



**CENTRAL BANK OF CYPRUS**

**ECONOMIC RESEARCH DEPARTMENT**

# **Monetary Policy Report**

**October 2006**



**Central Bank of Cyprus**

**Economic Research Department**

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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
CPI	Consumer Price Index
CSE	Cyprus Stock Exchange
Cystat	Statistical Service of the Republic of Cyprus
CYTA	Cyprus Telecommunications Authority
EAC	Electricity Authority of Cyprus
ECB	European Central Bank
Eurostat	Statistical Office of the European Communities

## 1. INTRODUCTION

The US economy is slowing down mainly due to the real estate market while the European economy continues to expand driven by domestic demand. Inflationary pressures worldwide remain and the major central banks continue with restrictive monetary policies. In the US, the euro area and Japan official interest rates are expected to gradually rise before the end of the year and continue this trend in the first quarter of 2007. Oil prices remain a risk factor for worldwide growth, despite their recent fall.

Inflation fell to 2,4% in September 2006 compared with 3,1% in the previous month. To a large extent this reflects the recent decrease in the international price of oil as well as the deceleration in the price of domestic industrial products and electricity.

M2 grew at an annual rate of 13,3% in August, compared with 13,5% in July and 6,8% in August of the previous year. It is noted that the very low growth of M2 during 2005 was partly a result of the tax amnesty scheme. Credit to the private sector also grew, registering a marked rise of 14,3% year-on-year to August, compared with 4,9% in the same period of the previous year. Foreign currency lending was maintained at high levels compared to 2005, having exceeded 50% of total loans in the 12 months to August 2006.

During August and September excess bank liquidity conditions prevailed in the money market, thus creating additional risks for inflationary pressures.

As far as external transactions are concerned, the number of tourists visiting Cyprus in the first eight months of 2006 was down by 2,4%, compared with an increase of 7,7% recorded in the corresponding period of 2005. Nevertheless, due to the rise in per capita expenditure, revenue from tourism recorded an increase of 3,5% in the first eight months of 2006, compared with a 3,1% increase recorded in the same period of 2005.

Provisional data published by Cystat reported a 17,1% increase in total imports (cif) in the first seven months of 2006, compared with a 6,7% increase recorded in the corresponding period of 2005.

This significant increase is partly the result of the increase in the international price of oil, the purchase of a £31,2 million aeroplane by Eurocypria, as well as the significant increase in the imports of consumer goods. Total exports recorded a decrease of 1,5% in the first seven months of 2006, compared with an increase of 44,8% recorded in the corresponding period of 2005. The notable decrease in the exports in 2006 was mainly due to the base effect recorded in re-exports. As a result, the trade deficit increased to £1.513,8 million in the first seven months of 2006, compared with £1.232 million in the corresponding period of 2005.

The turnover volume index of retail trade rose by 6% in the first six months of 2006 compared, with 5,8% in the corresponding period of the previous year. In the labour market, unemployment as a percentage of the

economically active population, reached 3,6% in the first nine months of 2006, compared with 3,8% in the corresponding period of 2005. In the secondary sectors of the economy, there was a deceleration in the sales of cement and the volume of building permits authorised in the first seven months of 2006. At the same time, manufacturing displayed a decline in the first seven months of the year

According to preliminary government data, public finances exhibited a minor deterioration in the first seven months of 2006. Specifically, the fiscal deficit amounted to £84,6 million or 1% of GDP, compared with a deficit of £71,1 million or 0,9% of GDP in the corresponding period of 2005. However, by excluding the £133 million receipts emanating from the tax amnesty and the transfers from CYTA, which had already been received in the corresponding period of 2005, the fiscal deficit is significantly improved by £119,5 million or 1,6% of GDP.

Overall, it appears feasible that the deficit in 2006 will be contained at around 2% of GDP, which is in line with the government target. It should be noted that public expenditure registered higher increases than initially anticipated, although these have been counterbalanced by a partly unexpected rise in public revenue. It is imperative, however, that the government continues with its efforts to implement the fiscal consolidation programme without permitting an uncontrolled rise in public expenditure. It needs to be stressed that the 2006 results will play a substantial and decisive role in the decision for the accession of our economy to the eurozone.

## 2. ECONOMIC DEVELOPMENTS

### 2.1 INTERNATIONAL DEVELOPMENTS AND EXCHANGE RATES

#### *International economic developments*

In the **US** the slowdown in the property market was the main factor affecting growth in the second half of the year. At the same time, however, the recent fall in oil prices has acted as a stabilising factor. There are strong indications that as a result of high interest rates, there will be a rise in household savings, a decrease in borrowing and, therefore, a decrease in consumption expenditure. In addition, the US current account deficit is at very high levels and some analysts believe that it is a matter of time before the dollar is adversely affected. Turning to prices, in August inflation was 3,8% compared with 4,1% in July and 3,6% in August 2005. On 20 September the US Federal Reserve left its official interest rates unchanged but emphasised that inflationary pressures remain and further action by the monetary authority will be conditional upon future developments in prices and economic activity. During September unemployment reached 4,6%, compared with 4,7% in August and 5,1 % in September 2005.

In the **euro area** growth is close to the potential rate. Economic activity in 2007 is expected to moderate because of restrictive fiscal policies in Germany and Italy, the recent and anticipated rise in ECB interest rates as well as an appreciation of the euro. On 5 October the ECB raised its official rates from 3% to 3,25%, emphasising the fact that inflationary risks are on the upside and are a result of possible wage increases, rises in administered prices and the uncertainty prevailing in oil markets. The President of the ECB hinted that there will be further increases in official interest

rates. In September inflation was down to 1,8%, mainly because of the fall in oil prices, compared with 2,3% in August and 2,6% in September 2005. Unemployment decreased to 7,9% in August, compared with 8,5% in the same month of the preceding year.

In the **UK** GDP grew at a slower pace mainly due to a slowdown in private consumption. Data from business surveys show a positive contribution of exports in the short-term. On 5 October the Bank of England maintained its official interest rates unchanged. Inflation reached 2,5% in August 2006, compared with 2,4% in the same month of 2005. Unemployment during the period May – July 2006 reached 5,5%, compared with 4,7% in the same period of 2005.

In **Japan** economic growth continues at a steady pace as witnessed in the quarterly Tankan survey issued by the Bank of Japan. Investment expenditures on durables are expected to increase in the next quarter. The CPI is still in positive territory. According to the latest data covering August, the CPI rose by 0,9% compared with a fall of 0,3% during the same month of 2005. Unemployment was 4,1% in August, compared with 4,3% in the same month of 2005.

Turning to the selected **stock market indices** presented in Chart 1, all three indices registered mixed trends during September. In particular, the DJ Eurostoxx 50 rose slightly by 0,4%, the US S&P 500 rose by 1,9% and the Japanese

Nikkei 225 ended the month at the same level as the beginning of September. During the period July – September the three indices rose by 4,5%, 4,4% and 3,6%, respectively. Concerns about geopolitical uncertainty and the possibility of further increases in US interest rates in view of heightened inflationary pressures, increased the risk aversion of investors and, consequently, led them to safer investments. Nonetheless, improved prospects for the profitability of some companies influenced positively investor interest, especially in US stocks.

The average daily price of **Brent crude** decreased to \$61,58 per barrel in September, compared with \$73,28 per barrel in the previous month. The fall in the oil price emanated from the increase in supplies, the lack of hurricanes in the Gulf of Mexico and the reduction in tensions between the US and Iran. In the first nine months of 2006, the daily average price was \$66,54 per barrel, compared with \$53,24 per barrel in the same period of 2005.

**Table 1**

**GDP projections<sup>(1)</sup>**

(annual percentage change)

	The Economist Poll GDP forecasts <sup>(2)</sup>			Lehman Brothers Weekly Outlook - GDP <sup>(3)</sup>			International Monetary Fund World Economic Outlook <sup>(4)</sup>			European Commission Economic Forecasts <sup>(5)</sup>		
	2005	2006	2007	2005	2006	2007	2005	2006	2007	2005	2006	2007
World				2,5	2,9	2,3	4,9 (4,8)	5,1 (4,9)	4,9 (4,7)	4,6 (4,3)	4,6 (4,3)	4,3 (4,2)
Euro area	1,4	2,5 (2,2)	1,8	1,5 (1,4)	2,6 (2,4)	1,4	1,3	2,4 (2,0)	2,0 (1,9)	1,3	2,1 (1,9)	1,8 (2,1)
USA	3,6	3,4	2,4 (2,7)	3,2	3,4	2,7	3,2 (3,5)	3,4	2,9 (3,3)	3,5	3,2	2,7
Japan	2,6	2,8 (3,0)	2,1 (2,4)	2,6	2,6 (2,7)	2,7 (2,9)	2,6 (2,7)	2,7 (2,8)	2,1	2,7 (2,5)	2,8 (2,2)	2,4 (1,8)
UK	1,7	2,6 (2,4)	2,4 (2,5)	1,9	2,5 (2,6)	2,2	1,9 (1,8)	2,7 (2,5)	2,7	1,8 (1,6)	2,4 (2,3)	2,8

(1) Figures in parentheses indicate the corresponding projection in the previous Monetary Policy Report, in case of change. In the case of the International Monetary Fund and European Commission, the figures indicate the projections in April 2006 and November 2005, respectively.

(2) The Economist, 5 October 2006.

(3) Lehman Brothers Global Weekly Economic Monitor, 6 October 2006.

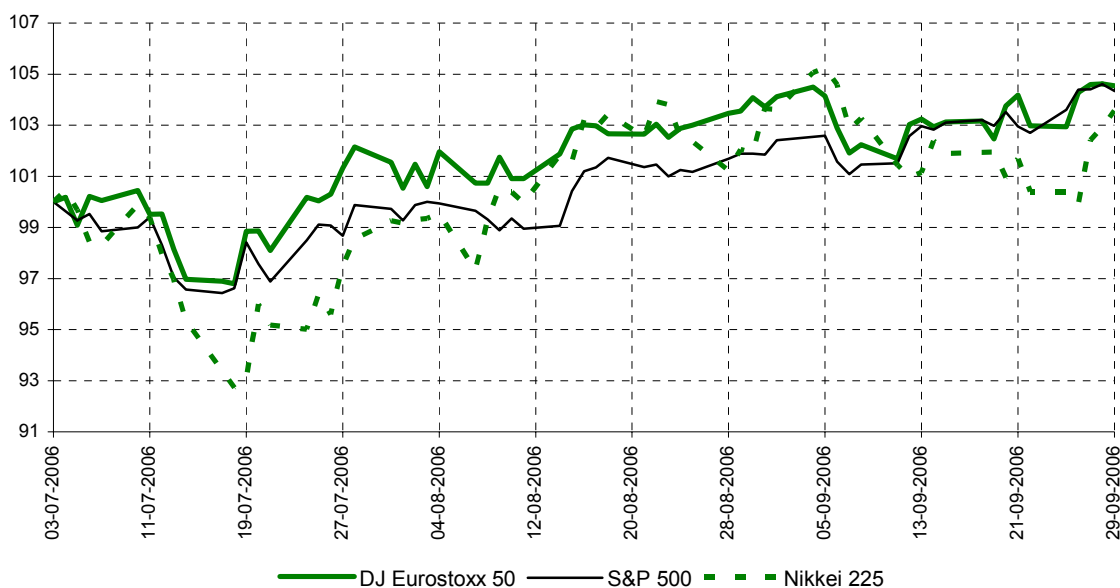
(4) International Monetary Fund, World Economic Outlook, September 2006.

(5) European Commission, Economic Forecasts, Spring 2006.

**Chart 1**

**Selected international stock market indices**

(3 July 2006 = 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 <sup>(2)</sup> August (annual)
	2006 (Q1)		2006 (Q2)					
	(quarterly) <sup>(1)</sup>	(annual)	(quarterly) <sup>(1)</sup>	(annual)				
UK	2,3	2,2	2,8	2,6	-0,5 <sup>(3)</sup>	4,3	5,5 <sup>(4)</sup>	2,5
Japan	3,1	3,8	1,0	2,5	6,0	-1,0 <sup>(3)</sup>	4,1	0,9
USA	5,6	3,6	2,6	3,5	4,7	2,5 <sup>(3)</sup>	4,6 <sup>(5)</sup>	3,8
Euro area	2,4	2,0	3,6	2,4	3,2 <sup>(3)</sup>	2,4	7,9	1,8 <sup>(5)</sup>

Source: *The Economist*, 5 October 2006.<sup>(1)</sup> Percentage change on previous quarter at an annualised rate.<sup>(2)</sup> Based on the consumer price index.<sup>(3)</sup> July 2006.<sup>(4)</sup> May - July 2006.<sup>(5)</sup> September 2006.**International currencies**

During the period 1 September – 6 October 2006, the dollar exhibited only marginal fluctuations reaching 127 cents per euro on 6 October 2006, compared with 128 cents per euro on 1 September. Despite the announcement of negative economic news concerning the deceleration of economic growth in the US economy in the second quarter of 2006, as well as the business activity and employment. Relevant data published on 2 October indicate that a steep deceleration in US economic activity is unlikely.

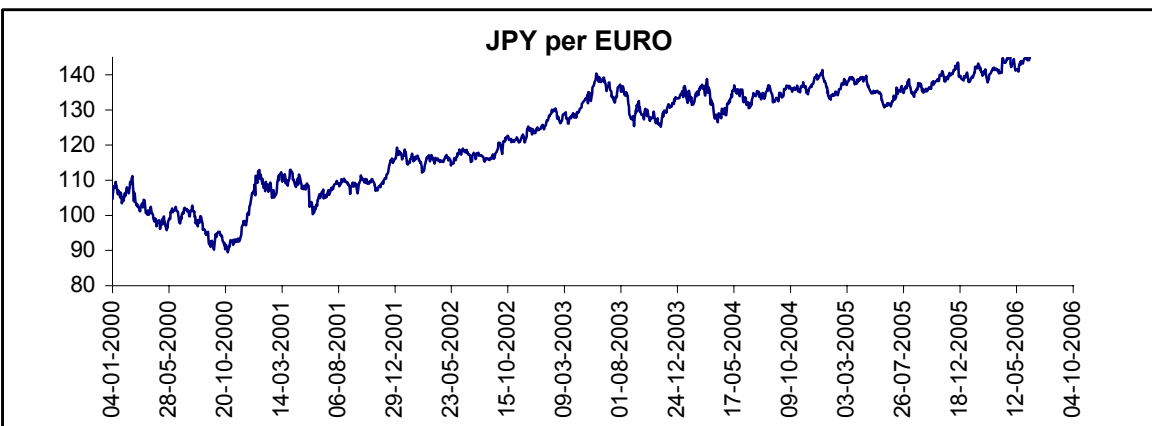
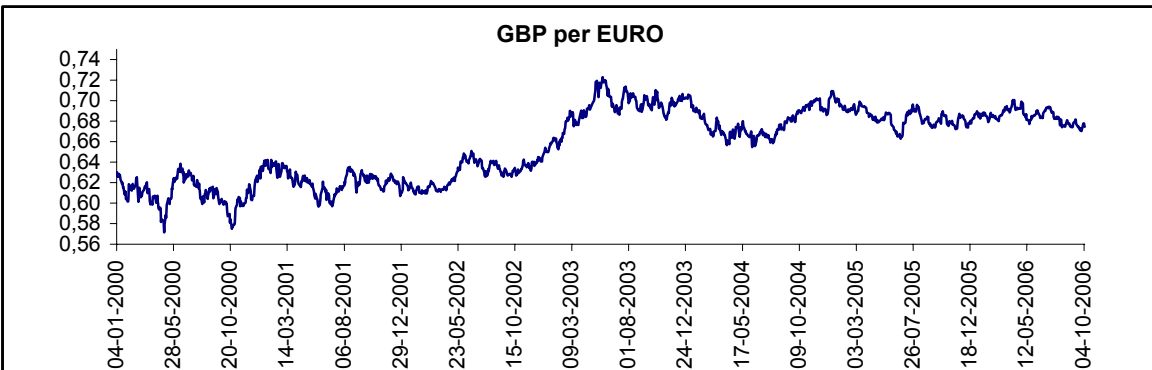
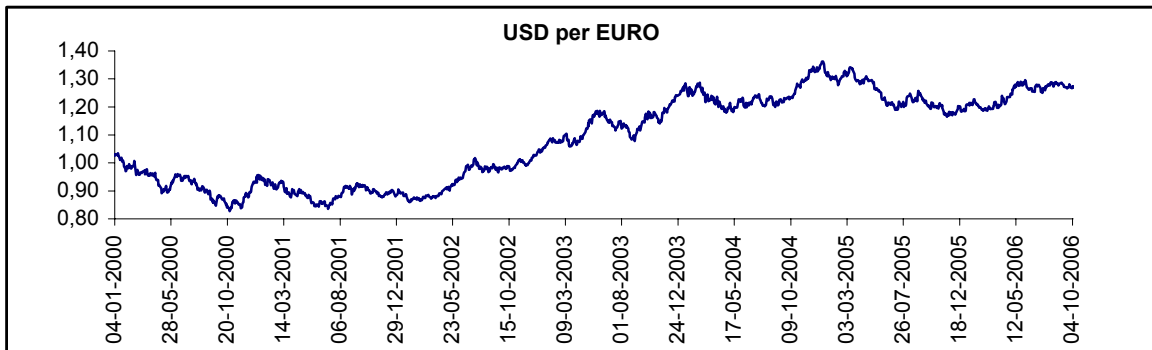
The euro was influenced by the announcement of positive news concerning the economic growth of the eurozone in the second quarter of 2006, as well as by developments in domestic demand and consumption. On 5 October, the ECB decided to increase interest rates by 25 basis points as economic developments in the eurozone indicated the need for a tighter monetary policy. At the same time, eurozone interest rates are considered low both in nominal and real terms and therefore continue to support the eurozone economic growth

During the period under consideration, as well as the first six months of 2006, sterling did not report significant fluctuations. On 6 October, sterling was stable at 67 pence to the euro. At the same time, sterling was supported by the improvement of the business sector. On 5 October, the Bank of England decided to maintain its official interest rate unchanged.

