



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

# **MONETARY POLICY REPORT**

**April 2006**



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The Monetary Policy Report (MPR) is drafted by the Central Bank's Economic Research Department in preparation for the meetings of the Monetary Policy Committee (MPC), and summarises current economic developments in Cyprus. The MPR appears about eight times a year. Of these eight issues, four are more extensive and comprehensive than the others.

The Greek version of the MPR as well as the English version of the statistical tables are available on the Bank's website on the same day as the MPC meeting. The entire English version of the MPR is posted on the Bank's website during the following month. The English edition of the more extensive version is also available in printed form.

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ECONOMIC RESEARCH DEPARTMENT

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## Symbols, conventions and abbreviations

1. The following symbols are used:

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

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

3. CCIs	Co-operative Credit Institutions
CPI	Consumer Price Index
CSE	Cyprus Stock Exchange
Cystat	Statistical Service of the Republic of Cyprus
CYTA	Cyprus Telecommunications Authority
EAC	Electricity Authority of Cyprus
ECB	European Central Bank
Eurostat	Statistical Office of the European Communities



## 1. INTRODUCTION

The world economy continues to expand steadily despite the deceleration in US growth during the last quarter of 2005. In the euro area prospects for external demand remain positive and both company profits as well as investments are conducive towards growth, albeit at a moderate pace. At their recent meetings the US Federal Reserve and the European Central Bank (ECB) each raised their interest rates by 25 basis points. Analysts believe that both monetary authorities will increase them further on one or two occasions by this summer. The Bank of Japan, following the latest data on receding deflation, has adopted a new policy for absorbing excess bank liquidity. However, for the time being, there is no clear time schedule for a change in its zero interest rate policy. The Bank of England left its interest rates unchanged since its Monetary Policy Committee maintains that GDP growth is near its long-term average and inflation is hovering close to the target of 2% set by the British government.

Inflation rose to 2,6% in February 2006 compared with 2,3% in the previous month. The small increase reflects the acceleration of the increase in the prices of petroleum and domestic industrial products as well as the rise in the cost of services.

Inflationary pressures are also intensifying due to the strong increase in M2 and credit to the private sector. M2 has been at worryingly high levels during the first two months of 2006, registering a growth rate that is more than three times that during the same period of 2005. More specifically, M2 grew by 12,9% year-on-year to February, compared with 3,7% in the same period of the previous year. It is noted that the preceding year's low growth rate was partly due

to the tax amnesty scheme. Credit to the private sector rose by 7,4% year-on-year to February, compared with 6,3% in the same period of the previous year. In particular, foreign currency lending was still at high levels compared with the previous year, having a share in excess of 50% of the total amount of credit given out in the 12 months to February 2006.

At the same time, during February and March excess liquidity conditions prevailed in the money market, thus further sustaining inflationary pressures.

As far as external transactions are concerned, the number of tourists that visited Cyprus in the first two months of 2006 was down by 8% compared with a marginal decrease of 0,5% recorded in the corresponding period of 2005. Revenue from tourism recorded a marginal increase of 0,2% in the first two months of 2006, compared with a 6,4% decrease recorded in the first two months of 2005.

Provisional data published by Cystat reported a 25,4% increase in total imports in January 2006, compared with a 9,2% increase recorded in the corresponding period of 2005. This significant increase is partly the result of the increase in the international price of oil. Total exports recorded a further rebound, increasing by 14,8% in January 2006, compared with a 51,9% increase recorded in January 2005. The notable increase in exports was mainly the result of the significant increase in re-exports.

As a result the trade deficit increased to £192,5 million in January 2006 relative to £149,8 million in the corresponding month of 2005.

The turnover volume index of retail trade rose by 4,8% in 2005 compared with 3,3% in the previous year. In the labour market, unemployment as a percentage of the economically active population rose to 4,3% in the first two months of 2006. The growth of the construction sector continued to be satisfactory despite some signs of deceleration in the sales of cement and the issuance of building permits in 2005, while at the same time manufacturing displayed a decline during the year.

According to preliminary data published by Cystat and covering the general government sector for 2005, public revenue reached £3,273,7 million and public expenditure £3,459,3 million. As a result, a fiscal deficit of £185,6 million or 2,4% of GDP was recorded compared with a fiscal deficit of 4,1% of GDP in 2004.

As regards the preliminary consolidated accounts of the Ministry of Finance, which cover the central government and the social security

funds, the fiscal balance in January 2006 recorded a marginal surplus of £15,6 million or 0,2% of GDP compared with a surplus of £38,7 million or 0,5% of GDP in January 2005.

Overall, 2005 marked the containment of the fiscal deficit below the maximum percentage allowed under the corresponding Maastricht criterion. The fiscal consolidation programme, which was submitted to the EU within the context of the Convergence Programme 2005-2009 has shown signs of satisfactory progress.

Nevertheless, the Central Bank considers it advisable for the government to continue to strictly adhere to the implementation of the fiscal consolidation programme, since the 2006 results will be decisive in assessing our economy's preparedness for joining the eurozone.

## 2. ECONOMIC DEVELOPMENTS

### 2.1 INTERNATIONAL DEVELOPMENTS AND EXCHANGE RATES

#### *International economic developments*

In the **US** fourth quarter GDP growth decelerated to 3,2%, compared with a rise of 3,7% in the previous quarter. Analysts believe that the American economy will continue its steady course during the current year, mainly based on consumption demand which in turn is supported by positive developments in the labour market. More specifically, retail sales rose by 6,1% year-on-year to January while unemployment was 4,8% in February 2006, compared with 5,4% in February 2005. At the same time company profits, which are a driver for investment, provide further evidence of an increase in domestic demand. Inflation was at 3,6% in February, compared with 3% in the same month of the previous year. Markets expect further rises in US official interest rates, currently at 4,75%, following the 25 basis points increase on 28 March.

In the **euro area** GDP grew at an annual rate of 1,7% in the fourth quarter of 2005, compared with 1,6% in the previous quarter. The ECB has revised slightly upwards its GDP growth projections for 2006 and 2007, estimated to be between 1,7% and 2,5% for the current year and between 1,5% and 2,5% for 2007. Analysts believe that economic activity will mainly rely on private investment.

The ECB's projections on inflation in the euro area have also been revised upwards. It is anticipated that during 2006 inflation will be in the range 1,9% - 2,5% while for 2007 between 1,6% and 2,8%. The fluctuation of prices mainly depends on developments in the oil markets.

According to the latest data, inflation was at 2,3% year-on-year to February, compared with 2,4% year-on-year to January and 2,1% year-on-year to February of the previous year. Unemployment reached 8,3% in January, compared with 8,4% in December and 8,8% in January 2005. During its meeting on 2 March, the Governing Council of the ECB decided to raise its minimum bid rate from 2,25% to 2,50%. Analysts consider a further increase by this summer to be highly probable. This perception has been strengthened following the latest German Ifo business confidence index which reached its highest point in the last 15 years, as well as the strong increase in credit to the private sector in the euro area.

In the **UK** limited growth is expected to continue in the current year. The new government budget did not pose any surprises while there has been speculation in the British press regarding the early departure of Prime Minister Blair. Regarding economic indicators, unemployment rose to 5%, during the period November 2005 – February 2006, compared with 4,7% in the same period of the previous year. Inflation was at 2%, year-on-year to February, reaching the UK government's target, while it stood at 1,6% during the same period of the previous year.

The **Bank of Japan** introduced its new monetary operations framework on 9 March. Its target for price stability has been reset as 0% - 2% inflation in the medium-term. The new framework looks set to gradually contain, via open market operations, the excess liquidity



provided by the Bank of Japan in the last five years. In other words, quantitative easing will gradually change to a contractionary policy. However, at the moment there is no clear indication when the official interest rate will change from its present level of 0%. Inflation was 0,5% in the year to January 2006, compared with a fall of 0,1% in December and January 2005. Unemployment was at 4,5% in January, unchanged from the same month of the previous year.

Turning to the selected stock market indices depicted in Chart 1, during February the Nikkei 225 index registered a fall but recovered slightly by the end of the month. Both the DJ Eurostoxx 50 and the S&P 500 indices rose, closing the month near the levels registered at the beginning of the month. More specifically, the Nikkei 225 index decreased by 1,8% in February

while it exhibited a rise of 7,1% in the last three months. Since 1 December the DJ Eurostoxx 50 index rose by 4,4% while the S&P 500 index rose by a mere 1,3%. The main factor attributing to the Nikkei's fall in the last days of February was a corporate scandal involving a Japanese Internet company. In general, corporate profit announcements have been having a positive effect on the world's biggest stock markets.

In the oil market, the average daily price for **Brent crude** reached \$59,9 per barrel in February while it surpassed \$64 per barrel by mid-March. The main reason for the recent rise were the attacks on oil refineries in Nigeria. At the same time there was a downward pressure on prices from the increase in US oil inventories.

**Table 1**

**GDP projections<sup>(1)</sup>**  
(annual percentage change)

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

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

(2) The Economist, 25 March 2006.

(3) Lehman Brothers Global Weekly Economic Monitor, 24 March 2006.

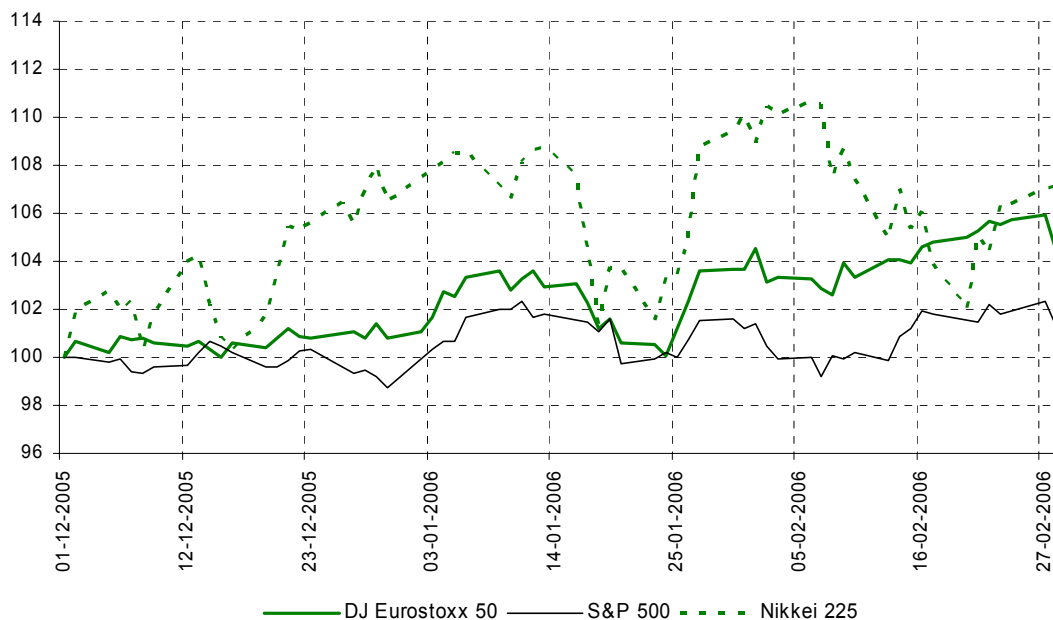
(4) International Monetary Fund, World Economic Outlook, September 2005.

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

**Chart 1**

**Selected international stock market indices**

(1 December 2005 = 100, daily data)



Source: Bloomberg.

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

	GDP				Industrial production January (annual)	Retail sales January (annual)	Unemployment January (annual)	Inflation <sup>(2)</sup> February (annual)
	2005 (Q3)		2005 (Q4)					
	(quarterly) <sup>(1)</sup>	(annual)	(quarterly) <sup>(1)</sup>	(annual)				
UK	1,6	1,7	2,4	1,8	-1,3	2,1 <sup>(3)</sup>	5,0 <sup>(4)</sup>	2,0
Japan	1,0	2,9	5,4	4,0	2,1	-0,7	4,5	0,5 <sup>(5)</sup>
USA	4,3	3,7	1,6	3,2	3,3 <sup>(3)</sup>	6,1	4,8 <sup>(3)</sup>	3,6
Euro area	2,6	1,6	1,2	1,7	2,5	0,9	8,3	2,3

Source: *The Economist*, 25 March 2006.<sup>(1)</sup> Percentage change on previous quarter at an annualised rate.<sup>(2)</sup> Based on the consumer price index.<sup>(3)</sup> February 2006.<sup>(4)</sup> November 2005 - January 2006.<sup>(5)</sup> January 2006.**International currencies**

During the period 1 - 24 March 2006, the dollar exhibited only marginal fluctuations, reaching 120 cents per euro on 24 March 2006 compared with 119 cents per euro on 1 March 2006. The announcement of mixed economic news for the US and eurozone economies during March, did not affect the two currencies. However, it should be noted that the US Federal Reserve implied that interest rate increases will follow, which is also expected by the markets.

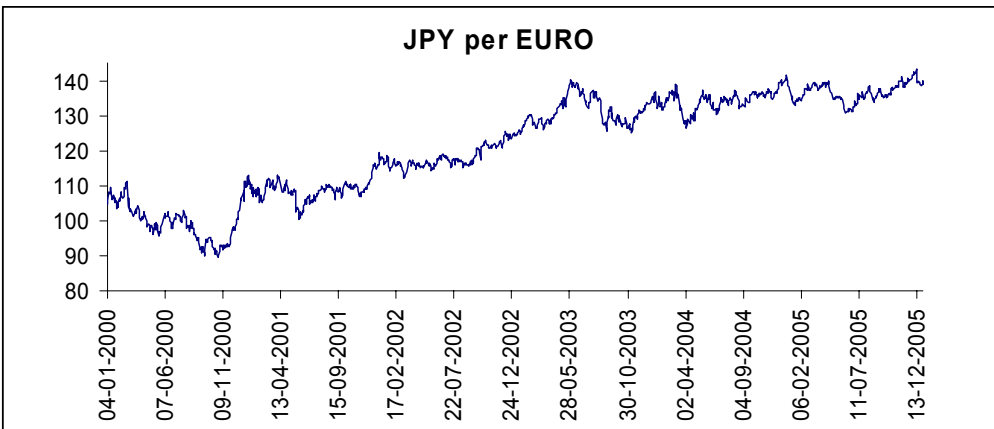
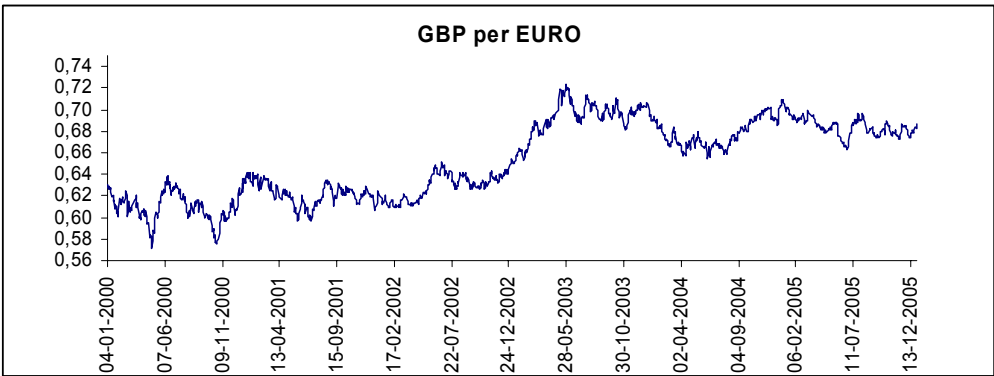
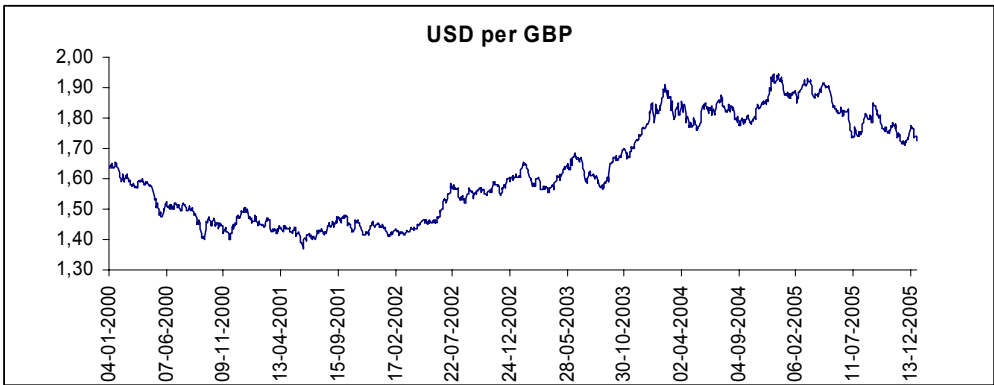
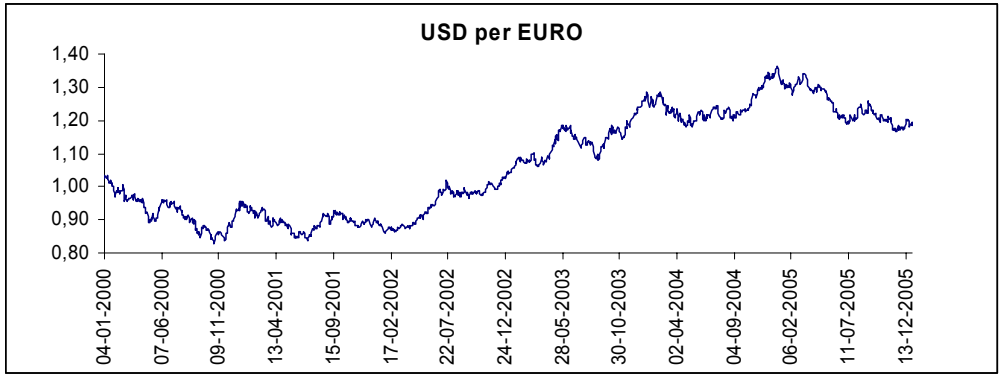
During the period under consideration, as well as the last months of 2005, sterling did not report significant fluctuations. During the period under consideration sterling remained stable at 69 pence to the euro. The announcement of the Budget on 22 March did not cause any

surprises in the market, even though it should be noted that there was much speculation about the departure of Tony Blair.

