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Cyprus: Selected Issues and Statistical Appendix

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CYPRUS

Selected Issues and Statistical Appendix

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Approved by European I Department

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Contents	Page
I. Real Sector, Labor Market, and Inflation.....	4
A. National Accounts.....	4
B. Labor Market.....	6
C. Inflation.....	6
II. Fiscal Developments and Policy.....	8
A. Institutional Setup.....	8
B. Fiscal Developments in 1999 and 2000.....	9
C. Financing and Debt.....	11
III. Monetary Developments and Policy.....	12
IV. Financial Sector Structure and Supervision.....	15
A. Banks.....	15
B. Credit and Savings Cooperatives.....	20
C. Stock Exchange.....	21
V. The External Sector.....	22
A. Developments in 1999.....	22
B. Developments in 2000.....	26
C. Capital Controls.....	26
D. Exchange Rate and Competitiveness.....	27
VI. The Cyprus Stock Exchange: An Assessment Against IOSCO Core Principles.....	29
A. Introduction and Summary.....	29
B. IOSCO Objectives and Principles.....	29
C. Principles Relating to the Regulator.....	31
D. Self-Regulation.....	32
E. Principles for the Enforcement of Securities Regulation.....	32
F. Principles for Cooperation in Regulation.....	33
G. Principles for Issuers.....	33

H. Collective Investment Schemes	34
I. Principles for Market Intermediaries	35
J. Principles for Market Regulation (Excluding Clearing and Settlement)	36
K. Principles for Market Regulation-Clearing and Settlement	36
L. Conclusions	38
VII. Medium-term Framework and Projections.....	39
A. Analytical Framework.....	39
B. Economic Assumptions for 2001-05.....	43
C. Macroeconomic Outcomes under the Two Scenarios.....	45
Text Boxes	
1. CBC's Monetary Program for 2000.....	14
2. The International Business Sector	24
Text Tables	
1. International Comparison of Banking System	16
2. Structure of the Domestic Banking System, 1995-99	17
3. Measures of Vulnerability in the Domestic Banking System, 1995-99	17
4. Provisioning Against Bad Loans in the Domestic Banking System.....	18
5. Indicators of Profitability in the Domestic Banking System, 1995-99.....	19
6. Implementation of IOSCO Objectives and Principles	30
7. Baseline Scenario, 1998-2005.....	40
8. Adjustment Scenario, 1998-2005	41
Figure	
1. External Sector Developments	23
Appendix	
1. Legal and Regulatory Framework for Banking Supervision	47
Statistical Appendix Tables	
A1. Aggregate Demand, 1995-99 (At constant 1995 prices).....	54
A2. Aggregate Demand, 1995-99 (At current prices)	55
A3. Composition of Gross-Fixed Capital Formation, 1995-99	56
A4. Origin of Gross Domestic Product, 1995-99.....	57
A5. Origin of Gross Domestic Product, 1995-99 (At current prices)	58
A6. Gross Manufacturing Output by Major Industries, 1995-99.....	59
A7. Tourist Arrivals and Receipts, 1995-99	60
A8. Labor Force and Employment by Sector, 1995-99.....	61
A9. Wage and Productivity Indicators, 1995-99.....	62
A10. Price Indices, 1995-99	63
A11. Implicit Deflators, 1995-99	64
A12. Consolidated Central Government Budget, 1995-99 (In millions of Cyprus pounds).....	65

A13.	Consolidated Central Government Budget, 1995-99 (In percent of GDP).....	66
A14.	Consolidated Central Government Budgets, 1995-99	67
A15.	Central Government Ordinary Budget, 1995-99	68
A16.	Central Government Development Budget, 1995-2000	69
A17.	Social Insurance Funds, 1995-99	70
A18.	Defense Fund, 1995-99	71
A19.	Accounts of Relief Fund for Displaced Persons, 1995-99	72
A20.	Public Loans Fund, 1995-99	73
A21.	Government and Government-Guaranteed Net Debt, 1995-99	74
A22.	Total Gross Public Debt by Instrument and Lender, 1995-99	75
A23.	Targets and Outturns for Monetary and Credit Aggregates, 1995-2000	76
A24.	Monetary Survey, 1995-2000	77
A25.	Financial Indicators, 1995-99	78
A26.	Credit by Deposit Money Banks to the Private Sector, 1995-2000	79
A27.	Balance Sheet of the Central Bank, 1995-2000	80
A28.	Selected Interest Rates, 1995-2000	81
A29.	Balance of Payments Summary, 1995-99	82
A30.	Merchandise Trade, 1995-99	83
A31.	Direction of Trade, 1995-99	84
A32.	Imports by Commodity, 1995-99	85
A33.	Exports (f.o.b.) by Commodity 1995-99	86
A34.	Invisible Transactions, 1995-99	87
A35.	Balance of Payments Capital Account, 1995-99	88
A36.	International Reserves, 1995-99	89
A37.	Outstanding External Debt and Debt Service, 1995-99	90
A38.	Long-Term Foreign Debt by Creditor, 1995-99	91
A39.	Nominal and Real Exchange Rate Indices, 1995-99	92

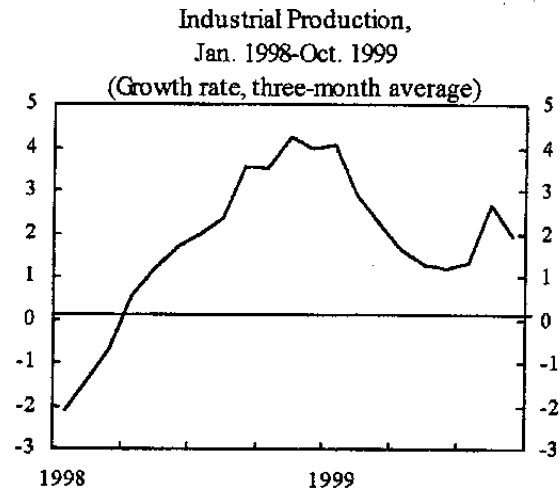
I. REAL SECTOR, LABOR MARKET, AND INFLATION

A. National Accounts

1. Cyprus enjoyed a strong output rebound in 1998 and 1999 after two years of weak activity, with GDP growth of 5.0 percent in 1998 and an estimated 4.5 percent in 1999 (Table A1).¹
2. **Activity in 1998 was spurred mainly by domestic consumption.** Real private consumption rose by 8.5 percent, leading to a 2.4 percentage point increase in the share of consumption in nominal GDP (Table A2). This reflected mainly a surge in consumption in anticipation of a VAT increase (which in the end was delayed until July 2000). The temporary consumption boom also resulted in strong import growth and a negative contribution of the foreign balance to GDP. Public consumption rose sharply as the fiscal deficit widened in 1998, while investment rebounded slightly after a sharp decline in 1997.
3. **Output growth in 1999 was driven by external demand—notably the booming tourism sector—that more than offset weak domestic demand.** Services exports contributed fully two-thirds of the 4.5 percent growth of real GDP. In contrast, consumption stagnated in 1999, as private funds flowed into the Cyprus Stock Exchange (CSE). Public consumption contracted in 1999 as defense expenditures fell sharply from the high levels of the previous three years. Investment also fell, as the diversion of resources to the stock market hindered firms' ability to obtain project financing (and enterprises' internal resources were similarly diverted in many cases to the stock market). Together, gross national savings rose from 16 percent of GDP in 1998 to 19 percent of GDP in 1999.
4. **The share of investment in GDP continued a secular decline from 27.3 percent in 1989 to 17.5 percent in 1999.** Fixed capital formation remained sluggish in nearly all economic categories in 1998 and 1999, with weak investment in machinery and other equipment, in particular, reflecting the long-term decline of the manufacturing sector (Table A3). The share of residential construction in investment remained at a far lower level than before 1997, with a shift to nonresidential buildings and transport equipment.
5. **The sectoral composition of output continued to shift toward services, while the primary sector and industry stagnated in 1998 and 1999 (Table A4).** The share of services reached 57.4 percent of GDP in 1999, up from 50.5 percent in 1993; particularly strong growth was seen in both tourism-related services (trade, restaurants, and hotels) and financial services (Table A5). The latter was positively affected by the growth of the offshore

¹ Final national accounts for 1999 are not yet available. National accounts are compiled only at an annual frequency and do not fully conform to ESA 1995 standards. Real GDP figures starting in 1995 were recently recalculated using a 1995 base year, with substantial revisions for the deflators of many GDP components.

sector and, in 1999, by the stock market boom (see Chapter III). The share of government services in the economy leveled off in 1998 though at the substantially higher level of 14 percent of GDP compared to only 12 percent of GDP in 1992. Agricultural production rebounded slightly from the extreme drought conditions of 1997. Industrial production revived somewhat in 1998 and 1999, but manufacturing continued its secular decline, particularly in traditional industries such as textiles, clothing, and leather products that have lost competitiveness to lower cost producers (Table A6). The value of gross output of chemicals, petroleum, and plastics was mainly affected by changing oil prices—falling in 1998 and then rebounding in 1999—but output in this sector has also been positively affected by growing production of pharmaceutical products, mainly for export.



6. **The tourism sector grew strongly in 1998 and especially 1999, during which both arrivals and spending per tourist reaching record levels (Table A7).** Arrivals grew by 6.5 percent in 1998, but this was partly offset by 2 percent lower per capita spending. In 1999, in contrast, the number of tourists rose by nearly 10 percent and per capita spending by 7 percent. Cyprus benefited from the effect of the 1999 Kosovo conflict, which diverted tourists away from Greece and the Balkans, and from robust output growth in the United Kingdom, which is the source for nearly half of tourist arrivals.² Germany accounted for nearly 10 percent of tourist arrivals, followed in importance by the Scandinavian countries; arrivals from Russia and other countries of the former Soviet Union declined in 1998–99 owing to the economic crisis in those countries.

7. **Preliminary indications for 2000 suggest another year of strong growth.** Tourist arrivals from January through May 2000 are 13.5 percent higher than in the comparable period in 1999, pointing to another blockbuster tourist season. Data on industrial production are not yet available for 2000, but the volume of retail sales for January and February was 5.1 percent ahead of the first two months of 1999. Trade data likewise point to strong consumption growth, with the value of imported consumer goods for domestic consumption 15.7 percent higher in the first four months of 2000 than in the same period in 1999.

² Tourism may also have benefited from the strong exchange value of sterling vis-à-vis the euro, although staff research suggests that services exports are not very price sensitive (see Chapter V).

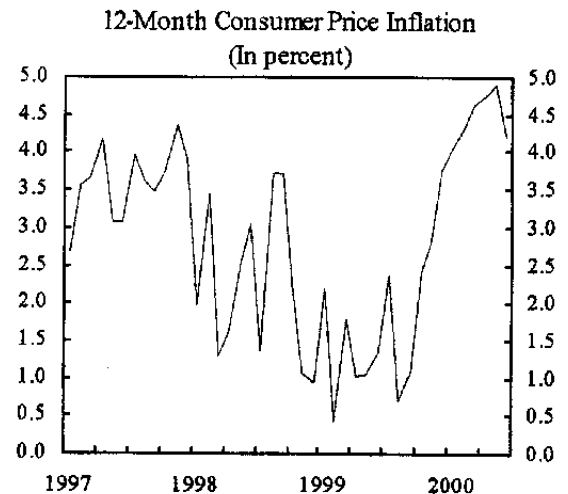
B. Labor Market

8. **The unemployment rate edged up slightly to 3.6 percent in 1999 from 3.4 percent in 1997 and 1998 (Table A8).** The increase stemmed mainly from a weak construction sector and the decline of traditional manufacturing industries, such as textiles and footwear. Employment grew only 1.1 percent despite strong activity growth, though employment in the informal sector may have grown by more. High technology industries, which the government is now seeking to foster, reported shortages of skilled workers, such as programmers. Public employment grew by more than 3 percent per year from 1995 to 1999 and now constitutes more than 20 percent of total employment.

9. **Earnings growth slowed in 1999 due to moderate wage settlements and the effects of lower inflation on the cost of living adjustment (COLA) mechanism (Table A9).** Indeed, the system of wage indexation generated a *negative*, and highly controversial, COLA payment in July 1999 on account of declines in the CPI in the first part of the year.³ With the acceleration in inflation in late 1999 and 2000, however, the indexation mechanism has resulted in an acceleration in labor costs. The July 2000 COLA exceeded 6 percent, despite the fact that the impact of the late 1999 excise tax increases was excluded.

C. Inflation

10. **Inflation generally declined during 1998 and most of 1999, with average inflation falling to 1.7 percent in 1999 from 2.2 percent in 1998 (Table A10).** The 12-month inflation rate fell below 1 percent in August 1999, as prices of fuels and transportation fell over much of 1998, while food prices declined through the first half of 1999. Prices of telecommunications services have also declined continuously since 1998. With the COLA leading to highly persistent inflationary dynamics, the effects of lower oil prices in 1998 continued to propagate throughout much of 1999. Inflation in services and other nontradables was lower than in tradables, such as manufactured goods, in 1999. The terms of trade improved in 1998 as export prices grew above import prices (again, largely on account of fall oil prices), but this was reversed in 1999 (Table A11).

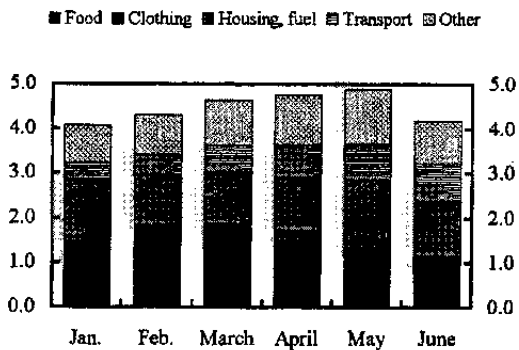


³ Under the COLA mechanism, wages are adjusted in January and July on the basis of price developments over the preceding 12 months. The adjustment in January, for example, is based on a comparison of the average level of the CPI in July to December with the average level of the CPI in January to June.

11. Inflation began to rise with oil prices in late 1999, reaching 3.7 percent in December and 4.2 percent in June 2000.⁴

Wholesale price inflation likewise jumped to 5 percent in December 1999, after having been below 1 percent from November 1998 to September 1999. The inflation pickup in late 1999 and 2000 stemmed from increased prices in several categories, including clothing, electricity, food, housing, and manufactures, and the effects of excise tax hikes in late 1999. Electricity prices are linked to world oil prices and rose by nearly 40 percent in the first half of 2000, though the gasoline price faced by consumers is regulated and was not adjusted until July 2000. The decline in inflation in June 2000 was the result primarily of a large decline in food prices, which have a weight of nearly 20 percent in the CPI basket. The 2 percent VAT hike in July 2000 is projected to result in a 1 percentage point increase in the level of the CPI; moreover, this effect is included in the COLA, which will thus translate the one-time increase in the price level into persistently higher inflation.

**Inflation Components, 2000
(In percent)**



⁴ Inflation data starting in 2000 reflect a new methodology, compatible with that used by EUROSTAT, including revisions to both the composition of goods and the expenditure weights. The new methodology was also used implemented using data for 1999, so that the 12-month inflation rate can be calculated for 2000. For December 1999, the new index is 0.53 percentage points below the old index.