The Japanese yen did not report significant fluctuations during the period under review, reaching ¥149,79 per euro on 6 October compared with ¥149,61 per euro on 1 September. It is worth noting that since the beginning of the year, the yen has weakened.

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

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



Central Bank of Cyprus.

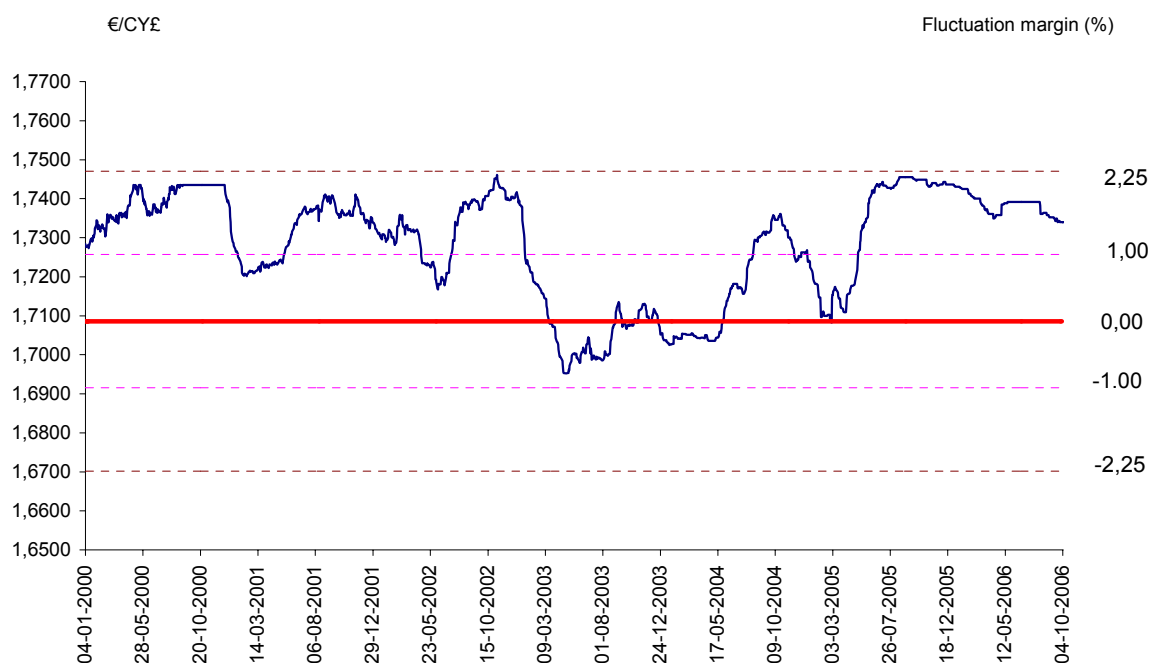
### Cyprus pound

During the period 1 January - 6 October 2006, the Cyprus pound recorded a continuous marginal weakening relative to the euro. More specifically, during the period 1 September – 6 October the Cyprus pound remained stable at £0,5767 per euro. Reflecting the fluctuations of foreign currencies during the period under review, the Cyprus pound weakened relative to the dollar reaching \$2,1991 on 6 October compared with \$2,2238 on 1 September 2006.

During the same period the Cyprus pound recorded marginal fluctuations against sterling, reaching ST£1,1719 on 6 October, compared with ST£1,1685 on 1 September 2006.

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

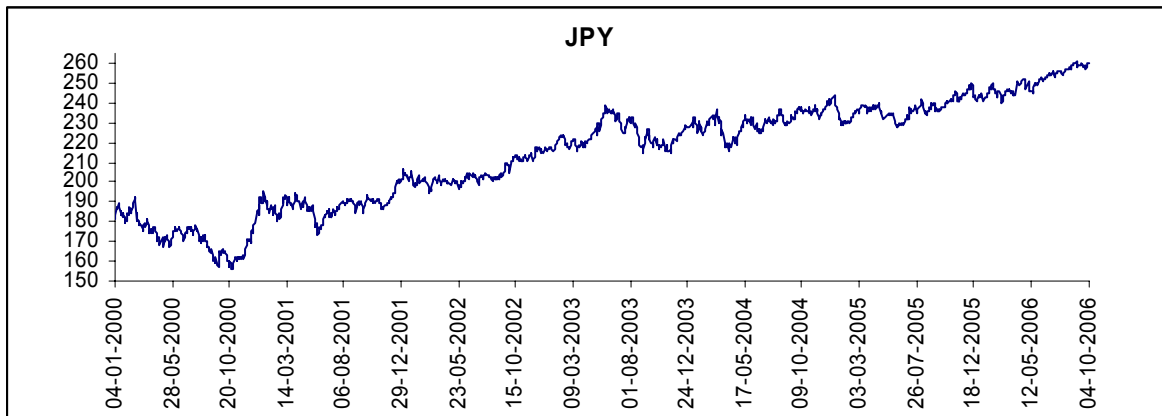
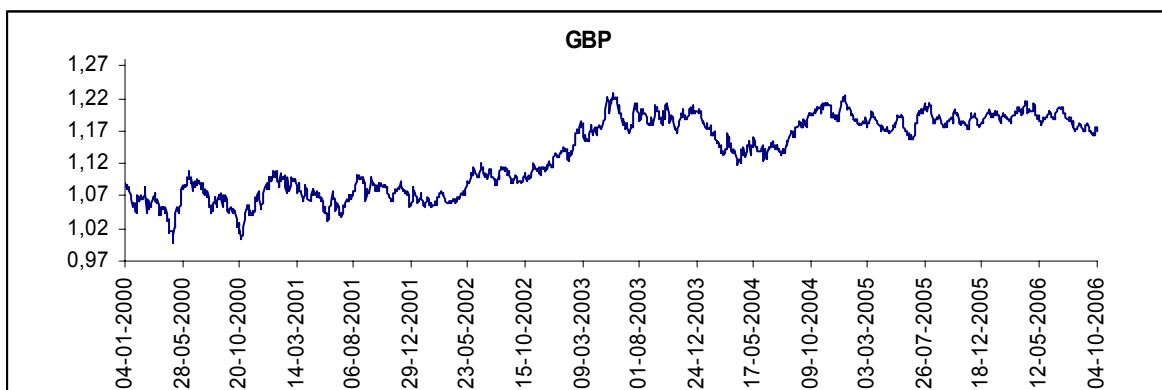
**Chart 3**  
**Exchange rate of the euro against the Cyprus pound**  
*(middle rate fixing)*



Source: Central Bank of Cyprus.

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

**Chart 4**  
**Cyprus pound against major international currencies**  
 (middle rate)



Source: Central Bank of Cyprus.

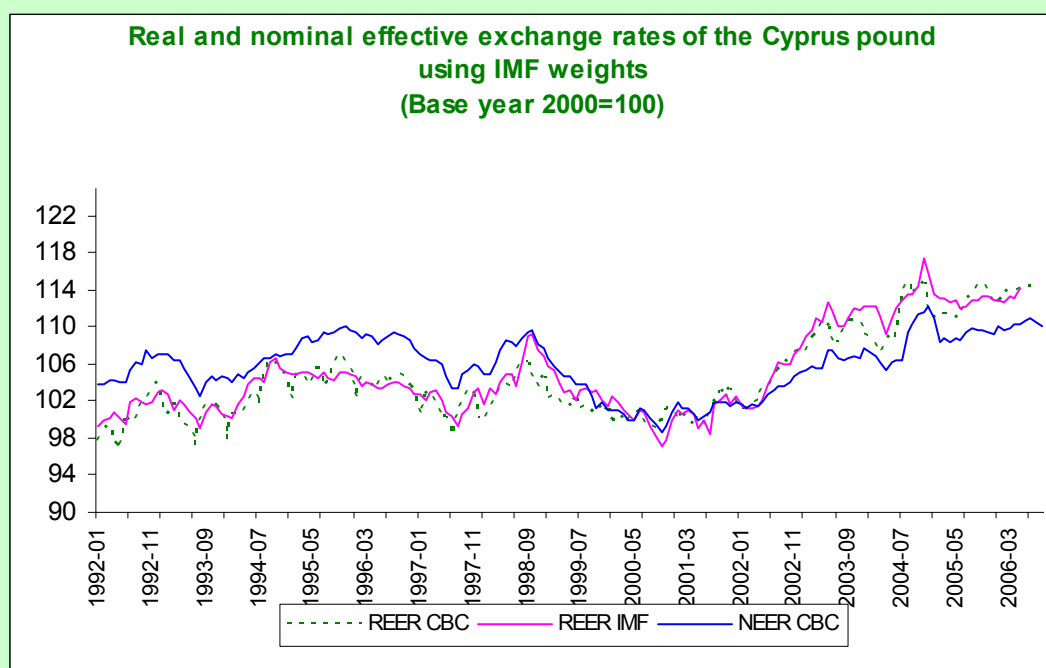
**BOX 1****Effective exchange rate indices of the Cyprus pound**

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

The chart below illustrates the monthly nominal and real effective exchange rates of the Cyprus pound from January 1992 to August and September 2006, respectively. An upward trend of the overall index reflects an appreciation of the domestic currency in real or nominal terms, thus indicating weakening of the competitiveness for exported products.

The real effective exchange rate of the Cyprus pound, REER IMF, shown in the chart below 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 (for the data until 1994) and 1999 - 2001 (for the data from 1995 onwards) and the consumer price index is used to deflate the series. Using 2000=100 as the base year, REER IMF reached 114,22 units in May 2006. 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 the base year 2000=100, are for August 2006 in real terms and September 2006 in nominal terms. The REER CBC index averaged 114,4 units in August 2006 whereas the index in nominal terms reached 110,1 units in September 2006.

The outlook indicated by the nominal index differs from the one indicated by the real index. The sharper appreciation observed in real terms is primarily attributable to the higher inflation recorded in Cyprus compared with other European countries, largely as a result of the progressive increase in VAT from 10% to 15% during 2002 and 2003 as well as increases in other consumption taxes (particularly those on petroleum products).



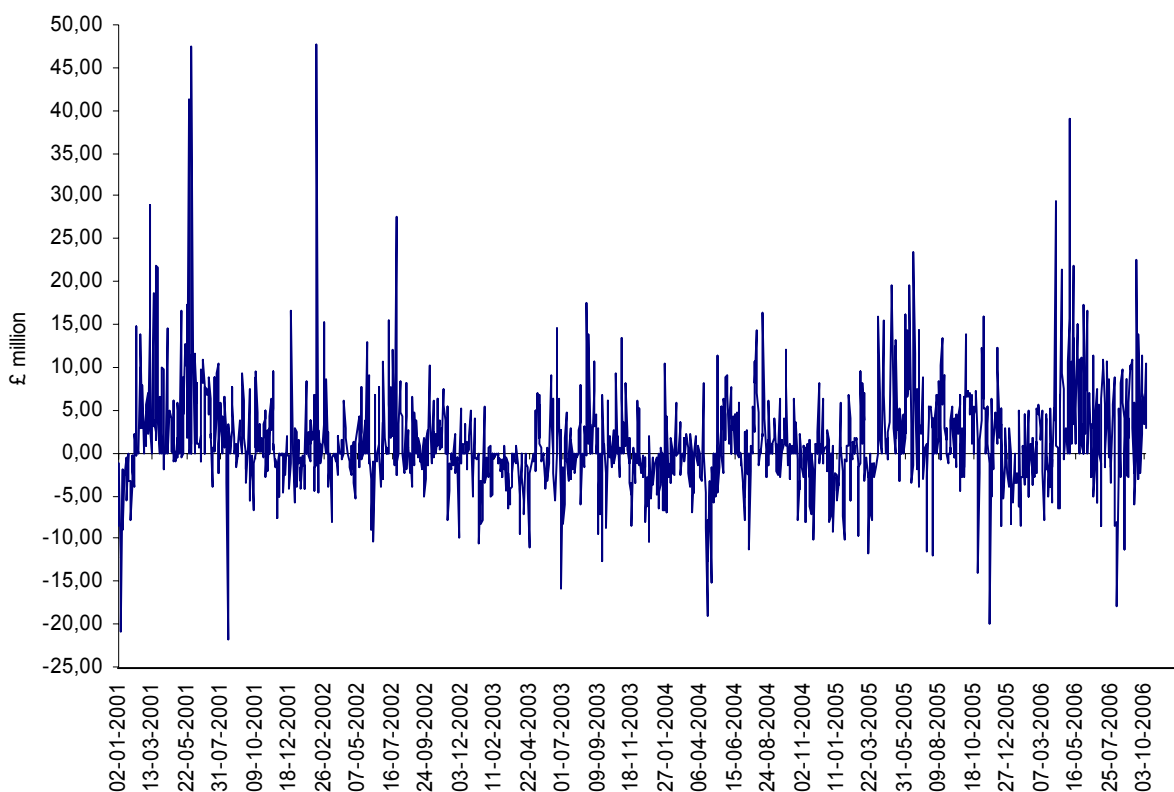
Sources: Central Bank of Cyprus and International Monetary Fund.

Table 3 illustrates the Central Bank’s total foreign currency transactions until 6 October 2006 on the basis of their transactions date. The corresponding daily total transactions in foreign currency by the Central Bank from 2001 until 6 October 2006 are illustrated in Chart 3.

During the period 1 September – 6 October 2006, net inflows of £137,35 million were recorded compared with £72,95 million in the corresponding period of 2005. For the period 1 January - 6 October 2006, net inflows of £524,47 million were recorded, compared with of £425,09 in the corresponding period of 2005.