The Japanese yen recorded marginal weakening during the period under consideration, reaching ¥141,41 per euro on 24 March 2006, compared with ¥138,85 per euro on 1 March 2006. The yen does not seem to have been affected by the Bank of Japan's new tight monetary policy. At the same time a new inflation target of 0% - 2% was set for the medium term.

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

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



Source: Central Bank of Cyprus.

### Cyprus pound

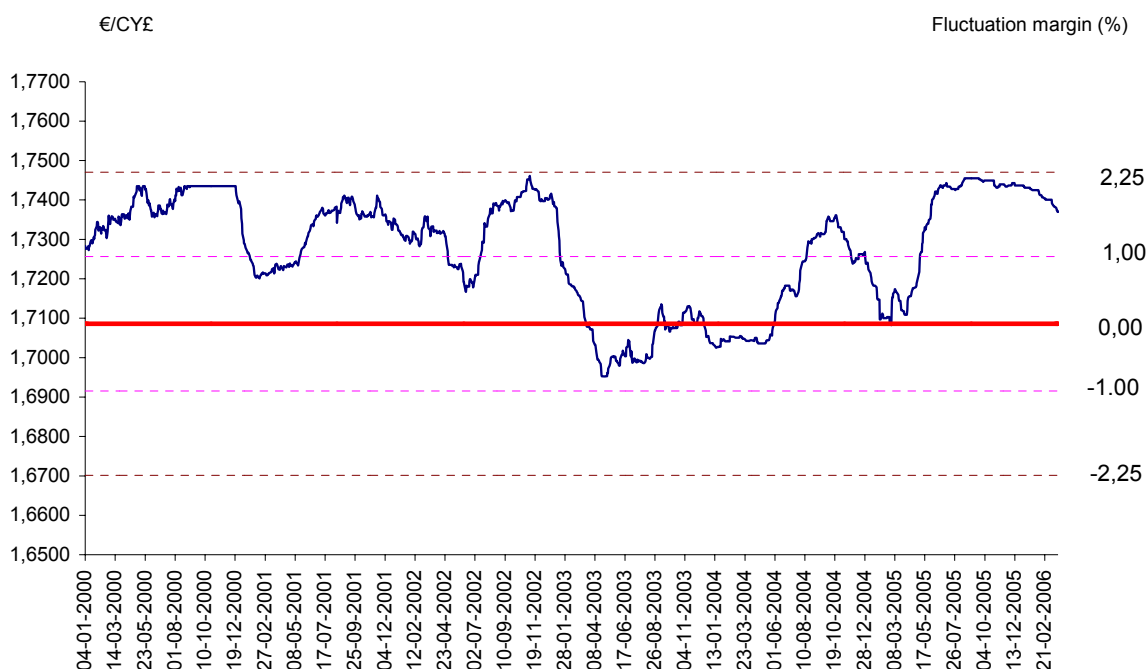
In the period 1 January – 24 March 2006, the Cyprus pound recorded a marginal weakening relative to the euro. More specifically, on 1 March 2006 the Cyprus pound recorded minor but diminishing fluctuations reaching €0,5757 per euro on 24 March 2006. Reflecting the fluctuations of foreign currencies during the period under consideration, the Cyprus pound recorded marginal fluctuations relative to the dollar reaching \$2,0786 on 24 March 2006, compared with \$2,0778 on 1 March 2006.

During the same period the Cyprus pound appreciated marginally against sterling, reaching STG£1,1997 on 24 March 2006 compared with STG£1,1833 on 1 March 2006.

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

### Chart 3

#### Exchange rate of the euro against the Cyprus pound

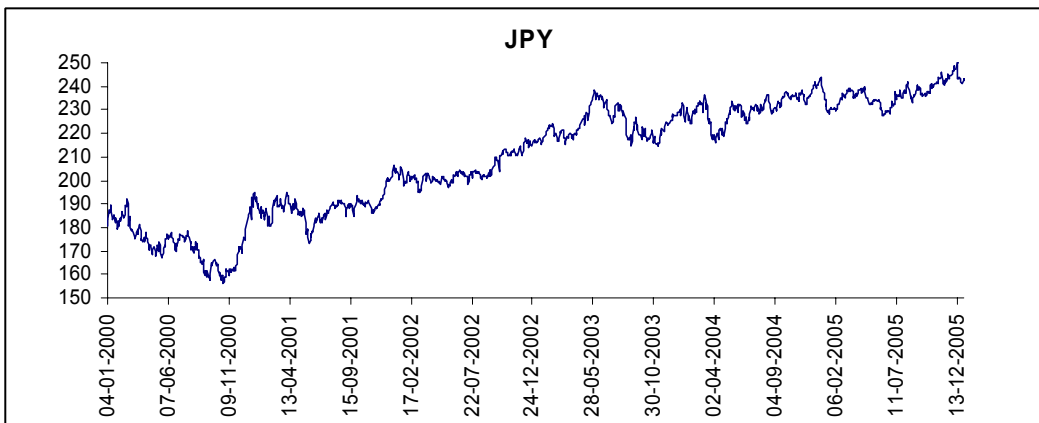
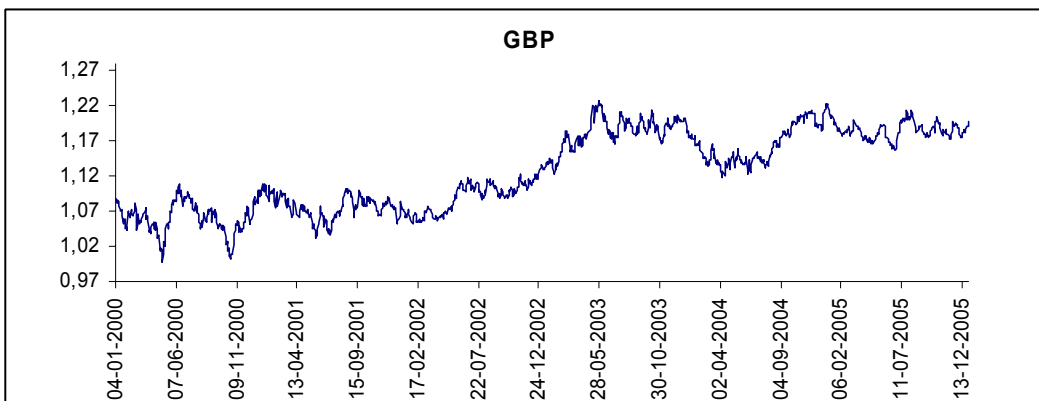
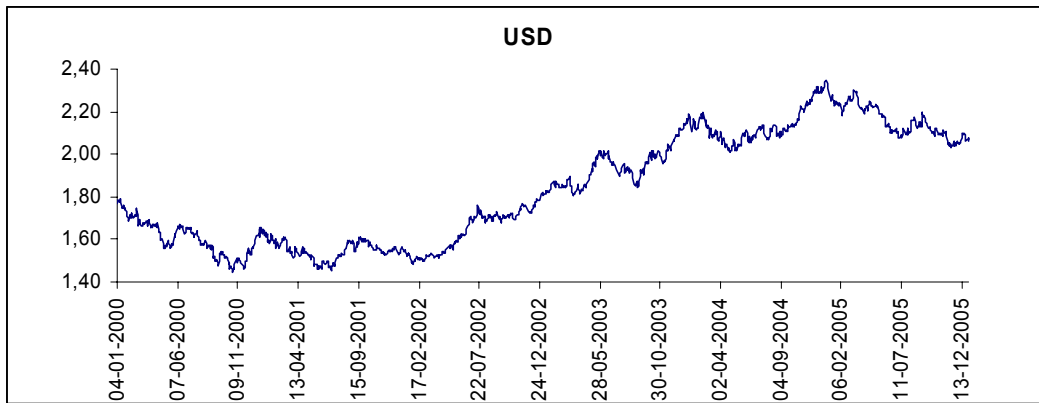


Source: Central Bank of Cyprus.

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

**Chart 4**

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



Source: Central Bank of Cyprus.

## BOX 1

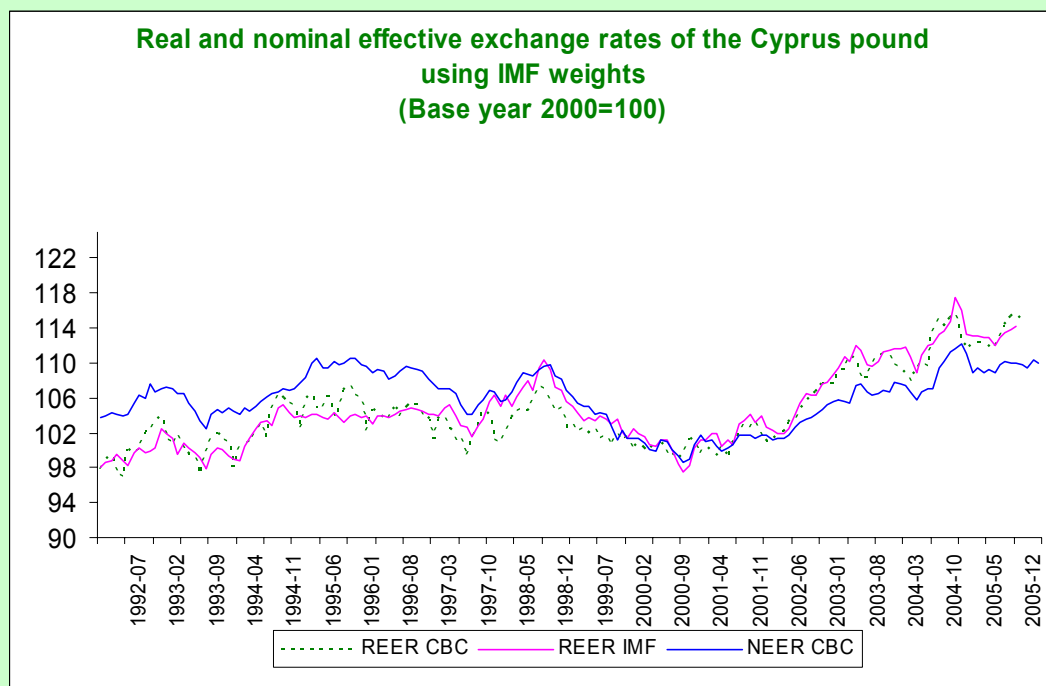
### Effective exchange rate indices of the Cyprus pound

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

The chart below illustrates the monthly nominal and real effective exchange rates of the Cyprus pound from January 1992 to December 2005 and from January 1992 to February 2006, respectively. An upward trend of the overall index reflects an appreciation of the domestic currency in real or nominal terms, thus indicating weakening of the competitiveness for exported products.

The real effective exchange rate of the Cyprus pound, REER IMF, shown in the chart below is calculated by the International Monetary Fund (IMF) and is a third country competition weighted index, taking into account 19 countries. The weights are estimated using data on trade and tourism for the years 1988-1991 and the consumer price index is used to deflate the series. Using 2000=100 as the base year, REER IMF reached 114,01 units in October 2005. Due to the time lag in reporting, the Central Bank of Cyprus calculates its own index based on the IMF index, using 8 instead of 19 countries. The Central Bank of Cyprus index, REER CBC, shown in the chart follows the IMF index very closely. The most recent available data for this index, with a base year 2000=100, are for December 2005 in real terms and February 2006 in nominal terms. The REER CBC index averaged 114,5 units in December 2005 whereas for the whole of 2005 the index fluctuated close to 113,1 units, therefore recording an appreciation compared with the 111,1 units recorded in 2004.

The outlook indicated by the nominal index is different from the one indicated by the real index. The sharper appreciation observed in real terms is primarily attributable to the higher inflation recorded in Cyprus compared with other European countries, largely as a result of the progressive increase in VAT from 10% to 15% during 2002 and 2003 as well as increases in other consumption taxes (particularly those on petroleum products). More recent data pertaining to February 2006 place the index at 110 units. For the whole of 2005 the average level of the index was close to 109,5 units.



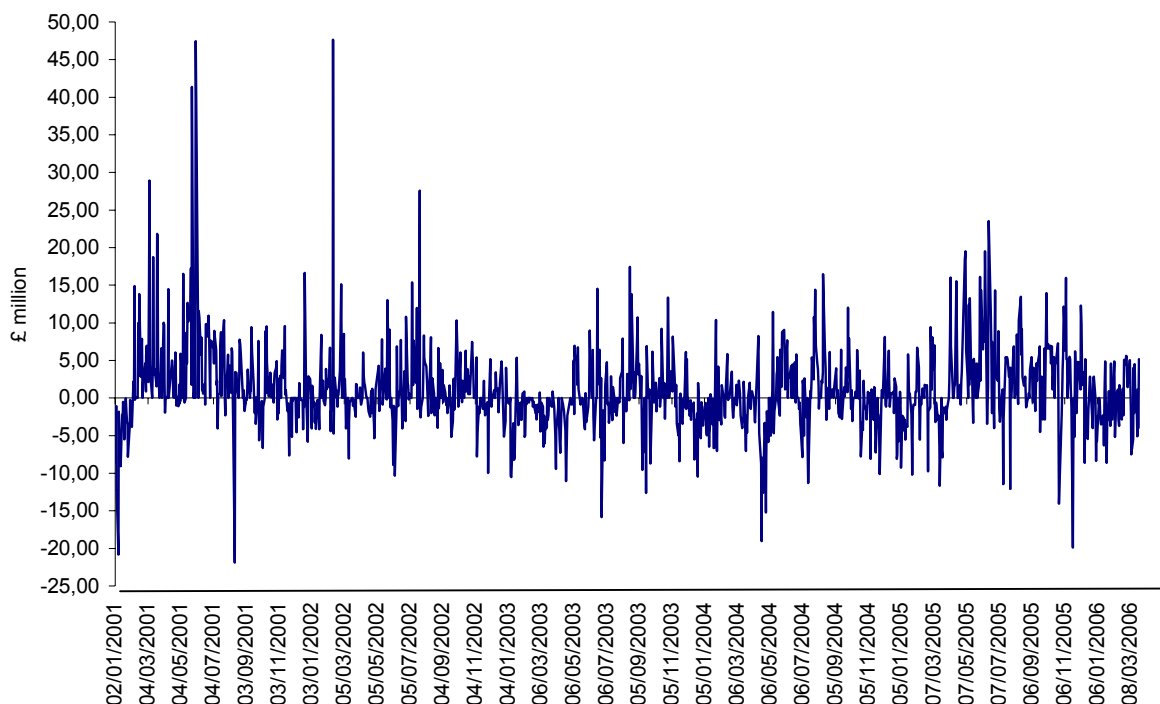
Sources: Central Bank of Cyprus and International Monetary Fund.

Table 3 illustrates the Central Bank’s total foreign currency transactions until 24 March 2006 on the basis of their transaction dates. The corresponding daily total transactions in foreign currency by the Central Bank from 2001 until 24 March 2006 are illustrated in Chart 5.

During the first 24 days of March, net inflows of £2,25 million were recorded compared with net outflows of £6,67 million in the corresponding period of 2005. For the period 1 January – 24 March 2006 net outflows of £48,10 million were recorded, compared with a new outflow of £56,22 million recorded in the corresponding period of 2005.

**Chart 5**

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



Source: Central Bank of Cyprus.

