



**CENTRAL BANK OF CYPRUS**  
**ECONOMIC RESEARCH DEPARTMENT**

**MONETARY**  
**POLICY**  
**REPORT**

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## 1. INTRODUCTION

Following the tragic events of 11 September, the Board held an unscheduled meeting against the background of international economic developments and the reductions in key interest rates by several central banks, including the European Central Bank, the US Federal Reserve System (FED) and the Bank of England. The Board of the Central Bank considered that the slowdown in the global economy coupled with the fall of domestic share prices to very low levels will have a negative impact on the Cypriot economy.

In view of the above, the Board decided to reduce the Central Bank's official interest rates by 0,5 of a percentage point, thus setting the marginal lending facility rate at 6,0% and the overnight deposit facility rate at 3,0%. As in the case of the previous decrease in interest rates, this reduction was promptly transmitted to money market interest rates and the base rates of commercial banks, while foreign exchange inflows have shown a distinct decline, which is attributable to the aforementioned monetary policy decisions as well as to seasonal factors.

Even though the course of the Cypriot economy continues to be generally satisfactory, some signs of a slowdown or decline are evident in various sectors such as tourism. As the global economy seems to head toward recession, particularly after the terrorist attacks on the United States and the beginning of the war against terrorism, it is expected that the degree to which these developments will adversely affect the Cypriot economy will become evident, mainly

through the expected slowdown or decrease in tourist arrivals, in the forthcoming months. However, no safe prediction can be made, since no one knows exactly what the extent of the war against terrorism will be and what repercussions it will have, mainly in Europe.

According to the latest available data, most of which concern the period prior to the events of 11 September, the Cypriot economy displays both positive and negative developments. Starting from domestic demand, private consumption recorded a decrease for the first time in 2001, as the retail sales volume index fell by 3,1% in June 2001, compared with a rise of 8,2% in May of the current year and 20,0% in June 2000. The observed fall in retail sales in June 2001 appears to be consistent with the marked slowdown in imports of goods for home consumption (excluding imports of military equipment and fuels) recorded in June 2001 compared with June 2000. A slowdown in imports was also observed in July of the current year, which indicates that the downtrend in consumption probably continued in July as well, although relevant data on retail sales in that month are not yet available.

Turning to the production side of the economy, the services sector and specifically tourism experienced a marginal decline in September 2001 compared with the corresponding month of the previous year, while for the entire period January-September 2001 tourist arrivals registered a marked slowdown in comparison with the corresponding period of 2000. As regards the secondary sector, developments are

mixed. On the one hand, manufacturing continued to decline up to June of the current year, with the exception of January and May, during which a small rise was observed, while on the other hand the construction sector, which up to May 2001 displayed a substantial recovery, has started to show signs of decline in June and July of the same year. Finally, the primary sector and particularly agriculture recorded a recovery, with agricultural production expanding significantly in the period January-June 2001, following the sizeable fall recorded in the corresponding period of 2000.

The inflation rate increased to 2,05% in September 2001 from 1,81% in August of the current year, but remained at a lower level than the rate of 3,73% registered in September of the previous year. The rise of inflation in September was almost entirely due to the acceleration in the prices of domestic agricultural products. Conversely, the prices of electricity and fuels fell, reflecting mainly the decline in international oil prices. For the entire January-September period the inflation rate was 1,84%, compared with 4,34% in the corresponding period of 2000.

Developments in the labour market were also positive, as unemployment continued its downward trend in August 2001 in comparison with the same month of the previous year. The unemployment rate as a percentage of the economically active population fell to 2,9%, compared with 3,3% in August 2000. For January-August 2001

the unemployment rate was limited to 3,0%, from 3,6% in the corresponding period of the previous year.

As regards external transactions, a small deceleration in total imports was recorded in June 2001 compared with the same month of 2000, but in July of the current year a marked acceleration was observed; mainly due to increases in imports of military equipment and fuels. For the entire period January-July 2001 a substantial slowdown in total imports was observed; specifically a growth rate of 9,8% was recorded, compared with growth rate of 25,3% in the corresponding period of the previous year. A substantial slowdown in total exports was also observed in the first seven months of the year, although in May, June and July significant increases were recorded in comparison with the corresponding months of 2000. As a result of these developments, the crude trade deficit reached £1.142,6 million in the first seven months of the year, compared with £1.029,4 million in the corresponding period of 2000.

The fiscal deficit decreased to £36,8 million in January-June 2001, from £63,6 million in January-May of the current year. However, for the first half of 2001 the deficit was much larger than the deficit registered in the corresponding period of 2000, reflecting mostly the significant slowdown in the growth of public revenue. Nonetheless, for the whole year 2001 a marginal fall is expected in the fiscal deficit, from 2,7% of GDP which was registered in 2000.

## 2. ECONOMIC DEVELOPMENTS

### 2.1 DOMESTIC ECONOMY

#### *Production*

According to the latest available data, the primary sector of the economy and specifically agriculture displays a significant recovery in comparison with the previous year. In the secondary sector, construction has started to show signs of decline, while concurrently, manufacturing continued to contract. Finally, the tertiary sector, which is the driving force of the economy, and particularly tourism, shows signs of a downturn. Thus, overall and according to the latest information, a slowdown in the growth of GDP may be expected in 2001, in comparison with 2000.

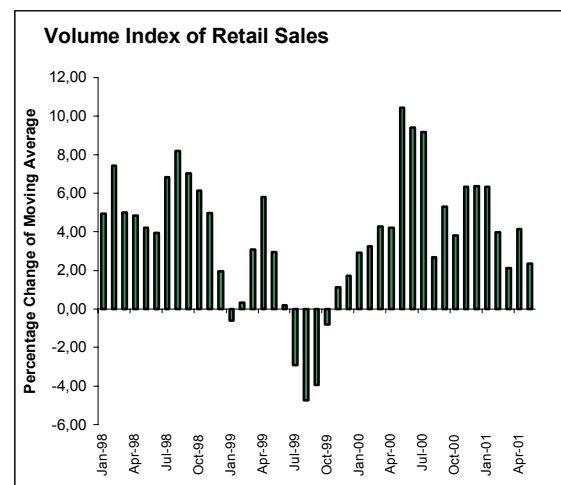
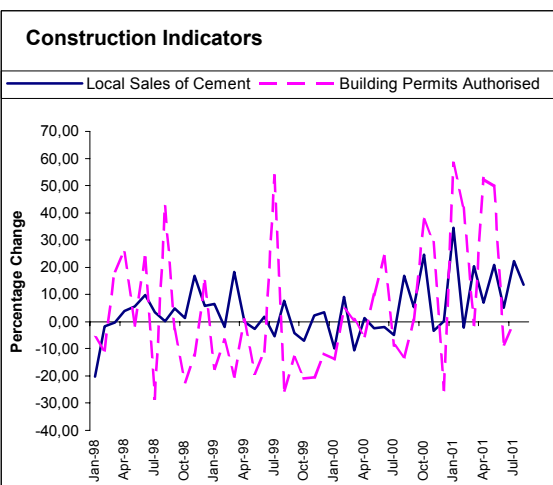
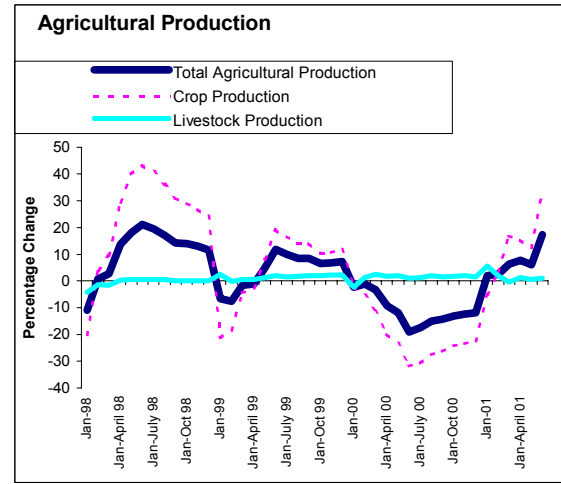
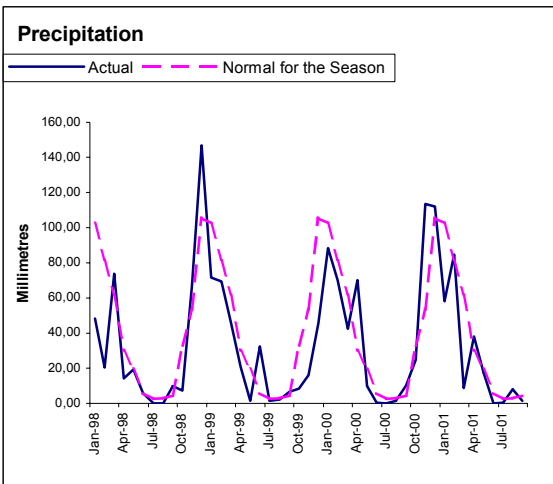
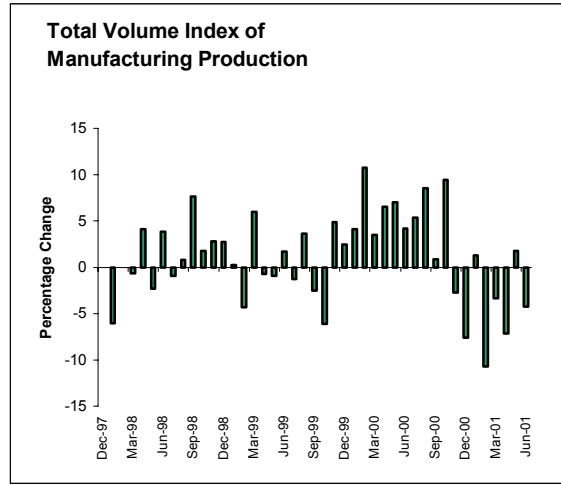
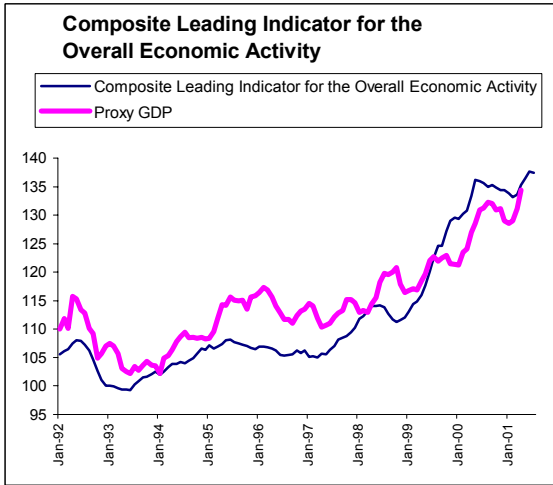
Analytically, the primary sector and in particular agricultural output displays a significant improvement in 2001, following the downward trend observed in the previous year, registering an increase of 17,4% in the period January-June 2001, compared with a fall of 18,9% in the corresponding period of the previous year. More specifically, crop production and livestock production rose by 33,3% and 1,0%, respectively, in the first half of the year, compared with a decrease of 31,9% and an increase of 1,1%, respectively, in the same period of 2000.

In the secondary sector the picture is somewhat more pessimistic, with construction, which until May 2001 exhibited a significant recovery, having starting to show signs of stagnation, while in parallel, the manufacturing sector continues its downturn. More specifically, in the months of June and July 2001 the volume index of

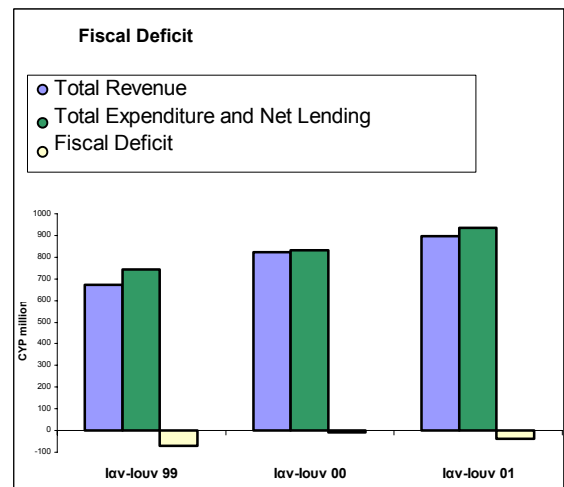
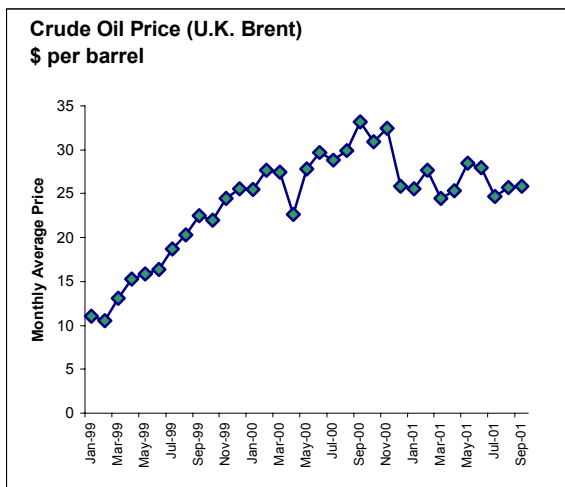
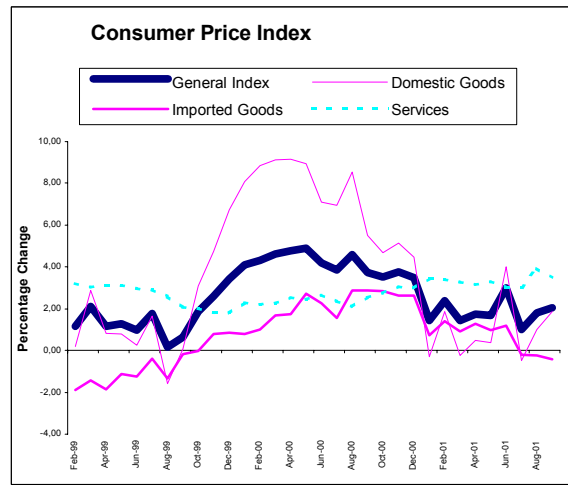
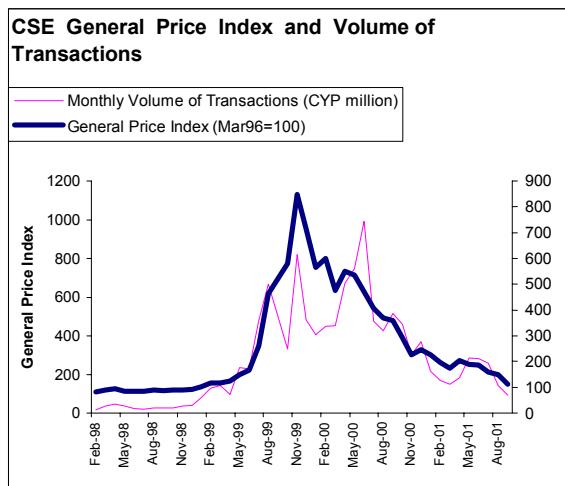
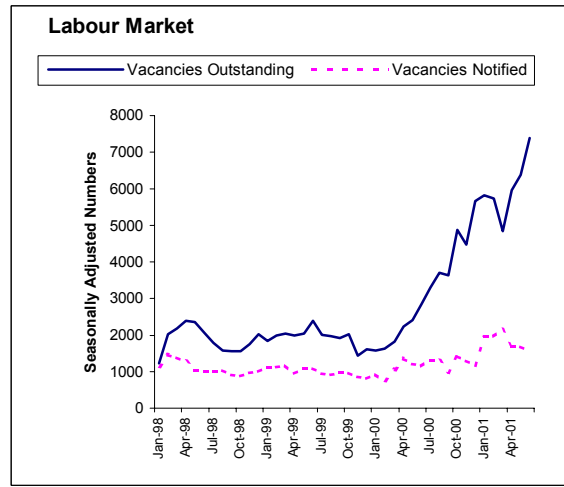
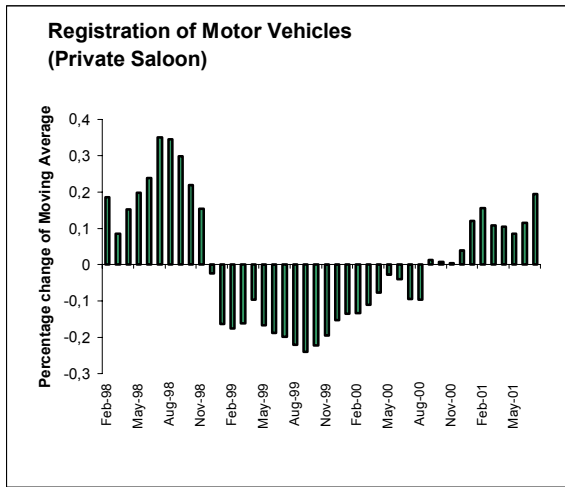
building permits, which indicates prospects in the construction sector in the following few months, fell by 8,3% and 1,3%, respectively, compared with a rise of 23,9% and a fall of 9,1% in the corresponding months of the previous year. In contrast, the value index of building permits continued its upward trend, registering an increase of 2,7% and 12,3% in June and July, respectively, compared with an increase of 21,1% and a decrease of 4,7%, respectively, in the same months of the previous year. For the entire January-July period, however, the volume and value indices of building permits registered an increase of 23,4% and 25,6%, respectively, compared with an increase of 1,6% and 5,7%, respectively, in January-July 2000. Local cement sales continued their upward trend in August as well, rising by 13,6%, as compared with a growth rate of 16,8% in August 2000. For the whole January-August 2001 period, local cement sales grew by 14,9%, in contrast to a fall of 1,7% in the corresponding period of the previous year.