**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	Foreign currency per Cyprus pound (period average)			Purchases(+)/Sales(-) of foreign exchange by the Central Bank (based on transaction date)			
	Euro	USD	Sterling	In foreign currency (million)			In Cyprus pounds (million)
Euro				USD	Sterling		
<b>Yearly</b>							
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	1,7122	1,9361	1,1844	-259,75	1,30	19,50	-134,01
2004	1,7187	2,1357	1,1663	-91,40	15,75	25,70	-25,52
2005	1,7335	2,1574	1,1858	899,55	29,30	37,3	560,68
<b>Quarterly</b>							
2004 Q1	1,7060	2,1348	1,1604	-155,75	2,00	30,20	-64,23
2004 Q2	1,7099	2,0579	1,1401	-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	-116,2	2,3	13,6	-54,82
2005 Q1	1,7161	2,2496	1,1902	-161,1	10,5	30,1	-64,1
2005 Q2	1,7297	2,1785	1,1742	518,15	22,3	4,40	312,86
2005 Q3	1,7443	2,1278	1,1928	250,45	-3,55	-0,10	141,83
2005 Q4	1,7440	2,0737	1,1861	292,05	0,5	2,90	170,09
2006 Q1	1,7407	2,0930	1,1947	-85,05	1,70	0,60	-47,47
2006 Q2	1,7379	2,1830	1,1962	631,05	0,00	2,00	364,75
2006 Q3	1,7383	2,2116	1,1891	284,85	-0,15	1,80	152,29
<b>2005</b>							
January	1,7189	2,2561	1,2009	-100,60	0,00	10,90	-49,46
February	1,7149	2,2324	1,1828	-18,00	0,00	12,30	-0,11
March	1,7145	2,2602	1,1868	-42,50	10,05	6,90	-14,53
April	1,7159	2,2208	1,1722	91,35	20,75	4,40	66,32
May	1,7312	2,1958	1,1852	175,45	0,05	0,00	101,53
June	1,7419	2,1189	1,1653	251,35	1,50	0,00	145,01
July	1,7432	2,0992	1,1992	49,00	0,00	0,00	28,10
August	1,7453	2,1395	1,1831	134,05	-3,40	0,00	75,27
September	1,7445	2,1447	1,1960	67,40	-0,15	-0,10	38,46
October	1,7447	2,0961	1,1892	140,30	0,80	0,00	80,78
November	1,7437	2,0558	1,1845	95,15	-0,15	0,90	55,24
December	1,7438	2,0691	1,1845	56,60	-0,15	2,00	34,07
<b>2006</b>							
January	1,7429	2,1102	1,1960	-79,95	-0,30	0,00	-46,01
February	1,7411	2,0798	1,1896	-8,45	0,00	0,60	-4,34
March	1,7382	2,0894	1,1984	3,35	2,00	0,00	2,88
April	1,7356	2,1247	1,2059	159,45	-0,15	2,00	93,46
May	1,7388	2,2216	1,1881	326,40	0,00	0,00	187,73
June	1,7392	2,2027	1,1946	145,20	0,15	0,00	83,56
July	1,7392	2,2061	1,1963	113,65	-1,00	0,00	64,89
August	1,7366	2,2260	1,1759	26,00	0,00	0,00	14,94
September	1,7346	2,2093	1,1714	183,70	-0,15	1,80	107,36
October*	1,7340	2,2035	1,1713	52,00	0,00	0,00	29,99

\*Figure until 6 October, 2006.

Source: Central Bank of Cyprus.

## 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). Following the complete liberalisation of capital movements, IBUs are free to provide credit to Cypriots<sup>1</sup>.

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.

### *Analysis of monetary aggregates*

In the monetary sector there was a mild slowdown in the growth of M2 which nonetheless remains at high levels. Growth of credit to the private sector in August surpassed 14%. At the same time strong capital inflows continued, partly as a result of the rise registered in foreign currency loans. As a result of the aforementioned developments, excess bank liquidity prevailed in the money market. These events continue to cause concern about further inflationary pressures.

According to provisional data, the annual growth rate of total money supply M2C<sup>2</sup>, which includes deposits with banks and CCIs, reached 12,2% in August, unchanged from July 2006 but higher than the growth of 7,5% registered in August

2005. The annual growth of credit by banks and CCIs to the private sector accelerated to 13,1% in August 2006, compared with 6,4% in the same month of 2005.

Based on domestic bank data, the annual rate of growth of M2 decelerated slightly to 13,3% in August, compared with 13,5% in July 2006 and 6,8% in August 2005. The three-month moving average of M2 also decelerated to 13,3% during the period June – August, compared with 13,8% in the period May – July 2006.

Table 4 presents the annual percentage change of components and factors affecting total money supply. Regarding the components of M2, the narrow money aggregate M1 registered an annual increase of 22,5% in August, compared with 22,7% in July 2006 and 14,4% in August of the previous year. The rise in M1 was a result of the rise in demand deposits in local currency. Quasi-money rose by 11,4% year-on-year to August, virtually unaltered from the 11,5% registered in July 2006, while markedly higher than the 5,3% in August 2005. The big difference between this year's and last year's growth rates is due to the substantial increase in time deposits in local currency in 2006. At the end of August, quasi-money accounted for 81,6% of M2 while M1 accounted for 18,4%.

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1. It should be noted that since 1 January 2006 the term "International Banking Units" (IBUs) has ceased to be used. Upon introduction of the new monthly balance sheet for monetary and financial institutions (MFIs) the data from IBUs will be consolidated with the local MFIs.

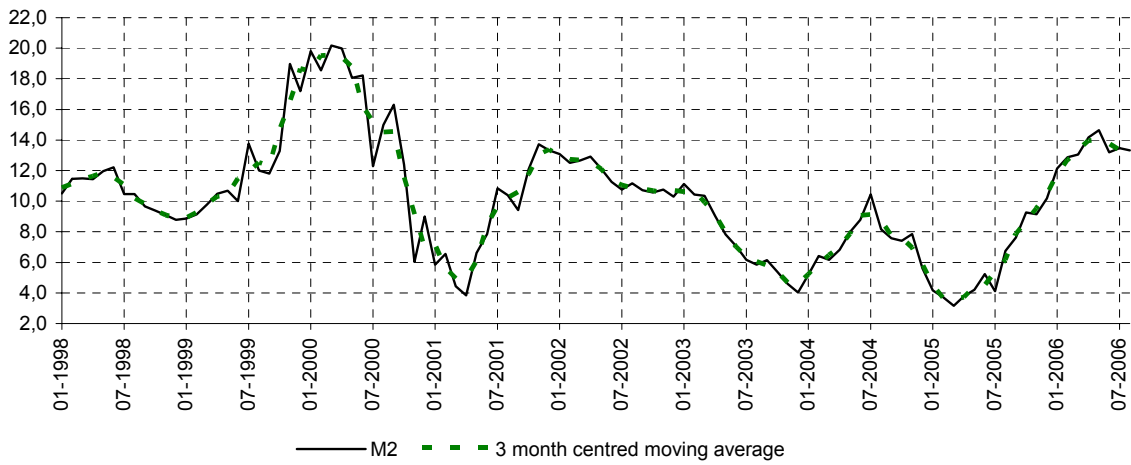
2. The monetary aggregate M2C should be treated with caution since CCIs are not supervised by the Central Bank of Cyprus and, in addition, the automation undertaken by the Co-operative Computers Society (SEM) Ltd, does not yet cover all CCIs.



**Chart 6**

**M2 growth**

(annual percentage change, monthly data)

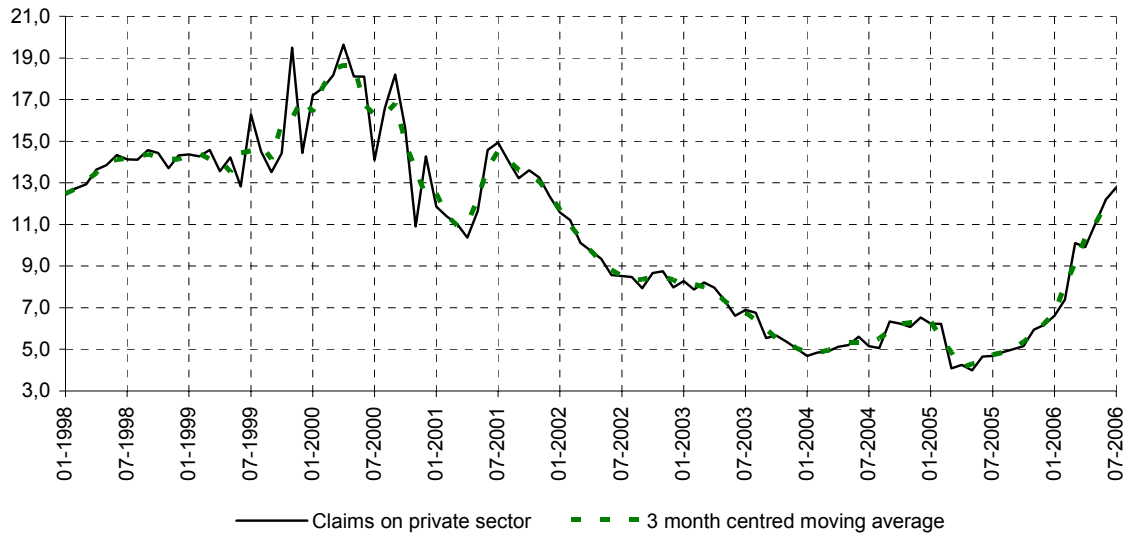


Source: Central Bank of Cyprus.

**Chart 7**

**Growth of claims on private sector**

(annual percentage, monthly data)



Source: Central Bank of Cyprus.

The annual rate of growth of residents' deposits in local currency rose by 12% in August 2006, compared with just 2,8% in the same month of 2005 and which had partly been a result of payment of taxes under the amnesty scheme.

At the same time, the annual rate of growth of foreign currency deposits by residents was 27% in August 2006, distinctly lower than 54,4% registered in the same month of the preceding year. The reason for the rise in deposits in Cyprus pounds was mainly the interest rate differential between the pound and the euro.

August, compared with 4,7% in the same month of 2005.

The breakdown of bank credit by sector of economic activity (Table 5) shows that in the year to August personal/professional loans rose by 22,7%, compared with 22,1% in July and 12,2% in August 2005. Credit to the construction sector rose at an annual rate of 20,1% in August, compared with 19% in July 2006 and 11,3% in August 2005.

During the same period, there was an acceleration in the growth of credit to public

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

	Outstanding amount as a percentage of M2 <sup>(1)</sup>	Annual percentage change			
		2005 July	2005 Aug.	2006 July	2006 Aug.
<b>Money supply (M1)</b>	<b>18,4</b>	<b>13,7</b>	<b>14,4</b>	<b>22,7</b>	<b>22,5</b>
Currency in circulation	5,2	8,6	9,5	7,6	8,5
Demand deposits	13,2	16,4	16,9	30,3	29,1
<b>Quasi-money</b>	<b>81,6</b>	<b>2,3</b>	<b>5,3</b>	<b>11,5</b>	<b>11,4</b>
<b>Total money supply (M2)</b>	<b>100,0</b>	<b>4,1</b>	<b>6,8</b>	<b>13,5</b>	<b>13,3</b>
Claims on private sector		4,7	4,9	13,7	14,3
of which in foreign currency		17,4	19,2	65,2	62,8
Claims on public sector		8,9	4,7	24,7	23,3

Source: Central Bank of Cyprus.

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

The acceleration in M2 growth was mainly due to the increase in credit to the private sector. Credit to the private sector rose at an annual rate of 14,3% year-on-year to August, compared with 13,7% in July. In the same months of 2005 the registered growth rates were 4,9% and 4,7%, respectively. The three-month moving average of credit growth was 13,7% during the period June – August, compared with 12,9% in the period May – July. In addition, credit to the public sector rose by 23,3% year-on-year to

corporations and institutions, including the government. In particular, the aforementioned loans grew by 11%, compared with 9,1%, in the 12 months to July and 12% in the 12 months to August 2005.

With the exception of trade, the rest of the categories registered an increase. The largest share of total outstanding amounts at the end of August was maintained by personal/professional

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

	Outstanding amount as a percentage of total <sup>(2)</sup>	Annual percentage change			
		2005 July	2005 Aug.	2006 July	2006 Aug.
Public institutions and corporations <sup>(3)</sup>	3,09	8,8	12,0	9,1	11,0
Agriculture	0,94	2,4	0,5	-8,1	-8,6
Mining	0,26	2,9	2,4	1,1	2,2
Manufacturing	4,95	0,8	1,0	1,0	1,8
Transport and communications	0,90	-23,6	-19,8	4,6	5,4
Foreign and domestic trade	13,64	-4,0	-4,3	-0,4	-2,2
Building and construction	18,29	10,8	11,3	19,0	20,1
Tourism	8,11	-3,0	-3,0	7,0	6,8
Personal and professional loans	49,78	12,0	12,2	22,1	22,7
Bills discounted: local	0,02	-2,2	-5,9	-19,9	-20,9
foreign	0,02	27,0	-2,8	-33,1	-13,4
<b>Total</b>	<b>100,00</b>				

Source: Central Bank of Cyprus.

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

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

(3) Including government loans.

loans with 49,8%, followed by credit to the construction sector with 18,3% and foreign and domestic trade with 13,6%.

Foreign currency lending to residents by domestic banks rose by £654 million in the 12 months to August 2006, compared with a rise of £167,7 million in the same period to August 2005. The share of new foreign currency loans to total new loans given out in the 12 months to August 2006 rose to 51,1%, compared with 40,2% in the same period of 2005. As a result, the share of new foreign currency loans to total loans outstanding at the end of August was 16,5%, compared with 11,6% at the end of August 2005 (Table 6). At the end of August

2006, 59,7% of foreign currency loans was accounted for by euros, 32% by Swiss francs, 5,8% by dollars and 1,6% by yen, compared with 67%, 20,6%, 8,4% and 2,8%, respectively, at the end of August 2005. The rise in lending in Swiss francs is due to the low interest rates in this currency. It appears that borrowers have been disregarding the exchange rate risk associated with such transactions, even though the exchange rate between the Swiss franc and the Cyprus pound has historically exhibited strong fluctuations.

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

	2003	2004	2005	2005 Aug.	2006 July	2006 Aug.
<i>(outstanding amounts at end of period, CYP million)</i>						
Foreign currency loans to residents	799,0	909,9	1.205,8	1.041,5	1.682,7	1.695,5
Claims on private sector	8.302,0	8.844,2	9.390,8	8.974,2	10.225,9	10.253,9
Share %	9,6	10,3	12,8	11,6	16,5	16,5
<i>(12 month change, CYP million)</i>						
Foreign currency loans to residents	13,8	111,0	295,8	167,7	664,2	654,0
Claims on private sector	397,9	542,2	546,6	417,5	1.228,6	1.279,8
Share %	3,5	20,5	54,1	40,2	54,1	51,1

Source: Central Bank of Cyprus.

(1) From domestic banks.

According to data covering medium and long-term lending in foreign currency, during the period January – July 2006, 47,4% of new loans were used for refinancing<sup>3</sup>, 18,4% for the purchase of fixed assets and 13,7% were used in the local construction sector. The respective figures for the same period of 2005 were 43%, 19,4% and 10,2%.

Domestic expenditure by holders of Cypriot credit cards rose at an annual rate of 18,9% in September 2006, compared with 13,1% in the same month of 2005. During the first nine months of 2006 this type of expenditure rose by 17,1%, compared with 10,2% in the same period of the previous year. Expenditure by Cypriot

cardholders abroad rose at an annual rate of 42,1% in September, compared with 23,4% in the same month of the previous year. During the period January – September 2006 this type of expenditure rose by 35,9%, compared with a rise of 20,2% in the same period of the previous year. Finally, foreign card holders' expenditure in Cyprus rose by 3,2% year-on-year to September 2006, compared with 3,4% in the same month of the previous year. During the first nine months of the current year, the rise was 5,4% compared with an increase of 5,3% in the same period of 2005 (Table 7).

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

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

	2004	2005	September		Jan.-Sep.	
			2005	2006	2005	2006
<b>Foreign cardholder spending in Cyprus</b>						
Value (CYP thousand)	232.671	244.609	28.224	29.136	186.748	196.918
Annual % change	8,6	5,1	3,4	3,2	5,3	5,4
<b>Local cardholder spending in Cyprus</b>						
Value (CYP thousand)	591.912	659.486	51.494	61.203	467.327	547.232
Annual % change	12,3	11,4	13,1	18,9	10,2	17,1
<b>Local cardholder spending abroad</b>						
Value (CYP thousand)	195.009	244.131	22.126	31.447	172.357	234.263
Annual % change	9,3	25,2	23,4	42,1	20,2	35,9

Source: JCC Payment Systems.

### Co-operative Credit Institutions (CCIs)<sup>4</sup>

During August local currency deposits with CCIs amounted to 38,2% of total deposits (i.e. CCIs and banking institutions), compared with 37,4% in the same month of 2005. In August 2006 the share of CCI loans in local currency was estimated at around 29,8%, compared with 29,5% in the same month of 2005. Deposits with CCIs are estimated to have increased by 13,2% in the 12 months to August 2006, compared with 6,2% in the same period of the previous year. Loans in Cyprus pounds are estimated to have increased by 9,7% in August, compared with 10% in the same month of 2005. It is noted that the largest part of CCI loans consist of housing loans.

