



CENTRAL BANK OF CYPRUS
ECONOMIC RESEARCH DEPARTMENT

MONETARY
POLICY
REPORT

SEPTEMBER 2002



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

**CENTRAL BANK OF CYPRUS, 2002
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1. INTRODUCTION

International economic recovery seems to be faltering under the weight of stock market crises and the recent devastating floods. There is concern that the global economy, particularly the US economy, may slide into a double dip recession. Despite the weakness shown by economic activity, most analysts believe that recovery is still on track. In this environment, and considering that economic growth will accelerate around the end of the year, the US Federal Reserve System left interest rates on hold at its latest meetings, a policy expected to continue in the coming months. The same policy prevailed on the other side of the Atlantic, where official interest rates also remained unchanged and are expected to remain unchanged in the near future. The inflation rate in the euro area exceeded the European Central Bank's maximum limit of 2,0% in August, indicating that monetary policy needs to remain vigilant. By contrast, in Great Britain, in spite of the sharp rise in house prices, inflation remains low, allowing the Bank of England to continue with the same monetary policy stance.

Price developments are prominent in the domestic economy. Influenced by increases in the VAT and other indirect taxes, prices accelerated markedly in July and August. The inflation rate rose to 3,32% in July and 3,77% in August, compared with 1,01% and 1,81% in the respective months of 2001. The sizeable increase in the inflation rate in August compared with the same month of the previous year is attributable to a large extent to the increase in the prices of domestic industrial goods and electricity. Paradoxically, services prices, which normally account for rising inflation, had only a small contribution to the increase in the inflation rate in August, as they accelerated slightly in comparison with August 2001. The increase in

the consumer price index was moderated by the decline in the prices of imported goods, primarily imported cars, and the decrease in domestic agricultural product prices.

Besides the current level of inflation, the future course of prices is a matter of concern. The full effect of increases in indirect taxes will become evident in the coming months. Through automatic wage indexing, price increases will lead to wage increases, which in turn will bring about additional price increases. Taking into account this cumulative inflationary dynamics, as well as the further increase in the VAT standard rate to 15% next January, the inflation rate is projected to rise to about 4% - 4,5% in 2003. This projection may prove conservative, as a series of other factors have an upward effect on inflation and to some extent feed spiral price increases. Specifically, inflationary pressures are heightened by wage increases in various sectors of the economy and also by the tax reform, which resulted in an increase in disposable income. In addition, international oil prices, which, combined with the rise in excise duties on fuels, are crucial for determining domestic inflation, seem to hover at high levels and may rise further depending on developments on the Iraq - United States front.

In this inflationary climate, the persistence of surplus bank liquidity is another potential risk for a rise of inflation. At present, the effects of excess liquidity on inflation and the current account balance are mitigated by the continuing slowdown in the growth of credit to the private sector. Specifically, the annual growth rate of credit to the private sector slowed further to 8,4% in July, compared with a growth rate of 15,3% in the same month of 2001. The slowdown in credit expansion is mainly attributable to subdued

demand due to the slowdown in domestic economic activity, but also to more cautious bank policies for the assessment of loan applications.

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

Turning to other domestic economic developments, an upward trend in unemployment compared with 2001 has been observed, while tourist arrivals continue to register a sizeable decrease. The outlook for tourism and the overall economy in 2002, as well as in 2003, seems to be linked to the strength and the time of recovery of the world economy.

Concerning tourism, the evidence is still discouraging, as tourist arrivals fell by 12,3% in July. For the first half of the year, tourist arrivals declined by 13,1%, while receipts from tourism decreased by only 9,1%, owing to the rise of expenditure per tourist. For the first seven months of the year, the decrease in tourist arrivals stood at 12,9%, compared with an increase of 4,9% in the corresponding period of 2001.

As regards external trade, total imports increased by 0,9% in May 2002, compared with an increase of 5,7% in the same month of 2001. Imports for home consumption excluding imports of fuels and military equipment also increased in May. For the first five months of the year, total imports grew by 1,8%, compared with a growth rate of 4,5% in the corresponding period of 2001. Total exports fell by 23,2% in May, on account of the fall of re-exports, compared with a rise of 18,2% in the same month of the previous year. In the period from January to May 2002, total exports

decreased by 12,2%, compared with an increase of 3,3% in the same period of the previous year. As a result of these developments, the crude trade deficit was of the order of £834,6 million in the first five months of 2002, compared with £784,3 million in the corresponding period of 2001.

Private consumption, as reflected by the retail sales index, declined by 3,1% in May 2002, compared with an increase of 8,2% in May 2001. For the first five months of 2002, private consumption slowed, in comparison with the corresponding period of the previous year, according to the retail sales volume index, which increased by 1,8%, compared with an increase of 4,6% in 2001. It is, however, pointed out that the increase in the retail sales index in 2002, as well as in 2001, mostly stemmed from the growth of car sales until mi-May due to the expected increase in the VAT rate in July. Excluding car sales, the retail sales index declined by 0,9% in the period from January to May 2002, compared with an increase of 1,1% in the corresponding period of 2001.

In the labour market, unemployment as a percentage of the economically active population rose to 3,2% in July 2002, compared with 2,9% in the same month of 2001. The number of registered unemployed also increased substantially, continuing the uptrend observed since November 2001. An increase in unemployment was recorded in nearly all sectors of the economy.

In the secondary sector of the economy both positive and negative developments have been recorded. After rising in April, the manufacturing production volume index declined again in May. In contrast to manufacturing, the course of construction is still encouraging, even though a

slowdown has been observed recently. Specifically, both the volume and value indices of building permits declined in May, after the significant rise recorded in the previous month. A slowdown was also recorded in local cement sales in July.

As regards public finances, the latest available data show that the fiscal deficit reached £77,0 million in the first four months of 2002, compared with £22,9 million in the corresponding period of 2001. The increase in the fiscal deficit is mainly attributable to the significant deceleration in public revenue, which grew by 3,9% compared with 17,0% in the first four months of 2001, while public expenditure recorded a smaller deceleration.

2. ECONOMIC DEVELOPMENTS

2.1 INTERNATIONAL DEVELOPMENTS AND EXCHANGE RATES

International economic developments

International economic recovery appears weak, as economic indicators no longer clearly show the likelihood or the timing of overcoming the slowdown. The possibility of war between the United States and Iraq affects the US dollar and equity values, as well as the price of crude oil. These developments combined with the recent floods in central Europe make the prospects for an upturn in economic activity even more uncertain. In this uncertain environment, the US Federal Reserve System, the European Central Bank and the Bank of England, at their recent meetings, decided to leave interest rates on hold, a policy expected to continue in the upcoming meetings.

In the **United States**, the consumer confidence indicator fell more than expected to 93,5 points, its lowest level since November 2001. The Institute of Supply Management's index remained stable at 50,5 in August, but was below the level of 51,6 points projected by analysts. An encouraging sign was the increase in orders of durable goods by 8,7% in July, after a decline of 4,5% in June, which may point to a pickup in business investment. Inflation remained low, with consumer prices increasing by 1,5% in the twelve months to July, and unemployment declined to 5,7% in August, the lowest level since March, compared with 5,9% in July. Equity prices are still suffering from the lack of business confidence. The Dow Jones, S&P 500 and Nasdaq indices declined by 4,9%, 5,4% and 6,3%, respectively, in the period from 1 July to 30 August. For the first eight months of 2002, these indices fell by 13,6%, 20,2% and 32,6%, respectively.

The devastating floods that hit central Europe in mid-August had a more general impact on the economy of the **euro area**. In particular, the German government decided to postpone the introduction of tax cuts, in an effort to face the impact of the floods and at the same time avoid the expansion of the fiscal deficit, which would bring Germany outside the framework set out in the Stability and Growth Pact. Confirming the negative effect of these developments on the outlook for the euro area's largest economy, the ZEW economic confidence index recorded a fall of 25,7 points in August and reached 43,4 points. Germany's Ifo industrial confidence index registered a fall for the third successive month, reaching 88,8 points in August, compared with 89,9 in July. For the entire euro area, unemployment remained stable at 8,3% in July, while the inflation rate reached 1,9% in July and according to provisional data, 2,1% in August.

The major European stock market indices recorded considerable losses in the period from 1 July to 30 August. Germany's DAX index fell by 15,0%, France's CAC 40 by 13,6%, and Italy's BCI index declined by 8,4%. For the period from January to August, the fall was greater, with the DAX, CAC 40 and BCI indices falling by 28,0%, 27,2% and 17,9%, respectively.

In **Britain**, industrial production contracted at an annual rate of 6,6% in June. In July, both inflation and unemployment remained at the previous month's level of 1,5% and 5,1%, respectively. However, house prices, in contrast to share prices, continued their upward trend in August, registering a rise of 22,7% compared with the same month of the previous year, the largest annual increase since 1989. The Bank of England has indicated that this trend does not seem to affect inflation, at least for the time being. As regards the stock market, the FTSE 100 index declined by 9,8% in the period from 1 July to 30 August. Since the beginning of the year the index fell by 19,0%.

In **Japan**, revised data show that GDP contracted by 0,1% in the first quarter, contrary to previous

estimates of a significant increase. Supply exceeds demand and this combined with the decline in the prices of imported goods prevents the containment of deflation. The Nikkei index fell by 9,2% in the period from July to August and by 8,8% in the period from January to August.

Developments in oil markets play an important role in projections of world growth rates. The price of Brent crude oil rose to an average of USD 25,74 per barrel in July, from USD 24,06 per barrel in June. The average price rose further to USD 26,71 per barrel in August, against the background of a possible war between the United States and Iraq.

There is concern that the spread of turmoil in the Middle East may hinder the supply of oil from the area, which provides two thirds of world oil production. The daily output of 21,7 million barrels, which is the maximum limit specified by OPEC, is the lowest production level in the past decade. Analysts express concern that with the increase in demand during the winter months, oil prices will rise sharply if OPEC, at its meeting on 19 September, decides to maintain the current production volume.

Table 1**Major share indices***(closing prices)*

| | 2001 | 2002 | | | |
|-----------|----------|----------|---------|-------------|-------------|
| | 31 Dec. | 1 Jul. | 30 Aug. | % change | |
| | | | | Jan. - Aug. | Jun. - Aug. |
| | | | | | |
| USA | | | | | |
| Dow Jones | 10.021,5 | 9.109,8 | 8.663,5 | -13,6 | -4,9 |
| S&P 500 | 1.148,1 | 968,7 | 916,1 | -20,2 | -5,4 |
| Nasdaq | 1.950,4 | 1.403,8 | 1.314,9 | -32,6 | -6,3 |
| | | | | | |
| Germany | | | | | |
| DAX | 5.160,1 | 4.366,8 | 3.712,9 | -28,0 | -15,0 |
| | | | | | |
| France | | | | | |
| CAC 40 | 4.624,6 | 3.897,4 | 3.366,2 | -27,2 | -13,6 |
| | | | | | |
| Italy | | | | | |
| BCI | 1.433,4 | 1.285,2 | 1.176,9 | -17,9 | -8,4 |
| | | | | | |
| Britain | | | | | |
| FTSE 100 | 5.217,4 | 4.685,8 | 4.227,3 | -19,0 | -9,8 |
| | | | | | |
| Japan | | | | | |
| Nikkei | 10.542,6 | 10.595,4 | 9.619,3 | -8,8 | -9,2 |

Table 2**Main economic indicators***(percentage change)*

| | GDP | | | | Industrial production July (annual) | Retail sales July (annual) | Unemployment July (annual) | Inflation ¹ July (annual) |
|-----------|-------------|----------|-------------|----------|--|-------------------------------------|----------------------------------|--|
| | (quarterly) | (annual) | (quarterly) | (annual) | | | | |
| Britain | 0,0 Q1 | 1,0 Q1 | 2,4 Q2 | 1,2 Q2 | -6,6 ² | 4,5 | 5,1 ³ | 1,5 |
| Japan | -0,1 Q1 | -1,6 Q1 | 1,9 Q2 | -0,9 Q2 | 3,3 | -3,5 ² | 5,4 | -0,8 |
| USA | 5,6 Q1 | 1,5 Q1 | 1,1 Q2 | 2,1 Q2 | 0,2 | 6,3 | 5,7 ⁴ | 1,5 |
| Euro area | -0,8 Q4 | 0,7 Q4 | 1,3 Q1 | 0,3 Q1 | -1,2 ² | -0,9 ² | 8,3 | 2,1 ⁴ |

Source: *The Economist*, 7 September 2002¹ Based on the Consumer Price Index² Data of June 2002³ April - June 2002⁴ Data of August 2002

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

| | 2000 | The Economist Poll GDP forecasts ² | | | Lehman Brothers Weekly Outlook - GDP ³ | | | International Monetary Fund GDP forecast ⁴ | | |
|-----------|------|--|-------------|-----------|--|------------|-----------|--|------|------|
| | | 2001 | 2002 | 2003 | 2001 | 2002 | 2003 | 2001 | 2002 | 2003 |
| Britain | 2,2 | 2,2 | 1,7 (1,8) | 2,9 (3,0) | 1,9 | 1,8 | 3,0 (3,6) | 2,2 | 2,0 | 2,8 |
| Japan | 1,6 | -0,4 | -0,5 (-0,8) | 1,0 (1,1) | -0,2 (-0,6) | -0,7 (0,8) | 1,0 (1,2) | -0,4 | -1,0 | 0,8 |
| USA | 4,1 | 1,2 | 2,5 (2,9) | 3,0 (3,5) | 0,3 (1,2) | 2,4 (2,6) | 2,6 (3,2) | 1,2 | 2,3 | 3,4 |
| Euro area | 3,4 | 1,5 | 1,0 (1,3) | 2,4 (2,9) | 1,5 | 1,0 (1,3) | 2,3 | 1,5 | 1,4 | 2,9 |
| World | 3,9 | | | | 0,7 (1,2) | 1,2 (2,0) | 2,2 (2,9) | 2,5 | 2,8 | 4,0 |

¹ Figures in parentheses indicate the corresponding previous month projection, in case of change² The Economist, 7 September 2002³ Lehman Brothers Global Weekly Economic Monitor, 6 September 2002⁴ International Monetary Fund, World Economic Outlook, April 2002**International currencies**

The euro fluctuated between USD 0,97 and USD 0,99 in August, after its sharp and short-lived strengthening in mid-July, when it exceeded USD 1,02.

The overall weak course of the US dollar against the euro in the last few months is partly attributable to the continuing weakness of the US equity markets and their inability to overcome the uncertainty arising from accounting scandals concerning US corporations. Nevertheless, the downward trend in the US currency since the beginning of the year and the corresponding recovery of the euro is considered to be a correction, consistent with the economic fundamentals in the United States relative to those in the euro area.

In July and August, the pound sterling fluctuated considerably against the euro and the US dollar. On 30 August 2002, the respective exchange rates were USD 1,55 per GBP and GBP 0,64 per EUR, compared with USD 1,53 per GBP and GBP 0,65 per EUR on 1 July.

The Japanese yen remained broadly stable against the US dollar in July and August, around the level to which it recovered in June 2002. At the end of August, the yen was quoted at JPY 118 per USD, compared with JPY 119 per USD at the beginning of July.

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

Chart 1

Major international currencies

4/1/2000 - 30/08/2002

(opening, selling values)

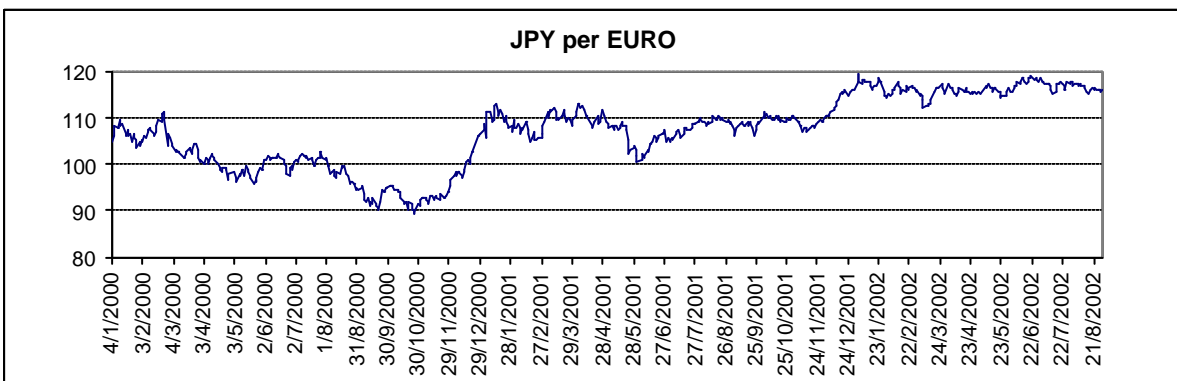
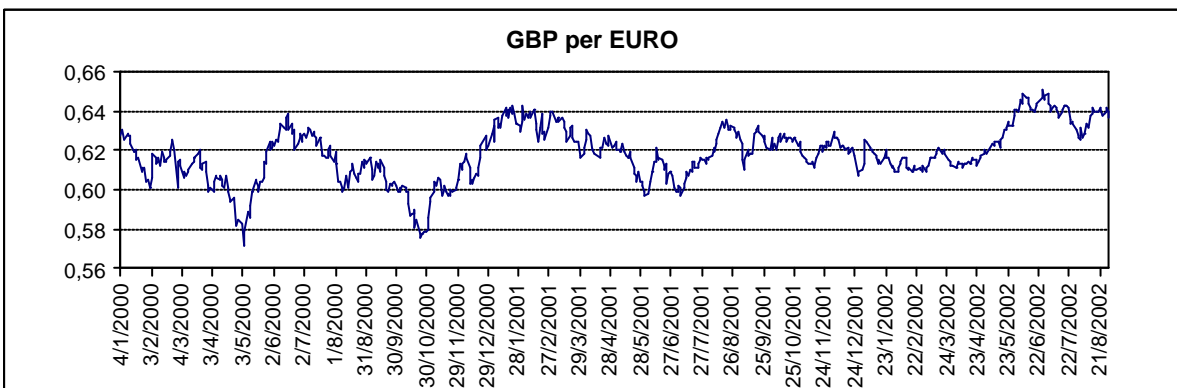
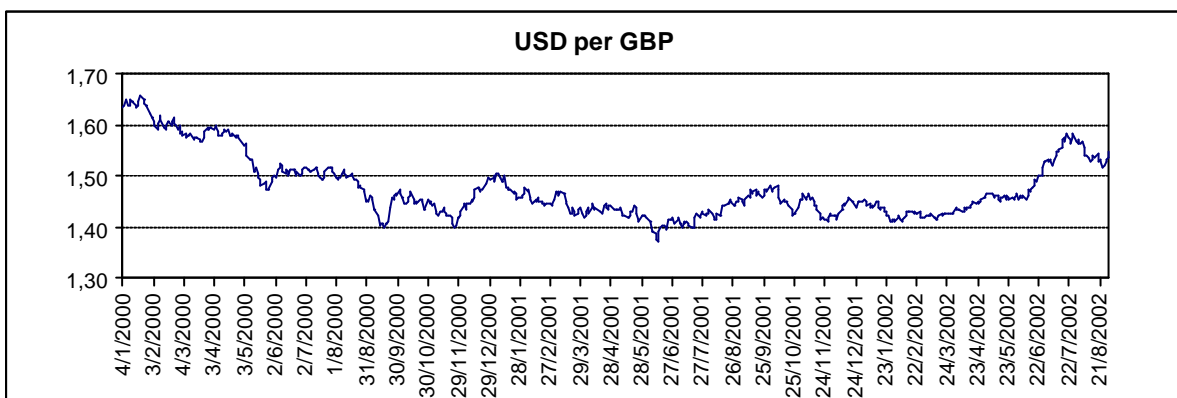
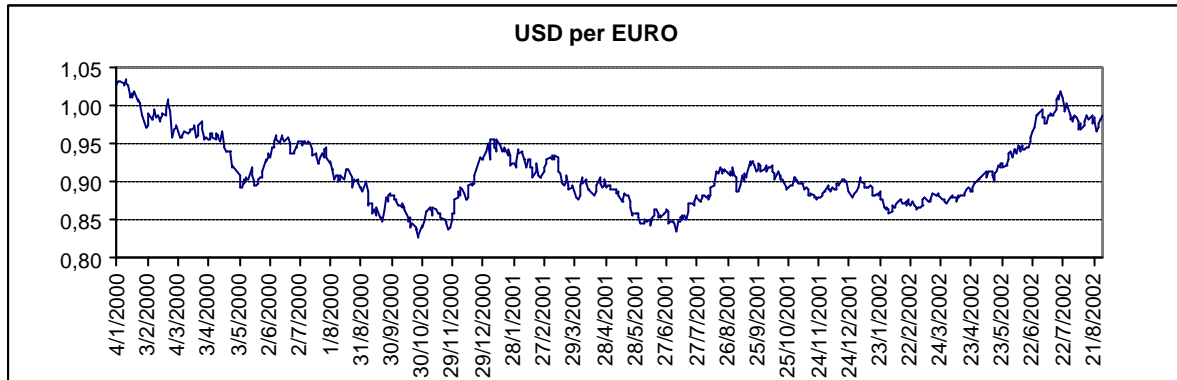


