



CENTRAL BANK OF CYPRUS
ECONOMIC RESEARCH DEPARTMENT

MONETARY
POLICY
REPORT

SEPTEMBER 2003



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

**CENTRAL BANK OF CYPRUS, 2003
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1. INTRODUCTION

The long-anticipated recovery of the global economy seems to be coming only from the one side of the Atlantic at present, as the world's largest economy registered significant growth in the second quarter of the current year. At the same time, high fiscal and current account deficits cause concern about the sustainability of the rebound in the US economy. In the euro area, the picture remains rather pessimistic, with the largest economies showing signs of stagnation. A positive signal is given by business confidence indicators in Germany, which have remained strong, thus suggesting a recovery in the German economy. The strength and timing of this recovery, however, remain uncertain. The different prospects of the US and European economies are reflected in the exchange rate of the euro vis-à-vis the US dollar, with the US currency registering considerable gains. Against this background, the US Federal Reserve System is expected to maintain official interest rates at their current levels, whereas the European Central Bank might ease its monetary policy further in the near future.

In the domestic economy, inflation declined to 3,33% in July, from 4,02% in the previous month. This decline in the inflation rate is attributable primarily to the elimination of the base effect associated with the increase in the value added tax (VAT) standard rate from 10% to 13% effective 1 July 2002. The analysis of inflation by product category indicates that the decrease in the inflation rate in July stemmed first from the large deceleration in the prices of domestic industrial non-oil goods, fuel and gas, as well as electricity, and second from the deceleration in services prices. The decrease in inflation was moderated by the acceleration in domestic agricultural product prices. For the first seven

months of 2003, inflation reached 4,65%, compared with 2,59% in the same period of 2002. This development reflected to a large extent the increase in the VAT standard rate, from 10% to 13% effective 1 July 2002 and then to 15% effective 1 January 2003. As regards prospects for 2003, taking into account the influence of the VAT increases and changes in excise taxes, as well as the cumulative effect of the automatic indexation of wages, inflation is expected to range around 4,0% to 4,5% for the year as a whole, compared with 2,81% in 2002.

In the monetary sector, the growth rate of bank credit to the private sector in the first seven months of 2003 remained well below the rate recorded in the same period of the previous year. In particular, the annual growth rate of credit to the private sector remained below 7% in July, compared with 8,5% in the same month of 2002. The proportion of credit in foreign currency to total credit stood at 10,4% in June and July 2003. In parallel, surplus bank liquidity conditions persisted in the money market and were enhanced by substantial foreign exchange inflows in August. Hence, in order to maintain interest rates consistent with its anti-inflationary policy, the Central Bank of Cyprus continued to intervene in the money market through liquidity-absorbing auctions (depos), incurring the associated cost.

Concerning tourism, the decline in tourist arrivals continued in July, albeit the decrease recorded in that month was much smaller than in the previous months. Specifically, tourist arrivals decreased by 2,8% in July 2003, compared with a decrease of 10,6% in June 2003 and 12,3% in July 2002. For the first seven months of 2003, tourist arrivals recorded a decrease of 10,0%, compared with a

fall of 12,9% in the same period of 2002. In parallel, receipts from tourism fell by 17,1% in the first half of the year.

As regards external trade, provisional data indicate that total imports fell by 12,2% in the first five months of 2003, compared with an increase of 1,7% in the same period of 2002. Non-oil imports for home consumption excluding imports of military equipment also declined, but at a lower rate. In parallel, total exports fell by 11,4% in the first five months of 2003, as both domestic exports and re-exports declined. As a result of these developments, the crude trade deficit decreased to £732,4 million in the first five months of the year, from £835,7 million in the same period of 2002.

Concerning private consumption, the retail sales volume index declined by 2,3% in the first five months of 2003, compared with an increase of 1,8% in the same period of 2002. The sluggish course of the retail sales volume index reflects, in part, the decline in the growth rate of retail sales of cars in the same period.

Turning to the labour market, the number of registered unemployed increased in July 2003,

thereby continuing the upward trend that has been observed since November 2001. The unemployment rate reached 3,7% of the economically active population in July 2003, compared with 3,1% in the same period of 2002.

In the secondary sector of the economy, both positive and negative developments were again recorded. On the one hand, manufacturing registered a contraction in the first five months of 2003, and on the other hand, the performance of construction remained generally encouraging. In particular, both the volume and value indices of building permits registered sizeable increases, while cement sales increased at a lower rate.

With regard to public finances, according to data from the Ministry of Finance, the fiscal deficit reached £110,7 million in the first four months of the year, compared with £77,0 million in the same period of 2002. Public revenue grew by 15,6%, compared with an increase of 3,9% in the first four months of 2002, while public expenditure accelerated considerably, with a growth rate of 18,8%, leading to the recorded increase in the fiscal deficit for the period from January to April 2003.

2. ECONOMIC DEVELOPMENTS

2.1 INTERNATIONAL DEVELOPMENTS AND EXCHANGE RATES

International economic developments

On the international scene, contradictory signs have emerged concerning the recovery of the major economies. In the United States, GDP growth accelerated in the second quarter of 2003. However, the high current account and fiscal deficits undermine the prospects of a rebound in the US economy. The US Federal Reserve System maintained official interest rates unchanged at its latest meeting. The euro area has shown signs of recession, as four of its five major economies (Germany, France, Italy and the Netherlands) recorded a decrease in GDP for a second consecutive quarter. Thus, economic analysts expect a further reduction in the European Central Bank's official interest rates. In Japan, the growth rate of GDP increased in the second quarter, for the fourth consecutive time, while deflation persisted. Share indices in major capital markets rose in July, and oil prices also increased.

More specifically, in the **United States**, GDP grew at an annual rate of 2,4% in the second quarter compared with the previous quarter. Unemployment declined to 6,2% in July, from 6,4% in June. The growth of consumption remained encouraging, with retail sales increasing by 5,6% in July. At its meeting on 12 August, the US Federal Reserve System decided to maintain its key interest rate at its current level of 1,0%. With regard to equity values, the Dow Jones and Nasdaq indices increased by 1,2% and 4,6%, respectively, in July, whereas the S&P 500 index registered a slight decrease of 0,2%.

The **euro area** economy registered zero quarter-on-quarter growth in the second quarter, while negative quarter-on-quarter growth rates were recorded in Germany, France, Italy and the Netherlands. The main factor responsible for the recession, particularly in the German economy, is considered to be the decline in exports due to the appreciation of the euro. Euro area unemployment remained roughly stable at 8,9% in June, compared with 8,8% in May. Inflation declined to 1,9% in July, from 2,0% in June. Equity values in Germany, France and Italy, as reflected in the DAX, CAC 40 and BCI indices, rose by 6,1%, 2,9% and 2,6%, respectively, in July.

In the **United Kingdom**, inflation as measured on the basis of the retail price index (RPIX) rose to 2,9% in July, remaining above the Bank of England's 2,5% target for the ninth consecutive month. Because of the heat wave in the country, prices of summer clothing did not decrease sufficiently, and as a result, RPIX inflation remained high. GDP growth declined to an annual rate of 1,8% in the second quarter of 2003, from 2,2% in the previous quarter. The Bank of England maintained official interest rates unchanged at the meeting of 7 August. The FTSE 100 stock price index rose by 3,4% in July.

In **Japan**, GDP grew at an annual rate of 2,3% in the second quarter compared with the previous quarter. Other positive developments included an increase in the consumer confidence indicator

from 40,6 points in June to 41,9 in July, a widening of the current account surplus to USD 112,6 billion in the twelve months to June 2003, and a 17,5% increase in the orders of durable goods in June, which may encourage fixed capital investment. In the equity market, the Nikkei 225 index increased slightly by 0,2% in July.

In the crude oil market, the average price of Brent crude oil increased to USD 28,52 per barrel in July and USD 29,84 per barrel in August, from USD 27,59 per barrel in June. This rise was driven by the destruction of oil pipes in Iraq and by increased demand emanating from the heat wave in Europe, as well as by the closure of a number of nuclear plants in Japan.

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

	2001 ⁴	The Economist Poll GDP forecasts ²			Lehman Brothers Weekly Outlook - GDP ³			International Monetary Fund World Economic Outlook ⁴		
		2002	2003	2004	2002	2003	2004	2002	2003	2004
Britain	2,0	2,2	1,8	2,4 (2,5)	1,9	1,7 (1,6)	2,5 (2,6)	1,6 (1,7)	2,0 (2,4)	2,5
Japan	-0,3	0,5	0,9	0,9	0,2 (0,1)	2,2 (1,3)	1,7 (1,0)	0,3 (-0,5)	0,8 (1,1)	1,0
USA	0,3	2,5	2,3 (2,2)	3,4 (3,3)	2,4	2,3 (2,1)	3,4 (3,3)	2,4 (2,2)	2,2 (2,6)	3,6
Euro area	1,4	1,1	0,6 (0,8)	1,7 (2,0)	0,8	0,6 (0,7)	1,3 (1,5)	0,8 (0,9)	1,1 (2,3)	2,3
World	2,3				1,5	1,7 (1,5)	2,4 (2,3)	3,0 (2,8)	3,2 (3,7)	4,1

¹ Figures in parentheses indicate the corresponding previous month projection, in case of change.

In the case of the IMF, the figures indicate its projections in September 2002.

² The Economist, 23 August 2003.³ Lehman Brothers Global Weekly Economic Monitor, 22 August 2003.⁴ International Monetary Fund, World Economic Outlook, April 2003.**Table 2****Major share indices***(closing prices)*

	2002	2003			
	31 Dec.	2 July	1 Aug.	% change	
				Jan. - July	July
USA					
Dow Jones	8.332,9	9.041,0	9.154,0	9,9	1,2
S&P 500	879,4	982,3	980,2	11,5	-0,2
Nasdaq	1.339,5	1.640,1	1.715,6	28,1	4,6
Germany					
DAX	2.892,6	3.241,0	3.438,9	18,9	6,1
France					
CAC 40	3.063,9	3.079,1	3.169,6	3,4	2,9
Italy					
BCI	1.091,9	1.138,8	1.168,2	7,0	2,6
Britain					
FTSE 100	3.940,4	3.963,9	4.098,4	4,0	3,4
Japan					
Nikkei 225	8.714,1	9.592,2	9.611,7	10,3	0,2

Source: Reuters

Table 3**Main economic indicators***(percentage change)*

	GDP				Industrial production June (annual)	Retail sales June (annual)	Unemployment June (annual)	Inflation ¹ June (annual)
	Q1 2003		Q2 2003					
	(quarterly)*	(annual)	(quarterly)*	(annual)				
Britain	0,3	2,2	1,3	1,8	2,2	6,0	5,0 ⁴	2,9 ²
Japan	0,6	2,6	2,3	2,1	2,8	-1,8	5,3	-0,4
USA	1,9	2,1	2,4	2,3	-1,4 ²	5,6 ²	6,2 ²	2,1 ²
Euro area	0,4	0,9	0,0	0,4	1,3 ³	0,4 ³	8,9	1,9 ²

Source: *The Economist*, 23 August 2003.¹ Based on the Consumer Price Index with the exception of Britain which is based on the Retail Price Index (RPIX).² Data of July 2003.³ Data of May 2003.⁴ April - June 2003.

* percentage change on previous quarter at an annualised rate.

International currencies

The euro weakened significantly against the US dollar in the three-month period from June to August 2003. On 26 August, the euro reached USD 1,08, compared with USD 1,17 on 2 June.

The depreciation of the euro, especially in August, reversed the euro's strong upward trend against the US dollar, which had been observed since the beginning of the year. This depreciation is attributable to the recession observed in four countries of the euro area, namely Germany, France, Italy and the Netherlands. In parallel, however, the prospects of a rebound in the US economy remain uncertain, albeit comparatively better. This uncertainty arises mainly from the problems faced by the labour market and from the increasing fiscal and current account deficits. More specifically, the current account deficit reached nearly 5% of GDP, causing concern for the US economy and the prospects of the US currency.

In the period from June to August, the pound

sterling followed, in part, the course of the euro. Specifically, the pound sterling depreciated to USD 1,57 on 26 August, from USD 1,63 on 2 June. The course of the pound sterling was indirectly influenced by releases of negative economic data for the euro area, while in parallel Britain's trade deficit widened in June.

In the same period, the Japanese yen strengthened vis-à-vis the euro, as the Japanese economy showed encouraging signs of recovery. In particular, the manufacturing sector improved markedly in July, and GDP registered a significant growth in the second quarter of the year. Concurrently, the continuing repatriation of capital has made an important contribution to the recovery of the Japanese economy.

An overview of recent fluctuations in international exchange rates, until 26 August 2003, is presented in chart 1.