### Money market

During August and September there was an increase in surplus bank liquidity<sup>5</sup>. The increase in the average daily value of net foreign assets was the main factor that affected surplus liquidity positively. In September the decrease in government deposits with the Central Bank and in currency in circulation affected bank liquidity positively (Table 8).

At the auction held on 12 October for the acceptance of deposits, £550 million was absorbed at an average interest rate of 3,89%. Total bids amounted to £829 million.

4. 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.

5. The box on page 22 presents the liquidity conditions for the period 22 June – 27 September 2006. 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 & depos	Currency in circulation	Central govern. deposits (net) <sup>(1)</sup>	Other factors (net)		
		Main refinancing operations (repos)	Long-term refinancing operations	Marginal lending facility (lombard)	Other liquidity providing operations (swap)								
	1	2	3	4	5	6	7	8	9	10	11	12	13
2004 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
June	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
July	1.571,9	0,0	0,0	0,4	0,0	31,9	79,6	88,1	586,5	-62,2	182,6	665,8	1.363,8
Aug.	1.596,2	0,0	0,0	0,0	0,0	37,7	79,4	93,5	587,6	-58,1	185,2	670,8	1.375,5
Sep.	1.638,9	0,0	0,0	0,0	0,0	87,5	79,4	198,7	579,4	-119,0	200,2	612,7	1.359,1
Oct.	1.712,1	0,0	0,0	7,3	0,0	55,1	79,3	168,1	579,7	-12,5	231,5	618,1	1.332,3
Nov.	1.772,0	0,0	0,0	0,0	0,0	181,7	79,3	173,7	566,4	-41,3	246,6	565,6	1.393,1
Dec.	1.830,5	0,0	0,0	0,0	0,0	198,5	79,3	227,7	594,8	-130,6	277,8	583,0	1.455,7
2006 Jan.	1.840,4	0,0	0,0	0,0	0,0	190,5	0,1	333,5	579,2	-148,0	223,8	661,1	1.430,9
Feb.	1.796,1	0,0	0,0	0,0	0,0	174,0	0,0	302,9	562,2	-154,2	236,9	674,3	1.410,5
Mar.	1.792,1	0,0	0,0	0,9	0,0	238,8	0,1	256,1	564,8	-210,2	265,8	677,6	1.481,2
Apr.	1.845,7	0,0	0,0	0,0	0,0	183,3	0,0	138,7	594,7	-32,1	266,1	695,1	1.473,1
May	1.993,9	0,0	0,0	0,0	0,0	233,0	0,0	269,7	603,8	-78,0	271,3	694,2	1.531,0
June	2.066,8	0,0	0,0	0,0	0,0	237,5	0,0	417,3	618,9	-176,4	272,0	697,4	1.553,8
July	1.974,6	0,0	0,0	5,7	0,0	132,6	0,2	431,0	633,6	-133,8	211,6	705,1	1.471,5
Aug.	2.007,3	0,0	0,0	13,7	0,0	100,0	0,0	477,4	636,3	-127,0	225,7	708,6	1.444,9
Sep.	2.073,3	0,0	0,0	0,5	0,0	155,9	0,0	500,0	625,3	-171,5	245,2	718,9	1.500,1

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

As shown in Table 9, during July auctions were held for 13 and 52 week treasury bills and for 2 and 10 year government bonds. The respective average yields were 2,56%, 2,89%, 3,51% and 4,28%. During August and September no auctions were held in government securities.

Following the rise in official interest rates, the interbank overnight interest rate rose to 3,46% in September from 2,86% in August.

On 9 October auctions were held in 5 and 10 year government bonds. The respective yields were 4,11% and 4,26%.

**Table 9****Interest rates**

(percent per annum, period averages)

	2003	2004	2005	2005 Sep.	2006 Jul.	2006 Aug.	2006 Sep.
Interbank (1 day)	3,35	3,92	3,27	2,55	2,79	2,86	3,46
Acceptance of deposits	3,45	3,89	3,28	2,61	2,94	3,05	3,50
Treasury bills (13 weeks)	3,51	4,21	4,26	-	2,56	-	-
Treasury bills (52 weeks)	3,70	4,77	4,29	3,51	2,89	-	-
Development stocks (2 years)	3,83	5,14	4,74	-	3,51	-	-
Development stocks (5 years)	4,49	5,92	5,68	-	-	-	-
Development stocks (10 years)	4,70	6,07	5,17	4,22	4,28	-	-
Development stocks (15 years)	4,81	6,31	5,61	-	-	-	-

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 22 June to 27 September 2006. Figure 1 summarises the liquidity absorption and provision through monetary policy operations, while Figure 2 presents the developments in 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 the liquidity position of the banking system remaining at the same levels at the end as the levels at the beginning of the period under review.

#### Monetary policy operations and interest rates

The CBC conducted seven 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	22/06/2006	06/07/2006	622,5	520,0	1,20	2,78	14
LAO	06/07/2006	20/07/2006	552,0	400,0	1,38	2,84	14
LAO	20/07/2006	03/08/2006	553,0	430,0	1,29	3,13	14
LAO	03/08/2006	17/08/2006	707,0	480,0	1,47	3,06	14
LAO	17/08/2006	31/08/2006	687,0	480,0	1,43	3,03	14
LAO	31/08/2006	14/09/2006	687,5	500,0	1,38	3,00	14
LAO	14/09/2006	28/09/2006	727,5	500,0	1,46	3,88	14

Source: Central Bank of Cyprus.

The LAOs were carried out through variable rate tenders with a maximum bid rate of 3,25% for the first six operations and 4,50% for the last operation of the period under review. The absorbed liquidity ranged between £400 million and £520 million, whereas the weighted average allotment rate remained within the range of 2,78% and 3,88%. The ratio of the amount bid to the volume allotted, ranged between 1,20 and 1,47 with an average of 1,37, while the number of participating counterparties varied between 4 and 8.

#### Standing facilities

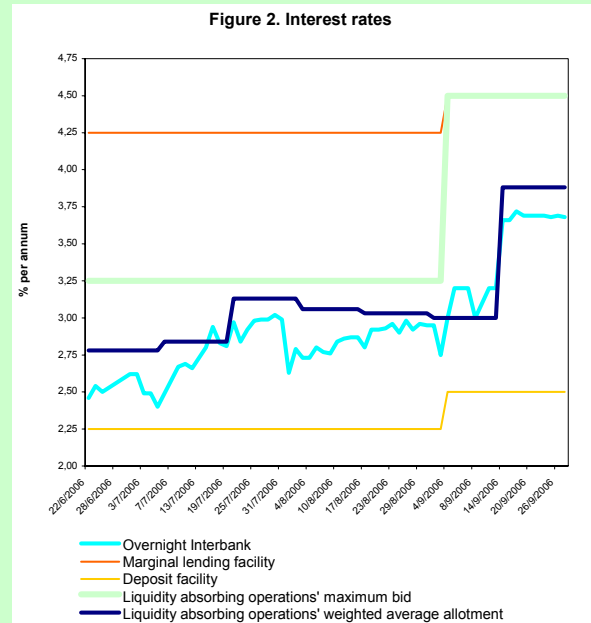
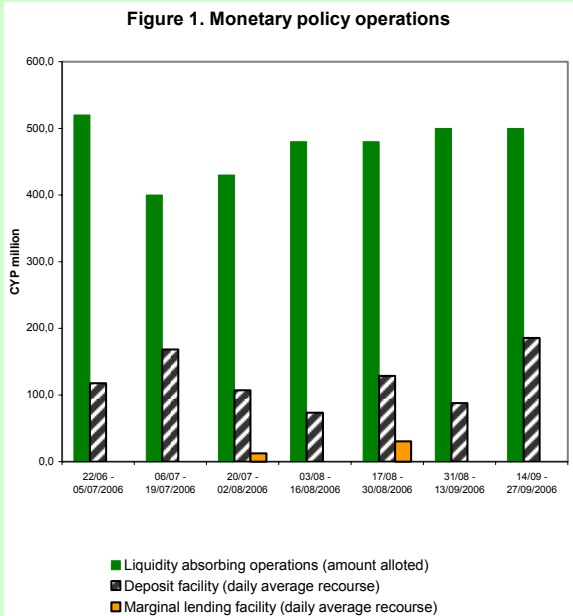
(period averages of daily recourse in CYP million)

Period	Deposit facility	Marginal lending facility
22/06 - 05/07/2006	117,8	0,0
06/07 - 19/07/2006	168,3	0,0
20/07 - 02/08/2006	107,2	12,6
03/08 - 16/08/2006	73,5	0,0
17/08 - 30/08/2006	128,8	30,4
31/08 - 13/09/2006	88,1	0,0
14/09 - 27/09/2006	185,6	0,0

Source: Central Bank of Cyprus.

In view of the aforementioned liquidity conditions during the above periods, averages of daily recourse to the deposit facility ranged between £73,5 million and £185,6 million. This is in contrast to the limited recourse to the marginal lending facility for which the respective period averages ranged between zero and £30,4 million.





**Overnight interbank interest rate**  
(percent per annum)

Period	Minimum rate	Maximum rate	Average rate
22/06 - 05/07/2006	2,40	2,62	2,52
06/07 - 19/07/2006	2,66	2,94	2,77
20/07 - 02/08/2006	2,63	3,02	2,91
03/08 - 16/08/2006	2,73	2,87	2,80
17/08 - 30/08/2006	2,80	2,98	2,92
31/08 - 13/09/2006	2,75	3,20	3,08
14/09 - 27/09/2006	3,66	3,72	3,69

Source: Central Bank of Cyprus.

During the period under review the overnight interbank interest rate ranged between 2,4% and 3,72%. The average rate stood at around 2,96%. On 1 September 2006, the Monetary Policy Committee (MPC) raised the marginal lending facility rate and the deposit facility rate by 25 basis points, to 4,5% and 2,5%, respectively. At the same time, the MPC increased the minimum bid rate on the main refinancing operations (repo rate) by 125 basis points to 4,5%, which is now equal to the rate on the marginal lending facility. The purpose of this asymmetric move was to set in motion a process by which commercial banks would start using the minimum bid rate on the main refinancing operations as their benchmark rate for pricing their loans in Cyprus pounds, instead of the interest rate on the marginal lending facility (Lombard), used until now.

Table 10 provides a comparison between domestic and European long-term interest rates. The most recent data refer to the latest 12 month average until August 2006 and show

that domestic long-term real interest rates exceeded the corresponding euro area rates by 58 basis points, compared with 78 basis points in the previous 12 month period.

**Table 10**  
**Inflation and interest rates in Europe and Cyprus - August 2006**  
*(latest 12-month average)*

	Inflation ( HICP) (%)	Long-term interest rates (%)	Long-term real interest rates (%)
Austria <sup>(1)</sup>	1,90	3,58	1,68
Belgium	2,60	3,66	1,06
Czech Republic	2,40	3,68	1,28
Denmark	2,00	3,63	1,63
Estonia <sup>(1)</sup>	4,40	4,02	-0,38
Finland	1,20	3,59	2,39
France	2,10	3,65	1,55
Germany	2,10	3,60	1,50
Greece <sup>(1)</sup>	3,50	3,83	0,33
Hungary	3,00	6,86	3,86
Ireland <sup>(1)</sup>	2,70	3,54	0,84
Italy	2,30	3,87	1,57
Latvia	7,00	3,81	-3,19
Lithuania	3,40	3,86	0,46
Luxembourg	3,80	3,68	-0,12
Malta	3,10	4,34	1,24
Netherlands	1,70	3,62	1,92
Poland	1,30	5,13	3,83
Portugal	2,60	3,74	1,14
Slovakia	4,10	4,09	-0,01
Slovenia	2,70	3,75	1,05
Spain	3,90	3,63	-0,27
Sweden	1,40	3,56	2,16
United Kingdom	2,20	4,32	2,12
Eurozone	2,40	3,68	1,28
EU -25	2,30	3,88	1,58
Cyprus	2,30	4,16	1,86

Sources: Eurostat and European Central Bank.

(1) Data for July 2006.

### International and domestic official interest rates

At its recent meeting the ECB raised its interest rates by 25 basis points. In contrast, the US Federal Reserve and the Bank of England maintained their interest rates unchanged. On 1 September 2006, the Central Bank of Cyprus raised its interest rate on the marginal lending facility and on the overnight deposit facility by 25 basis points. At the same time the Monetary Policy Committee set the main refinancing rate (repo rate) as the benchmark rate for pricing commercial

banks' loans in Cyprus pounds, instead of the interest rate on the marginal lending facility (Lombard), which had been used prior to September. The repo rate was raised from 3,25% to 4,5%, the same as the rate on the marginal lending facility. In due course the MPC will restore the normal corridor of the official interest rates in order to achieve full convergence with the ECB's rates (Table 11).

**Table 11**

#### Selected official interest rates

(percent per annum, changes in percentage points)

		change
<b>European Central Bank</b>		
<i>(5 October 2006)</i>		
Minimum bid rate on the main refinancing operations	3,25	+0,25
Interest rate on the marginal lending facility	4,25	+0,25
Interest rate on the deposit facility	2,25	+0,25
<b>Bank of England</b>		
<i>(5 October 2006)</i>		
Rate paid on commercial bank reserves	4,75	-
<b>Federal Reserve</b>		
<i>(20 September 2006)</i>		
Federal funds rate	5,25	-
Discount rate	6,25	-
<b>Central Bank of Cyprus</b>		
<i>(1 September 2006)</i>		
Minimum bid rate on the main refinancing operations	4,50	+1,25
Maximum bid rate on the liquidity absorbing operations	4,50	+1,25
Interest rate on the marginal lending facility	4,50	+0,25
Interest rate on the deposit facility	2,50	+0,25

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

### Cyprus Stock Exchange (CSE)

The main and parallel market index of the CSE rose in September due to increased interest in the banking sector which emanated from increased profitability and the agreement for a merger between Laiki Bank, Marfin Financial Group and Egnatia Bank. The index fluctuated between 2.726,2 and 2.948, reaching a monthly average of 2.828. During the first nine months of the year the average value of the index was 2,505,6. The average daily value of transactions rose to £4,6 million, compared with £3,8 million in August. The average daily volume of transactions rose to 2.566 in September, up from 1.782 in the previous month. The companies with the largest volume of transactions were Bank of

Cyprus and Laiki Bank, accounting for 23,1% and 21,1% of the total volume, respectively.

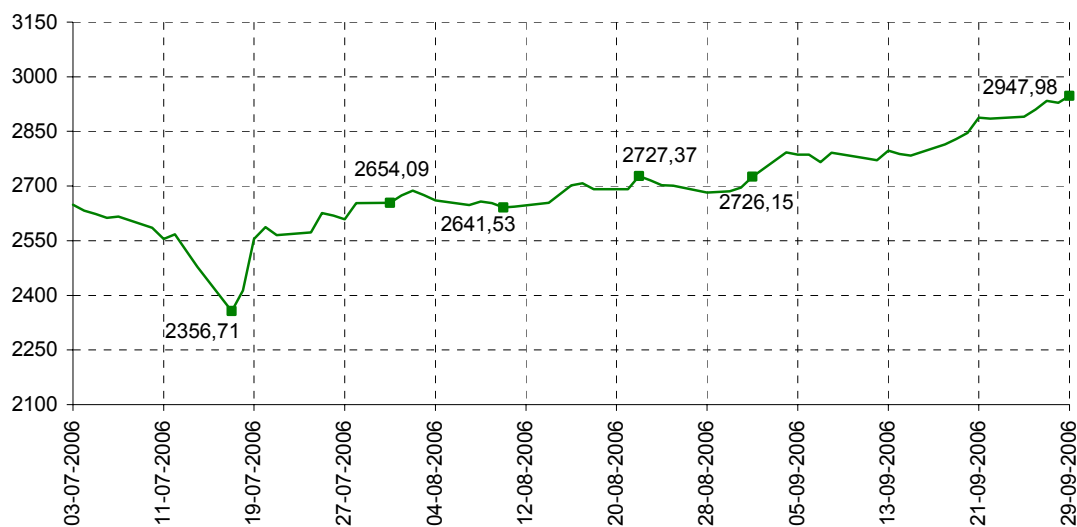
At the last meeting of the month, the sectoral index of banks exhibited a large rise compared with the previous month's closing. In contrast, the sectoral index of hotels registered a marked decrease with respect to the previous month's closing.

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

#### Chart 8

### Cyprus Stock Exchange - main and parallel market index

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



Source: Cyprus Stock Exchange.