Table 4 shows the forecasts of a large number of internationally recognized financial institutions for the course of international exchange rates in the near future, as recorded in the monthly survey of Reuters. As seen in table 4, markets

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

Table 4

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

(September 2002)

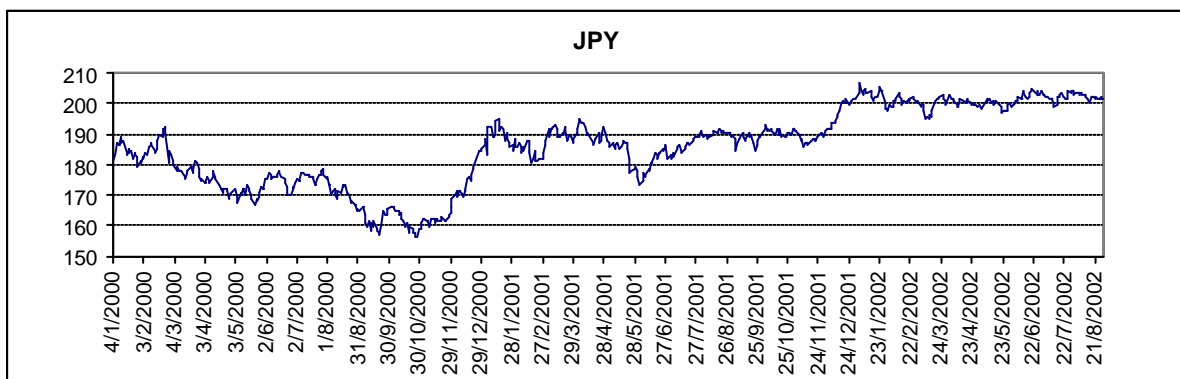
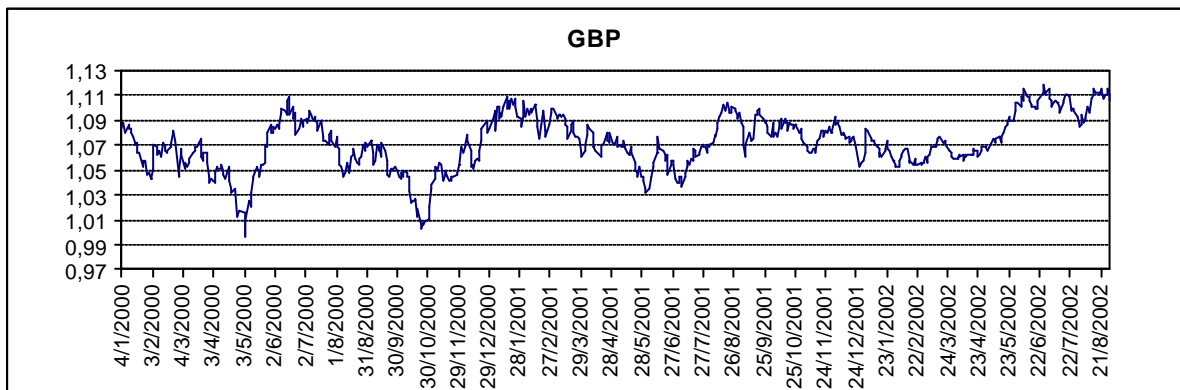
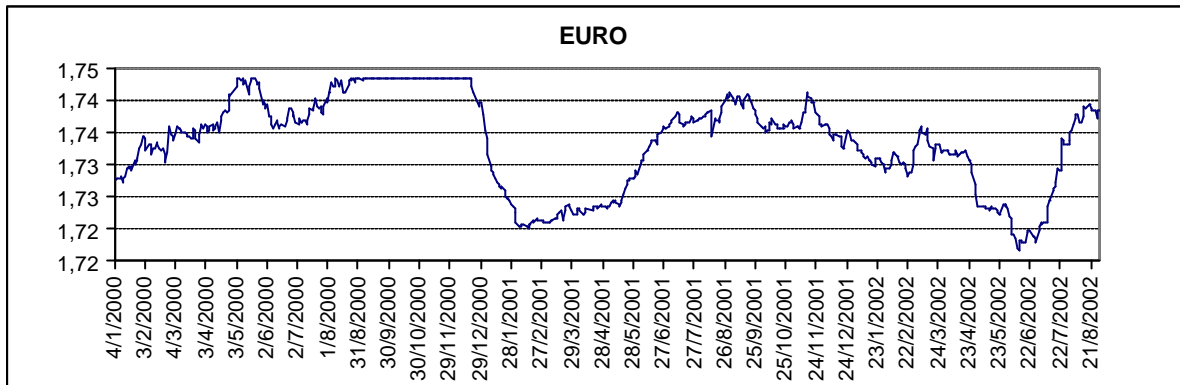
| | | Exchange rate forecasts | | | |
|-------------|---------------------|-------------------------|---------|---------|----------|
| | Statistical data | 1-month | 3-month | 6-month | 12-month |
| USD per EUR | Mean | 0,98 | 1,00 | 1,00 | 1,00 |
| | Minimum | 0,95 | 0,94 | 0,91 | 0,85 |
| | Maximum | 1,02 | 1,10 | 1,09 | 1,18 |
| | Number of forecasts | 50 | 52 | 51 | 51 |
| USD per GBP | Mean | 1,55 | 1,56 | 1,56 | 1,56 |
| | Minimum | 1,50 | 1,48 | 1,44 | 1,41 |
| | Maximum | 1,59 | 1,64 | 1,67 | 1,67 |
| | Number of forecasts | 49 | 49 | 49 | 48 |
| JPY per USD | Mean | 119,00 | 119,42 | 120,59 | 121,13 |
| | Minimum | 110,00 | 112,00 | 112,00 | 103,00 |
| | Maximum | 124,00 | 128,80 | 133,20 | 140,00 |
| | Number of forecasts | 50 | 50 | 50 | 49 |
| GBP per EUR | Mean | 0,63 | 0,64 | 0,64 | 0,65 |
| | Minimum | 0,60 | 0,61 | 0,59 | 0,58 |
| | Maximum | 0,66 | 0,69 | 0,69 | 0,71 |

Source: Reuters. The survey was conducted in the period 9-11 September 2002.

Cyprus pound

The Cyprus pound registered an upward course in July and August, reaching EUR 1,7435 on 30 August 2002 (average fixing price), compared with EUR 1,7255 on 1 July 2002. Reflecting fluctuations in international currencies during this period, the Cyprus pound fluctuated significantly

against the US dollar and the Japanese yen, while it strengthened somewhat against the pound sterling. Chart 2 presents an overview of recent fluctuations in the exchange rates of the Cyprus pound *vis-à-vis* the euro, the US dollar, the sterling and the yen.

Chart 2**Cyprus Pound against major international currencies
4/1/2000 - 30/08/2002***(opening, selling values)*

As regards the domestic foreign exchange market, the results of the fixing sessions held until 30 August 2002, based on transaction date, are summarised in table 5. As this table shows, between 1 January 2002 and 30 August 2002, net foreign inflows totalled £174,35 million, compared with £451,36 million in the first eight months of 2001. Foreign exchange inflows equivalent to £30,28 million, partly due to seasonal factors, were recorded in August, after inflows of £87,25 million in July.

Overall, including interventions and other operations in the interbank market (specifically, execution of forward foreign exchange contracts),

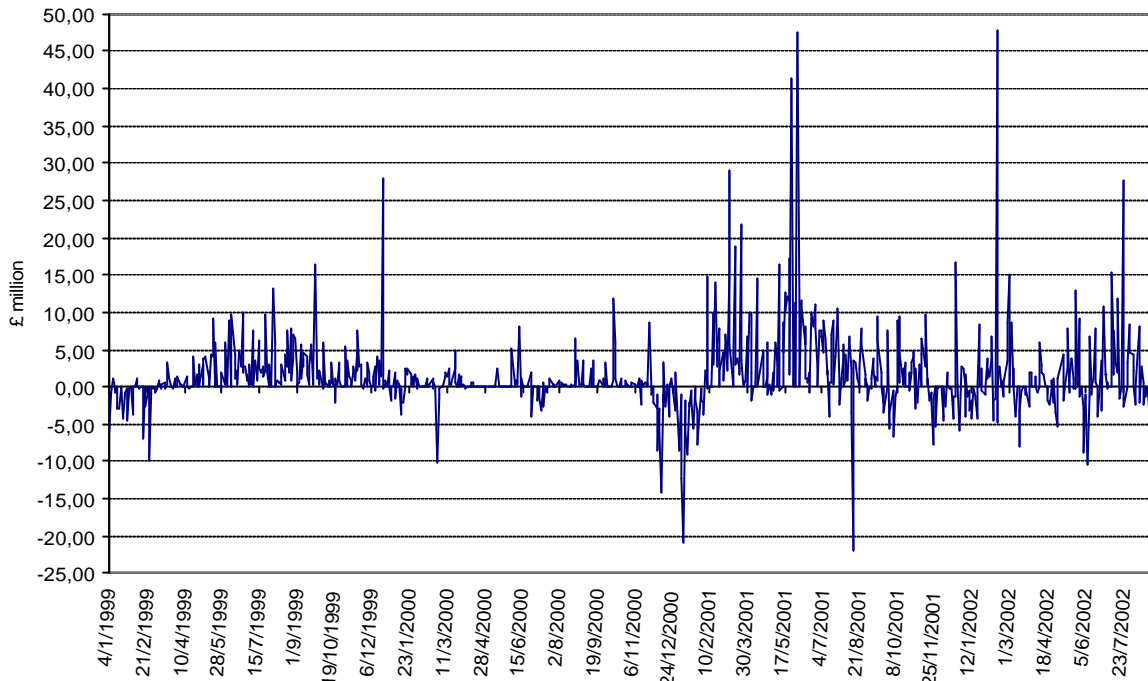
in the period from 1 January 2001 to 30 August 2002, the Central Bank absorbed from the banking system foreign exchange equivalent to £887,81 million. Over 50% of these inflows correspond to borrowing in foreign currency by residents of Cyprus from domestic banks, especially during 2001. It is pointed out that interventions by the Central Bank in the domestic foreign exchange market decreased markedly in the first eight months of 2002 to £224,41 million, compared with £593,4 million in the corresponding period of 2001. Daily purchases and sales of foreign exchange by the Central Bank from domestic banks since 1999 are shown in chart 3.

Table 5
Summary of results of fixing sessions

| Month | Average fixing exchange rate Foreign currency per Cyprus pound (last day of period) | | | Purchases (+) / Sales (-) of foreign exchange by the Central Bank (based on transaction date) | | | |
|-------------|---|-----------|-------------------|---|--------------|-------------------|--------------------------------------|
| | | | | In foreign currency (millions) | | | In Cyprus pounds (millions) |
| 2001 | Euro | US dollar | Pound sterling | Euro | US dollar | Pound sterling | |
| January | 1,7278 | 1,6060 | 1,0983 | -169,80 | -9,55 | -7,00 | -110,17 |
| February | 1,7264 | 1,5916 | 1,1016 | 49,25 | -0,20 | 1,20 | 29,51 |
| March | 1,7275 | 1,5209 | 1,0670 | 130,40 | 38,00 | -0,10 | 99,37 |
| April | 1,7283 | 1,5369 | 1,0713 | 81,25 | -5,30 | 0,00 | 43,59 |
| May | 1,7338 | 1,4716 | 1,0382 | 233,25 | 5,30 | 0,00 | 138,17 |
| June | 1,7413 | 1,4743 | 1,0490 | 250,00 | -1,00 | 0,00 | 143,20 |
| July | 1,7425 | 1,5265 | 1,0712 | 148,25 | 0,00 | 0,02 | 85,11 |
| August | 1,7455 | 1,5989 | 1,0962 | 39,45 | 0,00 | 0,00 | 22,58 |
| September | 1,7411 | 1,5968 | 1,0852 | 0,75 | 9,50 | 5,30 | 11,28 |
| October | 1,7414 | 1,5766 | 1,0833 | 15,90 | 15,50 | 10,28 | 28,46 |
| November | 1,7414 | 1,5464 | 1,0861 | -14,65 | 6,35 | 9,20 | 10,70 |
| December | 1,7387 | 1,5380 | 1,0622 | -7,60 | -3,05 | 3,50 | -2,74 |
| 2002 | Total 2001 | | | 756,95 | 65,55 | 22,40 | 499,05 |
| January | 1,7347 | 1,4977 | 1,0612 | -13,45 | -3,60 | 4,60 | -5,76 |
| February | 1,7381 | 1,5053 | 1,0631 | 39,70 | 8,10 | 4,90 | 32,89 |
| March | 1,7374 | 1,5160 | 1,0626 | -6,00 | 0,00 | -1,40 | -4,75 |
| April | 1,7287 | 1,5563 | 1,0685 | -18,70 | -0,80 | 10,30 | -1,65 |
| May | 1,7272 | 1,6192 | 1,1045 | 19,10 | 20,85 | 19,50 | 42,07 |
| June | 1,7249 | 1,7189 | 1,1201 | -12,65 | -3,75 | 4,00 | -5,98 |
| July | 1,7402 | 1,7047 | 1,0890 | 152,45 | -1,00 | -0,10 | 87,25 |
| August | 1,7435 | 1,7192 | 1,1078 | 41,00 | 11,60 | -0,10 | 30,28 |
| | Total 2002 | | | 201,45 | 31,40 | 41,70 | 174,35 |

Chart 3

**Daily purchases / sales of foreign exchange by the Central Bank
from the domestic banks
4/1/1999-30/8/2002**



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

2.2 MONETARY DEVELOPMENTS*

A landmark in monetary developments is the enactment of the new Central Bank of Cyprus Law and the amendment of articles 118 and 119 of the Constitution, in July 2002, which ensure central bank independence, as prescribed by the relevant *acquis communautaire*. In particular, the new Central Bank of Cyprus Law and the constitutional amendment establish the independence of the Central Bank, as well as the independence of the members of its decision-making bodies when carrying out the tasks conferred upon them. Furthermore, the new statute of the Central Bank provides that

the primary objective of the Bank shall be to ensure price stability and prohibits the financing of the government, local authorities, public corporations or public undertakings by the Central Bank.

Concerning monetary variables, the dominant developments in July and August were the continuing slowdown in the growth rate of credit to the private sector and the continuing surplus liquidity conditions. The Central Bank, in the context of its anti-inflationary policy, continued to intervene in the money market in July and August, absorbing part of the excess bank

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

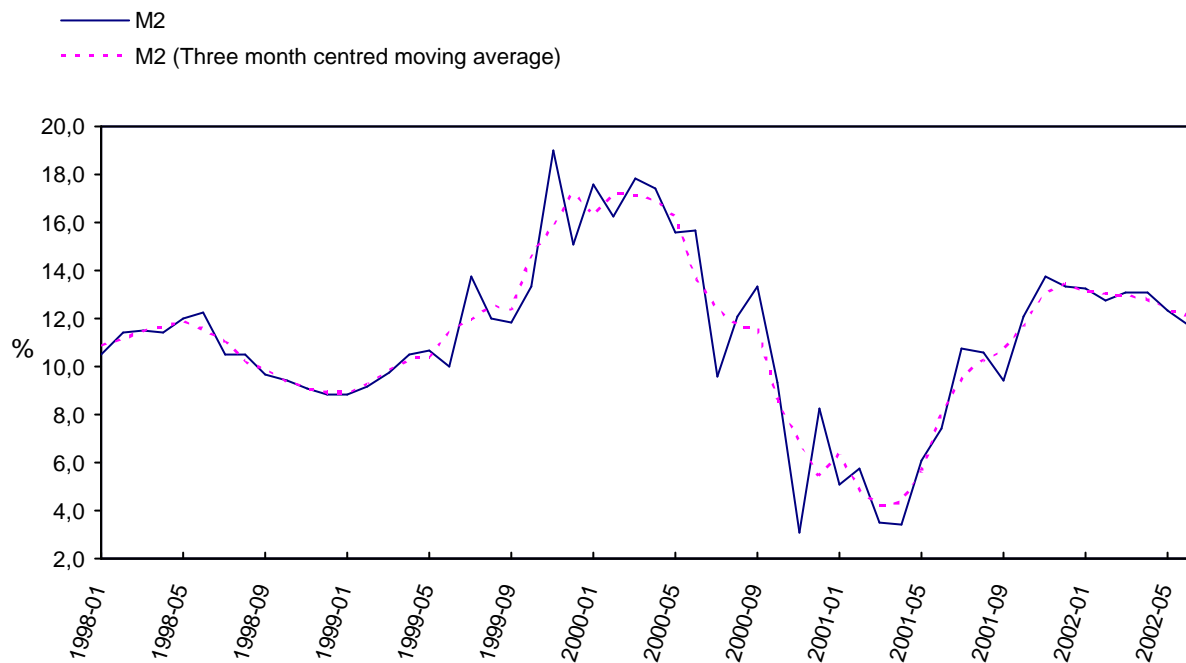
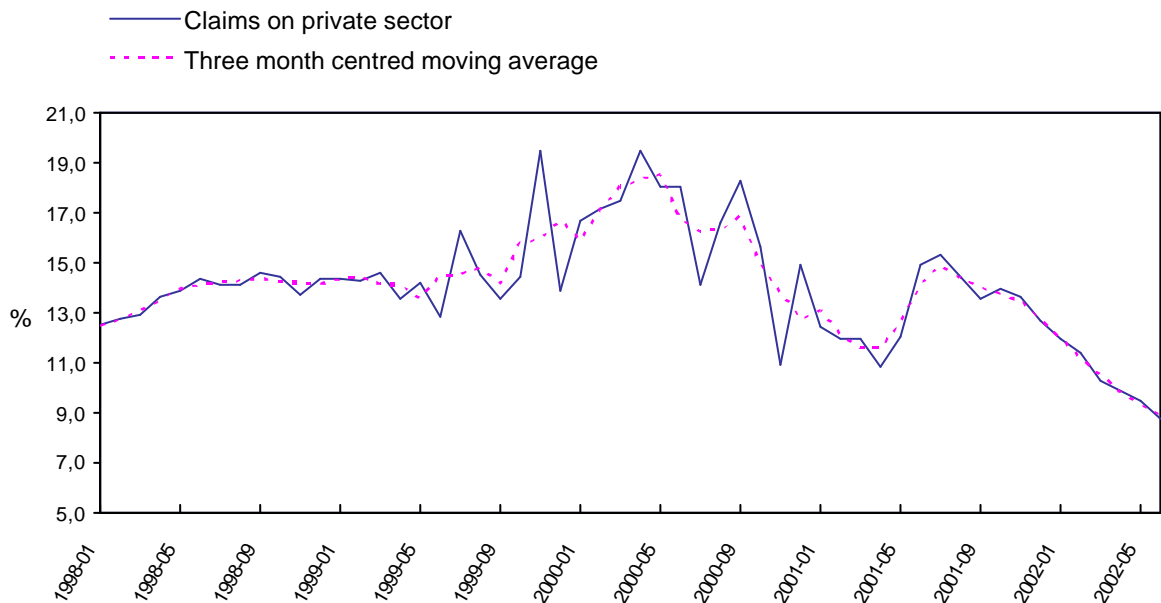
liquidity through deposit collection auctions (depos)¹.