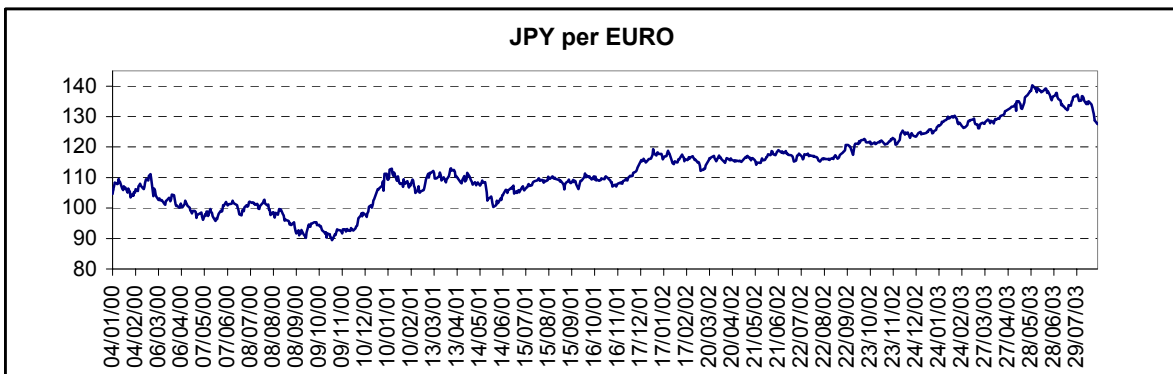
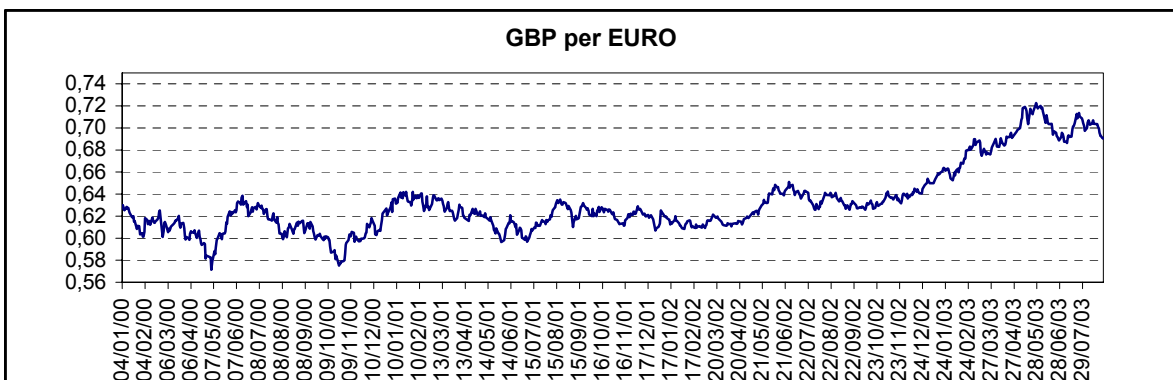
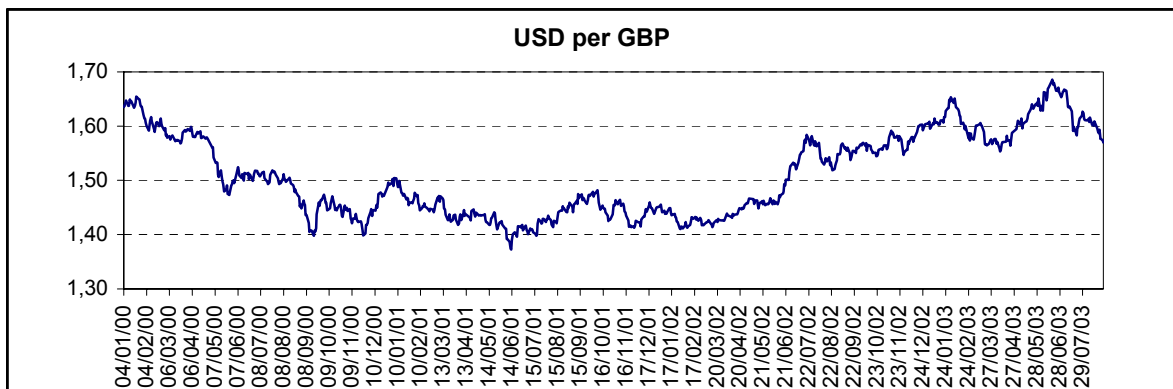
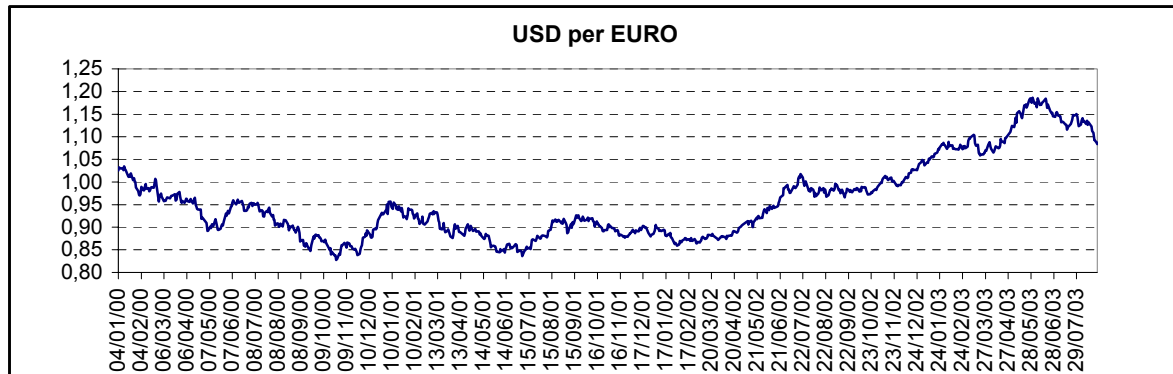
Chart 1**Major international currencies**
04/01/2000 - 26/08/2003*(opening, selling values)*

Table 4 shows the forecasts of a large number of internationally recognized financial institutions for the course of international exchange rates in the next twelve months, as recorded in the monthly survey of Reuters. It is pointed out that the survey

was conducted in the period from 4 to 6 August and thus the results do not reflect the significant developments observed during the remainder of August.

Table 4

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

(August 2003)

		Exchange rate forecasts			
	Statistical data	1-month	3-month	6-month	12-month
USD per EUR	Mean	1,14	1,15	1,17	1,19
	Minimum	1,10	1,09	1,06	1,00
	Maximum	1,18	1,23	1,27	1,33
	Number of observations	58	58	58	55
USD per GBP	Mean	1,62	1,63	1,64	1,65
	Minimum	1,56	1,56	1,55	1,48
	Maximum	1,66	1,69	1,72	1,79
	Number of observations	57	57	57	55
JPY per USD	Mean	119,39	118,43	117,69	116,32
	Minimum	116,00	111,00	109,00	104,00
	Maximum	123,00	125,00	128,50	135,00
	Number of observations	57	57	57	54
GBP per EUR	Mean	0,70	0,70	0,71	0,72
	Minimum	0,68	0,67	0,67	0,64
	Maximum	0,73	0,76	0,77	0,80

Source: Reuters. The survey was conducted in the period 4-6 August 2003.

Cyprus pound

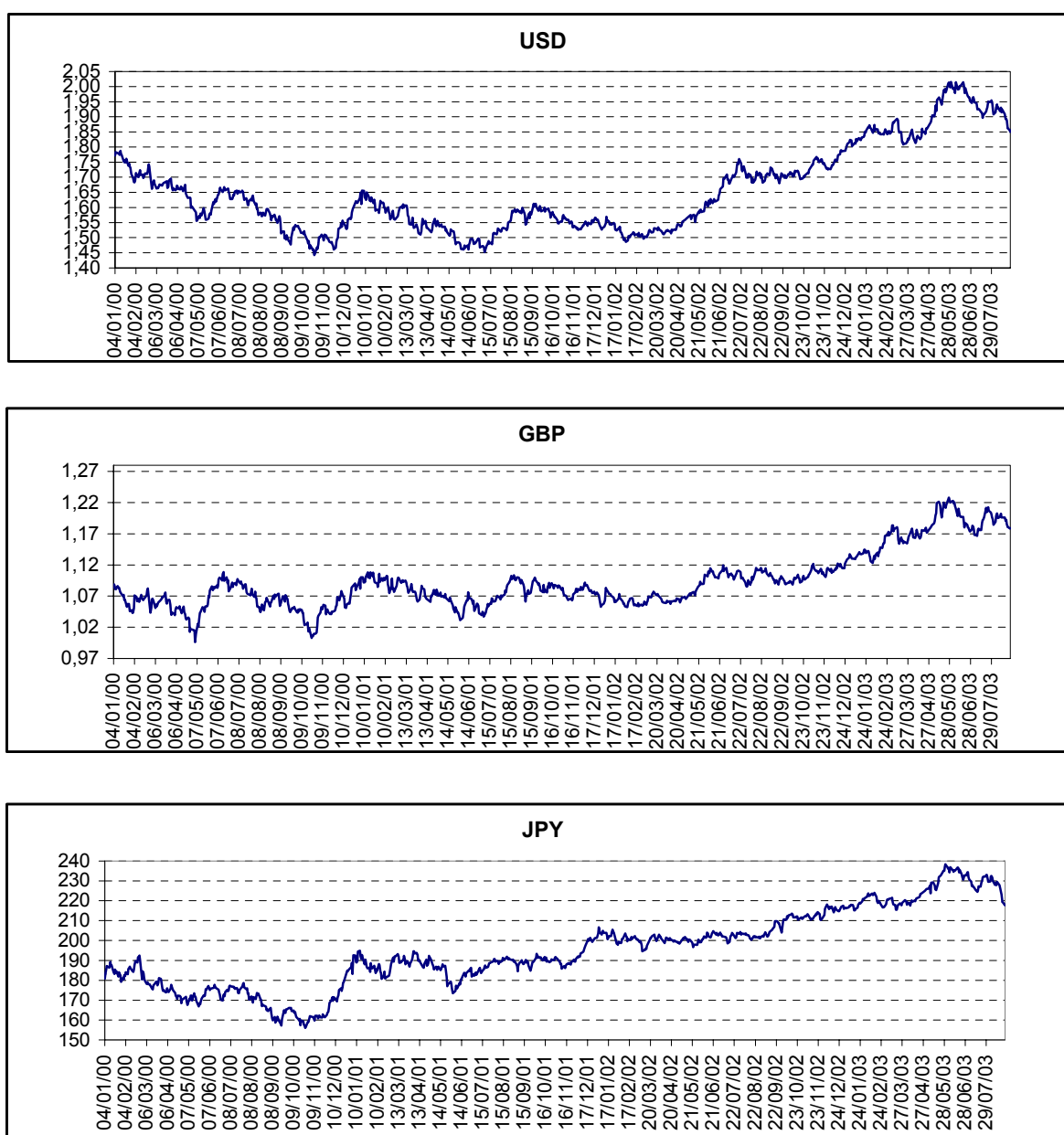
The Cyprus pound registered marginal fluctuations vis-à-vis the euro in the period from June to August, reaching EUR 1,7070 on 26 August 2003 (opening, selling rate), compared with EUR 1,6984 on 2 June 2003. Reflecting fluctuations in international currencies during this period, the Cyprus pound weakened to USD 1,8505 on 26 August, from USD 1,9922 on 2 June 2003. The Cyprus pound also weakened

against the pound sterling. Specifically, the exchange rate reached GBP 1,1790 per Cyprus pound on 26 August, compared with GBP 1,2230 per Cyprus pound on 2 June.

Charts 2A and 2B depict recent fluctuations in the exchange rates of the Cyprus pound vis-à-vis the euro, the US dollar, the sterling and the yen.

Chart 2A**Exchange rate of the euro against the Cyprus pound
04/01/2000 – 26/08/2003***(opening, selling rate)*

Note: The official exchange rate fluctuation margins of the Cyprus pound against the euro are set at $\pm 15\%$.

Chart 2B**Cyprus Pound against major international currencies****04/01/2000 - 26/08/2003***(opening, selling values)*

As regards the domestic foreign exchange market, purchases and sales of foreign exchange by the Central Bank until 26 August are summarized in table 5. As shown in this table, net foreign exchange inflows amounting to £47,59 million were registered in August, after net

outflows of £19,47 million in July. Thus, the negative course of foreign exchange flows during most of the current year appears to have been reversed. Daily purchases and sales of foreign exchange by the Central Bank from domestic banks since 1999 are shown in chart 3.

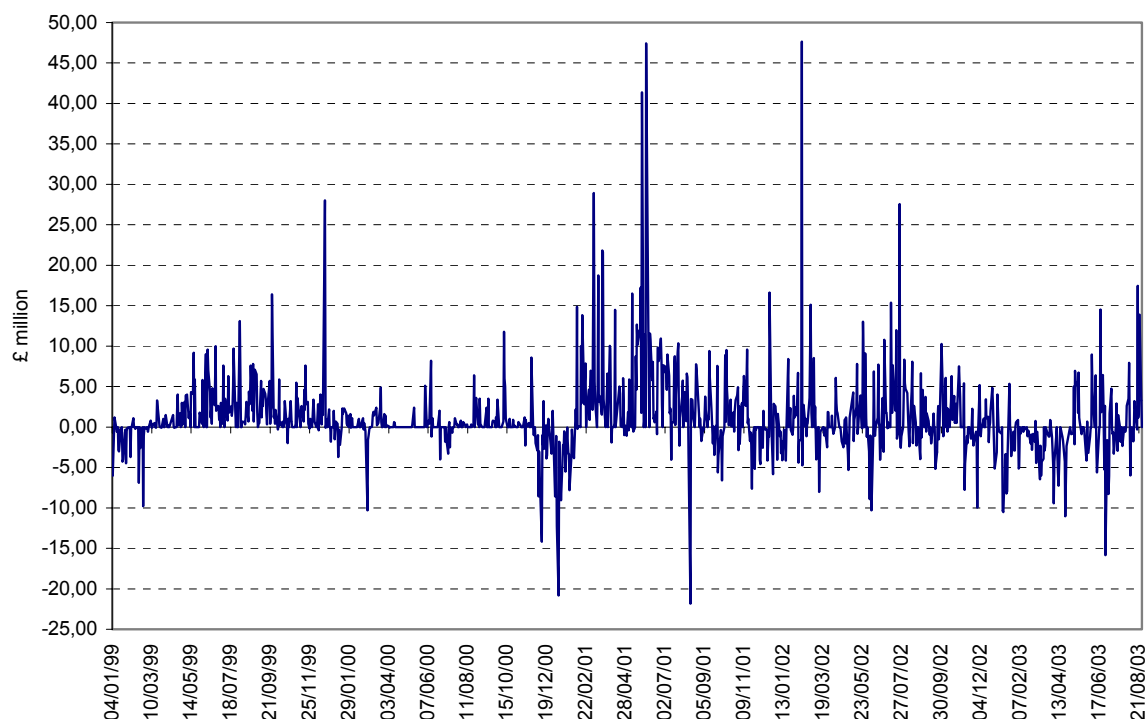
Table 5**Domestic foreign exchange market: Purchases and sales by the Central Bank of Cyprus**

Period	Average intervention exchange rate Foreign currency per Cyprus pound (period average)			Purchases (+) / Sales (-) of foreign exchange by the Central Bank (based on transaction date)			
				In foreign currency (million)			In Cyprus pounds (million)
	Euro	US dollar	Pound sterling	Euro	US dollar	Pound sterling	
<u>Year</u>							
2001	1,7314	1,5602	1,0805	437,31	155,24	70,72	663,30
2002	1,7383	1,6445	1,0934	321,55	64,75	53,05	273,13
<u>Quarter</u>							
2002 Q1	1,7367	1,5226	1,0678	106,05	4,50	8,10	71,79
2002 Q2	1,7295	1,5882	1,0873	-12,25	17,30	33,80	34,44
2002 Q3	1,7397	1,7119	1,1054	205,55	13,85	-0,20	126,36
2002 Q4	1,7467	1,7472	1,1119	22,20	29,10	11,35	39,90
2003 Q1	1,7240	1,8505	1,1539	-201,80	1,610	0,00	-116,28
2003 Q2	1,7050	1,9358	1,1963	-56,20	1,75	1,00	-33,09
<u>Month</u>							
December 2002	1,7453	1,7780	1,1209	13,20	8,80	2,60	14,96
January 2003	1,7328	1,8419	1,1392	-96,25	-0,40	0,00	-55,73
February 2003	1,7230	1,8570	1,1535	-37,25	-0,70	0,00	-22,00
March 2003	1,7154	1,8532	1,1707	-68,30	2,35	0,00	-38,55
April 2003	1,7050	1,8457	1,1749	-108,30	-1,40	0,00	-64,26
May 2003	1,7038	1,9728	1,2148	23,10	-0,35	1,00	14,21
June 2003	1,7063	1,9890	1,1991	29,00	0,00	0,00	16,96
July 2003	1,7026	1,9366	1,1919	-33,30	0,00	0,10	-19,47
August* 2003	1,7053	1,9073	1,1940	81,50	0,05	-0,20	47,59

*The figures for August 2003 refer to the period from 1 to 26 August.