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



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

Period	Average exchange rate intervention Foreign currency per Cyprus pound (period average)			Purchases(+)/Sales(-) of foreign exchange by the Central Bank (based on transaction date)			
				In foreign currency (million)			In Cyprus pounds (million)
	Euro	USD	Sterling	Euro	USD	Sterling	
<u>Yearly</u>							
2001	1,7314	1,5602	1,0805	755,82	242,99	76,39	663,30
2002	1,7383	1,6445	1,0934	321,55	64,75	53,05	273,13
2003	1,7121	1,9378	1,1849	-259,75	5,16	19,50	-134,01
2004	1,7187	2,1357	1,1663	-91,40	15,75	25,70	-25,52
<u>Quarterly</u>							
2004 Q1	1,7060	2,1348	1,1604	-155,75	2,00	30,20	-64,23
2004 Q2	1,7099	2,0579	1,1401	-19,05	6,50	1,10	-7,49
2004 Q3	1,7271	2,1107	1,1612	199,60	4,95	-19,20	101,02
2004 Q4	1,7317	2,2394	1,2033	-116,2	2,3	13,6	-54,82
2005 Q1	1,7161	2,2496	1,1902	-161,1	10,5	30,1	-64,1
2005 Q2	1,7297	2,1785	1,1742	518,15	22,3	4,40	312,86
2005 Q3	1,7443	2,1278	1,1928	250,45	3,55	-0,10	141,83
2005 Q4	1,7440	2,0737	1,1861	292,05	0,5	2,90	170,09
<u>2005</u>							
January	1,7189	2,2561	1,2009	-100,60	0,00	10,90	-49,46
February	1,7149	2,2324	1,1828	-18,00	0,00	12,30	-0,11
March	1,7145	2,2602	1,1868	-42,50	10,05	6,90	-14,53
April	1,7159	2,2208	1,1722	91,35	20,75	4,40	-66,32
May	1,7312	2,1958	1,1852	175,45	0,05	0,00	101,53
June	1,7419	2,1189	1,1653	251,35	1,50	0,00	145,01
July	1,7432	2,0992	1,1992	49,00	0,00	0,00	28,10
August	1,7453	2,1395	1,1831	134,05	-3,40	0,00	75,27
September	1,7445	2,1447	1,1960	67,40	-0,15	-0,10	38,46
October	1,7447	2,0961	1,1892	140,30	0,80	0,00	80,78
November	1,7437	2,0558	1,1845	95,15	-0,15	0,90	55,24
December	1,7438	2,0691	1,1845	56,60	-0,15	2,00	34,07
<u>2006</u>							
January	1,7429	2,1102	1,1960	-79,95	-0,30	0,00	-46,01
February*	1,7411	2,0798	1,1896	-8,45	0,00	0,60	-4,34
March*	1,7387	2,0883	1,1974	2,25	2,00	0,00	2,25

\*Figures until 24 March 2006.

Source: Central Bank of Cyprus.

## 2.2 MONETARY DEVELOPMENTS

The banking system in Cyprus consists of the domestic banks, the co-operative credit institutions (CCIs) and the international banking units (IBUs)<sup>1</sup>. Although there are updated figures for commercial banks, data for CCIs are available with a delay of approximately three months. For this reason, in the analysis that follows it is mainly commercial bank data that are described as they are readily available, whereas in the case of CCIs our comments are based on estimates or preliminary data. Regarding IBUs, a concise analysis is presented which is specific to the loans provided in foreign currency. Following the complete liberalisation of capital movements, IBUs are free to provide credit to Cypriots.

### *Analysis of monetary aggregates*

In the monetary sector the main development was the continued rise in M2 and credit to the private sector which is a cause of concern regarding inflationary pressures.

The Central Bank of Cyprus has decided to temporarily stall the process of gradual reduction of the minimum reserve requirement from the current 5%, in order to avoid a further increase in surplus liquidity.

According to provisional data, the annual growth rate of total money supply M2C<sup>2</sup>, which includes the deposits with banks and CCIs, reached 11,8% in February, compared with 11,4% in January and 5,5% in February 2005. The annual growth of total credit to the private sector accelerated to 7,5%, compared with a rise of 6,6% in the same period of 2005.

Based on domestic bank data, the rate of growth in both M2 and credit to the private sector accelerated in February compared with January.

More specifically, M2 grew by 12,9% year-on-year to February, compared with 12,1% year-on-year to January 2006 and 3,7% year-on-year to February 2005. The three-month moving average of M2 accelerated to 11,7% in the period December to February from 10,5% in the period November 2005 to January 2006.

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

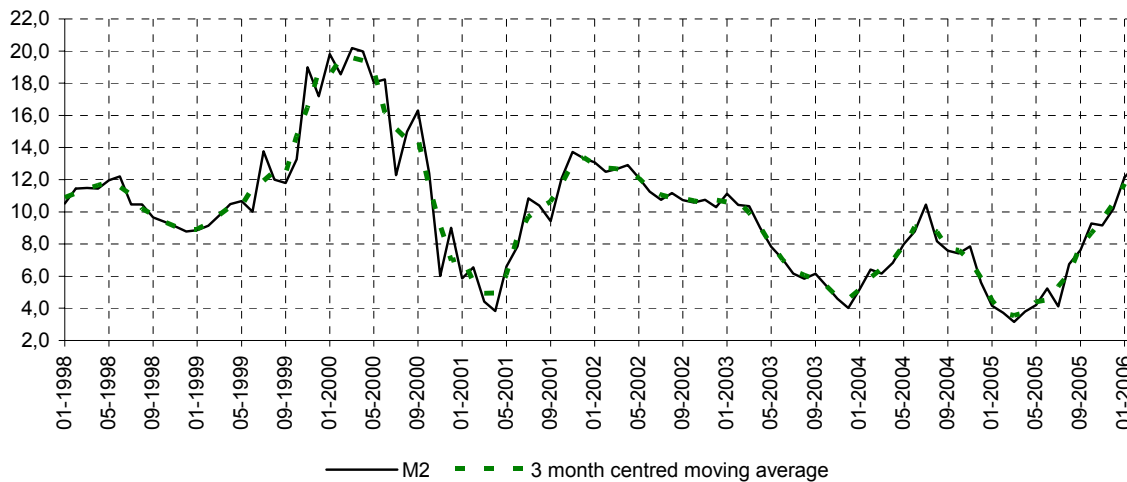
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2. The monetary aggregate M2C should be treated with caution since the co-operative credit institutions are not supervised by the Central Bank of Cyprus and, in addition, the automation undertaken by the Co-operative Computers Society (SEM) Ltd, does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

**Chart 6**

**M2 growth**

(annual percentage change, monthly data)

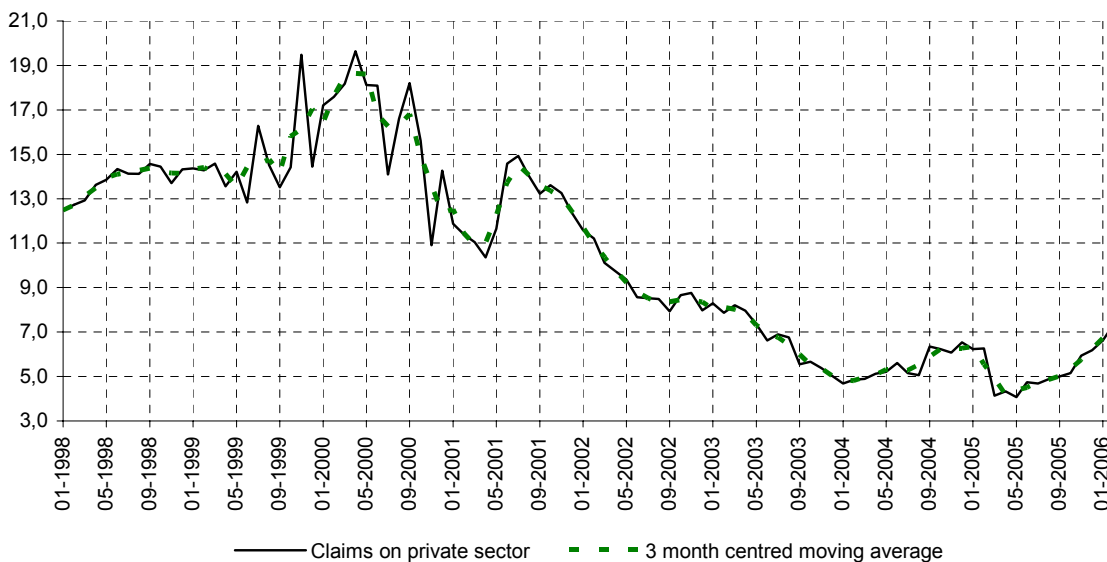


Source: Central Bank of Cyprus.

**Chart 7**

**Growth of claims on private sector**

(annual percentage change, monthly data)



Source: Central Bank of Cyprus.

Table 4 presents the annual percentage changes of components and factors affecting total money supply. Regarding the components of M2, the narrow money aggregate M1 registered an annual increase of 24,8% in February, compared with 17,8% in January and 8% in February of the previous year. Quasi-money rose at an annual rate of 10,6% in February, compared with 11% in January and 2,9% in February of the previous year. The marked difference between this year's and last year's growth rates is due to the substantial increase in time deposits in local currency in 2006. At the end of February quasi-money accounted for 82,3% of M2 while M1 accounted for 17,7%.

The annual growth rate of residents' deposits in local currency rose by 9,5% in February 2006, compared with no change in February 2005. It is noted that during February 2005 there were payments of taxes emanating from the tax amnesty scheme and this affected negatively deposits in that year.

The annual rate of growth of residents' deposits in foreign currency continued to be high. More specifically and in absolute amounts, residents' deposits in foreign currency rose by £379,3 million in the 12 months to February 2006, compared with £269,4 million in the same period of the previous year.

The acceleration in M2 growth was mainly due to the increase in net foreign assets and the rise in credit to the private sector. Credit to the private sector<sup>3</sup> rose at an annual rate of 7,4% in February, compared with 6,6% in the previous month. In January and February 2005 the respective growth rates were 6,2% and 6,3%. The three-month moving average of credit growth was 6,7% during the period December - February, compared with 6,2% during the period November 2005 - January 2006. Credit to the public sector rose by 25% year-on-year to February, exhibiting the same growth rate as January. This development emphasises the government's preference for domestic borrowing. It is noted that in February 2005 there was a decrease of 15,4%, reflecting the base effect as a result of the government's foreign borrowing via the Eurobond (EMTN) issue in July 2004.

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3. A marked slowdown in credit growth has been observed since March due to debt write-offs by some banking institutions, the largest part of which affected the personal-professional loans category. The adjusted growth rate in January and February 2006 reached 8,3% and 9%, respectively. It is noted that this is not a final debt write-off but relates to accounting adjustments.

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

	Outstanding amount as a percentage % of M2 <sup>(1)</sup>	Annual percentage change			
		2005 Jan.	2005 Feb.	2006 Jan.	2006 Feb.
<b>Money supply (M1)</b>	<b>17,7</b>	<b>11,5</b>	<b>8,0</b>	<b>17,8</b>	<b>24,8</b>
Currency in circulation	5,0	9,1	10,3	7,6	7,3
Demand deposits	12,6	12,7	6,9	22,7	33,4
<b>Quasi-money</b>	<b>82,3</b>	<b>2,8</b>	<b>2,9</b>	<b>11,0</b>	<b>10,6</b>
<b>Total money supply (M2)</b>	<b>100,0</b>	<b>4,2</b>	<b>3,7</b>	<b>12,1</b>	<b>12,9</b>
Claims on private sector <sup>(2)</sup>		6,2	6,3	6,6	7,4
of which in foreign currency		15,2	16,1	32,0	36,1
Claims on public sector		-13,5	-15,4	24,9	25,0

Source: Central Bank of Cyprus.

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

(2) In March 2005 the banks wrote off a number of old loans, for which provisions had already been made. As a result the growth of claims on the private sector was reduced. Adjusting for the above, the growth rates for January and February 2006 are 8,3% and 9%, respectively.

The breakdown of bank credit by sector of economic activity (Table 5) shows that in February personal/professional loans<sup>4</sup> grew at an annual rate of 14%, compared with 12,3% in January 2006 and 12,4% in February 2005. Credit to the construction sector rose by an annual rate of 11,8%, compared with 10,5% in the previous month and 14,7% in February 2005. The slowdown in the growth of credit to this sector is consistent with the stabilisation of real estate prices observed in recent months.

During the same period, there was a deceleration in the growth of credit to public corporations and institutions, including the government. More specifically, this type of credit grew by 7,3%, compared with 12,3%, in the

twelve months to January and 11,2% in the twelve months to February 2005.

The rest of the categories, with the exception of mining and manufacturing, registered a fall. The largest share of total outstanding amounts at the end of February was maintained by personal – professional loans with 47,9%, followed by credit to the construction sector with 17,7% and foreign and domestic trade with 15,2%.

4. See footnote 3.

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

	Outstanding amount as a percentage % of total <sup>(2)</sup>	Annual percentage change			
		2005 Jan.	2005 Feb.	2006 Jan.	2006 Feb.
Public institutions and corporations <sup>(3)</sup>	3,09	4,7	11,2	12,3	7,3
Agriculture	1,05	4,4	0,8	-6,5	-5,5
Mining	0,28	-3,5	1,4	1,6	5,5
Manufacturing	5,21	-2,7	-2,5	0,3	0,8
Transport and communications	1,00	-17,4	-15,8	-13,2	-3,5
Foreign and domestic trade	15,20	-3,9	-3,1	0,6	-0,6
Building and construction	17,66	14,4	14,7	10,5	11,8
Tourism	8,52	3,7	3,4	-2,1	-1,7
Personal and professional loans	47,93	13,0	12,4	12,3	14,0
Bills discounted: Local	0,03	-30,0	-33,3	-7,9	24,1
Foreign	0,02	-29,6	-30,3	14,1	-14,8
<b>Total</b>	<b>100,00</b>				

Source: Central Bank of Cyprus.

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

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

(3) Including government loans.

Foreign currency lending to residents by domestic banks rose by £340,8 million in the 12 months to February 2006, compared with a rise of £130,8 million in the same period of the preceding year. The share of new foreign currency loans to total new loans given out in the 12 months to February 2006 rose to 52,2%, compared with 25% in the same period of 2005. As a result, the share of new foreign currency loans to total loans outstanding at the end of February 2006 was 13,5%, compared with 10,7% at the end of February 2005 (Table 6).

At the end of February 2006, 66,4% of foreign currency loans was accounted for by euros, 23% by Swiss francs, 7,4% by dollars and 2% by yen.

According to data covering medium and long-term lending in foreign currency, in 2005 50,6% of new loans was used for refinancing<sup>5</sup>, 18,1% for the purchase of fixed assets and 9,4% was used in the local construction sector. The respective figures for the same period of 2005 were 53,2%, 26,6% and 15,3%.

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

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

	2003	2004	2005	2005 Feb.	2006 Jan.	2006 Feb.
<i>(outstanding amounts at end of period, CYP million)</i>						
Foreign currency loans to residents	799,0	909,9	1205,8	944,3	1224,4	1285,1
Claims on private sector	8302,0	8844,2	9390,2	8861,8	9421,0	9514,2
Share %	9,6	10,3	12,8	10,7	13,0	13,5
<i>(12 month change, CYP million)</i>						
Foreign currency loans to residents	13,8	111,0	295,9	130,8	296,5	340,8
Claims on private sector	397,9	542,2	546,0	522,5	584,4	652,3
Share %	3,5	20,5	54,2	25,0	50,7	52,2

Source: Central Bank of Cyprus.

(1) From local banks.

According to provisional balance of payments data referring to residents' borrowing by banks abroad, in 2005 net credit amounted to £223,8 million compared with net repayments of £64,7 million in 2004. Net repayments in foreign currency by IBUs reached £3,1 million in 2005, compared with net repayments of £0,4 million in 2004.

Domestic expenditure by holders of Cypriot credit cards rose at an annual rate of 15,2% in February 2006, compared with 10,3% in the same month of 2005. During the first two months of 2006 this type of expenditure rose by 15,4%, compared with 9,1% in the same period of the

previous year. Expenditure by Cypriot cardholders abroad rose at an annual rate of 39,6% in February, compared with an increase of 19% in the same month of 2005. During the period January – February 2006 this type of expenditure rose by 40,6%, compared with a rise of 15,2% in the same period of the previous year. Finally, foreign card holders' expenditure in Cyprus rose by 6,3% year-on-year to February 2006, compared with a rise of 1,3% in the same period of the previous year. During the first two months of the current year this type of expenditure rose by 9,2%, compared with an increase of 1,3% in the same period of 2005 (Table 7).

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

	2004	2005	February		Jan.-Feb.	
			2005	2006	2005	2006
<b>Foreign cardholder spending in Cyprus</b>						
Value (CYP thousand)	232.671	244.609	9.513	10.117	18.740	20.467
Annual % change	8,6	5,1	1,3	6,3	1,3	9,2
<b>Local cardholder spending in Cyprus</b>						
Value (CYP thousand)	591.912	659.486	43.366	49.973	93.415	107.775
Annual % change	12,3	11,4	10,3	15,2	9,1	15,4
<b>Local cardholder spending abroad</b>						
Value (CYP thousand)	195.009	244.131	16.708	23.324	33.356	46.889
Annual % change	9,3	25,2	19,0	39,6	15,2	40,6

Source: JCC Payment Systems.