Excess bank liquidity was enhanced by increased withdrawals from government deposits with the Central Bank and by foreign exchange inflows amounting to £87,3 million in July and £30,3 million in August, as a result of increased receipts from tourism, in contrast to net outflows of £6,0 million in June.

The annual growth rate of total liquidity (M2) slowed in June compared with the previous month, reaching 11,7%, but returned to 12,3% in July. The respective growth rates in 2001 were 7,4% and 10,8% (table 6). The three-month moving average of the annual growth rates of total liquidity also registered a slowdown, declining from 12,8% in the period from March to May 2002 to 12,4% in the period from April to June and 12,1% in the period from May to July 2002.

Table 7 presents the factors affecting total liquidity. As this table shows, net foreign assets, claims on the public sector and unclassified items increased in July compared with the previous month, while claims on the private sector fell. In the twelve months to July 2002, the increase in claims on the public sector reached £297,5 million, compared with an increase of £235,5 million in the twelve months to June. In the same period, net foreign assets increased by £105,2 million, compared with an increase of £58,8 million in June. Credit to the private sector grew by £597,0 million, compared with an increase of £616,6 million in the twelve months to June.

¹ The difference between reverse repos and depos is that in the latter no purchase or sale of government securities takes place, while their duration may exceed fifteen days.

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

The decline in the growth rate of credit continued in July (chart 5). In terms of annual growth rates, credit to the private sector slowed somewhat in July 2002, growing by 8,4%, compared with 8,7% in June and 15,3% in July 2001. According to the three-month moving average of annual growth rates, credit expansion slowed to 9,3% in the period from April to June 2002 and 8,9% in the period from May to July, compared with 9,8% in the period from March to May 2002. The low rate of expansion of bank lending is attributable to weak demand for loans by the private sector due to the slowdown in economic activity, as well as to stricter bank policies in examining applications for credit. As a result of low credit expansion in the first seven months of 2002, bank financing was below the reference value by £11,7 million, according to the monthly distribution method (box 2). In June, however, credit expansion exceeded the reference value by £33,2 million owing to the bi-annual interest capitalisation.

The breakdown of bank credit by sector of economic activity (table 8) shows that in the period from January to July 2002, personal and professional loans, construction, and domestic and foreign trade absorbed the largest part of new credit, amounting to 31,5%, 25,3% and 20,2%, respectively, while in the same period of the previous year, personal and professional loans dominated with a share of 51,4% of new credit. In absolute terms, the amount of new credit channelled to trade in this period decreased from £96,5 million in 2001 to £62,5 million in 2002. The greatest decrease was recorded in personal and professional loans, which fell to £97,5 million, compared with £270,3 million in the first seven months of 2001. A smaller decrease was recorded in the construction sector, which accounted for £78,5

million of new credit, compared with £88,6 million in the first months of 2001. The decline in new credit for the tourist sector to £43,8 million in the first seven months of 2002, from £72,2 million in the corresponding period of 2001, is also noteworthy. However, the share of tourism increased from 13,7% of new credit in the first seven months of 2001 to 14,1% in the corresponding period of 2002.

Another interesting development is the rise of credit card transactions in June and July. Domestic expenditure by Cypriots through credit cards increased by 18,2% and 17,7%, in June and July, respectively, compared with the same month of the previous year, while expenditure abroad by Cypriots through credit cards decreased by 8,0% and 3,1%, respectively. Expenditure in Cyprus by foreign card holders decreased by 2,2% in June, but increased by 6,5% in July, compared with the corresponding months of 2001. As shown in box 1, the increase in credit card expenditure in June and July suggests increased retail sales in the same months. The cheque clearing index, however, points to the opposite direction, as the annual growth rate declined in June and August.

Credit expansion seems to have been slow in August as well. According to preliminary data for the period from 1 to 30 August 2002, new credit declined by £39,8 million, compared with a decrease of £35,4 million in the same period of 2001. In the twelve months to 30 August 2002, the amount of new credit granted was £637,6 million, indicating an annual growth rate of 9,0%, down from a growth rate of 14,4% in the corresponding period of the previous year.

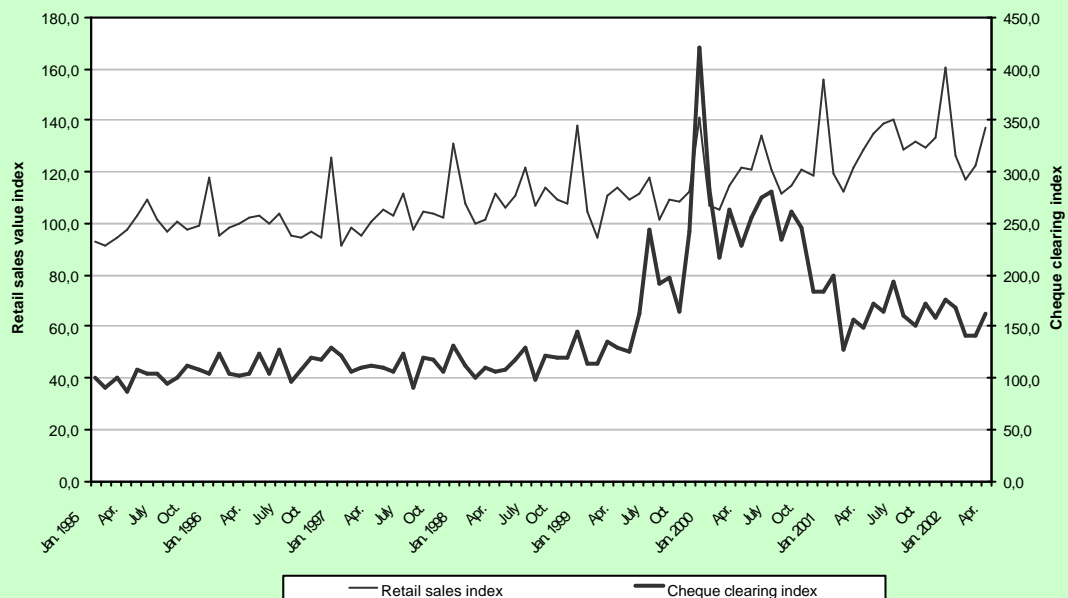
Table 6**Main monetary indicators***(annual percentage change)*

| | 1998 | 1999 | 2000 | 2001 | 2001 Jul. | 2002 Jun. | 2002 Jul. |
|--------------------------|------|------|------|------|--------------|--------------|--------------|
| Primary liquidity (M1) | 3,4 | 41,3 | 4,0 | 2,0 | 2,0 | -10,2 | -9,1 |
| Total Liquidity (M2) | 8,8 | 15,1 | 8,2 | 13,3 | 10,8 | 11,7 | 12,3 |
| Claims on private sector | 14,3 | 13,9 | 14,9 | 12,7 | 15,3 | 8,7 | 8,4 |

Box 1**Correlation of retail sales with cheque clearing and credit card expenditure**

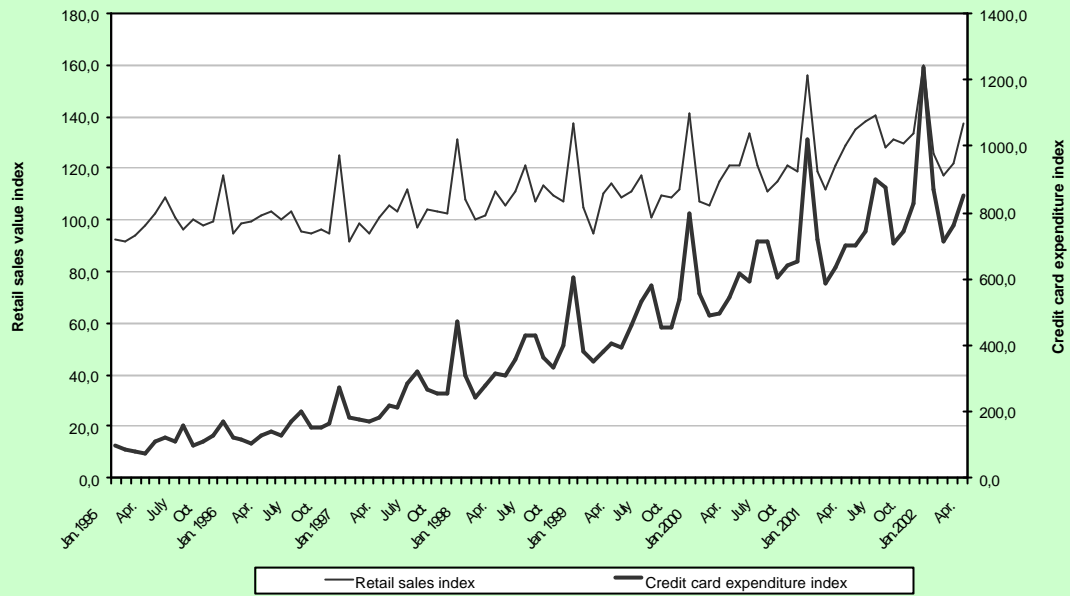
The retail sales index provides important information on the level of domestic consumption. Useful information in this respect may be provided by expenditure through credit cards as well as by the value of cheques cleared through the Cheque Clearing House. These two indicators have the advantage of being available timely on a monthly basis and will hence be useful in monetary policy decision making.

The following two graphs show that there is significant correlation between each of the two variables and the retail sales value index.¹ Specifically, the correlation coefficient between the retail sales value index and the cheque clearing index is 0,53, and between the retail sales value index and the credit card expenditure index the coefficient is 0,87. The correlation between retail sales and cheques appears stronger in the period prior to the stock exchange boom (chart 1); after this period the two series diverge. The correlation between credit card expenditure and retail sales appears more stable (chart 2).

Chart 1

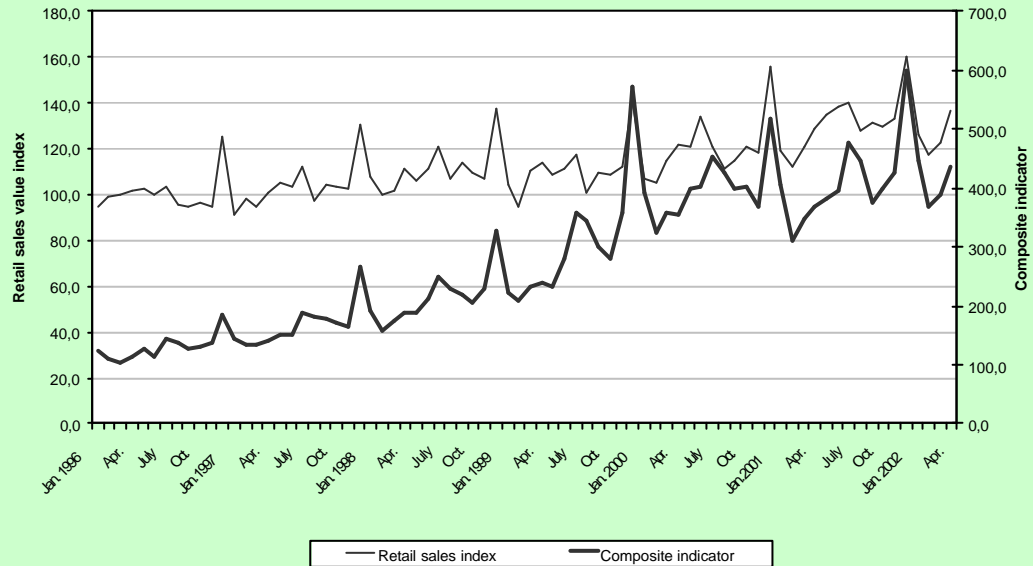
¹ Preliminary econometric findings seem to confirm the correlation between the variables. An increase in creditcard expenditure by 1% has been found to correspond to 0,09% increase in the retail sales value index, and 1% increase in the value of cheques cleared corresponds to 0,13% increase in the index. More accurate estimates of the parameters will be derived from a thorough research and a more complete model, which will include, besides these two variables, other variables that may affect retail sales.

Chart 2



A composite indicator has been constructed, including the two aforementioned variables with weights derived from the graphs and econometric estimates.²

Chart 3



² The correlation coefficient between the retail sales value index and the composite indicator is 0,85.

Table 7**Factors affecting total liquidity***(change, Cyprus pounds thousand)*

| | Jul. 2002 | Jan.-Jul. | | Jun. 2001/2002 | Jul. 2001/2002 |
|---|----------------|----------------|-----------------|-------------------|-------------------|
| | | 2001 | 2002 | | |
| Foreign assets (net) | 134.224 | 70.975 | 54.017 | 58.814 | 105.166 |
| Claims on private sector | -26.860 | 549.876 | 319.545 | 616.637 | 596.971 |
| Claims on public sector | 75.705 | 76.815 | 35.322 | 235.538 | 297.479 |
| Unclassified items | 1.400 | -300.363 | -29.939 | -133.869 | -167.825 |
| Total Liquidity (M2) | 184.469 | 397.303 | 378.945 | 777.120 | 831.791 |
| Primary liquidity (M1) (Money supply) | 34.184 | -19.692 | -137.905 | -105.310 | -96.665 |
| Currency in circulation | 7.872 | 18.989 | 17.010 | 18.620 | 21.290 |
| Demand deposits | 26.312 | -38.681 | -154.915 | -123.930 | -117.955 |
| Secondary liquidity (Quasi-money) | 150.285 | 416.995 | 516.850 | 882.430 | 928.456 |

Table 8**Bank credit by sector**

| | January - July | | | |
|--------------------------------------|--------------------|--------------|--------------------|--------------|
| | 2001 | | 2002 | |
| | change CYP' 000 | share % | change CYP' 000 | share % |
| Public institutions and corporations | 16.245 | 3,1 | 15.187 | 4,9 |
| Agriculture | -3.716 | -0,7 | -3.034 | -1,0 |
| Mining | 1.391 | 0,3 | -1.244 | -0,4 |
| Manufacture | -17.287 | -3,3 | 9.034 | 2,9 |
| Transport and communication | 3.237 | 0,6 | 6.757 | 2,2 |
| Foreign and domestic trade | 96.466 | 18,3 | 62.524 | 20,2 |
| Building and construction | 88.614 | 16,8 | 78.470 | 25,3 |
| Tourism | 72.171 | 13,7 | 43.776 | 14,1 |
| Personal and professional loans | 270.348 | 51,4 | 97.514 | 31,5 |
| Bills discounted: Local | -1.149 | -0,2 | 665 | 0,2 |
| Foreign | -186 | 0,0 | -36 | 0,0 |
| Total | 526.134 | 100,0 | 309.613 | 100,0 |

Net foreign currency lending to residents of Cyprus reached £4,8 million in June, compared with net repayments of £13,0 million in June and net lending of £13,4 million in May.² The proportion of credit in foreign currency to total credit remained roughly stable at 10,2%, compared with 10,1% in the previous month. Provisional data for August indicate that credit to residents in foreign currency decreased by about £25,5 million.

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

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

| | May | Jun. | Jul. |
|-------------------------------------|------|-------|-------|
| Foreign Currency loans to residents | 13,4 | -13,0 | 4,8 |
| Claims on private sector | 27,5 | 179,2 | -26,7 |

(end of period balances, Cyprus pounds million)

| | 1999 | 2000 | 2001 | 2001 Jul. | 2002 Jun. | 2002 Jul. |
|-------------------------------------|--------|--------|--------|--------------|--------------|--------------|
| Foreign Currency loans to residents | 355,2 | 373,5 | 729,9 | 609,8 | 772,7 | 777,6 |
| Claims on private sector | 5673,5 | 6517,5 | 7317,0 | 7067,3 | 7679,6 | 7652,8 |
| Share % | 6,3 | 5,7 | 10,0 | 8,6 | 10,1 | 10,2 |

Data on long-term loans in foreign currency granted by domestic banks to Cypriots in the first half of the year confirm increased preference for foreign currencies other than the euro. Foreign currency borrowing by Cypriots is increasingly denominated in US dollars, Swiss francs and Japanese yen, and thus the proportion of new loans denominated in euros to new credit in foreign currency fell to 62,9%, while the remainder was distributed nearly equally to the three aforementioned currencies. Last year, the euro dominated with a proportion of over 80%. The increased preference for US dollars, Swiss francs and yen in the first half of 2002 is perhaps attributable to the anticipated strengthening of the euro and conversely the weakening of the other three currencies.

As regards the purpose of long-term foreign currency loans, in the first half of 2002, 51,9% of the amount granted was used for construction in Cyprus, 19,5% was used for refinancing,³ and 18,2% for the acquisition of fixed assets.

³ Refinancing refers to repayment of existing loans in Cyprus pounds as well as conversion of existing foreign currency loans to a different currency.

Box 2**Credit expansion monitoring ***

In accordance with the Financial Programme, the reference value for credit expansion in 2002 was set at 11% for the whole year. Attainment of the reference value implies that credit as a percentage of GDP will rise to 131% in 2002, from 125% in 2001**.

Credit as a percentage of GDP

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

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

(1) Annualised growth rate

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

For example, credit expansion in absolute terms from end-December 2001 to end-July 2002 was £319,5 million. This absolute change converted to an annualised growth rate seasonally adjusted gives:

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

9,2%

Reference value

11%

(2) Twelve-month growth rate

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

* Credit expansion includes all banks.

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

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

12-month growth rate Reference value

8,4% 11,0%

Moving average 8,9%

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

(3) Monthly distribution method

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

Table of bank financing 2002

(Cyprus pounds million)

| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|------------------|--------|--------|--------|--------|--------|--------|--------|------|------|------|------|------|
| Reference value* | 7359 | 7431 | 7529 | 7550 | 7578 | 7658 | 7676 | 7646 | 7712 | 7753 | 7795 | 8150 |
| Actual | 7360,6 | 7394,7 | 7465,2 | 7479,5 | 7518,6 | 7691,2 | 7664,3 | | | | | |

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

Money market

Surplus bank liquidity conditions continued to prevail in the money market in July and August. As in June, changes in government deposits with the Central Bank contributed significantly to the enhancement of surplus liquidity conditions. Specifically, net government deposits fell from an average daily value of £98,2 million in May to a negative level of £16,3 million and £212,0 million in June and July, respectively (table 11). Government withdrawals seem more pronounced if one considers that government security auctions resulted in the absorption of additional liquidity amounting to £76,9 million in July and £47,1 million in August. These auctions combined with the decrease in the Central Bank's net foreign assets, from an average daily value of £1576,3 million in June to £1403,2 million in July, moderated excess liquidity in July.

As the statutory independence of the Central Bank and the prohibition of government

financing by the Central Bank came into effect in July, government security auctions are anticipated to gradually return to normal levels, becoming an important liquidity-absorbing factor. As a result, surplus liquidity conditions will be mitigated and hence the amount absorbed by the Central Bank through its own interventions in the money market will be reduced.

Aiming to maintain interest rates consistent with its anti-inflationary policy, the Central Bank intervened in the money market through auctions (depos). In three auctions in July, the Central Bank absorbed liquidity amounting to £540,0 million at an average interest rate of 3,93%, and in four auctions in August liquidity amounting to £762,0 million was absorbed at an average interest rate of 3,91%. In two cases, on 18 July and 29 August, fixed rate auctions were held at an interest rate of 4,00% for a term of 42 days.