Chart 3

**Daily purchases / sales of foreign exchange by the Central Bank
from the domestic banks
4/1/1999-26/8/2003**

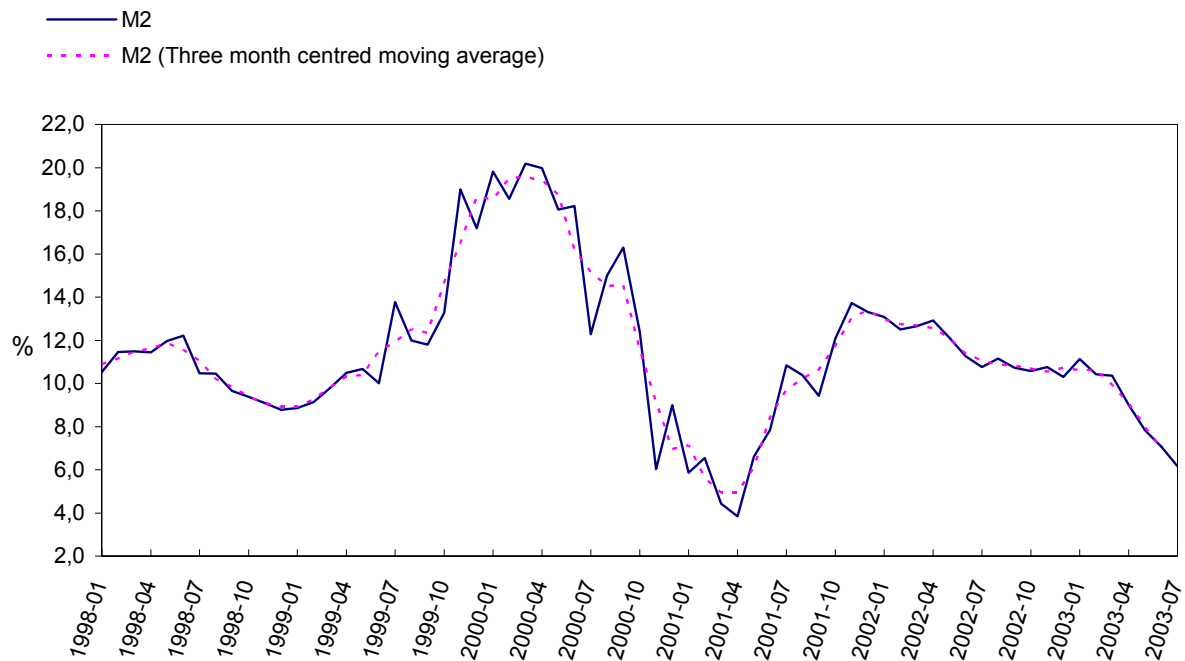
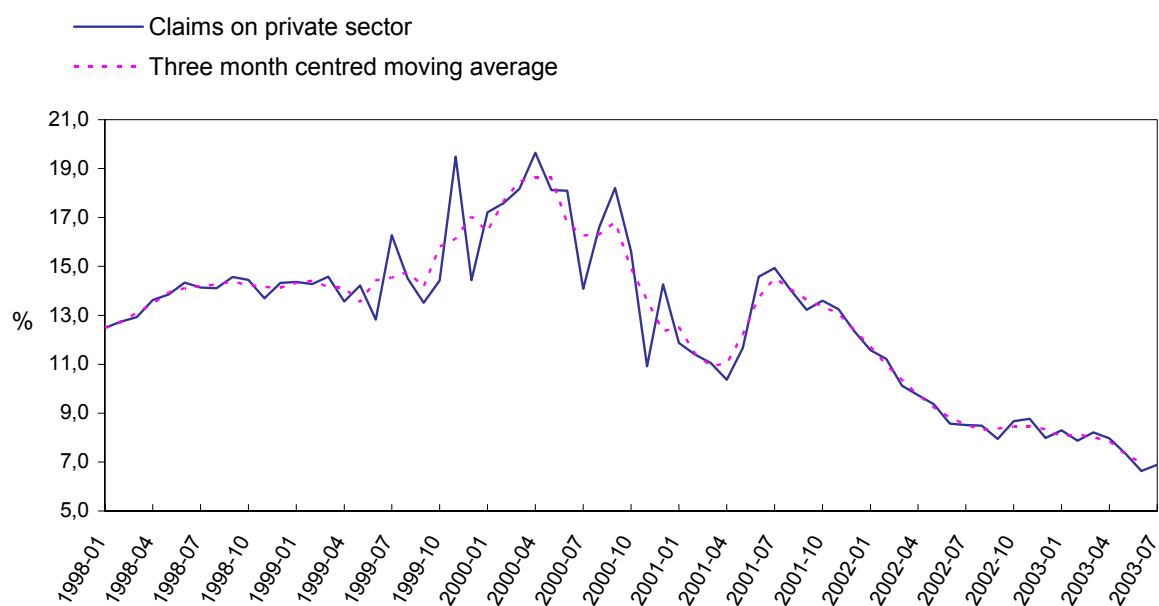


Note: Purchases of foreign exchange by the Central Bank are shown with a positive sign.

2.2 MONETARY DEVELOPMENTS

The slowdown in the growth rate of the total money supply (M2) continued in July, notwithstanding the marginal acceleration recorded in bank credit. Foreign

exchange outflows as well as the increase in currency in circulation contributed to the containment of both the money supply and excess bank liquidity in July.

Chart 4**M2 growth***(annual percentage changes, monthly data)***Chart 5****Growth of claims on private sector***(annual percentage changes, monthly data)*

The annual growth rate of total money supply (M2) decelerated further in July, reaching 6,2%, compared with 7,1% in June and 7,8% in May (table 6). The slowdown is confirmed by the three-month moving average, which indicates a decline in the annual growth rate of M2 to 7,0% in the period from May to July, from 8,0% in the period from April to June. The growth rate of the monetary aggregate M2C, which includes the co-operative credit institutions, stood at 7,6% in June and 7,0% in July.¹

The slowdown in the money supply is attributable partly to the slowdown in bank credit to the private sector, whose annual growth rate stood at 6,6% in June and 6,9% in July 2003, down from 7,3% in May 2003 and 8,5% in July 2002 (table 6). According to the three-month moving average, credit expanded by 7,3% in the period from April to June, and by 7,0% in the period from May to July. The low rate of expansion of bank lending is attributable to subdued demand for loans by the private sector, due to the slowdown in economic activity, on the one hand, and to stricter assessment of loan applications, on the other.

Table 7 presents the factors affecting total money supply (M2), in absolute terms. As this table shows, the level of bank credit granted in the period from January to July 2003 is considerably below the corresponding level last year. In the same period, net foreign assets fell

by a greater amount than in the corresponding period of 2002. By contrast, credit to the public sector increased. More specifically, in the first seven months of 2003, net credit to the private sector increased by £269,7 million, compared with a rise of £326,5 million in the same period of the previous year, while claims on the public sector grew by £229,4 million, compared with an increase of £35,5 million last year. At the same time, net foreign assets fell by £245,0 million, compared with a decrease of £51,9 million in the first seven months of 2002.

In the period from January to July 2003, unclassified items fell by £262,2 million, compared with a decrease of £29,7 million in the same period of 2002. This fall is attributable primarily to the increase in the loan capital of banks and the rise in their projections for doubtful loans.

As regards the components of the total money supply (M2) in the first seven months of the year, M1 increased by £160,1 million, while quasi-money fell by £168,2 million. This nearly equivalent change may be due to the partial substitution of deposits and to the stricter application of penalties in case of insufficient notice, which resulted in a shift from time deposits to demand deposits.

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

Table 6**Main monetary aggregates***(annual percentage change)*

	1999	2000	2001	2002	2002 July	2003 June	2003 July
Money supply (M1)	41,5	-3,8	1,1	2,6	-1,4	16,7	24,7
Total money supply (M2)	17,2	9,0	13,3	10,3	10,8	7,1	6,2
Claims on private sector	14,4	14,3	12,3	8,0	8,5	6,6	6,9

Table 7**Factors affecting total money supply***(change, CYP thousand)*

	July 2003	Jan. - July		June 2002/2003	July 2002/2003
		2002	2003		
Foreign assets (net)	63.475	-51.945	-245.025	-292.502	-271.578
Claims on private sector	3.296	326.487	269.661	507.974	527.208
Claims on public sector	59.921	35.519	229.407	464.124	448.144
Unclassified items	-84.829	-29.704	-262.201	-143.502	-229.748
Total money supply (M2)	41.863	280.357	-8.158	536.094	474.026
Money supply (M1)	109.590	-51.064	160.052	155.887	237.470
Currency in circulation	14.458	17.006	28.835	41.560	48.148
Demand deposits	95.132	-68.070	131.217	114.327	189.322
Quasi-money	-67.727	331.421	-168.210	380.207	236.556

The analysis of bank credit by sector of economic activity (table 8) shows that in the period from January to July 2003, personal and professional loans, construction and tourism absorbed the largest part of new credit², amounting to 37,4%, 34,5% and 14,0%, respectively. In the same period of the previous year, personal and professional loans again dominated with a share of 32,5% of new credit. In absolute terms, personal and professional loans increased by £101,1 million in the period from January to July 2003, compared with an increase of £100,8 million in the same period of 2002. New credit for the construction sector rose to £93,3 million, from £71,1 million, whereas new credit for foreign and domestic trade declined from £69,3 million to £31,3 million, and new credit for the tourist sector declined from £38,6 million to £38,0 million. Credit to public institutions and corporations (including the government) registered a significant increase in the first seven months of 2003 compared with the same period of 2002. This development is attributable to the prohibition of direct financing of the public sector by the Central Bank, pursuant to the new Central Bank of Cyprus Law, which entered into force in July 2002.

According to provisional weekly data on credit to the private sector, in the period from 1 to 14 August 2003, net repayments of the order of £3,6 million were registered, compared with net repayments of £4,5 million in the same period of 2002. In the twelve months to 14 August 2003, the amount of new credit reached £506,1 million, indicating an annual growth rate of 6,6%, down from 8,5% in the corresponding period of the previous year.

As regards credit extended through credit cards, domestic expenditure by Cypriots through credit cards rose by 14,7% in July 2003 compared with the same month of 2002. The corresponding increase in July 2002 was 17,7%. Expenditure abroad by Cypriots through credit cards decelerated considerably, with a growth rate of 9,4% in July 2003, down from 24,3% in the same month of 2002. Expenditure in Cyprus by foreign card holders increased by 1,6% in July 2003 compared with the same month of the previous year. The corresponding increase in July 2002 was 6,5%.

² The figures for new credit refer to net credit granted during the reference period.

Table 8
Bank credit by sector

	January - July			
	2002		2003	
	change CYP' 000	share %	change CYP' 000	share %
Public institutions and corporations ¹	8.927	2,9	15.632	5,8
Agriculture	-1.739	-0,6	-872	-0,3
Mining	271	0,1	1.270	0,5
Manufacture	16.548	5,3	-2.390	-0,9
Transport and communication	5.120	1,7	-6.108	-2,3
Foreign and domestic trade	69.332	22,4	31.316	11,6
Building and construction	71.115	23,0	93.329	34,5
Tourism	38.643	12,5	37.951	14,0
Personal and professional loans	100.767	32,5	101.125	37,4
Bills discounted: Local	665	0,2	511	0,2
Foreign	-36	0,0	-1.136	-0,4
Total	309.613	100,0	270.628	100,0

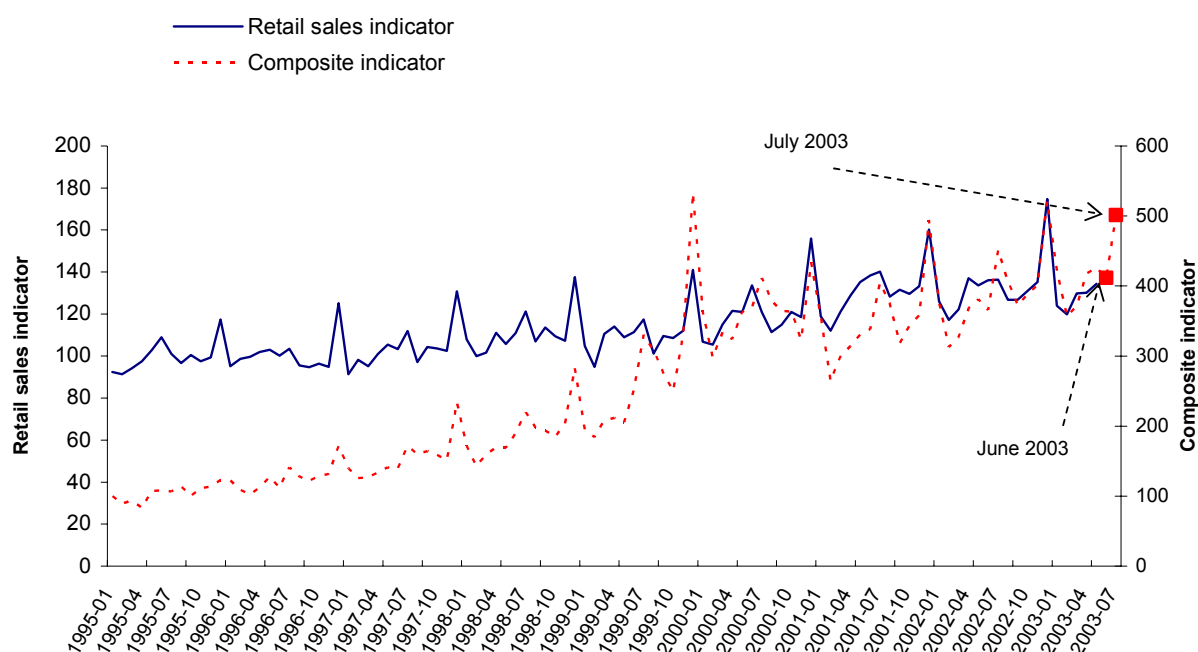
1) Including Government loans

Data on credit cards and other monetary figures, such as cheque clearing, which are available timely, may provide an indication of the course of retail sales. Chart 6 shows the retail sales value index, for which data are available up to May 2003, and the composite indicator,³ for which data are available up to July 2003.

As seen in chart 6, the composite indicator rose in both June and July 2003. The seasonal effect

associated with the beginning of summer discounts is also observed this July. On the basis of these data, and given that the predictive ability of the composite indicator was proven to be adequate in previous months, a similar movement of the retail sales value index is expected in June and July. Overall, excluding seasonal factors, the graph indicates that the growth rate of retail sales remained weak.