### Co-operative Credit Institutions (CCIs)<sup>6</sup>

During February local currency deposits with CCIs amounted to 38% of total deposits (in CCIs and banking institutions), compared 37,3% in the same month of 2005. In February 2006 the share of CCI loans in local currency was estimated at around 30% compared with 29,1% in the same month of 2005. Deposits with CCIs are estimated to have increased by 10,9% in the twelve months to February 2006, compared with 5,4% in the same period of the previous year. Regarding CCI loans, these are estimated to have risen by an annual rate of 9,1% in February 2006, compared with 11,6% in the same month of 2005.

### Money market

During February there was a decrease in surplus bank liquidity<sup>7</sup>. The decrease in the average daily value of net foreign assets was the main factor that affected negatively surplus liquidity in February. In contrast, the decrease in net government deposits with the Central Bank of Cyprus and the decrease in currency in circulation affected positively excess liquidity (Table 8).

At the last auction for the acceptance of deposits held in March, £110 million was absorbed at an average interest rate of 2,43%.

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

7. The box on page 22 presents the liquidity conditions for the period 24 November 2005 - 15 March 2006. Any differences in the amounts are due to the different periods being analysed.



**Table 8****Banking system's liquidity position***(CYP million, period averages of daily positions)*

	Liquidity - providing factors					Liquidity - absorbing factors						Credit institutions current accounts (MRA)	Base money  (6+7+9+12)
	Net assets in gold and foreign currency (NFA)	Monetary policy operations				Deposit facility (overnight)	Other liquidity-absorbing operations (additional, special & S.M.E. dep.)	Rev-repos & depos	Currency in circulation	Central govern. deposits (net) <sup>(1)</sup>	Other factors (net)		
		Main refinancing operations (repos)	Long-term refinancing operations	Marginal lending facility (lombard)	Other liquidity providing operations (swap)								
	1	2	3	4	5	6	7	8	9	10	11	12	13
2004 Feb.	1.185,3	0,0	0,0	0,0	0,0	22,2	79,4	169,0	477,0	-304,4	194,2	547,9	1.126,5
Mar.	1.151,2	0,0	0,0	2,2	0,0	17,4	79,6	140,3	478,6	-313,8	199,7	551,5	1.127,2
Apr.	1.121,0	0,0	0,0	0,7	0,0	29,7	79,3	93,3	503,7	-365,8	226,1	555,2	1.168,0
May	1.038,5	0,0	0,0	6,0	0,2	8,0	79,3	0,0	509,8	-416,2	223,1	640,6	1.237,7
June	1.108,4	0,0	0,0	0,0	0,0	32,9	79,4	0,0	519,6	-374,9	214,7	636,8	1.268,6
July	1.340,1	0,0	0,0	0,0	0,0	42,1	79,5	61,2	533,4	-190,3	175,0	639,4	1.294,3
Aug.	1.499,7	0,0	0,0	0,0	0,0	44,5	79,4	151,6	536,1	-140,6	185,9	642,9	1.302,8
Sep.	1.429,8	0,0	0,0	2,0	0,0	31,9	79,3	162,7	531,1	-208,9	191,0	644,6	1.286,9
Oct.	1.393,1	0,0	0,0	0,0	0,0	24,3	79,4	121,1	529,0	-192,1	185,5	645,8	1.278,6
Nov.	1.376,0	0,0	0,0	0,0	0,0	15,8	79,3	82,2	516,3	-144,9	184,1	643,2	1.254,6
Dec.	1.441,6	0,0	0,0	10,0	0,0	12,9	79,3	0,0	543,5	-29,0	201,9	642,9	1.278,6
2005 Jan.	1.419,9	0,0	0,0	0,6	0,0	50,7	79,6	114,2	537,8	-142,3	139,9	640,8	1.308,8
Feb.	1.425,9	0,0	0,0	0,6	0,3	11,4	79,4	55,0	520,7	-36,0	149,0	647,3	1.258,8
Mar.	1.432,9	0,0	0,0	0,3	0,0	25,2	79,3	28,4	524,0	-48,4	178,9	646,2	1.274,8
Apr.	1.361,7	0,0	0,0	0,1	0,0	63,7	79,3	17,3	537,7	-191,8	208,2	647,7	1.328,1
May	1.395,2	0,0	0,0	0,0	0,0	33,4	79,3	72,9	554,6	-204,1	210,1	648,9	1.316,3
Jun.	1.510,9	0,0	0,0	6,2	0,1	36,2	79,7	68,3	568,4	-114,8	224,1	655,2	1.339,6
Jul.	1.571,9	0,0	0,0	0,4	0,0	31,9	79,6	88,1	586,5	-62,2	182,6	665,8	1.363,8
Aug.	1.596,2	0,0	0,0	0,0	0,0	37,7	79,4	93,5	587,6	-58,1	185,2	670,8	1.375,5
Sep.	1.638,9	0,0	0,0	0,0	0,0	87,5	79,4	198,7	579,4	-119,0	200,2	612,7	1.359,1
Oct.	1.712,1	0,0	0,0	7,3	0,0	55,1	79,3	168,1	579,7	-12,5	231,5	618,1	1.332,3
Nov.	1.772,0	0,0	0,0	0,0	0,0	181,7	79,3	173,7	566,4	-41,3	246,6	565,6	1.393,1
Dec.	1.830,5	0,0	0,0	0,0	0,0	198,5	79,3	227,7	594,8	-130,6	277,8	583,0	1.455,7
2006 Jan.	1.840,4	0,0	0,0	0,0	0,0	190,5	0,1	333,5	579,2	-148,0	223,8	661,1	1.430,9
Feb.	1.796,1	0,0	0,0	0,0	0,0	174,0	0,0	302,9	562,2	-154,2	236,9	674,3	1.410,5

Source: Central Bank of Cyprus.

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

As shown in Table 9, during February auctions were held in two and five-year government bonds. The respective average yields were 3,36% and 3,67%.

The interbank overnight interest rate fell to 2,48% in February from 2,51% in January.

**Table 9**

**Interest rates**

(percent per annum, period averages)

	2003	2004	2005	2005 Feb.	2005 Dec.	2006 Jan.	2006 Feb.
Interbank (1 day)	3,35	3,92	3,27	4,38	2,51	2,51	2,48
Acceptance of deposits	3,45	3,89	3,28	4,19	2,51	2,45	2,53
Treasury bills (13 weeks)	3,51	4,21	4,26	-	-	2,67	-
Treasury bills (52 weeks)	3,70	4,77	4,29	5,02	3,12	2,95	-
Development stocks (2 years)	3,83	5,14	4,74	5,16	-	-	3,36
Development stocks (5 years)	4,49	5,92	5,68	5,97	-	-	3,67
Development stocks (10 years)	4,70	6,07	5,17	5,89	4,08	3,96	-
Development stocks (15 years)	4,81	6,31	5,61	-	-	-	-

Source: Central Bank of Cyprus.

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

This box reviews the Central Bank's liquidity management from 24 November 2005 to 15 March 2006. Figure 1 summarises the liquidity absorption and provision through monetary policy operations, while figure 2 presents the developments in the main short-term interest rates.

**Liquidity conditions in the banking system**

The net liquidity impact of the autonomous factors, i.e. factors not related to monetary policy operations, resulted in an increase in the liquidity position of the banking system. In addition, as of January 2006, the maturity of the scheme for the financing of Small and Medium Size Enterprises (SME) further enhanced the liquidity position of the banking system by £79,3 million. In contrast, liquidity decreased by £80 million, an amount that was channelled by the local banks to the international banking units (IBUs) in order to cover the latter's obligation, as of 1 January 2006, to hold minimum reserves with the Central Bank.

**Monetary policy operations and interest rates**

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

**Open market operations**

(CYP million; interest rates in percent per annum)

Operation	Date of settlement	Date of maturity	Bids (amount)	Allotment (amount)	Bid-cover ratio	Weighted average allotment rate	Running for (...) days
LAO	24/11/2005	08/12/2005	396,5	180,0	2,20	2,53	14
LAO	08/12/2005	22/12/2005	411,0	200,0	2,06	2,48	14
LAO	22/12/2005	05/01/2006	455,5	300,0	1,52	2,54	14
LAO	05/01/2006	19/01/2006	533,5	300,0	1,78	2,46	14
LAO	19/01/2006	02/02/2006	604,0	380,0	1,59	2,41	14
LAO	02/02/2006	16/02/2006	544,0	300,0	1,81	2,37	14
LAO	16/02/2006	02/03/2006	477,0	300,0	1,59	2,71	14
LAO	02/03/2006	16/03/2006	414,0	250,0	1,66	2,58	14

Source: Central Bank of Cyprus.

The LAOs were carried out through variable rate tenders with a maximum bid rate of 3,25%. The absorbed liquidity ranged between £180 million and £380 million, whereas the weighted average allotment rate remained within the range of 2,37% and 2,71%. The ratio of the amount bid to the volume allotted, ranged between 1,52% and 2,20% with an average of 1,78%, while the number of participating counterparties varied between 5 and 7.

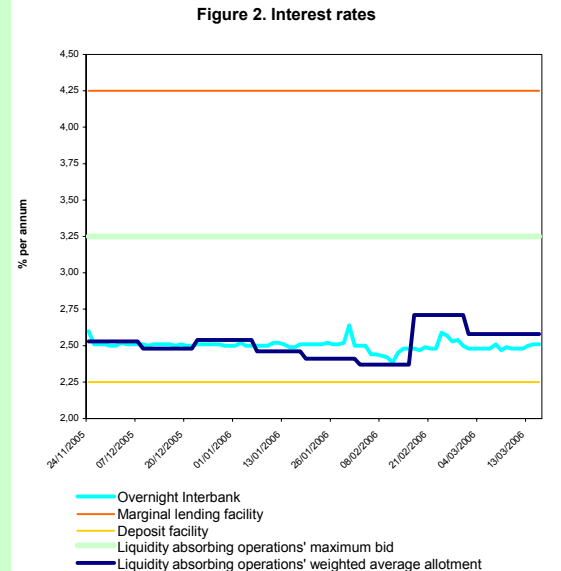
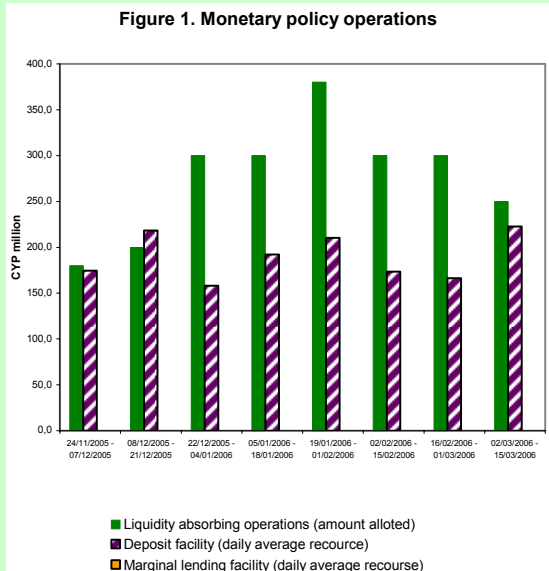
**Standing facilities**

(period averages of daily recourse in CYP million)

Period	Deposit facility	Marginal lending facility
24/11/2005 - 07/12/2005	174,7	0,0
08/12/2005 - 21/12/2005	218,3	0,0
22/12/2005 - 04/01/2006	158,1	0,0
05/01/2006 - 18/01/2006	192,2	0,0
19/01/2006 - 01/02/2006	210,2	0,0
02/02/2006 - 15/02/2006	173,6	0,0
16/02/2006 - 01/03/2006	166,3	0,0
02/03/2006 - 15/03/2006	222,8	0,0

Source: Central Bank of Cyprus.

In view of the aforementioned liquidity conditions during the above periods, averages of daily recourse to the deposit facility ranged between £158,1 million and £222,8 million. This is in contrast to the very limited recourse to the marginal lending facility.



**Overnight interbank interest rate**

(percent per annum)

Period	Minimum rate	Maximum rate	Average rate
24/11/2005 - 07/12/2005	2,50	2,60	2,52
08/12/2005 - 21/12/2005	2,50	2,51	2,51
22/12/2005 - 04/01/2006	2,50	2,52	2,51
05/01/2006 - 18/01/2006	2,49	2,52	2,50
19/01/2006 - 01/02/2006	2,50	2,64	2,52
02/02/2006 - 15/02/2006	2,38	2,50	2,45
16/02/2006 - 01/03/2006	2,47	2,59	2,51
02/03/2006 - 15/03/2006	2,47	2,51	2,49

Source: Central Bank of Cyprus.

During the period under review the overnight interbank interest rate ranged between 2,38% and 2,64%. The average rate stood at around 2,50%.

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

that domestic long-term real interest rates exceeded the corresponding euro area rates by 161 basis points, compared with 178 basis points in the previous 12 month period.

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

	Inflation ( HICP) (%)	Long-term interest rates (%)	Long-term real interest rates (%)
Austria	2,00	3,36	1,36
Belgium	2,60	3,41	0,81
Czech Republic	1,80	3,47	1,67
Denmark	1,90	3,36	1,46
Estonia <sup>(1)</sup>	4,20	3,98	-0,22
Finland	1,00	3,31	2,31
France	2,00	3,38	1,38
Germany	2,00	3,33	1,33
Greece	3,40	3,58	0,18
Hungary	3,30	6,54	3,24
Ireland <sup>(1)</sup>	2,20	3,31	1,11
Italy	2,20	3,54	1,34
Latvia	7,00	3,78	-3,22
Lithuania	2,70	3,66	0,96
Luxembourg	3,90	3,35	-0,55
Malta	2,60	4,50	1,90
Netherlands	1,50	3,35	1,85
Poland	1,70	5,06	3,36
Portugal	2,20	3,43	1,23
Slovakia	3,00	3,48	0,48
Slovenia	2,40	3,78	1,38
Spain	3,50	3,36	-0,14
Sweden	0,90	3,31	2,41
United Kingdom <sup>(1)</sup>	2,10	4,41	2,31
Eurozone	2,20	3,40	1,20
EU -25	2,20	3,66	1,46
Cyprus	2,00	4,81	2,81

Sources: Eurostat and European Central Bank.

(1) Data for January 2006.

## International and domestic official interest rates

At their recent meetings the US Federal Reserve and the ECB raised their interest rates by 25 basis points. In contrast, the Bank of England maintained its interest rates unchanged. On 24 February the Central Bank of Cyprus also left its interest rates unaltered.

As a result, the differential between domestic and European official interest rates decreased to 75 basis points both for the marginal lending facility rate and the deposit facility rate (Table 11).

**Table 11**  
**Selected official interest rates**

(percent per annum, changes in percentage points)

		change
<b>European Central Bank</b>		
<i>(2 March 2006)</i>		
Minimum bid rate on the main refinancing operations	2,50	+0,25
Interest rate on the marginal lending facility	3,50	+0,25
Interest rate on the deposit facility	1,50	+0,25
<b>Bank of England</b>		
<i>(9 March 2006)</i>		
Repo rate	4,50	-
<b>Federal Reserve</b>		
<i>(28 March 2006)</i>		
Federal funds rate	4,75	+0,25
Discount rate	5,75	+0,25
<b>Central Bank of Cyprus</b>		
<i>(24 February 2006)</i>		
Minimum bid rate on the main refinancing operations	3,25	-
Maximum bid rate on the liquidity absorbing operations	3,25	-
Interest rate on the marginal lending facility	4,25	-
Interest rate on the deposit facility	2,25	-

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

### Cyprus Stock Exchange (CSE)

During February the Main and Parallel Market Index of the CSE continued its upward trend that had commenced in December, mainly due to continued strong investor interest in the bank sector (Chart 8). The index fluctuated between 2.051,9 and 2.507,7, reaching a monthly average of 2.213,6. During the first two months of the year the average value of the index was 2.056,2. The average daily value of transactions rose to £4,3 million, compared with £3,1 million in January. The average daily volume of transactions rose to 2.124 in February from

1.895 in the previous month. The companies with the largest volume of transactions were Bank of Cyprus and Laiki Bank, with respective shares of 42,9% and 22,9%.