As regards manufacturing, the situation is very worrisome. With the exception of January and May 2001, when a small rise in manufacturing output was observed, for all remaining months up to June, for which data are available, a significant fall has been recorded. Specifically, the volume index of manufacturing production decreased by 4,3% in June 2001, compared with an increase of 4,2% in the corresponding month of 2000, while for the first half of the current year the index registered a fall of 3,7%, compared with a rise of 5,9% in the corresponding period of the previous year. The performance of manufacturing by product category is presented in table 1.

**Chart 1**



**Chart 2**



**Table 1****Manufacturing Production Volume Index - % Change by Category**

|  | <b>June<br/>01/00</b> | <b>June<br/>00/99</b> | <b>Jan-June<br/>01/00</b> | <b>Jan-June<br/>00/99</b> |
|--|-----------------------|-----------------------|---------------------------|---------------------------|
| <b>Total Index</b>                               | <b>-4,26</b>          | <b>4,16</b>           | <b>-3,73</b>              | <b>5,90</b>               |
| Food Products, Beverages & Tobacco               | -8,22                 | 3,99                  | -7,42                     | 8,49                      |
| Textiles & Textile Products                      | -2,11                 | -0,19                 | -3,12                     | -10,15                    |
| Leather and Leather Products                     | -12,93                | -12,53                | -6,01                     | -12,86                    |
| Wood & Wood Products                             | -18,03                | 8,08                  | -6,54                     | 7,83                      |
| Paper, Paper Products, Publishing & Printing     | 5,61                  | 11,90                 | 7,28                      | 11,01                     |
| Refined Petroleum Products                       | 37,37                 | -31,44                | -0,88                     | -12,43                    |
| Chemicals, Chemical Products and Man-Made Fibres | 6,48                  | 2,27                  | 5,59                      | 5,34                      |
| Rubber and Plastic Products                      | -10,02                | 4,34                  | -5,68                     | -1,46                     |
| Other Non-Metallic Mineral Products              | -2,49                 | 6,23                  | 1,01                      | 5,55                      |
| Basic Metals & Fabricated Metal Products         | 2,32                  | 12,41                 | -2,19                     | 13,07                     |
| Machinery and Equipment N.e.c                    | 3,23                  | 7,89                  | 2,30                      | 11,76                     |
| Electrical & Optical Equipment                   | 7,74                  | 2,92                  | -8,61                     | 7,60                      |
| Transport Equipment                              | -36,04                | 28,99                 | -25,78                    | 7,08                      |
| Manufacturing N.e.c.                             | -6,54                 | -2,24                 | -8,53                     | 7,81                      |

The primary driving force of the economy continues to be the services sector, mainly tourism, notwithstanding the deceleration in tourist arrivals observed during 2001. Specifically, tourist arrivals increased by 4,2% in August and fell by 0,2% in September 2001, compared with increases of 4,6% and 6,6%, respectively, in the same months of the previous year. For the entire period January-September 2001 tourist arrivals displayed a marked deceleration, showing a growth rate of 4,0%, compared with a rise of 10,1% in the corresponding period of 2000. Revenue from tourism in the period January-August 2001, for which data are available, are estimated at £887,1 million, displaying a 12,2% rise in comparison with the corresponding period of 2000. The decelerating trend presented by tourism in 2001 is reflected to some extent in the decline of business confidence of hotel owners, as portrayed in the Business Trends Survey conducted by the Statistical Service

in August 2001. Specifically, the proportion of hotels reporting that they expected a deterioration in their business position during the following six months exceeded the proportion of hotels expecting an improvement, while in the same month of the previous year the proportion of hotels reporting that they expected an improvement in their business position exceeded the proportion of those expecting a deterioration. Despite this, the proportion of hotels reporting that they considered their business position as more than satisfactory for this time of the year exceeded those assessing it as not satisfactory by 40 percentage points, while in the same month of the previous year this difference was quite smaller. At the same time, the proportion of hotels reporting that demand in August was higher than normal was the same as in August 2000, while the proportion of those reporting that demand was normal for the season



exceeded the corresponding proportion in the same month of the previous year.

### **Consumption**

A decline in private consumption was registered for the first time this year, with the retail sales volume index falling by 3,1% in June, compared with a rise of 20,0% in the corresponding month of the previous year and a rise of 8,2% in May of the current year. For the first half of 2001, the retail sales volume index displayed a deceleration and increased by 3,1%, compared with an increase of 7,0% in the corresponding period

of 2000. A small decline was also recorded in the rate of increase in private saloon car registrations. After the very good performance of previous months, the rate of increase in June was only 1,5%, albeit compared with a fall of 3,5% in the corresponding month of 2000. Data for July and August, however, indicate that this trend is reversed again, with registrations of private saloon cars increasing by 25,9% and 39,1%, respectively. The course of retail sales by product category is presented in table 2.

**Table 2****Retail Sales Volume Index - % Change by Category**

|                                   | June 01/00   | June 00/99   | Jan-June 01/00 | Jan-June 00/99 |
|-----------------------------------|--------------|--------------|----------------|----------------|
| <b>Total Index</b>                | <b>-3,10</b> | <b>20,00</b> | <b>3,11</b>    | <b>6,95</b>    |
| Food, Drinks and Tobacco          | 6,31         | 9,49         | 4,66           | -0,42          |
| Clothing and Textiles             | -6,34        | 29,13        | -0,53          | 19,29          |
| Footwear & Leather Products       | -7,46        | 41,53        | 1,04           | 18,90          |
| Electrical Goods & Appliances     | -30,41       | 84,36        | -10,57         | 24,84          |
| Vehicles, Machinery & Spare Parts | -0,44        | 16,92        | 12,05          | 1,89           |
| Supermarkets                      | 3,59         | 18,77        | -0,22          | 12,11          |
| Pharmacies                        | 5,95         | -14,18       | 4,45           | -10,04         |
| Furniture                         | -18,73       | 26,94        | -0,40          | 17,37          |
| Petrol Stations                   | 2,10         | 1,33         | -0,50          | 6,47           |
| Toys                              | -17,79       | -3,08        | -1,25          | -5,38          |

The observed decline in retail sales in June is consistent to a certain extent with the substantial deceleration observed in imports of goods for home consumption (excluding imports of military equipment and fuels), which expanded by 3,8% in June 2001, compared with an increase of 12,2% in May of the current year and 9,3% in June 2000. For the first half of 2001, however, these imports displayed an acceleration, rising by 14,8% compared with an increase of 12,3% in the corresponding period of 2000. Furthermore, a deceleration in imports was observed in July of the current year, which probably indicates that the downtrend in consumption continued in July as well, although data on retail sales during that month are not yet available.

The course of private consumption in the remainder of the year is fairly difficult to predict at present, as it is too early to ascertain the impact of international developments, as they have been shaped after 11 September, on the Cypriot economy, as well as the influence on private consumption of the recent interest rate cuts by the Central Bank.

**Labour Market**

In the labour market, the number of registered unemployed has been falling during all the months of 2001 up to August, for which data are available, in comparison with the corresponding months of 2000. Specifically, in August 2001 the number of registered unemployed fell by 13,7%, compared with a 12,3% fall in August 2000, while the unemployment rate as a percentage of the economically active population was limited to 2,9%, compared with 3,3% in the corresponding month of 2000. A decline in the number of unemployed was also registered in comparison with July 2001, when a seasonal rise in unemployment was observed and the unemployment rate had reached 3,0% of the economically active population. For the entire period January-August 2001 the unemployment rate fell by 17,9% to 3,0% of the economically active population, compared with 3,6% of the economically active population in the corresponding period of 2000. A fall in unemployment was observed in nearly all sectors of the economy, with the main exception of new entrants in the labour market, where an increase of 29,0% was recorded in the first eight months of the year.

### **Public Finances**

The fiscal deficit in January-June 2001 decreased to £36,8 million, compared with £63,6 million in January-May of the current year. In comparison with the first half of 2000, however, the fiscal deficit displayed an increase, since during that period the deficit had reached just £9,8million. For the whole year the fiscal deficit is expected to be marginally

lower than 2,7% of GDP, which was registered in 2000.

More specifically, public revenue rose by 9,2% in the first half of the year, compared with a 22,1% rise in the corresponding period of 2000. Amongst the categories of public revenue, receipts from both direct and indirect taxes displayed a deceleration, rising by 17,7% and 13,6%, respectively, compared with increases of 21,3% and 20,5%, respectively, in the first half of the previous year.

Table 3

## Public Finances Summary 2001

|  | £ million    |              |              | % Change 01/00 |             |              |
|--|--------------|--------------|--------------|----------------|-------------|--------------|
|  | Jan-April    | Jan-May      | Jan-June     | Jan-April      | Jan-May     | Jan-June     |
| <b>Total Revenue and Grants</b>          | <b>574,0</b> | <b>689,4</b> | <b>897,4</b> | <b>17,0</b>    | <b>10,0</b> | <b>9,2</b>   |
| Direct Taxes                             | 194,0        | 225,2        | 259,8        | 26,8           | 20,0        | 17,7         |
| Income Tax                               | 136,6        | 161,9        | 181,1        | 49,4           | 41,8        | 41,2         |
| Indirect Taxes                           | 231,9        | 288,1        | 359,9        | 12,8           | 12,8        | 13,6         |
| Value Added Tax                          | 111,2        | 132,1        | 167,3        | 33,4           | 29,4        | 29,2         |
| Excise Taxes                             | 53,4         | 68,0         | 90,0         | 6,1            | 5,4         | 11,1         |
| Import Duty                              | 16,9         | 28,5         | 33,1         | -6,5           | 16,2        | 5,8          |
| Social Security Funds Contributions      | 94,8         | 110,4        | 130,8        | 22,6           | 9,5         | 10,4         |
| Other Revenues                           | 52,8         | 64,9         | 146,0        | -2,5           | -21,3       | -11,0        |
| Foreign Grants                           | 0,5          | 0,9          | 0,9          | 16,3           | 56,1        | -44,9        |
| <b>Total Expenditure and Net Lending</b> | <b>596,9</b> | <b>753,0</b> | <b>934,1</b> | <b>17,4</b>    | <b>14,2</b> | <b>12,4</b>  |
| Current Expenditure                      | 543,6        | 685,2        | 850,3        | 17,2           | 14,3        | 12,1         |
| Goods and Services                       | 236,0        | 295,7        | 356,1        | 13,6           | 9,3         | 6,4          |
| Wages and Salaries                       | 167,1        | 210,0        | 253,1        | 10,0           | 9,5         | 9,5          |
| Current Transfers                        | 134,4        | 175,3        | 202,9        | 22,4           | 42,8        | 12,7         |
| Social Pension                           | 7,9          | 9,9          | 11,9         | 12,3           | 13,2        | 9,9          |
| Social Security Funds Payments           | 78,8         | 104,0        | 129,8        | 8,8            | 16,2        | 13,7         |
| Subsidies                                | 20,3         | 24,4         | 30,6         | 69,9           | 28,5        | 53,4         |
| Interest                                 | 93,7         | 106,9        | 154,8        | 22,9           | 20,2        | 8,8          |
| Capital Expenditure                      | 47,4         | 60,2         | 75,7         | 11,7           | 7,9         | 10,2         |
| Investment                               | 34,0         | 45,9         | 57,7         | 8,1            | 9,9         | 12,2         |
| Capital Transfers                        | 12,3         | 14,4         | 18,0         | 13,1           | 1,8         | 4,0          |
| Net Lending                              | 5,9          | 7,5          | 8,2          | 210,2          | 104,7       | 82,1         |
| <b>Fiscal Surplus (+)/Deficit(-)</b>     | <b>-22,9</b> | <b>-63,6</b> | <b>-36,8</b> | <b>28,3</b>    | <b>97,8</b> | <b>275,3</b> |

Analytically, income tax receipts registered a sizeable increase of 41,2%, compared with 14,0% in the corresponding period of 2000, as a result of the delayed payment of company tax amounting to about £40,0 million in January 2001 instead of December 2000. On the other hand, receipts from other direct taxes displayed a significant decrease. Despite the observed deceleration in consumption demand, revenue from the value added tax displayed an acceleration, while a deceleration was observed in excise tax and import duty receipts. Finally, an acceleration was recorded in social security fund contributions.

Public expenditure recorded a small acceleration in January-June 2001, expanding by 12,4%, mainly due to acceleration in capital expenditure. Current expenditure, however, recorded a small deceleration and increased by 12,1% in the first half of the year. Purchases of goods and services, which is the largest category of current expenditure, showed a significant slowdown, despite the acceleration registered in wages and salaries, which are included in this category. A slowdown was also observed in current transfers, interest payments and subsidies. In contrast, an acceleration was

observed in social security fund payments. Finally, capital expenditure accelerated in the first half of the year and rose by 10,2%, compared with a marginal increase in the corresponding period of the previous year. This development reflects the large increase in investment in infrastructure as well as capital transfers.

## 2.2 EXTERNAL TRANSACTIONS

The slowdown in import growth which was evidenced in May continued in June as well, while concurrently the recovery of exports continued. However, preliminary data for July indicate a sharp rise in total imports of the order of 40%, mainly due to increases in imports of fuels and military equipment. In parallel, tourist arrivals continued their decelerating trend observed since the beginning of the year. Moreover, a marginal decrease in the number of tourist arrivals was recorded in September.

The latest available data on trade in goods are summarised in table 4.

The growth rate of imports for home consumption excluding imports of military equipment and fuels was limited to 3,8% in June, compared with 9,3% in June 2000, while in July 2001, according to the latest preliminary data, the growth rate reached 9,6%, compared with 17,0% in July 2000. The growth rate of imports for home consumption excluding imports of military equipment and fuels continued to fall during the course of the year, from 35,3% in the first month and 18,4% in the first quarter to 14,8% in the first half and 14,0% in the January-July period, as compared with

13,0% in the corresponding period of the previous year.<sup>1</sup>

Domestic exports as well as re-exports in June and July (as in May earlier) exhibited growth rates higher than those in the corresponding month of the previous year. Specifically, domestic exports increased by 16,2% in June and 17,7% in July, compared with increases of 15,3% in June 2000 and 10,0% in July 2000. Re-exports rose by 31,2% in June but fell by 2,4% in July, as compared with a fall of 6,9% in June 2000 and 21,2% in July 2000. Thus domestic exports and re-exports, which in the first quarter of 2001 were lower by 3,4% and 0,9%, respectively, in comparison to the first quarter of 2000, recovered in the second quarter exhibiting a remarkable growth. The growth rates during January-July 2001 reached 6,3% and 7,9%, respectively, albeit remaining well below the growth rates recorded in the corresponding period of the previous year.

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<sup>1</sup> Imports do not include leased aircraft valued at £31,9 million in March 2001 and £74,8 million in April 2001.

**Table 4****Trade balance data  
January – July\* (£ million)**

|   | 1999    | 2000     | 2001*    | % change<br>2001/2000 | % change<br>2000/1999 |
|---|---------|----------|----------|-----------------------|-----------------------|
| <b>Total imports ** (cif)</b>   | 1.108,1 | 1.387,9  | 1.524,6  | 9,8                   | 25,3                  |
| <b>Imports for home consumption (cif)</b>   | 915,1   | 1.142,3  | 1.293,4  | 13,2                  | 24,8                  |
| <b>Imports for home consumption (cif)<br/>    excluding<br/>    imports of military equipment and fuels</b> | 836,9   | 945,7    | 1.078,4  | 14,0                  | 13,0                  |
| <b>Total exports (fob)</b>  | 305,7   | 358,5    | 382,0    | 6,5                   | 17,3                  |
| <b>Domestic exports (fob)</b>   | 125,9   | 139,7    | 148,5    | 6,3                   | 10,9                  |
| <b>Re-exports (fob)</b>   | 162,7   | 185,3    | 199,9    | 7,9                   | 13,9                  |
| <b>Shipstores</b>   | 17,1    | 33,5     | 33,6     | 0,3                   | 95,9                  |
| <b>Crude trade balance</b>  | -802,4  | -1.029,4 | -1.142,6 |                       |                       |

\* Data for July are provisional.

\*\* The figures for imports do not include leased aircraft valued at £31,9 million in March 2001 and £74,8 million in April 2001.