³ The composite indicator comprises domestic expenditure by Cypriots through credit cards and cheque clearing (*Monetary Policy Report*, September 2002).

Chart 6**Relationship between monetary aggregates and retail sales**

Foreign currency loans to residents of Cyprus increased by £6,9 million in June 2003, after a decrease of £8,1 million in May, and then decreased by £0,5 million in July.⁴ The proportion of credit in foreign currency to total

credit remained stable at 10,4% in June and July 2003, compared with 10,1% in July 2002 (table 9). Provisional data for the period from 1 to 14 August 2003 indicate a decline in foreign currency loans to residents of about £1,2 million.

⁴ These figures include only foreign currency loans granted by domestic banks. Lending by banks abroad to Cypriots has remained at a very low level, according to data reported for long-term loans since January 2001.

Table 9**Claims on the private sector***(change, CYP million)*

	2003 May	2003 June	2003 July
Foreign currency loans to residents	-8,1	6,9	-0,5
Claims on private sector	-5,9	127,4	3,3

(end of period balances, CYP million)

	2000	2001	2002	2002 July	2003 June	2003 July
Foreign currency loans to residents	372,0	733,0	785,2	770,0	852,2	851,7
Claims on private sector	6516,0	7320,1	7904,1	7646,6	8170,5	8173,8
Share %	5,7	10,0	9,9	10,1	10,4	10,4

The proportion of loans denominated in euros to total loans in foreign currencies stood at 69,6% at the end of June 2003, while the proportions of loans in US dollars, Japanese yen and Swiss francs were 11,3%, 7,1% and 10,4%, respectively.

According to data on long term foreign currency loans, in the first half of 2003, 22,1% of such loans were used for construction in Cyprus, 57,2% for refinancing⁵ and 12,9% for the acquisition of fixed assets.

⁵Refinancing refers to the repayment of existing loans in Cyprus pounds or the conversion of existing foreign currency loans to a different currency.

Money market

Excess bank liquidity conditions continued to prevail in the money market in July. Consequently, the Central Bank intervened in the money market through deposit collection auctions (depos), absorbing an average daily liquidity of £117,7 million in July, compared with £136,7 million in June and £152,3 million in May (table 11). It is worth noting that whereas foreign exchange outflows, which contained surplus liquidity, were observed until April, in May foreign exchange inflows were recorded, for the first time this year. Foreign exchange inflows were also recorded in June, but in July there were net outflows, followed by significant net inflows in August.

In July, surplus bank liquidity was moderated by the increase in currency in circulation and by the decrease in net foreign assets, from an average daily value of £1.095,7 million in June to £1.075,1

million in July. An opposite effect as exerted by the increase in the overdrawing of government deposits, which was the main factor contributing to the expansion of bank liquidity. Specifically, the average daily value of government overdrawing increased to £332,7 million in July, from £309,5 million in June, partly on account of reduced sales of government securities. In particular, net sales of government securities through auctions amounted to £53,3 million in June, whereas in July net repayments of £4,4 million were registered.

The monthly average interest rate in the deposit collection auctions decreased to 3,39% in June, from 3,45% in May. In July, three auctions were held, which absorbed a total amount of £380,0 million at an average interest rate of 3,34%. In the single auction of 28 August 2003, £160,0 million were absorbed at an average interest rate of 3,34%.

Table 10

Interest rates

(percentages per annum)

	2000	2001	2002	2002 July	2003 May	2003 June	2003 July
Interbank (1day)	5,96	4,93	3,42	3,45	3,56	3,42	3,19
Repos	5,97	6,39					
Reverse repos/depos	4,44	4,59	3,91	3,93	3,45	3,39	3,34
Treasury bills (13 weeks)	5,75	6,00	4,02	4,08			3,51
Treasury bills (52 weeks)	6,21	6,35	4,30	4,38		3,60	3,63
Development stocks (2 years)	6,55	6,11	4,56	4,56	3,69	3,67	3,69
Development stocks (5 years)	7,45	6,96	5,07	5,10	4,37	4,39	4,45
Development stocks (10 years)	7,55	7,66	5,37			4,59	
Development stocks (15 years)		6,47	5,60			4,62	

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

	Liquidity - providing factors					Liquidity - absorbing factors						Credit institutions current accounts (MRA)	Base money (6+7+9+12)
	Monetary policy operations					Deposit facility (overnight)	Other liquidity-absorbing operations (additional & special & S.M.E. dep.)	Rev-repos & depots	Currency in circulation	Central Govern. deposits (net)	Other factors (net)		
	Net assets in gold and foreign currency (NFA)	Main refinancing operations (repos)	Long term refinancing operations	Marginal lending facility (lombard)	Other liquidity providing operations (swap)								
	1	2	3	4	5	6	7	8	9	10	11	12	13
2001 July	1.379,0	0,0	0,0	1,2	0,0	9,2	79,6	92,0	393,8	159,8	194,5	451,1	933,8
Aug.	1.333,2	0,0	0,0	0,5	0,0	39,3	79,6	58,6	393,9	125,6	179,4	457,2	970,2
Sep.	1.359,6	0,0	0,0	0,0	0,0	58,7	79,6	94,8	386,0	89,4	189,3	461,8	986,1
Oct.	1.358,1	0,0	0,0	2,3	0,1	19,4	79,6	104,7	384,3	58,0	250,0	464,5	947,8
Nov.	1.372,1	0,0	0,0	2,3	0,0	13,3	79,4	118,5	366,5	54,6	275,5	466,6	925,8
Dec.	1.334,4	0,0	0,0	3,6	0,0	8,3	79,4	111,9	385,3	10,5	274,6	468,1	941,1
2002 Jan.	1.309,0	0,0	0,0	0,8	0,0	16,4	79,4	174,3	377,6	64,7	124,2	473,1	946,6
Feb.	1.384,4	0,0	0,0	0,6	0,0	14,5	79,4	131,3	363,9	169,8	137,7	488,6	946,4
Mar.	1.684,4	0,0	0,0	3,3	0,0	24,8	79,4	189,9	367,4	369,6	167,3	489,2	960,9
Apr.	1.637,5	0,0	0,0	3,4	0,0	17,6	79,4	267,7	379,4	121,7	284,6	490,7	967,0
May	1.632,1	0,0	0,0	1,0	0,0	11,2	79,4	287,6	400,1	98,2	263,2	493,4	984,1
June	1.576,3	0,0	0,0	0,6	0,0	26,0	79,4	366,9	403,1	-16,3	221,6	496,3	1.004,7
July	1.403,2	0,0	0,0	1,5	0,0	41,5	79,4	405,2	413,5	-212,0	179,6	497,5	1.031,9
Aug.	1.465,0	0,0	0,0	1,9	0,0	21,9	79,5	427,1	422,7	-166,4	176,7	505,4	1.029,5
Sep.	1.450,9	0,0	0,0	8,6	0,0	2,2	79,3	392,3	413,0	-127,4	190,7	509,3	1.003,9
Oct.	1.461,3	0,0	0,0	0,3	0,0	10,5	79,4	332,6	413,3	-98,8	213,4	511,2	1.014,4
Nov.	1.446,9	0,0	0,0	0,6	0,0	4,7	79,5	385,3	399,9	-135,9	201,8	512,1	996,2
Dec.	1.371,4	0,0	0,0	0,0	0,0	36,2	79,3	412,0	425,4	-330,1	231,9	516,6	1.057,6
2003 Jan.	1.340,4	0,0	0,0	3,5	0,0	29,3	79,3	438,9	413,6	-315,3	172,7	525,3	1.047,6
Feb.	1.280,1	0,0	0,0	0,4	0,0	32,4	79,3	325,0	402,2	-276,0	181,8	535,8	1.049,7
Mar.	1.210,2	0,0	0,0	10,3	0,0	11,1	79,4	308,5	404,4	-309,5	188,5	538,1	1.032,9
Apr.	1.141,6	0,0	0,0	0,2	0,0	14,7	79,4	210,4	422,4	-328,7	208,4	535,0	1.051,6
May	1.112,4	0,0	0,0	3,2	0,0	13,4	79,4	152,3	438,8	-315,7	214,8	532,6	1.064,2
June	1.095,7	0,0	0,0	1,6	0,0	9,9	79,3	136,7	447,1	-309,5	204,0	529,8	1.066,1
July	1.075,1	0,0	0,0	0,0	0,0	27,6	79,3	117,7	462,2	-332,7	193,2	527,8	1.096,9

The overnight interest rate in the interbank market declined to an average of 3,19% in July, from 3,42% in June and 3,56% in May. Government security yields did not change significantly in the period from May to July. As regards short-term securities, the average yield of 13-week treasury bills was 3,51% in July, when such bills were issued for the first time since January 2003. The decline in the yield of 13-week treasury bills reflects the reduction in official interest rates by half a percentage point on 4 April 2003. The average yield on 52-week treasury bills was 3,63% in July. With regard to long-term securities, the average interest rate on two-year and five-year bonds was 3,69% and 4,45%, respectively, in July, while auctions for

ten-year and 15-year bonds were held in June, with respective average yields of 4,59% and 4,62% (table 10).

Table 12 gives a comparison of domestic long-term interest rates and European Union rates. According to the latest available data, which refer to May, domestic long-term real interest rates remained below the corresponding rates in the European Union. The real interest rate differential widened to 140 basis points in May, from 127 basis points in April, as a result of the rise in domestic inflation, while inflation in the European Union remained stable. The latest twelve-month average of long-term nominal interest rates in Cyprus was 4,94%.

Table 12

Inflation and interest rates in Europe and Cyprus – May 2003

(latest 12-month average)

	Inflation (HICP)	Long-term interest rates	Long-term real interest rates
Belgium	1,20	4,50	3,30
Denmark	2,50	4,60	2,10
Germany	1,10	4,40	3,30
Greece	3,70	4,60	0,90
Spain	3,60	4,50	0,90
France	2,00	4,40	2,40
Ireland	4,60	4,50	-0,10
Italy	2,80	4,60	1,80
Luxembourg	2,60	4,10	1,50
Netherlands	3,30	4,40	1,10
Austria	1,60	4,50	2,90
Portugal	3,90	4,50	0,60
Finland	1,60	4,50	2,90
Sweden	2,00	4,90	2,90
United Kingdom	1,30	4,60	3,30
Euro zone	2,20	4,50	2,30
EU -15	2,00	4,50	2,50
Cyprus	3,84	4,94	1,10

International and domestic official interest rates

The European Central Bank, the US Federal Reserve System and the Bank of England maintained their official interest rates unchanged at their recent meetings. The Central Bank of Cyprus also maintained interest rates unchanged at the meeting of 11 July.

Consequently, the official interest rate differential between Cyprus and the euro area remained at 150 basis points for both the marginal lending facility and the overnight deposit facility.

Table 13

Official interest rates

(levels in percentages per annum, changes in percentage points)

		change
European Central Bank		
<i>(10 July 2003)</i>		
Minimum bid rate on the main refinancing operations	2,00	-
Interest rate on the marginal lending facility	3,00	-
Interest rate on the deposit facility	1,00	-
Bank of England		
<i>(7 August 2003)</i>		
Repo Rate	3,50	-
Federal Reserve System		
<i>(12 August 2003)</i>		
Federal Funds Rate	1,00	-
Discount Rate	2,00	-
Central Bank of Cyprus		
<i>(11 July 2003)</i>		
Minimum bid rate on the main refinancing operations	3,50	-
Interest rate on the marginal lending facility	4,50	-
Interest rate on the deposit facility	2,50	-

Cyprus Stock Exchange

The Cyprus Stock Exchange General Price Index showed signs of stabilisation in July, closing at 85,0 points, the same level as in June (chart 7). During July, the General Price Index fluctuated in the range of 84,2 to 86,4 points, compared with a range of 85,0 to 86,5 points in June.

The average daily traded volume remained stable at £0,4 million, while the average daily number of

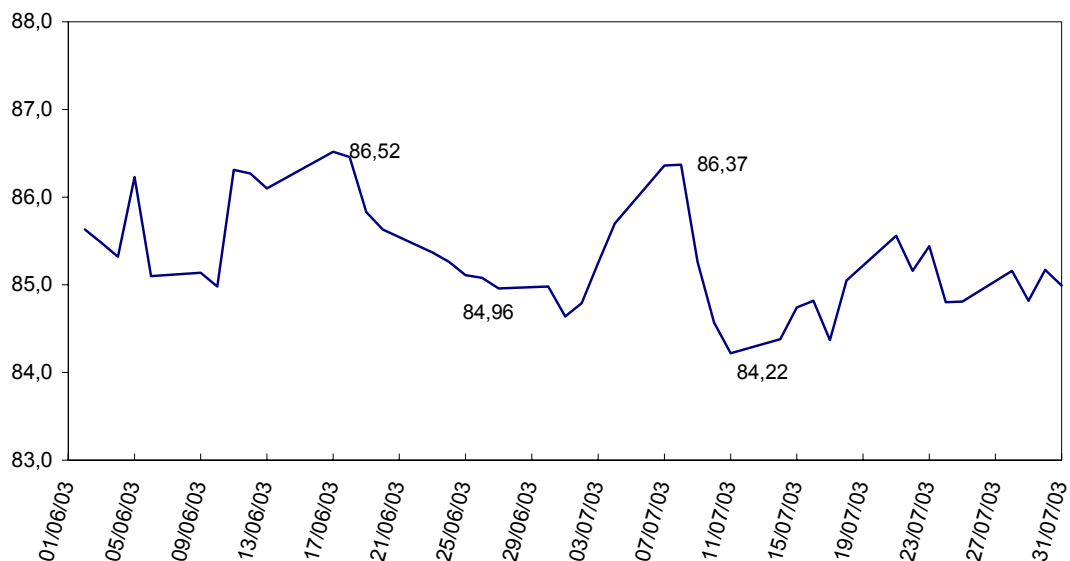
transactions declined to 603 in July, from 707 in June. About one third of the sectoral price indices remained stable, one third registered a small increase and the remaining indices declined. The securities with the largest proportion of the monthly traded volume were the shares of Bank of Cyprus and Laiki Bank, with corresponding proportions of 18,8% and 13,3% in June, and 41,1% and 8,2% in July.

Chart 7

Cyprus Stock Exchange (CSE) General Index

June - July 2003

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



As shown in table 14, net capital inflows in the Cyprus Stock Exchange increased in June and July. Specifically, in accordance with data on transactions in the central security depository, purchases of listed shares by non-residents rose

to £460 thousand in June, while sales reached £74 thousand. In July, purchases and sales by non-residents amounted to £409 thousand and £26 thousand, respectively.