## 2.3 INFLATION

In September 2006 the consumer price index exhibited a significant deceleration registering an increase of 2,4% compared with 3,1% in the previous month. As table 12 shows, the fall in inflation in September (compared with August) reflects the deceleration in the prices of petroleum, domestic industrial products and electricity.

For the first nine months of the year, inflation reached 2,9%. More specifically, domestic product prices rose by 4,7%, petroleum product prices rose by 11,8% and services prices by 2,5%, while the imported product prices fell by 0,8%.

In the category of domestic goods, a deceleration was observed in the price of electricity which rose by 6,3% in September 2006, compared with 9,5% rise in August 2006. At the same time, a deceleration was also observed in the prices of domestic industrial products which rose by 2,6% compared with 3,2% in the previous month. On the other hand, an acceleration was observed in the prices of agricultural products which rose by 6,4% in September compared with 3,9% in the previous month.

The prices of petroleum products declined by 0,8% compared with an increase of 11% in August. This was due to the recent significant decrease in the international price of oil.

The prices of imported goods (excluding petroleum) rose by 0,2% in September compared with a rise of 0,1% in August 2006. More specifically, the prices of motor vehicle rose by 0,1% compared with an increase of 0,8% in August. At the same time a rise of 0,3% was

registered in the prices of other imported products.

Finally, the prices of services rose by 3,2% in September compared with 3% in August 2006. The prices of rents, transport, education and government services contributed significantly in the above development.

The Harmonised Index of Consumer Prices recorded an increase of 2,2% in September compared with 2,7% in August. The HICP 12 month moving average until August 2006 reached 2,3%, which is lower than the 2,8% reference value of the Maastricht criterion for the specific month.

For purposes of comparison, Table 13 shows the latest available monthly data on inflation in Cyprus, the euro area and other industrial countries as well as forecasts for 2006. Inflation in 2006 is expected to register a marginal increase compared with 2005

**Table 13**  
**Inflation: Cyprus and other countries**

	Inflation rate	Month	Forecast for 2006 <sup>(1)</sup>
Austria	1,8	Aug	1,8
Belgium	1,2	Sept	2,0
Canada	2,1	Aug	2,4
Cyprus	2,4	Sept	2,8 <sup>(2)</sup>
Euro area	1,8	Sept	2,2
France	1,9	Aug	2,0
Germany	1,0	Sept	1,8
Italy	2,2	Sept	2,2
Japan	0,9	Aug	0,3
Netherlands	1,1	Sept	1,6
Spain	3,7	Aug	3,8
Sweden	1,6	Aug	1,4
Switzerland	0,8	Sept	1,3
UK	2,5	Aug	2,3
USA	3,8	Aug	3,5

(1) Source: *The Economist*, 7 October 2006

(2) Source: Central Bank of Cyprus.

**Table 12**
**Percentage change in CPI by economic category**

January – September 2006/2005

Weights 2005=100

	2003	2004	2005	September 2005/2004	August 2006/2005	September 2006/2005	Weights	
							1998=100	2005=100
<b>GENERAL INDEX</b>	<b>4,14</b>	<b>2,28</b>	<b>2,56</b>	<b>2,93</b>	<b>3,10</b>	<b>2,38</b>	<b>100,00</b>	<b>100,00</b>
<b>A Domestic products</b>	6,21	2,95	1,79	2,90	3,95	<b>3,88</b>	<b>36,69</b>	<b>28,60</b>
A.1 Agricultural	4,54	3,32	1,34	6,62	3,88	6,43	7,93	6,92
A.2 Industrial	6,46	3,36	1,14	0,46	3,23	2,59	22,91	19,24
A.3 Electricity	10,20	-3,13	11,51	16,38	9,51	6,33	1,52	2,44
<b>B Petroleum products</b>	<b>14,16</b>	<b>17,18</b>	<b>14,82</b>	<b>19,36</b>	<b>11,04</b>	<b>-0,84</b>	<b>4,33</b>	<b>6,44</b>
<b>C Imported products</b>	<b>-2,38</b>	<b>-5,55</b>	<b>-2,47</b>	<b>-3,34</b>	<b>0,09</b>	<b>0,23</b>	<b>22,20</b>	<b>25,31</b>
C1 Motor vehicles	-8,31	-13,50	-2,42	-3,15	0,81	0,09	9,43	6,15
C2 Other imported	1,81	-0,39	-2,49	-3,29	-0,14	0,28	12,77	19,16
<b>D Services</b>	<b>4,38</b>	<b>3,23</b>	<b>3,34</b>	<b>2,81</b>	<b>2,97</b>	<b>3,20</b>	<b>41,11</b>	<b>39,65</b>
<b>HICP</b>	<b>4,0</b>	<b>1,9</b>	<b>2,1</b>	<b>2,1</b>	<b>2,7</b>	<b>2,2</b>		

## 2.4 PRODUCTION, DEMAND AND THE LABOUR MARKET

The growth rate of real GDP reached 3,6% in the first six months of 2006, compared with 3,7% in the same period of 2005. More specifically private consumption registered an increase of 3,6% compared with an increase of 6,1% in the first six months of 2005. Public consumption rose by 3,6% in the first six months of 2006 compared with 6,1% the corresponding period of 2005. At the same time gross capital formation as well as exports and imports of goods and services, rose by 20,2% 9% and 0,5% respectively, compared with -2,5%, 2,8% and 2,2%, respectively, during the first six months of 2005. Registered unemployment as a percentage of the economically active population rose by 3,6% in the first nine months of 2006, compared with 3,8% in the same period of 2005.

### Production

In the services sector, tourist arrivals registered a decrease of 2,4% in the first eight months of 2006 compared with an increase of 7,7% in the respective period of 2005. Receipts from tourism rose by 3,5% in the first eight months of the year compared with 3,1% in the same period of 2005.

In the secondary sectors, the manufacturing production index fell by 2,2% in the first seven months of 2006, compared with a decrease of 2,4% in the corresponding period of 2005. In the construction sector, the volume index of building permits rose by 5,6% in the first six months of 2006, compared with 11,8% in the same period of 2005. At the same time, cement sales rose by 0,6% in the first eight months of 2006, compared with an increase of 5% in the corresponding period of 2005.

**Table 14**

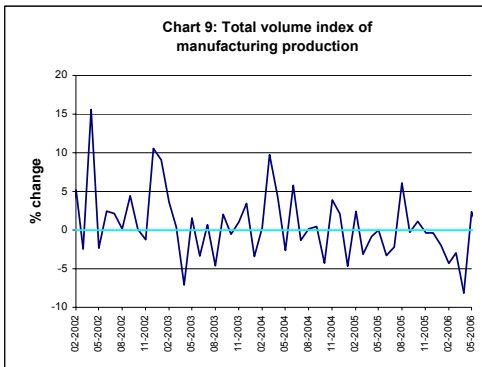
### Manufacturing production volume index

	July 05/04	July 06/05	Jan-July 05/04	Jan.-July 06/05
<b>General index</b>	<b>-2,7</b>	<b>-3,1</b>	<b>-2,4</b>	<b>-2,2</b>
Food products, beverages & tobacco	3,7	-9,3	1,3	-8,8
Textiles & textile products	3,6	-34,3	-9,0	-19,0
Leather & leather products	-21,6	-24,1	-50,4	-14,9
Wood & wood products	-4,9	-5,5	-1,48	0,04
Paper, paper products, publishing & printing	-6,0	4,2	-5,6	3,8
Refined petroleum products	-14,7	-6,9	-93,8	4,4
Chemicals, chemical products & man-made fibres	-8,9	4,1	1,6	3,6
Rubber & plastic products	-7,6	2,0	-7,1	1,7
Other non-metallic mineral products	-10,3	4,8	1,9	-0,4
Basic metals & fabricated metal products	-1,5	8,4	-8,8	3,2
Machinery & equipment n.e.c.	-7,8	-1,8	2,8	0,8
Electrical & optical equipment	-6,4	33,6	0,2	25,4
Transport equipment	0,4	5,1	-5,0	6,9
Manufacturing n.e.c.	-0,2	-9,1	-5,8	0,9

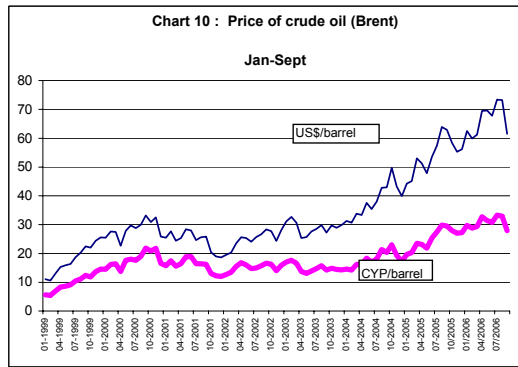
Source: Cystat.

(percentage change by category)

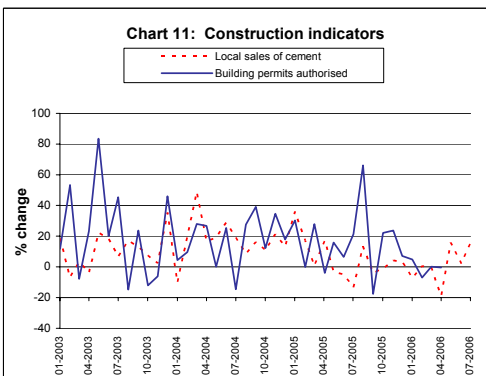
**Charts 9 -12**  
**Selected economic indicators (A)**



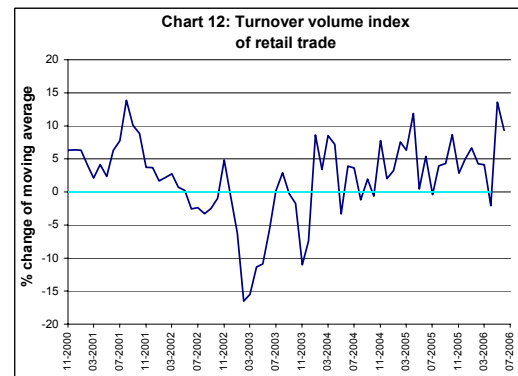
Source: Cystat.



Source: Reuters.



Source: Cystat.



Source: Cystat.



### Consumption

The turnover volume index of retail trade, from which the sales of motor vehicles are excluded, exhibited a rise of 9,4% in June 2006, compared

with 5,3% in June 2005. For the first six months of the year, the index rose by 6% compared with a 5,8% increase in the same period of 2005.

**Table 15**

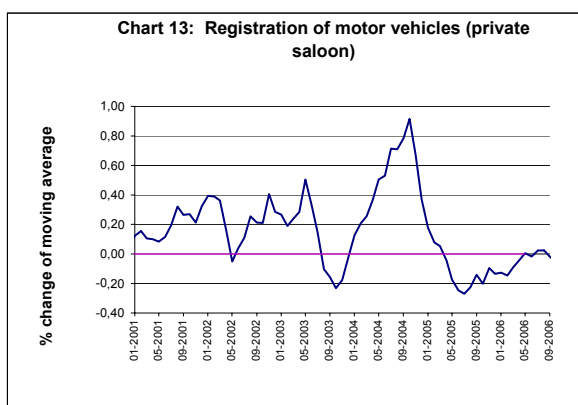
### Turnover volume index of retail trade

(percentage change by category)

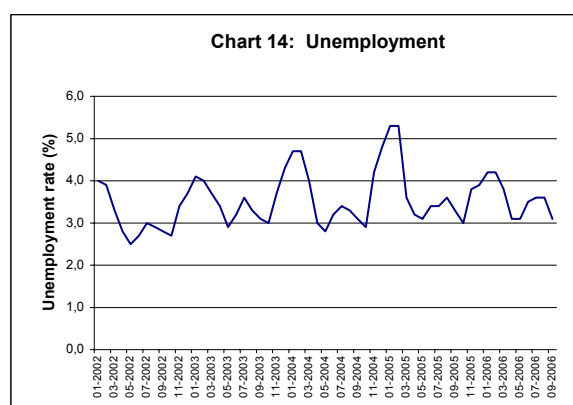
	June 05/04	June 06/05	Jan-June 05/04	Jan.-June 06/05
<b>General index</b>	<b>5,3</b>	<b>9,4</b>	<b>5,8</b>	<b>6,0</b>
Retail sale in non-specialised stores with food, beverages or tobacco predominating	11,5	12,3	12,7	7,2
Other retail sale in non-specialised stores	5,2	5,9	3,1	1,5
Retail sale of food, beverages and tobacco in specialised stores	5,1	20,0	9,9	7,5
Retail sale of pharmaceutical and medical goods, cosmetics and toilet articles	22,0	11,5	22,7	14,5
Retail sale of textiles, clothing, footwear and leather goods	8,1	11,3	0,4	5,2
Retail sale of furniture, lighting equipment and household articles, electrical household appliances and radio and television goods	6,2	15,7	8,1	10,1
Retail sale of books, newspapers and stationery and other retail sale in specialised stores	-10,8	-2,3	-5,9	-0,3
Retail sale of second-hand goods in stores	-13,9	-86,6	-14,9	-12,7
Retail sale not in stores	21,1	-13,2	2,8	4,3

Source: Cystat.

**Charts 13 -14**  
**Selected economic indicators (B)**



Source: Cystat.



Source: Cystat.

Due to the reduction in excise taxes that took place in November 2003, saloon car registrations exhibited a fall of the order of 17,2% in 2005. The reduction in car registrations continued in the first nine months of 2006 and reached 4,5%. Despite this decline in car registrations, private consumption in general continued an upward trend during 2006.

As already mentioned, consumption by Cypriots and foreigners using credit cards in Cyprus exhibited an acceleration and rose by 17,1% and 5,4%, respectively, in the period January-September 2006, compared with an increase of 10,2% and 5,3%, respectively, in the same period of 2005.

### Labour market

The most recent data concerning unemployment based on the Labour Force Survey cover the first three months of 2006. According to the Survey, unemployment fluctuated at around 5,9%. As far as the registered unemployed are concerned, a fall of 4% was recorded in September 2006 while the unemployment rate as a percentage of the economically active population, fluctuated at around 3,1% compared with 3,3% in September 2005.

In the first nine months of 2006, the number of registered unemployed fell by 2,6% compared with an increase of 8,5% in the same period of 2005, while unemployment as a percentage of the economically active population, fluctuated at around 3,6%, compared with 3,8% in the corresponding period of 2005.

The decrease in unemployment occurred due to the change in the methodology concerning the registration of the seasonally unemployed and not as a result of a change in economic fundamentals. For example, those unemployed in the hotel industry are no longer obliged to be registered in order to be eligible for unemployment benefit.

### Confidence indicators

The trends in the confidence indicators<sup>6</sup> are to a certain extent consistent with the overall picture of the economy as presented in this report.

In the first nine months of 2006, the construction confidence indicator exhibited a negative movement, which is consistent with the deceleration of the volume index of building permits and cement sales.

The positive trend observed in the services confidence indicator during the period January - May 2006, partly reflects the weak performance of the tourism sector in the first months of 2006.

In the first nine months of 2006, the consumer confidence indicator and the retail sales confidence indicator remained negative. These negative indicators are not consistent with observed consumer spending fluctuations.

The industrial confidence indicators exhibited a small increase in the period January - September 2006.

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

## 2.5 PUBLIC FINANCES

In accordance with the preliminary consolidated accounts of the Ministry of Finance, which cover the central government and the social security funds during the first seven months of 2006, public finances exhibited a slight deterioration. More specifically, during the period under question, the fiscal deficit amounted to £84,6 million or 1% of GDP compared with a deficit of £71,1 million or 0,9% of GDP in the corresponding period of 2005. However, it should be noted that, if we exclude the £133 million receipts emanating from the tax amnesty and the CYTA dividend payment, which had already been received in the corresponding period of the previous year, then the seven month fiscal deficit is significantly improved by the order of £119,5 million or 1,6% of GDP.

The above developments are reflected in the primary balance, which is defined as the fiscal deficit excluding interest payments, the surplus of which is £166,7 million compared with £182,9 million in the corresponding 2005 period.

During the same period, the public debt was reduced to 67,9% of GDP from 72,3% in 2005.

More analytically, public revenues amounted to £1.653 million compared with £1.562,6 million, thus registering an increase of 5,8%. By excluding the aforementioned 2005 one-off revenues then public revenues present a significant increase by the order of 15,6%.

