestic trade	1.612.362	1.589.165	1.547.897	1.521.249
Building and construction	1.499.930	1.493.262	1.662.108	1.661.581
Tourism	863.621	853.333	837.879	827.809
Personal and professional loans	3.934.655	3.944.588	4.406.895	4.424.411
Bills discounted: Local	3.387	3.072	3.311	2.890
Foreign	2.204	2.045	2.799	1.987
Total	8.985.673	8.936.970	9.531.403	9.507.446

Source: Central Bank of Cyprus.

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

(2) Including government loans.

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

	Cyprus					Euro area				
	Overnight deposits	2-7 days deposits	1-month deposits	1-6 months deposits	6-12 months deposits	Overnight deposits (EONIA)	1-month deposits (EURIBOR)	3-month deposits (EURIBOR)	6-month deposits (EURIBOR)	12-month deposits (EURIBOR)
2004 Aug.	4,16	4,30	4,75	5,25	-	2,04	2,08	2,11	2,17	2,30
Sep.	4,11	4,39	4,56	5,33	5,50	2,05	2,08	2,12	2,20	2,38
Oct.	4,10	4,45	4,69	-	-	2,11	2,09	2,15	2,19	2,32
Nov.	4,20	4,44	4,83	5,38	-	2,09	2,11	2,17	2,22	2,33
Dec.	4,73	4,82	5,00	5,55	-	2,05	2,17	2,17	2,21	2,30
2005 Jan.	4,25	4,42	4,83	4,44	-	2,08	2,11	2,15	2,19	2,31
Feb.	4,38	4,53	4,60	-	5,18	2,06	2,10	2,14	2,18	2,31
Mar.	4,16	4,43	4,63	4,89	5,15	2,06	2,10	2,14	2,19	2,34
Apr.	3,83	4,14	4,55	-	5,15	2,08	2,10	2,14	2,17	2,27
May	3,47	4,10	-	4,30	5,10	2,07	2,10	2,13	2,14	2,19
June	3,11	3,49	3,31	3,75	-	2,06	2,10	2,11	2,11	2,10
July	2,70	3,12	2,85	3,44	-	2,07	2,11	2,12	2,13	2,17
Aug.	2,75	3,01	2,90	-	4,10	2,06	2,11	2,13	2,16	2,22
Sep.	2,55	2,91	2,83	-	-					

Sources: Central Bank of Cyprus and European Central Bank.

Table 4
Bank interest rates ^(1,2)
 (percent per annum)

	Lending rates					Deposit rates		
	Enterprises: overdraft within limits	Enterprises: secured loans	Personal: secured loans	Housing: loans secured by assignment of life policy	Credit cards	Current accounts	3 month notice - over CYP5.000	1 year fixed deposits - over CYP5.000
2003 Sep.	6,92	6,90	7,40	6,30	10,50	0,46	3,34	3,52
Oct.	6,92	6,90	7,53	6,30	10,50	0,44	3,35	3,50
Nov.	6,92	6,90	7,53	6,30	10,50	0,42	3,35	3,48
Dec.	6,92	6,90	7,53	6,30	10,50	0,44	3,35	3,45
2004 Jan.	6,92	6,90	7,53	6,30	10,50	0,44	3,35	3,43
Feb.	6,92	6,90	7,53	6,30	10,50	0,45	3,35	3,42
Mar.	6,92	6,90	7,53	6,30	10,50	0,44	3,35	3,43
Apr.	6,92	6,90	7,53	6,30	10,50	0,42	3,35	3,40
May	7,92	7,90	8,53	7,30	11,50	0,69	4,41	3,88
June	7,92	7,90	8,53	7,30	11,50	0,66	4,42	4,04
July	7,92	7,90	8,53	7,30	11,50	0,66	4,43	4,08
Aug.	7,92	7,90	8,53	7,30	11,50	0,67	4,61	4,11
Sep.	7,92	7,92	8,55	7,30	11,50	0,66	4,44	4,14
Oct.	7,92	7,92	8,55	7,30	11,50	0,66	4,44	4,18
Nov.	7,92	7,92	8,55	7,30	11,50	0,64	4,44	4,21
Dec.	7,92	7,92	8,55	7,30	11,50	0,63	4,44	4,21
2005 Jan.	7,92	7,92	8,55	7,30	11,50	0,66	4,47	4,32
Feb.	7,90	7,91	8,60	7,30	11,67	0,67	4,39	4,36
Mar.	7,61	7,63	8,38	6,76	11,83	0,65	4,37	4,38
Apr.	7,61	7,63	8,38	6,76	11,75	0,64	4,30	4,38
May	7,18	7,20	7,97	6,33	11,83	0,55	4,04	4,07
June	6,69	6,70	7,58	5,76	12,00	0,39	3,47	3,88
July	6,69	6,70	7,47	5,76	12,00	0,42	3,47	3,85
Aug.	6,70	6,69	7,49	5,74	12,00	0,45	3,47	3,82
Sep.	6,69	6,69	7,49	5,74	12,00	0,46	3,47	3,79