Table 14

Investments by non-residents on the Cyprus Stock Exchange¹

(CYP thousand)

	2001	2002	2003			
	Dec.	Dec.	Apr.	May	June	July
Purchases	367	50	154	262	460	409
Sales	577	0	35	10	74	26
Net investments	-210	50	119	252	386	383

Source: Cyprus Stock Exchange

¹ The data for 2001 and 2002 refer only to purchases and sales of shares not included in the dematerialisation process. The data for April and May 2003 include transactions in and outside the central security depository (CSD). In June and July 2003 there were no transactions in the CSD.

2.3 INFLATION

Prices increased by 3,33% in July 2003, compared with an increase of 4,02% in the previous month and 3,32% in July 2002. As table 15 indicates, the decline in inflation in July, compared with the previous month, is attributable primarily to the elimination of the base effect associated with the increase in the VAT standard rate from 10% to 13% effective 1 July 2002. More specifically, a substantial deceleration was observed in the prices of industrial non-oil goods, and in the prices of fuel and gas, as well as electricity. In parallel, services prices registered a small deceleration. By contrast, agricultural product prices accelerated in July, while the decrease in the prices of motor vehicles was much smaller than in June, due to the elimination of the base effect associated with the reduction in excise taxes on most categories of vehicles in July 2002. The prices of other imported goods decelerated considerably.

Taking a more detailed look at domestic goods, a noteworthy development in July 2003 was the substantial deceleration in the prices of fuel and gas, industrial non-oil goods and electricity, which increased by 0,58%, 4,33% and 7,59%, respectively, compared with increases of 18,94%, 6,09% and 10,57% in June 2003. This deceleration is attributable mostly to the elimination of the base effect associated with the increase in the VAT rate from 10,0% to 13,0% as of 1 July 2002, and it was moderated by the rise in oil prices in June and July 2003. By contrast, agricultural product prices accelerated, with a growth rate of 6,81% in July, compared with an increase of 5,03% in June.

Prices of imported goods declined marginally by 0,17% in July, after a decline of 3,53% in June. In particular, the prices of motor vehicles decreased by only 1,39%, compared with a fall of 11,50% in the previous month, as a result of the elimination of the base effect originating from the reduction in excise duties on most types of cars as of 1 July 2002. The prices of other imported goods slowed somewhat, due to the elimination of the base effect originating from the increase in the VAT standard rate from 10% to 13% as of 1 July 2002.

Services prices increased by 4,00% in July 2003, compared with an increase of 4,31% in June 2003 and 4,38% in July 2002. Telecommunications prices continued to decrease in July. The decline in telecommunications prices, which has been observed since January 2002, is attributable to the process of liberalisation of this sector.

As a result of the aforementioned developments, inflation reached 4,65% in the first seven months of 2003, compared with 2,59% in the same period of 2002. This rise in inflation was driven mainly by the sharp increase in the prices of domestic industrial non-oil goods, fuel and gas, and electricity, and to a lesser extent by the increase in services prices, which are largely attributable to the increase in the VAT rate and in excise taxes in July 2002 and January 2003.

A more detailed analysis of developments on the inflation front by economic origin is given in tables 7 to 10 in the annex.

Table 15**Consumer price index by economic origin***(annual percentage change)*

		2001	2002	July 2002/2001	June 2003/2002	July 2003/2002
	All items	1,98	2,81	3,32	4,02	3,33
A	Domestic goods	1,34	4,35	5,90	7,79	4,41
A.1	Agricultural	4,50	1,79	-2,75	5,03	6,81
A.2	Industrial	0,78	5,62	8,66	8,36	3,57
A.2.1	<i>Industrial, non-oil</i>	<i>0,10</i>	<i>4,55</i>	<i>6,60</i>	<i>6,09</i>	<i>4,33</i>
A.2.2	<i>Fuel and gas</i>	<i>3,99</i>	<i>10,57</i>	<i>17,63</i>	<i>18,94</i>	<i>0,58</i>
A.3	Electricity	-3,23	-2,26	2,10	10,57	7,59
B	Imported goods	0,47	-1,69	-3,36	-3,53	-0,17
B.1	Motor vehicles	0,55	-5,07	-10,29	-11,50	-1,39
B.2	Other imported goods	0,41	0,85	1,93	2,36	0,64
C	Services	3,35	3,67	4,38	4,31	4,00

With regard to prospects for 2003, taking into account the effects of the tax measures implemented in mid-2002 and the measures implemented on 1 January 2003 (including a further increase in the VAT standard rate to 15%), inflation is expected to rise to around 4,0% to 4,5%. This projection is based on the framework of price analysis by economic origin, as presented above, and a set of working hypotheses. Specifically, it is assumed that oil prices will decline and reach an average of around USD 28 per barrel for the year as a whole, and that agricultural product prices will register an average increase of the order of 3,0% to 3,5%. It is also assumed that the Cyprus pound will remain strong in 2003 compared with 2002, having a downward effect on inflation, through the prices of imported goods.

For purposes of comparison, table 16 shows the latest available monthly data on inflation in Cyprus, the euro area and selected other countries, as well as forecasts for 2003.

Table 16**Inflation: Cyprus and other countries***(annual percentage change in consumer prices)*

	Inflation rate	month	forecast for 2003 ¹
Cyprus	3,3	July	4,5 ²
Euro area	1,9	July	1,8
U.S.A.	2,1	July	2,1
G.Britain	3,1	July	2,7
Germany	0,9	July	0,9
Italy	2,7	July	2,4
Denmark	1,9	July	2,2
France	1,9	July	1,8
Austria	1,1	July	1,2
Belgium	1,5	July	1,3
Spain	2,8	July	3,0
Sweden	1,8	July	2,2
Switzerland	0,3	July	0,7
Japan	-0,4	June	-0,4
Canada	2,6	June	2,8

*(1) Source: The Economist (16 / 08 / 03)**(2) Source: Central Bank of Cyprus*

2.4 DOMESTIC ECONOMY

An overview of the domestic economy is presented in table 17, which gives a series of the latest economic indicators. Charts 8 and 9 show graphs of a number of relevant indicators. According to these data, tourist arrivals continued to register a sizeable cumulative decrease in the current year, even though the decrease recorded in July was much smaller than the decreases in the previous months of the year. In parallel, important indicators of supply and demand point to a continuing slowdown in economic activity. In the first seven months of 2003, unemployment increased in comparison with the corresponding months of 2002.

Production

As regards the services sector, the decrease in tourist arrivals slowed considerably in July 2003. Specifically, tourist arrivals decreased by 2,8% in July 2003, compared with a fall of 12,3% in the same month of 2002 and 10,6% in June 2003. Consequently, tourist arrivals registered a cumulative decrease of 10,0% in the first seven months of 2003, compared with a decrease of 12,9% in the same period of 2002. In parallel, receipts from tourism fell by 17,1% in the first half of 2003, compared with a decrease of 9,1% in the first half of 2002.

In the secondary sector, the picture is mixed. On the one hand, construction continued to show positive signs, and on the other hand, manufacturing continued to show a downturn.

Specifically, the volume index of building permits, which indicates prospects for the construction sector in the following few months, rose by 25,9% in April and by 85,5% in May 2003, compared with decreases of 15,9% and 34,4%, in the corresponding months of 2002. The value index of building permits rose by 20,4% in April and by 27,6% in May 2003, compared with decreases of 2,2% and 6,2% in the corresponding months of the previous year. For the first five months of 2003, the volume and value indices of building permits registered a rise of 19,2% and 24,4%, respectively, compared with an increase of 3,2% and 5,3%, respectively, in the same period of 2002.

Cement sales in the domestic market increased by 6,6% in July 2003, compared with a rise of 14,5% in the same month of 2002. For the period from January to July 2003, cement sales registered an increase of 7,8%, compared with a growth rate of 10,7% in the same period of the previous year.

Table 17
Latest economic indicators

	2001	2002	Latest month with available data		Corresponding month of the previous year		Latest period with available data		Corresponding period of the previous year	
Consumer price index (% change)	2,0	2,8	Jul. 2003	3,3	Jul. 2002	3,3	Jan.-Jul. 2003	4,7	Jan.-Jul. 2002	2,6
Unemployment rate (% of E.A.P)	3,0	3,2	Jul. 2003	3,7	Jul. 2002	3,1	Jan.-Jul. 2003	3,7	Jan.-Jul. 2002	3,3
Fiscal deficit(-)/surplus(+) (% of GDP)	-166,5	-220,0	Jan.-Apr. 2003	-110,7	Jan.-Apr. 2002	-77,0	Jan.-Apr. 2003	-110,7	Jan.-Apr. 2002	-77,0
Tourist arrivals (% change)	0,4	-10,3	Jul. 2003	-2,8	Jul. 2002	-12,3	Jan.-Jul. 2003	-10,0	Jan.-Jul. 2002	-12,9
Tourist revenue (% change)	7,0	-11,0	Jun. 2003	-17,6	Jun. 2002	-11,5	Jan.-Jun. 2003	-17,1	Jan.-Jun. 2002	-9,1
Cypriots traveling abroad (% change)	16,8	8,7	Jun. 2003	1,9	Jun. 2002	-7,4	Jan.-Jun. 2003	5,5	Jan.-Jun. 2002	4,0
Volume index of retail sales (% change)	5,9	1,0	May 2003	-1,4	May 2002	-3,1	Jan.-May 2003	-2,3	Jan.-May 2002	1,8
Private car registration (% change)	19,2	24,5	Jun. 2003	128,5	Jun. 2002	-38,6	Jan.-Jun. 2003	32,8	Jan.-Jun. 2002	15,7
Volume index of manufacturing production (% change)	-2,0	-2,5	May 2003	-1,8	May 2002	-6,8	Jan.-May 2003	-5,4	Jan.-May 2002	-2,1
Volume index of building permits authorised (% change)	23,4	10,8	May 2003	85,5	May 2002	-34,4	Jan.-May 2003	19,2	Jan.-May 2002	3,2
Value index of building permits authorised (% change)	26,2	13,0	May 2003	27,6	May 2002	-6,2	Jan.-May 2003	24,4	Jan.-May 2002	5,3
Local sales of cement (% change)	11,6	12,2	Jul. 2003	6,6	Jul. 2002	14,5	Jan.-Jul. 2003	7,8	Jan.-Jul. 2002	10,7
Total imports (c.i.f.) (% change)	2,4	-1,7	May 2003	-22,2	May 2002	0,4	Jan.-May 2003	-12,2	Jan.-May 2002	1,7
Imports for home consumption (c.i.f.) ¹ (% change)	8,7	3,8	May 2003	-13,4	May 2002	6,8	Jan.-May 2003	-8,2	Jan.-May 2002	5,0
Total exports (f.o.b.) (% change)	6,1	-18,6	May 2003	-1,9	May 2002	-26,4	Jan.-May 2003	-11,4	Jan.-May 2002	-13,0
Domestic exports(f.o.b.) (% change)	4,5	-5,1	May 2003	-0,4	May 2002	3,5	Jan.-May 2003	-12,8	Jan.-May 2002	7,2
Trade deficit (£ million)	-1900,7	-1975,3	May 2003	-145,0	May 2002	-198,5	Jan.-May 2003	-732,4	Jan.-May 2002	-835,7

(1) Non-oil civil imports

Manufacturing continued to present a negative picture. The volume index of manufacturing production registered a contraction of 5,4% in the first five months of the year, compared with a

decrease of 2,1% in the same period of 2002.

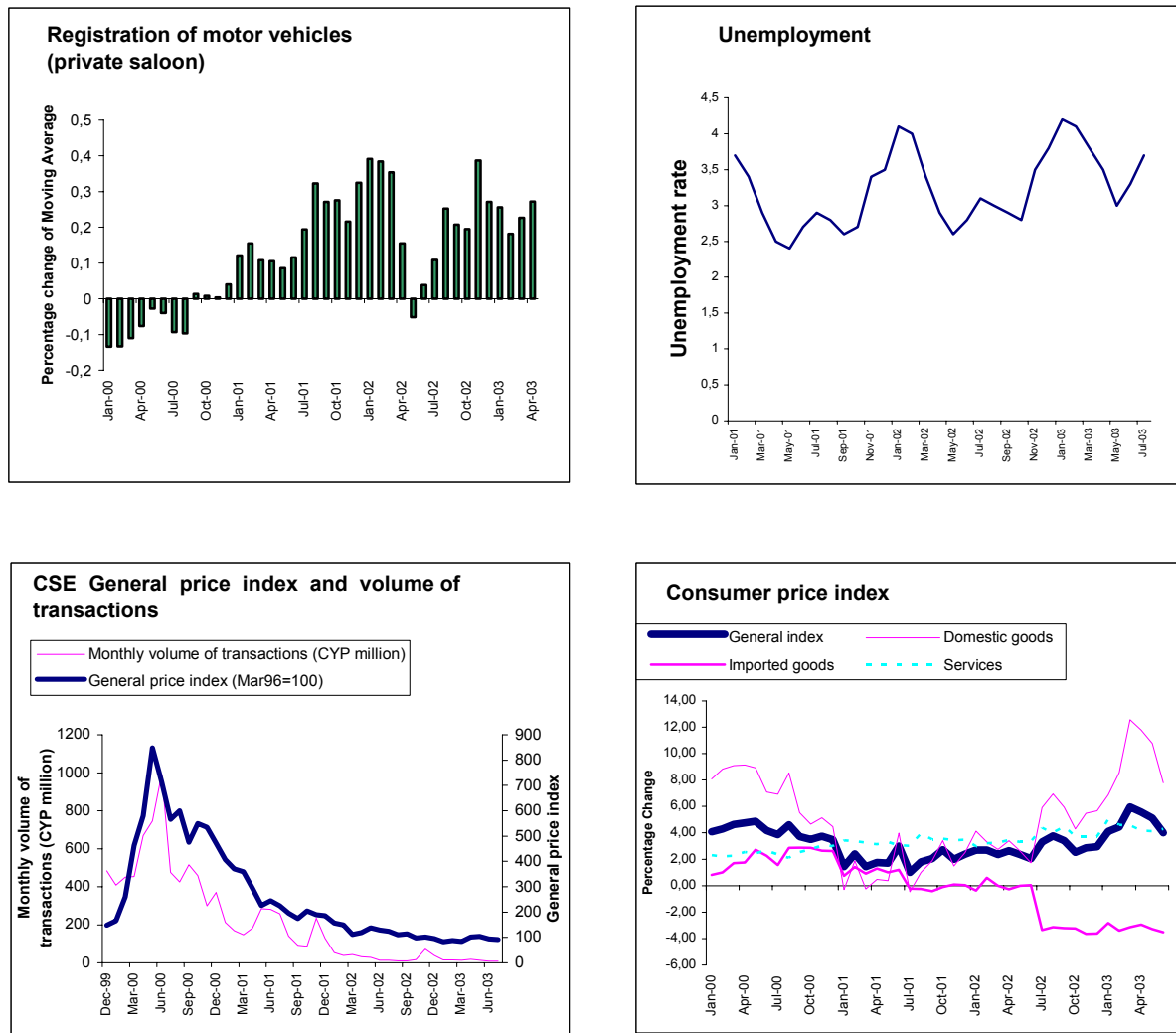
The performance of manufacturing by product category is shown in table 18.