Tax revenue, which forms the main source of public revenue, recorded an increase of 6,9% compared with the corresponding seven month

period of 2005. Again, by excluding the one-off receipts, the rate of increase of tax receipts rises to 15,5 %, which is mainly due to income tax and VAT revenue increases.

More specifically, direct taxes fell to £425 million compared with £430,5 million in the corresponding 2005 period. However, by excluding the January-July 2005 one-off receipts, then revenues have effectively increased by 27,8%. Almost all direct taxation sub-categories recorded significant increases.

Analytically, receipts from the taxation of undistributed profits deemed-dividend distribution rose by 187,8%, thus reaching £28,2 million compared with £9,8 million in the corresponding seven month period of 2005. This is the result of the impact of the legislation enacted in 2002 and relating to the taxation of undistributed profits. Additionally, receipts from capital gains almost doubled, increasing from £29,8 million to £56,8 million, mainly as a result of the positive developments in the construction sector.

As regards indirect taxes, receipts rose by 9,1% thus reaching £745,3 million during the January-July 2006 period compared with £683,3 million in the corresponding period of 2005. The rate of growth of revenue arising from indirect taxation in 2006 was maintained at relatively high levels, despite the 44,8% reduction in receipts from import duties.

Analytically, excise duty proceeds increased to £201,9 million compared with £199,7 million in the corresponding period of the previous year leading to a small rise of 1,1%. This was mainly

due to the 3,2% reduction which came about from the imposition of a lower excise duty on oil related products. In absolute terms, duty on heating oil was reduced by 3 cents per litre during the winter period.

Receipts from VAT increased by 10,2% reaching £425,2 million compared with £385,7 million in the corresponding seven month period of 2005. This has been the result of the positive rate of growth of the economy, which is reflected in private consumption, as well as the improvement in collection.

Social security contributions rose by 17,2%, partly reflecting the rate of growth of both wages and employment. Lastly, non-tax revenues noted a marginal increase of 0,5% due to the CYTA dividend payment of £35 million in 2005. By excluding this transfer, tax revenues present an acceleration of 21,5%. However, it should be noted that in July 2006 the House of Representatives approved two legislative amendments requiring CYTA and the EAC to contribute to the government part of their annual after-tax surpluses as well as up to 10% of accumulated after-tax surpluses. Bearing in mind the large surpluses of these two major organisations, this is expected to significantly support the government's fiscal position. The relevant legislative amendments are considered by the government as constituting structural fiscal measures which will aid the long-term fiscal goals.

As regards public expenditure, an increase of 6,4% was recorded during the first seven months of 2006 compared with the corresponding 2005 period. This is mainly the result of increased payments for goods and

services as well as for other current transfers by the order of 25,9% and 10,4% respectively. An additional factor is the granting of 2% contractual salary increases as from 1 January 2006.

More specifically, wages and salaries rose by 8,6%, reflecting the incorporation of the 2,4% COLA increase as well as the above mentioned 2% salary increases. The remainder of the increase is due to the salary increments and the rise in employment.

Payments towards goods and services also rose by 25,9% and included ad hoc payments, such as medical supplies, construction related purchases, election spending and grants to political parties. On the other hand, the broad category of current transfers<sup>7</sup> experienced changes leading to an increase of 7,4% reaching £469 million compared with £436,6 million in the corresponding seven months of 2005. This occurred despite the fact that, payments for pensions and gratuities fell by 2,8% as a result of the adoption of the gradual extension of the retirement age in the civil service, as from 1 July 2005. In fact, the rise is attributed to the increased contribution of the Cyprus government toward the EU budget. Lastly, capital expenditures also increased by 11,5% reaching £105,9 million compared with £94,7 million in 2005.

Overall, the government is on target to meet its fiscal goals, while particular caution should be exercised towards maintaining public expenditures within the initial estimates.

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7. This includes: pensions and gratuities, social pensions, child and student allowances, public aid, grants to semi-governmental organisations and local authorities as well as contributions to the EU budget.

## 2.6 EXTERNAL TRANSACTIONS

### Goods

An overview of the trade balance for the period January-July 2006 is given in Table 16 which is based on preliminary data published by Cystat. Since May 2004, the collection of data on intra-EU trade has been undertaken using a new methodology introduced by Eurostat, for all European countries.

During the period January-July 2006, the value of total imports of goods recorded a significant increase of 17,1%, compared with an increase of 6,7% in the corresponding period of 2005. This increase, is partly the result of the significant increase in the international price of oil, the imports of consumer goods and the purchase of an aeroplane by Eurocypria costing £31,7 million. Total exports of goods recorded a 1,5% decrease during the period January – July, compared with a 44,8% increase in the corresponding period of 2005. The significant decrease in exports compared with the previous year is mainly due to the important increase registered by re-exports in 2005.

As a result of the above, the trade balance deteriorated registering a deficit of £1.513,8 million during the period January -July 2006, compared with a deficit of £1.232,0 million in the corresponding period of 2005.

### Tourism

Tourist arrivals, shown in Table 17, decreased by 2,4% in the period January – August 2006, compared with a 7,7% increase in the corresponding period of 2005.

Revenue from tourism increased by 3,5% in the period January - July 2006, compared with a

3,1% increase in the corresponding period of 2005, indicating an increase in per capita expenditure.

### Balance of payments

Table 14 of the Annex presents preliminary data regarding the balance of payments for the first six months of 2006. This data, which was compiled by the Central Bank, reveals a worsening of the current account deficit compared with the same period in 2005.

The current account deficit in the first six months of 2006, based on preliminary data, reached £337,5 million compared with £108,1 million in the same period of 2005.

This is mainly the result of the worsening of the trade deficit due to the significant increase in the imports of goods (fob) which recorded an increase of 19% in the first six months of 2006 compared with the corresponding period of 2005.

The services surplus reached £807,8 million in the first six months of 2006, compared with £785,6,7 million in the corresponding period of 2005. The difference is due to the positive performance by the “financial services” and “other business services” sectors. The services surplus, excluding tourism, reached £578,3 million in the first six months of 2006 compared with £573,2 million in the first six months of 2005.

As far as the income account is concerned, a net deficit of £27,9 million was recorded in the first six months of 2006, compared with a surplus of £14,6 million in the corresponding period of 2005.

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

(CYP million)

Period	TOTAL TRADE		EXTRA-EU TRADE		INTRA-EU TRADE		
	Total Imports/ Arrivals	Total Exports/ Dispatches	Total Imports	Total Exports	Arrivals	Dispatches	
	(cif)	(fob)	(cif)	(fob)	(cif)	(fob)	
<b>2002</b>	2.486,6	511,3	1.140,9	240,9	1.345,8	270,4	
<b>2003</b>	2.304,1	476,8	992,8	198,3	1.311,3	278,5	
<b>2004</b>	2.679,3	548,0	921,7	202,5	1.757,6	345,5	
<b>2005</b>	2.966,8	719,2	952,9	224,3	1.965,4	447,8	
<b>2005</b>	January	195,2	42,4	62,9	14,6	132,3	27,8
	February	214,9	46,8	76,5	18,6	138,5	28,2
	March	256,5	57,9	74,0	22,5	182,5	35,4
	April	230,7	59,8	78,1	18,6	152,6	41,3
	May	239,0	56,1	74,5	16,0	164,5	40,1
	June	234,7	56,7	85,3	18,9	149,4	37,8
	July	239,5	58,7	78,6	18,9	160,9	39,8
	August	221,0	52,8	64,8	17,3	156,2	35,5
	September	270,5	69,9	94,8	15,4	175,7	54,5
	October	283,5	72,5	93,9	16,2	189,6	56,3
	November	307,9	88,5	115,1	27,7	192,8	60,9
	December	273,3	56,9	74,6	17,0	198,8	40,0
<b>2006</b>	January	247,3	52,0	80,8	13,8	166,5	38,2
	February	237,1	49,0	83,3	17,1	153,6	31,9
	March	283,1	65,5	91,3	22,5	191,8	43,0
	April	251,2	51,5	86,5	21,1	164,9	30,4
	May	278,0	50,7	92,5	16,2	185,5	34,6
	June	342,6	51,7	152,5	17,3	190,0	34,4
	July*	246,7	52,0	74,5	17,7	172,2	34,3
	Jan. - July 2003	1.360,4	294,9	478,3	117,8	639,6	177,1
	Jan. - July 2004	1.510,1	261,3	567,1	104,8	942,9	202,0
	Jan. - July 2005	1.610,5	378,5	529,9	128,1	1.080,6	250,4
	Jan - July 2006 (p)	1.886,6	372,8	662,1	125,7	1.224,3	247,1
	% change Jan. - July 2004/2003	11,0	-11,4	18,6	-11,0	47,4	14,0
	% change Jan. - July 2005/2004	6,7	44,8	-6,6	22,2	14,6	24,0
	% change Jan. - July 2006/2005 (p)	17,1	-1,5	25,0	-1,9	13,3	-1,3

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.

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

	2000	2001	2002	2003	2004	2005	2006	% change 2003/2002	% change 2004/2003	% change 2005/2004	% change 2006/2005
January	63.553	64.214	54.067	59.529	56.504	58.894	54.875	10,1	-5,1	4,2	-6,8
February	87.243	83.569	71.950	77.972	75.705	72.600	66.151	8,4	-2,9	-4,1	-8,9
March	135.487	137.578	138.625	91.634	111.946	137.075	107.071	-33,9	22,2	22,4	-21,9
April	221.785	237.228	180.481	169.891	191.251	183.561	206.548	-5,9	12,6	-4,0	12,5
May	299.355	324.901	279.070	231.527	261.646	284.132	283.513	-17,0	13,0	8,6	-0,2
June	302.011	322.835	293.192	262.100	264.799	282.652	280.164	-10,6	1,0	6,7	-0,9
July	362.299	373.385	327.404	318.143	305.978	338.972	341.443	-2,8	-3,8	10,8	0,7
August	356.686	371.536	301.724	325.390	305.926	336.587	314.872	7,8	-6,0	10,0	-6,5
September	329.964	329.400	306.731	287.358	303.506	302.833		-6,3	5,6	-0,2	
October	300.597	269.744	275.840	271.980	278.976	292.273		-1,4	2,6	4,8	
November	133.500	107.454	111.327	123.800	114.048	104.822		11,2	-7,9	-8,1	
December	93.722	74.887	77.822	83.919	78.723	75.656		7,8	-6,2	-3,9	
Jan. - Dec.	2.686.202	2.696.731	2.418.233	2.303.243	2.349.008	2.470.057		-4,8	2,0	5,2	
Jan-Aug.	1.828.419	1.915.246	1.646.513	1.536.186	1.573.755	1.694.473	1.654.637	-6,7	2,4	7,7	-2,4

Source: Cystat.

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

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

(CYP million)

	2000	2001	2002	2003	2004	2005	2006	% change 2004/2003	% change 2005/2004	% change 2006/2005
January	-	24,9	21,6	25,6	21,8	20,7	21,2	-15,0	-5,0	2,4
February	-	29,1	28,9	31,4	25,4	23,5	23,1	-19,1	-7,5	-1,7
March	-	49,7	59,2	37,8	42,1	47,6	38,9	11,2	13,2	-18,3
April	-	89,9	77,0	67,1	72,1	62,0	74,5	7,4	-14,0	20,2
May	-	139,1	119,5	92,5	99,5	105,4	111,9	7,6	5,9	6,2
June	122,9	157,4	139,3	114,8	109,3	113,3	117,7	-4,8	3,7	3,9
July	162,7	192,0	160,7	152,4	135,1	140,1	155,0	-11,4	3,7	10,6
August	173,7	205,0	153,8	165,3	148,1	161,3	155,0	-10,4	8,9	-3,9
September	161,9	176,3	157,4	134,1	141,2	137,9		5,3	-2,3	
October	135,1	130,2	128,0	112,4	115,9	120,5		3,1	4,0	
November	54,1	48,8	51,4	48,7	43,1	43,1		-11,5	0,0	
December	36,2	29,2	35,6	32,9	28,8	30,3		-12,4	5,2	
Jan. - Dec.	-	1.271,6	1.132,4	1.015,0	982,3	1.005,7		-3,2	2,4	
Jan. - Aug.		887,1	759,9	687,0	653,3	673,9	697,3	-4,9	3,1	3,5

Source: Cystat.

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



## 2.7 PROSPECTS FOR 2006

In 2006 GDP is expected to grow at about 3,8%, the same as in 2005. However, if the price of oil remains at the currently high levels, the growth rate maybe restrained. Data for the first six months of 2006 show that the growth rate of real GDP was 3,6% compared with 3,7% in the same period of 2005. Domestic demand is expected to play a major role due to the anticipated improvement in the international environment, as confirmed by recent forecasts published by the European Commission. As regards the labour market, the rise of real GDP is expected to lead to stabilization of the registered unemployed, provided that the increase of foreign workers in Cyprus remains at the same levels.

Inflation during 2006 is expected to register a marginal increase compared with 2005, partly because of the significant increase in the price of oil. The continuation of competition in the retail trade sector, following Cyprus's accession to the EU, as well as monetary developments will have a significant impact on the inflation rate. Inflation was also affected by the increase in the prices of agricultural products until September 2006. If this continues for the remainder of the year, inflation in this sector will rise to high levels.

Even with the pessimistic scenario that the oil price remains at around \$70 per barrel, the HICP is expected to remain below the reference value of the Maastricht criteria. This assumption is compatible with the recent assessment of the European Commission.

Up until August 2006, the 12 month moving average HICP was around 2,3% compared with the relevant Maastricht criterion of 2,8% for August 2006.

In 2006 the balance of payments deficit is expected to rise slightly compared with 2005, mainly as a result of the increase in the price of oil internationally compared with the previous year as well as the purchase of a new £31,7 million aeroplane by Eurocypria. As a result of the above, the balance of payments deficit is expected to increase by 0,4% of GDP.

In accordance with the Ministry of Finance forecasts, the fiscal deficit during 2006 is expected to fluctuate at around 2% of GDP, whereas the public debt is expected to be around 67% of GDP. An important development is the anticipated abrogation of Cyprus from the excessive deficit procedure on the basis of the fiscal indicators as well as the overall positive economic developments. The government forecasts and evaluations are contained in the Convergence Programme 2005-2009 and are generally in line with those of the European Commission.

In accordance with the Ministry of Finance evaluations, in 2006 the fiscal deficit and the public debt are anticipated to fluctuate at around 2% and 67% of GDP, respectively. The goals set by the government seem to be attainable, despite the recent out-of-line expenditure increases which, nevertheless, were counterbalanced by similarly unexpected revenue increases. Public expenditure containment will need to be strictly adhered to so as to safeguard the medium-term feasibility of public finances.