Source: Domestic banks.

(1) Reported as end of month.

(2) Data refer to the average of the representative interest rates as defined by the three largest banks.

Table 5**Interest rates - European monetary financial institutions***(percent per annum, outstanding amounts as at end-of-period)***1. Interest rates on euro-denominated deposits by euro area residents**

	Deposits from households					Deposits from non-financial corporations		
	Overnight	With agreed maturity		Redeemable at notice ⁽¹⁾		Overnight	With agreed maturity	
		Up to 2 years	Over 2 years	Up to 3 months	Over 3 months		Up to 2 years	Over 2 years
2004 July	0,70	1,89	3,26	1,94	2,55	0,86	2,09	4,03
Aug.	0,72	1,90	3,24	1,95	2,53	0,87	2,10	3,99
Sep.	0,72	1,90	3,22	2,00	2,52	0,90	2,12	3,97
Oct.	0,72	1,90	3,27	2,00	2,52	0,89	2,10	3,89
Nov.	0,73	1,90	3,26	2,01	2,51	0,90	2,12	3,86
Dec.	0,73	1,92	3,24	2,00	2,52	0,90	2,16	3,77
2005 Jan.	0,74	1,91	3,23	1,98	2,49	0,93	2,12	3,73
Feb.	0,74	1,92	3,26	1,97	2,49	0,93	2,11	3,70
Mar.	0,74	1,92	3,22	1,96	2,47	0,94	2,09	3,70
Apr.	0,74	1,93	3,22	1,95	2,45	0,95	2,10	3,57
May	0,75	1,92	3,19	1,97	2,43	0,95	2,10	3,50
June	0,70	1,92	3,23	2,15	2,38	0,91	2,10	3,50

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

	Loans to households						Loans to non-financial corporations		
	Lending for house purchase, with maturity			Consumer credit and other loans, with maturity			With maturity		
	Up to 1 year	Over 1 and up to 5 years	Over 5 years	Up to 1 year	Over 1 and up to 5 years	Over 5 years	Up to 1 year	Over 1 and up to 5 years	Over 5 years
2004 July	4,84	4,64	4,94	8,16	7,10	5,85	4,43	4,00	4,52
Aug.	4,81	4,61	4,91	8,17	7,06	5,86	4,42	3,97	4,51
Sep.	4,82	4,58	4,90	8,06	7,13	5,85	4,45	3,99	4,52
Oct.	4,69	4,54	4,88	8,05	7,07	5,80	4,41	3,97	4,48
Nov.	4,67	4,52	4,86	7,94	6,98	5,82	4,40	3,96	4,48
Dec.	4,78	4,50	4,83	7,94	7,00	5,80	4,34	3,97	4,44
2005 Jan.	4,78	4,45	4,79	8,07	6,97	5,77	4,41	3,90	4,41
Feb.	4,74	4,45	4,76	8,07	7,03	5,76	4,39	3,92	4,46
Mar.	4,75	4,41	4,78	8,08	6,97	5,77	4,38	3,91	4,40
Apr.	4,69	4,38	4,74	8,02	6,94	5,76	4,34	3,86	4,37
May	4,63	4,36	4,71	8,00	6,87	5,74	4,33	3,85	4,35
June	4,60	4,33	4,67	7,87	6,93	5,72	4,31	3,85	4,35

Source: European Central Bank.