Table 18

Manufacturing production volume index

(percentage change by category)

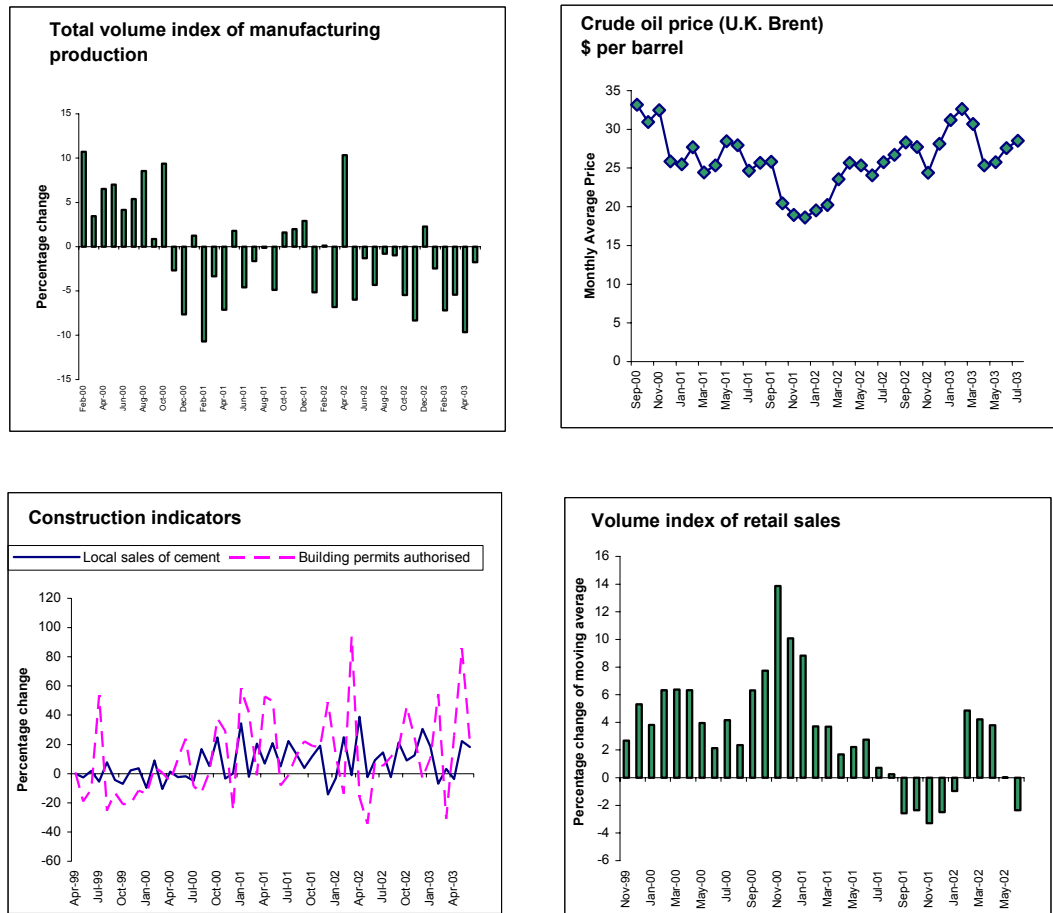
	May 02/01	May 03/02	Jan.-May 02/01	Jan.-May 03/02
General index	-6,8	-1,8	-2,1	-5,4
Food products, beverages & tobacco	-9,0	-3,5	-6,1	-5,2
Textiles & textile products	-28,4	-26,1	-11,7	-28,7
Leather and leather products	-14,9	-37,9	-4,0	-39,3
Wood & wood products	-6,0	-1,9	-4,4	-3,3
Paper, paper products, publishing & printing	-9,0	1,6	-1,1	-3,2
Refined petroleum products	43,7	18,0	-0,9	-7,7
Chemicals, chemical products and man-made fibres	-4,7	-3,2	6,2	-8,1
Rubber and plastic products	2,6	0,7	4,8	-4,0
Other non-metallic mineral products	1,4	22,2	6,8	11,4
Basic metals & fabricated metal products	1,8	-5,1	3,5	-2,5
Machinery and equipment n.e.c.	-4,2	-3,6	-2,2	-16,2
Electrical & optical equipment	-6,4	-14,0	6,0	-9,8
Transport equipment	18,0	-6,7	20,0	0,3
Manufacturing n.e.c.	-8,9	-6,9	-7,7	-14,5

Chart 8

Consumption

The retail sales volume index declined by 2,3% in the first five months of 2003, compared with an increase of 1,8% in the same period of the previous year. In May 2003, the index decreased by 1,4%, compared with a decrease of 3,1% in the same month of 2002.

The course of the retail sales volume index during the period from January to May 2003 partly reflects the course of retail sales of cars, which registered a slowdown compared with the same period of 2002, as well as the overall subdued market activity, especially before and during the war in Iraq.

Chart 9

Private saloon car registrations, which provide another important indicator of consumer behaviour, exhibited sizeable increases in recent months, following the implementation of the tax reform on 1 July 2002, which included a significant reduction in excise taxes on cars. In June 2003, car sales expanded by 128,5%, compared with a fall of

38,6% in June 2002. This sharp rise in car sales is essentially the result of a base effect. Specifically, car sales were low in June 2002, as consumers were anticipating the reduction in excise taxes. For the first half of 2003, car registrations rose by 32,8%, compared with an increase of 15,7% in the first half of 2002.

Developments concerning non-oil imports for home consumption (excluding imports of military equipment) seem consistent with the weak domestic demand observed in the first five months of 2003. These imports declined by 8,2% in the period from January to May 2003,

compared with an increase of 5,0% in the same period of 2002. In contrast, the number of Cypriots travelling abroad increased by 5,5% in the first half of 2003, compared with an increase of 4,0% in the first half of 2002.

Table 19

Retail sales volume index

(percentage change by category)

	May 02/01	May 03/02	Jan.-May 02/01	Jan.-May 03/02
General index	-3,1	-1,4	1,8	-2,3
Food, drinks and tobacco	-3,1	-5,5	-6,8	-3,6
Clothing and textiles	24,0	-6,2	3,6	4,6
Footwear & leather products	24,2	13,1	5,0	5,0
Electrical goods & appliances	-4,8	1,5	5,4	0,1
Vehicles, machinery & spare parts	-9,9	-0,5	8,8	-2,8
Supermarkets	-2,2	-12,8	-0,1	-9,6
Pharmacies	-3,8	22,9	5,6	9,7
Furniture	-5,8	-19,8	5,6	-11,6
Petrol stations	1,7	17,0	2,2	13,1
Toys	11,8	-5,5	8,9	-20,7

Confidence indicators

Chart 10 illustrates the course of confidence indicators for the Cypriot economy since May 2001, when the European Commission started their release.⁶ Trends in these confidence indicators are consistent with the overall picture of the Cypriot economy presented in this *Report*.

In particular, the construction confidence indicator registered an overall positive trend in 2002, notwithstanding the fluctuations observed. This trend is consistent with the satisfactory performance of the construction sector in 2002, as portrayed by the volume and value indices of building permits and by cement sales. The construction confidence indicator remained positive in the first seven months of 2003, although it declined somewhat in February, April and July.

The observed fluctuations of the industrial confidence indicator in the first seven months of 2003 appear to reflect the uncertainty prevailing in this sector. With regard to services, the generally negative course of the confidence indicator, which continued in July 2003, is consistent with the negative picture of the services sector – primarily tourism – in 2002 and in the first seven months of 2003.

The consumer confidence indicator also followed a negative course, notwithstanding small increases in February, May and June 2003. This course is compatible with the considerable deceleration recorded in private consumption. The retail trade confidence indicator also showed a generally downward trend in the first seven months of 2003.

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

Chart 10**Confidence indicators***(units, end of month)***Labour market**

According to the latest available data for the labour market, the number of registered unemployed rose by 20,7% in July 2003, while the unemployment rate, as a percentage of the economically active population, reached 3,7%, compared with 3,1% in the same month of the previous year. For the first seven months of 2003, the number of registered unemployed increased by 13,3%, compared with an increase of 12,6% in the same period of 2002, and the unemployment rate rose to 3,7%, from 3,3% in the first seven months of 2002. Rising unemployment has been observed since November 2001, concurrently with the recorded slowdown in the overall economic activity.

Public finances

According to data from the Ministry of Finance, the fiscal deficit increased to £110,7 million in the first four months of 2003, from £77,0 million in the same period of the previous year. Public revenue grew by 15,6%, compared with an increase of 3,9% in the same period of 2002. At the same time, however, public expenditure accelerated considerably, with a growth rate of 18,8%, compared with 12,8% in the same period of the previous year, thus leading to the increase in the fiscal deficit for the first four months of the year.

Taking a more detailed look at public expenditure, current expenditure accelerated, while capital expenditure increased sharply. Among the categories of current expenditure, an acceleration was recorded in wages and salaries, interest payments and current transfers, while subsidies rose sharply. By contrast, social pension and social security fund payments decelerated. As regards capital expenditure, both investment and capital transfers increased significantly.

Turning to public revenue, direct tax receipts declined, while indirect tax receipts accelerated substantially. In particular, income tax receipts registered a sizeable decrease, emanating from the economic slowdown and the tax reform. As regards indirect taxes, VAT receipts accelerated owing to the increase in the VAT standard rate, from 10% to 13% effective 1 July 2002, and from 13% to 15% effective 1 January 2003. Receipts from excise taxes also accelerated, whereas import duties decreased. Social security fund contributions also declined.

Overall assessment and outlook of the domestic economy in 2003

The Cypriot economy slowed in 2002, registering real GDP growth around 2,0%, down from 4,1% in 2001. It appears that 2003 will also be a difficult year. The slowdown in economic activity is portrayed by the quarterly national accounts compiled by the Statistical Service. It should be noted that the growth rates registered in Cyprus in 2002 and 2003, albeit subdued, remain higher than in most European Union member states.

Concerning prospects for 2003, economic growth for the year will likely not be weaker than in 2002. As regards public finances, the Ministry of Finance expects the fiscal deficit to exceed 5,4% of GDP in 2003.

Table 20
Public finances summary

	Jan.-Apr. 2002	Jan.-Apr. 2003	Jan.-Apr. 02/01	Jan.-Apr. 03/02
	<i>million</i>		<i>(% change)</i>	
Total revenue and grants	596,4	689,2	3,9	15,6
Direct taxes	195,3	158,3	0,7	-18,9
Income tax	144,2	97,2	5,6	-32,6
Indirect taxes	246,9	316,9	6,5	28,4
Value added tax	119,3	159,2	7,2	33,5
Excise taxes	58,8	88,9	10,2	51,2
Import duty	23,0	17,5	36,3	-24,1
Social security funds contributions	107,9	104,9	13,9	-2,8
Other revenues	45,8	108,3	-13,3	136,6
Foreign grants	0,4	0,7	-8,8	64,8
Total expenditure and net lending	673,4	799,9	12,8	18,8
Current expenditure	624,5	739,1	14,9	18,3
Goods and services	271,6	298,4	15,1	9,9
Wages and salaries	177,6	200,0	6,3	12,6
Current transfers	135,6	167,1	0,9	23,2
Social pension	8,3	8,5	5,1	1,5
Social security funds payments	91,8	104,1	16,5	13,5
Subsidies	14,9	39,3	-26,4	163,5
Interest	102,3	121,7	9,2	18,9
Capital expenditure	42,2	58,5	-10,9	38,5
Investment	31,5	43,6	-7,6	38,7
Capital transfers	10,7	14,8	-12,8	37,9
Net lending	6,7	2,4	13,1	-64,3
Fiscal surplus (+)/deficit(-)	-77,0	-110,7	235,6	43,8

2.5 EXTERNAL TRANSACTIONS

Goods

An overview of the trade balance of the first five months of 2003 is given in table 21. Data for May are provisional.

According to these data, total imports fell by 12,2% in the first five months of 2003, compared with an increase of 1,7% in the same period of the previous year. Both imports for home consumption and imports destined for re-exports registered a sizeable decrease, of the order of 12,3% and 11,2%, respectively. Non-oil imports for home consumption excluding imports of military equipment fell by 8,2%, compared with an increase of 5,0% in the first five months of 2002.

Turning to total exports, the provisional data indicate a continued decline in May 2003. Specifically, total exports fell by 11,4% in the period from January to May 2003, compared with a fall of 13,0% in the same period of 2002. In particular, re-exports fell by 16,4%, continuing the downturn observed during this year, while domestic exports declined by 12,8%, compared with an increase of 7,1% in 2002.

As a result of these developments, the crude trade deficit narrowed to £732,4 million in the first five months of 2003, from £835,7 million in the same period of 2002. This improvement is partly attributable to the improvement of the terms of trade, which stemmed from the appreciation of the Cyprus pound in the first five months of 2003.

Tables 22 and 23 present the latest available data on the breakdown of imports for home consumption and domestic exports, respectively, by category of goods. The data cover the period up to April 2003.

Concerning imports for home consumption, table 22 shows that in the period from January to April 2003, imports of consumer goods declined by 9,8%, compared with an increase of 12,9% in the same period of 2002. Imports of intermediate inputs decreased by 6,3%, compared with an increase of 1,4% in the corresponding period of 2002. Imports of capital goods decreased by 2,4%, compared with a decrease of 7,3% a year earlier. However, some sub-categories of capital goods, particularly construction and mining, manufacturing, and transport, storage and communication recorded a considerable rebound.

As regards domestic exports (table 23), in the period from January to April 2003, sizeable decreases were recorded in the exports of both raw agricultural products and industrial products of manufacturing origin, including

exports of pharmaceuticals, which fell by 19,3%. Exports of industrial products of agricultural origin remained at the same level as in the first four months of the previous year.