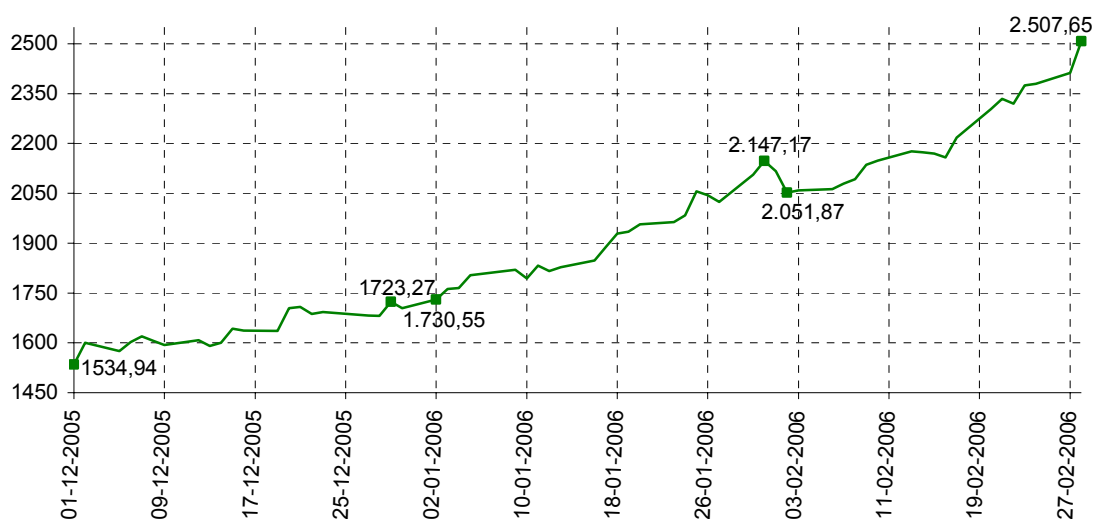
At the last meeting of the month, the main indices as well as the sectoral index of banks and hotels exhibited a rise compared with the previous month's closing.

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

**Chart 8**

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

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



Source: Cyprus Stock Exchange.

## 2.3 INFLATION

For purposes of comparison, Table 12 shows the latest available monthly data on inflation in Cyprus, the euro area and other industrial countries, as well as forecasts for 2006. Inflation in 2006 is expected to be around the same level as in 2005.

In February 2006 prices recorded an increase of 2,6%, compared with 2,3% in the previous month. As Table 13 shows the rise in the rate of inflation in February (compared with January), reflects the acceleration in the prices of petroleum, domestic industrial products and services. A further fall was recorded by the prices of imported products, while electricity prices decelerated.

For the first two months of the year, inflation reached 2,4%. More specifically, domestic product prices rose by 4%, petroleum products prices rose by 1,8% and services prices rose by 2,2%.

In the category of domestic goods there was a 25,2% rise in the electricity prices in February, compared with an increase of 29,9% in the previous month (Table 13). At the same time, an acceleration was observed in the price of industrial products which rose by 2,7% compared with 2,4% in the previous month.

The prices of petroleum products rose by 15,1% compared with 14,6% in the previous month. The prices of imported goods exhibited a further decline of 1,7% in February 2006, following a 1,8% reduction in January. Car prices rose by 0,2% compared with an increase of 0,1% in January.

The prices of services increased by 2,6% in February 2006 compared with a rise of 1,7% in February 2005. The biggest price increases were recorded in transport services (5,9%), education (4,5%), public sector services (4%) and rents 3,9%. The HICP rose by 2,3% in February 2006, compared with 2% in January 2006.

**Table 12**  
**Inflation : Cyprus and other countries**  
(annual percentage change in consumer prices)

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

(1) Source: *The Economist*, 25 March 2006.

(2) Source: *Central Bank of Cyprus*.



**Table 13****Percentage change in the consumer price index by economic origin**

Jan.-Feb. 2006/2005

	Jan. 2006/ 2005	Feb. 2006/ 2005	Jan - Feb. 2006/ 2005	Weight 2005=100
<b>GENERAL INDEX</b>	<b>2,25</b>	<b>2,64</b>	<b>2,44</b>	<b>100,00</b>
<b>A LOCAL GOODS</b>	<b>4,11</b>	<b>3,94</b>	<b>4,03</b>	<b>28,60</b>
A.1 Agricultural	0,80	0,78	0,79	6,92
A.2 Industrial	2,39	2,71	2,55	19,24
A.3 Electricity	29,90	25,18	27,54	2,44
<b>B PETROLEUM PRODUCTS</b>	<b>14,63</b>	<b>15,06</b>	<b>14,84</b>	<b>6,44</b>
<b>Γ IMPORTED PRODUCTS</b>	<b>-1,84</b>	<b>-1,72</b>	<b>-1,78</b>	<b>25,31</b>
Γ1 Motor Vehicles	0,05	0,21	0,13	6,15
Γ2 Other	-2,45	-2,34	-2,40	19,16
<b>Δ SERVICES</b>	<b>1,69</b>	<b>2,63</b>	<b>2,16</b>	<b>39,65</b>
<b>HICP</b>	<b>2,0</b>	<b>2,3</b>	<b>2,2</b>	

**Table 14****Percentage change in the consumer price index by economic origin**

Jan.-Feb. 2006/2005

	Jan 2005/ 2004	Feb 2005/ 2004	Jan - Feb 2005/ 2004	Weights 1998=100
<b>General Index</b>	<b>2,94</b>	<b>2,80</b>	<b>2,87</b>	<b>100,00</b>
<b>A LOCAL GOODS</b>	<b>3,86</b>	<b>3,52</b>	<b>3,69</b>	<b>36,69</b>
A.1 Agricultural	3,14	2,52	2,83	7,93
A.2 Industrial	4,52	3,99	4,26	27,24
A.2.1 industrial non-petroleum	2,02	1,90	1,96	22,91
A.2.2 fuel and gas	14,07	11,68	12,87	4,33
A.3 Electricity	-2,59	1,00	-0,80	1,52
<b>B IMPORTED GOODS</b>	<b>-1,75</b>	<b>-2,18</b>	<b>-1,96</b>	<b>22,20</b>
B.1 Motor vehicles	-1,15	-1,91	-1,53	9,43
B.2 Other	-2,08	-2,32	-2,20	12,77
<b>C SERVICES</b>	<b>4,01</b>	<b>4,21</b>	<b>4,11</b>	<b>41,11</b>
<b>HICP</b>	<b>2,8</b>	<b>2,4</b>	<b>2,6</b>	

## 2.4 PRODUCTION, DEMAND AND THE LABOUR MARKET

The growth rate of real GDP reached 3,8% in 2005, compared with 3,9% in 2004. In the labour market, unemployment, according to Labour Force Survey, reached 4,8% in 2005, compared with 4,7% in 2004.

### Production

In the services sector, tourist arrivals registered an increase of 0,8% in the first two months of 2006, compared with an increase of 0,5% in the same period of 2005. At the same time, receipts from tourism rose by 0,2% in the first month of the year, compared with a fall of 6,4% in the corresponding period of 2005.

In the secondary sectors, the overall picture is positive, despite the problems faced by manufacturing.

More specifically, the volume index of building permits increased by 13,3% in 2005, compared with an increase of 16,4% in 2004. During 2005, local sales of cement increased by 3,4% compared with an increase of 18% in the previous year. In the first month of 2006, sales of cement fell by 7,2% compared with an increase of 36% in the corresponding month of 2005.

The volume index of manufacturing production fell by 1,3% in 2005, compared with an increase of 1,5% in 2004. It should be noted that the growth rate of the volume index of manufacturing (Table 16) has been adversely affected by the termination of oil refining as from 1 May 2004.

**Table 15**

### Manufacturing production volume index

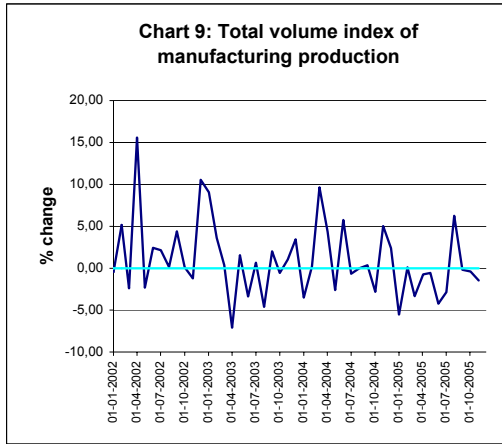
(percentage change by category)

	December 04/03	December 05/04	Jan.-Dec. 04/03	Jan.-Dec. 05/04
General index	2,4	0,6	1,5	-1,3
Food products, beverages & tobacco	-5,3	-4,3	-2,8	0,6
Textiles & textile products	-9,8	-8,4	-11,9	-7,1
Leather & leather products	-30,5	-6,0	-22,9	-38,4
Wood & wood products	21,2	2,4	23,0	-1,1
Paper, paper products, publishing & printing	5,8	0,2	1,0	-2,9
Refined petroleum products	-96,5	-19,4	-68,5	-89,1
Chemicals, chemical products & man-made fibres	30,7	-17,6	9,8	-3,1
Rubber & plastic products	-7,5	9,1	-2,7	-3,2
Other non-metallic mineral products	8,0	8,0	6,7	2,3
Basic metals & fabricated metal products	10,1	4,8	6,1	-4,6
Machinery & equipment n.e.c.	8,3	-3,1	7,0	-3,6
Electrical & optical equipment	-23,2	28,5	-7,8	3,1
Transport equipment	-6,9	-5,1	-9,6	1,8
Manufacturing n.e.c.	-0,5	0,6	-0,7	1,0

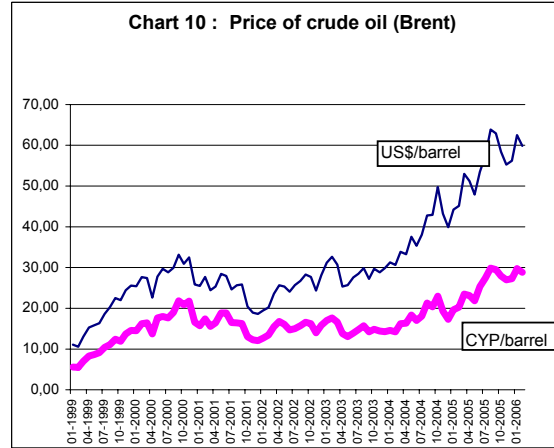
Source: Cystat.

**Charts 9 - 12**

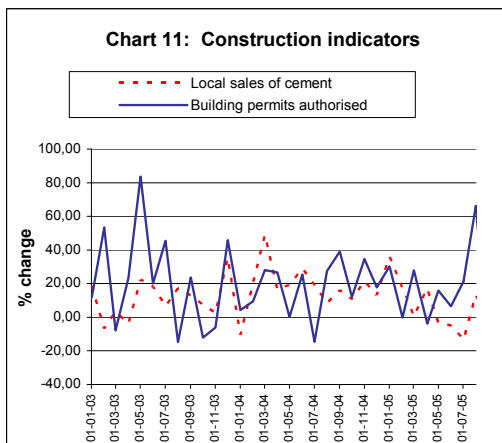
**Selected economic indicators**



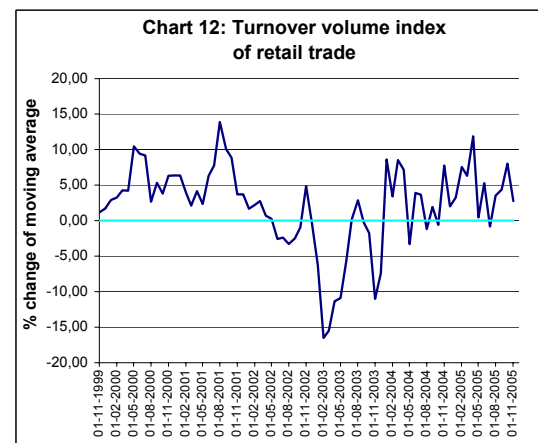
Source: Cystat.



Source: Reuters.



Source: Cystat.



Source: Cystat.

**Table 16**

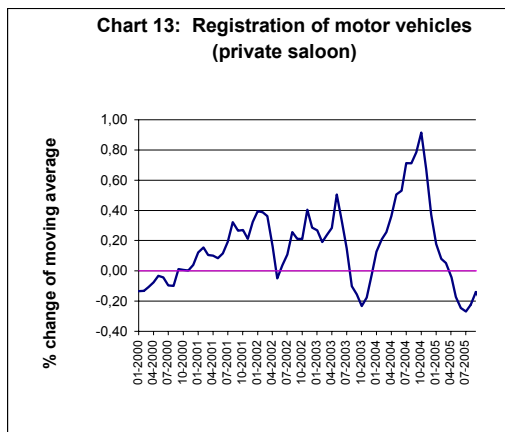
**Turnover volume index of retail trade**

(percentage change by category)

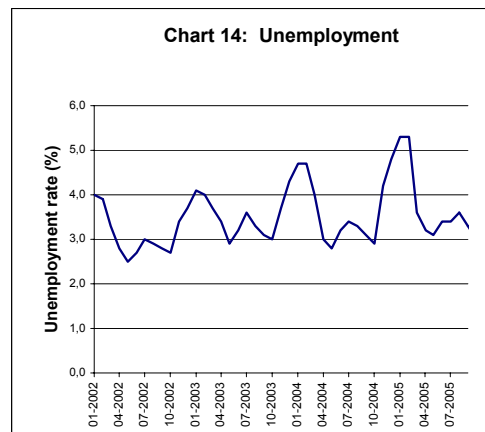
	December 04/03	December 05/04	December. 04/03	Jan.-Dec. 05/04
General index	<b>2,00</b>	<b>4,93</b>	<b>3,25</b>	<b>4,80</b>
Retail sale in non-specialised stores with food, beverages or tobacco predominating	11,95	10,67	6,06	9,65
Other retail sale in non-specialised stores	0,47	2,51	1,84	1,78
Retail sale of food, beverages and tobacco in specialised stores	5,98	2,36	2,28	7,88
Retail sale of pharmaceutical and medical goods, cosmetics and toilet articles	-2,58	7,02	10,25	14,88
Retail sale of textiles, clothing, footwear and leather goods	-2,56	2,91	5,81	4,17
Retail sale of furniture, lighting equipment and household articles, electrical household appliances and radio and television goods hardware, paints and glass	5,55	3,94	11,29	6,64
Retail sale of books, newspapers and stationery and other retail sale in specialised stores	-9,33	-0,68	-6,70	-4,37
Retail sale of second-hand goods in stores	-36,93	56,30	-2,04	-11,05
Retail sale not in stores	-4,07	7,11	-10,35	2,51

Source: Cystat.

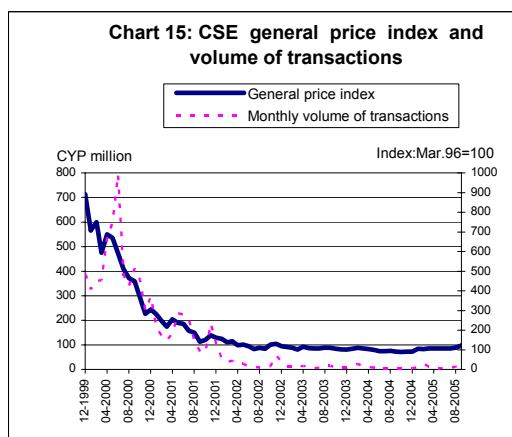
**Charts 13 -16**  
**Selected economic indicators**



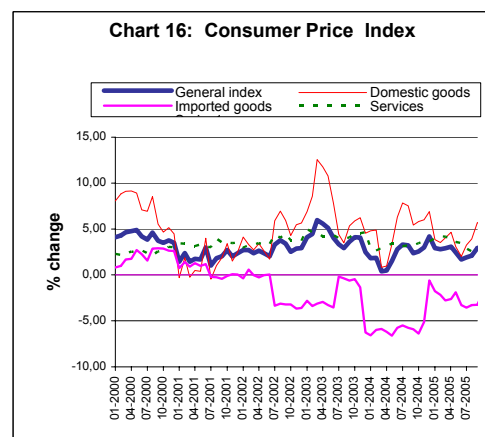
Source: Cystat.



Source: Cystat.



Source: CSE.



Source: Cystat.

**Consumption**

The turnover volume index of retail trade rose by 4,8% in 2005, compared with an increase of 3,3% in 2004. Due to the dissipation of the impact of the reduction in excise taxes that took place in November 2003, registrations of saloon cars, which provide another important indicator of consumer expenditure exhibited a

fall of the order of 12,8% in 2005, compared with an increase of 50,7% in the previous year. The reduction in car registrations continued in the first two months of 2006, and reached 10,1%.

### **Labour market**

In February 2006 the number of registered unemployed increased by 16,9% while the unemployment rate, as a percentage of the economically active population, fluctuated at around 4,3%, compared with 5,3% in the corresponding month of the previous year. For the first two months of 2006, the number of registered unemployed fell by 16,7% compared with an increase of 14,5% in the corresponding two months of 2005. The unemployment rate fell to 4,3%, from 5,3% in the corresponding period of 2005.

### **Confidence indicators**

Chart 15 tracks the movement of confidence indicators for the Cyprus economy since May 2001, when the European Commission first started publishing them<sup>8</sup>. The trends in these indicators are generally consistent with the overall picture of the economy presented in this report.