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

Table 6
Interest rate announcements in 2005

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

(1) Minimum bid rate on the main refinancing operations.

(2) Repo rate.

(3) Federal funds rate.

(4) Interest rate on the marginal lending facility.

Table 7**Percentage change in the consumer price index by economic origin (%)**

(2002 – 2005)

	Yearly			Quarterly			Sept. 2004/ 2003	Aug. 2005/ 2004	Sept. 2005/ 2004	Jan.- Sept. 2004/ 2003	Jan.- Aug. 2005/ 2004	Jan.- Sept. 2005/ 2004	Weights 1998=100
	2002	2003	2004	2005 I	2005 II	2005 III							
GENERAL INDEX	2,81	4,14	2,28	2,88	2,41	2,32	2,37	2,11	2,93	1,96	2,48	2,54	100,00
A LOCAL GOODS	4,35	7,30	5,03	3,81	3,25	4,29	5,42	3,91	5,70	4,61	3,54	3,78	36,69
A.1 Agricultural	1,79	4,54	3,32	2,82	-2,22	2,19	-2,09	1,44	6,62	2,77	0,22	0,93	7,93
A.2 Industrial	5,62	7,90	6,09	4,33	4,38	4,17	8,05	3,84	4,73	5,76	4,24	4,30	27,24
A.2.1 industrial non-petroleum	4,55	6,46	3,36	1,87	1,57	0,44	3,37	0,29	0,46	3,38	1,40	1,29	22,91
A.2.2 fuel and gas	10,57	14,16	17,18	13,59	14,96	16,94	27,82	15,87	19,36	15,36	14,64	15,16	4,33
A.3 Electricity	-2,26	10,20	-3,13	0,27	8,78	14,59	-0,50	15,29	16,38	-4,04	6,82	7,88	1,52
B IMPORTED GOODS	-1,69	-2,38	-5,55	-2,23	-2,60	-3,36	-5,92	-3,28	-3,24	-6,02	-2,66	-2,73	22,20
B.1 Motor vehicles	-5,07	-8,31	-13,65	-1,81	-2,61	-3,71	-14,68	-3,98	-3,15	-15,01	-2,65	-2,71	9,43
B.2 Other	0,85	1,81	-0,39	-2,46	-2,59	-3,16	-0,31	-2,88	-3,29	-0,17	-2,67	-2,74	12,77
C SERVICES	3,67	4,38	3,23	4,13	3,69	2,74	3,22	2,56	2,81	3,11	3,61	3,52	41,11
HICP	2,8	4,0	1,9	2,5	2,1		1,8	1,5		2,1			
Core inflation	2,5	2,5	2,5	2,4	1,5		2,4	0,9		1,9			
Euro area inflation	2,3	2,1	2,1	2,0	2,1		2,1	2,1		2,1			

Source: Cystat

Table 8
Weighted contribution to the total change in the consumer price index by economic origin (%)

(2002 – 2005)