As regards the services sector, receipts from tourism<sup>2</sup> reached £887,1 million in the period January-August 2001, registering an increase of 12,2% in comparison with the corresponding period of 2000. Although this increase is substantial, a slowdown is observed in comparison with the two previous years, when increases of the order of 16,5% were recorded. The growth in tourist receipts in January-August 2001 emanated mainly from countries in the

European Union – which accounted for over 81% of total receipts – primarily from the United Kingdom, and to a lesser extent from Russia and other countries of the former Soviet Union – which accounted for 7,1% of total receipts.

<sup>2</sup> Estimates of receipts from tourism as well as tourist arrivals do not include Cypriot students.

**Table 5****Tourist arrivals**

January – September

|                           |                  |                  |                  | <b>%<br/>change<br/>2001*/2000</b> | <b>%<br/>change<br/>2000/1999</b> |
|---------------------------|------------------|------------------|------------------|------------------------------------|-----------------------------------|
|                           | <b>1999</b>      | <b>2000</b>      | <b>2001</b>      |                                    |                                   |
| <b>Number of persons*</b> | <b>1.961.174</b> | <b>2.158.383</b> | <b>2.244.647</b> | <b>4,0</b>                         | <b>10,1</b>                       |

\* Does not include arrivals of Cypriot students.

Tourist arrivals displayed a slowdown in August, as in all previous months of 2001. Arrivals increased by 4,2% in August 2001, compared with a 4,6% increase in August 2000. In September the situation worsened and arrivals fell by 0,2%, compared with an increase of 6,6% in September 2000. It is not clear from the available data whether this fall was recorded after the events of 11 September in the United States. For the period January-September 2001 the rate of increase in tourist arrivals fell to 4,0%, from 10,1% in the corresponding period of the previous year.

Table 6 presents non-resident investments in shares quoted on the Cyprus Stock Exchange. As this table shows, non-resident investments rose significantly to £555,4 thousand in August, but were limited to £100,9 thousand in September.<sup>3</sup>

<sup>3</sup> Tables 8 and 9 in the annex present non-resident purchases and sales of shares quoted on the Cyprus Stock Exchange by country of residence.

**Table 6****Investments by non-residents in the Cyprus Stock Exchange**

January – September 2001 (£ thousand)

|                        | Jan.    | Feb.         | Mar.         | Apr.         | May          | June          | July         | Aug.         | Sep.         |
|------------------------|---------|--------------|--------------|--------------|--------------|---------------|--------------|--------------|--------------|
| <b>Purchases</b>       | 2.044,7 | 2.384,7      | 1.686,2      | 1.206,2      | 1.817,3      | 794,6         | 688,5        | 1.261,6      | 872,7        |
| <b>Sales</b>           | 969,1*  | 2.085,8      | 1.086,6      | 999,3        | 1.097,0      | 1.312,7       | 406,6        | 706,1        | 771,8        |
| <b>Net investments</b> | - *     | <b>298,9</b> | <b>599,6</b> | <b>206,9</b> | <b>720,3</b> | <b>-518,1</b> | <b>281,9</b> | <b>555,4</b> | <b>100,9</b> |

\* Data for sales in January cover only the period 17/01/2001 to 31/01/2001.

**Balance of payments projections**

Table 7 presents a summary of the latest projections for the balance of payments, which were made on the basis of information up to early September, before the terrorist attacks of 11 September. According to these projections, the current account deficit is expected to decrease to £274,5 million, remaining nevertheless at the relatively high level of 4,7% of GDP, compared with 5,2% of GDP in 2000. This improvement in the current account balance, although smaller than expected in the beginning of the year, emanates mainly from the deceleration in imports.

Specifically, imports are expected to grow by 3,3%, down from a growth rate of 23,2% in 2000. The slowdown in imports, which has been observed since the second quarter, is attributable to the negative wealth effect of the

fall in share prices on domestic demand as well as to the fall in oil prices<sup>4</sup>. At the same time re-exports are expected to increase by 8,2% and domestic exports by 2,5%, mainly due to the recovery of exports of agricultural products, particularly potatoes, while exports of industrial products are expected to remain at about the same levels as last year.<sup>5</sup>

As regards tourism, the projections on table 7 are based on a 5,0% increase in arrivals to

<sup>4</sup> The projections for imports of fuels were based on an expected average oil price of USD26,0 per barrel in year 2001 (down from USD28,5 in 2000). It is noted that the average price of Brent crude oil in September, despite the sharp rise and fall after September 11, stood at USD25,8 per barrel and the average price in the first nine months of the year stood at USD26,2, while at the end of September and in early October the price fluctuated around USD21 per barrel.

<sup>5</sup> Projected exports are slightly lower compared with the projections in April 2001, while projected imports are marginally higher.



2,820 million persons in 2001<sup>6</sup>, compared with a 10,3% increase in 2000, and on a 4,8% growth rate in expenditure per person, resulting in increased tourist receipts by 10,0% to £1.313,0 million, following a rise of 16,5% in 2000.

In parallel, net capital inflows will be significantly higher in 2001 compared with previous years, due to long-term borrowing by banks (which are branches or subsidiaries of foreign banks) from their head offices abroad, as well as due to the large issue of bonds abroad by Cypriot banks. Conversely, net repayments of long-term loans by the government and public corporations are expected, as well as a minor increase in long-term borrowing by the private sector other than banks.

As mentioned above, these projections were based on data prior to the events of 11 September. The impact of those events on the external transactions of Cyprus, especially on the sensitive tourism sector (which last year provided 46,2% of total receipts from the exports of goods and services), cannot practically be predicted at present, because of the uncertain global environment, particularly concerning the intensity and duration of the military operations.

The marginal decrease in tourist arrivals already recorded in September may be attributable not only to the events of 11 September, but also to the economic slowdown

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<sup>6</sup> Projections for tourist arrivals have been revised downward compared with the projections in April, due to an adjustment of data with the subtraction of Cypriot students.

in Europe (which provides the great majority of tourists) that was already evidenced before those events. According to available indications, most tourist packages for September had already been prepaid and cancellations were about 1-2%.

Concerning October, there were unsold tourist packages, the percentage of which appeared to range from 5 to 10%, while for the forthcoming winter period the flow of reservations has declined noticeably. The decline in bookings from the United Kingdom was estimated at 50-70% and from Germany at about 20%.<sup>7</sup> The decrease in passenger traffic of the national air carrier is also indicative, where a sharp decline in new bookings was observed and some chartered flights were cancelled. The decrease in passenger traffic was of the order of 4% in September and 15% in October (as at the middle of the month).

In any event, given the relatively small weight of winter tourism<sup>8</sup> in the total, even a sharp fall of tourism in the last months of the year cannot have such a serious impact on the balance of payments in 2001. The final outcome will depend on international developments and on the effectiveness of the measures that the government has already started to take to promote Cyprus as a safe tourist destination. Better assessment of the situation will be possible next month.

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<sup>7</sup> The UK is the main source of tourism, accounting for 57,9% of total receipts from tourism in January-August 2001, and Germany is the third main source (after the former Soviet Union), accounting for 6,4% of receipts in the same period.

<sup>8</sup> The number of arrivals in the period November-December 2000 was 227,2 thousand or 8,5% of total arrivals.

Table 7

|   | 1991          | 1992            | 1993          | 1994          | 1995          | 1996            | 1997            | 1998            | 1999            | 2000            | 2001<br>(Proj.)* | % change<br>2001/2000 | % change<br>2000/1999 |
|---|---------------|-----------------|---------------|---------------|---------------|-----------------|-----------------|-----------------|-----------------|-----------------|------------------|-----------------------|-----------------------|
| Exports (fob)   | 404,0         | 396,6           | 387,1         | 432,9         | 510,2         | 597,1           | 605,6           | 519,9           | 504,4           | 523,5           | 553,5            | 5,7                   | 3,8                   |
| Imports (fob)   | -1.186,0      | -1.483,8        | -1.181,1      | -1.330,5      | -1.499,4      | -1.667,4        | -1.704,7        | -1.807,4        | -1.796,9        | -2.213,7        | -2.287,7         | 3,3                   | 23,2                  |
| <b>Trade balance</b>  | <b>-782,0</b> | <b>-1.087,2</b> | <b>-794,0</b> | <b>-897,6</b> | <b>-989,2</b> | <b>-1.070,3</b> | <b>-1.099,1</b> | <b>-1.287,5</b> | <b>-1.292,6</b> | <b>-1.690,1</b> | <b>-1.734,2</b>  | 2,6                   | 30,8                  |
| Invisible receipts  | 1.031,4       | 1.311,2         | 1.332,5       | 1.474,8       | 1.587,8       | 1.579,1         | 1.705,0         | 1.802,9         | 2.059,6         | 2.469,9         | 2.625,0          | 6,3                   | 19,9                  |
| Invisible payments  | -450,1        | -505,2          | -488,6        | -533,6        | -671,4        | -724,2          | -779,8          | -827,7          | -885,1          | -1.063,9        | -1.165,3         | 9,5                   | 20,2                  |
| <b>Invisible balance</b>                                      | <b>581,3</b>  | <b>806,0</b>    | <b>843,9</b>  | <b>941,2</b>  | <b>916,4</b>  | <b>854,9</b>    | <b>925,2</b>    | <b>975,2</b>    | <b>1.174,6</b>  | <b>1.406,0</b>  | <b>1.459,7</b>   | 3,8                   | 19,7                  |
| <b>Current account balance</b>                                | <b>-200,7</b> | <b>-281,2</b>   | <b>49,9</b>   | <b>43,6</b>   | <b>-72,8</b>  | <b>-215,4</b>   | <b>-173,9</b>   | <b>-312,3</b>   | <b>-118,0</b>   | <b>-284,1</b>   | <b>-274,5</b>    | -3,4                  | 140,8                 |
| Short-term capital  | 82,4          | 45,9            | -31,6         | 63,2          | 6,7           | 4,4             | -22,5           | -36,7           | 41,5            | 5,7             | 5,7              | 0,0                   | -86,3                 |
| Long-term loans   | 14,6          | 30,4            | -24,0         | -70,7         | -34,0         | -39,4           | -44,4           | 49,3            | -172,7          | 55,0            | 185,5            | 237,5                 | -131,8                |
| Other long-term capital                                       | 21,1          | 31,5            | 23,3          | 9,4           | 22,3          | 45,0            | 169,0           | 181,7           | 178,7           | 62,4            | 267,3            | 328,4                 | -65,1                 |
| <b>Net capital movement</b>                                   | <b>118,1</b>  | <b>107,8</b>    | <b>-32,3</b>  | <b>1,9</b>    | <b>-5,0</b>   | <b>10,0</b>     | <b>102,1</b>    | <b>194,3</b>    | <b>47,6</b>     | <b>123,1</b>    | <b>458,5</b>     | 272,6                 | 158,8                 |
| Net errors and omissions                                      | 50,1          | 39,9            | 33,2          | 20,5          | -33,1         | -14,1           | -47,3           | -71,3           | -81,8           | 96,6            | 0,0              |                       |                       |
| <b>Overall balance</b>  | <b>-32,5</b>  | <b>-133,5</b>   | <b>50,8</b>   | <b>66,0</b>   | <b>-110,9</b> | <b>-219,5</b>   | <b>-119,1</b>   | <b>-189,3</b>   | <b>-152,2</b>   | <b>-64,4</b>    | <b>184,0</b>     |                       |                       |
| Nominal GDP   | 2.674,7       | 3.102,9         | 3.274,6       | 3.650,7       | 4.006,6       | 4.161,0         | 4.369,3         | 4.693,7         | 5.017,5         | 5.485,9         | 5.885,7          |                       |                       |
| <b>Current account balance as<br/>a percentage (%) of GDP</b> | -7,5          | -9,1            | 1,5           | 1,2           | -1,8          | -5,2            | -4,0            | -6,7            | -2,4            | -5,2            | -4,7             |                       |                       |

\*The above projections for 2001 were made on the basis of evidence in early September, before the terrorist attacks of 11 September.

## 2.3 INTERNATIONAL DEVELOPMENTS AND EXCHANGE RATES

### *International Economic Developments*

Growth rates in the global economy had slowed before the terrorist attacks on the United States.

**US** industrial production contracted by 4,8% up to August, while unemployment reached 4,9% compared with 4,1% in the previous year. The annual growth rate in the first half of the year was 1,2%, with the second quarter contributing only 0,2%.

In the **euro area** industrial production fell by 1,1% up to July. Quarterly data show a growth rate in

GDP in April-June 2000 of 0,2%, while the annual inflation rate increased to 2,7% from 2,3% in the previous year. Retail sales increased by 1,3%, while the unemployment rate fell to 8,3% from 8,7% in the previous year.

In **Japan** industrial production, retail sales and GDP recorded annual decreases of 11,7%, 2,1%, and 0,7%, respectively. Unemployment rose to 5,0% .

As a result of these developments, the OECD revised downwards the expected growth rate in its member states for 2001 to 2,0%, while the IMF published in October its assessment for global growth, which was reduced to 2,6%, without taking into account the events of 11 September.

**Table 8**

### Main Economic Indicators % change

|           | GDP             |              | Industrial<br>Production<br>annual | Retail<br>Sales<br>annual | Unemployment | Inflation<br>(CPI)<br>annual - Aug. |
|-----------|-----------------|--------------|------------------------------------|---------------------------|--------------|-------------------------------------|
|           | Quarterly<br>Q2 | Annual<br>Q2 |                                    |                           |              |                                     |
| Britain   | 3,6             | 2,3          | -3,2 (July)                        | 6,3 (July)                | 5,0 (July)   | 2,1                                 |
| Japan     | -3,2            | -0,7         | -11,7 (Aug.)                       | -2,1 (June)               | 5,0 (Aug.)   | -0,7                                |
| USA       | 0,3             | 1,2          | -4,8 (Aug.)                        | 4,3 (Aug.)                | 4,9 (Aug.)   | 2,7                                 |
| Euro area | 0,2             | 1,7          | -1,1 (July)                        | 1,3 (July)                | 8,3 (Aug.)   | 2,7                                 |

Source: The Economist, 6-12 October 2001

Lehman Brothers Global Weekly Economic Monitor, October 12th, 2001

**Table 9****Projections of Economic Indicators***annual % change*

|           | <i>Annual</i> | The Economist Poll<br>GDP Forecast <sup>1</sup> |      | Lehman Brothers <sup>2</sup><br>Weekly Outlook - GDP |      |
|-----------|---------------|---|------|--|------|
|           | 2000          | 2001  | 2002 | 2001   | 2002 |
| Britain   | 2,2           | 2,0   | 1,9  | 2,2  | 1,9  |
| Japan     | 1,6           | -0,5  | -0,4 | -1,2   | -0,2 |
| USA       | 4,1           | 1,0   | 1,0  | 1,0  | 0,3  |
| Euro area | 3,4           | 1,6   | 1,5  | 1,7  | 1,8  |
| World     | 3,9           |   |      | 1,1  | 1,3  |

<sup>1</sup> Source: The Economist, 6-12 October 2001<sup>2</sup> Lehman Brothers Global Weekly Economic Monitor, October 12th, 2001

The initial impact of the terrorist attack appeared in international **financial markets**, with the stock exchanges in the United States and Europe registering severe declines, while markets in Latin America and East Asia were affected even more. In Wall Street, the Dow Jones Industrial Average declined by 14,3% in the first five trading days after the events, recording its largest weekly decrease since 1933. European stock markets also recorded large decreases. For example, the CAC-40 and DAX indices in France and Germany declined by 47% and 53%, respectively, from their highest levels in 2000. During the first days of October, however, most stock markets had started to recover.

The tourism, insurance and air transport sectors were hardest hit, with consequent mass layoffs. Globally a climate of insecurity was created, to which central banks responded promptly with consecutive interest rate reductions. Specifically, the US Federal Reserve System lowered its key interest rate in two consecutive meetings (the last one on 2 October) to 2,5%, the lowest level since 1962. The European Central Bank followed, reducing its benchmark rate from 4,25% to 3,75%,

while the Bank of Canada and the Bank of England also reduced interest rates by 50 and 25 basis points, respectively.

An important role in estimates of global growth rates is played by developments in international oil markets. Notwithstanding the increase in the price of Brent crude oil during the first days after the terrorist acts, the average price remained around USD26 for the month of September, while markets anticipate that on the basis of current developments the price for 2001 will stabilise at USD26<sup>9</sup>, compared with the price of USD29 in the previous year.

The uncertainty created in international markets was prevalent in the first statistical data released after 11 September. The US Consumer Confidence Index fell to its lowest level in the last eight years, from 91,5 to 81,8. In the euro area the Purchasing Managers' Index (PMI) fell for the first time below 50 points to 48,1 in September. Increased uncertainty in global markets is evident.

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<sup>9</sup> Source: Lehman Brothers, Global Weekly Economic Outlook, October 12, 2001.