Table 21

Trade balance data¹

(CYP million)

	2001	2002	2001/2000 yearly % change	2001 Jan. - May	2002 Jan. - May	2003 Jan. - May	2002/2001 % change Jan. - May	2003/2002 % change Jan. - May
Total imports (cif)	2.528,7	2.486,6	-1,7	1.044,0	1.061,7	932,6	1,7	-12,2
Imports for home consumption (cif)	2.176,8	2.256,5	3,7	882,0	953,0	836,1	8,0	-12,3
Non oil civil imports for home consumption (cif)	1.813,0	1.882,1	3,8	768,5	806,8	740,6	5,0	-8,2
<i>Imports destined for re-exports</i>	351,9	230,1	-34,6	162,0	108,7	96,5	-32,9	-11,2
Total exports	628,0	511,3	-18,6	259,7	226,0	200,2	-13,0	-11,4
Domestic exports (fob)	233,9	221,9	-5,1	97,6	104,6	91,1	7,1	-12,8
Re-exports (fob)	337,0	247,1	-26,7	141,9	107,4	89,8	-24,3	-16,4
Shipstores	57,1	42,3	-1,7	20,2	14,0	19,3	-30,5	37,2
Trade balance	-1.900,7	-1.975,3	3,9	-784,3	-835,7	-732,4	6,6	-12,4

¹ Figures for May 2003 are provisional

Table 22**Imports (c.i.f.) by economic destination**

(CYP million)

	2001 yearly	2002 yearly	2001 Jan. - April	2002 Jan. - April	2003 Jan. - April	2002/2001 yearly % change	2002/2001 Jan. - April % change	2003/2002 Jan. - April % change
Consumer goods	617,7	641,6	194,3	219,3	197,7	3,9	12,9	-9,8
		641,6	194,3	219,4	197,7			
Non-durable	338,1	351,0	102,6	121,1	108,5	3,8	18,0	-10,4
Semi-durable	170,4	178,0	56,8	61,7	57,2	4,5	8,6	-7,3
Durable	109,2	112,6	34,9	36,6	32,0	3,1	4,9	-12,5
Intermediate inputs	710,3	715,8	234,1	237,3	222,2	0,8	1,4	-6,3
		715,8	234,2	237,4	222,2			
Agricultural	42,2	43,3	11,3	12,8	10,3	2,6	13,6	-20,1
Construction and mining	120,7	135,9	41,1	46,0	49,5	12,6	11,9	7,7
Manufacturing	421,8	419,3	136,5	141,9	129,1	-0,6	4,0	-9,0
Transport, storage and communication	29,4	26,2	13,0	6,5	8,5	-10,9	-50,0	30,8
Other sectors of the economy	96,2	91,1	32,3	30,1	24,8	-5,3	-6,8	-17,6
Capital goods	258,3	242,8	86,1	79,8	77,9	-6,0	-7,3	-2,4
		242,9	86,2	79,8	77,9			
Agricultural	8,8	8,6	3,2	3,1	2,5	-2,3	-3,1	-19,4
Construction and mining	20,6	21,2	6,6	6,4	7,9	2,9	-3,0	23,4
Manufacturing	69,6	60,0	22,7	19,1	19,3	-13,8	-15,9	1,0
Transport, storage and communication	52,3	45,8	18,1	14,7	16,5	-12,4	-18,8	12,2
Other sectors of the economy	107,0	107,3	35,6	36,5	31,7	0,3	2,5	-13,2
Transport equipment and parts thereof	226,6	281,5	75,2	79,3	77,4	24,2	5,5	-2,4
of which:								
passenger cars	94,6	160,1	48,6	54,1	49,4	69,2	11,3	-8,8
spare parts	61,3	66,3	21,7	21,5	25,4	7,5	-0,7	17,8
aircraft and parts	0,6	42,7	0,0	0,0	0,2			
Fuels and lubricants	266,1	240,4	75,1	83,6	61,3			
Unclassified	97,9	134,3	8,9	31,2	22,6			
Imports for home consumption	2176,8	2256,4	673,7	730,5	659,1	3,7	8,4	-9,8
Imports destined for re-exports	351,9	230,2	124,4	84,3	81,5	-34,6	-32,3	-3,3
Total imports	2528,7	2486,6	798,1	814,8	740,6	-1,7	2,1	-9,1
Memo item:	1813,0	1882,1	589,7	615,8	575,2	3,8	4,4	-6,6
Non oil civil imports for home consumption								

Source: Statistical Service of Cyprus

Table 23**Exports (f.o.b.) by economic origin***(CYP million)*

	2001 yearly	2002 yearly	2001 Jan. - April	2002 Jan. - April	2003 Jan. - April	2002/2001 yearly % change	2002/2001 Jan. - April % change	2003/2002 Jan. - April % change
Agricultural products (raw)	43,8	36,9	18,5	18,8	16,0	-15,8	1,6	-14,9
of which:								
potatoes	17,5	11,1	5,9	3,8	2,9	-36,6		
other vegetables	4,2	3,8	2,0	2,0	2,1	-15,8		
fresh, frozen or dried								
citrus fruit	14,7	18,3	8,8	12,4	10,2	24,5		
Minerals and industrial products of mineral origin	11,6	10,5	3,6	3,5	3,9	-9,5	-2,5	12,4
Industrial products of agricultural origin	28,0	32,9	8,4	10,6	10,6	17,5	26,2	0,0
of which:								
halloumi cheese	7,7	10,9	2,3	3,8	3,4	41,6		
fruit preserved	0,9	0,9	0,2	0,3	0,2	0,0		
fruit and vegetable juices	4,1	4,7	1,1	1,2	1,6	14,6		
beer	1,0	0,9	0,3	0,3	0,2	-10,0		
wines	5,3	5,1	1,1	1,6	1,8	-3,8		
meat	2,9	4,5	1,1	1,5	1,3	55,2		
Industrial products of manufacturing origin	150,5	141,6	44,9	48,6	37,6	-5,9	8,3	-22,6
of which:								
cigarettes	10,8	4,5	3,8	1,0	1,2	-58,3		
cement	8,4	8,8	2,2	2,6	3,5	4,8		
pharmaceutical products	39,4	43,1	10,6	14,5	11,7	9,4	36,8	-19,3
articles of paper or of paperboard	6,0	5,5	1,9	2,3	1,6	-8,3		
clothing	19,7	16,0	5,7	5,4	3,3	-18,8	-5,3	-38,9
footwear	3,8	3,2	1,4	1,2	0,5	-15,8		
furniture	6,8	6,0	2,6	2,2	1,5	-11,8		
Unclassified	0,1	0,0	0,0	0,0				
Domestic exports	233,9	221,9	75,3	81,5	68,1	-5,1	8,2	-16,4
re-exports	337,0	247,1	105,1	87,0	69,8	-26,7	-17,2	-19,8
shipstores	57,1	42,3	14,2	9,6	15,3	-25,9	-32,4	59,4
Total exports	628,0	511,3	194,6	178,1	153,2	-18,6	-8,5	-14,0

Source: Statistical Service of Cyprus

Tourism

After sizeable decreases of 17,0% and 10,6% in May and June 2003, respectively, tourist arrivals decreased by 2,8% in July compared with the same month of the previous year (table 24). For the period from January to July 2003, tourist arrivals registered a decrease of 10,0%, in comparison with the same period of 2002.

Receipts from tourism fell by 17,6% in June compared with the same month of the previous year. In the first half of 2003, receipts from tourism fell by 17,1%, while tourist arrivals decreased by 12,3% (table 25). This implies a significant decline in expenditure per tourist, which is attributable in part to the decrease in daily tourist expenditure, both in and outside hotels.

Balance of payments prospects

On the basis of the data on external transactions discussed in this *Report*, and in the context of the overall performance of the economy in 2003, the current account balance is expected to improve somewhat. In 2002, besides the downturn in tourism, the current account deficit was significantly affected by other non-recurrent factors, such as the purchase of aircraft valued at about £42,5 million or 0,7% of GDP by Cyprus Airways. The elimination of such factors in 2003 and the expected improvement in the terms of trade stemming from the strengthening of the Cyprus pound, in comparison with 2002, should lead to a small improvement in the current account balance as a percentage of GDP.

Table 24**Tourist arrivals¹***(number of persons)*

	1999	2000	2001	2002	2003	% change 2001/2000	% change 2002/2001	% change 2003/2002
January	57.740	63.553	64.214	54.067	59.529	1,0	-15,8	10,1
February	74.041	87.243	83.569	71.950	77.972	-4,2	-13,9	8,4
March	126.494	135.487	137.578	138.625	91.634	1,5	0,8	-33,9
April	180.076	221.785	237.228	180.481	169.891	7,0	-23,9	-5,9
May	273.317	299.355	324.901	279.070	231.527	8,5	-14,1	-17,0
June	276.879	302.011	322.835	293.192	262.100	6,9	-9,2	-10,6
July	322.041	362.299	373.385	327.404	318.143	3,1	-12,3	-2,8
August	341.088	356.686	371.536	301.724		4,2	-18,8	
September	309.498	329.964	329.400	306.731		-0,2	-6,9	
October	270.732	300.597	269.744	275.840		-10,3	2,3	
November	118.105	133.500	107.454	111.327		-19,5	3,6	
December	84.274	93.722	74.887	77.822		-20,1	3,9	
Jan. - July	1.310.588	1.471.733	1.543.710	1.344.789	1.210.796	4,9	-12,9	-10,0
Jan. - Dec.	2.434.285	2.686.202	2.696.731	2.418.233		0,4	-10,3	

*Source: Statistical Service of Cyprus*¹ Arrivals of same - day visitors are not included**Table 25****Receipts from tourism¹***(CYP million)*

	2000	2001	2002	2003	% change 2002/2001	% change 2003/2002
January		24,9	21,6	25,6	-13,5	18,8
February		29,1	28,9	31,4	-0,9	8,9
March		49,7	59,2	37,8	18,9	-36,1
April		89,9	77,0	67,1	-14,3	-12,9
May		139,1	119,5	92,5	-14,1	-22,6
June	122,9	157,4	139,3	114,8	-11,5	-17,6
July	162,7	192,0	160,7		-16,3	
August	173,7	205,0	153,8		-25,0	
September	161,9	176,3	157,4		-10,7	
October	135,1	130,2	128,0		-1,7	
November	54,1	48,8	51,4		5,4	
December	36,2	29,2	35,6		21,8	
Jan. - Jun.		490,1	445,5	369,3	-9,1	-17,1
Jan. - Dec.		1.271,6	1.132,4		-11,0	

*Source: Statistical Service of Cyprus*¹ Receipts from same - day visitors are not included

3. ANNEX

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

With effect from ⁽¹⁾ (date of decision)		Deposit facility	Main refinancing operations				Marginal lending facility
			Variable rate tenders			Fixed rate tenders	
			Repo	Reverse repo	Acceptance of deposits	Acceptance of deposits	
			Minimum bid rate	Maximum bid rate	Maximum bid rate	Fixed rate	
2001	10 Aug.	3,50		5,00			6,50
	18 Sep.	3,00		4,50			6,00
	02 Nov.	2,50			4,00	4,00	5,50
2002	13 Dec.	2,50			3,75	3,75	5,00
2003	04 Apr.	2,50			3,50	3,50	4,50

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

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

Date of settlement		Bids (amount)	Allotment (amount)	Variable rate tenders				Fixed rate tenders	Running for (...) days
				Maximum bid rate	Weighted average allotment rate	Minimum allotment rate	Maximum allotment rate	Fixed rate	
2003	13 Feb.	144,2	130,0	3,75	3,57	3,50	3,64		14
	27 Feb.	236,0	220,0	3,75	3,70	3,63	3,75		14
	13 Mar.	135,0	135,0	3,75	3,70	3,67	3,75		14
	27 Mar.	295,0	100,0					3,75	42
	27 Mar.	127,0	127,0	3,75	3,71	3,68	3,72		14
	10 Apr.	157,0	125,0	3,50	3,40	3,39	3,44		14
	24 Apr.	95,0	60,0	3,50	3,42	3,32	3,50		14
	08 May	205,0	150,0	3,50	3,39	3,37	3,50		14
	22 May	157,0	150,0	3,50	3,39	3,35	3,47		14
	05 June	161,0	130,0	3,50	3,41	3,38	3,50		14
	19 June	173,0	140,0	3,50	3,38	3,34	3,43		14
	03 July	146,0	110,0	3,50	3,36	3,33	3,39		14
	17 July	141,0	120,0	3,50	3,32	3,28	3,38		14
	31 July	210,0	150,0	3,50	3,29	3,27	3,31		14
	14 Aug.	173,0	140,0	3,50	3,25	3,24	3,27		14

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

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

		Cyprus					Euro area				
		Overnight deposits	2-7 days deposits	1-month deposits	1-6 months deposits	6-12 months deposits	Overnight deposits	1-month deposits	3-month deposits	6-month deposits	12-month deposits
2002	Jan.	3,39	3,82	4,09	-	-	3,29	3,35	3,34	3,34	3,48
	Feb.	3,22	3,66	3,83	-	4,50	3,28	3,34	3,36	3,40	3,59
	Mar.	3,20	-	4,10	5,05	4,57	3,26	3,35	3,39	3,50	3,82
	Apr.	3,29	-	4,10	5,10	-	3,32	3,34	3,41	3,54	3,86
	May	3,28	3,74	4,25	4,60	5,02	3,31	3,37	3,46	3,62	3,95
	June	3,42	3,77	3,96	4,88	5,55	3,35	3,38	3,46	3,59	3,87
	July	3,45	3,00	4,00	-	4,95	3,30	3,36	3,41	3,48	3,64
	Aug.	3,33	3,67	4,02	-	-	3,29	3,33	3,35	3,38	3,44
	Sep.	3,72	3,70	4,29	5,02	-	3,32	3,32	3,31	3,27	3,24
	Oct.	3,40	3,50	3,73	4,19	-	3,30	3,31	3,26	3,17	3,13
	Nov.	3,79	3,28	4,15	4,15	-	3,30	3,23	3,12	3,04	3,02
	Dec.	3,52	3,13	3,33	-	-	3,09	2,98	2,94	2,89	2,87
2003	Jan.	3,25	2,75	3,37	-	4,00	2,79	2,86	2,83	2,76	2,71
	Feb.	3,31	-	3,63	3,90	-	2,76	2,77	2,69	2,58	2,50
	Mar.	3,79	-	3,55	3,88	4,05	2,75	2,60	2,53	2,45	2,41
	Apr.	3,36	3,45	3,68	-	-	2,56	2,58	2,54	2,47	2,45
	May	3,56	-	3,56	3,70	3,96	2,56	2,52	2,41	2,32	2,26
	June	3,42	3,38	3,63	3,67	-	2,21	2,18	2,15	2,08	2,01
	July	3,19	-	3,49	3,75	-					