II. FISCAL DEVELOPMENTS AND POLICY

A. Institutional Setup

12. **The fiscal accounts cover the consolidated central government.** All accounts are on a cash basis (not accrual). The accounts are “consolidated” in that they bring together four central government budgets that until 1998 were presented separately, as well as accounts of some, but not all, semigovernmental organizations (Tables A12–22). The four central government budgets are the Ordinary Budget, Development Fund, Defense Fund, and the Special Relief Fund. The Ordinary Budget includes current expenditures and most revenues—direct income taxes from individuals and corporations, indirect taxes from VAT, excise taxes, and import duties, and a wide range of nontax revenues. The Development Fund covers capital expenditures (around 12 percent of total expenditure in 1999), while the Special Relief Fund covers transfers concerning persons displaced during the 1974 invasion. This includes both expenditures in support of refugees and some revenues, such as rent from occupants of government-owned houses and payments on government loans. The Defense Fund covers military expenditure, with revenues coming from the defense levy (income tax supplement), and some excise taxes on petroleum and tobacco the proceeds of which are earmarked for defense purposes.
13. **The fiscal accounts also include public loan funds and sinking funds (both quite small—less than 2 percent of total revenue), and the Social Insurance Fund.** The sinking funds are accounts of the government at the Central Bank of Cyprus into which deposits are made each year for the purpose of accumulating reserves to repay various medium-term debt obligations. The Social Insurance Fund has a surplus (£C 62 million in 1999), which is recycled into purchases of government securities—as with the sinking funds, these transactions do not affect the overall financial position of the central government. The revenue of the Social Insurance Fund is thus derived both from social insurance contributions (employers, employees, and the self-employed) and from interest payments on social insurance fund holdings of government treasury bills, while expenditures are mostly transfers plus a small wage bill. Without the intragovernmental interest payments, however, the social insurance funds would have a deficit, as employment-related contributions are below expenditures by about £C 58 million—1.2 percent of GDP—in 1999. A variety of other accounts are included in the consolidated central government, including the Cyprus Grain Commission, a fund in support of activities of the United Nations High Commission for Refugees, and small funds for cash advances. The grain commission implements government policy on agricultural prices; some prices are set below cost, resulting in a fiscal burden of about 0.4 percent of GDP.
14. **The presentation of the consolidated central government does not correspond to the ESA95 concept of general government, because accounts for local authorities and several semigovernmental authorities are not included.** Audited accounts for local authorities are not available on a timely basis. There is oversight over local authorities’ financial activities, however, as most of their funding is in the form of transfers from the central government, and the largest expenditures are typically initiatives undertaken jointly

with the national authorities (for example, road improvements). Data on government debt likewise exclude gross debt of local authorities, which though only £C 57 million at end-1998, is guaranteed by (and subject to approval of) the central government. Five semi-governmental organizations are also not included in the consolidated accounts, covering the areas of sports, broadcasting, theatre, agricultural insurance, and the Cyprus Tourism Organization (CTO). While all function autonomously on a day-to-day basis, these authorities are subject to government control and derive their budget from official transfers; these amounted to £C 37 million per annum in 1998 and 1999. Subsidies to the CTO have been eliminated as of 2000, replaced by a 3 percent surcharge on restaurant and hotel purchases, although the VAT rate on these items has been lowered as well by 3 percentage points.

B. Fiscal Developments in 1999 and 2000

15. **The fiscal deficit narrowed in 1999 to 4.1 percent of GDP after slippages in 1997 and 1998 pushed the deficit above 5 percent, but the ratio of net debt to GDP rose above 60 percent at the end of 1999.** The adjustment in 1999 was achieved on the basis of higher revenues and a sharp cut in defense expenditures. The share of public expenditures in GDP declined in 1999, but remained nearly 5 percentage points higher than in 1995. Social transfers, in particular, have grown rapidly, more than doubling as a share of GDP in the past 10 years. The primary balance improved by nearly 1.5 percent of GDP in 1999. Nonetheless, the fiscal slippages of 1997 and 1998 have wiped out the progress achieved in 1994-95, with the ratio of consolidated debt to GDP (net of intragovernmental debt) reaching nearly 61 percent at the end of 1999.

16. **Without additional measures, the fiscal deficit in 2000 will likely widen.** On the basis of current policies, staff projections suggest that the 2000 deficit could reach 4.5 percent of GDP, with a deterioration of the primary balance (net of intragovernmental interest) of 0.6 percent of GDP, partly undoing the 1.4 percent improvement from 1998 to 1999. While preliminary data on tax collection for the first half of 2000 suggest considerable scope for overperformance, this would be offset by the lower defense levy and higher transfers and subsidies. However, the authorities' target of containing the deficit to no more than 4 percent of GDP deficit can easily be achieved by further postponement in budgeted expenditures (capital and defense expenditures in particular), as in 1999.

Revenue

17. **Strong income growth and the imposition of a supplemental income tax in 1998 and 1999 made for buoyant direct tax revenue.** Income tax revenue in 1999 rose by 17 percent. Revenue grew by more than nominal GDP both because of the increase in the defense levy (supplemental income tax) to 3 percent rate and because tax brackets did not change in nominal terms.⁵ A capital gains tax on stock market profits approved by parliament

⁵ Brackets are adjusted every four years, with changes in 1996 and 2000.

at the end of 1999 (a year in which the Cyprus Stock Exchange index rose by nearly 700 percent) brought in revenue of more than 0.5 percentage point of GDP, an amount that was limited by the exclusion of profits up to £C 35,000 from the tax.⁶ These gains were offset by declining indirect tax revenues, as Cyprus's EU Association Agreement meant the continued phasing out of import duties on trade with EU countries, with a revenue loss equal to more than 1 percent of GDP compared to 1997.

18. **Revenue is set to rise sharply in 2000, as higher VAT and excise taxes are projected to offset a reduction in the defense levy and the impact of adjustments in tax brackets.** The defense levy was cut from 3 percent to 2 percent; this will cost nearly 1 percent of GDP, while adjustments to income tax brackets are expected to lower revenue by another 0.7 percent of GDP. Even with these measures, revenue as a share of GDP is projected to rise in 2000 by more than 2 percentage points. A variety of excise tax hikes (petroleum, alcoholic beverages, four wheel drive vehicles, automobile licensing fees) enacted at the end of 1999 are expected to yield revenue of around 0.6 percent of GDP in 2000, while the increase in the VAT rate from 8 percent to 10 percent effective on July 1 is expected to provide revenue of at least 0.5 percent of GDP. The tax on stock market transactions is expected to provide revenue of more than 1 percent of GDP, while other nontax revenues will climb with increased fees for water and sewerage, and higher port charges. Preliminary revenue figures for the first half of 2000 indicate substantial overperformance, with direct taxes (mainly personal and corporate income taxes) about 25 percent ahead of 1999 levels.

Expenditure

19. **Expenditures as a share of GDP leveled off in 1998 and 1999 after a sharp jump in 1997.** Spending on wages and goods and services rose in line with nominal GDP, while defense spending fell sharply in 1999—by 1.4 percentage points—as more than half of budgeted expenditures were postponed. Social transfers grew steadily in 1998 and 1999, continuing a trend of the past 10 years. Interest payments crept up to 5.8 percent of GDP, but more than 40 percent of the interest bill is on intragovernmental interest on holdings of treasury bills by the social security system. This share of the debt represents an intertemporal fiscal burden but its servicing does not affect the consolidated financial position of the general government.

20. **Without additional measures, higher expenditure in 2000 is projected to offset revenue gains.** Transfers will rise by another 0.7 percent of GDP from the measures passed to compensate the elderly and those with lower incomes for the effects of the higher VAT. Total transfers are expected to reach 7 percent of GDP in 2000 from only 2.5 percent of GDP in 1988. The civil service wage bill will rise by 0.6 percentage points of GDP despite a hiring

⁶ Any income tax measure affects all income within the entire calendar year regardless of the date of enactment, so that the capital gains tax was effectively retroactive.

freeze except in the areas of defense, education, and health care, as civil servants' salaries will rise a total of 9 percent from COLA increases and promotions. And social security payments are projected to jump by 0.5 percent of GDP from the effects of the lowering of the age for a social pension from 67 to 65 years. Capital spending in the budget is to rise in 2000 and beyond, as additional projects are undertaken to address infrastructural needs, including improved telecommunications, roads, and new desalination plants (although the latter are being financed under build-operate-transfer arrangements that minimize the up-front fiscal cost of these projects). Defense expenditure is set to rebound from 1999, while a subsidy not included in the original 2000 budget has been extended on the retail price of fuel. In sum, without additional measures, expenditure is projected to grow at a double-digit rate in 1999, from 36.3 percent to nearly 39 percent of GDP.

C. Financing and Debt

21. **The ratio of consolidated government debt to GDP rose above 60 percent at the end of 1999, and is set to increase further in 2000.** This is a sharp rise from a debt burden of just 51.4 percent in 1995. Moreover, tight liquidity conditions in the first half of 2000 have affected the government's ability to tap domestic financial markets, with a virtual collapse of the treasury bill market. Since February, there have been no bids received at treasury bill auctions, and issues of longer-term domestic bonds have been only partially placed. With domestic borrowing essentially unavailable at current interest rates in the private market, financing of the deficit will need to be accomplished through either yet more foreign borrowing—likely to be more costly on account of the ratings downgrades—or by increased reliance on advances from the Central Bank. Slow progress in addressing the fiscal imbalance and the rising debt burden were cited as the main factors behind S&P's December 1999 downgrade of Cyprus' debt rating and Moody's May 2000 shift to a negative ratings outlook, though both ratings remain well within investment grade.

22. **The composition of the debt has shifted toward long-term and foreign debt.** Foreign debt accounted for 28 percent of total debt at the end of 1999, up from 18 percent in 1996. Nearly all (86 percent) of the foreign borrowing is medium and long term (5- and 10-year), and does not appear to pose any near-term risk of financing difficulties. Looking forward, however, substantial foreign repayments are due in 2002, 2006, and 2008 (10-year bonds), and no provisions have been made (sinking funds are not used against debt with 5- and 10-year maturities). The shift to foreign borrowing occurred largely because foreign debt provided a lower interest rate than domestic borrowing in 1998 and 1999—the effective interest rate on domestic debt (excluding intragovernmental debt) was 6.1 percent in 1998 and 5.8 percent in 1999, against 4.5 and 4.6 percent, respectively, on foreign debt. In 2000, the lack of domestic liquidity as savings flow into the stock market will again likely lead to increased reliance on foreign borrowing. The maturity structure of Cyprus's domestic debt has shifted toward long-term debt, which accounted for 42 percent of domestic debt in 1999 from less than 30 percent in 1996. The average maturity of domestic debt increased from 2.1 years in 1996 to 4.3 years in 1999.

III. MONETARY DEVELOPMENTS AND POLICY

23. **Despite the fixed exchange rate regime, capital controls allow the Central Bank of Cyprus (CBC) to pursue an independent M2 target through indirect instruments, but the statutory interest rate ceiling means that the CBC must occasionally resort to direct credit controls.** The Cyprus pound is pegged to the euro at a central parity of 1.7086 with a fluctuation band of $\pm 2\frac{1}{4}$ percent. In addition, the CBC has an M2 target and an indicative guideline for private sector credit. The CBC has some independence in pursuing different monetary policy targets despite the exchange rate peg because of extensive capital controls. These controls can, to some extent, be adjusted to conditions (the CBC, for example, can approve or reject capital outflows depending on the level of reserves). Monetary policy is implemented by the CBC through repurchase and reverse repurchase operations and by setting rates on its Lombard facility, which acts as an upper bound on short-term money market rates, and on its overnight deposit facility, which acts as a lower bound on rates. The CBC is constrained in setting interest rates by a statutory 9 percent ceiling on interest rates—although parliament has passed a law to remove the ceiling from January 1, 2001. Therefore, the CBC has, on occasion, resorted to imposing bank by bank credit ceilings, as well as indicative ceilings on the rates which banks can pay for deposits and charge for lending.

24. **The CBC imposed credit ceilings in 1999 but its monetary targets were still breached.** Private sector credit growth picked up during 1998 and, by December, was 14.2 percent, compared to an indicative target of 11.0 percent (Table A23). However, a deterioration in the balance of payments and decline in reserves of the central bank and commercial banks meant that M2 growth was well below the CBC's 11.6 percent target (Table A24). With private credit continuing to grow strongly in early 1999, the CBC decided to impose quarterly bank-by-bank credit ceilings for the remainder of 1999 equivalent to 10 percent annual growth. In the fall, the CBC increased margin requirements on investment accounts to 100 percent and banned lending for the purchase of stock. Despite these controls, M2 growth exceeded the CBC's end-year target by nearly 7 percentage points. While end-year private credit growth was much closer to its target, with banks taking short-term actions to meet their ceilings, this masked strong underlying growth as evidenced by 12-month growth in November and January of 18.0 and 17.5 percent, respectively.

25. **Monetary developments in 1999 were influenced by the unprecedented growth in the Cyprus Stock Exchange (CSE).** The CSE index rose by 688 percent in 1999 (Table A25), spurred by a number of initial public offerings (IPOs) and rights issues which raised a total of £C 106 million. Individuals responded by running down their term deposits and increasing their borrowing in order to purchase stock (personal loans grew from 34 to 40 percent of total lending, Table A26). There was also a shift in deposits away from cooperative credit societies, which are not in the monetary survey and whose customers were net buyers of shares, to banks, whose customers were net sellers. This led to a further increase in money. During 1999, much of the additional liquidity stayed within the financial system, as those who had sold stock and those who had raised new finance deposited the proceeds in banks. In addition, those applying for IPOs were required to hold large quantities of cash in

investor accounts in order to secure shares in IPOs which were substantially oversubscribed. As a result, the increase in money had little immediate effect on inflation or the balance of payments (CBC reserves rose sharply in 1999, Table A27) while broad money velocity declined sharply (falling by 7.5 percent). There was, however, a change in the composition of money to more liquid instruments, and end-year growth in M1 reached 42 percent.

26. **The CBC adopted a monetary program for 2000 and initially used indirect instruments to implement it.** The target for M2 growth was 12.6 percent and the indicative target for private credit growth was 12 percent (see Box 1). To achieve these targets, the CBC limited the quantity of liquidity available through repurchase operations. As a result, interest rates in the repo market and in the interbank market rose by 1 percentage point in the first four months of the year (Table A28). However, the CBC left its indicative ceiling on bank lending rates unchanged at 8 percent (although the effective lending rate was above 8 percent due to the imposition by banks of "study fees" for processing loans). The CBC, which runs the treasury bill auction, also capped the interest rate on treasury bills at 5.5 percent and, as a result, no bills were sold at auction between mid-March and end-May 2000.

27. **However, tightening in the repo market alone was insufficient to prevent very rapid growth in credit and M2 in the first quarter, and the CBC again resorted to direct controls.** Twelve-month M2 and private credit growth were 18 and 20 percent, respectively, in April 2000, reflecting, in part, postponed demand for credit from December 1999 (credit ceilings automatically ended on December 31, 1999). In addition, rising demand for imported consumption goods suggested that the increase in money was beginning to have an impact on aggregate demand, as those that had benefited from the stock market boom began to increase consumption and companies began to spend the cash they had raised on the stock market. In response, the CBC limited personal loans to £C 5,000 per person in 2000 (with an exception for loans for health, education, and housing); maintained its ban on lending for stock purchases; and in May imposed bank-by-bank ceilings of 12 percent. It also announced a 1 percentage point increase in the reserve requirement, effective July 1, to 8 percent (the first change in the rate since 1996).⁷ In an attempt to make credit controls more effective, the CBC announced that ceilings would operate on a continuous basis (previous ceilings had been on end-quarter positions) and that any bank exceeding the ceilings would forfeit interest on their entire reserves for the full year. Any bank exceeding their ceiling by more than 10 percent would forfeit interest on reserves in the following year as well. These penalties also apply to violations of the £C 5,000 per person limit on personal loans and the ban on lending for stock purchases.

⁷ Reserve requirements are due to be reduced to 2 percent on accession to the EU.

Box 1: CBC's Monetary Program for 2000

The CBC's program for 2000 is based on an assumption of nominal GDP growth of 9.5 percent (real growth of 4.8 percent) and a fall in velocity of 2.7 percent, implying a growth in M2 of 12.6 percent (Table A). Net foreign assets are expected to rise by £C 160 million (partly as a result of an inflow from the Bank of Cyprus's sale of shares on the Athens' stock exchange). Other items, net are expected to fall by £C 145 million (partly due to the increase in capital requirements) and bank financing of the fiscal deficit is expected to be around 70 million (Table B). To achieve a growth in domestic credit consistent with M2 growth of 12.6 percent, therefore, the CBC imposed ceilings on private credit of 12 percent. If the credit ceilings are binding, banks will be forced to hold excess reserves by year-end. The increase in the reserve requirement from 7 to 8 percent is designed to absorb part of this excess. Nevertheless, excess reserves could amount to as much as £C 160 million by end-2000. This liquidity overhang will enable banks to increase credit rapidly in the early 2001, when the credit ceilings are lifted, posing a challenge for the conduct of monetary policy.