Table 10

Interest rates

(percentages, per annum)

| | 1998 | 1999 | 2000 | 2001 | 2001 Aug. | 2002 Jul. | 2002 Aug. |
|-------------------------------|------|------|------|------|--------------|--------------|--------------|
| Interbank (1day) | 4,83 | 5,15 | 5,96 | 4,93 | 4,33 | 3,45 | 3,33 |
| Repos | 4,68 | 5,45 | 5,97 | 6,39 | | | |
| Reverse repos/depos | | | 4,44 | 4,59 | 5,06 | 3,93 | 3,91 |
| Treasury bills (13 weeks) | 5,50 | 5,54 | 5,75 | 6,00 | | 4,08 | |
| Treasury bills (52 weeks) | 5,99 | 6,00 | 6,21 | 6,35 | 6,10 | 4,38 | 4,28 |
| Development stocks (2 years) | | | 6,55 | 6,11 | | 4,56 | 4,54 |
| Development stocks (5 years) | 6,95 | 7,27 | 7,45 | 6,96 | | 5,10 | 5,11 |
| Development stocks (10 years) | 7,22 | 7,36 | 7,55 | 7,66 | | | |
| Development stocks (15 years) | | | | 6,47 | | | |

Note: Simple average of the weighted averages for the period

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

| | | Liquidity - providing factors | | | | | Liquidity - absorbing factors | | | | | | Credit institutions current accounts (MRA) | Base money (6+7+9+12) |
|------|------|---|-------------------------------------|----------------------------------|-------------------------------------|---|-------------------------------|---|-------------------------|--------------------------------|---------------------|-------------------|--|------------------------------|
| | | Monetary policy operations | | | | | | | Currency in circulation | Central Govern. Deposits (net) | Other factors (net) | | | |
| | | Net assets in gold and foreign currency (NFA) | Main refinancing operations (repos) | Long term refinancing operations | Marginal lending facility (lombard) | Other liquidity-providing operations (swap) | Deposit facility (overnight) | Other liquidity-absorbing operations (additional & special & S.M.E. dep.) | | | | Rev-repos & depos | | |
| | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 |
| 2000 | Jul. | 998,1 | 0,0 | 0,0 | 20,3 | 2,0 | 0,1 | 0,0 | 0,0 | 363,3 | 14,7 | 123,0 | 519,3 | 882,6 |
| | Aug. | 1.006,0 | 0,0 | 0,0 | 11,5 | 1,8 | 0,5 | 1,7 | 0,0 | 365,1 | 50,6 | 92,9 | 508,5 | 875,3 |
| | Sep. | 1.028,0 | 0,0 | 0,0 | 4,0 | 0,4 | 3,7 | 0,5 | 0,0 | 358,6 | 48,2 | 112,1 | 509,3 | 868,4 |
| | Oct. | 1.018,1 | 0,0 | 0,0 | 18,6 | 4,3 | 0,3 | 0,0 | 0,0 | 354,7 | -26,8 | 194,9 | 517,8 | 872,5 |
| | Nov. | 1.056,5 | 0,0 | 0,0 | 6,3 | 1,8 | 3,7 | 0,0 | 0,0 | 341,5 | 9,8 | 199,8 | 509,8 | 851,2 |
| | Dec. | 1.007,1 | 0,0 | 0,0 | 18,9 | 1,1 | 4,1 | 0,5 | 0,0 | 353,8 | -22,4 | 184,1 | 507,0 | 861,2 |
| 2001 | Jan. | 892,6 | 10,2 | 0,0 | 8,6 | 1,1 | 3,9 | 94,5 | 0,0 | 346,9 | 51,8 | -15,9 | 431,3 | 876,6 |
| | Feb. | 876,0 | 49,5 | 0,0 | 0,5 | 1,2 | 12,5 | 93,9 | 0,0 | 336,2 | -6,8 | 47,8 | 443,6 | 886,1 |
| | Mar. | 991,3 | 16,3 | 0,0 | 5,0 | 1,0 | 2,9 | 93,0 | 0,0 | 337,5 | 38,2 | 97,0 | 444,9 | 878,3 |
| | Apr. | 1.075,1 | 0,0 | 0,0 | 18,2 | 0,7 | 0,3 | 90,7 | 0,0 | 358,7 | 0,0 | 194,4 | 449,7 | 899,5 |
| | May | 1.109,6 | 0,0 | 0,0 | 28,2 | 1,2 | 1,0 | 84,2 | 0,0 | 369,4 | 58,4 | 175,7 | 450,3 | 904,9 |
| | Jun. | 1.316,1 | 0,0 | 0,0 | 0,0 | 0,0 | 57,9 | 79,7 | 26,4 | 382,7 | 132,3 | 198,2 | 439,1 | 959,3 |
| | Jul. | 1.379,0 | 0,0 | 0,0 | 1,2 | 0,0 | 9,2 | 79,6 | 92,0 | 393,8 | 159,8 | 194,5 | 451,1 | 933,8 |
| | Aug. | 1.333,2 | 0,0 | 0,0 | 0,5 | 0,0 | 39,3 | 79,6 | 58,6 | 393,9 | 125,6 | 179,4 | 457,2 | 970,2 |
| | Sep. | 1.359,6 | 0,0 | 0,0 | 0,0 | 0,0 | 58,7 | 79,6 | 94,8 | 386,0 | 89,4 | 189,3 | 461,8 | 986,1 |
| | Oct. | 1.358,1 | 0,0 | 0,0 | 2,3 | 0,1 | 19,4 | 79,6 | 104,7 | 384,3 | 58,0 | 250,0 | 464,5 | 947,8 |
| | Nov. | 1.372,1 | 0,0 | 0,0 | 2,3 | 0,0 | 13,3 | 79,4 | 118,5 | 366,5 | 54,6 | 275,5 | 466,6 | 925,8 |
| | Dec. | 1.334,4 | 0,0 | 0,0 | 3,6 | 0,0 | 8,3 | 79,4 | 111,9 | 385,3 | 10,5 | 274,6 | 468,1 | 941,1 |
| 2002 | Jan. | 1.309,0 | 0,0 | 0,0 | 0,8 | 0,0 | 16,4 | 79,4 | 174,3 | 377,6 | 64,7 | 124,2 | 473,1 | 946,6 |
| | Feb. | 1.384,4 | 0,0 | 0,0 | 0,6 | 0,0 | 14,5 | 79,4 | 131,3 | 363,9 | 169,8 | 137,7 | 488,6 | 946,4 |
| | Mar. | 1.684,4 | 0,0 | 0,0 | 3,3 | 0,0 | 24,8 | 79,4 | 189,9 | 367,4 | 369,6 | 167,3 | 489,2 | 960,9 |
| | Apr. | 1.637,5 | 0,0 | 0,0 | 3,4 | 0,0 | 17,6 | 79,4 | 267,7 | 379,4 | 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 |
| | Jun. | 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 |
| | Jul. | 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 |

In spite of the Central Bank's interventions, enhanced surplus liquidity conditions kept the interbank market interest rates below the intervention rate (depos). The average overnight interest rate in the interbank market increased slightly, from 3,42% in June to 3,45% in July, but declined to 3,33% in August. Concerning government securities, the average yield on three-month treasury bills reached 4,08% in July, while the monthly average interest rate on 52-week treasury bills stood at 4,38% in the same month and 4,28% in August. Turning to long-term securities, the average interest rate on five-year bonds was 5,10% in July and 5,11% in August, while no auction for ten-year bonds took place in the period from June to August 2002.

Even though the last auction of ten-year bonds was held in February at an average interest rate of 5,37%, the latest twelve-month average of long-term interest rates fell to 6,47% in June, from 6,89% in April. As the corresponding interest rates in the European Union remained unchanged, the differential between domestic and European long-term interest rates narrowed to 137 basis points in June. The real interest rate spread between the European Union and Cyprus narrowed even more, due to the decrease in the inflation rate in the European Union, and reached 124 basis points in June, compared with 183 basis points in April (table 12).

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

| | Inflation (HICP) | Long-term interest rates | Long-term real interest rates |
|----------------|-------------------|--------------------------|-------------------------------|
| Belgium | 2,00 | 5,20 | 3,20 |
| Denmark | 2,20 | 5,10 | 2,90 |
| Germany | 1,80 | 4,90 | 3,10 |
| Greece | 3,90 | 5,30 | 1,40 |
| Spain | 2,90 | 5,10 | 2,20 |
| France | 1,90 | 5,00 | 3,10 |
| Ireland | 4,40 | 5,10 | 0,70 |
| Italy | 2,30 | 5,20 | 2,90 |
| Luxembourg | 1,80 | 4,80 | 3,00 |
| Netherlands | 4,70 | 5,00 | 0,30 |
| Austria | 2,00 | 5,10 | 3,10 |
| Portugal | 3,80 | 5,20 | 1,40 |
| Finland | 2,40 | 5,10 | 2,70 |
| Sweden | 2,70 | 5,40 | 2,70 |
| United Kingdom | 1,20 | 5,10 | 3,90 |
| Euro zone | 2,30 | 5,10 | 2,80 |
| EU -15 | 2,10 | 5,10 | 3,00 |
| Cyprus | 2,23 | 6,47 | 4,24 |

International and domestic interest rates

A number of central banks, including those of Canada, Norway and New Zealand, increased their official interest rates in July, but the monetary authorities of the largest economies maintained interest rates unchanged, in view of increased uncertainty concerning international

economic conditions. Due to the maintenance of unchanged interest rates by both the European Central Bank and the Central Bank of Cyprus (table 13), the differential between their official interest rates remained at 125 basis points for the marginal lending facility and 25 basis points for the overnight deposit facility.

Table 13

Official interest rates

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

| | | change |
|---|------|--------|
| European Central Bank | | |
| <i>(August 1, 2002)</i> | | |
| Minimum bid rate on the main refinancing operations | 3,25 | - |
| Interest rate on the marginal lending facility | 4,25 | - |
| Interest rate on the deposit facility | 2,25 | - |
| Bank of England | | |
| <i>(September 5, 2002)</i> | | |
| Repo Rate | 4,00 | - |
| Federal Reserve System | | |
| <i>(August 13, 2002)</i> | | |
| Federal Funds Rate | 1,75 | - |
| Discount Rate | 1,25 | - |
| Central Bank of Cyprus | | |
| <i>(July 19, 2002)</i> | | |
| Minimum bid rate on the main refinancing operations | 4,00 | - |
| Interest rate on the marginal lending facility | 5,50 | - |
| Interest rate on the deposit facility | 2,50 | - |

Cyprus Stock Exchange

The downtrend of the General Price Index continued in June and July 2002. On 29 July, the index fell to 81,8 points, a new record low level this year. The decline of the price index in June was accompanied by a decrease in traded volume compared with May, while in July the traded volume increased. On the last day of June the General Price Index stood at 94,8 points, and at the end of July it reached 83,0 points (chart 6). In June, the index ranged between 93,3 and 100,6 points, and in July it moved within a range of 81,8 to 93,7 points.

The average daily volume decreased to £0,7 million in June, from £1,5 million in May, while the average daily number of transactions decreased to 1114, from 1949 in May. In July, the average daily volume was £0,6 million and the average daily number of transactions declined further to 1091. Most sectoral indices registered a fall in the period June – July. The securities with the largest proportion of the monthly traded volume were the shares of Bank of Cyprus and the Popular Bank, which accounted for 12,3% and 9,4% of the traded volume, respectively, in June, and 22,3% and 12,6%, respectively, in July.

Chart 6

Cyprus Stock Exchange (CSE) General Index

June - July 2002

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

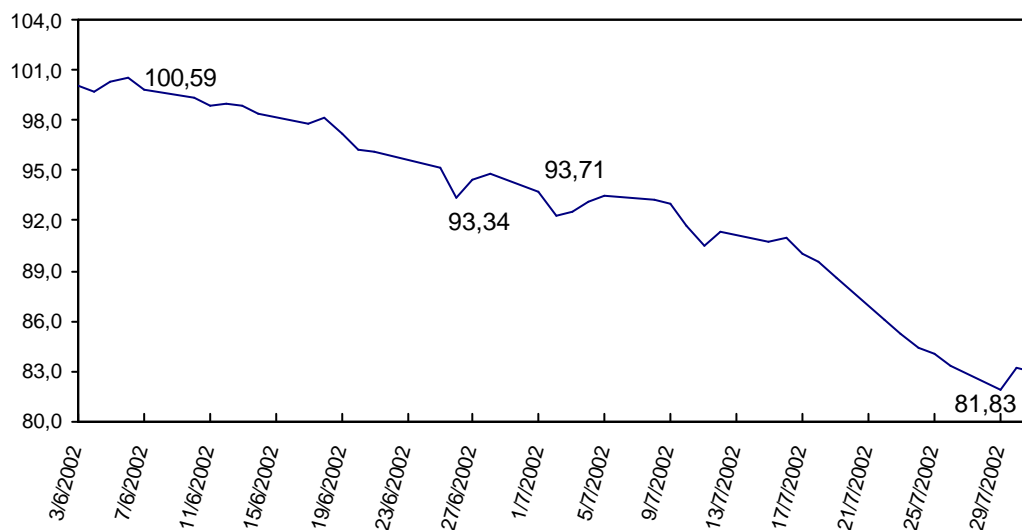


Table 14 shows small capital outflows in June, which were reversed in July. Specifically, purchases of shares on the Cyprus Stock Exchange by non-residents were below sales by

£0,179 million in July, but exceeded sales by £0,153 million in July. Tables 11 and 12 in the annex present the purchases and sales of shares by country of non-resident investor.

Table 14

Investments by non-residents on the Cyprus Stock Exchange

(Cyprus pounds millions)

| | 2001 | 2002 | | |
|-----------------|--------|-------|--------|-------|
| | Dec. | May | Jun. | Jul. |
| Purchases | 0,367 | 0,207 | 0,044 | 0,161 |
| Sales | 0,577 | 0,024 | 0,223 | 0,008 |
| Net investments | -0,210 | 0,183 | -0,179 | 0,153 |

2.3 INFLATION

Prices increased by 3,77% in August, compared with an increase of 3,32% in July. As table 15 shows, the increase in the inflation rate is mainly attributable to the acceleration in the prices of domestic industrial goods as well as to the slowdown in the decline of domestic agricultural product prices. By contrast, prices of imported goods declined significantly, while services prices rose at about the same rate as in July. It is pointed out that price increases in July and August include the effect of the increase in the VAT standard rate as well as changes in excise duties and show a substantial acceleration compared with the first six months of the year.

As regards domestic goods, a significant development in August 2002 was the continuing rise of the prices of industrial goods, which increased by 9,59%, after an increase of 8,66% in

the previous month, while electricity prices also increased further. Specifically, a marginal acceleration in electricity prices was registered in August compared with July, while fuel prices recorded a larger acceleration. The course of electricity and fuel prices emanated from developments in international oil markets, as well as from the increase in excise duties on fuel and the increase in the VAT standard rate as of 1 July 2002, from 10% to 13%. In the first half of the year, that is prior to the increase in the VAT rate and the rise of oil prices above the levels during the corresponding months of the previous year, electricity prices fell by 8,73%, while fuel prices registered no change. In July and August 2002, the average price of Brent crude oil was USD 26 and USD 27 per barrel, respectively, somewhat above the respective prices last year.

Table 15
Consumer price index by economic origin

(annual percentage change)

| | | 2000 | 2001 | August 2001/2000 | July 2002/2001 | August 2002/2001 |
|----------|-----------------------|-------------|-------------|---------------------|-------------------|---------------------|
| | All items | 4,14 | 1,97 | 1,81 | 3,32 | 3,77 |
| A | Domestic goods | 7,15 | 1,34 | 1,01 | 5,90 | 6,95 |
| A.1 | Agricultural | 8,98 | 4,50 | 5,96 | -2,75 | -0,40 |
| A.2 | Industrial | 4,40 | 0,78 | 0,61 | 8,66 | 9,59 |
| A.2.1 | Industrial, non-oil | 2,45 | 0,10 | 0,74 | 6,60 | 6,87 |
| A.2.2 | Fuel and gas | 14,86 | 3,99 | 0,01 | 17,63 | 21,86 |
| A.3 | Electricity | 47,32 | -3,23 | -11,05 | 2,10 | 2,13 |
| B | Imported goods | 2,13 | 0,47 | -0,24 | -3,36 | -3,13 |
| B.1 | Motor vehicles | 3,78 | 0,55 | 0,04 | -10,29 | -10,29 |
| B.2 | Other imported goods | 0,93 | 0,41 | -0,45 | 1,93 | 2,33 |
| C | Services | 2,52 | 3,35 | 3,60 | 4,38 | 4,37 |

Prices of imported goods declined again in August 2002, albeit at a decelerating rate of 3,13%, compared with a decrease of 3,36% in July 2002 and 0,24% in August 2001. Prices of motor vehicles fell by 10,3% in August, as well as in July, owing to the substantial decrease in excise duties on cars, which came into effect on 1 July 2002, while the prices of other imported goods registered an increase due to the VAT increase.

Finally, services prices rose by 4,37%, compared with an increase of 4,38% in July 2002 and 3,60% in August 2001. Among the sub-sectors of services, the greatest increases in August were recorded in health, education, transportation and personal services. It is noted that services prices, like other prices, were influenced by the recent increase in the VAT rate. Indicatively, in the first half of the year services prices increased by 3,26%.

As a result of the aforementioned developments, the inflation rate rose to 2,73% for the first eight months of 2002, compared with 1,82% in the corresponding period of 2001. This increase is partly attributable to the sharp rise in agricultural product prices in the beginning of the year, as well as to the increase in the VAT rate and in excise duties effective on 1 July 2002. A more detailed analysis of developments on the inflation front by economic category is presented in tables 7 to 10 in the annex⁴.

Turning to prospects for 2002, the inflation rate is expected to be around 3,0% to 3,5%, partly due to the increase in the VAT rate and other indirect taxes recently implemented. This projection is based on the framework of price analysis by economic origin, as presented above,⁵ and the assumption that international oil prices will remain around the average level of USD 24 per barrel during the year,⁶ while no further wide fluctuations of the Cyprus pound *vis-à-vis* the euro, the US dollar, the pound sterling and the yen will occur. It is also assumed that agricultural product prices will register a small acceleration in comparison with 2001, mostly on account of the large increases recorded in the first four months of 2002, followed by an anticipated decrease in the remainder of the year.

For 2003, taking into account the effect of the recently implemented tax measures as well as the measures that will be implemented on 1 January 2003, including *inter alia* the increase in the VAT standard rate to 15%, the inflation rate is expected to increase further to about 4% to 4,5%. This provisional estimate is also based on the assumption that oil prices will remain around USD 24 per barrel and agricultural product prices will register a small increase. It should be noted that if inflationary developments enhanced by increases in input prices and wage increases (due to automatic wage indexing) lead to further chain increases, then this projection may be considered optimistic.

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

⁵ These conclusions are also supported by preliminary econometric analysis using autoregressive models with quarterly data for the period 1992(1)-2002(2).

⁶ According to the latest projections of the European Commission, oil prices are expected to remain around USD 24 per barrel, considerably above the prices during the last quarter of 2001.

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

Table 16

Inflation : Cyprus and other countries

(annual percentage change in consumer prices)

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

(1) Source: *The Economist*

(2) Source: *Central Bank of Cyprus*

2.4 DOMESTIC ECONOMY

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

Production

As regards the services sector, tourist arrivals fell by 12,3% in July 2002, compared with an increase of 3,1% in the same month of the previous year. For the first seven months of 2002, tourist arrivals decreased by 12,9%, compared with an increase of 4,9% in the corresponding period of 2001. Receipts from tourism in the first half of the year decreased by 9,1% and are estimated at £445,6 million. The smaller decrease in receipts from tourism compared with arrivals is attributable to the significant increase in expenditure per tourist.