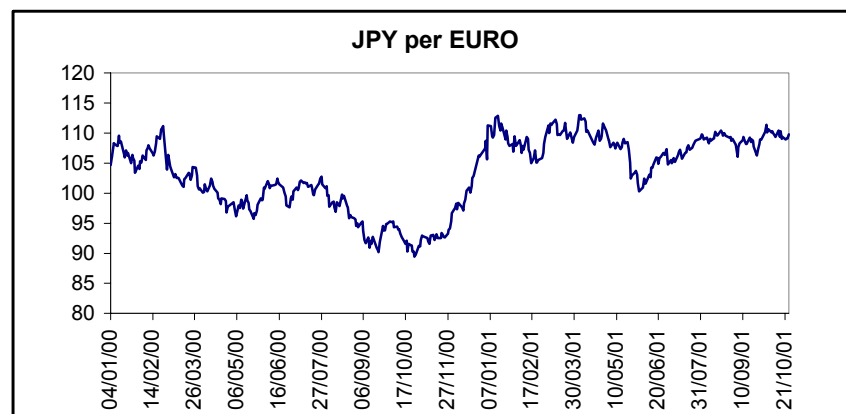
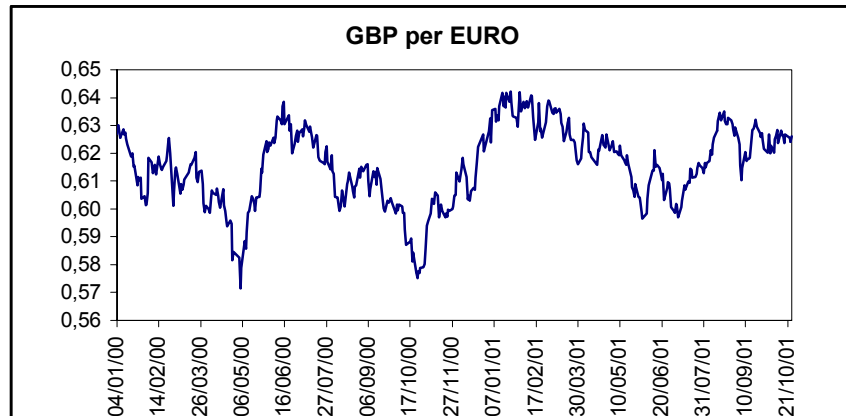
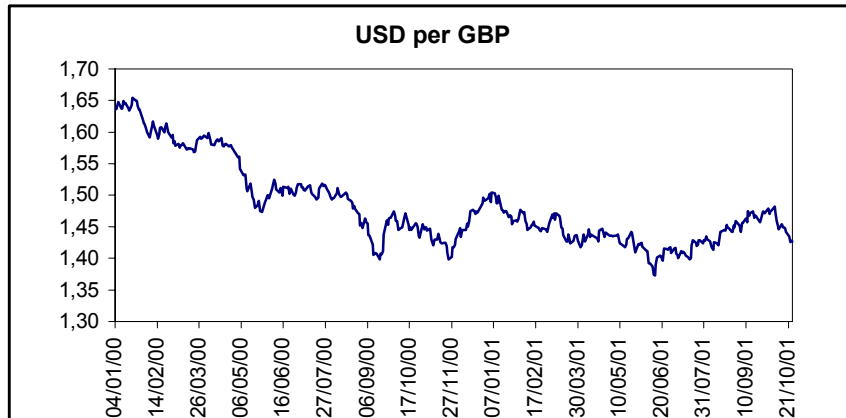
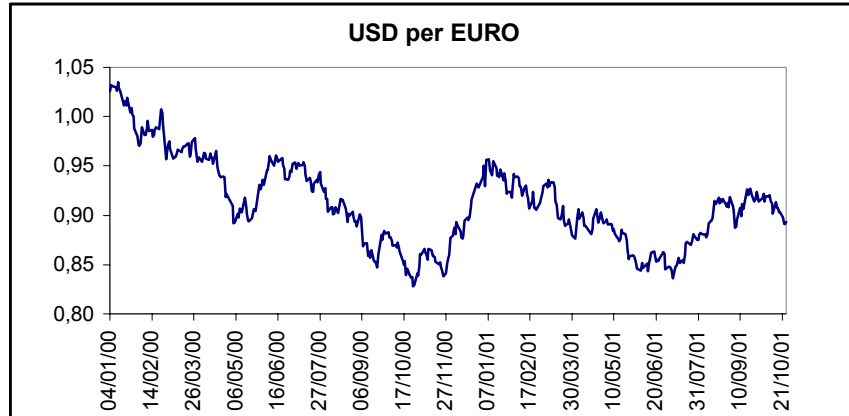
It should be noted here that data for September as well as for October may not reflect real trends, as they are influenced by psychological factors. Nonetheless, the new forecasts by economic analysts (table 9) show decreased world growth rates of 1,1% and 1,3% for 2001 and 2002, respectively.

### ***International Currencies***

The aforementioned international developments naturally had a significant impact on international foreign exchange markets. The economic repercussions of the recent dramatic events, as well as the responses of central banks, were critical factors in shaping international exchange rates. Specifically, immediately after the terrorist blow of 11 September in the United States the US dollar weakened substantially, dropping to USD0,93 per euro a week after the events,

compared with USD0,90 per euro just before the events. Since the last week of September, however, the dollar has been steadily rebounding, reaching up to USD0,89 per euro on 25 October 2001. The recovery of the US dollar, which was also registered against the pound sterling and the yen, reflects primarily the approval and confidence of international markets in the expansionary fiscal and monetary policies of the US authorities, which are anticipated to help the economy emerge out of recession the soonest. Conversely, markets consider that the economic policy implemented in Europe and Japan is not sufficiently dynamic to face the economic problems appearing in those economies. It may be noted in this respect that, as in the case of the euro, both the pound sterling and the yen were weaker against the US dollar on 25 October 2001 compared with the exchange rates prevailing immediately prior to the terrorist attack of 11 September 2001.

**Bilateral rates of major international currencies  
4/1/2000 - 25/10/2001**



The following table presents the forecasts of a large number of internationally recognised financial institutions for the course of international exchange rates in the near future, as recorded in a survey by Reuters. As table 10 shows, markets anticipate that the euro will stabilise against the US dollar and the pound

sterling by the end of 2002, while the yen is expected to weaken against all currencies. It should be noted that because of the events of 11 September and their aftermath, the forecasts of international markets in this period contain a particularly high degree of uncertainty.

**Table 10****International market expectations for exchange rates****Monthly poll by Reuters***(October 2001)*

| Currency    | Statistical data    | Exchange rate forecasts |          |          |           |
|-------------|---------------------|-------------------------|----------|----------|-----------|
|             |                     | 1 month                 | 3 months | 6 months | 12 months |
| USD per EUR | Mean                | 0,93                    | 0,94     | 0,94     | 0,94      |
|             | Minimum             | 0,89                    | 0,89     | 0,87     | 0,77      |
|             | Maximum             | 0,96                    | 0,98     | 1,01     | 1,05      |
|             | Number of forecasts | 48                      | 47       | 47       | 48        |
| USD per GBP | Mean                | 1,48                    | 1,49     | 1,48     | 1,47      |
|             | Minimum             | 1,45                    | 1,44     | 1,40     | 1,24      |
|             | Maximum             | 1,51                    | 1,55     | 1,59     | 1,60      |
|             | Number of forecasts | 48                      | 47       | 47       | 48        |
| JPY per USD | Mean                | 121                     | 122      | 124      | 125       |
|             | Minimum             | 113                     | 113      | 115      | 113       |
|             | Maximum             | 126                     | 128      | 138      | 140       |
|             | Number of forecasts | 48                      | 47       | 47       | 48        |
| GBP per EUR | Mean                | 0,63                    | 0,63     | 0,63     | 0,64      |
|             | Minimum             | 0,61                    | 0,59     | 0,59     | 0,59      |
|             | Maximum             | 0,64                    | 0,66     | 0,67     | 0,72      |

*Source: Reuters. The poll was taken in the period 1-3 October 2001.*

**Cyprus pound**

Since the beginning of September the Cyprus pound weakened marginally against the euro, reaching 1,7361 euro per Cyprus pound on 25/10/2001 (selling price). Reflecting recent fluctuations in international currencies, the Cyprus

pound weakened against the US dollar in October, while it strengthened marginally against the yen and the pound sterling. Recent fluctuations in the exchange rates of the Cyprus pound vis-à-vis the euro, the dollar, the sterling and the yen are summarised in table 11.

**Table 11**

| <b>Major foreign currencies<br/>Against the Cyprus pound<br/>(selling prices, opening)</b> |                |            |            |            |
|--|----------------|------------|------------|------------|
| <b>Period</b>  | <b>ECU/EUR</b> | <b>USD</b> | <b>GBP</b> | <b>JPY</b> |
| 1996   | 1,7086         | 2,1407     | 1,3717     | 232,35     |
| 1997   | 1,7183         | 1,9428     | 1,1857     | 234,46     |
| 1998   | 1,7189         | 1,9314     | 1,1658     | 251,94     |
| 1999   | 1,7243         | 1,8373     | 1,1359     | 208,53     |
| 2000   | 1,7390         | 1,6054     | 1,0596     | 172,61     |
| 2000 III   | 1,7414         | 1,5776     | 1,0676     | 169,40     |
| 2000 IV  | 1,7432         | 1,5124     | 1,0458     | 165,61     |
| 2001 I   | 1,7238         | 1,5939     | 1,0914     | 187,96     |
| 2001 II  | 1,7274         | 1,5096     | 1,0622     | 184,88     |
| 2001III  | 1,7381         | 1,5469     | 1,0761     | 188,09     |
| 04/01  | 1,7231         | 1,5401     | 1,0732     | 190,51     |
| 05/01  | 1,7255         | 1,5115     | 1,0591     | 183,93     |
| 06/01  | 1,7333         | 1,4799     | 1,0558     | 180,86     |
| 07/01  | 1,7369         | 1,4938     | 1,0562     | 185,96     |
| 08/01  | 1,7382         | 1,5650     | 1,0893     | 190,14     |
| 09/01  | 1,7394         | 1,5853     | 1,0834     | 188,18     |
| 1-25/10/01   | 1,7360         | 1,5766     | 1,0846     | 190,68     |
| 25/10/01   | 1,7361         | 1,5511     | 1,0870     | 190,56     |

As regards the domestic foreign exchange market, the results of the fixing sessions held until 25/10/2001 based on the transaction date are shown in table 12. As this table shows, during the sessions since the beginning of the year the Central Bank absorbed foreign exchange from the banking system amounting to £482,75 million. Overall, including interventions and other operations in the interbank market (specifically, execution of forward foreign exchange contracts), between 2/1/2001 and 25/10/2001 the Central

Bank absorbed from the banking system foreign exchange equivalent to £637,1 million. Daily purchases and sales of foreign exchange by the Central Bank from domestic banks since 1999 are depicted in chart 4. The inflow of foreign exchange in 2001, which intensified mostly after March and reached its peak in June, mainly concerns an increase in borrowing by Cypriots in euro and purchases of Cyprus pounds by foreign tourist agents.



**Table 12**

| <b>Summary of results of fixing sessions</b> |   |                  |                           |  |                  |                           |   |
|--|---|------------------|---------------------------|--|------------------|---------------------------|---|
| <i>January – October 2001</i>                |   |                  |                           |  |                  |                           |   |
| <b>Month</b>                                 | <b>Average fixing exchange rate<br/>Foreign currency per CYP<br/>(last day of period)</b> |                  |                           | <b>Purchases (+) / Sales (-)<br/>of foreign exchange<br/>by the Central Bank<br/>(based on transaction date)</b> |                  |                           |   |
|  | <b>Euro</b>   | <b>US dollar</b> | <b>Pound<br/>sterling</b> | <b>In foreign currency<br/>(million)</b>   |                  |                           | <b>In Cyprus<br/>pounds<br/>(million)</b> |
|  | <b>Euro</b>   | <b>US dollar</b> | <b>Pound<br/>sterling</b> | <b>Euro</b>  | <b>US dollar</b> | <b>Pound<br/>Sterling</b> | <b>(million)</b>                          |
| January                                      | 1,7278  | 1,6060           | 1,0983                    | -169,80  | -9,55            | -7,00                     | -110,17                                   |
| February                                     | 1,7264  | 1,5916           | 1,1016                    | 49,25  | -0,20            | 1,20                      | 29,51                                     |
| March  | 1,7275  | 1,5209           | 1,0670                    | 130,40   | 38,00            | -0,10                     | 99,37                                     |
| April  | 1,7283  | 1,5369           | 1,0713                    | 81,25  | -5,30            | 0,00                      | 43,59                                     |
| May  | 1,7338  | 1,4716           | 1,0382                    | 233,25   | 5,30             | 0,00                      | 138,17                                    |
| June   | 1,7413  | 1,4743           | 1,0490                    | 250,00   | -1,00            | 0,00                      | 143,20                                    |
| July   | 1,7425  | 1,5265           | 1,0712                    | 148,25   | 0,00             | 0,02                      | 85,11                                     |
| August                                       | 1,7455  | 1,5989           | 1,0962                    | 39,45  | 0,00             | 0,00                      | 22,58                                     |
| September                                    | 1,7411  | 1,5968           | 1,0852                    | 0,75   | 9,50             | 5,30                      | 11,28                                     |
| October*                                     | 1,7412  | 1,5514           | 1,0887                    | 17,05  | 13,00            | 2,28                      | 20,13                                     |
| <b>Total</b>                                 |   |                  |                           | <b>779,85</b>  | <b>49,75</b>     | <b>1,70</b>               | <b>482,75</b>                             |

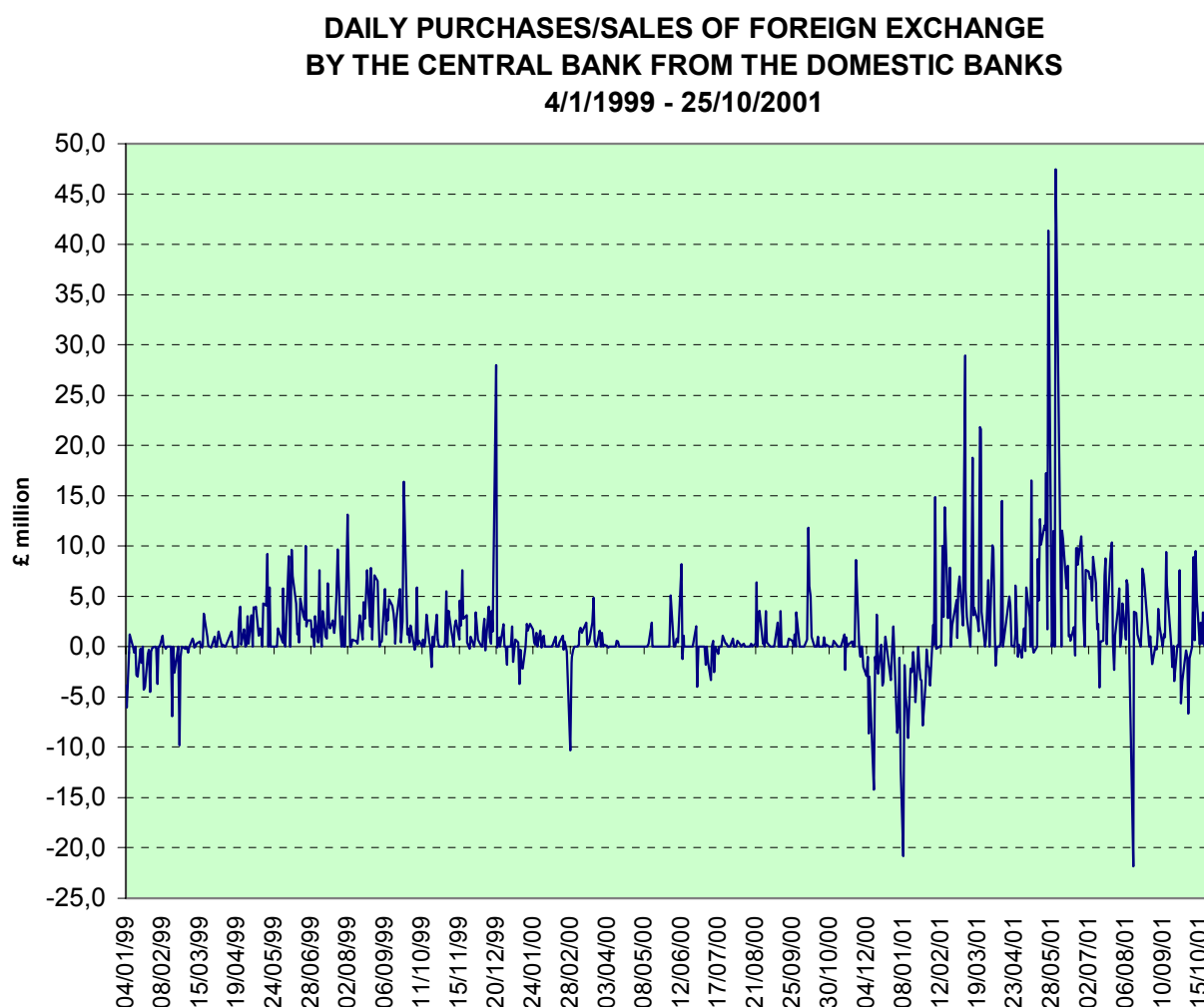
\* Data up to 25/10/2001

Turning to the most recent developments, the Central Bank absorbed from the banking system, through fixing, foreign exchange equivalent to £20,13 million from 1/10/2001 to 25/10/2001. In the same period the Central Bank purchased additional foreign exchange equivalent to £3,94 million through the execution of forward foreign exchange contracts. The decreased inflow of foreign exchange had an impact on the exchange rate of the Cyprus pound vis-à-vis the euro, which during the fixing sessions in October fluctuated slightly reaching EUR1,7412 on 25/10/2001 (average value).