	Yearly			Quarterly			Sept.	Aug.	Sept.	Jan.-	Jan.-	Jan.-	Weights 1998=100
	2002	2003	2004	2005 I	2005 II	2005 III	2004/ 2003	2005/ 2004	2005/ 2004	Sept. 2004/ 2003	Aug. 2005/ 2004	Sept. 2005/ 2004	
GENERAL INDEX	2,81	4,14	2,28	2,88	2,41	2,32	2,37	2,11	2,93	1,96	2,48	2,54	100,00
A LOCAL GOODS	1,64	2,79	1,98	1,52	1,31	1,73	2,13	1,58	2,30	1,81	1,42	1,52	36,69
A.1 Agricultural	0,15	0,37	0,27	0,24	-0,18	0,18	-0,18	0,12	0,53	0,23	0,02	0,08	7,93
A.2 Industrial	1,53	2,22	1,77	1,28	1,32	1,26	2,31	1,15	1,44	1,66	1,27	1,29	27,24
A.2.1 industrial non-petroleum	1,02	1,47	0,78	0,44	0,37	0,10	0,78	0,07	0,11	0,78	0,33	0,30	22,91
A.2.2 fuel and gas	0,51	0,74	0,99	0,84	0,95	1,15	1,53	1,08	1,33	0,88	0,94	0,98	4,33
A.3 Electricity	-0,05	0,20	-0,07	0,00	0,17	0,29	-0,01	0,31	0,33	-0,08	0,13	0,15	1,52
B IMPORTED GOODS	-0,35	-0,48	-1,04	-0,39	-0,45	-0,58	-1,11	-0,56	-0,56	-1,14	-0,47	-0,48	22,20
B.1 Motor vehicles	-0,46	-0,69	-1,00	-0,11	-0,16	-0,23	-1,07	-0,25	-0,19	-1,12	-0,17	-0,17	9,43
B.2 Other	0,10	0,21	-0,04	-0,28	-0,29	-0,35	-0,03	-0,32	-0,37	-0,02	-0,30	-0,31	12,77
C SERVICES	1,52	1,83	1,35	1,75	1,55	1,17	1,35	1,09	1,19	1,30	1,53	1,49	41,11

Source: Cystat

Table 9**Percentage change in the consumer price index by category of goods and services (%)***(2002 – 2005)*

	Yearly			Quarterly			Sept.	Aug.	Sept.	Jan.-	Jan.-	Jan.-	Weights
	2002	2003	2004	2005 I	2005 II	2005 III	2004/ 2003	2005/ 2004	2005/ 2004	2004/ 2003	2005/ 2004	2005/ 2004	
GENERAL INDEX	2,81	4,14	2,28	2,88	2,41	2,31	2,37	2,11	2,93	1,96	2,48	2,54	100,00
Food & non-alcoholic beverages	4,58	5,11	3,97	2,57	0,06	1,50	1,76	1,19	3,61	3,88	1,10	1,38	18,20
Alcoholic beverages & tobacco	13,32	24,22	10,57	1,44	0,79	-0,72	13,92	-1,28	-0,68	13,35	0,65	0,50	1,78
Clothing & footwear	-3,46	1,19	-0,79	-2,40	-0,67	-4,49	-2,23	-4,57	-4,11	-1,48	-2,32	-2,52	8,22
Housing, water, electricity & gas	4,08	5,04	4,19	4,72	5,35	5,59	5,33	5,28	6,17	3,83	5,10	5,22	21,27
Furnishings, household equipment & supplies	0,81	3,59	-0,45	0,30	0,26	1,43	-0,55	1,81	0,86	-0,68	0,64	0,66	7,08
Health	4,70	5,66	3,72	2,09	0,47	-0,08	3,23	-0,02	-0,28	3,68	0,97	0,83	4,92
Transport	0,39	0,35	-3,06	3,38	3,28	3,93	-1,45	3,29	5,41	-4,31	3,30	3,53	17,42
Communications	-8,81	-7,16	-8,48	-9,87	-7,56	-11,52	-11,28	-12,49	-12,46	-7,68	-9,30	-9,65	1,79
Recreation & culture	2,20	3,55	2,26	2,42	2,50	0,00	3,01	-0,27	-0,77	2,04	1,94	1,64	5,88
Education	5,71	4,02	3,96	5,60	5,60	5,32	5,00	5,60	4,75	3,44	5,60	5,51	2,33
Restaurants & hotels	3,97	5,31	4,69	4,95	3,67	2,39	5,18	2,55	2,01	4,47	3,87	3,67	6,07
Miscellaneous goods & services	5,49	5,50	5,16	4,53	4,17	2,86	4,42	3,02	2,51	5,25	4,02	3,85	5,04

Source: Cystat

Table 10
Weighted contribution to the total change in the consumer price index by category of goods and services (%)

(2002 – 2005)