The slowdown in tourism in 2002 is reflected in the decline of business confidence of hotel owners, as portrayed in the Business Trends Survey conducted by the Statistical Service in July 2002. In particular, the proportion of hotels reporting that they considered their current business position as not satisfactory for this time of the year exceeded the proportion of those assessing it as more than satisfactory by 80 percentage points, compared with a difference of only 28 percentage points in the same month of the previous year. Furthermore, the proportion of hotels reporting that they expected demand within the coming three months to be lower than normal reached 78%, compared with 18% in the same month of the previous year. Moreover, the proportion of hotels reporting in July that they expected a deterioration in their business position during the next six months exceeded the proportion of those anticipating an improvement, while in July 2001 the proportion of hotels anticipating an improvement exceeded the proportion of those expecting a deterioration.

Table 17

Latest economic indicators

| | 2000 | 2001 | Latest month with available data | | Corresponding month of the previous year | | Latest period with available data | | Corresponding period of the previous year | |
|---|---------|---------|----------------------------------|--------|--|--------|-----------------------------------|--------|---|--------|
| Consumer price index (% change) | 4,1 | 2,0 | Aug. 2002 | 3,8 | Aug. 2001 | 1,8 | Jan.-Aug. 2002 | 2,7 | Jan.-Aug. 2001 | 1,8 |
| Unemployment rate (% of E.A.P) | 3,4 | 3,0 | Jul. 2002 | 3,2 | Jul. 2001 | 2,9 | Jan.-Jul. 2002 | 3,4 | Jan.-Jul. 2001 | 3,0 |
| Fiscal deficit(-)/surplus(+) (% of GDP) | -150,5 | -164,3 | Jan.-Apr. 2002 | -77,0 | Jan.-Apr. 2001 | -22,9 | Jan.-Apr. 2002 | -77,0 | Jan.-Apr. 2001 | -22,9 |
| Tourist arrivals (% change) | 10,3 | 0,4 | Jul. 2002 | -12,3 | Jul. 2001 | 3,1 | Jan.-Jul. 2002 | -12,9 | Jan.-Jul. 2001 | 4,9 |
| Tourist revenue (% change) | 16,5 | 7,0 | Jun. 2002 | -11,5 | Jun. 2001 | n/a | Jan.-Jun. 2002 | -9,1 | Jan.-Jun. 2001 | n/a |
| Cypriots traveling abroad (% change) | 4,2 | 16,8 | May 2002 | 35,6 | May 2001 | -23,2 | Jan.-May 2002 | 7,1 | Jan.-May 2001 | 14,9 |
| Volume index of retail sales (% change) | 5,7 | 5,9 | May 2002 | -3,1 | May 2001 | 8,2 | Jan.-May 2002 | 1,8 | Jan.-May 2001 | 4,6 |
| Volume index of retail sales excluding cars(% change) | 6,9 | 1,2 | May 2002 | -0,3 | May 2001 | 5,4 | Jan.-May 2002 | -0,9 | Jan.-May 2001 | 1,1 |
| Private car registration (% change) | -6,5 | 19,4 | Aug. 2002 | 24,6 | Aug. 2001 | 38,1 | Jan.-Aug. 2002 | 21,4 | Jan.-Aug. 2001 | 16,4 |
| Volume index of manufacturing production (% change) | 4,0 | -2,6 | May 2002 | -6,0 | May 2001 | 1,8 | Jan.-May 2002 | -1,7 | Jan.-May 2001 | -3,6 |
| Volume index of building permits authorised (% change) | 2,6 | 23,4 | Apr. 2002 | -15,9 | Apr. 2001 | 52,6 | Jan.-Apr. 2002 | 14,4 | Jan.-Apr. 2001 | 35,2 |
| Value index of building permits authorised (% change) | 7,2 | 26,2 | Apr. 2002 | -2,2 | Apr. 2001 | 40,2 | Jan.-Apr. 2002 | 12,9 | Jan.-Apr. 2001 | 25,2 |
| Local sales of cement (% change) | 1,1 | 11,6 | Jul. 2002 | 14,5 | Jul. 2001 | 22,3 | Jan.-Jul. 2002 | 10,7 | Jan.-Jul. 2001 | 11,0 |
| Total imports (c.i.f.) (% change) | 23,2 | 2,4 | May 2002 | 0,9 | May 2001 | 5,7 | Jan.-May 2002 | 1,8 | Jan.-May 2001 | 4,5 |
| Imports for home consumption (c.i.f.) ¹ (% change) | 16,5 | 8,7 | May 2002 | 6,1 | May 2001 | 12,2 | Jan.-May 2002 | 4,8 | Jan.-May 2001 | 17,3 |
| Total exports (f.o.b.) (% change) | 9,0 | 6,1 | May 2002 | -23,2 | May 2001 | 18,2 | Jan.-May 2002 | -12,2 | Jan.-May 2001 | 3,3 |
| Domestic exports(f.o.b.) (% change) | 8,4 | 4,5 | May 2002 | 21,0 | May 2001 | 12,9 | Jan.-May 2002 | 11,1 | Jan.-May 2001 | 0,7 |
| Trade deficit (£ million) | -1877,0 | -1900,7 | May 2002 | -198,0 | May 2001 | -180,7 | Jan.-May 2002 | -834,6 | Jan.-May 2001 | -784,3 |

(1) Non-oil civil imports

The Business Trends Survey also records trends in business services. According to the results of the survey conducted in July 2002, business confidence in this category of services declined in comparison with April 2002. The proportion of enterprises reporting that they anticipated a further improvement in their business position within the next few months was somewhat lower than the respective proportion in April, and the proportion of enterprises expecting a deterioration was marginally higher. Furthermore, a higher proportion of enterprises reported that they expected lower demand for their services, but an increase in the size of their permanent staff. At the same time, a greater proportion of enterprises reported that they anticipated an increase in the prices for their services, compared with expectations recorded in April 2002.

In the secondary sector, both positive and negative developments were again recorded. On the one hand, construction continued to show some positive signs, although it appears to have been affected by the overall slowdown in the economy, especially in April, while on the other hand, manufacturing continued to decline. Specifically, the volume index of building permits, which indicates prospects for construction in the following few months, fell by 15,9% in April 2002, compared with a rise of 52,6% in the same month of 2001, while the value index of building permits decreased by 2,2%, compared with an increase of 40,2% in April 2001. For the first four months of 2002, the volume and value indices of building permits rose by 14,4% and 8,9%, respectively, compared with respective increases of 35,2% and 28,8% in the corresponding period of the previous

year. Furthermore, local cement sales grew by 14,5% in July 2002, compared with an increase of 22,3% in the same month of the previous year. For the first seven months of 2002, local cement sales grew by 10,7%, compared with an increase of 15,0% in the corresponding period of the previous year.

Manufacturing continued to present a negative picture, as the volume index of manufacturing production fell by 6,0% in May 2002, compared with an increase of 1,8% in the same month of the previous year. For the first five months of 2002, the index declined by 1,7%, compared with a decrease of 3,6% in the corresponding period of 2001. The time of recovery from the observed downturn in manufacturing is difficult to predict. The performance of manufacturing by product category is shown in table 18.

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

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

| | May 02/01 | May 01/00 | Jan.-May 02/01 | Jan.-May 01/00 |
|--|-----------|-----------|-------------------|-------------------|
| General index | -6,0 | 1,8 | -1,7 | -3,6 |
| Food products, beverages & tobacco | -9,1 | -2,8 | -6,2 | -7,2 |
| Textiles & textile products | -9,9 | 16,8 | -2,9 | -3,4 |
| Leather and leather products | -10,2 | -6,9 | -2,6 | -4,4 |
| Wood & wood products | -9,6 | -3,2 | -6,4 | -4,2 |
| Paper, paper products, publishing & printing | | | | |
| Refined petroleum products | -7,7 | 9,1 | -0,8 | 7,7 |
| Chemicals, chemical products and man-made fibres | 43,7 | 301,6 | -16,6 | -10,7 |
| Rubber and plastic products | -4,9 | 18,7 | 5,9 | 5,4 |
| Other non-metallic mineral products | 2,4 | -6,3 | 4,7 | -4,6 |
| Basic metals & fabricated metal products | 2,0 | 1,3 | 6,9 | 1,8 |
| Machinery and equipment n.e.c. | 0,7 | 6,0 | 3,2 | -3,2 |
| Electrical & optical equipment | -4,1 | 4,6 | -2,5 | 2,1 |
| Transport equipment | -5,3 | 7,9 | 7,5 | -12,0 |
| Manufacturing n.e.c. | 23,1 | -29,0 | 23,8 | -22,9 |
| | -14,6 | -5,1 | -9,4 | -8,9 |

Table 19**Retail sales volume index***(percentage change by category)*

| | May 02/01 | May 01/00 | Jan.-May 02/01 | Jan.-May 01/00 |
|-----------------------------------|--------------|--------------|-------------------|-------------------|
| General index | -3,1 | 8,2 | 1,8 | 4,6 |
| Food, drinks and tobacco | -3,1 | 12,2 | -6,8 | 4,3 |
| Clothing and textiles | 24,0 | -8,9 | 3,6 | 0,6 |
| Footwear & leather products | 24,2 | -6,5 | 5,0 | 3,2 |
| Electrical goods & appliances | -4,8 | -3,5 | 5,4 | -3,1 |
| Vehicles, machinery & spare parts | -9,9 | 15,4 | 8,8 | 15,4 |
| Supermarkets | -2,2 | 13,0 | -0,1 | -1,1 |
| Pharmacies | -3,8 | 6,0 | 5,6 | 4,2 |
| Furniture | -5,8 | 13,1 | 5,6 | 4,6 |
| Petrol stations | 1,7 | 2,9 | 2,2 | -1,0 |
| Toys | 11,8 | -0,3 | 8,9 | 3,1 |

Chart 7

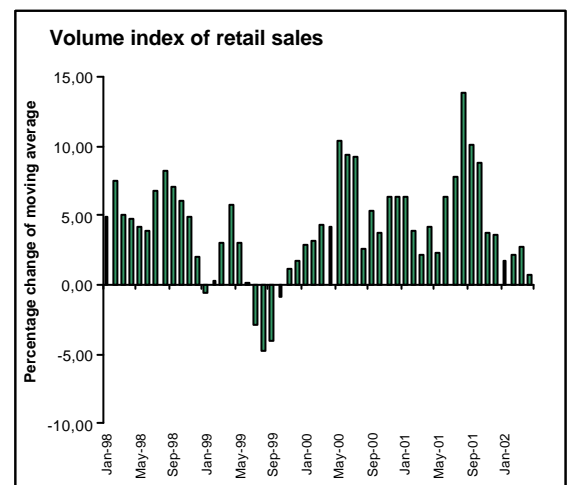
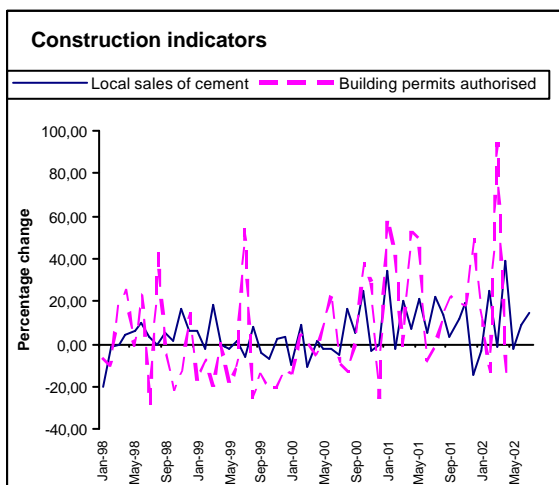
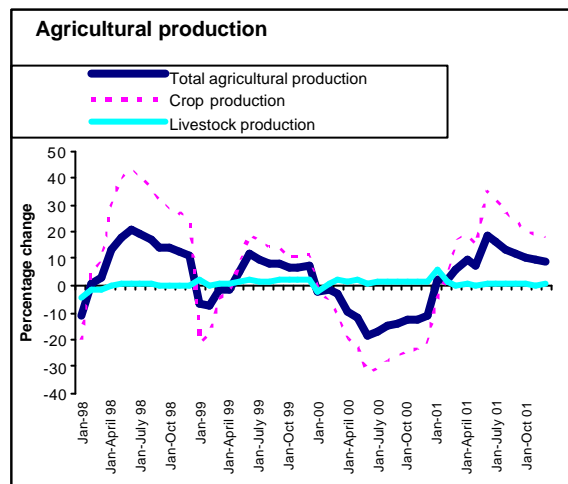
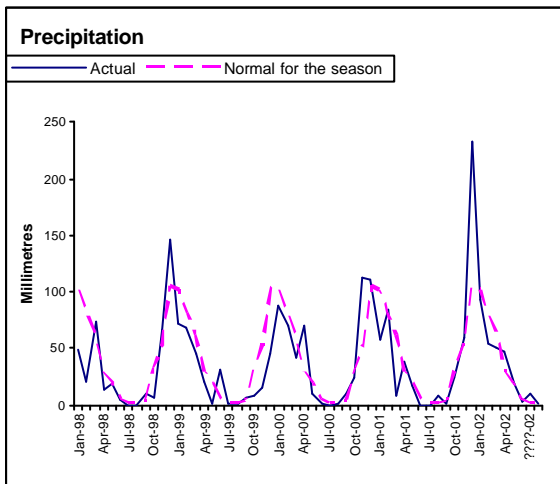
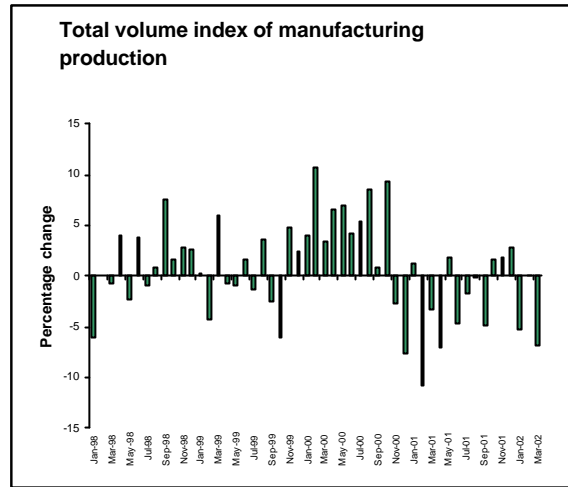
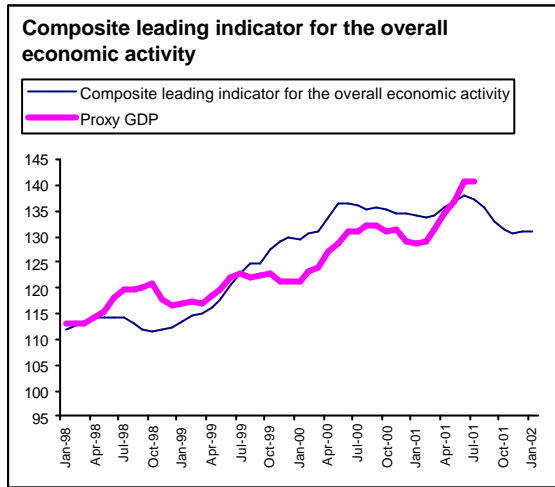
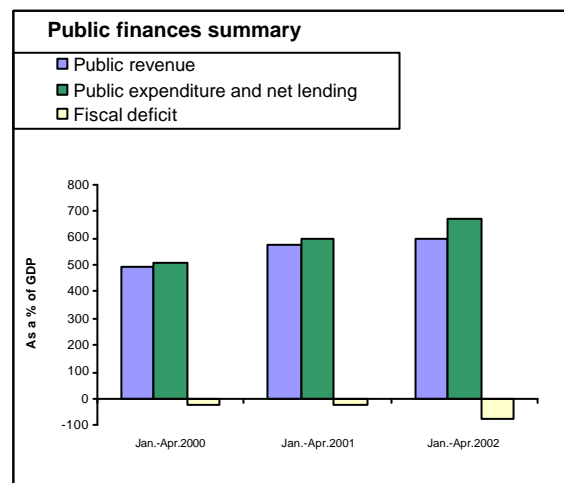
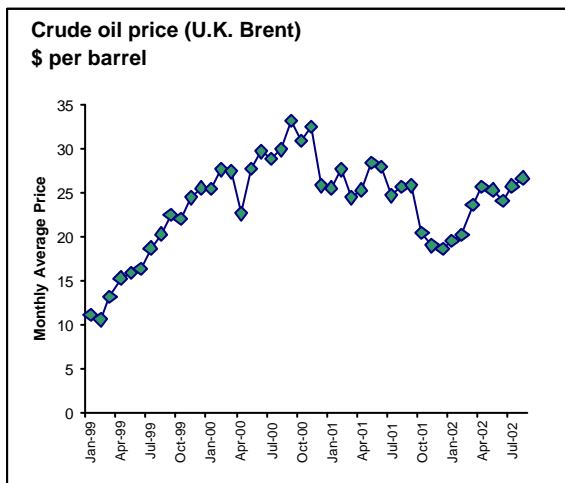
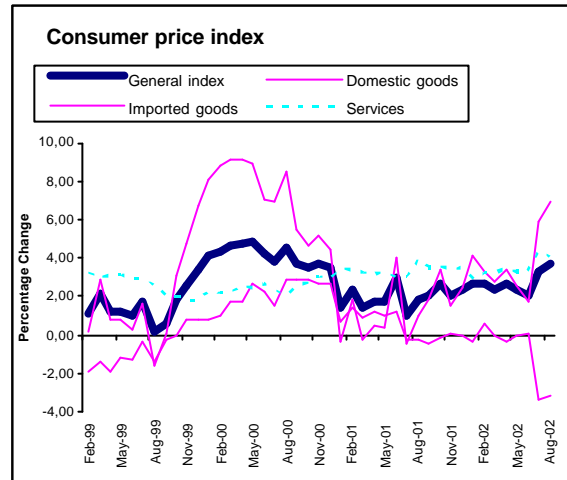
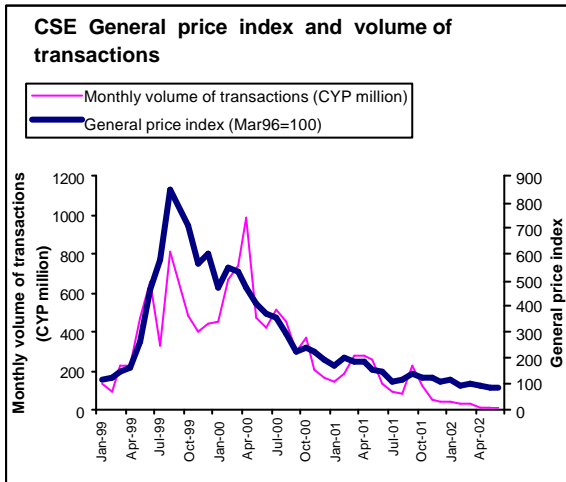
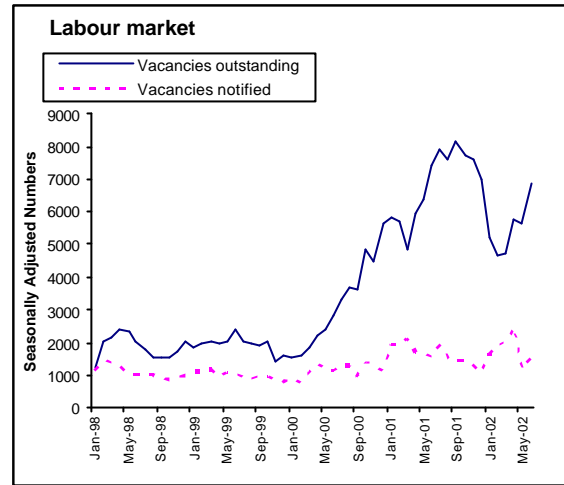
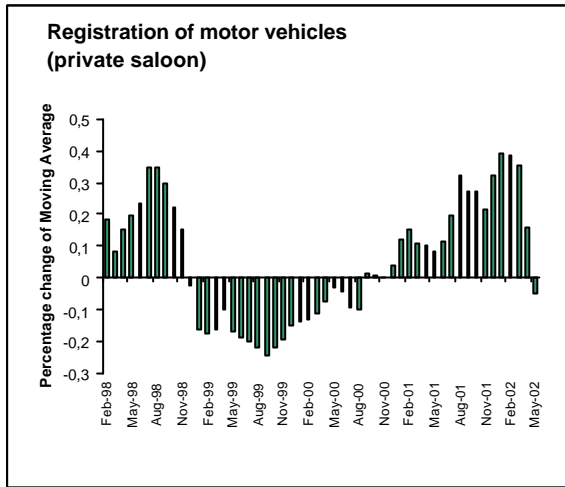


Chart 8



Consumption

Private consumption slowed in the first five months of 2002. The retail sales volume index increased by 1,8% in the period from January to May 2002, compared with an increase of 5,0% in the same period of the previous year. Particularly in May, the index declined by 3,1%, compared with a rise of 8,2% in the same month of 2001. It is pointed out that the retail sales volume index was greatly influenced by car sales, which, besides not being directly related to domestic production, were boosted in the first months of 2002 by the expected increase in the VAT rate from 10% to 13%. Excluding car sales, which grew by 8,8% in the period from January to May 2002, the change in the retail sales volume index becomes negative, of the order of -0,9% for this period. Moreover, if sales of all durable goods⁷ are excluded, then retail sales show a decrease of 1,8% in the first five months of the year, compared with an increase of 1,4% in the corresponding period of 2001. The course of retail sales by product category is presented in table 19.