As chart 4 shows, on 13 August 2001, that is the first working day after the decision of the Board of the Central Bank to widen the fluctuation margins

of the Cyprus pound against the euro, a sharp capital outflow of the order of £22 million was registered, while the average fixing rate of the Cyprus pound against the euro fell to 1,7395, compared with 1,7435 on the previous working day. Subsequently though, capital inflows resumed, albeit at subdued rates, while the exchange rate of the pound vis-à-vis the euro levelled off around 1,7410-1,7420 in October. It is pointed out that, besides the policy change, seasonal factors seem to have contributed to the reduced inflows of foreign exchange in recent months.

Chart 4



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

## 2.4 INFLATION

Prices increased by 2,05% in September 2001, compared with 1,81% in August 2001. As table 13 shows, the acceleration of inflation was almost entirely due to the sizeable increase in the prices of agricultural products. On the contrary, fuel and gas prices as well as electricity prices registered a

fall. The average inflation rate in the first nine months of 2001 was 1,84%, continuing to display a slowdown in comparison with the corresponding period of the previous year, when it reached 4,34%.

**Table 13**

|          |                       | <b>Percentage change in the consumer price index<br/>by economic origin</b> |                                |                             |                                |
|----------|-----------------------|---|--------------------------------|-----------------------------|--------------------------------|
|          |                       | <b>2000</b>   | <b>September<br/>2000/1999</b> | <b>August<br/>2001/2000</b> | <b>September<br/>2001/2000</b> |
|          | <b>All items</b>      | <b>4,15</b>   | <b>3,73</b>                    | <b>1,81</b>                 | <b>2,05</b>                    |
| <b>A</b> | <b>Domestic goods</b> | <b>7,15</b>   | <b>5,52</b>                    | <b>1,01</b>                 | <b>1,88</b>                    |
| A.1      | Agricultural          | 8,98  | 0,32                           | 5,96                        | 11,16                          |
| A.2      | Industrial            | 4,48  | 5,04                           | 0,62                        | -0,25                          |
| A.2.1    | Industrial, non-oil   | 2,50  | 1,37                           | 0,76                        | 0,49                           |
| A.2.2    | Fuel and gas          | 14,86   | 24,96                          | 0,01                        | -3,48                          |
| A.3      | Electricity and water | 36,04   | 32,24                          | -9,22                       | -3,28                          |
| <b>B</b> | <b>Imported goods</b> | <b>2,14</b>   | <b>2,89</b>                    | <b>-0,24</b>                | <b>-0,42</b>                   |
| B.1      | Motor vehicles        | 3,79  | 4,72                           | 0,04                        | -1,10                          |
| B.2      | Other imported goods  | 0,94  | 1,55                           | -0,45                       | 0,09                           |
| <b>C</b> | <b>Services</b>       | <b>2,52</b>   | <b>2,55</b>                    | <b>3,60</b>                 | <b>3,49</b>                    |

Concerning the category of domestic goods, the most significant change compared with the previous month is the aforementioned acceleration in agricultural product prices in September, which increased by 11,16%, compared with the 5,96% increase registered in the previous month. Besides the significant increase in agricultural product prices, the continuing fall in the prices of electricity as well as fuels is also worth noting. The fall in fuel prices in Cyprus reflects international developments in oil markets. Specifically, while the prices of oil (Brent) in August-September 2000 averaged USD32 per barrel, in the same period of the current year prices averaged about USD26 per barrel.

Prices of imported goods continued their downward trend in September, registering a 0,42% decrease, compared with a decrease of 0,24% and an increase of 2,89% in August 2001 and September 2000, respectively. Finally, the prices of services rose by 3,49%, compared with 3,60% in August 2001 and 2,55% in September 2000.

As a result of the above developments in September, the inflation rate in the first nine months of the year stood at 1,84%, thus maintaining a significant slowdown compared with the corresponding period of 2000, when it reached 4,34%. A more detailed analysis of developments on the inflation front by economic origin is presented in tables 3 and 4 of the annex<sup>10</sup>. For purposes of comparison, table 14 presents the latest available data on inflation in Cyprus, the euro area and selected countries as well as the corresponding projections for 2001.

<sup>10</sup> Table 3 depicts percentage changes in the consumer price index from 1998 to September 2001, while table 4 depicts the corresponding weighted contributions of the particular categories to the general index for the same period. In addition, tables 5 and 6 in the annex present the corresponding analyses of recent developments on the inflation front by product category.

**Table 14**

| <b>Inflation: Cyprus and other countries</b> |                              |              |  |
|--|------------------------------|--------------|--|
| <b>Country</b>                               | <b>Annual inflation rate</b> | <b>Month</b> | <b>Projection for 2001<sup>1</sup></b> |
| Cyprus                                       | 2,1                          | Sep.         | 1,9 <sup>2</sup>                       |
| Euro area                                    | 2,5                          | Sep.         | 2,6                                    |
| United States                                | 2,7                          | Aug.         | 3,1                                    |
| Great Britain                                | 1,7                          | Sep.         | 2,0                                    |
| Germany                                      | 2,1                          | Sep.         | 2,4                                    |
| Italy  | 2,6                          | Sep.         | 2,7                                    |
| Denmark                                      | 2,3                          | Sep.         | 2,4                                    |
| France                                       | 1,6                          | Sep.         | 1,9                                    |
| Austria                                      | 2,6                          | Sep.         | 2,5                                    |
| Belgium                                      | 2,3                          | Sep.         | 2,6                                    |
| Spain  | 3,4                          | Sep.         | 3,7                                    |
| Sweden                                       | 3,2                          | Sep.         | 2,3                                    |
| Switzerland                                  | 0,7                          | Sep.         | 1,3                                    |
| Japan  | -0,7                         | Aug.         | -0,6                                   |
| Canada                                       | 2,8                          | Aug.         | 2,8                                    |

1. Source: *The Economist*

2. Source: Central Bank of Cyprus

Taking into consideration the developments on the inflation front during the first nine months of 2001, as well as the new conditions emerging globally after the events of 11 September, particularly the expected maintenance of low oil prices, which are estimated to range around USD21 to USD22 per barrel in the following months of the year, the inflation rate is expected to fall below 2,0%<sup>11</sup>.

<sup>11</sup> As regards the administratively set fuel prices, it is noted that the period of application of automatic adjustment of retail sale prices according to the fluctuations in international oil prices expires on 31 October 2001. Thus, despite the recent fall in international oil prices, it is not clear whether and to what extent fuel prices will be reduced on 1 November 2001. In accordance with the previous methodology of automatic adjustment, the recent important fall in oil prices in international markets would entail a reduction

Concerning 2002, the inflation rate is expected to reach around 2,0% to 2,5%, excluding the effects of any increase in the VAT rate or in other indirect taxes during this year. This preliminary projection, which is based on the framework of price analysis by economic origin as presented above<sup>12</sup>, adopts the following assumptions:

- International oil prices will remain at the relatively low level of USD23 per barrel during the year, which is more likely the more severe the recession in the United States turns out to be as well as the slowdown or recession in the European Union.
- No wide fluctuations of the Cyprus pound against the euro, the US dollar, the pound sterling and the yen will occur.
- Agricultural product prices will register the same increase as in 2001, and finally,
- Monetary policy in Cyprus will be accommodative to international developments to the extent not affecting macroeconomic stability.

in retail fuel prices in Cyprus by 2,2 cent per liter (VAT included).

<sup>12</sup> These conclusions are also supported by preliminary econometric analyses using autoregressive models, with quarterly data for the period 1992(1)-2001(2).

It is pointed out that the more pronounced the slowdown in the growth rate of the Cypriot economy in 2002 turns out to be, due to unfavourable international developments, the greater the likelihood of a lower inflation trend, and vice versa.

## **2.5 MONETARY DEVELOPMENTS\***

After the tragic events in the United States and following the international trend, the Central Bank of Cyprus reduced its official interest rates by 50 basis points at an unscheduled meeting held on 18 September. The interest rate reduction was promptly transmitted to short-term interest rates, while at the same time in September and October a slowdown in foreign exchange inflows was observed.

The Central Bank, acting in the context of its anti-inflationary policy, continued to intervene in the money market in September and October absorbing part of the surplus liquidity. Intervention was effected through the usual reverse repo auctions, while in October the Central Bank used deposit collection auctions (depos)<sup>13</sup> for the first time.

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

<sup>13</sup> The difference between reverse repos and depos is that in the latter no collateral is required while their duration may exceed 15 days.

Chart 5

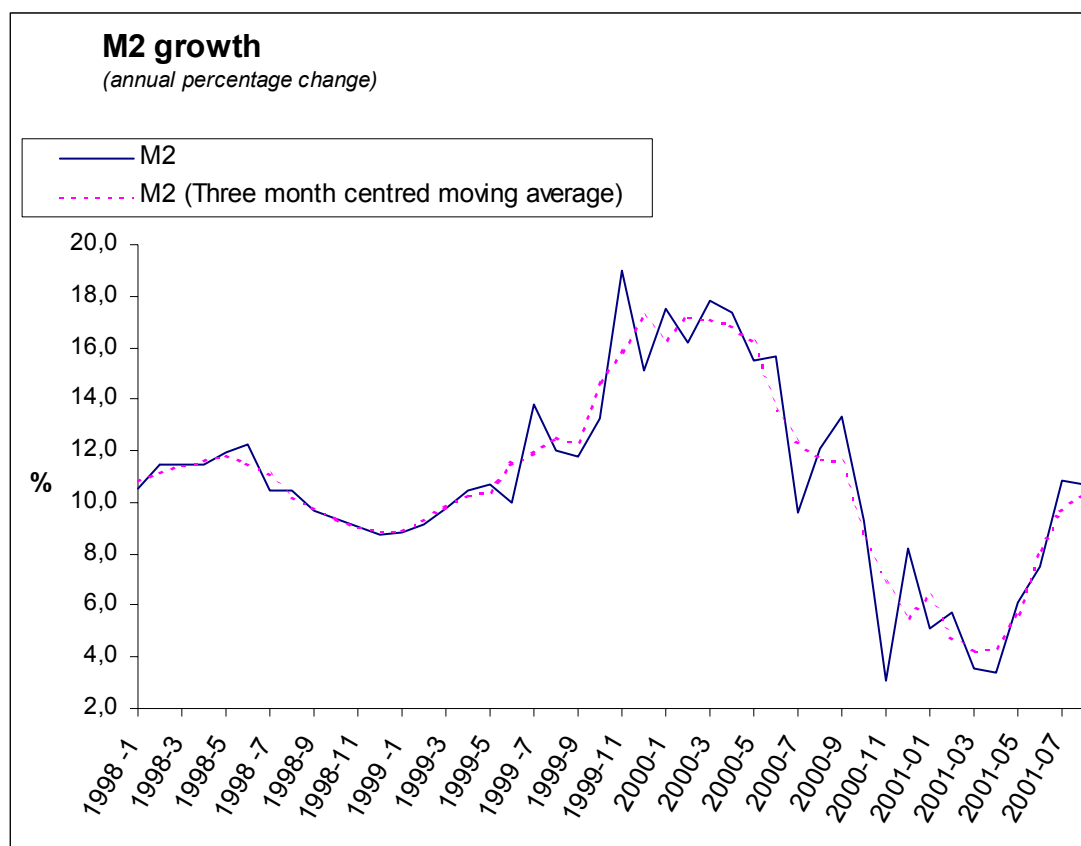


Table 15

| Annual percentage change (%)        | 1997 | 1998 | 1999 | 2000 | 2000 Sep. | 2001 Aug. | 2001 Sep. |
|-------------------------------------|------|------|------|------|-----------|-----------|-----------|
| M1 Primary Liquidity (Money Supply) | 8,2  | 3,6  | 41,9 | 3,8  | 30,0      | 2,3       | -5,3      |
| M2 Total Liquidity                  | 10,7 | 8,8  | 15,1 | 8,2  | 13,4      | 10,7      | 9,5       |
| Claims on private sector            | 12,2 | 14,3 | 13,9 | 14,9 | 18,2      | 14,4      | 14,1      |

Total liquidity registered a small deceleration in September, with the rate of expansion declining to 9,5% compared with 10,7% in the previous month, while in September 2000 an increase of 13,4% was recorded. In contrast, the three-month moving average of annual growth rates which covers the period from July to September registered an increase, reaching 10,4% compared with 9,7% in the quarter June-August.

The slowdown in broad money supply in September in comparison with the previous month (table 16) stemmed mainly from the fall in net foreign assets and to a lesser extent from the fall in claims on the public sector.

Claims on the private sector exerted an expansionary effect on broad money supply.

Specifically, credit to the private sector increased by £99,9<sup>14</sup> million in September, compared with a decrease of £11,9 million in the previous month and an increase of £106,3 in September 2000. During the period January-September, bank financing of the private sector rose to £637,9 million, compared with £599,1 million in the corresponding period of the previous year. In terms of annual growth rates, credit to the private sector showed a small deceleration, with a growth rate of 14,1%, down from 14,4% in August and 18,2% in September of the previous year. According to the three-month moving average (box 1), credit expansion was 14,6% in July-September, compared with 14,9% in June-August. Credit expansion based on the monthly distribution method (box 1) exceeded the reference value by about £311 million in September, compared with a difference of about £269 million in August.

Foreign currency lending declined to £26,4 million in September<sup>15</sup> from £57,9 million in August. Nevertheless, the proportion of credit in foreign currency to total credit rose to 9,7% in September from 9,5% in the previous month. The decline in foreign currency lending appeared to continue in October, according to data available up to 12 October, which show foreign currency lending amounting to £6,9 million.

Data on long-term foreign currency lending for the period January-August indicate that the euro is the dominant choice of borrowers, accounting for 85% of foreign currency loans granted. According to the same data, over 50% of foreign currency loans

were used for re-financing, while 40% of loans was distributed equally to construction in Cyprus and acquisition of fixed assets.<sup>16</sup>

Credit expansion, according to preliminary data, for the period from 1 January to 12 October, increased to £638,3 million, compared with £569,0 million in the corresponding period of the previous year, while the amount of foreign currency loans in this period reached £328,3 million. The annualised rate of growth in loans to the private sector was 12,6%, compared with 12,9% in the previous year<sup>17</sup>. The twelve-month rate of growth in credit for the period up to 12 October was 14,6%, compared with 16,4% in the previous year.

<sup>14</sup> Includes interest amounting to about £42 million.

<sup>15</sup> It is clarified that these figures include only foreign currency loans granted by all domestic banks. Loans granted by foreign banks to Cypriots, according to data reported for long-term borrowing, was at a very low level, below £0,4 million.

<sup>16</sup> Re-financing refers to repayment of existing loans in Cyprus pounds as well as the conversion of existing foreign currency loans to a different currency.

<sup>17</sup> Corresponding growth rates in previous years were 9,7%, 9,6%, and 7,3% for 1999, 1998, and 1997, respectively. These figures are not seasonally adjusted.