	Yearly			Quarterly			Sept.	Aug.	Sept.	Jan.-	Jan.-	Jan.-	Weights 1998=100
	2002	2003	2004	2005 I	2005 II	2005 III	2004/ 2003	2005/ 2004	2005/ 2004	2004/ 2003	2005/ 2004	2005/ 2004	
GENERAL INDEX	2,81	4,14	2,28	2,88	2,41	2,31	2,37	2,11	2,93	1,96	2,48	2,54	100,00
Food & non-alcoholic beverages	0,86	0,97	0,76	0,51	0,01	0,29	0,34	0,23	0,70	0,74	0,22	0,27	18,20
Alcoholic beverages & tobacco	0,27	0,54	0,28	0,04	0,02	-0,02	0,36	-0,04	-0,02	0,35	0,02	0,01	1,78
Clothing & footwear	-0,25	0,08	-0,05	-0,15	-0,05	-0,27	-0,15	-0,27	-0,26	-0,10	-0,14	-0,15	8,22
Housing, water, electricity & gas	0,88	1,10	0,93	1,06	1,20	1,27	1,17	1,20	1,40	0,85	1,15	1,18	21,27
Furnishings, household equipment & supplies	0,05	0,23	-0,03	0,02	0,02	0,09	-0,04	0,11	0,05	-0,04	0,04	0,04	7,08
Health	0,25	0,30	0,20	0,12	0,03	0,00	0,17	0,00	-0,02	0,20	0,05	0,05	4,92
Transport	0,07	0,06	-0,51	0,52	0,51	0,62	-0,24	0,52	0,85	-0,72	0,51	0,55	17,42
Communications	-0,13	-0,09	-0,10	-0,11	-0,08	-0,12	-0,13	-0,13	-0,12	-0,09	-0,10	-0,10	1,79
Recreation & culture	0,12	0,19	0,12	0,13	0,13	0,00	0,16	-0,01	-0,04	0,11	0,10	0,09	5,88
Education	0,14	0,10	0,10	0,15	0,14	0,14	0,13	0,14	0,12	0,09	0,14	0,14	2,33
Restaurants & hotels	0,26	0,35	0,31	0,34	0,25	0,17	0,35	0,18	0,14	0,30	0,27	0,25	6,07
Miscellaneous goods & services	0,28	0,29	0,28	0,25	0,23	0,16	0,24	0,17	0,14	0,28	0,22	0,21	5,04