Table A. Cyprus: CBC's Monetary Program
(Percent change)

	1995-98	1999	2000
Nominal GDP	6.2	6.6	9.5
Velocity	-3.7	-7.5	-2.7
M2	10.3	15.3	12.6
Private credit growth	13.8	11.6	12.0

Source: Central Bank of Cyprus.

Table B. Cyprus: 2000 Monetary Survey
(In millions)

	Change
Net foreign assets	160
Domestic credit	710
Credit to public sector	70
Credit to private sector	640
Other items net	-145
M2	725

Source: Central Bank of Cyprus.

The CBC's assumption that broad money velocity will fall by 2.7 percent in 2000 may prove optimistic. Over the last few years, velocity has fallen by 3.8 percent per annum but in 1999 it fell by 7.5 percent. This was due to a number of special factors, including the shift in deposits from the cooperative societies to banks, the fact that companies had raised new finance but had not yet invested this money, and that money was tied up in investor accounts in order to secure shares in forthcoming IPOs. If these factors are not repeated in 2000, velocity could return to trend, and there would be only a very modest fall in 2000. In this case, even if the banks stick to their credit ceilings, the CBC's current account and inflation projections might not be met.

28. **Despite these measures, there are a number of risks in CBC's monetary program.** The CBC's monetary program assumes a fall in velocity of 2.7 percent, which may prove optimistic given the special factors that depressed velocity in 1999. If velocity falls by less, the CBC's current account and inflation projections may not be met even if private credit growth is kept to 12 percent. In addition, if the credit ceilings are binding, banks will have excess reserves at the end of 2000 which they will be able to use to increase credit sharply in January 2001 when the controls are lifted, as they did in early 2000 (see Box 1).

IV. FINANCIAL SECTOR STRUCTURE AND SUPERVISION⁸

29. **Until recently, the financial sector in Cyprus was dominated by banks and, to a lesser extent, credit and savings cooperatives: more recently, the stock market has played a larger role.** Financial intermediation in Cyprus is extensive (with a high ratio of deposits to GDP) and banking is relatively well supervised. However, the supervision of small credit and savings cooperatives, which account for about one-fourth of all deposits and have traditionally

Structure of the Financial System
December 1999

	Percent of GDP
Bank deposits	171
Nonbank deposits	52
Private sector domestic bonds	7
Public sector domestic bonds	18
Equity market capitalization	258

Source: Central Bank of Cyprus, *Monetary Survey*, CSE, Fact Book 1999.

provided mortgages to their members, does not meet international standards. The debt market is relatively undeveloped in Cyprus: only 16 corporate bonds have been issued, and secondary trading of government long-term development bonds and treasury bills is limited. There is no market for derivatives. The equity market has recently experienced explosive growth. Capitalization is now high by international standards and the market is becoming a significant source of financing for large Cypriot companies. While the regulatory framework is in general quite good, there are a number of important gaps and the shortage of experienced regulatory staff is a concern.

A. Banks

30. **The banking sector in Cyprus is relatively concentrated.** The sector is dominated by two large banks (the Bank of Cyprus and Popular Bank), which together account for 63 percent of deposits (Table 1). Two foreign-owned banks represent another 12 percent of deposits while six other banks, including two small state-owned banks, account for the rest of the market (Table 2). The interest rate ceiling has restricted price competition and banks have competed on nonprice factors, including by building up extensive branch networks which have acted as a barrier to entry (see also SM/98/178, 7/10/98).

31. **The level of bank intermediation in Cyprus is high by international standards and most indicators suggest that the banking system is sound.** Loans to the nongovernment sector in 1999 were 120 percent of GDP, a percentage that has been rising steadily over the last five years and is high by international standards (Table 3). The ratio is higher if loans made by the cooperative sector are included. Other measures of vulnerability suggest that the banking system is sound. In particular, foreign liabilities represent only one-fourth of total liabilities, and those with less than 30 days maturity represent less than 7 percent of the total, or 12 percent of GDP (in 1998). This is particularly low for a country of Cyprus's size, and reflects the existence of capital controls. The risk to banks is further

⁸ Prepared by Rachel Glennerster.

Table 1. Cyprus: International Comparison of Banking System

December 31, 1998 1/

	Cyprus 2/	Ireland 2/	Canada 3/	Germany	France	Italy	Belgium
	(Percent of assets)						
Structure of banking sector							
Number of banks	12.0	54.0	...	3,167.0	1,237.0	935.0	120.0
Majority foreign owned	9.5	53.0	...	2.6	...	1.8	20.4
Foreign branches	...	20.7	...	0.6	5.2	5.0	15.9
Percentage of deposits accounted for by:							
largest five banks	85.5	...	...	44.9	88.2	56.7	68.0
largest two banks	63.2	...	...	25.2	43.9	31.1	26.3
Measures of vulnerability							
Total assets (percent of GDP)	210.4	124.3	133.2	316.5	325.6	176.4	371.5
Foreign currency-denominated assets	26.1	...	13.5	36.6	54.6	16.2	105.5
Loans to private sector (percent of GDP)	119.6	102.9	58.4	118.2	80.4	62.0	76.4
Contingent and off-balance sheet items 4/	20.7	...	404.1	14.4	30.4	31.0	105.7
Total deposits, excluding interbank (percent of GDP)	170.7	86.0	71.1	111.7	127.3	59.8	219.5
	(Percent of loans)						
Low quality loans							
Nonperforming or low quality loans 5/	8.4	2.3	1.2	...	8.5	9.0	4.0
Provisions (percent nonperforming loans)	51.3	42.3	33.3	...	62.0	48.8	60
Total provisions for loan losses	4.3	1.0	0.4	...	5.3	4.4	2.4
	(Percent)						
Profitability							
Average pretax return on total assets	0.7	1.1	0.6	0.2	0.3	0.5	0.6
Average lending spread	1.8	1.8	...	1.2	1.2	2.3	1.3
Risk-weighted capital/asset ratio 6/	9.9	15.7	10.6	10.1	11.0	12.9	13.7

Source: Central Bank of Cyprus; *IFS*; *European Banking at the Cross-Roads*, Belaisch and others (forthcoming); *Bankstat*; and *Ireland Selected Issues* (SM/99/187, 7/21/99).

1/ Data for Cyprus are for 1999, except for data on the percentage of deposits accounted for by large banks, which are for 1995, and for profitability, which are for 1998.

2/ Excludes offshore banks.

3/ Data covers largest six banks which account for 87 percent of deposits.

4/ Credit equivalent. Contingent items for Germany, France, Italy, and Belgium. Differences in definition mean that these figures are not directly comparable between countries.

5/ Nonperforming loans for Germany, France, Italy, and Belgium.

6/ Data for Germany and France cover largest five banks only and for Italy and Belgium are for 1996.

Table 2. Cyprus: Structure of the Domestic Banking System, 1995-99

	1995	1996	1997	1998	1999 Prov.
Number of banks	13.0	12.0	12.0	12.0	12.0
Majority state owned	2.0	2.0	2.0	2.0	2.0
(percent of total assets)	3.0	3.4	3.9	4.2	4.1
Majority foreign owned	2.0	2.0	2.0	2.0	2.0
(percent of total assets)	8.9	8.8	8.7	7.8	9.5
Foreign branches	3.0	2.0	2.0	2.0	2.0
(percent of total assets)	8.0	3.2	2.9	2.7	2.6
Number of banks accounting for :					
25 percent of total assets	1.0	1.0	1.0	1.0	1.0
75 percent of total assets	4.0	3.0	3.0	3.0	3.0
Credit and savings cooperatives (number)	358.0	359.0	359.0	361.0	360.0
Percent of total assets	32.5	32.9	31.5	32.3	n.a.
Percent of GDP	49.7	54.9	57.7	58.8	n.a.

Source: Central Bank of Cyprus.

Table 3. Cyprus: Measures of Vulnerability in the Domestic Banking System, 1995-99

	1995	1996	1997	1998	1999 1/ Prov.
	(Percentage of total assets)				
Total assets (percent of GDP)	153.1	166.6	183.2	182.2	210.4
Foreign currency-denominated					
Assets	25.8	26.3	28.4	24.7	26.1
Liabilities	25.6	26.4	28.1	25.4	25.7
Of which: less than 30 days to maturity	6.9	6.1	8.4	6.7	n.a.
Total loans to nongovernment sector (percent of GDP)	85.5	94.3	101.1	108.4	119.6
Of which, personal and professional loans	29.0	31.0	32.0	34.0	40.0
Contingent and off-balance sheet accounts	20.5	19.4	21.6	20.5	20.7
Of which, foreign currency	8.0	7.8	10.2	8.2	9.4
Total deposits, excluding interbank (percent of GDP)	126.4	138.6	148.5	149.5	170.7
Central Bank credit to banks (percent of GDP)	1.0	1.1	0.7	1.1	0.0

Source: Central Bank of Cyprus.

reduced by prudential rules which limit a bank's exposure to any one currency to 10 percent of capital and the sum of exposures to all currencies to 15 percent of capital. At just 21 percent of assets, contingent and off-balance sheet items are modest compared to other countries.

32. **Banks have little direct exposure to the stock market and their indirect exposure is limited by high collateral requirements.** Banks are not permitted to hold equity in excess of 25 percent of their capital but all banks are substantially below this cap. What little equity banks have is held by their trading subsidiaries. Losses of these subsidiaries are not the legal responsibility of the parent bank. Banks are indirectly exposed to the stock market as a result of large-scale lending to individuals to purchase shares through "investor accounts." Lending for share purchases rose sharply in 1999 and individuals now have access to roughly £C 300 million credit through investor accounts (although not all of this credit has been utilized). However, banks' vulnerability to large-scale default triggered by a potential collapse

in share prices is reduced by the requirement that borrowers provide collateral, in the form of cash or equity, before receiving credit. Margin requirements were increased in early 2000 from 50 percent to 100 percent—that is, the value of collateral must be 100 percent more than the value of the loan. As a result, banks are fully secured unless share prices fall by more than 50 percent. Nevertheless, in November 1999, the Central Bank of Cyprus (CBC) banned banks from opening any new investor accounts.

33. **There is little evidence that the interest rate ceiling has resulted in higher-quality loans.** The proportion of loans classified as substandard or low quality was 8.4 percent in 1999 while provisions were made against 4.3 percent of loans (Table 4). These proportions are on the high side compared to industrial countries, but care should be taken in making these comparisons, as there are differences in classification rules across countries.⁹

Table 4. Cyprus: Provisioning Against Bad Loans in the Domestic Banking System
1995-99

	1995	1996	1997	1998	1999 Prov.
Nonperforming, substandard or low quality loans (percent of total loans)	...	7.8	8.4	8.7	8.4
Total provisions for loan losses (percent of nonperforming loans)	...	65.8	57.9	54.4	51.3
Total provisions for loan losses (percent of total loans)	5.6	5.2	4.9	4.7	4.3

Source: Central Bank of Cyprus.

34. **High barriers to entry have helped keep the profits of Cypriot banks high.** As mentioned above, the large branch network in Cyprus has acted as a barrier to entry and the industry is more concentrated than in many countries. This has helped maintain a relatively high return on assets of 0.6 percent on average over the last four years (Table 5). Many banks have posted strong profits in 1999 due to the profits of their trading subsidiaries (although figures for the sector as a whole are not yet available). Despite strong profits, the average risk-weighted capital adequacy ratio is low by international standards, although it improved in 1999 and will rise further in 2000 reflecting the CBC's decision to raise the minimum capital adequacy requirements to 10 percent as of January 1, 2001.

⁹ In Cyprus, loans are classified as substandard according to CBC guidelines if repayment is in doubt because of factors such as arrears, declining sales or increasing leverage. Full provisioning is required for loans which are substandard but for which there is no collateral. These classification rules are relatively strict, suggesting that the actual quality of loans in Cyprus may be better than these figures suggest.

Table 5. Cyprus: Indicators of Profitability in the Domestic Banking System, 1995-99

	1995	1996	1997	1998	1999 Prov.
	(Percent)				
Average pretax return on total assets	0.6	0.6	0.5	0.7	...
Average lending spread	1.5	2.1	2.0	1.8	...
Risk-weighted capital/asset ratio	10.5	9.9	10.1	9.9	11.8
	(Index, 29.3.96 = 100)				
Overall stock market price index	...	82.3	77.3	90.6	714.0
Bank stock price index	...	91.7	88.1	105.3	770.9

Source: Central Bank of Cyprus.

35. **Supervision of banks is in line with international standards.** The legal and regulatory framework is in line in the EU directives, and BIS standards and international accounting standards in are in place. Limits on connected lending are, however, relatively high (for example, directors are permitted to borrow up to 40 percent of banks' capital base if the lending is collateralized). The CBC is responsible for implementing supervisory standards for banks and has a staff of 30 professionals to supervise 12 banks. On-site inspections take place once a year for locally incorporated banks, while branches of foreign banks are examined once every two years. The CBC has the standard range of powers (including the right to impose fines and withdraw licenses) required for effective enforcement. (Details of supervision standards and enforcement powers are provided in Appendix I.)

36. **A deposit protection scheme is due to be introduced in September 2000.** The scheme, which is in line with EU directives, will mainly protect small depositors with 90 percent compensation up to a maximum equivalent to € 20,000. The fund will be financed through contributions from banks and will not be guaranteed by the government. It will be administered by a management committee under the auspices of the CBC.

37. **Banks are relatively well prepared for the new environment following interest rate and capital account liberalization.** As discussed above, the current health of the banking system and of banking supervision appears to be relatively good. In addition, the two largest Cypriot banks have substantial operations abroad and are therefore accustomed to operating in a liberalized environment. This is also the case for the two foreign banks which are incorporated in Cyprus, as well as the branches of foreign banks. In total, therefore, banks with overseas experience represent 75 percent of the market. To allow for an expected increase in the riskiness of lending following liberalization, the CBC has announced that minimum capital requirements are to be raised from their current level of 8 percent to 9 percent in July and 10 percent in January 2001. A system of assessing market risk and

setting capital requirements linked to this market risk is currently being devised by the CBC.¹⁰ In addition, the CBC is providing seminars for banks and cooperatives to help prepare them for the new environment.

B. Credit and Savings Cooperatives

38. **There are a large number of small credit and savings cooperatives whose primary focus is collateralized lending to individuals.** There are about 360 credit and savings cooperatives in Cyprus. Most of these are very small, operating at the village level and providing credit to their members, usually for mortgages. However, a few are larger and more sophisticated and are moving into less traditional areas. In 1999, a number of cooperatives jointly established an investment company which was floated on the stock exchange in 1999. All cooperatives are required to place their excess liquidity in the cooperative central bank (which is regulated as a bank by the CBC). This bank helps smooth the short-term fluctuation in liquidity of individual cooperatives, which are not allowed to lend or borrow from each other.

39. **The regulatory system for cooperatives does not meet international standards.** The cooperatives are overseen by the Commission for Cooperatives, which reports to the Minister of Commerce, Industry, and Tourism. The Commission has only 45 professional staff to oversee 360 cooperatives. There is no requirement for classifying loans in arrears or for making provisions for bad loans. There is no minimum capital requirement, although many cooperatives have built up substantial reserves over time (limited liability cooperatives, which are the majority, are required to transfer a minimum of 25 percent of any surpluses into their reserves). There is a guideline minimum liquidity ratio of 20 percent, although in 1999 the liquidity ratio in some cooperatives fell as low as 14 percent, as cooperative members withdrew deposits to purchase shares. The Commission staff carries out both on- and off-site inspections to ensure that cooperatives are meeting their legal requirements. Annual reports are audited by a special auditing service appointed by the Council of Ministers. While cooperatives are not subject to credit controls issued by the CBC, the governor of the CBC can request that the Minister of Trade and Industry issue instructions to cooperatives asking them to limit credit growth. The Commission is not able to impose penalties on cooperatives that do not meet liquidity and other requirements. The Commission is, however, able to require the committee (management) of a cooperative to resign if remedial steps are not taken. As a last resort, the Commission can close down a cooperative and appoint a receiver. Cooperatives are not in line with EU banking directives and the Cypriot authorities are considering whether to request a derogation. Discussions are ongoing. However, it is likely that cooperatives will either have to comply with EU directives or agree to engage in only a limited range of banking activities.

¹⁰ The need for market risk assessment has, until now, been limited by the existence of capital controls, the absence of a derivative market, and the ceiling on interest rates.