Concerning demand and registration of private saloon cars, wide fluctuations were recorded in recent months. As a result of the inclusion in the tax reform of a provision for a decrease in excise duties on saloon cars, which started to be publicly discussed in mid-May, registrations of private saloon cars slowed to a marginal increase of 0,6% in May and fell by 38,6% in June. After the coming into effect of the tax reform on 1 July 2002, which included a substantial decrease in excise duties on cars, sales of cars rebounded, growing by 46,2% and 24,6% in July and August

2002, respectively. For the whole period from January to August 2002, car registrations increased by 21,4%, compared with an increase of 16,4% in the corresponding period of 2001.

Developments in imports for home consumption (excluding imports of military equipment and fuels) seem consistent with the observed slowdown in domestic demand, as well as the subdued demand for loans previously analysed. These imports grew by 4,8% in the period from January to May 2002, compared with a growth rate of 17,3% in the same period of 2001. The slowdown in the increase of the number of Cypriots travelling abroad is also noteworthy. Specifically, the number of Cypriot travellers increased by 7,1% in the first five months of 2002, compared with an increase of 14,9% in the same period of 2001.

Consumer and business confidence

A consumer survey as well as a survey of the manufacturing sector is carried out monthly by the CMR company (a member of the Cypronetwork Consultancy Group), on behalf of the European Commission and the Ministry of Finance. The surveys aim to assess the perceptions of consumers and entrepreneurs about the economic climate in Cyprus in specific periods. According to these surveys, the consumers' assessment of the economic position of their household as well as the overall state of the Cypriot economy was even more pessimistic in July 2002 compared with the previous month, with respect to both the current situation and expectations for a year later. The manufacturers' assessment of their current business position as well as the outlook for the following months was broadly stable in July compared with the previous month.

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

Analytically, in July 2002, 53% of consumers responded that their current economic position was the same as in the previous twelve months, 11% saw an improvement, and 36% reported a deterioration. The respective proportions in the previous month were 52%, 14% and 33%. Concerning the state of the Cypriot economy compared with the situation twelve months earlier, 61% of consumers saw a deterioration, 22% saw no change, while 11% considered that there was an improvement. The corresponding proportions in June 2002 were 55%, 26% and 14%.

As regards expectations for the economic position of their household in the next twelve months, 13% of consumers reported in July that they anticipated an improvement, while 30% expected a worsening. The corresponding proportions in June 2002 were 17% and 29%. Finally, concerning the outlook for the Cypriot economy in the next twelve months, in July 2002 18% of consumers anticipated an improvement, and 43% expected a deterioration, compared with proportions of 18% and 38%, respectively, in the previous month.

Turning to the business survey carried out in July 2002, the majority of manufacturers considered that their orders/sales fluctuated in certain respects and their stocks of finished goods were at normal levels. Production trends were reported as being somewhat higher than in June and at about the same level as in May, while exports were considered as overall satisfactory. Concerning prospects for manufacturing, business confidence remained stable in July compared with previous months.

Labour market

According to the latest available data for the labour market, the number of registered unemployed increased by 8,4% in July 2002, while the unemployment rate, as a percentage of the economically active population, rose to 3,2%, from 2,9% in the same month of the previous year. For the first seven months of the year, the number of registered unemployed increased by 12,6%, compared with a decrease of 18,4% in the corresponding period of 2001, and the unemployment rate rose from 3,0% to 3,4%. A rise in unemployment in the first seven months of 2002 was recorded in nearly all sectors of the economy. An upward trend in unemployment has been observed since November 2001 and is consistent with the recorded slowdown in overall economic activity compared with 2001. It is noted that in May, June and July 2002, the increase in unemployment decelerated, mainly owing to seasonal factors.

Public finances

According to the latest available data from the Ministry of Finance, the fiscal deficit for the period from January to April 2002 increased to £77,0 million, compared with £22,9 million in the same period of the previous year. Public revenue slowed significantly, increasing by 3,9% compared with 17,0% in the first four months of 2001. Public expenditure also registered a deceleration, growing by 12,8% compared with 17,4% in the corresponding period of the previous year.

Taking a more detailed look at public expenditure, current expenditure decelerated, while capital expenditure fell substantially. Amongst the categories of current expenditure, a slowdown was registered in wages and salaries, current

transfers, social pension payments and interest payments, while an absolute decrease was registered in subsidies. The outlook for public expenditure may worsen significantly if the salary increases agreed with the government employees' trade union (PASYDY) and the additional expenditure due to the revision of the government payroll are applied retroactively as of 1 January 2002. In contrast to the other categories of current expenditure, Social Security Fund payments accelerated due to the increase in unemployment in the first four months of 2002 compared with the corresponding period of 2001. Concerning capital expenditure, both investment and capital transfers decreased.

Turning to public revenue, a large deceleration in tax receipts was recorded. Partly reflecting the slowdown in economic activity in 2002, both direct and indirect tax receipts, as well as Social Security Fund contributions decelerated. As regards direct taxes, a large deceleration in income tax receipts was recorded. Concerning indirect taxes, VAT receipts slowed substantially; by contrast, excise duties accelerated and a sizeable increase in import duties was registered, apparently in part due to increased imports of cars in the first months of 2002, in anticipation of the increase in the VAT rate from 10% to 13% effective 1 July 2002. Other revenue and foreign grants declined.

Developments in public finances are shown in table 20. It is pointed out that public finances may worsen further if VAT receipts prove to be less efficient than projected – a possibility that may no longer be excluded.

Box 3**Effects of the recent tax reform on the fiscal deficit and the disposable income of households**

In the context of harmonisation with the *acquis communautaire*, the House of Representatives has recently enacted a series of tax amendments. The tax reform includes, *inter alia*, a gradual increase in the VAT rate, changes in other indirect taxes, income tax reductions and various compensatory measures aiming to support the middle and low income levels of the population. A detailed list of the tax amendments is given in table 13 in the annex.

In the original government proposal, the short-term effect of the tax reform was estimated to be neutral, in the sense that changes in government receipts and payments would be equivalent and thus would not affect the fiscal deficit. Although the government has not provided publishable detailed information on the particular effects of the tax measures finally adopted on the fiscal deficit, it is generally considered that the tax reform, as approved by the parliament, will contribute to the widening of the fiscal deficit for 2002 and 2003, as well as to the corresponding increase in the disposable income of households.

An initial static assessment of the effect of the tax reform on the fiscal deficit gives the following preliminary results:

- With respect to the direct effect of the tax reform on the fiscal deficit in 2002, an expansion of the deficit by about £30 million is estimated.
- The direct effect of the tax reform on the fiscal deficit for 2003 is expected to remain around the same level as in 2002.
- Increases in the VAT standard rate in 2002 and 2003 will also have an indirect effect on the fiscal deficit in 2003, due to wage increases in the public sector as a result of automatic wage indexing. The indirect effect is estimated at about £15 million, in addition to the aforementioned direct effect of £30 million.

It is difficult to make accurate projections for the effects of the tax reform on public revenue and expenditure, especially in the long run, because these tax changes alter the dynamics of the system. The conclusions of a static accounting calculation of the particular effects of the tax reform should be modified significantly, as the incentives of households and enterprises for consumption, investment and production change considerably due to the significant changes in indirect and direct tax rates included in the tax reform.

The above effects on the fiscal deficit correspond, as previously mentioned, to increases in the disposable income of households. Notwithstanding the objective difficulty of accurate quantitative estimates, it is reasonable to expect that the increase in the household disposable income resulting from the tax reform will be substantial, approaching 0,5% of GDP in 2002 and 0,6% of GDP in 2003.

If these projections are confirmed, then public debt will also be adversely affected.

Table 20**Public finances summary Jan.-Apr. 2002**

| | Jan-Apr.2001 | Jan-Apr.2002 | Jan-Apr.2001 | Jan-Apr.2002 |
|--|----------------|--------------|--------------|--------------|
| | pounds million | | % change | |
| Total revenue and grants | 574,0 | 596,4 | 17,0 | 3,9 |
| Direct taxes | 194,0 | 195,3 | 26,8 | 0,7 |
| Income tax | 136,6 | 144,2 | 49,4 | 5,6 |
| Indirect taxes | 231,9 | 246,9 | 12,8 | 6,5 |
| Value added tax | 111,2 | 119,3 | 33,4 | 7,2 |
| Excise taxes | 53,4 | 58,8 | 6,1 | 10,2 |
| Import duty | 16,9 | 23,0 | -6,5 | 36,3 |
| Social security funds contributions | 94,8 | 107,9 | 22,6 | 13,9 |
| Other revenues | 52,8 | 45,8 | -2,5 | -13,3 |
| Foreign grants | 0,5 | 0,4 | 16,3 | -8,8 |
| Total expenditure and net lending | 596,9 | 673,4 | 17,4 | 12,8 |
| Current expenditure | 543,6 | 624,5 | 17,2 | 14,9 |
| Goods and services | 236,0 | 271,6 | 13,6 | 15,1 |
| Wages and salaries | 167,1 | 177,6 | 10,0 | 6,3 |
| Current transfers | 134,4 | 135,6 | 22,4 | 0,9 |
| Social pension | 7,9 | 8,3 | 12,3 | 5,1 |
| Social security funds payments | 78,8 | 91,8 | 8,8 | 16,5 |
| Subsidies | 20,3 | 14,9 | 69,9 | -26,4 |
| Interest | 93,7 | 102,3 | 22,9 | 9,2 |
| Capital expenditure | 47,4 | 42,2 | 11,7 | -10,9 |
| Investment | 34,0 | 31,5 | 8,1 | -7,6 |
| Capital transfers | 12,3 | 10,7 | 13,1 | -12,8 |
| Net lending | 5,9 | 6,7 | 210,2 | 13,1 |
| Fiscal surplus (+)/deficit(-) | -22,9 | -77,0 | 28,3 | 235,6 |

2.5 EXTERNAL TRANSACTIONS

According to the trade data compiled by the Statistical Service, non-oil civil imports for home consumption, i.e. imports for home consumption excluding imports of fuels and military equipment, recorded a substantial slowdown in the first five months of 2002 compared with the same period of the previous year. At the same time, domestic exports continued their uptrend and recorded a sizeable increase compared with the first five months of 2001.

Concerning tourism, provisional data for July show a continuing decrease in tourist arrivals, compared with the same month of the previous year, and thus the overall picture for the first seven months of 2002 is disappointing. However, expenditure per tourist increased in the

first half of the year compared with the first half of the previous year, and consequently, receipts from tourism in the first half of 2002 registered a smaller decrease than arrivals in the same period.

Trade in goods

Table 21 presents an overview of the trade balance for the first five months of 2002, including provisional data for May.

Total imports increased slightly by 1,8% in the first five months of 2002, compared with an increase of 4,5% in the same period of the previous year. Non-oil civil imports for home consumption recorded a marked slowdown, as they increased by 4,8%, compared with a growth rate of 17,3% in the corresponding period of

2001. If the payment of £22,4 million during May for the purchase of an aircraft by Cyprus Airways is excluded, then the slowdown is more pronounced, as the growth rate of non-oil civil imports for home consumption is reduced to 1,9%.

VAT receipts from imports of goods⁸ in July 2002 suggest that the weak course of imports continued, with a marginal increase that month compared with the same month of the previous year. Specifically, VAT receipts from imports increased by 6,1% in July compared with the same month of 2001, partly on account of the increase in the VAT standard rate from 10% to 13%.

Turning to total exports, the provisional data indicate a continuing decline in May 2002, mainly due to the fall of re-exports by about 45,7%. The decrease in total exports for the first five months of 2002 was of the order of 12,2%, compared with an increase of 3,3% in the corresponding period of 2001. By contrast, domestic exports grew by 11,1% in the period from January to May 2002, compared with an increase of 0,7% in the same period of 2001.

Based on the aforementioned provisional data, the crude trade deficit reached £834,6 million in the first five months of the year, compared with £784,3 million in the corresponding period of 2001.

⁸ Imports of defence equipment are not subject to VAT; thus VAT receipts from imports (which are available two to three months earlier than the data on imports themselves) are considered indicative of total imports excluding defence equipment. The correlation coefficient for VAT receipts and imports excluding military equipment, over a period of constant VAT

Overall, a slowdown in imports for home consumption is anticipated for 2002, as a result of the slowdown in economic activity compared with the previous year. Even though the available data only refer to the first five months of the year, they may be considered indicative of the trends for the whole year.

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

Considering imports for home consumption, table 22 shows that in the period from January to April 2002, imports of capital goods declined by 7,3%, compared with an increase of 27,9% a year earlier. By contrast, imports of fuels and lubricants increased by 11,2%. Imports of consumer goods grew by 12,9%, compared with a growth rate of 13,0% in the corresponding period of 2001, while imports of intermediate goods decelerated markedly, with a growth rate of 1,4%, compared with 16,5% in the first four months of 2001.

Overall, non-oil civil imports for home consumption increased by 4,4% in the first four months of 2002, compared with a growth rate of 19,0% in the corresponding period of 2001. As previously mentioned, the provisional data for May, excluding the payment for the import of an aircraft by Cyprus Airways, indicate that the slowdown was greater for the first five months of 2002.

rates, is 0,8, indicating a close correlation of these two variables.

As regards exports (table 23), domestic exports rose by 8,1% in the period from January to April 2002, compared with a decrease of 2,4% in the

corresponding period of 2001. This increase emanated mostly from industrial products, especially pharmaceuticals.

Table 21

Trade balance data¹

(Cyprus pounds in millions)

| | 2001 Jan.- Dec. | 2001/2000 % change Jan.- Dec. | 2002 May | 2002 Jan. - May | 2002/2001 % change May | 2001/2000 % change Jan. - May | 2002/2001 % change Jan. - May |
|--|--------------------|--|-------------|--------------------|---------------------------------|--|--|
| Total imports (cif) | 2.528,7 | 2,4 | 248,0 | 1.062,7 | 0,9 | 4,5 | 1,8 |
| Imports for home consumption (cif) | 2.176,8 | 6,9 | 220,0 | 950,4 | 5,6 | 8,3 | 7,8 |
| Non oil civil imports for home consumption (cif) | 1.813,0 | 8,7 | 189,6 | 805,4 | 6,0 | 17,3 | 4,8 |
| Imports destined for re-exports | 351,9 | -18,8 | 28,0 | 112,3 | -25,3 | -12,2 | -30,7 |
| Total exports | 628,0 | 6,1 | 50,0 | 228,1 | -23,2 | 3,3 | -12,2 |
| Domestic exports (fob) | 233,9 | 4,5 | 27,0 | 108,4 | 21,0 | 0,7 | 11,1 |
| Re-exports (fob) | 337,0 | 12,5 | 20,0 | 107,0 | -45,7 | 5,4 | -24,6 |
| Goods procured in ports by carriers | 57,1 | -16,4 | 3,0 | 12,7 | -50,0 | 2,0 | -37,1 |
| Trade balance | -1.900,7 | 1,3 | -198,0 | -834,6 | 9,6 | 4,9 | 6,4 |

(1) Figures for May 2002 are provisional

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

| | 2000 year | 2001 year | 2001 Jan.- April | 2002 Jan.- April | | 2000/1999 year % change | 2001/2000 year % change | 2001/2000 Jan.- April % change | 2002/2001 Jan.- April % change |
|--|---------------|---------------|---------------------|---------------------|--|-------------------------------|-------------------------------|--------------------------------------|--------------------------------------|
| Consumer goods | 569,6 | 617,7 | 194,3 | 219,3 | | 18,3 | 8,4 | 13,0 | 12,9 |
| Intermediate inputs | 675,1 | 710,3 | 234,1 | 237,3 | | 16,5 | 5,2 | 16,5 | 1,4 |
| Agricultural | 42,0 | 42,2 | 11,3 | 12,9 | | 19,2 | 0,3 | -2,6 | 14,2 |
| Construction and mining | 110,4 | 120,7 | 41,1 | 46,0 | | 19,4 | 9,4 | 37,5 | 11,9 |
| Manufacturing | 398,8 | 421,8 | 136,5 | 141,9 | | 12,0 | 5,8 | 14,1 | 4,0 |
| Transport, storage and communication | 44,9 | 29,4 | 13,0 | 6,4 | | 52,1 | -34,6 | -26,6 | -50,8 |
| Other sectors of the economy | 79,0 | 96,2 | 32,3 | 30,1 | | 18,9 | 21,7 | 46,2 | -6,8 |
| Capital goods | 237,1 | 258,3 | 86,1 | 79,8 | | 25,1 | 8,9 | 27,9 | -7,3 |
| Agricultural | 8,8 | 8,8 | 3,2 | 3,1 | | 1,4 | 0,7 | -3,0 | -3,1 |
| Construction and mining | 15,7 | 20,6 | 6,6 | 6,4 | | -37,7 | 31,3 | 53,5 | -3,0 |
| Manufacturing | 67,0 | 69,6 | 22,7 | 19,1 | | 34,7 | 4,0 | 48,4 | -15,9 |
| Transport, storage and communication | 43,8 | 52,3 | 18,1 | 14,7 | | 49,9 | 19,3 | 36,1 | -18,8 |
| Other sectors of the economy | 101,9 | 107,0 | 35,6 | 36,5 | | 32,8 | 5,0 | 14,5 | 2,5 |
| Transport equipment and parts thereof | 186,4 | 226,6 | 75,2 | 79,3 | | 3,1 | 21,6 | 34,8 | 5,5 |
| of which: | | | | | | | | | |
| passenger cars | 74,9 | 94,6 | 48,7 | 57,8 | | 10,3 | 26,3 | 35,7 | 18,7 |
| spare parts | 53,3 | 61,3 | 25,1 | 23,8 | | -3,0 | 15,1 | 45,1 | -5,2 |
| Fuels and lubricants | 269,3 | 266,1 | 75,1 | 83,5 | | 76,8 | -1,2 | 12,3 | 11,2 |
| Unclassified | 31,1 | 97,9 | 9,0 | 31,1 | | 25,0 | -0,2 | | |
| Imports for home consumption | 1968,7 | 2176,8 | 673,7 | 730,4 | | 22,4 | 6,9 | 18,3 | 8,4 |
| Imports destined for re-exports | 433,3 | 351,9 | 124,4 | 84,4 | | 26,9 | -18,8 | -4,3 | -32,2 |
| Total imports | 2401,9 | 2528,7 | 798,1 | 814,8 | | 23,2 | 2,4 | 14,1 | 2,1 |
| Memo item: | | | | | | | | | |
| Non oil civil imports for home consumption | 1668,0 | 1813,0 | 589,7 | 615,8 | | 16,5 | 8,7 | 18,9 | 4,4 |