Sources: Central Bank of Cyprus and European Central Bank

Table 4**Bank interest rates***(percentages per annum)*

	Lending rates ^{1, 2}					Deposit rates ^{1, 3}		
	Enterprises: overdraft within limits	Enterprises: secured loans	Personal: secured loans	Housing: loans secured by assignment of life policy	Credit cards	Current accounts	3 month notice - over CYP5000	1 year fixed deposits - over CYP5000
2001 Dec.	7,12	7,12	7,95	7,00	9,00	0,90	4,00	4,94
2002 Jan.	7,12	7,12	8,03	7,00	10,00	0,92	4,00	4,95
Feb.	7,12	7,12	8,12	7,08	10,50	0,93	4,03	4,95
Mar.	6,78	7,13	7,90	7,15	10,50	0,93	4,03	4,79
Apr.	6,78	7,13	7,90	7,15	10,50	0,93	4,03	4,79
May	6,78	7,13	7,90	7,15	10,50	0,93	4,03	4,79
June	6,98	7,16	7,90	7,15	10,50	0,93	4,42	4,85
July	6,98	7,16	7,90	7,15	10,50	0,93	4,42	4,85
Aug.	6,98	7,16	7,90	7,21	10,50	0,83	4,42	4,85
Sept.	6,98	7,16	7,90	7,21	10,50	0,84	4,37	4,88
Oct.	7,15	7,33	7,90	7,21	10,50	0,84	4,37	4,88
Nov.	7,15	7,33	7,90	7,21	10,50	0,83	4,40	4,84
Dec.	6,98	6,88	7,52	6,78	10,33	0,66	3,80	4,56
2003 Jan.	7,40	7,32	7,70	6,78	10,50	0,71	3,85	4,43
Feb	7,22	7,21	7,70	6,78	10,50	0,65	3,84	4,40
Mar	7,23	7,22	7,70	6,78	10,50	0,68	3,85	4,37
Apr	6,77	6,74	7,13	6,18	10,50	0,45	3,33	3,68
May	6,66	6,68	7,10	6,18	10,50	0,45	3,34	3,64
June	6,76	6,72	7,20	6,18	10,50	0,45	3,33	3,60
July	6,97	6,98	7,40	6,30	10,50	0,42	3,34	3,57

*(1) Reported as end of month.**(2) For the period Jan.01-Nov.01, data refer to the average of the minimum interest rates charged on each loan category, as reported by the three largest banks. From December 2001, data refer to the average of the representative interest rates charged on each loan category, as defined by the three largest banks.**(3) Data refer to the average of the representative interest rates offered on each deposit category, as defined by the three largest banks.*

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

	Deposit interest rates						Lending interest rates			
	Overnight	With agreed maturity			Redeemable at notice		To enterprises		To households	
		Up to 1 year	Up to 2 years	Over 2 years	Up to 3 months	Over 3 months	Up to 1 year	Over 1 year	Consumer lending	For house purchase
2001 June	0,98	3,65	3,65	4,25	2,45	3,85	6,97	6,25	10,17	6,13
July	0,97	3,65	3,65	4,22	2,44	3,80	6,90	6,20	10,11	6,05
Aug.	0,96	3,59	3,59	4,14	2,40	3,68	6,89	6,19	10,16	5,96
Sep.	0,91	3,28	3,28	3,98	2,36	3,33	6,71	6,07	10,08	5,86
Oct.	0,84	3,06	3,06	3,84	2,29	3,01	6,46	5,82	9,99	5,65
Nov.	0,78	2,84	2,83	3,65	2,19	2,75	6,31	5,71	9,87	5,48
Dec.	0,74	2,79	2,78	3,77	2,17	2,79	6,26	5,69	9,81	5,52
2002 Jan.	0,73	2,77	2,77	3,83	2,17	2,80	6,18	5,63	9,79	5,53
Feb.	0,73	2,78	2,79	3,95	2,15	2,91	6,16	5,75	9,83	5,61
Mar.	0,73	2,84	2,84	4,07	2,15	3,00	6,09	5,85	9,78	5,74
Apr.	0,74	2,89	2,90	4,13	2,14	3,07	6,17	5,95	9,83	5,81
May	0,74	2,91	2,92	4,15	2,15	3,08	6,20	5,98	9,87	5,82
June	0,74	2,93	2,94	4,09	2,13	3,08	6,18	5,92	9,83	5,77
July	0,74	2,89	2,90	4,02	2,13	3,02	6,16	5,79	9,78	5,68
Aug.	0,73	2,84	2,85	3,81	2,12	2,94	6,15	5,71	9,79	5,53
Sep.	0,73	2,77	2,77	3,64	2,13	2,73	6,12	5,61	9,85	5,38
Oct.	0,72	2,74	2,74	3,58	2,11	2,63	6,13	5,54	9,72	5,26
Nov.	0,71	2,70	2,69	3,53	2,11	2,55	6,10	5,50	9,70	5,21
Dec.	0,68	2,51	2,51	3,45	2,05	2,41	5,98	5,34	9,58	5,10
2003 Jan.	0,63	2,43	2,42	3,30	2,04	2,34	5,87	5,27	9,48	4,91
Feb.	0,62	2,32	2,32	3,15	2,02	2,12	5,81	5,18	9,39	4,77
Mar.	0,59	2,20	2,19	3,08	1,97	2,05	5,69	5,17	9,29	4,69
Apr.	0,56	2,15	2,14	3,14	1,93	2,05	5,57	5,14	9,23	4,70
May	0,56	2,08	2,08	2,98	1,91	1,92	5,51	5,01	9,22	4,56
June	0,52	1,85	1,84	2,76	1,83	1,65	5,39	4,86	9,18	4,34

Table 6**Calendar of interest rates announcements in 2003**

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
European Central Bank ¹	9 2,75	6 2,75	6 2,50	3 2,50	8 2,50	5 2,00	10 2,00		4	2	6	4
Bank of England ²	9 4,00	6 3,75	6 3,75	10 3,75	8 3,75	5 3,75	10 3,50	7 3,50	4	9	6	4
Federal Reserve System ³	28/29 1,25		18 1,25		6 1,25	24/25 1,00		12 1,00	16	28		9
Central Bank of Cyprus ⁴	24 5,00		7 5,00	4 4,50	8 4,50	13 4,50	11 4,50		5	17	28	

(1) Minimum bid rate on the main refinancing operations

(2) Repo Rate

(3) Federal Funds Rate

(4) Interest rate on the marginal lending facility

Table 7

Percentage change in the Consumer Price Index by economic origin (%)
2001-2003

	Yearly		Quarterly			Jul. 2002/ 2001	Jun. 2003/ 2002	Jul. 2003/ 2002	Jan.-Jul. 2002/ 2001	Jan.-Jun. 2003/ 2002	Jan.-Jul. 2003/ 2002	Weights 1998=100
	2001	2002	2002 IV	2003 I	2003 II							
GENERAL INDEX	1,98	2,81	2,77	4,84	4,90	3,32	4,02	3,33	2,59	4,87	4,65	100,00
A LOCAL GOODS	1,34	4,35	5,15	9,34	10,11	5,90	7,79	4,41	3,39	9,73	8,96	36,69
A.1 Agricultural	4,50	1,79	-8,41	-0,17	5,95	-2,75	5,03	6,81	7,98	2,76	3,27	7,93
A.2 Industrial	0,78	5,62	9,54	12,19	10,86	8,66	8,36	3,57	2,89	11,50	10,32	27,24
A.2.1 industrial non-petroleum	0,10	4,55	6,93	9,11	7,30	6,60	6,09	4,33	2,95	8,18	7,62	22,91
A.2.2 fuel and gas	3,99	10,57	21,87	26,59	27,59	17,63	18,94	0,58	2,58	27,10	22,65	4,33
A.3 Electricity	-3,23	-2,26	6,47	13,89	16,85	2,10	10,57	7,59	-7,24	15,41	14,23	1,52
B IMPORTED GOODS	0,47	-1,69	-3,50	-3,12	-3,26	-3,36	-3,53	-0,17	-0,48	-3,19	-2,77	22,20
B.1 Motor Vehicles	0,55	-5,07	-10,17	-11,40	-11,28	-10,29	-11,50	-1,39	-1,50	-11,34	-10,05	9,43
B.2 Other Imported	0,41	0,85	1,41	3,23	2,70	1,93	2,36	0,64	0,29	2,96	2,63	12,77
C SERVICES	3,35	3,67	3,73	4,72	4,20	4,38	4,31	4,00	3,42	4,46	4,39	41,11
Euro area inflation	2,3	2,3	2,3	2,3	2,0	1,9	2,0	1,9	2,3	2,2	2,1	

Table 8

Weighted contribution to the total change in the Consumer Price Index by economic origin (%)
2001-2003

	Yearly		Quarterly			Jul. 2002/ 2001	Jun. 2003/ 2002	Jul. 2003/ 2002	Jan.-Jul. 2002/ 2001	Jan.-Jun. 2003/ 2002	Jan.-Jul. 2003/ 2002	Weights 1998=100
	2001	2002	2002 IV	2003 I	2003 II							
GENERAL INDEX	1,98	2,81	2,77	4,84	4,90	3,32	4,02	3,33	2,59	4,87	4,65	100,00
A LOCAL GOODS	0,51	1,64	1,97	3,50	3,82	2,19	2,95	1,68	1,27	3,66	3,38	36,69
A.1 Agricultural	0,36	0,15	-0,76	-0,01	0,48	-0,21	0,39	0,50	0,63	0,23	0,27	7,93
A.2 Industrial	0,21	1,53	2,60	3,25	3,02	2,36	2,36	1,02	0,79	3,14	2,83	27,24
A.2.1 industrial non-petroleum	0,02	1,02	1,56	2,01	1,67	1,46	1,42	0,99	0,66	1,84	1,72	22,91
A.2.2 fuel and gas	0,19	0,51	1,04	1,25	1,35	0,90	0,94	0,03	0,13	1,30	1,12	4,33
A.3 Electricity	-0,07	-0,05	0,13	0,26	0,32	0,04	0,21	0,15	-0,15	0,29	0,27	1,52
B IMPORTED GOODS	0,10	-0,35	-0,73	-0,64	-0,67	-0,70	-0,72	-0,03	-0,10	-0,66	-0,57	22,20
B.1 Motor Vehicles	0,05	-0,46	-0,89	-1,02	-0,99	-0,93	-1,00	-0,11	-0,14	-1,00	-0,88	9,43
B.2 Other Imported	0,05	0,10	0,17	0,38	0,32	0,23	0,28	0,08	0,03	0,35	0,31	12,77
C SERVICES	1,37	1,52	1,53	1,98	1,75	1,84	1,79	1,70	1,42	1,86	1,84	41,11

Table 9

Percentage change in the Consumer Price Index by category of goods and services (%)
2001-2003

	Yearly		Quarterly			Jul. 2002/ 2001	Jun. 2003/ 2002	Jul. 2003/ 2002	Jan.-Jul. 2002/ 2001	Jan.-Jun. 2003/ 2002	Jan.-Jul. 2003/ 2002	Weights 1998=100
	2001	2002	2002 IV	2003 I	2003 II							
GENERAL INDEX	1,98	2,81	2,77	4,84	4,90	3,32	4,02	3,33	2,59	4,87	4,65	100,00
Food & non-alcoholic beverages	4,09	4,58	0,48	4,06	5,72	3,40	5,22	5,57	6,64	4,89	4,98	18,20
Alcoholic beverages & tobacco	2,79	13,32	22,93	35,18	27,05	21,76	14,86	12,12	6,83	30,97	27,89	1,78
Clothing and footwear	-6,75	-3,46	-2,21	0,96	1,13	-3,78	0,97	0,52	-3,59	1,05	0,98	8,22
Housing, water, electricity and gas	1,59	4,08	5,64	5,59	6,21	5,01	5,43	4,11	2,98	5,91	5,64	21,27
Furnishings, household equipment and supplies	0,15	0,81	2,04	5,40	6,31	3,10	6,66	1,77	-0,51	5,86	5,27	7,08
Health	5,41	4,70	4,28	7,35	4,51	5,20	4,34	5,63	4,75	5,91	5,87	4,92
Transport	2,29	0,39	0,45	1,48	1,39	-0,52	-0,48	0,49	0,31	1,44	1,30	17,42
Communication	1,73	-8,81	-13,92	-10,64	-9,56	-5,53	-9,59	-11,99	-7,18	-10,10	-10,38	1,79
Recreation & culture	-0,50	2,20	2,73	4,88	4,41	3,91	4,16	2,09	1,68	4,64	4,27	5,88
Education	4,60	5,71	4,46	4,49	4,49	5,79	4,49	4,49	6,03	4,49	4,49	2,33
Restaurants & hotels	6,00	3,97	4,75	6,54	5,82	4,90	5,53	4,00	3,46	6,18	5,86	6,07
Miscellaneous goods and services	3,97	5,49	7,35	7,44	5,91	7,92	5,41	4,21	4,08	6,67	6,30	5,04

Table 10

Weighted contribution to the total change in the Consumer Price Index by category of goods and services (%)
2001-2003

	Yearly		Quarterly			Jul. 2002/ 2001	Jun. 2003/ 2002	Jul. 2003/ 2002	Jan.-Jul. 2002/ 2001	Jan.-Jun. 2003/ 2002	Jan.-Jul. 2003/ 2002	Weights 1998=100
	2001	2002	2002 IV	2003 I	2003 II							
GENERAL INDEX	1,98	2,81	2,77	4,84	4,90	3,32	4,02	3,33	2,59	4,87	4,65	100,00
Food & non-alcoholic beverages	0,75	0,86	0,09	0,79	1,08	0,62	0,97	1,02	1,22	0,94	0,95	18,20
Alcoholic beverages & tobacco	0,06	0,27	0,46	0,71	0,58	0,45	0,35	0,30	0,14	0,65	0,60	1,78
Clothing and footwear	-0,54	-0,25	-0,17	0,06	0,08	-0,26	0,07	0,03	-0,26	0,07	0,07	8,22
Housing, water, electricity and gas	0,34	0,88	1,20	1,22	1,35	1,10	1,19	0,92	0,65	1,29	1,24	21,27
Furnishings, household equipment and supplies	0,01	0,05	0,14	0,35	0,41	0,20	0,43	0,12	-0,03	0,38	0,34	7,08
Health	0,27	0,25	0,22	0,39	0,24	0,28	0,23	0,31	0,25	0,32	0,31	4,92
Transport	0,40	0,07	0,08	0,26	0,24	-0,09	-0,08	0,08	0,06	0,25	0,22	17,42
Communication	0,03	-0,13	-0,19	-0,14	-0,13	-0,08	-0,13	-0,16	-0,11	-0,13	-0,14	1,79
Recreation & culture	-0,03	0,12	0,15	0,26	0,24	0,21	0,22	0,11	0,09	0,25	0,23	5,88
Education	0,11	0,14	0,11	0,11	0,11	0,14	0,11	0,11	0,15	0,11	0,11	2,33
Restaurants & hotels	0,38	0,26	0,31	0,43	0,38	0,33	0,37	0,27	0,23	0,41	0,39	6,07
Miscellaneous goods and services	0,20	0,28	0,37	0,39	0,31	0,41	0,28	0,23	0,21	0,35	0,33	5,04