**Table 16**

| <b>Factors Affecting Total Liquidity – All Banks</b><br>(£ thousand) |                  |                  |                   |                 |
|--|------------------|------------------|-------------------|-----------------|
|  | <b>Change</b>    |                  |                   |                 |
|  | <b>September</b> | <b>September</b> | January-September |                 |
|  | 2000             | 2001             | 2000              | 2001            |
| Foreign Assets (Net)   | 40.262           | (83.042)         | (14.803)          | 71.444          |
| Claims on Private Sector   | 106.280          | 99.894           | 599.062           | 637.904         |
| Claims on Public Sector  | (13.879)         | (4.699)          | (41.744)          | 114.857         |
| Unclassified Items   | (40.040)         | 19.722           | (184.732)         | (355.275)       |
| <b>Total Liquidity (M2)</b>  | <b>92.623</b>    | <b>31.875</b>    | <b>357.783</b>    | <b>468.930</b>  |
| <b>Primary Liquidity (M1)</b><br><b>(Money Supply)</b>               | <b>46.495</b>    | <b>(33.307)</b>  | <b>24.615</b>     | <b>(70.814)</b> |
| Currency in circulation  | 2.995            | 1.749            | 5.077             | 13.129          |
| Demand Deposits  | 43.500           | (35.056)         | 19.538            | (83.943)        |
| <b>Secondary Liquidity</b><br><b>(Quasi Money)</b>                   | <b>46.128</b>    | <b>65.182</b>    | <b>333.168</b>    | <b>539.744</b>  |

**Table 17****Claims on Private Sector**

| <b>Change - 2001</b>                         | <b>Jan.</b> | <b>Mar.</b> | <b>June</b> | <b>July</b> | <b>Aug.</b> | <b>Sep.</b> |
|--|-------------|-------------|-------------|-------------|-------------|-------------|
| Residents' foreign currency loans (£million) | 9,2         | 55,4        | 42,4        | 21,6        | 57,9        | 26,4        |
| Claims on private sector (£million)          | 59,7        | 135,7       | 204,9       | -6,8        | -11,9       | 99,9        |

|  | <b>1997</b> | <b>1998</b> | <b>1999</b> | <b>2000</b> | <b>2001 (Aug.)</b> | <b>2001 (Sep.)</b> |
|--|-------------|-------------|-------------|-------------|--------------------|--------------------|
| Residents' foreign currency loans (£million) | 158,7       | 246,0       | 355,2       | 373,5       | 667,7              | 694,1              |
| Claims on private sector (£million)          | 4358,4      | 4982,7      | 5673,5      | 6517,1      | 7055,1             | 7155,0             |
| %  | 3,6         | 4,9         | 6,3         | 5,7         | 9,5                | 9,7                |



**Box 1****Monitoring credit expansion**

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

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

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

**(1) Annualised growth rate**

The rate of growth in credit observed at a given point of time is annualised; that is, the annual growth rate is derived assuming credit expansion will continue at the same rate through the year. For example, credit expansion in absolute terms from end-December 2000 to end-September 2001 was £637,9 million. This absolute change converted to an annualised growth rate seasonally adjusted gives:

| <b>Annualised growth rate<br/>(seasonally adjusted **)</b> | <b>Reference value</b> |
|--|------------------------|
| 16,9%  | 11%                    |

**(2) 12-month growth rate**

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

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

|                | <b>12-month</b> | <b>Reference value</b> |
|----------------|-----------------|------------------------|
|                | 14,1%           | 11,0%                  |
| Moving average | 14,6%           |                        |

This method presents the problem of base effects, i.e. data may be misleading if the base month for some reason was unusually high or low, as was September 2000 in this case. To alleviate the problem, the moving average method should also be applied. The three-month moving average presents a more accurate picture of credit expansion for the period July-September, indicating an increase of 14,6% .

### (3) Monthly distribution method

The Central Bank has estimated that credit could expand by up to £717 million and reach £7234 million at the end of 2001. This amount (reference value) may be distributed in the months of 2001 in accordance with the seasonal pattern of previous years. Monitoring may be effected through the following table, where the first row shows the distribution of credit in accordance with the reference value and the second row shows the actual credit to date. As the table shows, credit expansion has exceeded the reference value.

| <b>Table of bank financing (£million)</b> |             |             |             |             |            |             |             |             |             |             |             |             |
|---|-------------|-------------|-------------|-------------|------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
|   | <b>Jan.</b> | <b>Feb.</b> | <b>Mar.</b> | <b>Apr.</b> | <b>May</b> | <b>June</b> | <b>July</b> | <b>Aug.</b> | <b>Sep.</b> | <b>Oct.</b> | <b>Nov.</b> | <b>Dec.</b> |
| Reference value                           | 6531        | 6595        | 6682        | 6701        | 6725       | 6796        | 6812        | 6786        | 6844        | 6881        | 6918        | 7234        |
| Actual                                    | 6576,8      | 6636,1      | 6771,8      | 6808,7      | 6868,9     | 7073,8      | 7067,0      | 7055,1      |             |             |             |             |

\* Credit expansion includes all banks

\*\* The data were seasonally adjusted by the X11 method including a 15-year period. Because the seasonal pattern of banks may have changed during the years, the proportion of credit granted each month in the last 6 years was also taken into account.

## **Money Market**

The second consecutive interest rate reduction by 50 basis points was promptly transmitted to money market interest rates, with the average interbank rate falling to 3,97% in September, compared with 4,62% the day before the reduction and 4,33% in August. There was also a prompt effect on the average interest rate on reverse repos, which decreased to 3,90% in the auction of 25 September from 4,62% in the auction of 11 September. There was also a dampening influence on foreign exchange flows, as inflows of £19,6 million were registered in September, compared with inflows of £28,2 million in August. In October, although initially small outflows of foreign exchange were observed, subsequently two individual operations of euro conversion to pounds led the first 25 days of October to inflows amounting to £24,1 million.

The Central Bank, aiming to keep interest rates consistent with its anti-inflationary policy, intervened in the money market through auctions and absorbed liquidity amounting to £175,0 million in September and £169,0 million in August. In October the Central Bank carried out two deposit collection auctions, where liquidity amounting to £233,0 million was absorbed at an average interest rate around 4,13%. Net sales of government securities contributed to excess bank liquidity in September, with repayments of £7,4 million. By contrast, in the period 1–15 October net sales of government securities absorbed liquidity amounting to £1,7 million.

The interest rate reduction had a downward influence on government security yields, according to the bids submitted in auctions. However, the fact that bids were not accepted by the government did not allow the formulation of

specific yields. In the auction of one-year treasury bills on 12 September, in which bids were accepted, the average interest rate decreased to 5,50% from 6,10% in the auction of 8 August. With regard to three-month treasury bills, for eight consecutive auctions since 20 June the government did not accept any bids, considering the bid interest rate as high. Similarly, in the two auctions of long-term securities of five-year and ten-year maturity the submitted bids were not accepted.

Long-term interest rates in July bring Cyprus even closer to the relevant Maastricht criterion. In contrast, the divergence has become even greater in real interest rates, where the gap between real European interest rates and corresponding domestic rates widened further due to the de-escalation of domestic inflation and reached 252 basis points in July, compared with a differential of 228 basis points in June (table 19).

## **International and Domestic Interest Rates**

With regard to international interest rates, as mentioned above, immediately after the terrorist attacks on the United States, several central banks reduced key interest rates. During October, the Federal Reserve and the Bank of England further reduced their official interest rates by 0,5 and 0,25 percentage point, respectively (table 20). In contrast, the European Central Bank at the meetings of 11 and 25 October chose to maintain its official interest rates unchanged. As a result of the reduction of official interest rates in Cyprus by 0,5 percentage point in September together with the equivalent reduction of official interest rates by the European Central Bank, the width of the gap

between official interest rates remained at 125 25 basis points for the overnight deposit facility.  
basis points for the marginal lending facility and

**Table 18**

| <b>Interest Rates (% per annum)</b> | <b>1997</b> | <b>1998</b> | <b>1999</b> | <b>2000</b> | <b>2000<br/>Sep.</b> | <b>2001<br/>Aug.</b> | <b>2001<br/>Sep.</b> |
|-------------------------------------|-------------|-------------|-------------|-------------|----------------------|----------------------|----------------------|
| Interbank (1day)                    | 4,82        | 4,83        | 5,15        | 5,96        | 5,80                 | 4,33                 | 3,97                 |
| Repos                               | 4,70        | 4,68        | 5,46        | 5,97        |                      |                      |                      |
| Reverse Repos                       | 4,43        |             |             | 4,44        |                      | 5,06                 | 4,60                 |
| Treasury bills (13 weeks)           | 5,39        | 5,50        | 5,54        | 5,75        | 5,93                 |                      |                      |
| Treasury bills (52weeks)            |             | 6,00        | 6,01        | 6,17        |                      | 6,10                 | 5,50                 |
| Development stocks (2 years)        |             |             |             | 6,55        |                      |                      |                      |
| Development stocks (5 years)        | 6,80        | 6,96        | 7,27        | 7,45        | 7,46                 |                      |                      |
| Development stocks (10 years)       | 6,93        | 7,22        | 7,36        | 7,55        | 7,60                 |                      |                      |

*Note:* Simple average of the weighted averages for the period

**Table 19**

| <b>Inflation and Interest Rates in Europe and Cyprus</b> |  |   |  |
|--|--|---|--|
|  | <b>Harmonised Indices of<br/>Consumer Prices</b> | <b>Long-term Interest<br/>Rates</b>       | <b>Long-term<br/>Real Interest Rates</b> |
|  | July - Latest month (12<br>month average)        | July - Latest month (12<br>month average) |  |
| Belgium  | 3,10   | 5,40                                      | 2,30                                     |
| Denmark  | 2,50   | 5,30                                      | 2,80                                     |
| Germany  | 2,60   | 5,00                                      | 2,40                                     |
| Greece   | 3,60   | 5,70                                      | 2,10                                     |
| Spain  | 4,00   | 5,30                                      | 1,30                                     |
| France   | 2,00   | 5,10                                      | 3,10                                     |
| Ireland  | 4,70   | 5,20                                      | 0,50                                     |
| Italy  | 2,80   | 5,40                                      | 2,60                                     |
| Luxembourg   | 3,50   | 5,30                                      | 1,80                                     |
| Netherlands  | 4,10   | 5,10                                      | 1,00                                     |
| Austria  | 2,30   | 5,30                                      | 3,00                                     |
| Portugal   | 4,20   | 5,40                                      | 1,20                                     |
| Finland  | 3,00   | 5,20                                      | 2,20                                     |
| Sweden   | 2,00   | 5,10                                      | 3,10                                     |
| United Kingdom   | 1,10   | 5,10                                      | 4,00                                     |
| Euro zone  | 2,70   | 5,20                                      | 2,50                                     |
| EU -15   | 2,50   | 5,20                                      | 2,70                                     |
| Cyprus   | 2,64   | 7,66                                      | 5,02                                     |

The decrease in the gap which emanated from the greater reduction in domestic interest rates in August compared with the interest rates in the euro area is expected to extend to lending and deposit interest rates between Cyprus and the euro area. According to data for July the interest rate on deposits over 12 months was 6,50% in Cyprus and 4,3% in the euro area, indicating a differential of about 2 percentage points, which *ceteris paribus* is anticipated to decrease to 1,75 percentage points in October.<sup>18</sup>

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<sup>18</sup> Additional information on lending/deposit interest rates in the euro area is presented in table 1 of the annex.

Table 20

## OFFICIAL INTEREST RATES

### European Central Bank

| <i>(October 11, 2001)</i>                           | %    | Δ* |
|---|------|----|
| Minimum bid rate on the main refinancing operations | 3,75 | -  |
| Interest rate on the marginal lending facility      | 4,75 | -  |
| Interest rate on the deposit facility               | 2,75 | -  |

### Bank of England

| <i>(October 4, 2001)</i> | %    | % Δ*  |
|--------------------------|------|-------|
| Repo Rate                | 4,50 | -0,25 |

### Federal Reserve System

| <i>(October 2, 2001)</i> | %    | % Δ*  |
|--------------------------|------|-------|
| Federal Funds Rate       | 2,50 | -0,50 |
| Discount Rate            | 2,00 | -0,50 |

### Central Bank of Cyprus

| <i>(September 18, 2001)</i>                         | %    | % Δ*  |
|---|------|-------|
| Minimum bid rate on the main refinancing operations | 4,00 | -0,50 |
| Interest rate on the marginal lending facility      | 6,00 | -0,50 |
| Interest rate on the deposit facility               | 3,00 | -0,50 |

\* Change from the previous decision.

Table 21

**FACTORS AFFECTING LIQUIDITY***(£ million, period averages of daily positions)*

| PERIOD<br>MONTHLY | LIQUIDITY - PROVIDING FACTORS                    |                                   |  |                                 |   | LIQUIDITY - ABSORBING FACTORS |   |               |                                 |   |                           | CREDIT<br>INSTITU-<br>TIONS<br>CURRENT<br>ACCOUNTS | BASE<br>MONEY |
|-------------------|--|-----------------------------------|--|---------------------------------|---|-------------------------------|---|---------------|---------------------------------|---|---------------------------|--|---------------|
|                   | NET ASSETS<br>IN GOLD AND<br>FOREIGN<br>CURRENCY | MONETARY POLICY OPERATIONS        |  |                                 |   | DEPOSIT<br>FACILITY           | OTHER<br>LIQUIDITY -<br>ABSORBING<br>OPERATIONS | REV-<br>REPOS | CURRENCY<br>IN CIRCU-<br>LATION | CENTRAL<br>GOVERN.<br>DEPOSITS<br>(NET) | OTHER<br>FACTORS<br>(NET) |  |               |
|                   |  | MAIN<br>REFINANCING<br>OPERATIONS | LONG TERM<br>REFINANCING<br>OPERATIONS | MARGINAL<br>LENDING<br>FACILITY | OTHER<br>LIQUIDITY -<br>PROVIDING<br>OPERATIONS |                               |   |               |                                 |   |                           |  |               |
|                   |  | NFA                               | REPOS                                  | LOMBARD                         | SWAP  |                               |   |               |                                 |   |                           |  |               |
| 1                 | 2  | 3                                 | 4                                      | 5                               | 6   | 7                             | 8   | 9             | 10                              | 11                                      | 12                        | 13   |               |
| Jan-00            | 1.090,9  | 0,0                               | 0,0                                    | 0,0                             | 0,0   | 88,8                          | 0,0   | 0,0           | 333,3                           | -41,9                                   | 269,3                     | 441,4  | 774,7         |
| Feb-00            | 1.119,4  | 0,0                               | 0,0                                    | 1,6                             | 0,1   | 40,6                          | 2,3   | 14,5          | 313,6                           | -27,3                                   | 347,0                     | 430,4  | 746,3         |
| Mar-00            | 1.122,7  | 57,5                              | 0,0                                    | 7,6                             | 4,3   | 3,2                           | 5,3   | 0,0           | 315,0                           | 68,8                                    | 362,9                     | 436,8  | 757,2         |
| Apr-00            | 1.146,1  | 60,9                              | 0,0                                    | 0,8                             | 4,5   | 8,6                           | 2,4   | 0,0           | 331,1                           | -6,1                                    | 433,5                     | 442,9  | 776,4         |
| May-00            | 1.151,5  | 21,8                              | 0,0                                    | 9,6                             | 8,7   | 0,2                           | 0,2   | 0,0           | 349,0                           | -53,2                                   | 452,5                     | 442,8  | 792,0         |
| Jun-00            | 1.231,4  | 0,0                               | 0,0                                    | 17,3                            | 4,0   | 1,1                           | 0,6   | 0,0           | 354,2                           | -44,6                                   | 492,7                     | 448,8  | 803,5         |
| Jul-00            | 1.247,4  | 0,0                               | 0,0                                    | 20,3                            | 2,0   | 0,1                           | 0,0   | 0,0           | 363,3                           | 14,7                                    | 372,3                     | 519,3  | 882,6         |
| Aug-00            | 1.233,8  | 0,0                               | 0,0                                    | 11,5                            | 1,8   | 0,5                           | 1,7   | 0,0           | 365,1                           | 50,6                                    | 320,8                     | 508,5  | 875,3         |
| Sep-00            | 1.291,4  | 0,0                               | 0,0                                    | 4,0                             | 0,4   | 3,7                           | 0,5   | 0,0           | 358,6                           | 48,2                                    | 375,4                     | 509,3  | 868,4         |
| Oct-00            | 1.208,7  | 0,0                               | 0,0                                    | 18,6                            | 4,3   | 0,3                           | 0,0   | 0,0           | 354,7                           | -26,8                                   | 385,6                     | 517,8  | 872,5         |
| Nov-00            | 1.267,1  | 0,0                               | 0,0                                    | 6,3                             | 1,8   | 3,7                           | 0,0   | 0,0           | 341,5                           | 9,8                                     | 410,4                     | 509,8  | 851,2         |
| Dec-00            | 1.194,5  | 0,0                               | 0,0                                    | 18,9                            | 1,1   | 4,1                           | 0,5   | 0,0           | 353,8                           | -22,4                                   | 371,5                     | 507,0  | 861,2         |
| Jan-01            | 1.119,8  | 10,2                              | 0,0                                    | 8,6                             | 1,1   | 3,9                           | 94,5  | 0,0           | 337,3                           | 51,8                                    | 238,6                     | 413,6  | 845,4         |
| Feb-01            | 1.133,9  | 49,5                              | 0,0                                    | 0,5                             | 1,2   | 12,5                          | 93,9  | 0,0           | 326,6                           | -6,4                                    | 332,9                     | 425,7  | 846,1         |
| Mar-01            | 1.226,5  | 16,3                              | 0,0                                    | 5,0                             | 1,0   | 2,9                           | 93,0  | 0,0           | 328,7                           | 40,0                                    | 358,0                     | 426,9  | 848,6         |
| Apr-01            | 1.256,1  | 0,0                               | 0,0                                    | 18,2                            | 0,7   | 0,3                           | 90,7  | 0,0           | 358,7                           | -14,1                                   | 389,7                     | 449,6  | 899,4         |
| May-01            | 1.283,1  | 0,0                               | 0,0                                    | 28,2                            | 1,2   | 1,0                           | 84,2  | 0,0           | 369,4                           | 48,0                                    | 359,8                     | 450,2  | 904,8         |
| Jun-01            | 1.512,9  | 0,0                               | 0,0                                    | 0,0                             | 0,0   | 57,9                          | 79,7  | 26,4          | 382,7                           | 117,9                                   | 409,3                     | 439,1  | 959,3         |
| Jul-01            | 1.581,6  | 0,0                               | 0,0                                    | 1,2                             | 0,0   | 9,2                           | 79,6  | 92,0          | 393,8                           | 148,5                                   | 408,4                     | 451,1  | 933,8         |
| Aug-01            | 1.526,2  | 0,0                               | 0,0                                    | 0,5                             | 0,0   | 39,3                          | 79,6  | 58,6          | 393,9                           | 114,1                                   | 383,7                     | 457,2  | 970,2         |
| Sep-01            | 1.563,8  | 0,0                               | 0,0                                    | 0,0                             | 0,0   | 58,7                          | 79,6  | 94,8          | 386,0                           | 72,4                                    | 410,4                     | 461,8  | 986,1         |