Source: Statistical Service of Cyprus

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

| | 2000 year | 2001 year | 2001 Jan. - April | 2002 Jan. - April | | 2000/1999 year % change | 2001/2000 year % change | 2001/2000 Jan. - April % change | 2002/2001 Jan. - April % change |
|---|--------------|--------------|----------------------|----------------------|--|-------------------------------|-------------------------------|---------------------------------------|---------------------------------------|
| Agricultural products (raw) | 34,4 | 43,8 | 18,5 | 18,7 | | -5,7 | 27,4 | 17,1 | 1,1 |
| of which: | | | | | | | | | |
| potatoes | 12,3 | 17,5 | 5,9 | 3,7 | | | | | |
| other vegetables | 3,2 | 4,2 | 2,0 | 2,0 | | | | | |
| fresh, frozen or dried | | | | | | | | | |
| citrus fruit | 12,8 | 14,7 | 8,8 | 12,4 | | | | | |
| Minerals and industrial products of mineral origin | 12,4 | 11,6 | 3,6 | 3,5 | | 7,8 | -6,3 | 2,9 | -2,8 |
| Industrial products of agricultural origin | 28,2 | 28,0 | 8,4 | 10,6 | | 11,4 | -0,7 | -16,0 | 26,2 |
| of which: | | | | | | | | | |
| halloumi cheese | 7,6 | 7,7 | 2,3 | 3,8 | | | | | |
| fruit preserved | 1,5 | 0,9 | 0,2 | 0,3 | | | | | |
| fruit and vegetable juices | 3,5 | 4,1 | 0,0 | 0,0 | | | | | |
| beer | 1,0 | 1,0 | | | | | | | |
| wines | 6,2 | 5,3 | 0,3 | 0,3 | | | | | |
| meat | 3,2 | 2,9 | 1,1 | 1,6 | | | | | |
| | | | 1,1 | 1,5 | | | | | |
| Industrial products of manufacturing origin | 148,8 | 150,5 | 44,8 | 48,6 | | 11,9 | 1,1 | -6,9 | 8,5 |
| of which: | | | | | | | | | |
| cigarettes | 16,2 | 10,8 | 3,8 | 1,0 | | 22,6 | 27,7 | -36,7 | -73,7 |
| cement | 10,8 | 8,4 | 2,2 | 2,6 | | | | | |
| pharmaceutical products | 30,9 | 39,4 | 10,6 | 14,5 | | | | | |
| articles of paper or of paperboard | 4,8 | 6,0 | 1,9 | 2,3 | | -1,3 | -12,3 | 26,7 | 21,1 |
| clothing | 22,5 | 19,7 | 5,7 | 5,4 | | | | | |
| footwear | 6,1 | 3,8 | 1,4 | 1,2 | | | | | |
| furniture | 7,9 | 6,8 | 2,6 | 2,2 | | | | | |
| Unclassified | 0,0 | 0,1 | 0,0 | 0,0 | | | | | |
| Domestic exports | 224,0 | 233,9 | 75,3 | 81,4 | | 8,4 | 4,5 | -2,4 | 8,1 |
| re-exports | 299,6 | 337,0 | 105,1 | 87,0 | | 0,6 | 12,5 | -0,1 | -17,2 |
| shipstores | 68,3 | 57,1 | 14,2 | 9,6 | | 76,4 | -16,4 | 3,6 | -32,4 |
| Total exports | 591,9 | 628,0 | 194,6 | 178,1 | | 9,0 | 6,1 | -0,9 | -8,5 |

Source: Statistical service of Cyprus

Tourism

As shown in table 24, tourist arrivals decreased further by 12,3% in July, after a decrease of 9,2% in June. For the first seven months of the current year, the decrease in tourist arrivals stood at 12,9%.

The sizeable decrease in tourist arrivals led to a decrease in receipts from tourism, by 11,5% in June and by 9,1% in the first half of this year, compared with the corresponding period 2001 (table 25). The smaller decrease in receipts from tourism, compared with the decrease in arrivals, is attributable to the increase in expenditure per tourist in Cyprus.

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

| | 1999 | 2000 | 2001 | 2002 | % change 2000/1999 | % change 2001/2000 | % change 2002/2001 |
|-------------|-----------|-----------|-----------|-----------|-----------------------|-----------------------|-----------------------|
| January | 57.740 | 63.553 | 64.214 | 54.067 | 10,1 | 1 | -15,8 |
| February | 74.041 | 87.243 | 83.569 | 71.950 | 17,8 | -4,2 | -13,9 |
| March | 126.494 | 135.487 | 137.578 | 138.625 | 7,1 | 1,5 | 0,8 |
| April | 180.076 | 221.785 | 237.228 | 180.481 | 23,2 | 7 | -23,9 |
| May | 273.317 | 299.355 | 324.901 | 279.070 | 9,5 | 8,5 | -14,1 |
| June | 276.879 | 302.011 | 322.835 | 293.192 | 9,1 | 6,9 | -9,2 |
| July | 322.041 | 362.299 | 373.385 | 327.404 | 12,5 | 3,1 | -12,3 |
| August | 341.088 | 356.686 | 371.536 | | 4,6 | 4,2 | |
| September | 309.498 | 329.964 | 329.400 | | 6,6 | -0,2 | |
| October | 270.732 | 300.597 | 269.744 | | 11 | -10,3 | |
| November | 118.105 | 133.500 | 107.454 | | 13 | -19,5 | |
| December | 84.274 | 93.722 | 74.887 | | 11,2 | -20,1 | |
| Jan. - July | 1.310.588 | 1.471.733 | 1.543.710 | 1.344.789 | 12,3 | 4,9 | -12,9 |
| Jan. - Dec | 2.434.285 | 2.686.202 | 2.696.731 | | 10,3 | 0,4 | |

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

| | 2000 | 2001 | 2002 | % change 2002/2001 |
|-------------|-------|---------|-------|-----------------------|
| January | | 24,9 | 21,6 | -13,5 |
| February | | 29,1 | 28,9 | -0,9 |
| March | | 49,7 | 59,2 | 18,9 |
| April | | 89,9 | 77,0 | -14,3 |
| May | | 139,1 | 119,5 | -14,1 |
| June | 122,9 | 157,4 | 139,3 | -11,5 |
| July | 162,7 | 192,0 | | |
| August | 173,7 | 205,0 | | |
| September | 161,9 | 176,3 | | |
| October | 135,1 | 130,2 | | |
| November | 54,1 | 48,8 | | |
| December | 36,2 | 29,2 | | |
| Jan.- Dec. | | 1.271,6 | | |
| Jan. - June | | 490,1 | 445,6 | -9,1 |

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

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

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

| Date of settlement | | Bids (amount) | Allotment (amount) | Variable rate tenders | | | | Fixed rate tenders | Running for (...) days |
|--------------------|---------|---------------|--------------------|-----------------------|-----------------------|-----------------------|-----------------------|---------------------|------------------------|
| | | | | Maximum bid rate | Weighted average rate | Minimum allotted rate | Maximum allotted rate | Fixed allotted rate | |
| 2001 | 04 Dec. | 145,0 | 120,0 | 4,00 | 3,72 | 3,40 | 3,77 | | 15 |
| | 19 Dec. | 96,0 | 96,0 | 4,00 | 3,78 | 3,75 | 3,98 | | 15 |
| 2002 | 03 Jan. | 203,0 | 203,0 | 4,00 | 3,82 | 3,49 | 3,91 | | 14 |
| | 17 Jan. | 185,0 | 160,0 | 4,00 | 3,82 | 3,50 | 3,90 | | 14 |
| | 31 Jan. | 158,0 | 130,0 | 4,00 | 3,84 | 3,70 | 3,89 | | 14 |
| | 14 Feb. | 185,0 | 130,0 | 4,00 | 3,72 | 3,65 | 3,80 | | 14 |
| | 28 Feb. | 189,0 | 160,0 | 4,00 | 3,84 | 3,65 | 3,98 | | 14 |
| | 14 Mar. | 268,0 | 200,0 | 4,00 | 3,65 | 3,64 | 3,80 | | 14 |
| | 28 Mar. | 252,0 | 252,0 | 4,00 | 3,92 | 3,65 | 3,98 | | 14 |
| | 11 Apr. | 349,0 | 280,0 | 4,00 | 3,90 | 3,70 | 4,00 | | 14 |
| | 25 Apr. | 281,0 | 265,0 | 4,00 | 3,93 | 3,80 | 4,00 | | 14 |
| | 09 May | 289,5 | 280,0 | 4,00 | 3,96 | 3,89 | 4,00 | | 14 |
| | 23 May | 319,5 | 319,5 | 4,00 | 3,98 | 3,94 | 4,00 | | 14 |
| | 06 Jun. | 166,0 | 166,0 | | | | | 4,00 | 42 |
| | 06 Jun. | 201,5 | 100,0 | 4,00 | 3,64 | 3,5 | 3,97 | | 14 |
| | 10 Jun. | 125,0 | 100,0 | | | | | 3,90 | 38 |
| | 20 Jun. | 161,0 | 160,0 | 4,00 | 3,86 | 3,74 | 3,98 | | 14 |
| | 04 Jul. | 177,0 | 150,0 | 4,00 | 3,85 | 3,82 | 4,00 | | 14 |
| | 18 Jul. | 328,0 | 270,0 | | | | | 4,00 | 42 |
| | 18 Jul. | 158,5 | 120,0 | 4,00 | 3,79 | 3,69 | 3,87 | | 14 |
| | 01 Aug. | 231,0 | 175,0 | 4,00 | 3,73 | 3,69 | 3,75 | | 13 |
| | 14 Aug. | 137,0 | 137,0 | 4,00 | 3,75 | 3,70 | 3,98 | | 15 |
| | 29 Aug. | 430,0 | 350,0 | | | | | 4,00 | 42 |
| | 29 Aug. | 102,0 | 100,0 | 4,00 | 3,88 | 3,65 | 4,00 | | 14 |

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

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

| | | Cyprus | | | | | Euro area | | | | |
|------|------|--------------------|-------------------|------------------|---------------------|----------------------|--------------------|------------------|------------------|------------------|-------------------|
| | | Overnight deposits | 2-7 days deposits | 1-month deposits | 2-6 months deposits | 6-12-months deposits | Overnight deposits | 1-month deposits | 3-month deposits | 6-month deposits | 12-month deposits |
| 2001 | Jul. | 4,94 | 4,88 | 5,95 | - | 6,50 | 4,51 | 4,52 | 4,47 | 4,39 | 4,31 |
| | Aug. | 4,33 | 4,60 | 4,85 | 5,84 | - | 4,49 | 4,46 | 4,35 | 4,22 | 4,11 |
| | Sep. | 3,97 | 4,55 | 5,19 | 6,10 | - | 3,99 | 4,05 | 3,98 | 3,88 | 3,77 |
| | Oct. | 3,71 | 4,10 | 4,78 | - | - | 3,97 | 3,72 | 3,60 | 3,46 | 3,37 |
| | Nov. | 3,46 | - | 4,58 | - | 5,00 | 3,51 | 3,43 | 3,39 | 3,26 | 3,20 |
| | Dec. | 3,88 | 4,67 | 4,62 | 5,00 | 4,38 | 3,34 | 3,42 | 3,34 | 3,26 | 3,30 |
| 2002 | Jan. | 3,39 | 3,82 | 4,09 | - | - | 3,29 | 3,35 | 3,34 | 3,34 | 3,48 |
| | Feb. | 3,22 | 3,66 | 3,83 | - | 4,50 | 3,28 | 3,34 | 3,36 | 3,40 | 3,59 |
| | Mar. | 3,20 | - | 4,10 | 5,05 | 4,57 | 3,26 | 3,35 | 3,39 | 3,50 | 3,82 |
| | Apr. | 3,29 | - | 4,10 | 5,10 | - | 3,32 | 3,34 | 3,41 | 3,54 | 3,86 |
| | May | 3,28 | 3,74 | 4,25 | 4,60 | 5,02 | 3,31 | 3,37 | 3,46 | 3,62 | 3,95 |
| | Jun. | 3,42 | 3,77 | 3,96 | 4,88 | 5,55 | 3,35 | 3,38 | 3,46 | 3,59 | 3,87 |
| | Jul. | 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 | - | - | | | | | |

Sources: Central Bank of Cyprus and European Central Bank

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

| | Lending interest rates ^{1, 2} | | | | | Deposit interest rates ^{1, 3} | | |
|-----------|--|-------------------------------|----------------------------|--|--------------|--|--|--|
| | Enterprises: overdraft within limits | Enterprises: secured loans | Personal: secured loans | Housing: loans secured by assignment of life policy | Credit cards | Current accounts | 3 month notice - over CYP5000 | 1 year fixed deposits - over CYP5000 |
| 2001 Jan. | 7,92 | 7,92 | 8,95 | 8,67 | 10,50 | 2,00 | 5,25 | 6,50 |
| Feb. | 7,92 | 7,92 | 8,95 | 8,67 | 10,50 | 2,00 | 5,25 | 6,50 |
| Mar. | 7,92 | 7,92 | 8,95 | 8,67 | 10,50 | 2,00 | 5,25 | 6,50 |
| Apr. | 7,92 | 7,92 | 8,95 | 8,67 | 10,50 | 2,00 | 5,25 | 6,50 |
| May | 7,92 | 7,92 | 8,95 | 8,67 | 10,50 | 2,00 | 5,25 | 6,50 |
| Jun. | 7,92 | 7,92 | 8,95 | 8,67 | 10,50 | 2,00 | 5,25 | 6,50 |
| Jul. | 7,92 | 7,92 | 8,95 | 8,67 | 10,50 | 2,00 | 5,25 | 6,50 |
| Aug. | 7,42 | 7,42 | 8,45 | 8,17 | 10,00 | 1,50 | 4,75 | 6,00 |
| Sept. | 6,92 | 6,92 | 7,95 | 7,67 | 9,67 | 1,00 | 4,25 | 5,42 |
| Oct. | 6,92 | 6,92 | 7,95 | 7,67 | 9,67 | 1,00 | 4,25 | 5,42 |
| Nov. | 6,42 | 6,42 | 7,45 | 7,17 | 9,00 | 0,50 | 3,75 | 4,92 |
| 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 |
| Jun | 6,98 | 7,16 | 7,90 | 7,15 | 10,50 | 0,93 | 4,35 | 4,83 |
| Jul | 6,98 | 7,16 | 7,90 | 7,15 | 10,50 | 0,93 | 4,35 | 4,83 |

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

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

| | Deposit Interest Rates | | | | | | Lending Interest Rates | | | |
|-------------|------------------------|----------------------|------------------|-----------------|----------------------|------------------|------------------------|----------------|---------------------|-----------------------|
| | Overnight | With agreed maturity | | | Redeemable at notice | | To enterprises | | To households | |
| | | Up to 1 year | Up to 2 years | Over 2 years | Up to 3 months | Over 3 months | Up to 1 year | Over 1 year | Consumer lending | For house purchase |
| 2000 Jun. | 0,83 | 3,49 | 3,49 | 4,48 | 2,16 | 3,87 | 6,56 | 6,23 | 9,84 | 6,34 |
| Jul. | 0,87 | 3,58 | 3,58 | 4,71 | 2,33 | 3,94 | 6,77 | 6,37 | 9,95 | 6,46 |
| Aug. | 0,89 | 3,67 | 3,67 | 4,75 | 2,36 | 4,06 | 6,81 | 6,44 | 10,00 | 6,51 |
| Sep. | 0,94 | 3,85 | 3,83 | 4,77 | 2,38 | 4,20 | 6,92 | 6,44 | 10,03 | 6,56 |
| Oct. | 0,97 | 3,96 | 3,96 | 4,76 | 2,40 | 4,14 | 7,13 | 6,60 | 10,15 | 6,57 |
| Nov. | 0,99 | 4,04 | 4,03 | 4,77 | 2,47 | 4,25 | 7,16 | 6,63 | 10,20 | 6,56 |
| Dec. | 1,01 | 3,96 | 3,96 | 4,58 | 2,49 | 4,21 | 7,18 | 6,45 | 10,19 | 6,43 |
| 2001 Jan. * | 1,01 | 3,88 | 3,88 | 4,39 | 2,52 | 4,01 | 7,19 | 6,40 | 10,32 | 6,29 |
| Feb. | 1,01 | 3,84 | 3,83 | 4,35 | 2,50 | 3,99 | 7,11 | 6,44 | 10,26 | 6,24 |
| Mar. | 1,02 | 3,82 | 3,82 | 4,32 | 2,50 | 3,99 | 7,04 | 6,32 | 10,22 | 6,18 |
| Apr. | 1,03 | 3,76 | 3,76 | 4,26 | 2,50 | 3,91 | 7,07 | 6,34 | 10,25 | 6,14 |
| May | 1,01 | 3,75 | 3,74 | 4,27 | 2,48 | 3,91 | 7,03 | 6,34 | 10,22 | 6,17 |
| Jun. | 0,98 | 3,65 | 3,65 | 4,25 | 2,45 | 3,85 | 6,97 | 6,25 | 10,17 | 6,13 |
| Jul. | 0,97 | 3,65 | 3,65 | 4,22 | 2,44 | 3,80 | 6,90 | 6,20 | 10,11 | 6,05 |
| Aug. | 0,96 | 3,59 | 3,59 | 4,14 | 2,40 | 3,68 | 6,89 | 6,19 | 10,16 | 5,96 |
| Sep. | 0,91 | 3,28 | 3,28 | 3,98 | 2,36 | 3,33 | 6,70 | 6,07 | 10,08 | 5,86 |
| 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 | 9,78 | 5,53 |
| Feb. | 0,74 | 2,78 | 2,79 | 3,95 | 2,15 | 2,91 | 6,16 | 5,75 | 9,81 | 5,61 |
| Mar. | 0,74 | 2,84 | 2,84 | 4,07 | 2,15 | 3,00 | 6,12 | 5,85 | 9,76 | 5,74 |
| Apr. | 0,74 | 2,89 | 2,90 | 4,13 | 2,14 | 3,07 | 6,19 | 5,95 | 9,81 | 5,81 |
| May | 0,75 | 2,91 | 2,92 | 4,15 | 2,15 | 3,08 | 6,22 | 5,98 | 9,85 | 5,82 |
| Jun. | 0,76 | 2,93 | 2,94 | 4,10 | 2,13 | 3,08 | 6,21 | 5,92 | 9,82 | 5,78 |