In particular, the construction confidence indicator did not follow a clear trend in the first two months of 2006. This development is consistent with the deceleration of the volume index of building permits and the cement sales in 2005. The positive path observed in the services confidence indicator during the period January - February 2006 reflects the recovery in the tourism sector.

In the first two months of 2006, the consumer confidence indicator remained negative. The retail sales confidence indicator was negative while the industrial confidence indicator registered a small increase.

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

## 2.5 PUBLIC FINANCES

According to preliminary data published by Cystat and covering the general government sector (including the general government and the semi-governmental organisations) for the year 2005, total public revenue amounted to £3.273,7 million and total public expenditure to £3.459,3 million. As a result, a fiscal deficit of £185,6 million or 2,4% of GDP was recorded. In 2004 public revenue and public expenditure increased by 14,2% and 9%, respectively.

As regards revenues, taxes on production and imports (which include receipts from VAT, import duties, etc) registered an increase of 16,3%. This incorporates the negative impact of a 52% reduction in receipts from import duties and a 6% increase from excise duties. VAT receipts increased by 16,5%.

This increase reflects the accelerated rate of growth of the economy fuelled by increased private consumption and the fact that, post 1 May 2004, VAT is paid at the point of consumption rather than at the point of importation. Furthermore, products which had previously been zero rated are now subject to VAT of between 5% and 15%.

Furthermore, current taxes on income and wealth (which include income taxes, corporate taxes, etc) increased by 9,6% while a significant increase of approximately 272% was registered in the category of capital transfers, as a result of the £70 million tax amnesty receipts. As regards the dividend payment of £35 million from CYTA, this is included under property income which recorded a 19,7% rise.

As regards expenditures, compensation of employees increased by only 2,7%, mainly as a result of the policy of freezing basic salaries, introduced in 2004 and applicable to general government sector employees, as well as both the containment of new permanent posts and the reduction of temporary staff.

Social transfers (which include transfers to households, pensions, etc) increased by 19,8%, while at the same time subsidies fell by 32%. Other current transfers (which include transfers to organisations and physical persons, EU budget contributions, etc) recorded a rise of 16,6%, mainly as a result of the implementation of the social support packages and the approval of the supplementary budget at the end of 2005. The category of capital formation registered a small fall of 3,7%.

In accordance with the preliminary consolidated accounts of the Ministry of Finance, which cover the central government and the social security funds, in January 2006 the fiscal balance recorded a marginal surplus of £15,6 million or 0,2% of GDP, compared with a surplus of £38,7 million or 0,5% of GDP in January 2005.

The worsening of the fiscal balance is partly attributed to the fact that the dividend income from CYTA had yet to be recorded in 2006 whereas in 2005 it had been recorded in January. However, if we exclude this, the fiscal situation remains virtually unchanged.

More analytically, comparing the data for January 2006 with the corresponding data for

2005, public revenue increased by 2,3% reaching £219,6 million. Proceeds from taxation, which comprise the main revenue source, increased by 13,9%. Direct taxes rose by 37,7% while indirect taxes also recorded a rise of 9,5%, despite the negative impact from the reduction in the proceeds from import duties. Furthermore, receipts from excise taxes recorded a significant increase of 134,9%, while VAT receipts increased by 15,4%, mainly as a result of significantly increased private consumption. Social security contributions registered a reduction of 20,5%, which is due to the recording of the contributions received during the last week of January 2006, in the following month. As regards tax revenues, these were reduced by 49,5%, due to the aforementioned dividend payment from CYTA.

Public expenditure increased by 15,8% as a result of the recorded increase in the social security fund payments (90,8%), the purchases of goods and services (81,5%) and interest payments (14,1%). In contrast, current transfers exhibited a reduction of 7,4%, which is due to reduced payments for pensions and gratuities (19,4%) in January 2006, as a result of the adoption of the gradual extension of the retirement age in the civil service in July 2005.

Wages and salaries rose by 7,5%, reflecting the 2,38% increase in the Cost of Living Allowance (COLA), salary increments and the increase in the employment level. However, due to the granting of a 2% contractual salary increase in 2006, following the wage freeze in 2004 and 2005, this expenditure category is anticipated to accelerate during the course of the following months.

Overall, 2005 marked the containment of the fiscal deficit below the highest permissible Maastricht criterion. The fiscal consolidation programme analysed in the Convergence Programme 2005-2009 submitted to the EU, exhibited satisfactory progress. However, apart from the conscious efforts exercised by the government towards adopting reinforced structural measures, the implementation of the two temporary measures i.e. the taxation amnesty and the dividend payment from CYTA, played a crucial role in the reduction of the fiscal deficit. The latter measure will become permanent through appropriate legislation.

The Central Bank is of the view that the government should continue to adhere strictly to the implementation of the fiscal consolidation programme. It is equally important to bear in mind that the accession of Cyprus to the eurozone will be decided on the basis of 2006 data.



## 2.6 EXTERNAL TRANSACTIONS

### *Goods*

An overview of the trade balance for the first month of 2006 is given in Table 17 which is based on preliminary data published by Cystat. It should be noted that since May 2004, the collection of data on intra-EU trade has been produced using a new methodology introduced by Eurostat.

During the period under consideration, total imports of goods recorded a significant increase of 25,4% compared with a 9,2% increase recorded in the corresponding period of 2005. The significant increase in imports recorded in January 2006 is partly the result of the significant increase in the international price of oil. In January 2006, total exports of goods recorded a 14,8% increase compared with a 51,9% increase in January 2005.

As a result of the above, the trade balance deteriorated marginally, registering a deficit of £192,5 million in January 2006 compared with a deficit of £149,8 million in the corresponding month of 2005.

At the time of writing, analytical data for total imports and exports of goods prepared by Cystat were not available.

### *Tourism*

Tourist arrivals shown in Table 17 decreased by 8% in the first two months of 2006, compared with a 0,5% decrease recorded in the corresponding period of 2005.

Revenue from tourism increased marginally by 0,2% in the first two months of 2006, compared with a 6,4% decrease in the corresponding period of 2005.

**Table 17****Trade balance data**

(CYP million)

Period	TOTAL TRADE		EXTRA-EU TRADE		INTRA-EU TRADE	
	Total Imports/ Arrivals (cif)	Total Exports/ Dispatches (fob)	Total Imports (cif)	Total Exports (fob)	Arrivals (cif)	Dispatches (fob)
<b>2000</b>	2.401,95	591,86	1.140,89	364,47	1.261,07	227,40
<b>2001</b>	2.528,72	627,91	1.208,75	376,49	1.319,97	251,42
<b>2002</b>	2.486,61	511,28	1.140,86	240,92	1.345,75	270,36
<b>2003</b>	2.304,08	476,80	992,78	198,32	1.311,26	278,48
<b>2004</b>	2.679,31	548,03	921,73	202,50	1.757,57	345,53
<b>2005</b>	2.918,37	672,02	952,95	224,26	1.965,40	447,78
<b>2005</b>						
January	193,1	43,3	62,9	14,4	130,2	29,0
February	209,0	46,8	76,5	18,1	132,5	28,7
March	255,2	61,3	74,0	22,8	181,2	38,5
April	223,6	50,6	78,1	19,0	145,4	31,7
May	238,6	56,2	74,5	16,8	164,1	39,4
June	235,3	57,0	85,3	20,1	149,9	36,8
July	237,1	55,5	78,6	19,6	158,5	35,9
August	215,2	50,3	64,5	18,2	150,7	32,1
September	268,6	64,5	93,1	18,3	175,5	48,3
October	271,3	65,3	86,1	17,2	185,2	48,2
November	298,8	68,3	105,1	27,5	193,7	40,8
December	274,6	55,8	74,3	17,1	200,1	38,7
<b>2006</b>						
January (p)	242,2	49,7	80,7	13,8	161,4	38,9
Jan. - Dec. 2003	2.304,1	476,8	992,8	198,3	1.311,3	278,5
Jan. - Dec. 2004	2.679,3	548,0	921,7	202,5	1.757,6	345,5
Jan. - Dec. 2005 (p)	2.918,4	672,0	952,9	224,3	1.965,4	447,8
% change Jan. 2006/2005	25,4	14,7	28,4	-4,0	23,9	27,4
% change 2004/2003	16,3	14,9	-7,2	2,1	34,0	24,1
% change 2005/2004 (p)	8,9	22,6	3,4	10,7	11,8	29,6

Source :Cystat

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

### **Balance of payments**

Table 14 of the Annex presents preliminary data regarding the balance of payments for 2005. This data, which was compiled by the Central Bank, reveals a worsening of the current account deficit in 2005.

The current account deficit in 2005, based on preliminary data, reached £453 million compared with £446,3 million in 2004.

As far as the income account is concerned, a net deficit of £258,5 million was recorded in 2005 compared with a £285,2 million deficit in 2004. This was the result of an improvement in the subcategories of “compensation of employees” and “investment income”.

The services surplus, excluding tourism, reached £1.109,6 million in 2005, compared with £1.008,7 million in 2004. A positive performance was recorded by the “transportation” and “financial services” sectors, while a somewhat weaker performance was recorded by “other business services”

The surplus in the travel account reached £684,9 million in 2005 compared with £676,2 million recorded in 2004. Nevertheless the increase in overseas travel by Cypriots as well as the significant increase in their expenditures are considered to be substantial.

**Table 18**
**Tourist arrivals<sup>(1)</sup>**

(number of persons)

	2000	2001	2002	2003	2004	2005	2006	% change 2003/2002	% change 2004/2003	% change 2005/2004	% change 2006/2005
January	63.553	64.214	54.067	59.529	56.504	58.894	54.875	10,1	-5,1	4,2	-6,8
February	87.243	83.569	71.950	77.972	75.705	72.600	66.151	8,4	-2,9	-4,1	-8,9
March	135.487	137.578	138.625	91.634	111.946	137.075		-33,9	22,2	22,4	
April	221.785	237.228	180.481	169.891	191.251	183.561		-5,9	12,6	-4,0	
May	299.355	324.901	279.070	231.527	261.646	284.132		-17,0	13,0	8,6	
June	302.011	322.835	293.192	262.100	264.799	282.652		-10,6	1,0	6,7	
July	362.299	373.385	327.404	318.143	305.978	338.972		-2,8	-3,8	10,8	
August	356.686	371.536	301.724	325.390	305.926	336.587		7,8	-6,0	10,0	
September	329.964	329.400	306.731	287.358	303.506	302.833		-6,3	5,6	-0,2	
October	300.597	269.744	275.840	271.980	278.976	292.273		-1,4	2,6	4,8	
November	133.500	107.454	111.327	123.800	114.048	104.822		11,2	-7,9	-8,1	
December	93.722	74.887	77.822	83.919	78.723	75.656		7,8	-6,2	-3,9	
Jan. - Dec.	2.686.202	2.696.731	2.418.233	2.303.243	2.349.008	2.470.057		-4,8	2,0	5,2	
Jan.-Feb.	150.796	147.783	126.017	137.501	132.209	131.494	121.026	9,1	-3,8	-0,5	-8,0

Source: Cystat.

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

**Table 19**
**Receipts from tourism<sup>(1)</sup>**

(CYP million)

	2000	2001	2002	2003	2004	2005	2006	% change 2004/2003	% change 2005/2004	% change 2006/2005
January	-	24,9	21,6	25,6	21,8	20,7	21,2	-15,0	-5,0	2,4
February	-	29,1	28,9	31,4	25,4	23,5	21,2	-19,1	-7,5	-1,7
March	-	49,7	59,2	37,8	42,1	47,6		11,2	13,2	
April	-	89,9	77,0	67,1	72,1	62,0		7,4	-14,0	
May	-	139,1	119,5	92,5	99,5	105,4		7,6	5,9	
June	122,9	157,4	139,3	114,8	109,3	113,3		-4,8	3,7	
July	162,7	192,0	160,7	152,4	135,1	140,1		-11,4	3,7	
August	173,7	205,0	153,8	165,3	148,1	161,3		-10,4	8,9	
September	161,9	176,3	157,4	134,1	141,2	137,9		5,3	-2,3	
October	135,1	130,2	128,0	112,4	115,9	120,5		3,1	4,0	
November	54,1	48,8	51,4	48,7	43,1	43,1		-11,5	0,0	
December	36,2	29,2	35,6	32,9	28,8	30,3		-12,4	5,2	
Jan. - Dec.	-	1.271,6	1.132,4	1.015,0	982,3	1.005,7		-3,2	2,4	
Jan. - Feb.		54,0	50,5	57,0	47,2	18,8	44,3	-17,2	-6,4	0,2

Source: Cystat.

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

## 2.7 PROSPECTS FOR 2005 AND 2006

In 2005 the real rate of growth reached 3,8% compared with 3,9% in 2004. As regards the labour market, according to the Labour Force Survey unemployment rose to 4,8% in 2005, compared with 4,7% in 2004. As regards public finances, the fiscal deficit fell to 2,4% of GDP in 2005, below the initial government target of 2,9%, while during the same year, the downward adjustment of the government debt set-in.

Inflation during 2005 rose to 2,6% compared with 2,3% in 2004. However, the relative Maastricht criterion is still satisfied as the HICP remains at a relatively low level. The rate of inflation in 2006 is expected to remain at the 2005 level, provided that oil prices do not alter significantly. However, large fluctuations in the price of oil will have a significant impact on the inflation rate as a result of the 50% increase in the weight attached to petroleum products that was incorporated in the revised CPI. Inflation will also be influenced by the new competitive environment that has prevailed post- EU accession.

In 2005 the current account balance is expected to have reached 5,9%, of GDP. It should be noted that this is the result of the significant increase in the price of oil.

In 2006 a small improvement is anticipated in the current account balance, mainly as a result of the expected rebound from tourism as well as the restrained increase in oil prices.

In 2006 GDP is expected to grow at about the same rate as in 2005. External demand will play a major role due to the anticipated improvement in the international environment.

The rate of unemployment is expected to fluctuate around the same level as in 2005, provided that the number of foreign workers remains roughly the same.

In accordance with the updated Convergence Programme 2005-2009 prepared by the Ministry of Finance, the fiscal deficit is expected to decline further and fluctuate at around 3% of GDP. The Programme also aims to restrain public consumption expenditure as well as improve the efficiency of the tax collection system. It should be noted, however, that the target of a 2% fiscal deficit, although feasible, is still optimistic. During 2006 the government is expected to adhere strictly to its fiscal consolidation programme, since the results will, to a great extent, determine Cyprus's accession to the eurozone.

### **3. ANNEX**

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

	2005 Jan.	2005 Feb.	2006 Jan.	2006 Feb.
<b>Money supply (M1)</b>	<b>1.471.605</b>	<b>1.426.425</b>	<b>1.733.664</b>	<b>1.779.615</b>
Currency in circulation	475.815	473.235	511.798	507.873
Demand deposits	901.000	881.162	1.118.749	1.150.570
Deposits in foreign currency	94.790	72.028	103.117	121.172
<b>Quasi-money</b>	<b>7.445.077</b>	<b>7.488.074</b>	<b>8.266.140</b>	<b>8.281.930</b>
Saving deposits	311.564	310.537	359.928	360.496
Time deposits	6.534.612	6.532.690	6.904.178	6.946.420
Deposits in foreign currency	598.901	644.847	1.002.034	975.014
<b>Total money supply (M2)</b>	<b>8.916.682</b>	<b>8.914.499</b>	<b>9.999.804</b>	<b>10.061.545</b>
Net foreign assets	1.160.854	1.112.508	1.890.745	1.808.119
Claims on private sector	8.836.525	8.861.844	9.420.961	9.514.163
of which in foreign currency	927.833	944.318	1.224.381	1.285.070
Claims on public sector	1.753.210	1.765.366	2.189.274	2.207.525
Unclassified items	-2.833.907	-2.825.219	-3.501.176	-3.468.262

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

	2005 Jan.	2005 Feb.	2006 Jan.	2006 Feb.
Public institutions and corporations <sup>(2)</sup>	280.330	292.253	314.688	313.533
Agriculture	114.865	113.223	107.413	106.951
Mining	28.077	27.121	28.525	28.604
Manufacturing	525.108	524.153	526.520	528.295
Transport and communications	105.568	105.079	91.597	101.389
Foreign and domestic trade	1.546.492	1.551.861	1.556.257	1.542.506
Building and construction	1.588.316	1.601.597	1.755.184	1.791.365
Tourism	879.610	879.313	861.217	864.544
Personal and professional loans	4.263.890	4.266.483	4.789.197	4.862.617
Bills discounted: local	2.894	2.754	2.664	3.419
foreign	1.984	2.011	2.264	1.714
<b>Total</b>	<b>9.337.134</b>	<b>9.365.848</b>	<b>10.035.526</b>	<b>10.144.937</b>

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

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

(percent per annum)

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

Source: Central Bank of Cyprus.