### 3. ANNEX



**Table 1****European Retail Bank Interest Rates***(percentages per annum, period averages)*

|          | Deposit Interest Rates |                      |               |              |                      |               | Lending Interest Rates |             |                  |                    |
|----------|------------------------|----------------------|---------------|--------------|----------------------|---------------|------------------------|-------------|------------------|--------------------|
|          | Overnight              | With agreed maturity |               |              | Redeemable at notice |               | To enterprises         |             | To households    |                    |
|          |                        | Up to 1 year         | Up to 2 Years | Over 2 years | Up to 3 months       | Over 3 months | Up to 1 year           | Over 1 year | Consumer lending | For house purchase |
| Jan-00   | 0,69                   | 2,74                 | 2,74          | 4,19         | 2,05                 | 3,18          | 5,91                   | 5,74        | 9,51             | 6,03               |
| Feb-00   | 0,69                   | 2,80                 | 2,81          | 4,25         | 2,06                 | 3,18          | 6,01                   | 5,85        | 9,52             | 6,13               |
| Mar-00   | 0,73                   | 2,96                 | 2,96          | 4,28         | 2,07                 | 3,33          | 6,07                   | 5,85        | 9,56             | 6,10               |
| Apr-00   | 0,76                   | 3,04                 | 3,05          | 4,28         | 2,09                 | 3,44          | 6,24                   | 6,00        | 9,64             | 6,12               |
| May-00   | 0,78                   | 3,26                 | 3,26          | 4,45         | 2,13                 | 3,65          | 6,41                   | 6,16        | 9,72             | 6,30               |
| Jun-00   | 0,83                   | 3,49                 | 3,49          | 4,48         | 2,16                 | 3,87          | 6,56                   | 6,23        | 9,84             | 6,34               |
| Jul-00   | 0,87                   | 3,58                 | 3,58          | 4,71         | 2,33                 | 3,94          | 6,77                   | 6,37        | 9,95             | 6,46               |
| Aug-00   | 0,89                   | 3,67                 | 3,67          | 4,75         | 2,36                 | 4,06          | 6,81                   | 6,44        | 10,00            | 6,51               |
| Sep-00   | 0,94                   | 3,85                 | 3,83          | 4,77         | 2,38                 | 4,20          | 6,92                   | 6,44        | 10,03            | 6,56               |
| Oct-00   | 0,97                   | 3,96                 | 3,96          | 4,76         | 2,40                 | 4,14          | 7,13                   | 6,60        | 10,15            | 6,57               |
| Nov-00   | 0,99                   | 4,04                 | 4,03          | 4,77         | 2,47                 | 4,25          | 7,16                   | 6,63        | 10,20            | 6,56               |
| Dec-00   | 1,01                   | 3,96                 | 3,95          | 4,58         | 2,49                 | 4,21          | 7,18                   | 6,45        | 10,19            | 6,43               |
| Jan-01 * | 1,01                   | 3,88                 | 3,87          | 4,39         | 2,52                 | 4,01          | 7,19                   | 6,40        | 10,32            | 6,29               |
| Feb-01   | 1,01                   | 3,84                 | 3,83          | 4,35         | 2,50                 | 3,99          | 7,11                   | 6,44        | 10,26            | 6,24               |
| Mar-01   | 1,02                   | 3,81                 | 3,81          | 4,32         | 2,50                 | 3,99          | 7,04                   | 6,32        | 10,22            | 6,18               |
| Apr-01   | 1,03                   | 3,76                 | 3,76          | 4,26         | 2,50                 | 3,91          | 7,07                   | 6,34        | 10,24            | 6,14               |
| May-01   | 1,01                   | 3,74                 | 3,74          | 4,27         | 2,48                 | 3,91          | 7,03                   | 6,34        | 10,22            | 6,17               |
| Jun-01   | 0,98                   | 3,65                 | 3,65          | 4,25         | 2,45                 | 3,85          | 6,96                   | 6,25        | 10,17            | 6,13               |
| Jul-01   | 0,98                   | 3,66                 | 3,65          | 4,22         | 2,44                 | 3,80          | 6,94                   | 6,27        | 10,18            | 6,12               |

\* From January 2001 data refer to Euro area enlargement

Table 2

## MONEY MARKET INTEREST RATES

### Cyprus

|             | Overnight deposits | 2-7 days deposits | 1-month deposits | Over 1-month deposits | 12-month deposits |
|-------------|--------------------|-------------------|------------------|-----------------------|-------------------|
| <b>2000</b> |                    |                   |                  |                       |                   |
| July        | 6,66               | 6,68              | 6,81             | -                     | 6,50              |
| August      | 6,57               | 6,58              | 6,50             | -                     | 6,50              |
| September   | 5,76               | 5,90              | -                | 6,50                  | 6,50              |
| October     | 6,40               | 6,34              | 6,25             | -                     | 6,50              |
| November    | 5,99               | 6,11              | 6,35             | 6,35                  | 6,50              |
| December    | 6,06               | 6,27              | 6,24             | 7,00                  | 6,50              |
| <b>2001</b> |                    |                   |                  |                       |                   |
| January     | 5,77               | 5,88              | 6,31             | -                     | 6,50              |
| February    | 5,51               | 5,80              | 6,28             | 6,59                  | 6,50              |
| March       | 5,82               | 5,85              | 6,05             | 6,83                  | 6,50              |
| April       | 6,37               | 6,42              | 6,39             | -                     | 6,50              |
| May         | 6,66               | 6,57              | 6,60             | 6,72                  | 6,50              |
| June        | 4,72               | 4,73              | 5,00             | 6,55                  | 6,50              |
| July        | 4,94               | 4,95              | 5,95             | 6,50                  | 6,50              |
| August      | 4,34               | 4,30              | 4,85             | 5,84                  | 6,50              |
| September   | 4,03               | 4,07              | 5,21             | 6,10                  | 6,50              |

Source: Central Bank of Cyprus

### Euro area

|  | Overnight deposits | 1-month deposits | 3-month deposits | 6-month deposits | 12-month deposits |
|--|--------------------|------------------|------------------|------------------|-------------------|
|  | 4,31               | 4,41             | 4,58             | 4,84             | 5,11              |
|  | 4,42               | 4,57             | 4,78             | 5,01             | 5,25              |
|  | 4,59               | 4,70             | 4,85             | 5,04             | 5,22              |
|  | 4,76               | 4,85             | 5,04             | 5,10             | 5,22              |
|  | 4,83               | 4,92             | 5,09             | 5,13             | 5,19              |
|  | 4,83               | 4,94             | 4,93             | 4,91             | 4,87              |
|  | 4,75               | 4,81             | 4,77             | 4,68             | 4,58              |
|  | 4,99               | 4,80             | 4,76             | 4,67             | 4,59              |
|  | 4,78               | 4,78             | 4,71             | 4,58             | 4,47              |
|  | 5,06               | 4,79             | 4,69             | 4,57             | 4,49              |
|  | 4,65               | 4,67             | 4,64             | 4,57             | 4,53              |
|  | 4,54               | 4,53             | 4,45             | 4,35             | 4,31              |
|  | 4,51               | 4,52             | 4,47             | 4,39             | 4,31              |
|  | 4,49               | 4,46             | 4,35             | 4,22             | 4,11              |

Source: ECB Monthly Bulletin - September 2001 -

European Central Bank

Table 3

**Percentage change in the Consumer Price Index by economic origin (%)  
1998-2001**

|  | Yearly      |              |             | Quarterly   |             |              | Sep.          | Aug.          | Sep.          | Jan.-Sep.     | Jan.-Aug.     | Jan.-Sep.     | Weights               |                       |
|--|-------------|--------------|-------------|-------------|-------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|-----------------------|-----------------------|
|  | 1998        | 1999         | 2000        | 2001 I      | 2001 II     | 2001 III     | 2000/<br>1999 | 2001/<br>2000 | 2001/<br>2000 | 2000/<br>1999 | 2001/<br>2000 | 2001/<br>2000 | 1992=100 <sup>2</sup> | 1998=100 <sup>1</sup> |
| <b>GENERAL INDEX</b>                               | <b>2,23</b> | <b>1,74</b>  | <b>4,15</b> | <b>1,75</b> | <b>2,15</b> | <b>1,62</b>  | <b>3,73</b>   | <b>1,81</b>   | <b>2,05</b>   | <b>4,34</b>   | <b>1,82</b>   | <b>1,84</b>   | <b>100,00</b>         | <b>100,00</b>         |
| <b>A LOCAL GOODS</b>                               | <b>2,08</b> | <b>1,73</b>  | <b>7,15</b> | <b>0,43</b> | <b>1,61</b> | <b>0,81</b>  | <b>5,52</b>   | <b>1,01</b>   | <b>1,88</b>   | <b>8,00</b>   | <b>0,84</b>   | <b>0,95</b>   | <b>42,99</b>          | <b>36,69</b>          |
| A.1 Agricultural                                   | 1,65        | -1,87        | 8,98        | -3,99       | 1,55        | 4,55         | 0,32          | 5,96          | 11,16         | 12,24         | -0,60         | 0,66          | 11,31                 | 7,93                  |
| A.2 Industrial                                     | 3,10        | 2,96         | 4,48        | 0,83        | 2,34        | 0,51         | 5,04          | 0,62          | -0,25         | 4,33          | 1,42          | 1,23          | 29,70                 | 26,75                 |
| A.2.1 industrial non-petroleum                     | 3,66        | 3,20         | 2,50        | -1,32       | 0,28        | 0,47         | 1,37          | 0,76          | 0,49          | 2,80          | -0,27         | -0,19         | 24,97                 | 22,42                 |
| A.2.2 fuel and gas                                 | 0,00        | 1,52         | 14,86       | 11,59       | 12,93       | 0,66         | 24,96         | 0,01          | -3,48         | 12,48         | 9,72          | 8,09          | 4,73                  | 4,33                  |
| A.3 Electricity and Water                          | -11,07      | 0,93         | 36,04       | 10,72       | -5,70       | -7,04        | 32,24         | -9,22         | -3,28         | 43,09         | -0,74         | -1,02         | 1,98                  | 2,01                  |
| <b>B IMPORTED GOODS</b>                            | <b>0,28</b> | <b>-0,83</b> | <b>2,14</b> | <b>1,02</b> | <b>1,16</b> | <b>-0,29</b> | <b>2,89</b>   | <b>-0,24</b>  | <b>-0,42</b>  | <b>1,95</b>   | <b>0,76</b>   | <b>0,63</b>   | <b>23,17</b>          | <b>22,20</b>          |
| B.1 Motor Vehicles                                 | -0,54       | -1,52        | 3,79        | 2,05        | 1,32        | -0,37        | 4,72          | 0,04          | -1,10         | 3,74          | 1,26          | 0,99          | 11,88                 | 9,43                  |
| B.2 Other Imported                                 | 1,06        | -0,19        | 0,94        | 0,25        | 1,04        | -0,24        | 1,55          | -0,45         | 0,09          | 0,65          | 0,39          | 0,35          | 11,29                 | 12,77                 |
| <b>C SERVICES</b>                                  | <b>3,54</b> | <b>3,23</b>  | <b>2,52</b> | <b>3,36</b> | <b>3,17</b> | <b>3,37</b>  | <b>2,55</b>   | <b>3,60</b>   | <b>3,49</b>   | <b>2,38</b>   | <b>3,28</b>   | <b>3,30</b>   | <b>33,84</b>          | <b>41,11</b>          |
| <b>Underlying inflation for Cyprus<sup>3</sup></b> | <b>2,8</b>  | <b>2,3</b>   | <b>2,4</b>  | <b>1,5</b>  | <b>1,9</b>  | <b>1,7</b>   | <b>2,3</b>    | <b>1,9</b>    | <b>1,7</b>    | <b>2,4</b>    | <b>1,7</b>    | <b>1,7</b>    |                       |                       |
| <b>Euro area inflation</b>                         | <b>1,2</b>  | <b>1,1</b>   | <b>2,4</b>  | <b>2,6</b>  | <b>3,2</b>  |              |               |               |               |               |               |               |                       |                       |

<sup>1</sup> For the years 2000 and 2001

<sup>2</sup> For the years 1998 and 1999

<sup>3</sup> Excluding changes in the prices of the following categories: A.1, A.2.2 and A.3

Table 4

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

|          |                                 | Yearly      |              |             | Quarterly    |             |              | Sep.          | Aug.          | Sep.          | Jan.-Sep.     | Jan.-Aug.     | Jan.-Sep.     |
|----------|---------------------------------|-------------|--------------|-------------|--------------|-------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|
|          |                                 | 1998        | 1999         | 2000        | 2001 I       | 2001 II     | 2001 III     | 2000/<br>1999 | 2001/<br>2000 | 2001/<br>2000 | 2000/<br>1999 | 2001/<br>2000 | 2001/<br>2000 |
|          | <b>GENERAL INDEX</b>            | <b>2,23</b> | <b>1,74</b>  | <b>4,15</b> | <b>1,75</b>  | <b>2,15</b> | <b>1,62</b>  | <b>3,73</b>   | <b>1,81</b>   | <b>2,05</b>   | <b>4,34</b>   | <b>1,82</b>   | <b>1,84</b>   |
| <b>A</b> | <b>LOCAL GOODS</b>              | <b>0,89</b> | <b>0,75</b>  | <b>2,63</b> | <b>0,16</b>  | <b>0,61</b> | <b>0,31</b>  | <b>2,05</b>   | <b>0,38</b>   | <b>0,71</b>   | <b>2,92</b>   | <b>0,32</b>   | <b>0,36</b>   |
| A.1      | Agricultural                    | 0,17        | -0,19        | 0,69        | -0,33        | 0,12        | 0,36         | 0,03          | 0,48          | 0,86          | 0,92          | -0,05         | 0,05          |
| A.2      | Industrial                      | 0,95        | 0,92         | 1,21        | 0,22         | 0,64        | 0,14         | 1,36          | 0,17          | -0,07         | 1,17          | 0,38          | 0,33          |
| A.2.1    | <i>industrial non-petroleum</i> | <i>0,96</i> | <i>0,85</i>  | <i>0,57</i> | <i>-0,30</i> | <i>0,06</i> | <i>0,10</i>  | <i>0,31</i>   | <i>0,16</i>   | <i>0,11</i>   | <i>0,64</i>   | <i>-0,06</i>  | <i>-0,04</i>  |
| A.2.2    | <i>fuel and gas</i>             | <i>0,00</i> | <i>0,07</i>  | <i>0,64</i> | <i>0,52</i>  | <i>0,57</i> | <i>0,03</i>  | <i>1,05</i>   | <i>0,00</i>   | <i>-0,18</i>  | <i>0,54</i>   | <i>0,44</i>   | <i>0,37</i>   |
| A.3      | Electricity and Water           | -0,23       | 0,02         | 0,73        | 0,27         | -0,15       | -0,19        | 0,66          | -0,26         | -0,09         | 0,83          | -0,02         | -0,03         |
| <b>B</b> | <b>IMPORTED GOODS</b>           | <b>0,06</b> | <b>-0,17</b> | <b>0,46</b> | <b>0,22</b>  | <b>0,25</b> | <b>-0,06</b> | <b>0,62</b>   | <b>-0,05</b>  | <b>-0,09</b>  | <b>0,42</b>   | <b>0,16</b>   | <b>0,13</b>   |
| B.1      | Motor Vehicles                  | -0,06       | -0,18        | 0,35        | 0,19         | 0,12        | -0,03        | 0,43          | 0,00          | -0,10         | 0,34          | 0,11          | 0,09          |
| B.2      | Other Imported                  | 0,12        | -0,02        | 0,12        | 0,03         | 0,13        | -0,03        | 0,19          | -0,05         | 0,01          | 0,08          | 0,05          | 0,04          |
| <b>C</b> | <b>SERVICES</b>                 | <b>1,27</b> | <b>1,17</b>  | <b>1,05</b> | <b>1,38</b>  | <b>1,29</b> | <b>1,38</b>  | <b>1,05</b>   | <b>1,48</b>   | <b>1,43</b>   | <b>1,00</b>   | <b>1,34</b>   | <b>1,35</b>   |