C. Stock Exchange

40. **The Cyprus Stock Exchange (CSE) trades both equities and bonds and has a relatively high capitalization-to-GDP ratio.** The CSE was established in 1996, replacing a system of over-the-counter trading. Equities, corporate bonds, warrants, treasury bills and government bonds are traded on the Exchange, although 82 percent of trading is in equities. Sixty equities and 16 corporate bonds are currently listed and many more companies have applied to be listed. Equity market capitalization was £C 12,741 million (258 percent of GDP) at the end of 1999. The CSE equity index is dominated by a few banks that make up 56 percent of the capitalization of the market. Share ownership is widespread, with 29 percent of the population owning shares in one investment company alone. The exchange operates a computerized order-matching trading system with immediate disclosure of the price and quantity at which trades take place. Trading hours are 10:30–12:00 p.m., Monday through Friday.

41. **The CSE is becoming a significant source of finance for companies.** Until recently, the Exchange has not been a major source of finance for companies. However, this is changing. In 1999, companies raised £C 106 million in equity and £C 72 million in debt (roughly 5 percent of banking lending to firms). This trend is likely to continue with a backlog of 90 initial public offerings and rights issues awaiting regulatory approval.

42. **While in many areas the regulatory framework is good, there are a number of gaps and there is a shortage of experienced regulatory staff.** The CSE and its participants are regulated by the Securities and Exchange Commission (SEC), although a number of regulatory functions are performed by the CSE itself. In many areas, the regulation of the market meets international standards (an evaluation against the International Organization of Securities Commissions core principles is provided in Chapter VI). There are a number of important weaknesses. These include a shortage of experienced staff, especially at the SEC, some overlap in functions between the SEC and CSE, inadequacies in the regulation of collective investment vehicles (the lack of a regulatory framework explains why there are no mutual funds in Cyprus), no regulation of financial advice, and a clearing and settlement system which does not meet G30 recommendations in a number of respects. These weaknesses undermine investor protection and increase systemic risk. However, the authorities are aware of the weaknesses and are taking appropriate steps to remedy them. The SEC is currently trying to expand its professional staff from 6 to 25. A law, which will more clearly define the responsibilities of the SEC and CSE, is currently before parliament. There is also a draft bill to regulate mutual funds and financial advice, and a Central Share Registry which meets G30 recommendations is due to be introduced by January 1, 2001.

V. THE EXTERNAL SECTOR

A. Developments in 1999

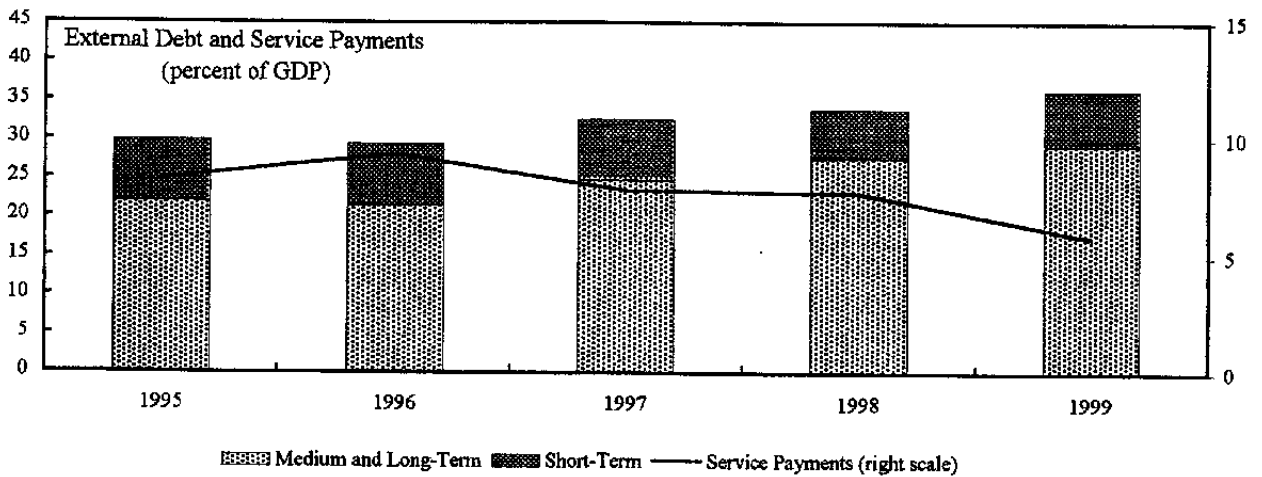
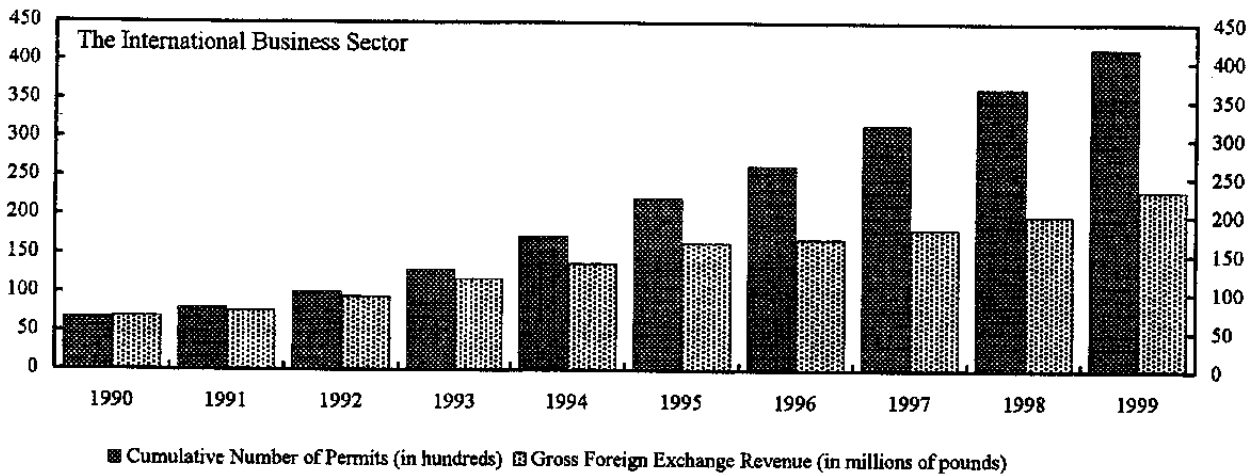
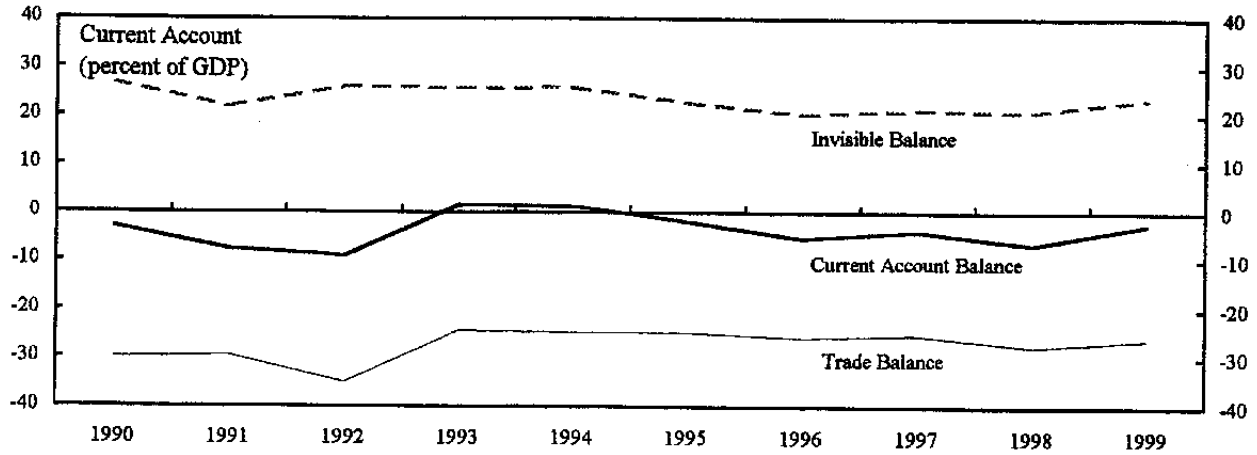
Current account

43. **The current account deficit in Cyprus narrowed substantially in 1999 to an estimated 2.6 percent of GDP from 6.7 percent in 1998 and 3.9 percent in 1997 (Figure 1).** The improvement came mainly from a boom in tourism and an absolute decline in imports of goods. The trade deficit as a percentage of GDP decreased slightly from 27.5 percent in 1998 to 26.2 percent in 1999, while the surplus on the invisibles balance improved significantly to 23.5 percent of GDP from 20.8 percent in the previous year (Tables A29-A30). The EU continues to be Cyprus's main trading partner accounting for 43.1 percent of exports and 53.8 percent of imports in 1999, with the United Kingdom alone making up 17.3 percent and 11.7 percent of total exports and imports, respectively (Table A31).

44. **Weak consumer demand and a curb in defense expenditures (which are mostly reflected in imports) helped contain the growth of imports and limit the rise in the trade deficit.** Imports of consumer goods grew by only 7.8 percent in 1999, driven partly by anticipation of a rise in the VAT on January 1, 2000 which, in the event, did not materialize (durable goods imports rose by 1.2 percent in 1999). Imports also increased as a result of higher oil prices: the value of oil imports rose by over 40 percent in 1999. Nevertheless, total imports actually declined by 0.5 percent in 1999, compared with a 6.1 percent growth in 1998 (Table A32). Exports of goods, on the other hand, fell by 1.5 percent on account of a 3.1 percent decrease in domestic exports and a 2.9 percent fall in re-exports (Table A33). Agricultural exports continued to be hurt by the drought and also suffered from a substantial drop in export prices (especially potato prices) in 1999. After a 1.5 percent contraction in 1998, manufacturing exports declined by an additional 3.4 percent in 1999 mainly due to poor performance of the clothing and footwear sectors.

45. **The tourism boom continued to boost invisible receipts and contributed to a 19.4 percent expansion of the invisibles surplus relative to 1998 (Table A34).** Tourist arrivals increased by 9.5 percent in 1999, compared to a 6.5 percent increase in 1998. This was accompanied by a rise in the average daily spending per tourist and an increase in the average length of stay (to around 11.3 days), contributing to an increase in the average (total) spending per tourist of 6.3 percent. Thus, revenue from tourism increased by over 16.4 percent in 1999 relative to 1998. The main factor underlying the boom in tourism was robust growth in the United Kingdom, the source of nearly half of all tourist arrivals. The weakness of the pound relative to sterling also helped, to a small extent, to keep Cypriot

Figure 1. External Sector Developments



Source: Central Bank of Cyprus.

packages competitive.¹¹ The crisis in Kosovo and earthquake in Turkey also diverted some tourists to Cyprus. Arrivals from the United Kingdom increased by 13.8 percent and accounted for 47.5 percent of the total, while arrivals from the EU as a whole increased by 13.5 percent and accounted for 78.1 percent of the total. Invisibles receipts in 1999 were also boosted by a sharp increase in transfer receipts due to military aid in kind of £C 33 million. Finally, the offshore sector continued to contribute to the invisibles surplus, with gross revenue from the sector rising marginally to 11.6 percent of invisible receipts in 1999 from 11.5 percent in the previous year (see Box 2).

Box 2. The International Business Sector

The offshore sector in Cyprus is comprised of about 41,000 companies that engage mainly in the business of trading and ship management. Most International Business Companies (IBC) come from Europe, and there was a pronounced increase in the number of companies coming from Greece and Israel in 1999. The share of Russian companies in new registration has slowed down sharply in recent years. Gross foreign exchange revenue from all IBCs increased by 16.7 percent in 1999 to reach £C 233.6 million, compared with an increase of 10 percent in 1998 (Figure 1). These figures include local expenditure of IBCs with fully-fledged offices, expenditure of expatriate staff, registration fees, and tax revenue. IBCs directly employed about 1.8 percent of the labor force in 1999. To comply with OECD recommendations on tax havens, the government has agreed to eliminate the tax advantages—IBCs are currently subject to a profit tax rate of only 4.25 percent compared with 20 percent for local companies—of the offshore sector by the end of 2005.

Although offshore banking is small (146 entities with only about US\$8 billion under management at the end of 1999), it could be vulnerable to money laundering. In a concerted effort to stamp out such operations, the Cypriot government has been actively implementing the provisions of the 1996 "Prevention and Suppression of Money Laundering Activities Law," which made such activities criminal offenses and is in line with international best practice. A financial intelligence unit was also established in 1996 to investigate possible cases of money laundering. IBCs submit audited final accounts to the government yearly, and failure to do so may result in their licenses being revoked (950 licenses were revoked in 1999).

The standards of supervision of offshore companies are high, and Cyprus has a strong record of implementation and cooperation with other national supervisors. Examinations by the Financial Action Task Force (FATF) in 1997 and the Council of Europe in 1998 both resulted in positive evaluations. The May 2000 Financial Stability Forum (FSF) Report on Offshore Centers mentioned Cyprus as a jurisdiction generally seen as having a low quality of supervision. The FSF itself, however, has stressed that this Report was not based on an examination of supervisory practices in Cyprus but rather on an "impressionistic" survey among a number of national supervisors, and should not be seen as an assessment. After a detailed examination, the FATF concluded in June 2000 that Cyprus had a comprehensive anti-money laundering system and was cooperating in the international fight against money laundering, although it also concluded that weaknesses remained in the area of customer identification in respect of trusts.

¹¹ Previous staff analysis suggests that while the volume of Cypriot services exports is heavily influenced by external demand in the short run, price developments have little contemporaneous impact (see SM/98/178, 7/10/98).

Capital account, external debt, and reserves

46. **Due to extensive capital controls, capital movements in Cyprus continued to be dominated by government transactions (Table A35).** In 1999, capital movements resulted in a net inflow of £C 6.7 million, down from the net inflow of £C 161.8 million in 1998. This was largely attributed to a £C 180 million net outflow of long-term capital due to government debt repayments and a small increase in foreign currency loans to nonresidents. Short-term capital recorded a net inflow of £C 45 million reflecting mainly additional net issues of Euro-Commercial Paper (ECP) and rising import credits. Net portfolio inflows in 1999 amounted to £C 34 million, on account of a £C 76 million net inflow of foreign capital for equity purchases and a £C 42 million net outflow in the form of purchases of foreign bonds and stocks by resident insurance and investment companies. Other long-term transactions (notably the placement of European Medium-Term Notes (EMTNs) by the government) resulted in a net inflow of £C 142 million. Despite a lower net capital inflow than in 1998, the sharp fall in the current account deficit improved the overall balance from a deficit of £C 189 million in 1998 to a deficit of £C 151 million in 1999.

47. **Official reserves increased to £C 1,136 million in 1999, raising the import coverage (goods and nonfactor services) from 3.7 months at end-1998 to 5.5 months at end-1999 (Table A36).** The increase in reserves took place despite an overall balance of payments deficit because, in the authorities' presentation of the balance of payments, a significant portion of capital flows (mainly nonresident foreign currency deposits) are recorded below the line as a financing item. This item increased significantly in 1999.

48. **External debt (excluding the offshore sector and short-term liabilities of the banking system) continued to increase, reaching 36.3 percent of GDP at the end of 1999, with most of the debt (around 70 percent) being held by the public sector (Tables A37–A38).** Long-term foreign debt amounted to 29.3 percent of GDP in 1999, with short-term debt making up another 7 percent (Figure 1). Despite the increase in debt, the external debt service burden fell from 7.8 percent of GNFS exports to 5.8 percent between 1997 and 1999. This was due in part to the government's policy of replacing short-term foreign borrowing with EMTNs at favorable interest rates. The government increased its foreign borrowing to take advantage of cheaper international rates and to avoid a liquidity squeeze in the domestic market. The stock of public sector medium- and long-term foreign debt reached an estimated 23.1 percent of GDP in 1999, while short-term declined to 2.7 percent of GDP.