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

**Table 4**
**Open market operations allotted through tenders - liquidity absorbing operations <sup>(1)</sup>**

(CYP million, interest rates in percent per annum)

Date of settlement	Bids (amount)	Allotment (amount)	Variable rate tenders				Running for (...) days	
			Maximum bid rate	Weighted average allotment rate	Minimum allotment rate	Maximum allotment rate		
2005	15 Sep.	327,5	200,0	3,25	2,57	2,56	2,59	14
	29 Sep.	303,0	180,0	3,25	2,53	2,52	2,55	14
	13 Oct.	290,0	200,0	3,25	3,22	2,58	3,25	14
	27 Oct.	150,0	50,0	3,25	2,55	2,47	2,59	14
	10 Nov.	417,5	250,0	3,25	2,91	2,48	3,12	14
	24 Nov.	396,5	180,0	3,25	2,53	2,50	2,54	14
	08 Dec.	411,0	200,0	3,25	2,48	2,48	2,49	14
	22 Dec.	455,5	300,0	3,25	2,54	2,43	3,25	14
2006	05 Jan.	533,5	300,0	3,25	2,46	2,44	2,49	14
	19 Jan.	604,0	380,0	3,25	2,41	2,39	2,43	14
	02 Feb.	544,0	300,0	3,25	2,37	2,36	2,37	14
	16 Feb.	477,0	300,0	3,25	2,71	2,32	3,25	14
	02 Mar.	414,0	250,0	3,25	2,58	2,46	2,69	14
	16 Mar.	508,5	280,0	3,25	2,69	2,46	3,00	14
	30 Mar.	260,5	110,0	3,25	2,43	2,43	2,44	14

Source: Central Bank of Cyprus.

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



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

	Cyprus					Euro area				
	Overnight deposits	2-7 days deposits	1-month deposits	1-6 months deposits	6-12 months deposits	Overnight deposits (EONIA)	1-month deposits (EURIBOR)	3-month deposits (EURIBOR)	6-month deposits (EURIBOR)	12-month deposits (EURIBOR)
2005 Feb.	4,38	4,53	4,60	-	5,18	2,06	2,10	2,14	2,18	2,31
Mar.	4,16	4,43	4,63	4,89	5,15	2,06	2,10	2,14	2,19	2,33
Apr.	3,83	4,14	4,55	-	5,15	2,08	2,10	2,14	2,17	2,27
May	3,47	4,10	-	4,30	5,10	2,07	2,10	2,13	2,14	2,19
June	3,11	3,49	3,31	3,75	-	2,06	2,10	2,11	2,11	2,10
July	2,70	3,12	2,85	3,44	-	2,07	2,11	2,12	2,13	2,17
Aug.	2,75	3,01	2,90	-	4,10	2,06	2,11	2,13	2,16	2,22
Sep.	2,55	2,91	2,83	-	-	2,09	2,12	2,14	2,17	2,22
Oct	2,85	2,99	2,87	3,98	-	2,07	2,12	2,20	2,27	2,41
Nov.	2,62	2,84	2,90	5,75	-	2,09	2,22	2,36	2,50	2,68
Dec.	2,51	2,85	2,95	3,31	-	2,28	2,41	2,47	2,60	2,78
2006 Jan.	2,51	3,07	3,12	3,07	-	2,33	2,39	2,51	2,65	2,83
Feb.	2,48	2,90	2,98	4,33	3,38	2,35	2,46	2,60	2,72	2,91

Sources: Central Bank of Cyprus and European Central Bank.

**Table 6****Bank interest rates<sup>(1, 2)</sup>***(percent per annum)*

	Lending rates					Deposit rates		
	Enterprises: overdraft within limits	Enterprises: secured loans	Personal: secured loans	Housing: loans secured by assignment of life policy	Credit cards	Current accounts	3 month notice - over CYP5.000	1 year fixed deposits - over CYP5.000
2004 Feb.	6,92	6,90	7,53	6,30	10,50	0,45	3,35	3,42
Mar.	6,92	6,90	7,53	6,30	10,50	0,44	3,35	3,43
Apr.	6,92	6,90	7,53	6,30	10,50	0,42	3,35	3,40
May	7,92	7,90	8,53	7,30	11,50	0,69	4,41	3,88
June	7,92	7,90	8,53	7,30	11,50	0,66	4,42	4,04
July	7,92	7,90	8,53	7,30	11,50	0,66	4,43	4,08
Aug.	7,92	7,90	8,53	7,30	11,50	0,67	4,61	4,11
Sep.	7,92	7,92	8,55	7,30	11,50	0,66	4,44	4,14
Oct.	7,92	7,92	8,55	7,30	11,50	0,66	4,44	4,18
Nov.	7,92	7,92	8,55	7,30	11,50	0,64	4,44	4,21
Dec.	7,92	7,92	8,55	7,30	11,50	0,63	4,44	4,21
2005 Jan.	7,92	7,92	8,55	7,30	11,50	0,66	4,47	4,32
Feb.	7,90	7,91	8,60	7,30	11,67	0,67	4,39	4,36
Mar.	7,61	7,63	8,38	6,76	11,83	0,65	4,37	4,38
Apr.	7,61	7,63	8,38	6,76	11,75	0,64	4,30	4,38
May	7,18	7,20	7,97	6,33	11,83	0,55	4,04	4,07
June	6,69	6,70	7,58	5,76	12,00	0,39	3,47	3,88
July	6,69	6,70	7,47	5,76	12,00	0,42	3,47	3,85
Aug.	6,70	6,69	7,49	5,74	12,00	0,45	3,47	3,82
Sep.	6,69	6,69	7,49	5,74	12,00	0,46	3,47	3,79
Oct.	6,69	6,68	7,29	5,74	12,00	0,47	3,47	3,75
Nov.	6,69	6,68	7,29	5,72	12,00	0,46	3,48	3,72
Dec.	6,69	6,68	7,28	5,71	12,00	0,45	3,47	3,68
2006 Jan.	6,67	6,67	7,28	5,71	12,00	0,46	3,48	3,63
Feb.	6,65	6,65	7,27	5,71	12,00	0,45	3,48	3,59

Source: Domestic banks.

(1) Reported as end of month.

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

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

	Deposits from households					Deposits from non-financial corporations		
	Overnight	With agreed maturity		Redeemable at notice <sup>(1)</sup>		Overnight	With agreed maturity	
		Up to 2 years	Over 2 years	Up to 3 months	Over 3 months		Up to 2 years	Over 2 years
2005 Jan.	0,74	1,91	3,23	1,98	2,49	0,93	2,12	3,73
Feb.	0,74	1,92	3,26	1,97	2,49	0,93	2,11	3,70
Mar.	0,74	1,92	3,22	1,96	2,47	0,94	2,09	3,71
Apr.	0,74	1,93	3,22	1,95	2,45	0,95	2,10	3,57
May	0,75	1,92	3,19	1,97	2,43	0,95	2,11	3,51
June	0,69	1,92	3,22	2,17	2,38	0,91	2,10	3,55
July	0,68	1,91	3,18	2,15	2,34	0,94	2,11	3,50
Aug.	0,69	1,92	3,18	2,03	2,31	0,96	2,10	3,52
Sep.	0,69	1,91	3,19	2,02	2,29	0,96	2,12	3,50
Oct.	0,69	1,93	3,17	1,96	2,27	0,97	2,12	3,45
Nov.	0,70	1,96	3,15	1,99	2,27	0,99	2,16	3,43
Dec.	0,71	2,01	3,15	1,98	2,30	1,02	2,30	3,40

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

	Loans to households						Loans to non-financial corporations		
	Lending for house purchase, with maturity			Consumer credit and other loans, with maturity			With maturity		
	Up to 1 year	Over 1 and up to 5 years	Over 5 years	Up to 1 year	Over 1 and up to 5 years	Over 5 years	Up to 1 year	Over 1 and up to 5 years	Over 5 years
2005 Jan.	4,78	4,45	4,79	8,07	6,97	5,77	4,41	3,90	4,41
Feb.	4,74	4,45	4,76	8,06	7,03	5,76	4,39	3,92	4,46
Mar.	4,75	4,41	4,78	8,07	6,97	5,77	4,38	3,91	4,40
Apr.	4,69	4,38	4,74	8,02	6,94	5,76	4,34	3,86	4,37
May	4,63	4,36	4,71	8,00	6,87	5,74	4,33	3,85	4,35
June	4,62	4,33	4,67	7,92	6,93	5,72	4,32	3,85	4,35
July	4,57	4,29	4,63	7,89	6,86	5,70	4,30	3,82	4,29
Aug.	4,54	4,24	4,60	7,96	6,86	5,73	4,25	3,80	4,28
Sep.	4,51	4,23	4,59	7,94	6,85	5,71	4,25	3,78	4,26
Oct.	4,49	4,19	4,58	7,95	6,80	5,70	4,24	3,77	4,25
Nov.	4,51	4,17	4,53	7,88	6,77	5,70	4,29	3,79	4,25
Dec.	4,54	4,14	4,52	7,94	6,78	5,67	4,33	3,84	4,24

Source: European Central Bank.

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

**Table 8**

**Interest rate announcements in 2006**

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
European Central Bank <sup>(1)</sup>	12 <b>2,25</b>	2 <b>2,25</b>	2 <b>2,50</b>	6	4	8	6	3	14	5	2	7
Bank of England <sup>(2)</sup>	12 <b>4,50</b>	9 <b>4,50</b>	9 <b>4,50</b>	6	4	8	6	3	7	5	9	7
Federal Reserve <sup>(3)</sup>	31 <b>4,50</b>		28 <b>4,75</b>		10	28/29		8	20	24		12
Central Bank of Cyprus <sup>(4)</sup>	13 <b>4,25</b>	24 <b>4,25</b>		7	19		7		1	20		1

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

(2002 – 2005)

	Yearly				Quarterly			Dec.	Nov.	Dec.	Jan.-	Jan.-	Jan.-	Weights 1998=100
	2002	2003	2004	2005	2005 II	2005 III	2005 IV	2004/ 2003	2005/ 2004	2005/ 2004	2004/ 2003	2005/ 2004	2005/ 2004	
<b>GENERAL INDEX</b>	<b>2,81</b>	<b>4,14</b>	<b>2,28</b>	<b>2,56</b>	<b>2,41</b>	<b>2,32</b>	<b>2,64</b>	<b>4,20</b>	<b>2,87</b>	<b>1,99</b>	<b>2,28</b>	<b>2,61</b>	<b>2,56</b>	<b>100,00</b>
<b>A LOCAL GOODS</b>	<b>4,35</b>	<b>7,30</b>	<b>5,03</b>	<b>3,90</b>	<b>3,25</b>	<b>4,29</b>	<b>4,27</b>	<b>6,90</b>	<b>4,92</b>	<b>2,61</b>	<b>5,03</b>	<b>4,02</b>	<b>3,90</b>	<b>36,69</b>
A.1 Agricultural	1,79	4,54	3,32	1,34	-2,22	2,19	2,55	10,44	6,51	-5,77	3,32	1,98	1,34	7,93
A.2 Industrial	5,62	7,90	6,09	4,12	4,38	4,17	3,61	6,34	3,29	3,57	6,09	4,17	4,12	27,24
A.2.1 industrial non-petroleum	4,55	6,46	3,36	1,14	1,57	0,44	0,67	3,71	1,00	1,02	3,36	1,15	1,14	22,91
A.2.2 fuel and gas	10,57	14,16	17,18	14,82	14,96	16,94	13,79	17,02	11,14	12,72	17,18	15,01	14,82	4,33
A.3 Electricity	-2,26	10,20	-3,13	11,51	8,78	14,59	22,40	0,78	23,37	24,83	-3,13	10,30	11,51	1,52
<b>B IMPORTED GOODS</b>	<b>-1,69</b>	<b>-2,38</b>	<b>-5,55</b>	<b>-2,47</b>	<b>-2,60</b>	<b>-3,36</b>	<b>-1,70</b>	<b>-0,59</b>	<b>-1,75</b>	<b>-1,39</b>	<b>-5,55</b>	<b>-2,57</b>	<b>-2,47</b>	<b>22,20</b>
B.1 Motor vehicles	-5,07	-8,31	-13,65	-2,42	-2,61	-3,71	-1,57	0,16	-1,71	-1,09	-13,65	-2,55	-2,42	9,43
B.2 Other	0,85	1,81	-0,39	-2,49	-2,59	-3,16	-1,76	-0,99	-1,76	-1,55	-0,39	-2,58	-2,49	12,77
<b>C SERVICES</b>	<b>3,67</b>	<b>4,38</b>	<b>3,23</b>	<b>3,34</b>	<b>3,69</b>	<b>2,74</b>	<b>2,82</b>	<b>3,62</b>	<b>2,74</b>	<b>2,74</b>	<b>3,23</b>	<b>3,40</b>	<b>3,34</b>	<b>41,11</b>
<b>HICP</b>	<b>2,8</b>	<b>4,0</b>	<b>1,9</b>	<b>2,0</b>	<b>2,1</b>	<b>1,6</b>	<b>1,9</b>	<b>3,9</b>	<b>2,0</b>	<b>1,4</b>	<b>1,9</b>	<b>2,0</b>		
<b>Core inflation</b>	<b>2,5</b>	<b>2,5</b>	<b>2,5</b>	<b>1,7</b>	<b>1,5</b>	<b>1,0</b>	<b>1,6</b>	<b>2,6</b>	<b>1,6</b>	<b>1,7</b>	<b>2,5</b>	<b>1,7</b>		
<b>Euro area inflation</b>	<b>2,3</b>	<b>2,1</b>	<b>2,1</b>		<b>2,1</b>	<b>2,3</b>		<b>2,4</b>	<b>2,1</b>		<b>2,2</b>			

Source: Cystat.

**Table 10**
**Weighted contribution to the total change in the consumer price index by economic origin (%)**

(2002 – 2005)

	Yearly				Quarterly			Dec.	Nov.	Dec.	Jan.-	Jan.-	Jan.-	Weights 1998=100
	2002	2003	2004	2005	2005 II	2005 III	2005 IV	2004/ 2003	2005/ 2004	2005/ 2004	2004/ 2003	2005/ 2004	2005/ 2004	
<b>GENERAL INDEX</b>	<b>2,81</b>	<b>4,14</b>	<b>2,28</b>	<b>2,56</b>	<b>2,41</b>	<b>2,32</b>	<b>2,64</b>	<b>4,20</b>	<b>2,87</b>	<b>1,99</b>	<b>2,28</b>	<b>2,61</b>	<b>2,56</b>	<b>100,00</b>
<b>A LOCAL GOODS</b>	<b>1,64</b>	<b>2,79</b>	<b>1,98</b>	<b>1,58</b>	<b>1,31</b>	<b>1,73</b>	<b>1,75</b>	<b>2,77</b>	<b>2,01</b>	<b>1,07</b>	<b>1,98</b>	<b>1,62</b>	<b>1,58</b>	<b>36,69</b>
A.1 Agricultural	0,15	0,37	0,27	0,11	-0,18	0,18	0,20	0,86	0,54	-0,50	0,27	0,16	0,11	7,93
A.2 Industrial	1,53	2,22	1,77	1,24	1,32	1,26	1,11	1,89	1,01	1,09	1,77	1,26	1,24	27,24
A.2.1 industrial non-petroleum	1,02	1,47	0,78	0,27	0,37	0,10	0,16	0,89	0,24	0,24	0,78	0,27	0,27	22,91
A.2.2 fuel and gas	0,51	0,74	0,99	0,97	0,95	1,15	0,95	1,01	0,77	0,84	0,99	0,99	0,97	4,33
A.3 Electricity	-0,05	0,20	-0,07	0,23	0,17	0,29	0,44	0,02	0,46	0,49	-0,07	0,20	0,23	1,52
<b>B IMPORTED GOODS</b>	<b>-0,35</b>	<b>-0,48</b>	<b>-1,04</b>	<b>-0,43</b>	<b>-0,45</b>	<b>-0,58</b>	<b>-0,29</b>	<b>-0,10</b>	<b>-0,30</b>	<b>-0,23</b>	<b>-1,04</b>	<b>-0,45</b>	<b>-0,43</b>	<b>22,20</b>
B.1 Motor vehicles	-0,46	-0,69	-1,00	-0,15	-0,16	-0,23	-0,09	0,01	-0,10	-0,06	-1,00	-0,16	-0,15	9,43
B.2 Other	0,10	0,21	-0,04	-0,28	-0,29	-0,35	-0,19	-0,11	-0,19	-0,17	-0,04	-0,29	-0,28	12,77
<b>C SERVICES</b>	<b>1,52</b>	<b>1,83</b>	<b>1,35</b>	<b>1,41</b>	<b>1,55</b>	<b>1,17</b>	<b>1,18</b>	<b>1,53</b>	<b>1,15</b>	<b>1,15</b>	<b>1,35</b>	<b>1,44</b>	<b>1,41</b>	<b>41,11</b>

Source: Cystat.