### 3. ANNEX

**Table 1****Monetary aggregates and counterparts***(outstanding amounts at end of period, CYP thousand)*

	2005 July	2005 Aug.	2006 July	2006 Aug.
<b>Money supply (M1)</b>	<b>1.619.602</b>	<b>1.611.697</b>	<b>1.987.860</b>	<b>1.973.543</b>
Currency in circulation	540.625	518.575	581.574	562.585
Demand deposits	962.824	972.959	1.285.599	1.265.632
Deposits in foreign currency	116.153	120.163	120.687	145.326
<b>Quasi-money</b>	<b>7.759.889</b>	<b>7.853.437</b>	<b>8.655.223</b>	<b>8.751.261</b>
Saving deposits	330.533	332.592	395.902	396.386
Time deposits	6.612.881	6.676.707	7.215.552	7.275.567
Deposits in foreign currency	816.475	844.138	1.043.769	1.079.308
<b>Total money supply (M2)</b>	<b>9.379.491</b>	<b>9.465.134</b>	<b>10.643.083</b>	<b>10.724.804</b>
Net foreign assets	1.500.219	1.595.934	1.667.856	1.802.200
Claims on private sector	8.997.393	8.974.171	10.225.947	10.253.936
of which in foreign currency	1.018.560	1.041.530	1.682.720	1.695.526
Claims on public sector	1.971.565	1.989.345	2.457.841	2.453.089
Unclassified items	-3.089.686	-3.094.316	-3.708.561	-3.784.421

*Source: Central Bank of Cyprus.***Table 2****Bank credit by sector <sup>(1)</sup>***(outstanding amounts at end of period, CYP thousand)*

	2005 July	2005 Aug.	2006 July	2006 Aug.
Public institutions and corporations <sup>(2)</sup>	296.125	303.600	323.146	337.144
Agriculture	115.202	112.782	105.876	103.029
Mining	27.645	28.056	27.939	28.663
Manufacturing	532.599	529.886	538.154	539.572
Transport and communications	98.943	93.195	103.462	98.229
Foreign and domestic trade	1.547.897	1.521.249	1.541.888	1.487.202
Building and construction	1.662.108	1.661.581	1.978.184	1.995.334
Tourism	837.879	827.809	896.117	884.342
Personal and professional loans	4.406.879	4.424.411	5.381.349	5.429.675
Bills discounted: local	3.311	2.890	2.651	2.285
foreign	2.799	1.987	1.872	1.721
<b>Total</b>	<b>9.531.387</b>	<b>9.507.446</b>	<b>10.900.638</b>	<b>10.907.196</b>

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

**Table 3**
**Official interest rates**

(percent per annum)

Date of monetary policy decision		Deposit facility	Open market operations			Marginal lending facility
			Main refinancing operations		Liquidity absorbing operations	
			Repo operations	Reverse repo operations	Acceptance of deposits operations <sup>(1)</sup>	
			Minimum bid rate	Maximum bid rate	Maximum bid rate	
2001	10 Aug.	3,50	5,00	5,00	-	6,50
	18 Sep.	3,00	4,50	4,50	-	6,00
	02 Nov.	2,50	4,00	4,00	4,00	5,50
2002	13 Dec.	2,50	3,75	3,75	3,75	5,00
2003	04 Apr.	2,50	3,50	3,50	3,50	4,50
2004	30 Apr.	3,50	4,50	4,50	4,50	5,50
2005	25 Feb.	3,25	4,25	4,25	4,25	5,25
	20 May	2,75	3,75	3,75	3,75	4,75
	09 Jun.	2,25	3,25	3,25	3,25	4,25
2006	01 Sep.	2,50	4,50	4,50	4,50	4,50

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 4****Open market operations allotted through tenders - liquidity absorbing operations <sup>(1)</sup>***(CYP million, interest rates in percent per annum)*

Date of settlement	Bids (amount)	Allotment (amount)	Variable rate tenders				Running for (...) days
			Maximum bid rate	Weighted average allotment rate	Minimum allotment rate	Maximum allotment rate	
2006 05 Jan.	533,5	300,0	3,25	2,46	2,44	2,49	14
19 Jan.	604,0	380,0	3,25	2,41	2,39	2,43	14
02 Feb.	544,0	300,0	3,25	2,37	2,36	2,37	14
16 Feb.	477,0	300,0	3,25	2,71	2,32	3,25	14
02 Mar.	414,0	250,0	3,25	2,58	2,46	2,69	14
16 Mar.	508,5	280,0	3,25	2,69	2,46	3,00	14
30 Mar.	260,5	110,0	3,25	2,43	2,43	2,44	14
13 Apr.	366,0	140,0	3,25	2,39	2,38	2,41	14
27 Apr.	434,5	220,0	3,25	2,36	2,34	2,37	14
11 May	536,0	280,0	3,25	2,35	2,33	2,35	14
25 May	691,0	320,0	3,25	2,32	2,26	2,33	14
08 Jun.	627,5	400,0	3,25	2,31	2,29	2,32	14
22 Jun.	622,5	520,0	3,25	2,78	2,30	3,22	14
06 Jul.	552,0	400,0	3,25	2,84	2,31	3,14	14
20 Jul.	553,0	430,0	3,25	3,13	2,78	3,17	14
03 Aug.	707,0	480,0	3,25	3,06	2,85	3,09	14
17 Aug.	687,0	480,0	3,25	3,03	2,95	3,05	14
31 Aug.	687,5	500,0	3,25	3,00	2,96	3,02	14
14 Sep.	727,5	500,0	4,50	3,88	3,29	3,94	14
28 Sep.	803,0	500,0	4,50	3,89	3,65	3,94	14
12 Oct.	829,0	550,0	4,50	3,89	3,79	3,91	14

Source: Central Bank of Cyprus.

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

**Table 5****Money market interest rates***(percent per annum, period averages)*

	Cyprus					Euro area				
	Overnight deposits	2-7 days deposits	1-month deposits	1-6 months deposits	6-12 months deposits	Overnight deposits (EONIA)	1-month deposits (EURIBOR)	3-month deposits (EURIBOR)	6-month deposits (EURIBOR)	12-month deposits (EURIBOR)
2005 Aug.	2,75	3,01	2,90	-	4,10	2,06	2,11	2,13	2,16	2,22
Sep.	2,55	2,91	2,83	-	-	2,09	2,12	2,14	2,17	2,22
Oct	2,85	2,99	2,87	3,98	-	2,07	2,12	2,20	2,27	2,41
Nov.	2,62	2,84	2,90	5,75	-	2,09	2,22	2,36	2,50	2,68
Dec.	2,51	2,85	2,95	3,31	-	2,28	2,41	2,47	2,60	2,78
2006 Jan.	2,51	3,07	3,12	3,07	-	2,33	2,39	2,51	2,65	2,83
Feb.	2,48	2,90	2,98	4,33	3,38	2,35	2,46	2,60	2,72	2,91
Mar.	2,52	2,84	3,02	2,97	3,35	2,52	2,63	2,72	2,87	3,11
Apr.	2,53	2,80	2,95	3,64	3,35	2,63	2,65	2,79	2,96	3,22
May	2,48	3,23	3,22	3,44	3,55	2,58	2,69	2,89	3,06	3,31
June	2,49	2,95	2,97	3,26	-	2,70	2,87	2,99	3,16	3,40
July	2,79	3,08	3,23	3,53	-	2,81	2,94	3,10	3,29	3,54
Aug.	2,86	3,04	3,25	3,67	-	2,97	3,09	3,22	3,41	3,61
Sep.	3,46	3,79	3,73	3,76	-					

Sources: Central Bank of Cyprus and European Central Bank.

**Table 6****Commercial bank interest rates** <sup>(1,2)</sup>

(percentages 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
2004 Aug.	7,92	7,90	8,53	7,30	11,50	0,67	4,61	4,11
Sep.	7,92	7,92	8,55	7,30	11,50	0,66	4,44	4,14
Oct.	7,92	7,92	8,55	7,30	11,50	0,66	4,44	4,18
Nov.	7,92	7,92	8,55	7,30	11,50	0,64	4,44	4,21
Dec.	7,92	7,92	8,55	7,30	11,50	0,63	4,44	4,21
2005 Jan.	7,92	7,92	8,55	7,30	11,50	0,66	4,47	4,32
Feb.	7,90	7,91	8,60	7,30	11,67	0,67	4,39	4,36
Mar.	7,61	7,63	8,38	6,76	11,83	0,65	4,37	4,38
Apr.	7,61	7,63	8,38	6,76	11,75	0,64	4,30	4,38
May	7,18	7,20	7,97	6,33	11,83	0,55	4,04	4,07
June	6,69	6,70	7,58	5,76	12,00	0,39	3,47	3,88
July	6,69	6,70	7,47	5,76	12,00	0,42	3,47	3,85
Aug.	6,70	6,69	7,49	5,74	12,00	0,45	3,47	3,82
Sep.	6,69	6,69	7,49	5,74	12,00	0,46	3,47	3,79
Oct.	6,69	6,68	7,29	5,74	12,00	0,47	3,47	3,75
Nov.	6,69	6,68	7,29	5,72	12,00	0,46	3,48	3,72
Dec.	6,69	6,68	7,28	5,71	12,00	0,45	3,47	3,68
2006 Jan.	6,67	6,67	7,28	5,71	12,00	0,46	3,48	3,63
Feb.	6,65	6,65	7,27	5,71	12,00	0,45	3,48	3,59
Mar.	6,64	6,65	7,27	5,69	12,00	0,47	3,48	3,57
Apr.	6,64	6,64	7,28	5,69	12,00	0,48	3,48	3,55
May	6,64	6,63	7,28	5,68	12,00	0,47	3,48	3,52
June	6,65	6,62	7,28	5,68	12,00	0,43	3,48	3,43
July	6,65	6,62	7,28	5,68	12,00	0,46	3,47	3,42
Aug.	6,64	6,62	7,29	5,68	12,00	0,46	3,47	3,42

Source: Domestic banks.

(1) Reported as at end of month.

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

**Table 7****Interest rates - European monetary financial institutions***(percent per annum, outstanding amounts as at end-of-period)***1. Interest rates on euro-denominated deposits by euro area residents**

	Deposits from households					Deposits from non-financial corporations			
	Overnight	With agreed maturity		Redeemable at notice <sup>(1)</sup>		Overnight	With agreed maturity		
		Up to 2 years	Over 2 years	Up to 3 months	Over 3 months		Up to 2 years	Over 2 years	
2005 July	0,68	1,91	3,18	2,10	2,34	0,94	2,11	3,57	
Aug.	0,68	1,92	3,18	1,98	2,31	0,97	2,10	3,46	
Sep.	0,69	1,92	3,19	1,98	2,29	0,97	2,12	3,56	
Oct.	0,69	1,93	3,17	1,97	2,27	0,97	2,12	3,39	
Nov.	0,70	1,96	3,15	2,00	2,27	1,00	2,16	3,43	
Dec.	0,71	2,01	3,15	1,97	2,30	1,02	2,30	3,41	
2006 Jan.	0,73	2,05	3,10	2,00	2,32	1,05	2,32	3,47	
Feb.	0,74	2,09	3,12	1,97	2,34	1,08	2,38	3,37	
Mar.	0,76	2,16	3,00	1,98	2,37	1,14	2,48	3,35	
Apr.	0,79	2,21	3,01	2,00	2,42	1,16	2,53	3,40	
May	0,79	2,27	3,04	2,00	2,48	1,18	2,59	3,41	
June	0,81	2,34	3,07	2,03	2,52	1,22	2,72	3,53	

**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
2005 July	4,53	4,29	4,63	7,88	6,86	5,70	4,30	3,82	4,29
Aug.	4,52	4,24	4,59	7,92	6,86	5,60	4,25	3,80	4,28
Sep.	4,49	4,23	4,59	7,91	6,85	5,67	4,25	3,78	4,26
Oct.	4,49	4,19	4,57	7,92	6,80	5,64	4,24	3,77	4,24
Nov.	4,48	4,17	4,53	7,86	6,77	5,66	4,29	3,79	4,25
Dec.	4,54	4,14	4,52	7,89	6,77	5,62	4,35	3,84	4,24
2006 Jan.	4,62	4,14	4,50	7,99	6,78	5,60	4,42	3,88	4,26
Feb.	4,59	4,16	4,54	7,97	6,78	5,68	4,49	3,95	4,31
Mar.	4,60	4,15	4,52	8,06	6,80	5,73	4,53	3,98	4,31
Apr.	4,63	4,16	4,52	8,10	6,73	5,75	4,59	4,05	4,34
May	4,63	4,16	4,52	8,10	6,70	5,71	4,64	4,10	4,36
June	4,69	4,21	4,55	8,10	6,75	5,73	4,72	4,19	4,40

Source: European Central Bank.

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



**Table 8****Interest rate announcements in 2006**

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
European Central Bank <sup>(1)</sup>	12 <b>2,25</b>	2 <b>2,25</b>	2 <b>2,50</b>	6 <b>2,50</b>	4 <b>2,50</b>	8 <b>2,75</b>	6 <b>2,75</b>	3 <b>3,00</b>		5 <b>3,25</b>	2	7
								31 <b>3,00</b>				
Bank of England <sup>(2)</sup>	12 <b>4,50</b>	9 <b>4,50</b>	9 <b>4,50</b>	6 <b>4,50</b>	4 <b>4,50</b>	8 <b>4,50</b>	6 <b>4,50</b>	3 <b>4,75</b>	7 <b>4,75</b>	5 <b>4,75</b>	9	7
Federal Reserve <sup>(3)</sup>	31 <b>4,50</b>		28 <b>4,75</b>		10 <b>5,00</b>	28/29 <b>5,25</b>		8 <b>5,25</b>	20 <b>5,25</b>	24		12
Central Bank of Cyprus <sup>(4)</sup>	13 <b>4,25</b>	24 <b>4,25</b>		7 <b>4,25</b>	19 <b>4,25</b>		7 <b>4,25</b>		1 <b>4,50</b>	20		1

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

(2) Rate paid on commercial bank reserves.

(3) Federal funds rate.

(4) Bid rate on the main refinancing operations (repo rate).

**Table 9**  
**Percentage change in CPI by economic category**  
 January-September 2006/2005

	2003	2004	2005	September 2005/2004	August 2006/2005	September 2006/2005	Weights	
							1998=100	2005=100
<b>GENERAL INDEX</b>	<b>4,14</b>	<b>2,28</b>	<b>2,56</b>	<b>2,93</b>	<b>3,10</b>	<b>2,38</b>	<b>100,00</b>	<b>100,00</b>
<b>A Domestic products</b>	6,21	2,95	1,79	2,90	3,95	<b>3,88</b>	<b>36,69</b>	<b>28,60</b>
A.1 Agricultural	4,54	3,32	1,34	6,62	3,88	6,43	7,93	6,92
A.2 Industrial	6,46	3,36	1,14	0,46	3,23	2,59	22,91	19,24
A.3 Electricity	10,20	-3,13	11,51	16,38	9,51	6,33	1,52	2,44
<b>B Petroleum products</b>	<b>14,16</b>	<b>17,18</b>	<b>14,82</b>	<b>19,36</b>	<b>11,04</b>	<b>-0,84</b>	<b>4,33</b>	<b>6,44</b>
<b>C Imported products</b>	<b>-2,38</b>	<b>-5,55</b>	<b>-2,47</b>	<b>-3,34</b>	<b>0,09</b>	<b>0,23</b>	<b>22,20</b>	<b>25,31</b>
C1 Motor vehicles	-8,31	-13,50	-2,42	-3,15	0,81	0,09	9,43	6,15
C2 Other imported	1,81	-0,39	-2,49	-3,29	-0,14	0,28	12,77	19,16
<b>D Services</b>	<b>4,38</b>	<b>3,23</b>	<b>3,34</b>	<b>2,81</b>	<b>2,97</b>	<b>3,20</b>	<b>41,11</b>	<b>39,65</b>
<b>HICP</b>	<b>4,0</b>	<b>1,9</b>	<b>2,1</b>	<b>2,1</b>	<b>2,7</b>	<b>2,2</b>		

Source: Cystat.

**Table 10****Weighted contribution to the total percentage change in CPI by economic category**

January-September 2006/ 2005

	2003	2004	2005	September		August 2006/ 2005	September		Jan.- Sept. 2005/ 2004	Jan.- Aug. 2006/ 2005	Jan.- Sept. 2006/ 2005	Weights	
				2005/ 2004	2004		2006/ 2005	2005				1998=100	2005=100
<b>GENERAL INDEX</b>	<b>4,14</b>	<b>2,28</b>	<b>2,56</b>	<b>2,93</b>		<b>3,10</b>	<b>2,38</b>		<b>2,54</b>	<b>2,95</b>	<b>2,88</b>	<b>100,00</b>	<b>100,00</b>
<b>A Domestic products</b>	2,79	1,98	1,58	0,97		1,13	1,12		<b>0,54</b>	<b>1,35</b>	<b>1,32</b>	<b>36,69</b>	<b>28,60</b>
A.1 Agricultural	0,37	0,27	0,11	0,53		0,27	0,46		0,08	0,38	0,39	7,93	6,92
A.2 Industrial	1,47	0,78	0,27	0,11		0,62	0,49		0,30	0,50	0,50	22,91	19,24
A.3 Electricity	0,20	-0,07	0,23	0,33		0,25	0,17		0,15	0,47	0,44	1,52	2,44
<b>B Petroleum products</b>	<b>0,74</b>	<b>0,99</b>	<b>0,97</b>	<b>1,33</b>		<b>0,75</b>	<b>-0,06</b>		<b>0,98</b>	<b>0,85</b>	<b>0,75</b>	<b>4,33</b>	<b>6,44</b>
<b>C Imported products</b>	-0,48	-1,04	-0,43	-0,56		0,02	0,06		<b>-0,48</b>	-0,23	-0,20	<b>22,20</b>	<b>25,31</b>
C1 Motor vehicles	-0,69	-1,00	-0,15	-0,19		0,05	0,01		-0,17	0,03	0,03	9,43	6,15
C2 Other imported	0,21	-0,04	-0,28	-0,37		-0,03	0,05		-0,31	-0,26	-0,22	12,77	19,16
<b>D Services</b>	<b>1,83</b>	<b>1,35</b>	<b>1,41</b>	<b>1,19</b>		<b>1,19</b>	<b>1,26</b>		<b>1,49</b>	<b>0,96</b>	<b>1,00</b>	<b>41,11</b>	<b>39,65</b>

Source: Cystat.