Source: Cystat

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

Geographic origin of non-resident investors	Purchase of listed shares by non-residents							Sale of listed shares by non-residents						
	2003	2004	2005					2003	2004	2005				
			May	June	Jul.	Aug.	Sep.			May	June	July	Aug.	Sep.
EUROPE	5.014,2	7.416,2	83,8	92,3	94,5	189,1	770,8	1.199,3	3.938,7	117,6	82,9	255,5	220,2	266,1
EU-25	4.977,4	6.064,4	36,5	50,4	64,4	155,0	734,0	1.149,8	3.710,1	50,4	54,2	225,1	181,8	197,2
Greece	4.101,0	5.519,5	12,6	41,2	46,9	125,4	331,7	879,3	3.328,1	40,3	42,6	158,2	139,0	172,3
United Kingdom	678,7	265,2	11,8	5,8	6,2	18,5	125,2	216,1	182,5	5,6	11,6	29,9	35,0	3,5
Other European countries	36,8	1.351,8	47,3	42,0	30,1	34,1	36,8	49,5	228,6	67,2	28,6	30,4	38,3	68,9
Russian Federation	17,9	1.131,5	40,6	25,1	18,1	22,5	21,9	3,5	59,3	27,0	11,7	4,8	31,1	30,6
AFRICA	284,1	415,8	0,2	5,3	4,4	0,0	0,0	17,1	295,7	9,5	2,3	2,7	0,3	10,3
North African countries	0,0	0,9	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	1,8	0,0	0,0
Other African countries	284,1	414,9	0,2	5,3	4,4	0,0	0,0	17,1	295,7	9,5	2,3	0,9	0,3	10,3
South Africa	0,5	56,7	0,0	0,0	2,6	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	5,2
AMERICA	303,0	888,6	0,8	0,0	0,0	15,9	95,9	21,6	1.643,7	0,0	33,2	0,0	36,0	115,8
North American countries	129,7	635,6	0,8	0,0	0,0	0,0	1,6	3,7	80,0	0,0	0,0	0,0	7,2	0,0
United States of America	125,7	634,9	0,2	0,0	0,0	0,0	0,0	3,7	28,7	0,0	0,0	0,0	7,2	0,0
Canada	4,0	0,7	0,6	0,0	0,0	0,0	1,6	0,0	51,3	0,0	0,0	0,0	0,0	0,0
Central American countries	173,3	253,0	0,0	0,0	0,0	15,9	94,3	18,0	1.563,7	0,0	33,2	0,0	28,8	115,8
South American countries	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
ASIA	24,1	61,7	7,2	7,4	13,3	162,0	11,5	14,6	12,2	68,3	20,1	49,2	11,7	14,5
West Asia	23,3	17,0	0,7	6,0	12,8	159,7	9,7	14,6	12,2	60,3	0,0	45,0	11,7	14,5
Other Asian countries	0,8	44,8	6,5	1,4	0,5	2,3	1,8	0,0	0,0	8,0	20,1	4,2	0,0	0,0
OCEANIA	26,8	18,5	0,0	0,0	0,0	0,0	0,0	0,0	8,2	0,0	0,0	0,0	0,0	0,0
Total	5.652,2	8.800,8	92,0	105,1	112,2	367,0	878,2	1.252,6	5.898,5	195,4	138,5	307,4	268,2	406,8

Source: Cyprus Stock Exchange.

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

Table 12
Balance of payments
 (CYP million)

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

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

Table 13**Public finances summary: central government and social security fund ⁽¹⁾**

	Jan.- July.	Jan.- July.	Jan.-Jul.
	2004	2005	05/04
	CYP million		% Change
Total revenue and grants	1.348,2	1.586,8	17,7
Direct taxes	276,7	430,5	55,6
Income tax	181,3	207,1	14,2
Other direct taxes	95,3	223,4	134,4
Indirect taxes	620,5	683,3	10,1
Value added tax	322,9	385,7	19,4
Excise taxes	179,6	199,7	11,2
Import duty	31,8	19,6	-38,6
Social security contributions	218,8	219,2	0,2
Non-tax revenue	196,7	202,9	3,1
Foreign grants	35,6	50,8	42,8
Total expenditure and net lending	1.517,9	1.633,7	7,6
Current expenditure	1.447,2	1.538,9	6,3
Goods and services	110,8	106,1	-4,2
Wages and salaries	428,1	444,0	3,7
Pensions and gratuities	85,7	91,1	6,2
Social pensions	22,3	15,8	-29,0
Other current transfers ⁽²⁾	264,8	329,8	24,5
Unallocable expenses ⁽³⁾	19,4	10,9	-43,7
Social security funds payments	254,5	263,7	3,6
Subsidies	41,6	23,7	-43,0
Interest	220,0	254,0	15,4
Capital expenditure	70,7	94,7	33,9
Investment	70,7	94,7	33,9
Capital transfers	0,0	0,0	
Net lending	0,0	0,0	
Fiscal surplus (+)/deficit(-)	-169,7	-46,9	
<i>As % of GDP</i>	<i>-2,35</i>	<i>-0,61</i>	

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

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

(3) Includes only expenditure on military equipment.