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

(2002-2005)

	Yearly				Quarterly			Jan.	Febr.	Jan.	Jan.-	Weights
	2002	2003	2004	2005	2005 II	2005 III	2005 IV	2006/ 2005	2006/ 2005	2006/ 2005	Febr. 2006/ 2005	
<b>GENERAL INDEX</b>	<b>2,81</b>	<b>4,14</b>	<b>2,28</b>	<b>2,56</b>	<b>2,41</b>	<b>2,31</b>	<b>2,64</b>	<b>2,25</b>	<b>2,65</b>	<b>2,25</b>	<b>2,44</b>	<b>100,00</b>
Food & non-alcoholic beverages	4,58	5,11	3,97	<b>1,59</b>	0,06	1,50	2,25	<b>1,98</b>	2,30	<b>1,98</b>	2,14	17,50
Alcoholic beverages & tobacco	13,32	24,22	10,57	<b>0,23</b>	0,79	-0,72	-0,57	<b>-0,02</b>	0,03	<b>-0,02</b>	0,00	2,21
Clothing & footwear	-3,46	1,19	-0,79	<b>-2,24</b>	-0,67	-4,49	-1,39	<b>2,47</b>	2,54	<b>2,47</b>	2,51	8,93
Housing, water, electricity & gas	4,08	5,04	4,19	<b>5,41</b>	5,35	5,59	5,98	<b>7,82</b>	7,52	<b>7,82</b>	7,67	15,87
Furnishings, household equipment & supplies	0,81	3,59	-0,45	<b>0,58</b>	0,26	1,43	0,32	<b>0,88</b>	1,45	<b>0,88</b>	1,16	6,78
Health	4,70	5,66	3,72	<b>0,36</b>	0,47	-0,08	-1,03	<b>-5,92</b>	-6,63	<b>-5,92</b>	-6,28	5,03
Transport	0,39	0,35	-3,06	<b>3,79</b>	3,28	3,93	4,55	<b>4,94</b>	5,33	<b>4,94</b>	5,14	15,99
Communications	-8,81	-7,16	-8,48	<b>-10,34</b>	-7,56	-11,52	-12,39	<b>-9,21</b>	-0,22	<b>-9,21</b>	-4,72	3,94
Recreation & culture	2,20	3,55	2,26	<b>1,06</b>	2,50	0,00	-0,69	<b>-1,45</b>	-1,43	<b>-1,45</b>	-1,44	6,33
Education	5,71	4,02	3,96	<b>5,21</b>	5,60	5,32	4,33	<b>4,55</b>	4,55	<b>4,55</b>	4,55	2,87
Restaurants & hotels	3,97	5,31	4,69	<b>3,30</b>	3,67	2,39	2,21	<b>1,78</b>	1,49	<b>1,78</b>	1,63	7,57
Miscellaneous goods & services	5,49	5,50	5,16	<b>3,83</b>	4,17	2,86	3,78	<b>2,61</b>	1,88	<b>2,61</b>	2,24	6,98

Source: Cystat.

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

(2002 – 2005)

	Yearly				Quarterly			Jan.	Febr.	Jan.	Jan.-	Weights
	2002	2003	2004	2005	2005 II	2005 III	2005 IV	2006/ 2005	2006/ 2005	2006/ 2005	2006/ 2005	
<b>GENERAL INDEX</b>	<b>2,81</b>	<b>4,14</b>	<b>2,28</b>	<b>2,56</b>	<b>2,41</b>	<b>2,31</b>	<b>2,64</b>	<b>2,25</b>	<b>2,65</b>	<b>2,25</b>	<b>2,45</b>	<b>100,00</b>
Food & non-alcoholic beverages	0,86	0,97	<b>0,76</b>	<b>0,31</b>	0,01	0,29	0,43	<b>0,35</b>	0,41	<b>0,35</b>	0,38	17,50
Alcoholic beverages & tobacco	0,27	0,54	<b>0,28</b>	<b>0,01</b>	0,02	-0,02	-0,02	<b>0,00</b>	0,00	<b>0,00</b>	0,00	2,21
Clothing & footwear	-0,25	0,08	<b>-0,05</b>	<b>-0,14</b>	-0,05	-0,27	-0,10	<b>0,20</b>	0,20	<b>0,20</b>	0,20	8,93
Housing, water, electricity & gas	0,88	1,10	<b>0,93</b>	<b>1,22</b>	1,20	1,27	1,35	<b>1,22</b>	1,17	<b>1,22</b>	1,20	15,87
Furnishings, household equipment & supplies	0,05	0,23	<b>-0,03</b>	<b>0,04</b>	0,02	0,09	0,02	<b>0,06</b>	0,10	<b>0,06</b>	0,08	6,78
Health	0,25	0,30	<b>0,20</b>	<b>0,02</b>	0,03	0,00	-0,06	<b>-0,32</b>	-0,36	<b>-0,32</b>	-0,34	5,03
Transport	0,07	0,06	<b>-0,51</b>	<b>0,59</b>	0,51	0,62	0,70	<b>0,78</b>	0,84	<b>0,78</b>	0,81	15,99
Communications	-0,13	-0,09	<b>-0,10</b>	<b>-0,11</b>	-0,08	-0,12	-0,12	<b>-0,40</b>	-0,01	<b>-0,40</b>	-0,20	3,94
Recreation & culture	0,12	0,19	<b>0,12</b>	<b>0,06</b>	0,13	0,00	-0,04	<b>-0,09</b>	-0,09	<b>-0,09</b>	-0,09	6,33
Education	0,14	0,10	<b>0,10</b>	<b>0,13</b>	0,14	0,14	0,11	<b>0,13</b>	0,13	<b>0,13</b>	0,13	2,87
Restaurants & hotels	0,26	0,35	<b>0,31</b>	<b>0,23</b>	0,25	0,17	0,15	<b>0,14</b>	0,11	<b>0,14</b>	0,12	7,57
Miscellaneous goods & services	0,28	0,29	<b>0,28</b>	<b>0,21</b>	0,23	0,16	0,21	<b>0,18</b>	0,13	<b>0,18</b>	0,16	6,98

Source: Cystat.



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

Geographic origin of non-resident investors	Purchase of listed shares by non-residents							Sale of listed shares by non-residents						
	2004	2005	2005			2006		2004	2005	2005			2006	
			Oct.	Nov.	Dec.	Jan.	Feb.			Oct.	Nov.	Dec.	Jan.	Feb.
<b>EUROPE</b>	<b>7.416,2</b>	<b>7.395,9</b>	<b>704,2</b>	<b>2.005,9</b>	<b>2.248,0</b>	<b>2.118,1</b>	<b>1.386,5</b>	<b>1.199,3</b>	<b>3.461,1</b>	<b>390,0</b>	<b>237,6</b>	<b>567,5</b>	<b>872,1</b>	<b>1.312,8</b>
EU-25	6.064,4	6.805,2	651,3	1.931,5	2.143,4	1.951,1	1.072,6	3.710,1	2.980,4	342,1	177,8	552,2	692,5	856,6
Greece	5.519,5	5.667,5	628,1	1.761,7	1.758,5	1.633,9	821,4	3.328,1	2.269,5	168,5	166,6	463,6	629,2	791,8
United Kingdom	265,2	238,2	11,4	14,0	5,5	40,3	70,2	182,5	390,6	1,2	10,0	68,4	46,5	26,8
Other European countries	1.351,8	590,7	52,9	74,4	104,6	167,0	313,9	228,6	480,7	47,8	59,8	15,3	179,6	456,1
Russian Federation	1.131,5	405,4	39,3	35,5	100,8	64,2	252,3	59,3	279,7	36,1	36,9	15,3	159,5	264,8
<b>AFRICA</b>	<b>415,8</b>	<b>51,4</b>	<b>3,9</b>	<b>0,0</b>	<b>1,0</b>	<b>0,0</b>	<b>14,4</b>	<b>295,7</b>	<b>90,1</b>	<b>1,7</b>	<b>0,0</b>	<b>30,5</b>	<b>36,1</b>	<b>19,3</b>
North African countries	0,9	0,0	0,0	0,0	0,0	0,0	0,0	0,0	1,8	0,0	0,0	0,0	0,0	0,0
Other African countries	414,9	51,4	3,9	0,0	1,0	0,0	14,4	295,7	88,3	1,7	0,0	30,5	36,1	19,3
South Africa	56,7	0,0	0,0	0,0	0,0	0,0	6,3	0,0	7,6	0,0	0,0	2,5	0,3	6,0
<b>AMERICA</b>	<b>888,6</b>	<b>429,3</b>	<b>51,5</b>	<b>129,7</b>	<b>105,1</b>	<b>269,9</b>	<b>219,7</b>	<b>1.643,7</b>	<b>1.232,7</b>	<b>34,7</b>	<b>741,3</b>	<b>69,6</b>	<b>70,7</b>	<b>355,5</b>
North American countries	635,6	84,1	8,7	7,8	65,1	190,0	42,1	80,0	33,2	6,4	7,8	0,0	1,1	84,2
United States of America	634,9	81,9	8,7	7,8	65,1	189,4	41,8	28,7	33,2	6,4	7,8	0,0	0,9	84,2
Canada	0,7	2,2	0,0	0,0	0,0	0,6	0,3	51,3	0,0	0,0	0,0	0,0	0,2	0,0
Central American countries	253,0	345,2	42,8	121,9	39,9	79,9	177,5	1.563,7	1.199,4	28,3	733,5	69,6	69,6	271,3
South American countries	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
<b>ASIA</b>	<b>61,7</b>	<b>267,3</b>	<b>3,0</b>	<b>6,7</b>	<b>0,0</b>	<b>1,3</b>	<b>16,0</b>	<b>12,2</b>	<b>229,2</b>	<b>23,8</b>	<b>12,7</b>	<b>2,5</b>	<b>4,1</b>	<b>71,0</b>
West Asia	17,0	204,7	3,0	6,3	0,0	1,3	13,7	12,2	168,9	0,9	11,2	2,5	4,1	71,0
Other Asian countries	44,8	62,6	0,0	0,4	0,0	0,0	2,3	0,0	60,3	22,9	1,5	0,0	0,0	0,0
<b>OCEANIA</b>	<b>18,5</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>8,2</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>
<b>Total</b>	<b>8.800,8</b>	<b>8.800,8</b>	<b>762,5</b>	<b>2.142,3</b>	<b>2.354,1</b>	<b>2.389,3</b>	<b>1.636,5</b>	<b>5.898,5</b>	<b>5.013,0</b>	<b>450,2</b>	<b>991,6</b>	<b>670,2</b>	<b>983,0</b>	<b>1.758,7</b>

Source: Cyprus Stock Exchange.

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

**Table 14**  
**Balance of payments**  
 (CYP million)

CATEGORIES	2004 (Annual) (Prov.)			2005 (Annual) (Prov.)		
	CREDIT	DEBIT	NET	CREDIT	DEBIT	NET
<b>CURRENT ACCOUNT</b>	4.038,1	4.454,4	-416,3	4.340,8	4.793,8	-453,0
<b>Goods, services and income</b>	3.760,1	4.259,7	-499,6	4.048,4	4.543,7	-495,4
<b>Goods and services</b>	3.458,6	3.673,0	-214,4	3.691,1	3.927,9	-236,9
<b>Goods</b>	541,0	2.440,3	-1.899,3	675,7	2.671,0	-1.995,3
<b>Services</b>	2.917,6	1.232,7	1.684,9	3.015,3	1.256,9	1.758,4
Transport	676,6	523,1	153,5	714,3	500,6	213,7
Travel	1.054,4	378,2	676,2	1.081,7	432,8	648,9
Communications services	16,5	36,6	-20,1	15,6	44,0	-28,4
Construction services	68,4	6,9	61,5	75,6	4,9	70,7
Insurance services	20,9	33,3	-12,4	26,3	30,0	-3,7
Financial services	104,6	46,8	57,8	127,6	43,7	83,9
Computer and information services	112,4	11,7	100,7	98,7	16,0	82,7
Royalties and licence fees	8,3	25,0	-16,7	6,9	21,2	-14,3
Other business services	687,5	105,5	582,0	699,1	94,6	604,5
Personal, cultural and recreational services	11,6	22,7	-11,1	19,2	26,0	-6,9
Government services, n.i.e.	156,3	42,8	113,5	150,4	43,1	107,4
<b>Income</b>	301,5	586,7	-285,2	357,3	615,8	-258,5
Compensation of employees	14,3	79,2	-64,9	24,2	85,8	-61,6
Investment income	287,2	507,6	-220,3	333,1	530,0	-196,9
<b>Current transfers</b>	278,0	194,7	83,3	292,5	250,1	42,4
General government	85,9	61,3	24,6	108,2	97,3	10,9
Other sectors	192,1	133,4	58,8	184,3	152,8	31,5
<b>Capital and financial account</b>			434,5			518,5
<b>Capital account</b>	86,1	27,1	59,0	60,9	20,6	40,3
<b>Financial account</b>			375,5			478,2
Direct investment			215,8			340,8
Abroad			-289,9			-200,4
In Cyprus			505,7			541,2
Portfolio investment			551,8			-62,0
Assets			-839,9			-755,9
Liabilities			1.391,7			693,9
Financial derivatives			-21,2			-6,8
Other investment			-191,6			540,0
Assets			-1.383,9			-3.384,1
Liabilities			1.192,3			3.924,1
Reserve assets			-179,3			-333,8
<b>NET ERRORS AND OMISSIONS</b>			-18,2			-65,6

Sources: Central Bank of Cyprus and Cystat.

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

	January 2005	January 2006	January 2006/2005
	CYP million		% change
<b>Total revenue and grants</b>	<b>214,7</b>	<b>219,6</b>	<b>2,3</b>
Direct taxes	55,6	76,5	37,6
Income tax	30,2	37,8	25,2
Other Direct taxes	25,4	38,8	52,8
Indirect taxes	87,8	96,2	9,6
Value added tax	41,0	47,3	15,4
Excise taxes	14,0	33,0	135,7
Import duty	23,3	5,3	-77,3
Social security contributions	27,1	21,5	-20,7
Non-tax revenue	37,3	18,8	-49,6
Foreign grants	7,0	6,5	-7,1
<b>Total expenditure and net lending</b>	<b>176,1</b>	<b>204,0</b>	<b>15,8</b>
Current expenditure	174,3	200,7	15,1
Goods and services	9,0	16,3	81,1
Wages and salaries	57,3	61,6	7,5
Pensions and gratuities	17,4	14,0	-19,5
Social pensions	2,3	2,3	0,0
Other current transfers <sup>(2)</sup>	36,8	36,0	-2,2
Unallocable expenses <sup>(3)</sup>	0,4	0,1	-75,0
Social security funds payments	14,7	28,1	91,2
Subsidies	0,1	0,6	900,0
Interest	36,4	41,6	14,3
Capital expenditure	1,8	3,3	83,3
Investment	1,8	3,3	83,3
Capital transfers	0,0	0,0	0,0
Net lending	0,0	0,0	0,0
<b>Fiscal surplus (+)/deficit(-)</b>	<b>38,7</b>	<b>15,6</b>	<b>-59,7</b>
<b>As % of GDP</b>	<b>0,50</b>	<b>0,19</b>	<b>-62,0</b>

Source: Ministry of Finance.

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

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

(3) Includes only expenditure on military equipment.

**Table 16**

**Accounts of general government (analysis of expenditure and revenue)**

	Jan.-Dec. 2004	Jan.-Dec. 2005	Jan.-Dec. 05/04
	<i>CYP million</i>		<i>% change</i>
<b>EXPENDITURE</b>			
Intermediate consumption	318,00	390,50	22,80
Capital formation	254,20	244,80	-3,70
Compensation of employees	1.122,10	1.152,70	2,73
Other taxes on productions	0,20	0,40	100,00
Subsidies	81,40	55,30	-32,06
Interest paid	244,00	264,60	8,44
Social benefits	839,50	1.005,70	19,80
Other current transfers	249,50	290,80	16,55
Capital transfers	64,30	54,50	-15,24
<b>Total expenditure</b>	<b>3.173,20</b>	<b>3.459,30</b>	<b>9,02</b>
<b>REVENUE</b>			
Market output & output for own final use	190,10	225,70	18,73
Taxes on production and imports	1.165,30	1.355,00	16,28
<i>of which VAT</i>	666,40	776,50	16,52
Property income	65,50	78,40	19,69
Current taxes on income, wealth, etc	665,70	729,90	9,64
Social contributions	613,90	650,10	5,90
Other current transfers	145,10	155,20	6,96
Capital transfers	21,30	79,40	272,77
<b>Total revenue</b>	<b>2.866,90</b>	<b>3.273,70</b>	<b>14,19</b>
<b>Surplus (+) / Deficit (-)</b>	<b>-306,30</b>	<b>-185,60</b>	<b>-39,41</b>

Source: Cystat.