49. **Cyprus continues to enjoy investment rating despite recent downgrades.** In late 1999, Standard & Poor's downgraded its long-term local and foreign currency debt ratings of Cyprus to AA- and A, respectively, citing unsustainable fiscal deficits, increased vulnerability of the financial system to external shocks, delays in the implementation of structural reforms, and ineffectual monetary policy due to the interest rate ceiling. In May 2000, Moody's lowered the outlook on Cyprus's A-2/P-1 country ceilings for foreign currency debt and deposits to negative from stable. The main factors for the downward revision in the outlook were the lack of clear progress in bringing the fiscal deficit under control, the rapid expansion of bank credit, and rising external debt.

B. Developments in 2000

50. **Due to the long-time lags of data availability, there are only a handful of data for 2000, which show a significant deterioration in the trade balance.** Cyprus's trade deficit widened by 17 percent in the first quarter of 2000 to £C 363 million, compared to £C 310.4 million in the first quarter of 1999. The rise in fuel prices continued to weigh heavily on imports, with fuel imports rising by 160 percent compared to the first quarter of 1999, while consumer goods imports recorded an increase of 17.7 percent. Exports improved, driven mainly by a strong performance of re-exports which increased by 36.6 percent in the first quarter of 2000 compared to that of the previous year. Manufacturing exports also rebounded with a 19 percent increase.

51. **Tourism continued to boom with arrivals rising by 15.9 percent in the first four months of 2000.** Some 508,068 tourists visited Cyprus between January and April of 2000 compared to 438,353 in the first four months of 1999. For April alone, the arrival figures were up 23.2 percent year-on-year. Meanwhile, official foreign reserves continued their upward trend reaching £C 1,225 million at end-April from £C 1,136 million at the end of 1999.

C. Capital Controls

52. **Cyprus has committed itself to a plan of capital account liberalization in accordance with the timetable for EU accession, but the implementation of this plan has suffered delays mainly on account of the lack of progress on interest rate liberalization.** With the latter now scheduled for January 2001, the authorities plan to resume the pace of capital liberalization. In January 2000, direct investment in Cyprus by EU residents was liberalized except in a few sectors (tertiary education, public utilities, radio and television stations, newspapers, and banks) where specific restrictions remain. With regards to direct investment by non-EU residents, there is no obligation to liberalize these for accession and the authorities intend to maintain them for the time being. Outward direct investment by Cypriot residents has also been liberalized in principle, but the central bank reserves the right to take mitigating action in cases where the foreign exchange cost is substantial.¹² Portfolio investment in Cyprus by EU residents was also liberalized in 1999 with the abolition of restrictions on the percentage of share capital of companies listed on the Cyprus Stock Exchange that EU residents may acquire, except for banks. Outward portfolio investment is still controlled, however. While there are no formal restrictions on the repatriation of profits from the sale of shares, in cases where the amounts involved are substantial, the central bank has the right to ask that the funds be repatriated over a period of two–three years in order to minimize the impact on the balance of payments. In practice, however, this discretion has rarely been used. Insurance and investment companies are allowed to invest up to 25 percent of their capital in foreign equity markets approved by the ministry of finance (there are

¹² Direct investment is considered as an equity holding of more than 10 percent of share capital, in line with international practice.

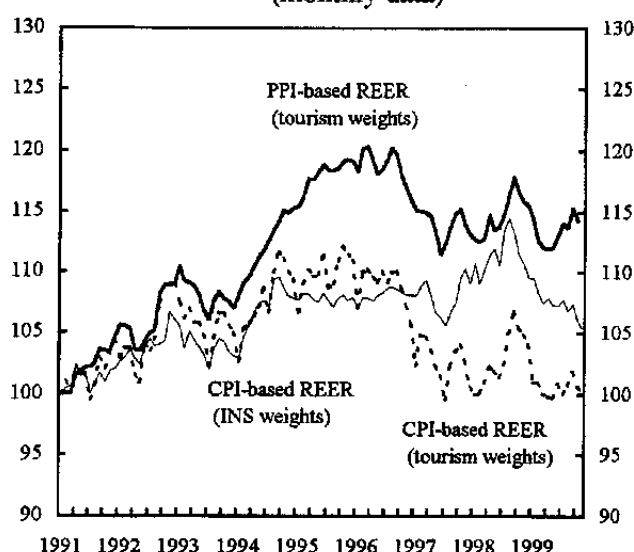
currently 47 approved exchanges), but are temporarily restricted to invest no more than £C 5 million. This will be increased to £C 10 million by the end of 2000. Again, these restrictions were imposed to safeguard against excessive capital outflows. Finally, banks are allowed to lend abroad only from their foreign exchange holdings. These, as well as all other remaining controls on portfolio investments, will be eliminated during the final stage of the liberalization process, which will come when Cyprus joins the EU.

D. Exchange Rate and Competitiveness

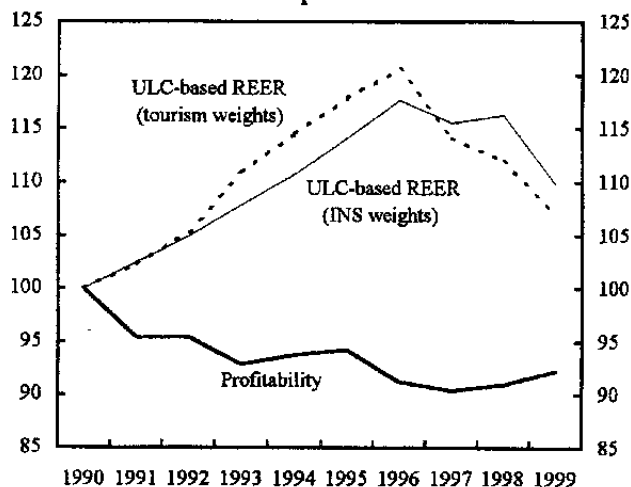
53. **The Cyprus pound has been pegged to the ECU, and subsequently the euro in 1999, with a 2.25 percent fluctuation band around the central parity.** At the same time, the pound has fluctuated substantially against the dollar and sterling. After appreciating against these two currencies in the second half of 1998, the pound fell 4.7 percent and 2.3 percent in 1999 against the dollar and sterling, respectively, mainly on account of the weakening euro (Table A39).

54. **Based on different indicators, competitiveness improved markedly in 1999, with wage and price inflation slowing down and the pound, along with the euro, depreciating against the dollar and sterling.** Consumer price- and cost-based indicators appreciated over 1995-96 before subsiding in 1998 and 1999, while profitability—measured as the GDP deflator relative to unit labor costs—displayed the expected opposite movements, rising in 1998 and 1999 as competitiveness rebounded. The manufacturing sector has been especially hard hit by rising labor costs. Using manufacturing unit labor costs, the real effective exchange rate (REER) actually appreciated by 0.38 percent between 1994 and 1999, as opposed to a depreciation of 0.84 percent using overall unit labor costs. The difficulties faced by Cypriot manufacturing can also be seen in the evolution of Cyprus's market share. The share of Cyprus goods exports in EU goods exports has fallen from a high of 0.11 percent in 1984 to only 0.04 percent in 1999. On the other

Price Competitiveness
(monthly data)



Cost Competitiveness



hand, services exports—predominantly tourism and financial services—have retained a 0.7 percent share of EU services exports, about 50 percent higher than the share in the 1980's. This reflects the structural change in the economy that mirrors the evolving competitiveness of manufactures and services in Cyprus.

55. **Movements in the real exchange rates are generally heightened by the use of tourism weights.** Tourism weights give more emphasis on developments in the United Kingdom, the source of nearly half of tourist arrivals. The substantial appreciation of sterling relative to the pound since 1996 has, over time, contributed to boosting Cyprus's competitiveness. Using tourism weights, the CPI-based real exchange rate in 1999 would have been around 5 percent more depreciated than the CPI-based REER using trade weights.

56. **The analysis using the macroeconomic balance approach in SM/98/178 (7/10/98), combined with the results of the discussion above, provides additional evidence that the competitiveness position at end-1999 was strong.** As the indicators discussed above show, the competitiveness position of the Cypriot economy at end-1999 was very similar to that at end-1997. Using the macroeconomic balance approach and assuming a structural fiscal deficit of 4.5 percent of GDP, SM/98/178 (7/10/98) showed that the real value of the Cyprus pound at end-1997 was broadly in line with savings and investment fundamentals. The analysis involves comparing the current account that is likely to emerge in the medium term under prevailing exchange rates (the underlying current account) to the "equilibrium" or "structural" current account, derived from a model of saving and investment estimated on a panel of 21 OECD countries. To the extent that these differ, the adjustment in the real exchange rate required to move the underlying current account position to the equilibrium current account is interpreted as the degree of over or undervaluation of the real exchange rate.

VI. THE CYPRUS STOCK EXCHANGE: AN ASSESSMENT AGAINST IOSCO CORE PRINCIPLES¹³

A. Introduction and Summary

57. The functioning and regulation of the Cyprus Stock Exchange (CSE) and its members were reviewed and compared to the core principles set out by the International Organization of Securities Commissions (IOSCO).¹⁴ While the securities market in Cyprus was found to be broadly compliant with IOSCO principles, there were some important exceptions (Table 6).¹⁵ In particular, there is a shortage of experienced regulatory staff, overlap between the responsibilities of the Securities and Exchange Commission and the CSE, inadequacies in the regulation of collective investment schemes, no regulation of the provision of financial advice, and a poorly functioning clearing and settlement system. However, the government and regulators are aware of these shortcomings and appropriate measures are underway to address them.

B. IOSCO Objectives and Principles

58. At its 1998 Annual Conference, the IOSCO adopted the *Objectives and Principles of Securities Regulation*, setting out the 30 core principles of securities regulation. The principles are based on three fundamental objectives of securities regulation: (i) the protection of investors; (ii) ensuring that markets are fair, efficient and transparent; and (iii) the reduction of systemic risk. The 30 core principles are designed to give practical effect to these three objectives and are grouped in eight main areas: principles relating to the regulator (1–5); principles for self-regulation (6–7); principles for the enforcement of securities regulation (8–10); principles for cooperation in regulation (11–13); principles for issuers (14–16); principles for collective investment schemes (17–20); principles for market intermediaries (21–24); and principles for the market regulation (25–30).

¹³ Prepared by Rachel Glennerster.

¹⁴ The review was undertaken as part of the 2000 Article IV consultation with Cyprus. Given the limited resources of the mission, it was not possible to undertake an exhaustive analysis of the whole regulatory system for securities in Cyprus. In particular, the assessment was based mainly on answers to questions provided by the Securities and Exchange Commission (SEC) and the Cyprus Stock Exchange (CSE), although some interviews were conducted with dealers and investors in the market.

¹⁵ The review focused on the equities market, although the CSE also provides a platform for trading in government and private debt. Equities are responsible for 83 percent of turnover by value on the market. There is no market for derivatives in Cyprus.

Table 6. Cyprus: Implementation of IOSCO Objectives and Principles

IOSCO Objectives and Principles	Implementation of IOSCO Principles	Comments
Principles Relating to the Regulator (1-6)	Not compliant.	Lack of experienced staff. Overlap of responsibilities. Lack of independence.
Principles of Self-Regulation (6-7)	Broadly compliant.	No formal self-regulatory organizations but this is arguably appropriate given the small size of the market.
Principles for the Enforcement of Securities Regulation (8-10)	Broadly compliant but lack of staff hinders effective monitoring.	Increase in regulatory staff planned.
Principles for Cooperation in Regulation (11-13)	Compliant.	
Principles for Issuers (14-16)	Broadly compliant but delays in approving prospectuses.	Additional staff need to deal with backlog.
Principles for Collective Investment Schemes (17-20)	No legal framework for regulation of investment companies. No mutual funds.	Draft mutual fund law will provide legal framework for all collective investment schemes.
Principles for Market Intermediaries (11-24)	Broadly compliant but capital requirements not linked to exposure.	Capital requirements will be linked to exposure when central share registry allows easy monitoring of exposure.
Principles for the Secondary Market (25-30)	Broadly compliant except for clearing and settlement, which does not meet G30 requirements.	Cause of settlement risk. Centralized share registry/depository to be introduced by January 2001.

59. **The Objectives and Principles were proposed by IOSCO to give guidance to regulators and to serve as a benchmark against which to measure progress towards effective regulation.** IOSCO is in the process of developing a detailed self-assessment methodology for its members. However, this methodology has not yet been completed or approved by IOSCO. This assessment of Cyprus's securities market, therefore, is based on an interpretation of IOSCO's Objectives and Principles by Fund staff and on examples of best practice in other countries. It is not meant to substitute for Cyprus's own self-assessment or for a formal Financial Sector Assessment Program (FSAP).

C. Principles Relating to the Regulator

1. The responsibilities of the regulator should be clearly stated.
2. The regulator should be operationally independent and accountable in the exercise of its functions and powers.
3. The regulator should have adequate powers, proper resources, and the capacity to perform its functions and exercise its powers.
4. The regulator should adopt clear and consistent regulatory processes.
5. The staff of the regulator should observe the highest professional standards, including appropriate standards of confidentiality.

60. **Cyprus is not compliant with these principles.** There is currently overlap in the responsibilities of the SEC and CSE—in particular in approving listing of companies. When the two bodies disagree, as they have on a number of occasions, the Minister of Finance must intervene and make the final decision—compromising the independence of regulation. Both the SEC and CSE are semigovernment organizations whose board members are appointed by the Council of Ministers and whose budgets must be approved by the Minister of Finance. While this is appropriate in the case of the SEC, it is unusual for a stock exchange. Staff of both organizations are required to comply with confidentiality and conflict of interest policies.

61. **There is a shortage of experienced regulators.** The SEC, and to a lesser extent the CSE, are understaffed (with only 6 and 20 professional staff, respectively). The level of experience is also low, with the average age of professional staff only 24 at the SEC and 27 at the CSE. This raises concerns about the adequacy of regulatory capacity. While salaries at the SEC and CSE are not linked to civil service pay rates, the fact that the Minister of Finance must approve their budgets has probably led to salaries which are below market rates and may have exacerbated recruitment and retention problems. The lack of trained staff has caused a backlog in reviewing prospectuses for initial public offerings (IPOs) and rights issues—over 90 are currently awaiting approval. While the CSE has kept to its commitment to complete an

initial review of all prospectuses within two months, this initial review is often only cursory and a more detailed review can take much longer. The price of an IPO or rights issue is set when it is first submitted to the CSE. During the time a prospectus is being reviewed, the market, and therefore the appropriate price of a new issue, may move. Long delays have therefore led to large jumps in the price of new issues on their first day of trading. In order to reduce delays, parts of the review process have been contracted out to private companies. Some participants have raised concerns about the confidentiality of information and the CSE's ability to monitor the work of contractors.

62. **Steps are being taken to address these problems.** Under the Financial Services Bill currently before parliament, the responsibilities of the SEC and CSE will be more clearly delineated. More of the regulatory functions will be given to the SEC, allowing the CSE to be privatized and dealers to take a seat on its Board. The SEC has received ministerial permission to increase its professional staff to between 20 and 25. The CSE is also in the process of hiring and training new staff, some of whom will help clear the backlog of prospectuses to review.

D. Self-Regulation

6. The regulatory regime should make appropriate use of self-regulatory organizations (SROs) that exercise some direct oversight responsibility for their respective areas of competence to the extent appropriate to the size and complexity of the markets.

7. SROs should be subject to the oversight of the regulator and should observe standards of fairness and confidentiality when exercising powers and delegated responsibilities.

63. **Cyprus does not have a formal system of SROs, but this may be appropriate given the relatively small size of the market.** While the Association of Dealers represents the collective interests of dealers, it does not have SRO powers. Following the introduction of the new financial services law, the CSE will take on more of the character of an SRO. At the current stage of development, however, it is not clear that Cyprus needs the additional layer of regulation that a full-fledged SRO system would create, not least because SROs can impose inappropriate barriers to entry and can encourage collusion.

E. Principles for the Enforcement of Securities Regulation

8. The regulator should have comprehensive inspection, investigation and surveillance powers.

9. The regulator should have comprehensive enforcement powers.

10. The regulatory system should ensure an effective and credible use of inspection, investigation, surveillance and enforcement powers, and implementation of an effective compliance program.

64. **Cyprus is broadly compliant with these principles but there are questions about the enforcement capacity of the SEC.** The SEC has the power to impose financial penalties and suspend or revoke the licenses of participants who do not comply with regulations. The SEC has used its powers to impose financial penalties and withdraw licenses. However, as discussed above, the CSE, and particularly the SEC, have a limited number of rather junior professional staff, which may compromise their ability to enforce regulations effectively.