* From January 2001 data refer to the enlarged Euro area

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

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

(1) Minimum bid rate on the main refinancing operations

(2) Repo Rate

(3) Federal Funds Rate

(4) Interest rate on the marginal lending facility

Table 7

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

| | Yearly | | Quarterly | | | Aug. 2001/ 2000 | Jul. 2002/ 2001 | Aug. 2002/ 2001 | Jan.-Aug. 2001/ 2000 | Jan.-Jul. 2002/ 2001 | Jan.-Aug. 2002/ 2001 | Weights 1998=100 |
|---|-------------|-------------|-------------|-------------|--------------|-----------------------|-----------------------|-----------------------|----------------------------|----------------------------|----------------------------|---------------------|
| | 2000 | 2001 | 2001 IV | 2002 I | 2002 II | | | | | | | |
| GENERAL INDEX | 4,14 | 1,97 | 2,36 | 2,58 | 2,35 | 1,81 | 3,32 | 3,77 | 1,82 | 2,59 | 2,73 | 100,00 |
| A LOCAL GOODS | 7,15 | 1,34 | 2,46 | 3,39 | 2,57 | 1,01 | 5,90 | 6,95 | 0,84 | 3,39 | 3,83 | 36,69 |
| A.1 Agricultural | 8,98 | 4,50 | 15,97 | 16,74 | 2,98 | 5,96 | -2,75 | -0,40 | -0,60 | 7,98 | 6,88 | 7,93 |
| A.2 Industrial | 4,40 | 0,78 | -0,48 | 0,93 | 2,91 | 0,61 | 8,66 | 9,59 | 1,40 | 2,89 | 3,71 | 27,24 |
| A.2.1 industrial non-petroleum | 2,45 | 0,10 | 0,95 | 1,60 | 3,09 | 0,74 | 6,60 | 6,87 | -0,27 | 2,95 | 3,44 | 22,91 |
| A.2.2 fuel and gas | 14,86 | 3,99 | -6,73 | -2,11 | 2,08 | 0,01 | 17,63 | 21,86 | 9,72 | 2,58 | 4,97 | 4,33 |
| A.3 Electricity | 47,32 | -3,23 | -8,94 | -13,28 | -3,71 | -11,05 | 2,10 | 2,13 | -0,89 | -7,24 | -6,10 | 1,52 |
| B IMPORTED GOODS | 2,13 | 0,47 | 0,00 | 0,07 | -0,08 | -0,24 | -3,36 | -3,13 | 0,76 | -0,48 | -0,81 | 22,20 |
| B.1 Motor Vehicles | 3,78 | 0,55 | -0,76 | 0,35 | -0,43 | 0,04 | -10,29 | -10,29 | 1,26 | -1,50 | -2,59 | 9,43 |
| B.2 Other Imported | 0,93 | 0,41 | 0,57 | -0,14 | 0,18 | -0,45 | 1,93 | 2,33 | 0,39 | 0,29 | 0,54 | 12,77 |
| C SERVICES | 2,52 | 3,35 | 3,50 | 3,15 | 3,37 | 3,60 | 4,38 | 4,37 | 3,28 | 3,42 | 3,54 | 41,11 |
| Euro area inflation | 2,3 | 2,5 | 2,1 | 2,6 | 2,1 | 2,8 | 1,9 | | 2,9 | 2,3 | | |
| Underlying inflation for Cyprus ¹ | 2,4 | 1,7 | 1,9 | 2,0 | 2,4 | 1,9 | 3,0 | 3,1 | 1,7 | 2,3 | 2,4 | |

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

Table 8

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

| | Yearly | | Quarterly | | | Aug. 2001/ 2000 | Jul. 2002/ 2001 | Aug. 2002/ 2001 | Jan.-Aug. 2001/ 2000 | Jan.-Jul. 2002/ 2001 | Jan.-Aug. 2002/ 2001 | Weights 1998=100 |
|--------------------------------|-------------|-------------|-------------|-------------|--------------|-----------------------|-----------------------|-----------------------|----------------------------|----------------------------|----------------------------|---------------------|
| | 2000 | 2001 | 2001 IV | 2002 I | 2002 II | | | | | | | |
| GENERAL INDEX | 4,14 | 1,97 | 2,36 | 2,58 | 2,35 | 1,81 | 3,32 | 3,77 | 1,82 | 2,59 | 2,73 | 100,00 |
| A LOCAL GOODS | 2,63 | 0,51 | 0,94 | 1,26 | 0,97 | 0,38 | 2,19 | 2,59 | 0,32 | 1,27 | 1,43 | 36,69 |
| A.1 Agricultural | 0,69 | 0,36 | 1,27 | 1,31 | 0,24 | 0,48 | -0,21 | -0,03 | -0,05 | 0,63 | 0,55 | 7,93 |
| A.2 Industrial | 1,21 | 0,21 | -0,13 | 0,25 | 0,81 | 0,17 | 2,36 | 2,58 | 0,38 | 0,79 | 1,01 | 27,24 |
| A.2.1 industrial non-petroleum | 0,57 | 0,02 | 0,22 | 0,36 | 0,70 | 0,16 | 1,46 | 1,52 | -0,06 | 0,66 | 0,77 | 22,91 |
| A.2.2 fuel and gas | 0,64 | 0,19 | -0,35 | -0,10 | 0,10 | 0,00 | 0,90 | 1,07 | 0,44 | 0,13 | 0,24 | 4,33 |
| A.3 Electricity | 0,73 | -0,07 | -0,20 | -0,30 | -0,07 | -0,26 | 0,04 | 0,04 | -0,02 | -0,15 | -0,13 | 1,52 |
| B IMPORTED GOODS | 0,46 | 0,10 | 0,00 | 0,01 | -0,02 | -0,05 | -0,70 | -0,65 | 0,16 | -0,10 | -0,17 | 22,20 |
| B.1 Motor Vehicles | 0,35 | 0,05 | -0,07 | 0,03 | -0,04 | 0,00 | -0,93 | -0,93 | 0,11 | -0,14 | -0,24 | 9,43 |
| B.2 Other Imported | 0,12 | 0,05 | 0,07 | -0,02 | 0,02 | -0,05 | 0,23 | 0,28 | 0,05 | 0,03 | 0,06 | 12,77 |
| C SERVICES | 1,05 | 1,37 | 1,42 | 1,31 | 1,39 | 1,48 | 1,84 | 1,83 | 1,34 | 1,42 | 1,47 | 41,11 |

Table 9

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

| | Yearly | | Quarterly | | | Aug. 2001/ 2000 | Jul. 2002/ 2001 | Aug. 2002/ 2001 | Jan.-Aug. 2001/ 2000 | Jan.-Jul. 2002/ 2001 | Jan.-Aug. 2002/ 2001 | Weights 1998=100 |
|---|-------------|-------------|-------------|-------------|-------------|-----------------------|-----------------------|-----------------------|----------------------------|----------------------------|----------------------------|---------------------|
| | 2000 | 2001 | 2001 IV | 2002 I | 2002 II | | | | | | | |
| GENERAL INDEX | 4,14 | 1,97 | 2,36 | 2,58 | 2,35 | 1,81 | 3,32 | 3,77 | 1,82 | 2,59 | 2,73 | 100,00 |
| Food & non-alcoholic beverages | 5,49 | 4,09 | 8,64 | 9,31 | 5,09 | 4,62 | 3,40 | 4,72 | 2,03 | 6,64 | 6,39 | 18,20 |
| Alcoholic beverages & tobacco | 8,16 | 2,79 | 1,30 | 0,98 | 7,66 | 1,63 | 21,76 | 21,85 | 3,51 | 6,83 | 8,72 | 1,78 |
| Clothing and footwear | -0,46 | -6,75 | -2,12 | -3,06 | -4,00 | -4,97 | -3,78 | -4,33 | -8,79 | -3,59 | -3,68 | 8,22 |
| Housing, water, electricity and gas | 5,46 | 1,59 | 0,77 | 1,82 | 3,46 | 0,53 | 5,01 | 5,37 | 1,98 | 2,98 | 3,28 | 21,27 |
| Furnishings, household equipment and supplies | 1,47 | 0,15 | 0,34 | -1,21 | -0,99 | -0,86 | 3,10 | 4,13 | 0,19 | -0,51 | 0,06 | 7,08 |
| Health | 6,18 | 5,41 | 5,05 | 4,30 | 5,03 | 4,75 | 5,20 | 5,09 | 5,66 | 4,75 | 4,79 | 4,92 |
| Transport | 5,70 | 2,29 | -1,23 | 0,25 | 0,65 | 0,89 | -0,52 | 0,27 | 4,03 | 0,31 | 0,31 | 17,42 |
| Communication | -10,36 | 1,73 | 4,85 | -7,13 | -7,77 | 11,11 | -5,53 | -7,29 | -0,39 | -7,18 | -7,19 | 1,79 |
| Recreation & culture | -0,20 | -0,50 | 1,40 | 1,16 | 1,46 | 1,02 | 3,91 | 3,63 | -1,44 | 1,68 | 1,93 | 5,88 |
| Education | 3,87 | 4,60 | 6,63 | 6,35 | 5,79 | 4,05 | 5,79 | 5,79 | 3,84 | 6,03 | 6,00 | 2,33 |
| Restaurants & hotels | 5,80 | 6,00 | 3,96 | 3,30 | 3,14 | 5,52 | 4,90 | 4,89 | 6,88 | 3,46 | 3,64 | 6,07 |
| Miscellaneous goods and services | 4,16 | 3,97 | 2,95 | 3,03 | 3,83 | 3,23 | 7,92 | 7,81 | 4,46 | 4,08 | 4,55 | 5,04 |

Table 10

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

| | Yearly | | Quarterly | | | Aug. 2001/ 2000 | Jul. 2002/ 2001 | Aug. 2002/ 2001 | Jan.-Aug. 2001/ 2000 | Jan.-Jul. 2002/ 2001 | Jan.-Aug. 2002/ 2001 | Weights 1998=100 |
|---|-------------|-------------|-------------|-------------|-------------|-----------------------|-----------------------|-----------------------|----------------------------|----------------------------|----------------------------|---------------------|
| | 2000 | 2001 | 2001 IV | 2002 I | 2002 II | | | | | | | |
| GENERAL INDEX | 4,14 | 1,97 | 2,36 | 2,58 | 2,35 | 1,81 | 3,32 | 3,77 | 1,82 | 2,59 | 2,73 | 100,00 |
| Food & non-alcoholic beverages | 0,99 | 0,75 | 1,57 | 1,70 | 0,94 | 0,85 | 0,62 | 0,89 | 0,37 | 1,22 | 1,18 | 18,20 |
| Alcoholic beverages & tobacco | 0,16 | 0,06 | 0,03 | 0,02 | 0,16 | 0,03 | 0,45 | 0,45 | 0,07 | 0,14 | 0,18 | 1,78 |
| Clothing and footwear | -0,04 | -0,54 | -0,17 | -0,21 | -0,31 | -0,36 | -0,26 | -0,29 | -0,71 | -0,26 | -0,26 | 8,22 |
| Housing, water, electricity and gas | 1,17 | 0,34 | 0,17 | 0,40 | 0,75 | 0,12 | 1,10 | 1,17 | 0,43 | 0,65 | 0,71 | 21,27 |
| Furnishings, household equipment and supplies | 0,10 | 0,01 | 0,02 | -0,08 | -0,07 | -0,06 | 0,20 | 0,27 | 0,01 | -0,03 | 0,00 | 7,08 |
| Health | 0,31 | 0,27 | 0,26 | 0,22 | 0,26 | 0,24 | 0,28 | 0,27 | 0,29 | 0,25 | 0,25 | 4,92 |
| Transport | 0,97 | 0,40 | -0,22 | 0,04 | 0,11 | 0,16 | -0,09 | 0,05 | 0,69 | 0,06 | 0,05 | 17,42 |
| Communication | -0,17 | 0,03 | 0,06 | -0,11 | -0,11 | 0,15 | -0,08 | -0,11 | -0,01 | -0,11 | -0,11 | 1,79 |
| Recreation & culture | -0,01 | -0,03 | 0,08 | 0,06 | 0,08 | 0,06 | 0,21 | 0,20 | -0,08 | 0,09 | 0,10 | 5,88 |
| Education | 0,09 | 0,11 | 0,16 | 0,16 | 0,14 | 0,10 | 0,14 | 0,14 | 0,09 | 0,15 | 0,15 | 2,33 |
| Restaurants & hotels | 0,36 | 0,38 | 0,25 | 0,22 | 0,20 | 0,35 | 0,33 | 0,32 | 0,43 | 0,23 | 0,24 | 6,07 |
| Miscellaneous goods and services | 0,21 | 0,20 | 0,15 | 0,16 | 0,20 | 0,16 | 0,41 | 0,40 | 0,22 | 0,21 | 0,23 | 5,04 |

Table 11**Inward portfolio investment: Purchase of shares traded on the Cyprus Stock Exchange by non-residents⁽¹⁾***(Cyprus pounds thousands)*

| Country | 2001 | 2001 Jan. | 2001 Feb. | 2001 Mar. | 2001 Apr. | 2001 May | 2001 June | 2001 July | 2001 Aug. | 2001 Sep. | 2001 Oct. | 2001 Nov. | 2001 Dec. | 2002 Jan. | 2002 Feb. | 2002 Mar. | 2002 Apr. | 2002 May |
|--------------------------|-----------------|----------------|----------------|----------------|----------------|----------------|--------------|--------------|----------------|--------------|--------------|----------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Australia | 207,9 | 26,2 | 27,4 | 19,4 | 11,8 | 6,1 | 55,6 | 13,2 | 34,6 | 5,3 | 3,6 | 0,4 | 4,4 | 0,9 | 0,0 | 1,8 | 0,0 | 0,6 |
| Austria | 210,4 | 0,0 | 174,8 | 13,6 | 0,2 | 21,7 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| Belgium | 16,2 | 6,0 | 4,7 | 0,0 | 0,0 | 5,5 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| British Virgin Islands | 175,5 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 1,2 | 33,2 | 23,1 | 36,0 | 56,9 | 25,1 | 67,1 | 76,7 | 9,3 | 0,0 | 0,0 |
| Canada | 66,1 | 34,1 | 2,6 | 2,9 | 0,3 | 12,3 | 11,7 | 0,6 | 0,0 | 0,6 | 0,9 | 0,1 | 0,0 | 0,5 | 7,4 | 1,8 | 39,8 | 0,0 |
| Cuba | 0,7 | 0,0 | 0,7 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| Czech Republic | 4,4 | 0,0 | 0,0 | 0,0 | 0,0 | 4,4 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| Egypt | 30,1 | 4,6 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 17,1 | 8,4 | 0,0 | 0,5 | 2,0 | 0,0 | 0,0 |
| France | 68,9 | 0,0 | 68,9 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| Georgia | 1,5 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 1,5 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| Germany | 260,4 | 56,8 | 24,2 | 35,1 | 53,7 | 52,7 | 19,7 | 9,3 | 2,1 | 0,0 | 0,0 | 3,6 | 3,3 | 15,6 | 0,0 | 4,8 | 0,0 | 0,0 |
| Greece | 8.753,2 | 799,8 | 1.414,3 | 1.125,7 | 723,1 | 1.089,6 | 394,6 | 427,5 | 912,9 | 468,4 | 710,6 | 577,8 | 108,9 | 221,9 | 34,3 | 92,4 | 245,2 | 88,8 |
| Iran | 22,8 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 3,6 | 1,5 | 6,4 | 10,9 | 0,4 | 0,2 | 0,0 | 9,2 | 0,0 | 0,0 |
| Ireland | 112,3 | 7,7 | 0,0 | 55,9 | 35,8 | 6,2 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 4,4 | 2,3 | 2,4 | 0,0 | 0,0 | 0,0 | 4,6 |
| Italy | 0,3 | 0,0 | 0,0 | 0,0 | 0,0 | 0,3 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 4,2 | 0,0 | 0,0 | 0,0 |
| Jordan | 40,1 | 0,0 | 0,0 | 0,0 | 20,1 | 0,0 | 14,7 | 5,3 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| Latvia | 39,7 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 11,6 | 0,0 | 0,0 | 0,0 | 4,8 | 23,3 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| Lebanon | 10,9 | 0,0 | 0,6 | 0,0 | 7,6 | 2,8 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| Libya | 0,7 | 0,0 | 0,7 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| Mexico | 22,1 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 22,1 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| Moldova | 7,1 | 0,0 | 5,7 | 1,5 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| Netherlands | 3,5 | 0,0 | 2,6 | 0,9 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 1,0 | 0,0 |
| Panama | 29,4 | 0,0 | 0,0 | 29,3 | 0,1 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| Philippines | 1,5 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 1,5 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| Russia | 949,7 | 312,4 | 116,6 | 78,1 | 17,6 | 105,6 | 41,2 | 26,6 | 48,7 | 35,2 | 45,0 | 41,3 | 81,5 | 22,1 | 3,0 | 0,6 | 0,0 | 8,1 |
| Saudi Arabia | 174,7 | 0,0 | 0,0 | 19,5 | 10,4 | 18,8 | 0,0 | 6,8 | 41,7 | 77,5 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| South Africa | 664,9 | 18,0 | 32,5 | 18,0 | 11,9 | 41,8 | 8,0 | 28,4 | 58,4 | 117,1 | 26,5 | 235,6 | 68,6 | 139,1 | 122,7 | 61,8 | 94,3 | 68,7 |
| Spain | 15,0 | 1,8 | 0,6 | 0,0 | 0,0 | 8,0 | 0,0 | 0,0 | 0,0 | 0,0 | 4,6 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| Switzerland | 25,6 | 0,0 | 0,0 | 0,0 | 11,8 | 6,4 | 1,7 | 3,5 | 0,0 | 0,0 | 0,0 | 2,2 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| Syria | 5,0 | 0,0 | 5,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| Ukraine | 522,0 | 48,2 | 30,0 | 26,1 | 54,7 | 59,3 | 58,6 | 55,4 | 29,1 | 36,6 | 10,6 | 98,4 | 14,9 | 14,6 | 0,0 | 0,6 | 0,0 | 0,0 |
| United Arab Emirates | 0,3 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,3 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,7 | 0,0 | 0,0 | 0,0 | 0,0 |
| United Kingdom | 2.157,3 | 615,1 | 342,8 | 203,9 | 169,0 | 271,1 | 132,5 | 59,7 | 53,6 | 107,4 | 20,6 | 137,0 | 44,6 | 68,9 | 35,0 | 25,3 | 13,5 | 12,3 |
| United States of America | 268,2 | 19,6 | 71,7 | 9,7 | 56,4 | 50,1 | 3,0 | 10,6 | 3,3 | 0,0 | 39,9 | 3,9 | 0,0 | 14,8 | 0,0 | 0,0 | 35,6 | 22,7 |
| Yugoslavia | 159,6 | 62,4 | 13,6 | 33,0 | 20,9 | 0,0 | 22,6 | 7,2 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,4 | 0,8 | 0,4 | 0,0 | 1,2 |
| Zambia | 109,8 | 0,0 | 0,0 | 0,0 | 0,0 | 31,2 | 16,5 | 5,5 | 34,3 | 0,0 | 5,5 | 12,0 | 5,0 | 0,7 | 7,2 | 4,6 | 0,0 | 0,0 |
| Zimbabwe | 8,9 | 0,0 | 0,0 | 0,0 | 0,8 | 0,0 | 0,0 | 3,8 | 2,1 | 0,0 | 0,9 | 1,2 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| Unidentified | 118,9 | 32,0 | 44,7 | 13,7 | 0,0 | 23,5 | 1,2 | 0,0 | 3,7 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| Total | 15.265,8 | 2.044,7 | 2.384,7 | 1.686,2 | 1.206,2 | 1.817,3 | 794,6 | 688,5 | 1.261,6 | 872,7 | 915,9 | 1.226,0 | 367,3 | 569,9 | 291,9 | 214,7 | 429,5 | 207,0 |

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

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

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

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

Table 13

Tax reform

Indirect taxation

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

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

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

Excise duties

Petroleum increase by 5 cent per litre effective 1.7.2002.

increase by 4 cent per litre effective 1.1.2003.

increase by 3 cent per litre effective 1.10.2003.

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

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

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

Alcoholic beverages

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

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

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

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

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

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

Cigarettes

Increase by 20 cent per packet effective 30.5.2002.

Increase by 10 cent per packet effective 1.7.2003.

Motor vehicles

Decrease in excise duties on saloon cars as follows:

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

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

For 2001 -2500 cc, no change.

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

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

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

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

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

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

Luxury goods

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

Direct taxationNatural persons

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

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

Effective 1.1.2003, the tax brackets are amended as follows:

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

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

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

Professional tax

Abolition of the professional tax effective 1.1.2003.

Taxation of interest

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

Corporation tax

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

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

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

Social cohesion fund

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

Defence fund

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

Compensatory measures

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