Table 5

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

|   | 2000        | Quarterly   |             |             | Sep.<br>2000/<br>1999 | Aug.<br>2001/<br>2000 | Sep.<br>2001/<br>2000 | Jan.-Sep.<br>2000/<br>1999 | Jan.-Aug.<br>2001/<br>2000 | Jan.-Sep.<br>2001/<br>2000 | Weights       |
|---|-------------|-------------|-------------|-------------|-----------------------|-----------------------|-----------------------|----------------------------|----------------------------|----------------------------|---------------|
|   |             | 2001 I      | 2001 II     | 2001 III    |                       |                       |                       |                            |                            |                            | 1998=100      |
| <b>GENERAL INDEX</b>                          | <b>4,15</b> | <b>1,75</b> | <b>2,15</b> | <b>1,62</b> | <b>3,73</b>           | <b>1,81</b>           | <b>2,05</b>           | <b>4,34</b>                | <b>1,82</b>                | <b>1,84</b>                | <b>100,00</b> |
| Food & non-alcoholic beverages                | 5,49        | 0,63        | 3,06        | 3,97        | 2,03                  | 4,62                  | 6,75                  | 6,59                       | 2,03                       | 2,55                       | 18,20         |
| Alcoholic beverages & tobacco                 | 8,16        | 3,94        | 4,38        | 1,61        | 4,00                  | 1,63                  | 1,63                  | 9,83                       | 3,51                       | 3,30                       | 1,78          |
| Clothing and footwear                         | -0,46       | -12,87      | -6,75       | -5,24       | -3,89                 | -4,97                 | -4,55                 | 0,64                       | -8,79                      | -8,32                      | 8,22          |
| Housing, water, electricity and gas           | 5,46        | 3,25        | 1,56        | 0,81        | 5,47                  | 0,53                  | 0,94                  | 5,85                       | 1,98                       | 1,86                       | 21,27         |
| Furnishings, household equipment and supplies | 1,47        | 0,29        | 0,80        | -0,84       | 2,27                  | -0,86                 | -0,77                 | 1,24                       | 0,19                       | 0,08                       | 7,08          |
| Health  | 6,18        | 6,01        | 5,79        | 4,81        | 7,15                  | 4,75                  | 4,50                  | 5,72                       | 5,66                       | 5,53                       | 4,92          |
| Transport                                     | 5,70        | 5,07        | 4,77        | 0,83        | 8,35                  | 0,89                  | -0,35                 | 4,88                       | 4,03                       | 3,52                       | 17,42         |
| Communication                                 | -10,36      | -1,56       | -1,79       | 6,04        | -11,19                | 11,11                 | 11,11                 | -9,97                      | -0,39                      | 0,78                       | 1,79          |
| Recreation & culture                          | -0,20       | -2,06       | -2,23       | 0,96        | -1,14                 | 1,02                  | 1,41                  | 0,26                       | -1,44                      | -1,13                      | 5,88          |
| Education                                     | 3,87        | 3,50        | 4,05        | 4,15        | 3,77                  | 4,05                  | 4,35                  | 4,09                       | 3,84                       | 3,90                       | 2,33          |
| Restaurants & hotels                          | 5,80        | 8,19        | 6,58        | 5,43        | 6,07                  | 5,52                  | 5,36                  | 5,19                       | 6,88                       | 6,70                       | 6,07          |
| Miscellaneous goods and services              | 4,16        | 5,34        | 4,50        | 3,16        | 5,64                  | 3,23                  | 3,23                  | 3,73                       | 4,46                       | 4,32                       | 5,04          |

**Table 6**

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

|   | 2000        | Quarterly   |             |             | Sep.          | Aug.          | Sep.          | Jan.-Sep.     | Jan.-Aug.     | Jan.-Sep.     | Weights<br>1998=100 |
|---|-------------|-------------|-------------|-------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------------|
|   |             | 2001 I      | 2001 II     | 2001 III    | 2000/<br>1999 | 2001/<br>2000 | 2001/<br>2000 | 2000/<br>1999 | 2001/<br>2000 | 2001/<br>2000 |                     |
| <b>GENERAL INDEX</b>                          | <b>4,15</b> | <b>1,75</b> | <b>2,15</b> | <b>1,62</b> | <b>3,73</b>   | <b>1,81</b>   | <b>2,05</b>   | <b>4,34</b>   | <b>1,82</b>   | <b>1,84</b>   | <b>100,00</b>       |
| Food & non-alcoholic beverages                | 0,99        | 0,12        | 0,56        | 0,72        | 0,37          | 0,85          | 1,21          | 1,18          | 0,37          | 0,47          | 18,20               |
| Alcoholic beverages & tobacco                 | 0,16        | 0,08        | 0,09        | 0,03        | 0,08          | 0,03          | 0,03          | 0,19          | 0,07          | 0,07          | 1,78                |
| Clothing and footwear                         | -0,04       | -1,04       | -0,57       | -0,39       | -0,33         | -0,36         | -0,36         | 0,05          | -0,71         | -0,67         | 8,22                |
| Housing, water, electricity and gas           | 1,17        | 0,71        | 0,34        | 0,18        | 1,17          | 0,12          | 0,20          | 1,25          | 0,43          | 0,41          | 21,27               |
| Furnishings, household equipment and supplies | 0,10        | 0,02        | 0,05        | -0,06       | 0,16          | -0,06         | -0,05         | 0,09          | 0,01          | 0,01          | 7,08                |
| Health  | 0,31        | 0,30        | 0,29        | 0,25        | 0,35          | 0,24          | 0,23          | 0,29          | 0,29          | 0,28          | 4,92                |
| Transport                                     | 0,97        | 0,87        | 0,81        | 0,15        | 1,41          | 0,16          | -0,06         | 0,84          | 0,69          | 0,61          | 17,42               |
| Communication                                 | -0,17       | -0,02       | -0,03       | 0,09        | -0,18         | 0,15          | 0,15          | -0,17         | -0,01         | 0,01          | 1,79                |
| Recreation & culture                          | -0,01       | -0,12       | -0,13       | 0,05        | -0,07         | 0,06          | 0,08          | 0,01          | -0,08         | -0,06         | 5,88                |
| Education                                     | 0,09        | 0,08        | 0,10        | 0,10        | 0,09          | 0,10          | 0,11          | 0,10          | 0,09          | 0,09          | 2,33                |
| Restaurants & hotels                          | 0,36        | 0,50        | 0,41        | 0,35        | 0,38          | 0,35          | 0,34          | 0,32          | 0,43          | 0,42          | 6,07                |
| Miscellaneous goods and services              | 0,21        | 0,27        | 0,22        | 0,16        | 0,28          | 0,16          | 0,16          | 0,19          | 0,22          | 0,22          | 5,04                |

Table 7

## CALENDAR OF INTEREST RATES ANNOUNCEMENTS IN 2001

| JAN                          | FEB                      | MAR                      | APR                      | MAY                      | JUN                         | JUL                     | AUG                      | SEP                      | OCT                      | NOV             | DEC              |
|------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|-----------------------------|-------------------------|--------------------------|--------------------------|--------------------------|-----------------|------------------|
| <u>ECB</u><br>4<br>4,75 (1)  | <u>ECB</u><br>1<br>4,75  | <u>ECB</u><br>1<br>4,75  | <u>ECB</u><br>11<br>4,75 | <u>ECB</u><br>10<br>4,50 | <u>ECB</u><br>7<br>4,50     | <u>ECB</u><br>5<br>4,50 | <u>ECB</u><br>2<br>4,50  | <u>ECB</u><br>13<br>4,25 | <u>ECB</u><br>11<br>3,75 | <u>ECB</u><br>8 | <u>ECB</u><br>6  |
| 18<br>4,75                   | 15<br>4,75               | 15<br>4,75               | 26<br>4,75               | 23<br>4,50               | 21<br>4,50                  | 19<br>4,50              | 30<br>4,25               | 17<br>3,75               | 25                       | 22              | 20               |
|                              |                          | 29<br>4,75               |                          |                          |                             |                         |                          | 27<br>3,75               |                          |                 |                  |
| <u>BOE</u><br>11<br>6,00 (2) | <u>BOE</u><br>8<br>5,75  | <u>BOE</u><br>8<br>5,75  | <u>BOE</u><br>5<br>5,50  | <u>BOE</u><br>10<br>5,25 | <u>BOE</u><br>6<br>5,25     | <u>BOE</u><br>5<br>5,25 | <u>BOE</u><br>2<br>5,00  | <u>BOE</u><br>6<br>5,00  | <u>BOE</u><br>4<br>4,50  | <u>BOE</u><br>8 | <u>BOE</u><br>5  |
|                              |                          |                          |                          |                          |                             |                         |                          | 18<br>4,75               |                          |                 |                  |
| <u>FED</u><br>3<br>6,00 (3)  |                          | <u>FED</u><br>20<br>5,00 | <u>FED</u><br>18<br>4,50 | <u>FED</u><br>15<br>4,00 | <u>FED</u><br>26/27<br>3,75 |                         | <u>FED</u><br>21<br>3,50 | <u>FED</u><br>17<br>3,00 | <u>FED</u><br>2<br>2,50  | <u>FED</u><br>6 | <u>FED</u><br>11 |
| 30/31<br>5,50                |                          |                          |                          |                          |                             |                         |                          |                          |                          |                 |                  |
| <u>CBC</u><br>26<br>7,00 (4) | <u>CBC</u><br>23<br>7,00 | <u>CBC</u><br>29<br>7,00 | <u>CBC</u><br>27<br>7,00 |                          | <u>CBC</u><br>1<br>7,00     | <u>CBC</u><br>6<br>7,00 | <u>CBC</u><br>10<br>6,50 | <u>CBC</u><br>14<br>6,50 |                          | <u>CBC</u><br>2 | <u>CBC</u><br>14 |
|                              |                          |                          |                          |                          |                             |                         |                          | 18<br>6,00               |                          |                 |                  |

(1) Minimum bid rate on the main refinancing operations

(2) Repo Rate

(3) Federal Funds Rate

(4) Interest rate on the marginal lending facility

Table 8

## Inward Portfolio Flows (with reference to stocks traded at the CSE)

## Purchase of shares by non - residents

|                   | April 2001         | May 2001           | June 2001        | July 2001        | August 2001        | September 2001   |
|-------------------|--------------------|--------------------|------------------|------------------|--------------------|------------------|
| Australia         | 11.834,1           | 6.104,4            | 55.550,5         | 13.208,8         | 34.625,6           | 5.305,0          |
| Austria           | 209,0              | 21.743,6           | 0,0              | 0,0              | 0,0                | 0,0              |
| Belgium           | 0,0                | 5.475,0            | 0,0              | 0,0              | 0,0                | 0,0              |
| British V Islands | 0,0                | 0,0                | 0,0              | 1.248,6          | 33.196,0           | 23.056,7         |
| Canada            | 255,0              | 12.290,0           | 11.705,0         | 561,6            | 4,6                | 619,0            |
| Czech Republic    | 0,0                | 4.400,0            | 0,0              | 0,0              | 0,0                | 0,0              |
| Georgia           | 0,0                | 0,0                | 1.512,0          | 0,0              | 0,0                | 0,0              |
| Germany           | 53.735,0           | 52.657,0           | 19.683,8         | 9.294,0          | 2.100,0            | 0,0              |
| Greece            | 723.075,7          | 1.089.593,6        | 394.579,0        | 427.524,2        | 912.929,6          | 468.446,6        |
| Iran              | 0,0                | 0,0                | 0,0              | 0,0              | 3.648,0            | 1.517,0          |
| Ireland           | 35.818,1           | 6.186,2            | 0,0              | 0,0              | 0,0                | 0,0              |
| Italy             | 0,0                | 349,0              | 0,0              | 0,0              | 0,0                | 0,0              |
| Jordan            | 20.100,0           | 0,0                | 14.730,9         | 5.280,0          | 0,0                | 0,0              |
| Latvia            | 0,0                | 0,0                | 11.581,0         | 0,0              | 0,0                | 0,0              |
| Lebanon           | 7.618,0            | 2.750,0            | 0,0              | 0,0              | 0,0                | 0,0              |
| Mexico            | 0,0                | 0,0                | 0,0              | 22.125,0         | 0,0                | 0,0              |
| Panama            | 100,2              | 0,0                | 0,0              | 0,0              | 0,0                | 0,0              |
| Philippines       | 0,0                | 0,0                | 0,0              | 1.465,0          | 0,0                | 0,0              |
| Russia            | 17.561,0           | 105.594,2          | 41.222,5         | 26.556,0         | 48.742,6           | 35.233,7         |
| Saudi Arabia      | 10.400,6           | 18.751,8           | 0,0              | 6.847,5          | 41.718,0           | 77.483,9         |
| South Africa      | 11.897,3           | 41.814,2           | 7.985,6          | 28.409,3         | 58.448,0           | 117.052,1        |
| Spain             | 0,0                | 8.000,0            | 0,0              | 0,0              | 0,0                | 0,0              |
| Switzerland       | 11.839,4           | 6.390,1            | 1.717,6          | 3.465,0          | 0,0                | 0,0              |
| UAE               | 0,0                | 0,0                | 0,0              | 326,2            | 0,0                | 0,0              |
| UK                | 169.014,9          | 271.101,7          | 132.484,0        | 59.735,4         | 53.605,9           | 107.362,7        |
| Ukraine           | 54.656,3           | 59.269,4           | 58.619,0         | 55.382,2         | 29.124,6           | 36.606,0         |
| USA               | 56.433,0           | 50.109,3           | 3.020,6          | 10.585,4         | 3.275,0            | 0,0              |
| Yugoslavia        | 20.855,5           | 0,0                | 22.560,0         | 7.160,0          | 0,0                | 0,0              |
| Zambia            | 0,0                | 31.192,9           | 16.462,1         | 5.469,8          | 34.309,0           | 0,0              |
| Zimbabwe          | 795,5              | 0,0                | 0,0              | 3.840,0          | 2.127,2            | 0,0              |
| Unidentified      | 0,0                | 23.500,0           | 1.167,5          | 0,0              | 3.735,2            | 0,0              |
| <b>Total</b>      | <b>1.206.188,4</b> | <b>1.817.272,3</b> | <b>794.581,1</b> | <b>688.483,9</b> | <b>1.261.589,2</b> | <b>872.682,8</b> |



**Table 9**

**Inward Portfolio Flows (with reference to stocks traded at the CSE)  
Sale of shares by non - residents**

|                          | April 2001       | May 2001           | June 2001          | July 2001        | August 2001      | September 2001   |
|--------------------------|------------------|--------------------|--------------------|------------------|------------------|------------------|
| <b>Australia</b>         | 0,0              | 5.565,0            | 0,0                | 0,0              | 15.614,4         | 14.039,2         |
| <b>Austria</b>           | 0,0              | 0,0                | 0,0                | 0,0              | 0,0              | 27.746,1         |
| <b>British V Islands</b> | 0,0              | 0,0                | 19.877,5           | 13.305,9         | 44.700,5         | 22.843,4         |
| <b>Canada</b>            | 261,9            | 0,0                | 2.202,0            | 0,0              | 520,0            | 0,0              |
| <b>France</b>            | 0,0              | 0,0                | 0,0                | 0,0              | 0,0              | 40,0             |
| <b>Germany</b>           | 0,0              | 735,9              | 4.216,2            | 1.477,0          | 0,0              | 0,0              |
| <b>Greece</b>            | 449.413,9        | 811.202,1          | 460.778,4          | 163.420,3        | 331.569,6        | 391.667,3        |
| <b>Philippines</b>       | 15.540,5         | 0,0                | 0,0                | 0,0              | 0,0              | 0,0              |
| <b>Russia</b>            | 0,0              | 204,4              | 125,8              | 0,0              | 256,0            | 4.954,3          |
| <b>South Africa</b>      | 0,0              | 333,0              | 0,0                | 954,0            | 44.075,0         | 35.970,0         |
| <b>Spain</b>             | 0,0              | 5.500,0            | 0,0                | 0,0              | 0,0              | 0,0              |
| <b>Switzerland</b>       | 0,0              | 0,0                | 27.538,2           | 141.845,6        | 59.136,4         | 152.913,4        |
| <b>Syria</b>             | 2.040,0          | 0,0                | 0,0                | 0,0              | 0,0              | 0,0              |
| <b>UK</b>                | 134.989,6        | 80.427,6           | 653.174,5          | 38.658,3         | 32.886,3         | 42.953,9         |
| <b>Ukraine</b>           | 0,0              | 9.180,0            | 17.462,0           | 307,5            | 11.548,5         | 0,0              |
| <b>USA</b>               | 388.914,5        | 183.825,0          | 115.499,3          | 46.617,2         | 165.842,9        | 73.130,7         |
| <b>Yugoslavia</b>        | 8.100,0          | 0,0                | 11.858,5           | 0,0              | 0,0              | 5.537,6          |
| <b>Total</b>             | <b>999.260,4</b> | <b>1.096.973,0</b> | <b>1.312.732,4</b> | <b>406.585,8</b> | <b>706.149,6</b> | <b>771.795,8</b> |