F. Principles for Cooperation in Regulation

11. The regulator should have authority to share both public and nonpublic information with domestic and foreign counterparts.
12. Regulators should institute information-sharing mechanisms that establish when and how they will share both public and nonpublic information with their domestic and foreign counterparts.
13. The regulatory system should allow for assistance to be provided to foreign regulators who need to make inquiries in the discharge of their functions and exercise of their powers.

65. **Cyprus is broadly compliant with these principles.**

G. Principles for Issuers

14. There should be full, accurate, and timely disclosure of financial results and other information which is material to investors' decisions.
15. Holders of securities in a company should be treated in a fair and equitable manner.
16. Accounting and auditing standards should be of a high and internationally acceptable quality.

66. **Cyprus is broadly compliant with these principles.** Listing requirements are quite comprehensive. Companies are required to disclose detailed information on their main activities, investment policy, and assets held, as well as information on the directors and managers of the company. Companies are prohibited from taking action which would favor one shareholder over another. Accounting and auditing standards are in line with internationally accepted principles. As discussed above, delays in reviewing prospectuses mean that the price of new issues often jump on the first day of trading.

H. Collective Investment Schemes

17. The regulatory system should set standards for the eligibility and the regulation of those who wish to market or operate a collective investment scheme.
18. The regulatory system should provide for rules governing the legal form and structure of collective investment scheme and segregation and protection of client assets.
19. Regulations should require disclosure, as set forth under the principles for issuers, which is necessary to evaluate the suitability of a collective investment scheme for a particular investor and the value of the investor's interest in the scheme.
20. Regulations should ensure that there is a proper and disclosed basis for asset valuation and the pricing and the redemption of units in a collective investment scheme.

67. **There is currently no legal framework for the regulation of investment companies.** Investment companies have been set up by banks and credit cooperatives and have proved very popular with investors (nearly 30 percent of the population holds shares in the largest investment company and market capitalization of the sector as a whole is £C 542 million). The CSE has specific listing requirements for investment companies. Among other things, these require detailed disclosure of the assets held and limits on the percentage of the company's assets which can be held in unlisted companies (10 percent) and soon-to-be-listed companies (10 percent). Most investment companies are not permitted to invest in land or lend to individuals.¹⁶ However, these regulations, unlike most of the CSE's regulations, have not yet been approved by parliament.

68. **In many ways, however, investment companies do not provide the same level of investor protection as mutual funds, which do not yet exist in Cyprus.** As in many other countries, investment companies experienced explosive growth at a time when there was no competition from mutual funds (which require more complicated regulatory infrastructure and which, arguably, provide better protection for investors). One advantage of mutual funds is that the assets are the property of the clients and not the property of the fund and must be held by closely regulated custodians. This reduces the risk of loss to the client in the event of insolvency of a fund manager while encouraging competition among fund managers by keeping entry costs low. Concern about the operation of some of the Cypriot investment

¹⁶ Some companies are exempted from these regulations. For example, financial companies, which must hold limited bank licenses, are permitted to provide investor accounts for individuals.

companies has emerged, and many of these companies now trade at a substantial discount to the value of their assets.

69. **A law on collective investments is before parliament.** The draft law on collective investments will provide the legal framework for the regulation of investment companies and mutual funds. The law is based on the British and Greek law and is in line with EU directives. One concern is that it may not provide for sufficient separation between custodians and fund managers from the same parent bank.

70. **In addition, the SEC needs to establish a system of regulating the marketing of investment schemes and of financial advisors.** It is good practice to regulate the marketing of collective investment schemes, to avoid misleading claims (in some countries restrictions are placed on the illustrative growth scenarios which can be presented). Financial advisors should be licensed and required to disclose any interest they have in the sale of a product. Regulation of marketing and financial advice is particularly important in a country where a substantial proportion of the population is investing in the stock market for the first time. While the law on financial services is due to cover the regulation of financial advice, the draft law is still at an early stage.

I. Principles for Market Intermediaries

21. Regulations should provide for minimum entry standards for market intermediaries.
22. There should be initial and ongoing capital and other prudential requirements for market intermediaries that reflect the risks that the intermediaries undertake.
23. Market intermediaries should be required to comply with standards for internal organization and operational conduct that aim to protect the interests of clients, ensure proper management of risk, and under which the management of the intermediary accepts primary responsibility for these matters.
24. There should be a procedure for dealing with the failure of a market intermediary in order to minimize damage and loss to investors and contain systemic risk.

71. **Cyprus is broadly compliant with these principles although capital requirements are not linked to exposure and problems with clearing and settlement increase the risk associated with the failure of a market intermediary.** Market intermediaries are licensed and capital requirements are imposed. However, these are not adjusted in line with intermediaries' exposure because under the current system it is difficult for regulators to monitor exposure. Once the Central Share Registry has been introduced, monitoring will become easier and the plan is then to link capital requirements to exposure. As discussed below, problems with clearing and settlement mean that the failure of a market intermediary could have severe knock on effects on the rest of the market.

J. Principles for Market Regulation (Excluding Clearing and Settlement)

25. The establishment of trading systems including securities exchanges should be subject to regulatory authorization and oversight.

26. There should be ongoing regulatory supervision of exchanges and trading systems which should aim to ensure that the integrity of trading is maintained through fair and equitable rules that strike an appropriate balance between the demands of different market participants.

27. Regulations should promote transparency of trading.

28. Regulations should be designed to detect and deter manipulation and other unfair trading practices.

29. Regulations should aim to ensure the proper management of large exposures, default risk, and market disruption.

72. **Cyprus is broadly compliant with these principles, although the CSE does not currently have the capacity to monitor manipulation or large exposures effectively.** The establishment of trading systems in Cyprus is subject to regulatory authorization and oversight by the SEC. The CSE has an automated order matching trading system that treats different participants equitably—in particular, all traders, whether big or small, receive the same price. There is full and immediate disclosure of the price and quantity at which trades take place. In 1999, legislation against insider trading was introduced. This legislation made it illegal for those with insider information to undertake transactions in securities or recommend a transaction to a third party. Sanctions for insider trading are up to seven years imprisonment or £C 50,000. However, the SEC does not currently have the capacity to detect manipulation or monitor large exposures effectively.

K. Principles for Market Regulation—Clearing and Settlement

30. Systems for clearing and settlement of securities transactions should be subject to regulatory oversight and designed to ensure that they are fair, effective, and efficient and that they reduce systemic risk.

73. **The clearing and settlement system in Cyprus has a number of weaknesses and is unable to cope with the growing volume of trades, causing settlement risk.** The majority of shares in Cyprus have not been dematerialized and clearing and settlement takes place manually. In addition, share registries are held by individual companies, rather than centrally,

making the settlement process harder and creating a risk that the management of a company can interfere with the secondary trading of its shares. The average time to settlement is 8 days, compared to the recommendation of the G30 report on clearing and settlement for all trades to be settled within 3 days. At times of high-volume, however, the time until settlement in Cyprus, can be considerably longer. In October 1999, serious settlement backlogs developed and the market was closed for four weeks to enable the settlement process to catch up. High turnover means that the settlement process is constantly close to capacity and new backlogs may develop. This kind of delay can expose the system to serious risks. In particular, there may arise a considerable gap between a dealer becoming insolvent and this insolvency becoming apparent. During this period, the dealer may take risky positions in the knowledge that she has little to lose and has a chance of regaining solvency. If the dealer is found to be insolvent after a substantial delay and after taking particularly risky positions, the knock-on effect for other dealers can be very large. To minimize settlement risk, therefore, it is important to be able to close down an insolvent dealer quickly and reduce the impact on others.

74. **Risk arising from the clearing and settlement process is heightened in Cyprus by the lack of delivery versus payment, although the risk is alleviated somewhat through the use of netting.** Delivery versus payment is another key recommendation of the G30 report on clearing and settlement, and ensures that securities are only transferred if and when payment is received. In the absence of delivery versus payment, and in the event of insolvency of a dealer, one dealer might be faced with having lost both the security and the payment for it. Given that there is no delivery versus payment, risk is reduced to some extent in Cyprus by the use of netting. Netting arrangements mean that dealers are only exposed to the extent that they have a net position with an insolvent dealer. Without this rule, solvent dealers could be required to complete their side of any trade they had undertaken without the guarantee of being able to receive either the securities or payment owned to them by the insolvent dealer.

75. **The authorities are aware of the shortcomings of the clearing and settlement system and plan to establish a Central Share Registry but implementation has been delayed.** The CSE have a contract with a foreign company to develop and implement a Central Share Registry (CSR). This should make clearing and settlement faster and more secure. The new system is expected to meet all G30 recommendations including delivery versus payment and settlement within three days. The dematerialization of all shares will be part of this process. The CSR will improve transparency (reducing the ability of managers to interfere with the secondary trading of their shares) and make it easier for the SEC to monitor large exposures taken on by dealers. However, tests of the CSR software have revealed a number of problems and the timetable for implementation has been repeatedly postponed. The current plan is for the CSR to be implemented by January 2001. While delays of this kind are by no means unique to Cyprus, the risks involved in the current system mean it is important that the CSR be implemented as soon as possible.

L. Conclusions

76. **Generally, regulation of the CSE and its participants conforms to IOSCO core principles, but there are some important exceptions.** Cyprus is broadly compliant with IOSCO core principles in a number of areas including enforcement; cooperation with domestic and foreign regulators; principles for issuers; principles for market intermediaries; and market regulation (with the important exception of clearing and settlement). The areas of divergence with IOSCO core principles that are of most concern are the shortage of experienced staff at the SEC (and to a lesser extent at the CSE), the overlap in responsibilities between the SEC and CSE, lack of a legal framework for the regulation for investment companies and an absence of regulation for mutual funds, and a clearing and settlement system which is not in line with G30 recommendations. The shortage of experienced staff raises questions about the ability of regulators to ensure that regulations are complied with. The overlap of responsibility between the SEC and CSE has created confusion, and meant that the Minister of Finance has had to intervene to settle disputes between the two agencies on a number of occasions. Inadequacies in the regulation of collective investment schemes and financial advice undermine investor protection, while the poor functioning of the clearing and settlement system causes settlement risk. While Cyprus does not have a system of self-regulation, it can be argued that this additional layer of regulation is not necessarily appropriate for a market of Cyprus's size.

VII. MEDIUM-TERM PROJECTIONS: 2000-05¹⁷

77. **This chapter documents the main features of the model of the Cyprus economy used for the staff's medium-term macroeconomic projections, and discusses these projections.** Projections for 2000 to 2005 are based on a framework that utilizes staff forecasts for the external environment affecting Cyprus, and incorporates detailed projections for national accounts, fiscal accounts, and the balance of payments. A monetary sector is not incorporated into the framework, though the monetary transmission mechanism is likely to become more important with financial and capital market liberalization.

78. **Two scenarios are examined: a baseline, in which current policies are assumed to continue unchanged into the future, and an alternative scenario, which features a program of fiscal adjustment.** The focus of the projections are on the indicators of internal and external sustainability—the fiscal balance, current account balance, and corresponding measures of public and private savings and investment.

79. **Moderate fiscal adjustment is sufficient to assure macroeconomic stability.** On the basis of current policies, existing macroeconomic imbalances are projected to widen, with the fiscal deficit rising to 6 percent of GDP, public debt reaching 63 percent of GDP, and the current account deficit growing to 5 percent of GDP by 2005 (Table 7). With a cumulative fiscal effort of 3.7 percent of GDP over the five years from 2001 to 2005, however, the fiscal deficit falls below 3 percent, the debt burden drops below 60 percent of GDP, and the current account deficit narrows to less than 2 percent of GDP by the end of 2002 (Table 8).

A. Analytical Framework

80. **Output growth moves in line with potential, which is in turn influenced by developments in investment and productivity.** Output growth is projected to equal nearly 5 percent in 2000, driven by a boom in domestic consumption and another strong tourism season. However, the tourism industry is running up against constraints arising from environmental considerations, while future output growth in the economy more broadly is likely to be affected by the effects of a decade of declining investment—the share of investment in GDP has fallen from 31 percent in 1989 to 19 percent in 1999. Absent a rebound in investment or higher productivity growth that might arise from structural reforms, the growth rate of potential output would decline to around 3½ percent per annum from its estimated long-run level of around 4 to 4½ percent.

81. **Projections for inflation are derived from a model of monthly inflation, taking into account the effects of biannual adjustments under the COLA mechanism and the effects of price shocks, such as VAT increases.** Inflation in Cyprus is assumed gradually to

¹⁷ Prepared by Piti Disyatat and Phillip Swagel.

Table 7. Cyprus: Baseline Scenario, 1998-2005

	1998	1999	2000	2001	2002	2003	2004	2005
	(Percentage changes)							
Real GDP	5.0	4.5	4.8	4.3	4.0	3.8	3.5	3.5
Domestic demand	7.5	-0.2	8.0	5.3	4.3	4.4	3.8	3.6
Private consumption	8.0	0.3	6.5	6.0	4.4	4.9	4.0	3.8
Public consumption	6.4	-3.6	17.6	4.2	4.5	3.5	3.1	3.1
Investment	6.6	1.2	5.5	4.1	3.8	3.7	3.6	3.5
Exports GNFS	-2.4	7.6	7.8	1.2	0.1	0.2	1.0	1.6
Imports GNFS	4.4	-0.1	9.9	1.0	1.1	1.9	1.9	2.1
Consumer price inflation (period average)	2.2	1.8	5.4	5.6	5.8	5.7	5.0	4.7
	(In percent of GDP)							
Gross domestic investment	18.5	17.5	17.7	17.7	17.6	17.6	17.6	17.6
Public	3.8	3.9	4.1	4.1	4.1	4.1	4.1	4.1
Private	14.7	13.6	13.5	13.5	13.5	13.5	13.5	13.5
Gross domestic saving	11.8	14.8	14.3	13.9	13.7	13.1	12.7	12.4
Public	-1.7	-0.2	-0.4	-1.5	-1.5	-1.7	-1.8	-2.0
Private	13.5	15.0	14.7	15.4	15.1	14.8	14.5	14.3
Foreign savings 1/	6.7	2.6	3.4	3.8	4.0	4.5	4.9	5.2
Public finances								
Total revenue	31.5	32.2	34.3	34.8	36.4	37.7	37.8	37.8
Total expenditure and net lending	37.0	36.3	38.9	40.4	42.1	43.6	43.7	43.9
Overall balance	-5.5	-4.1	-4.5	-5.6	-5.6	-5.8	-6.0	-6.1
Primary balance	0.2	1.7	1.1	1.8	1.8	1.5	1.4	1.4
(without intragovernmental interest)	-2.1	-0.7	-1.3	-1.0	-1.1	-1.4	-1.5	-1.5
Public debt	59.6	60.9	61.6	61.4	61.1	61.2	62.1	63.1
Interest payments	5.8	5.8	5.7	7.4	7.4	7.3	7.4	7.6
(without intragovernmental interest)	3.4	3.3	3.2	4.6	4.5	4.5	4.5	4.6

Sources: Central Bank of Cyprus; Ministry of Finance; and Fund staff projections.

1/ External current account deficit (opposite sign).