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

January-September 2006/ 2005

	Years			September 2005/ 2004	August 2006/ 2005	September 2006/ 2005	Jan.- Sept. 2005/ 2004	Jan.- Aug. 2006/ 2005	Jan.- Sept. 2006/ 2005	Weights	
	2003	2004	2005							2005=100	1998=100
<b>GENERAL INDEX</b>	<b>4,14</b>	<b>2,28</b>	<b>2,56</b>	<b>2,93</b>	<b>3,09</b>	<b>2,38</b>	<b>2,54</b>	<b>2,95</b>	<b>2,88</b>	<b>100,00</b>	<b>100,00</b>
Food & non-alcoholic beverages	5,11	3,97	1,59	3,61	4,09	4,98	1,38	4,50	4,55	17,50	18,20
Alcoholic beverages & tobacco	24,22	10,57	0,23	-0,68	2,08	1,17	0,50	0,33	0,42	2,21	1,78
Clothing & footwear	1,19	-0,79	-2,24	-4,11	0,56	0,83	-2,52	0,00	0,09	8,93	8,22
Housing, water, electricity & gas	5,04	4,19	5,41	6,17	4,44	3,02	5,22	6,37	5,99	15,87	21,27
Furnishings, household equipment & supplies	3,59	-0,45	0,58	0,86	0,33	-0,39	0,66	0,41	0,32	6,78	7,08
Health	5,66	3,72	0,36	-0,28	3,40	3,66	0,83	0,11	0,50	5,03	4,92
Transport	0,35	-3,06	3,79	5,41	5,28	0,82	3,53	5,20	4,69	15,99	17,42
Communications	-7,16	-8,48	-10,34	-12,46	-0,59	-0,10	-9,65	-2,64	-2,36	3,94	1,79
Recreation & culture	3,55	2,26	1,06	-0,77	0,30	0,79	1,64	-0,82	-0,64	6,33	5,88
Education	4,02	3,96	5,21	4,75	4,57	5,00	5,51	4,56	4,61	2,87	2,33
Restaurants & hotels	5,31	4,69	3,30	2,01	2,82	2,90	3,67	2,22	2,30	7,57	6,07
Miscellaneous goods & services	5,50	5,16	3,83	2,51	2,27	3,21	3,85	2,01	2,14	6,98	5,04

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

January-September 2006/ 2005

	Years			September 2005/ 2004	August 2006/ 2005	September 2006/ 2005	Jan.- Sept. 2005/ 2004	Jan.- Aug. 2006/ 2005	Jan.- Sept. 2006/ 2005	Weights	
	2003	2004	2005							2005=100	1998=100
<b>GENERAL INDEX</b>	<b>4,14</b>	<b>2,28</b>	<b>2,56</b>	<b>2,93</b>	<b>3,10</b>	<b>2,38</b>	<b>2,54</b>	<b>2,94</b>	<b>2,83</b>	<b>100,00</b>	<b>100,00</b>
Food & non-alcoholic beverages	0,97	0,76	0,31	0,70	0,72	0,88	0,27	0,79	0,78	17,50	18,20
Alcoholic beverages & tobacco	0,54	0,28	0,01	-0,02	0,05	0,03	0,01	0,01	0,01	2,21	1,78
Clothing & footwear	0,08	-0,05	-0,14	-0,26	0,04	0,07	-0,15	0,00	0,01	8,93	8,22
Housing, water, electricity & gas	1,10	0,93	1,22	1,40	0,72	0,49	1,18	1,00	0,93	15,87	21,27
Furnishings, household equipment & supplies	0,23	-0,03	0,04	0,05	0,02	-0,03	0,04	0,03	0,02	6,78	7,08
Health	0,30	0,20	0,02	-0,02	0,17	0,18	0,05	0,01	0,03	5,03	4,92
Transport	0,06	-0,51	0,59	0,85	0,86	0,13	0,55	0,83	0,74	15,99	17,42
Communications	-0,09	-0,10	-0,11	-0,12	-0,02	0,00	-0,10	-0,11	-0,09	3,94	1,79
Recreation & culture	0,19	0,12	0,06	-0,04	0,02	0,05	0,09	-0,05	-0,04	6,33	5,88
Education	0,10	0,10	0,13	0,12	0,13	0,14	0,14	0,13	0,13	2,87	2,33
Restaurants & hotels	0,35	0,31	0,23	0,14	0,22	0,22	0,25	0,17	0,17	7,57	6,07
Miscellaneous goods & services	0,29	0,28	0,21	0,14	0,16	0,22	0,21	0,14	0,15	6,98	5,04

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

(CYP thousand)

Geographic origin of non-resident investors	Purchase of listed shares by non-residents							Sale of listed shares by non-residents						
	2004	2005	2006					2004	2005	2006				
			May	June	July	Aug.	Sep.			May	June	July	Aug.	Sep.
<b>EUROPE</b>	<b>7.416,2</b>	<b>7.395,9</b>	<b>6.436,9</b>	<b>14.458,3</b>	<b>958,1</b>	<b>26.718,8</b>	<b>6.138,7</b>	<b>1.199,3</b>	<b>3.461,1</b>	<b>2.220,6</b>	<b>1.474,1</b>	<b>2.465,1</b>	<b>2.114,4</b>	<b>2.731,2</b>
EU-25	6.064,4	6.805,2	3.367,4	13.348,1	926,7	26.561,9	4.372,8	3.710,1	2.980,4	1.688,2	816,9	1.767,7	2.077,7	2.273,9
Greece	5.519,5	5.667,5	2.294,2	13.136,1	848,6	25.493,0	3.531,2	3.328,1	2.269,5	1.229,9	630,5	1.608,2	1.595,5	1.994,4
United Kingdom	265,2	238,2	295,8	149,2	11,4	75,0	76,3	182,5	390,6	316,6	74,0	138,6	274,8	272,5
Other European countries	1.351,8	590,7	3.069,5	1.110,1	31,4	156,8	1.765,9	228,6	480,7	532,3	657,3	697,4	36,6	457,4
Russian Federation	1.131,5	405,4	49,3	5,3	19,3	19,5	0,9	59,3	279,7	51,2	39,6	46,5	34,3	78,1
<b>AFRICA</b>	<b>415,8</b>	<b>51,4</b>	<b>21,3</b>	<b>13,4</b>	<b>2,8</b>	<b>7,7</b>	<b>1.414,1</b>	<b>295,7</b>	<b>90,1</b>	<b>28,4</b>	<b>0,0</b>	<b>0,0</b>	<b>6.210,6</b>	<b>0,3</b>
North African countries	0,9	0,0	0,0	0,0	0,0	0,0	0,0	0,0	1,8	0,0	0,0	0,0	0,0	0,0
Other African countries	414,9	51,4	21,3	13,4	2,8	7,7	1.414,1	295,7	88,3	28,4	0,0	0,0	6.210,6	0,3
South Africa	56,7	0,0	7,9	0,0	0,0	0,0	0,0	0,0	7,6	0,0	0,0	0,0	0,0	0,3
<b>AMERICA</b>	<b>888,6</b>	<b>429,3</b>	<b>1.180,1</b>	<b>3.440,4</b>	<b>12.983,6</b>	<b>2.586,5</b>	<b>1.702,0</b>	<b>1.643,7</b>	<b>1.232,7</b>	<b>942,7</b>	<b>668,9</b>	<b>551,0</b>	<b>19.107,0</b>	<b>1.243,0</b>
North American countries	635,6	84,1	24,6	6,0	1.079,0	87,5	148,0	80,0	33,2	10,8	20,8	74,5	1.187,9	276,0
United States of America	634,9	81,9	10,5	6,0	1.078,5	87,3	142,4	28,7	33,2	10,8	14,9	74,5	1.185,8	276,0
Canada	0,7	2,2	14,1	0,0	0,5	0,2	5,6	51,3	0,0	0,0	5,9	0,0	2,1	0,0
Central American countries	253,0	345,2	1.155,5	3.434,4	11.904,6	2.499,0	1.554,0	1.563,7	1.199,4	931,9	648,1	476,5	17.919,2	967,0
South American countries	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
<b>ASIA</b>	<b>61,7</b>	<b>267,3</b>	<b>11,2</b>	<b>0,0</b>	<b>0,0</b>	<b>19,2</b>	<b>20,9</b>	<b>12,2</b>	<b>229,2</b>	<b>88,2</b>	<b>4,3</b>	<b>0,0</b>	<b>54,1</b>	<b>8,9</b>
West Asia	17,0	204,7	11,2	0,0	0,0	17,4	20,9	12,2	168,9	43,1	4,3	0,0	54,1	8,9
Other Asian countries	44,8	62,6	0,0	0,0	0,0	1,7	0,0	0,0	60,3	45,1	0,0	0,0	0,0	0,0
<b>OCEANIA</b>	<b>18,5</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>28,2</b>	<b>8,2</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>19,0</b>
<b>Total</b>	<b>8.800,8</b>	<b>8.143,9</b>	<b>7.649,5</b>	<b>17.912,0</b>	<b>13.944,5</b>	<b>29.332,1</b>	<b>9.303,9</b>	<b>5.898,5</b>	<b>5.013,0</b>	<b>3.279,8</b>	<b>2.147,4</b>	<b>3.016,1</b>	<b>27.486,1</b>	<b>4.002,5</b>

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 14****Balance of Payment**

(CYP million)

CATEGORIES	2005			2005			2006			2006		
	(Q1) (Prov.)	(Q1) (Prov.)	(Q1) (Prov.)	(Q2) (Prov.)	(Q2) (Prov.)	(Q2) (Prov.)	(Q1) (Prov.)	(Q1) (Prov.)	(Q1) (Prov.)	(Q2) (Prov.)	(Q2) (Prov.)	(Q2) (Prov.)
	CREDIT	DEBIT	NET	CREDIT	DEBIT	NET	CREDIT	DEBIT	NET	CREDIT	DEBIT	NET
<b>CURRENT ACCOUNT</b>	936,2	1.116,0	-179,9	1.173,0	1.101,2	71,8	1.031,9	1.256,8	-224,9	1.276,0	1.388,6	-112,6
<b>Goods, services and income</b>	857,9	1.054,4	-196,5	1.107,6	1.046,6	61,0	940,5	1.184,8	-244,2	1.177,8	1.328,2	-150,4
<b>Goods and services</b>	713,6	907,7	-194,1	975,6	931,5	44,0	771,9	1.024,3	-252,4	987,3	1.101,6	-114,2
<b>Goods</b>	147,2	610,1	-463,0	172,7	645,4	-472,7	166,5	703,7	-537,2	152,9	790,2	-637,3
<b>Services</b>	566,4	297,5	268,9	802,8	286,1	516,7	605,3	320,6	284,7	834,5	311,4	523,1
Transport	176,1	129,5	46,6	211,1	129,9	81,2	185,1	144,8	40,3	208,8	124,5	84,3
Travel	108,0	100,4	7,5	297,7	92,8	204,8	100,5	97,3	3,3	305,0	98,7	206,3
Communications services	3,1	9,2	-6,1	2,1	10,3	-8,2	7,5	11,9	-4,4	7,2	18,0	-10,8
Construction services	20,2	0,7	19,5	20,6	0,9	19,7	17,5	2,5	15,0	24,5	2,6	21,9
Insurance services	4,5	9,2	-4,7	6,3	7,3	-1,1	15,4	11,2	4,2	14,1	6,9	7,2
Financial services	23,2	2,8	20,5	28,2	6,9	21,3	31,7	6,2	25,5	41,2	16,1	25,1
Computer and information services	27,9	6,2	21,7	27,2	3,3	23,9	19,2	4,5	14,8	23,7	3,2	20,6
Royalties and licence fees	4,2	1,4	2,9	0,1	1,0	-0,9	2,1	3,0	-0,9	0,2	1,7	-1,5
Other business services	156,2	22,7	133,5	163,6	18,6	145,0	175,7	22,9	152,9	163,8	26,6	137,2
Personal, cultural and recreational services	3,6	6,0	-2,4	3,6	6,6	-3,0	6,5	6,8	-0,3	4,2	6,6	-2,4
Government services, n.i.e.	39,4	9,5	29,9	42,5	8,6	34,0	44,0	9,5	34,4	41,8	6,6	35,2
<b>Income</b>	144,3	146,7	-2,4	132,0	115,1	17,0	168,7	160,5	8,2	190,5	226,7	-36,2
Compensation of employees	4,1	22,8	-18,7	3,7	21,7	-18,0	4,3	24,0	-19,7	3,8	15,2	-11,4
Investment income	140,2	123,9	16,2	128,4	93,4	35,0	164,4	136,5	27,9	186,7	211,4	-24,8
<b>Current transfers</b>	78,2	61,6	16,6	65,4	54,6	10,8	91,4	72,1	19,3	98,2	60,4	37,8
General government	32,1	30,8	1,3	27,6	21,3	6,2	38,7	32,4	6,3	25,6	13,2	12,5
Other sectors	46,1	30,8	15,3	37,8	33,3	4,5	52,7	39,7	13,0	72,6	47,3	25,3
<b>Capital and financial account</b>			166,4			-84,5			277,4			189,5
<b>Capital account</b>	14,5	4,1	10,4	15,0	5,9	9,1	7,7	11,2	-3,5	37,9	10,6	27,2
<b>Financial account</b>			156,0			-93,6			280,9			162,3
Direct investment			13,6			-8,4			60,5			55,9
Abroad			-31,2			-28,8			-36,1			-29,0
In Cyprus			44,8			20,3			96,6			84,9
Portfolio investment			312,1			216,7			-90,8			169,6
Assets			-131,2			-173,1			-386,0			-428,7
Liabilities			443,3			389,8			295,2			598,3
Financial derivatives			-4,1			-3,5			1,6			1,3
Other investment			-219,2			-140,1			241,6			126,1
Assets			-873,6			-189,4			-269,4			-448,5
Liabilities			654,4			49,3			511,0			574,6
Reserve assets			53,6			-158,3			68,0			-190,6
<b>NET ERRORS AND OMISSIONS</b>			13,5			12,7			-52,4			-76,9

Sources: Central Bank of Cyprus and Cystat.

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

	Jan-July 2005	Jan-July 2006	Change
	CYP million		(CYP million)
<b>Total revenue and grants</b>	<b>1.562,6</b>	<b>1.653,0</b>	<b>90,4</b>
Direct taxes	430,5	425,0	-5,5
Income tax	207,1	269,7	62,6
Other direct taxes	223,4	155,3	-68,1
Indirect taxes	683,3	745,3	62,0
Value added tax	385,7	425,2	39,5
Excise taxes	199,7	201,9	2,2
Import duty	19,6	10,8	-8,8
Social security contributions	195,0	228,5	33,5
Non-tax revenue	202,9	204,0	1,1
Foreign grants	50,8	50,2	-0,6
<b>Total expenditure and net lending</b>	<b>1.633,7</b>	<b>1.737,6</b>	<b>103,9</b>
Current expenditure	1.538,9	1.631,6	92,7
Goods and services	106,1	133,5	27,4
Wages and salaries	444,0	481,9	37,9
Pensions and gratuities	91,1	88,5	-2,6
Social pensions	15,8	16,3	0,5
Other current transfers <sup>(2)</sup>	329,8	364,2	34,4
Unallocable expenses <sup>(3)</sup>	10,9	6,5	-4,4
Social security funds payments	263,7	272,9	9,2
Subsidies	23,7	16,5	-7,2
Interest	254,0	251,3	-2,7
Capital expenditure	94,7	105,9	11,2
Investment	94,7	105,9	11,2
Capital transfers	0,0	0,0	0,0
Net lending	0,0	0,0	0,0
<b>Fiscal surplus (+)/deficit(-)</b>	<b>-71,1</b>	<b>-84,6</b>	
<b>As % of GDP</b>	<b>-0,9</b>	<b>-1,0</b>	

Source: Cystat.

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

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

(3) Includes only expenditure on military equipment.