Table 14
Imports (cif) by economic destination

(CYP million)

	2004 Yearly Value	2004 July	2005 July	2004 Jan.- July	2005 Jan.- July	2004/2003 Yearly % change	2005/2004 July % change	2005/2004 Jan.- July % change
Consumer goods	742,3	59,3	64,4	420,8	446,5	11,2	8,6	6,1
Non-durable	438,2	37,3	40,5	247,1	271,3			
Semi-durable	176,4	10,7	12,1	98,9	99,3			
Durable	127,6	11,3	11,8	74,8	75,9			
Intermediate inputs	805,4	67,3	68,2	480,1	462,2	10,8	1,3	-3,7
Agricultural	42,2	2,7	3,3	23,5	24,7			
Construction and mining	185,7	16,0	16,8	110,4	106,0			
Manufacturing	462,9	37,2	37,1	280,1	266,3			
Transport, storage and communications	27,4	3,1	1,6	15,6	12,5			
Other sectors of the economy	87,1	8,4	9,4	50,3	52,7			
Capital goods	325,5	24,6	32,8	182,1	197,8	23,6	33,5	8,6
Agricultural	9,4	0,5	0,7	6,0	4,4			
Construction and mining	24,5	1,8	1,7	15,3	15,3			
Manufacturing	65,5	6,3	5,6	35,5	34,6			
Transport, storage and communications	104,7	5,6	15,2	51,0	77,1			
Other sectors of the economy	121,4	10,3	9,5	74,3	66,5			
Transport equipment and parts thereof	452,2	42,8	30,4	258,6	225,9	38,3	-29,1	-12,7
<i>of which:</i>								
passenger cars	360,9	29,3	18,4	166,2	149,8			
spare parts	68,5	0,7	1,0	39,4	39,1			
aircraft and parts	0,1	6,7	5,6	39,4	0,4			
Fuels and lubricants	320,0	26,0	37,4	150,4	238,1	41,1	43,8	58,3
Unclassified	33,8	1,1	4,0	18,1	21,2	0,0	263,8	17,1
Total imports	2679,3	221,2	237,1	1510,1	1591,8	16,3	7,2	5,4

Source: Cystat.

Table 15
Exports (fob) by economic origin
 (CYP million)

	2004 Yearly Value	2004 July	2005 July	2004 Jan.- July	2005 Jan.- July	2004/2003 Yearly % change	2005/2004 July % change	2005/2004 Jan.- July % change
Agricultural products (raw)	57,4	5,5	1,1	39,8	33,6	31,8	-45,3	-15,6
<i>of which:</i>								
potatoes	16,0	0,4	0,2	15,2	10,7			
other vegetables								
fresh, frozen or dried	4,8	0,4	0,3	2,4	3,8			
citrus fruit	22,3	0,1	0,0	0,2	16,4			
Minerals and industrial products of mineral origin	5,5	0,3	0,4	4,8	3,8	-18,1	-50,1	-20,0
Industrial products of agricultural origin	34,1	3,2	3,8	19,5	27,2	4,2	21,5	39,6
<i>of which:</i>								
halloumi cheese	4,2	1,2	1,8	6,5	10,1			
fruit preserved	0,6	0,4	0,4	0,2	0,3			
fruit and vegetable juices	4,9	0,5	0,4	2,4	2,6			
beer	0,7	0,2	0,2	0,3	0,6			
wines	5,2	0,3	0,3	2,9	3,1			
meat	4,1	0,1	0,8	0,7	2,2			
Industrial products of manufacturing origin	132,1	14,4	13,8	81,7	79,7	10,0	-3,7	-2,5
<i>of which:</i>								
cigarettes	11,9	1,2	0,7	6,7	6,2			
cement	3,3	0,0	0,0	2,0	1,6			
pharmaceutical products	49,6	5,2	4,2	29,2	29,7			
articles of paper or of paperboard	5,2	0,4	0,3	2,8	2,3			
clothing	7,7	0,6	0,4	3,4	2,2			
footwear	0,9	0,8	0,2	0,6	0,3			
furniture	4,2	0,5	0,4	2,1	2,5			
Unclassified	0,2	0,3	0,5	0,2	0,8			
Domestic exports	232,3	20,3	19,1	146,0	144,4	12,7	-5,7	-1,1
re-exports	273,4	25,1	34,6	158,3	218,5	21,9	37,7	38,0
shipstores	42,4	0,1	1,7	2,5	7,8			
Total exports	548,0	45,5	55,5	306,8	370,7	14,9	22,0	20,8

Source: Cystat.