Table 8. Cyprus: Adjustment Scenario, 1998-2005

	1998	1999	2000	2001	2002	2003	2004	2005
	(Percentage changes)							
Real GDP	5.0	4.5	4.8	3.5	3.3	3.5	4.0	4.3
Domestic demand	7.5	-0.2	8.0	3.3	3.1	3.8	4.2	4.3
Private consumption	8.0	0.3	6.5	3.8	3.0	3.8	4.1	4.3
Public consumption	6.4	-3.6	17.6	-1.4	1.6	1.4	1.5	2.0
Investment	6.6	1.2	5.5	5.6	4.6	5.3	6.5	6.0
Exports GNFS	-2.4	7.6	7.8	1.4	0.8	1.5	2.8	3.9
Imports GNFS	4.4	-0.1	9.9	-1.2	0.7	2.2	3.2	3.9
Consumer price inflation (period average)	2.2	1.8	5.4	5.4	5.1	4.5	3.4	2.6
	(In percent of GDP)							
Gross domestic investment	18.5	17.5	17.7	18.1	18.4	18.7	19.2	19.6
Public	3.8	3.9	4.1	4.1	4.1	4.1	4.1	4.1
Private	14.7	13.6	13.5	14.0	14.2	14.6	15.1	15.4
Gross domestic saving	11.8	14.8	14.3	15.7	16.6	16.9	17.3	17.8
Public	-1.7	-0.2	-0.4	-0.2	1.6	2.5	3.1	3.5
Private	13.5	15.0	14.7	15.9	15.0	14.4	14.2	14.3
Foreign savings 1/	6.7	2.6	3.4	2.4	1.7	1.8	1.9	1.8
Public finances								
Total revenue	31.5	32.2	34.3	35.0	36.9	38.2	38.0	38.0
Total expenditure and net lending	37.0	36.3	38.9	39.3	39.4	39.8	39.1	38.7
Overall balance	-5.5	-4.1	-4.5	-4.3	-2.5	-1.6	-1.1	-0.7
Primary balance	0.2	1.7	1.1	2.7	4.0	4.6	4.7	4.8
(without intragovernmental interest)	-2.1	-0.7	-1.3	0.0	1.4	2.1	2.3	2.4
Public debt	59.6	60.9	61.6	60.6	58.1	55.0	51.9	48.9
Interest payments	5.8	5.8	5.7	7.1	6.5	6.2	5.7	5.4
(without intragovernmental interest)	3.4	3.3	3.3	4.4	3.9	3.7	3.4	3.1

Sources: Central Bank of Cyprus; Ministry of Finance; and Fund staff projections.

1/ External current account deficit (opposite sign).

decline from over 4 percent in mid-2000 to an underlying medium-term rate of around 2 percent per year as in the euro-area countries, but with substantial persistence due to the system of wage indexation. Moreover, increases in the VAT rate automatically lead to a higher price level in the year of the tax hike. Inclusion of the VAT in the COLA mechanism, in line with current policy, translates these one-off effects into persistently higher inflation.

82. Developments in the global economic environment, domestic GDP growth, and inflation affect the fiscal accounts and balance of payments. Inflation and real GDP growth affect the various components of public spending. Imports and exports of goods and services depend on output growth in Cyprus (imports) and the rest of the world (exports), and on Cyprus's competitiveness as influenced by inflation and exchange rates. Public consumption and investment are derived from the fiscal accounts, while imports and exports of goods and services are derived from the balance of payments. The breakdown between private consumption and investment is obtained by forecasting investment, with consumption taken as the residual. Private investment is assumed to adjust slowly toward a long-term equilibrium level of the share of investment in GDP. The model is thus not fully simultaneous, as the components of demand are constrained to match aggregate output.

83. The components of the fiscal accounts and balance of payments follow the presentation of the Ministry of Finance and Central Bank of Cyprus. The fiscal accounts cover the consolidated central government. On the revenue side, the framework includes separate categories for direct taxes on income, indirect taxes (broken down into VAT and other indirect taxes), nontax revenues, social insurance contributions, and the small items of capital revenue and foreign grants. Expenditures are broken down into the principal categories of civil services wages, goods and services (separating defense and nondefense), subsidies, interest payments, transfers, capital expenditure, and net lending. Interest payments on debt held by the social security system are included as both nontax revenues and as interest payments—these thus cancel out in the overall government balance, but increase the share of revenue and expenditure in GDP.

84. The current account is based on projections for the individual components of exports and imports of goods and services. Goods imports are broken down into fuel, defense-related imports, and other imports, while no disaggregation is made for goods exports. About half of exports consist of imports that are re-exported primarily to central and eastern Europe, Russia, and other countries of the former Soviet Union. These are included in both imports and exports, and thus do not affect the trade balance or current account balance. Services are split into several categories, including freight and insurance, transportation, travel (both tourism receipts and payments for travel by Cypriots), transfers, and investment income and payments. Separate effective exchange rates are calculated for goods and services, reflecting the different composition of partners and thus different prices that affect these components of external demand: trade in goods is predominantly with euro-area countries, while the United Kingdom is the source of about half of tourist arrivals in Cyprus. Trade weights are thus used to obtain the effective exchange rate that affects imports and exports of goods, while tourism weights are used for the effective exchange rate for services. The balance of payments in Cyprus is not compiled according to the *Balance of Payments*

Manual, Fifth Edition, so that projections are not made for the categories of the capital account. This limits the usefulness of the framework for providing projections for financing of the current account balance, but does not affect the assessment of the main macroeconomic indicators.

B. Economic Assumptions for 2001–05

Global economic environment

85. **Projections for external economic developments are taken from the World Economic Outlook.** These include projections for output growth in Cyprus's partners, inflation in Cyprus's export markets, and dollar and euro-area interest rates. The main features of the economic forecast for 2001-05 are a slowdown in growth in Cyprus's partner countries, including both tourist sources and export destinations, and an appreciation of the euro and thus the Cyprus pound against the U.S. dollar and sterling. Higher inflation in Cyprus than in its trade and services partners, along with nominal appreciation against the dollar and sterling, results in an appreciation of the effective real exchange rate.

86. More specifically, the external environment facing Cyprus is projected to change in the following ways:

- Partner country GDP growth rises in 2000, then slows over 2001-05.
- Industrial country inflation remains between 1.7 to 2.0 percent.
- The global oil price in dollars rises sharply in 2000, then partially declines in 2001.
- The euro depreciates against the dollar and sterling in 2000, then appreciates over the medium term.
- Euro-area interest rates rise in 2000.

Policy assumptions in the baseline scenario

87. **The baseline scenario is made on the basis of unchanged policies.** Specifically, this entails the following assumptions:

- The exchange rate peg of the pound to the euro continues.
- Liquidity conditions are not adjusted, so that Cyprus interest rates after liberalization in 2001 follow euro interest rates, though with a premium reflecting the rising fiscal deficit and debt burden.
- Fiscal policy remains unchanged, with no structural adjustment in discretionary revenues or expenditures other than VAT increases.

- The VAT rate is assumed to rise to 10 percent effective July 1, 2000, to 12.5 percent on January 1, 2002, and to 15 percent on January 1, 2003—these adjustments are consistent with the requirements of Cyprus's national plan for EU harmonization. Revenues are assumed to be fully offset by increased social transfers, as in 2000.
- The COLA mechanism is assumed to remain unchanged, with the price effects of VAT increases fully incorporated into the COLA.
- The fiscal effects of EU accession are not taken into account: both excise tax revenues from EU harmonization and additional expenditures to comply with the *acquis communautaire* are disregarded. While there is considerable uncertainty about the size of these effects, official estimates are on the order of a net £C 250 million in total additional costs, offset by around £C 30 million each year in additional excise revenue. There could also be additional revenues from EU transfers.
- There is assumed to be little progress in structural reforms in labor and product markets, and no privatization of publicly owned enterprises.

Policy assumptions in the adjustment scenario

88. **The main feature of the adjustment scenario is fiscal consolidation.** The fiscal deficit is gradually reduced, as expenditure falls and revenue rises as a share of GDP. However, rising euro-area interest rates and the accumulation of debt through 2000 make for slow initial progress in fiscal consolidation. Specifically, the adjustment scenario reflects the following policies:

- Only half rather than all of VAT revenues are offset by additional transfers.
- Transfers are assumed to decline in 2001 and subsequently grow by less than GDP.
- Wage growth for civil servants slows, as vacancies are left unfilled and wages for entry-level employees are adjusted downward.
- Revenue from indirect taxes other than the VAT goes up in 2001 and 2002, reflecting excise tax increases necessary for EU accession.
- Defense spending remains low in 2001 and then grows with nominal GDP.
- Subsidies grow more slowly than in the past, reflecting implementation of means-testing.
- The price effects of VAT hikes are excluded from the COLA. This substantially reduces the inflationary persistence of the VAT, with a beneficial effect on competitiveness.

- The interest rate differential with euro-area interest rates narrows gradually over time, reflecting progress in fiscal consolidation.
- The share of private investment in GDP rebounds somewhat from a decade-long decline, reflecting lower real interest rates than in the baseline scenario.
- Growth initially slows from the fiscal withdrawal, then returns to a higher medium-term sustainable growth rate than in the baseline. The higher growth rate in the adjustment scenario is made possible by higher investment following fiscal consolidation and increased productivity growth resulting from structural reforms.

C. Macroeconomic Outcomes under the Two Scenarios

89. **Macroeconomic imbalances widen in the baseline scenario.** Growth slows to 3.5 percent over the medium term, as weak investment and the absence of structural reform lead to a decline in the medium-term growth rate of potential output. Inflation reaches nearly 6 percent in 2002, as higher inflation in 2000 feeds into the COLA mechanism and wage indexation exacerbates the impact of the two further VAT hikes. The fiscal deficit gradually climbs to over 6 percent of GDP in 2005. The share of transfers rises, as two rounds of concessions accompany the VAT increases, with transfers reaching 10 percent of GDP in 2005 from 7 percent in 2000. The interest bill (excluding payments on intragovernmental debt) rises from 3.2 percent of GDP in 2000 to 4.6 percent of GDP, while consolidated public debt reaches 63 percent of GDP by 2005. Growth of goods exports slows as the pound appreciates, while growth of service exports slows with lower GDP growth in partner countries, especially the United Kingdom. The current account deficit gradually widens, reaching 4 percent of GDP in 2002, and over 5 percent of GDP in 2005. Public savings decline by about 1.5 percent of GDP from 2000, with a smaller decline in private savings.

90. **A moderate program of fiscal consolidation illustrated in the adjustment scenario restores macroeconomic balance and maintains strong output growth.** The cumulative fiscal effort in terms of an improved primary balance is equal to 3.7 percent of GDP over 2001–05. As a result, the fiscal deficit declines below 3 percent of GDP in 2002 and below 1 percent of GDP by 2005. Expenditure increases with additional transfers in 2002 and 2003, but then falls back to around 39 percent of GDP—roughly the level projected for 2000. Interest payments net of intragovernmental interest fall to 3.2 percent of GDP by 2005. The government debt burden falls below 60 percent of GDP in 2002 and below 50 percent by 2005. Gross domestic saving and investment rise by 3 to 4 percent. After initially slowing with the fiscal withdrawal, GDP growth returns to potential by 2005, as higher investment and stronger productivity growth from structural reform maintain potential output growth of 4–4½ percent per annum. The exclusion of VAT from the COLA diminishes the inflationary persistence of these tax hikes, implying a smaller loss of competitiveness and thus higher exports than in the baseline scenario. The current account deficit narrows to less than 2 percent in 2002, even though services exports are affected by slower growth in partner countries.

91. **Additional revenues from tax increases required for EU accession would provide the bulk of fiscal consolidation in the adjustment program.** These tax hikes include further increases in excise taxes and a minimum VAT rate of 15 percent, compared to the current 10 percent rate. Consumption is about two-thirds of GDP, so the additional 5 percentage point increase in the VAT rate will yield revenue of around 3 percent of GDP, while the excise tax increases will likely give another 1 percent. Together, this provides the 3.7 percentage points of GDP of fiscal consolidation in the adjustment scenario.

Cyprus: Legal and Regulatory Framework for Banking Supervision

	Answer/Description
<p>1. Supervisory Agency</p> <p>1.1. Which agency acts as the banking supervisory authority?</p> <p>1.2. Does the banking supervision authority have full legal, budgetary and de facto autonomy in banking supervision? (yes/no; describe)</p> <p>1.3. What is the number of professional supervisory staff?</p> <p>1.4. Can the supervisory agency autonomously issue prudential regulations? (yes/no)</p> <p>1.5. If not, which agency must give the approval.</p> <p>1.6. Is legal immunity provided to supervision staff against prosecution or civil lawsuits against acts legitimately performed in the course of their duties? (yes/no)</p>	<p>1.1. The Central Bank of Cyprus.</p> <p>1.2. Yes.</p> <p>1.3. 43 in total, 30 of them with professional qualifications (qualified accountants, economists with postgraduate qualifications and associates of the Chartered Institute of Bankers).</p> <p>1.4. Yes.</p> <p>1.5. N.A.</p> <p>1.6. Yes, per section 32 of the Banking Law which reads as follows: "Neither the Central Bank nor any person who is a Director or an officer of the Central Bank shall be liable in any action suit or other legal proceedings for damages for anything done or omitted in the discharge or purported discharge of the functions and responsibilities of the central bank under this law unless it is shown that the act or omission was not in good faith or was the result of gross negligence."</p>
<p>2. Bank Licensing</p> <p>2.1. Does the supervisory agency have exclusive bank licensing authority? (yes/no)</p> <p>2.2. How many licenses have been issued during the last five years?</p> <p>2.3. How many licensing applications have been rejected during the last five years?</p> <p>2.4. How many licenses have been withdrawn during the last five years?</p> <p>2.5. Total assets of the banks of which licenses have been withdrawn?</p> <p>2.6. Is a licensing manual used? (yes/no)</p>	<p>2.1. Yes, after consultation with the Ministry of Finance (Section 4.(5) of the Banking Law).</p> <p>2.2. Domestic Banks: 1 (Commercial Bank of Greece); International Banking Units: 13.</p> <p>2.3. Domestic banks: none. International banking units: 5. It should be noted that the policy of the central bank is to discourage the submission of formal applications under the Banking Law by banks which do not meet the eligibility criteria as set out in the bank's "Policy Statement and Guidelines for the establishment and operation of international banking units/administered banking units." The central bank also requires prospective applicant banks to obtain the prior approval and support of their home banking regulatory/supervisory authority before submitting a formal application to the central bank for a banking license. In this way, a number of prospective applicant banks have been discouraged, in the last five years, from actually submitting an application.</p> <p>2.4. Domestic banks: none. International banking units: 8</p> <p>2.5. Domestic banks: n.a. International banking units: US\$277.2 million.</p> <p>2.6. By the international banking units only.</p>

Cyprus: Legal and Regulatory Framework for Banking Supervision

	Answer/Description
<p>3. Capital and Capital Adequacy</p> <p>3.1. What is the minimum capital required to obtain a banking license?</p> <p>3.2. What is the risk-weighted capital adequacy ratio?</p> <p>3.3. Is the system of risk-weights consistent with the Basle recommendations?</p> <p>3.4. If applicable: what is the minimum ratio of capital over total non-risk weighted assets?</p> <p>3.5. Have capital requirements against market risk been introduced? (yes/no)</p> <p>3.6. Are capital adequacy requirements imposed on off-balance sheet risks? (yes/no)</p>	<p>See directive for the "computation of the capital base of banks" and the directive "for the computation of the capital adequacy ratio of banks."</p> <p>3.1. C€3 million (euro equivalent 5 million).</p> <p>3.2. It was 8 percent when introduced, to be raised to 9 percent on 7/1/2000 and to 10 percent as from 12/31/2000.</p> <p>3.3. Yes.</p> <p>3.4. N.A.</p> <p>3.5. Not yet. Market risks have been minimal up to now.</p> <p>3.6. Yes.</p>
<p>4. Liquidity</p> <p>4.1. What is the required minimum ratio between demand liabilities and highly liquid assets?</p> <p>4.2. What is the required minimum ratio between total liabilities (minus shareholders equity) and total liquid assets?</p>	<p>4.1. There is no required minimum.</p> <p>4.2. There is no required minimum.</p>
<p>5. Risk Diversification</p> <p>5.1. What individual and aggregate limits are applied for a single borrower (or a connected group of borrowers) (as a % of capital)?</p> <p>5.2. Are limits applied to lending to economic sectors or geographical areas? (yes/no, describe)</p>	<p>See directive to banks for the "Monitoring and Control of Credit Facilities."</p> <p>5.1. All exposures in excess of 10 percent (large exposures) should be reported. There is a limit of 25 percent of the capital base for a single borrower or connected group and 800 percent for all large exposures together (Sections 11.(a) and (b) of the Banking Law respectively).</p> <p>5.2. There are currently limits on personal loans. There are also restrictions on the availability of credit facilities designed to finance the purchase of shares and the construction of new hotels and hotel apartments.</p>
<p>6. Lending to related parties and insiders</p> <p>6.1. What are the limits on lending to related parties and/or insiders (as a % of capital)?</p> <p>6.2. Are commercially based lending and collection policies applied to such loans? (yes/no)</p>	<p>6.1. Lending to all bank directors in aggregate is restricted to 40 percent of the capital base in total, while the total of unsecured credit to them may not exceed 5 percent of the capital base (Section 11. (d) and (e) of the Banking Law).</p> <p>6.2 Yes, (Section 11.(c) of the Banking Law).</p>
<p>7. Foreign Exchange</p> <p>7.1. What limits are imposed on open positions in individual foreign currencies?</p> <p>7.2. What aggregate limits are imposed for the open position in all currencies?</p> <p>7.3. Is the net aggregate position, gross aggregate, or shorthand method used to calculate the overall position?</p> <p>7.4. Are off-balance sheet items included in the calculation of the open position? (yes/no)</p> <p>7.5. Are capital adequacy requirements imposed for open foreign exchange positions? (yes/no)</p>	<p>7.1. Limits for individual currencies is limited to 10 percent of the capital base.</p> <p>7.2 The aggregate for all currencies is limited to 15 percent of the capital base.</p> <p>7.3. The net position for each currency is the mismatch between claims/assets and liabilities. The overall aggregate position is either the sum of the short positions or the sum of the long positions in each foreign currency, whichever is higher.</p> <p>7.4. Yes. The matter is under revision</p> <p>7.5. Yes. A capital requirement of 8 percent is imposed on the overall net foreign exchange position which is in excess of 2 percent of the capital base.</p>

Cyprus: Legal and Regulatory Framework for Banking Supervision

	Answer/Description
<p>8. Loan Review, Classification and Provisioning</p>	
<p>8.1. How frequently are banks obliged to review asset quality?</p>	<p>8.1. There is no legal obligation but all banks review asset quality at least once a year and this is verified by central bank examiners in the course of on-site inspection. Asset quality is also reviewed by the central bank examiners.</p>
<p>8.2. What asset quality criteria are applied? (describe)</p>	<p>8.2. Each bank applies its own quality criteria with respect to credit rating. However, the central bank applies its own classification criteria when reviewing credit facilities in the course of on-site examinations.</p>
<p>8.3. What provisioning percentages are applied to these classifications?</p>	<p>8.3. No provisioning percentages are applied to the above classifications. Provisioning is determined on a case by case basis taking into account all relevant factors including availability of collateral.</p>
<p>8.4. Can the supervisory agency increase provisions when it deems necessary? (yes/no)</p>	<p>8.4. The central bank is not legally empowered to increase provisions directly when it deems necessary but has the power to require a bank to increase its capital. In practice, the central bank's view regarding the adequacy of provisions are discussed with the bank's management upon completion of on-site examinations. Where the central bank considers that additional provision is required, a recommendation to that effect is made. Banks have invariably heeded such recommendations.</p>
<p>8.5. What percentage of "standard" assets must be held as a general reserve?</p>	<p>8.5. There is no fixed percentage of "standard" assets that must be held as a general reserve. As general provision is not tax deductible, the banks tend not to make general provision and increase specific provision instead.</p>
<p>8.6. How is collateral taken into account in classification and provisioning? (describe)</p>	<p>8.6. Collateral is taken into account in determining provisioning but with the exception of blocked deposits, and bank and government guarantees, it is not taken into account for classification purposes.</p>
<p>8.7. How are off-balance sheet items classified and provided for? (describe)</p>	<p>8.7. Our classifications apply on a commitment basis, that is, taking into account both funded and nonfunded facilities. Therefore, classification does not differentiate between on balance sheet and off-balance sheet items.</p>
<p>8.8. How is income from nonaccrual assets suspended? (describe)</p>	<p>With respect to provisioning, in cases where a borrower has been classified as "doubtful," off-balance sheet items are fully provided for as if they were funded balances.</p>
<p>8.9. What criterion is used to place assets in "nonaccrual" status? (describe)</p>	<p>8.8. Interest is suspended only on loans classified by banks as doubtful. Such interest has until the end of 1999 been included as income in the profit and loss account and at the same time was charged as a part of the provision charge for the year.</p>
<p></p>	<p>With effect from year 2000, suspended interest will be credited to a suspense account and not to the profit and loss account.</p>
<p></p>	<p>8.9. The central bank's directive for the layout and contents of the annual accounts of banks which will come into effect for financial statements for year 2000 onwards, provides that interest should be suspended on loans classified by banks as "doubtful."</p>

Cyprus: Legal and Regulatory Framework for Banking Supervision

	Answer/Description
<p>9. Reporting</p> <p>9.1. How frequently are banks required to submit prudential returns?</p> <p>9.2. Please attach a list of the reports which must be submitted.</p> <p>9.3. What "early warning" systems are used? (describe)</p> <p>9.4. How are the results of off-site reports and analyses communicated to management of the supervisory agency and with which frequency? (describe)</p> <p>9.5. How many supervisory staff are engaged in off-site reporting and analysis?</p> <p>9.6. Is a manual for off-site analysis in place? (yes/no)</p>	<p>9.1. It depends on the subject. There are daily, weekly, monthly, quarterly, half-yearly and yearly returns.</p> <p>9.2. Please refer to the attached list of returns (Appendix I).</p> <p>9.3. Timely monitoring and analysis of the returns.</p> <p>9.4. Through reports as soon as the relevant returns are collected and analyzed.</p> <p>9.5. 10 persons.</p> <p>9.6. No.</p>
<p>10. On-site Inspections</p> <p>10.1. How frequently are individual banks subjected to on-site inspections (mandated and % examined annually)?</p> <p>10.2. How are inspection results and recommendations communicated to the management of the bank? (describe)</p> <p>10.3. How are inspection results and recommendations communicated to supervisory management? (describe)</p> <p>10.4. Is feedback or follow up on examination findings required?</p> <p>10.5. Are ad hoc, unscheduled inspections carried out? (yes/no)</p> <p>10.6. Is a manual for on-site inspections in place? (yes/no)</p>	<p>10.1. There is no mandatory requirement for on-site inspections. However, locally incorporated banks are subjected to on-site inspection once a year while branches of foreign incorporated banks are examined once every two years. There are only two branches of foreign incorporated banks out of 12 banks operating in Cyprus.</p> <p>10.2. The findings of the on-site inspection are discussed with the bank's top management in a meeting especially convened for this purpose. Moreover, these findings are communicated in detail in a letter to the bank's top management inviting their comments thereon as well as any measures that the bank's management proposes to take to rectify any weaknesses identified.</p> <p>10.3. The findings of the on-site inspection form part of a detailed report which is submitted to the chief senior manager, banking supervision and regulation division and to the Governor of the bank.</p> <p>10.4. There is no legal requirement for this, but banks as mentioned in 10.2 above reply to the central bank's letter with comments and proposals on the findings of the on-site inspection. Follow up is carried out by Central Bank examiners in the course of the next scheduled examination.</p> <p>10.5. Yes.</p> <p>10.6. Yes,</p>
<p>11. Risk Management, Internal Audit, Internal Controls</p> <p>11.1. Are regulations on risk management, internal control and audit in place? (yes/no)</p> <p>11.2. Are banks required to have internal manuals on credit, foreign exchange, and other market activities? (yes/no)</p>	<p>11.1. On internal controls and audit, the central bank has issued a preliminary directive which is in the process of being introduced. However, banks have in place policies and procedures on risk management, internal control and audit. These are assessed by central bank examiners in the course of on-site inspections.</p> <p>11.2. There is no legal requirement. However, banks do have internal manuals on credit, foreign exchange, and other market activities. These manuals are reviewed and assessed by central bank examiners in the course of on-site inspections.</p>

Cyprus: Legal and Regulatory Framework for Banking Supervision

	Answer/Description
<p>12. Accounting and Disclosure</p> <p>12.1. Are external audits of banks' annual financial statements obligatory? (yes/no)</p> <p>12.2. Are external audits of banks' selected periodic prudential returns obligatory? (yes/no)</p> <p>12.3. Does the appointment of a bank's external auditor require supervisory approval? (yes/no)</p> <p>12.4. Are internationally accepted accounting standards complied with? (yes/no)</p> <p>12.5. Is the publication of banks' balance sheet, profit and loss statement, notes to the accounts, and auditor's statement mandatory?</p> <p>12.6. Is the external auditor obliged to inform, on his/her own initiative, the supervisory agency of facts or circumstances that are relevant to effective supervision, or relevant to the auditor's ability to issue a "clean" opinion on the accounts? (yes/no)</p> <p>12.7. Are the prudential regulations applied on a consolidated basis? (yes/no)</p> <p>12.8. Do banks issue consolidated annual financial statements and prudential reports? (yes/no)</p> <p>12.9. Which organization is charged with setting accounting/auditing standards for banks?</p>	<p>12.1. Yes. (Section 24 of the Banking Law).</p> <p>12.2. No, but they are verified by the central bank own on-site examination.</p> <p>12.3. Yes. (Section 2 of the Banking Law).</p> <p>12.4. Yes.</p> <p>12.5. Yes, within six months from the end of the year (Section 24.(3) of the Banking Law.</p> <p>12.6. Yes (Section 28.(3) of the Banking Law). See notice to banks regarding the relation between the Central Bank of Cyprus and the external auditors of banks.</p> <p>12.7. Yes, on capital adequacy, large expenses, banks' shareholding and foreign currency expenses.</p> <p>12.8. Yes, where a bank is part of a wider group.</p> <p>12.9. The Central Bank of Cyprus. (See directive for the layout and contents of the annual accounts of banks).</p>
<p>13. Legal Framework</p> <p>13.1. Does the law on the supervisory agency/banking law have shortcomings that hinder effective supervision? (yes/no; describe)</p> <p>13.2. Does the law on the supervisory agency/banking law hinder supervisors' autonomy? (yes/no; describe)</p> <p>13.3. Does the law oblige the supervisor to take action when specific prudential standards are breached? (yes/no)</p> <p>13.4. Do deficiencies in civil, company, or bankruptcy law hinder the conclusion of enforceable loan contracts, and/or their enforcement? (yes/no; describe)</p> <p>13.5. Do laws and regulations have an appeals clause against supervisory decisions? (yes/no)</p> <p>13.6. Are the laws and regulations effectively implemented? (yes/no)</p>	<p>13.1. No.</p> <p>13.2. No.</p> <p>13.3. Yes.</p> <p>13.4. No.</p> <p>13.5. Not specifically in the Banking Law. Decisions of all public bodies including the central bank are subject to judicial review.</p> <p>13.6. Yes.</p>

Cyprus: Legal and Regulatory Framework for Banking Supervision

	Answer/Description
<p>14. Deposit Protection</p> <p>14.1. Has a deposit protection system been introduced? (yes/no)</p> <p>14.2. What categories of depositors are covered? (describe)</p> <p>14.3. What categories of deposits are covered? (describe)</p> <p>14.4. What maximum amount or what percentage of eligible deposits is covered?</p> <p>14.5. Are claims of nonresidents covered? (yes/no)</p> <p>14.6. How is the deposit protection fund financed? (describe)</p> <p>14.7. Is the fund government-guaranteed? (yes/no)</p> <p>14.8. Which agency administers the fund? (describe)</p> <p>14.9. Have depositors been compensated in amounts in excess of that covered by the deposit protection scheme? (yes/no; if yes, describe)</p>	<p>14.1. See regulations from the "Establishment and Operations of the Deposit Protection Scheme". It will be operative by 1/9/2000.</p> <p>14.2. Mainly small depositors.</p> <p>14.3. Mainly retail deposits; all exemptions permitted under the EC Directive have been adopted.</p> <p>14.4. Compensation up to 90 percent of a deposit with a maximum of the equivalent of euro 20,000.</p> <p>14.5. Only those in Cyprus pounds.</p> <p>14.6. Through contributions by banks.</p> <p>14.7. No.</p> <p>14.8. A Management Committee under the auspices of the central bank.</p> <p>14.9. No failures have occurred. In any case, the scheme will be operative by 1/9/2000.</p>
<p>15. Lender of Last Resort</p> <p>15.1. What lender of last resort liquidity facilities are available to solvent banks? (describe)</p> <p>15.2. Is the interest rate charged for these facilities above, at or below the interbank rate?</p> <p>15.3. What maturities are available for central bank liquidity facilities? (describe)</p> <p>15.4. What collateralization rules apply for central bank liquidity support? (describe)</p> <p>15.5. Has liquidity support been provided by the central bank to the banking system during the past five years?</p> <p>15.6. What have been the highest/lowest levels of liquidity support during this period?</p>	<p>15.1. Under the Law, the central bank may provide liquidity in the form of advances and loans.</p> <p>15.2. No lender of last resort facilities were granted.</p> <p>15.5. No. There have not been any lender of last resort operations.</p> <p>15.6. N.A.</p>

Cyprus: Legal and Regulatory Framework for Banking Supervision

	Answer/Description
16. Enforcement Measures and Bank Exit	
16.1. Can temporary management be imposed, suspending incumbent management? (yes/no)	16.1. Yes. (Section 30 of the Banking Law)
16.2. Can the supervisory agency suspend dividends by an undercapitalized bank? (yes/no)	16.2. Yes. (Section 30 of the Banking Law)
16.3. Can the supervisory agency impose a merger or a purchase and assumption transaction upon an undercapitalized bank? (yes/no)	16.3. Yes. (Section 30 of the Banking Law)
16.4. Can a merger or purchase and assumption transaction be imposed on unwilling minority shareholders? (yes/no)	16.4. Yes. (Section 30 of the Banking Law)
16.5. Which agency has the authority to withdraw a bank's license?	16.5. The Central Bank of Cyprus.
16.6. Which agency has the authority to liquidate a bank?	16.6. The Central Bank of Cyprus which may revoke a license. Upon the revocation of a banking license by the central bank, the central bank may apply to the court to have the bank wound up by the court. (Section 33 of the Banking Law).
16.7. Which agency performs the actual liquidation?	16.7. A liquidator who must be appointed by the Court after consultation with the central bank. (Section 33 of the Banking Law).
16.8. Is a bank in liquidation subject to normal banking supervision? (yes/no)	16.8. Yes.
16.9. Do special rules apply to the bankruptcy of banks (not the general bankruptcy law)?	16.9. No.
16.10. Is a manual for taking actions against banks in place?	16.10. No.

Table A1. Cyprus: Aggregate Demand, 1995-99

(At constant 1995 prices)

	1995	1996	1997	Prov.	
				1998	1999
(In millions of Cyprus pounds)					
GDP at market prices	4,003.9	4,080.0	4,177.9	4,385.7	4,583.1
Consumption	3,196.0	3,360.8	3,494.2	3,791.0	3,822.9
Private	2,551.8	2,641.5	2,748.2	2,997.0	3,057.8
Government	644.2	719.3	746.0	794.0	765.1
Investment	878.3	902.9	818.5	852.3	846.3
Of which: change in stocks	108.6	76.0	29.2	44.3	55.6
Total domestic demand	4,074.3	4,263.7	4,312.7	4,643.3	4,669.2
Foreign balance	-134.1	-193.1	-167.4	-308.7	-161.9
Exports of goods and NFS	1,865.6	1,941.1	1,959.3	1,911.9	2,057.2
Imports of goods and NFS	1,999.7	2,134.2	2,126.7	2,220.6	2,219.1
Statistical discrepancy	63.7	9.4	32.6	51.1	75.8
Net factor income from abroad	43.7	23.9	35.9	25.5	13.3
GNP at market prices	4,047.6	4,103.9	4,213.8	4,411.2	4,596.4
(Annual percentage changes)					
GDP at market prices	5.6	1.9	2.4	5.0	4.5
Consumption	8.7	5.2	4.0	8.5	0.8
Private	10.3	3.5	4.0	9.1	2.0
Government	2.9	11.7	3.7	6.4	-3.6
Investment	5.1	2.8	-9.3	4.1	-0.7
Total domestic demand	7.9	4.6	1.1	7.7	0.6
Exports of goods and NFS	4.6	4.0	0.9	-2.4	7.6
Imports of good and NFS	11.5	6.7	-0.4	4.4	-0.1
(Contribution to growth of real GDP)					
GDP at market prices	5.6	1.9	2.4	5.0	4.5
Consumption	6.8	4.1	3.3	7.1	0.7
Private	6.3	2.2	2.6	6.0	1.4
Public	0.5	1.9	0.7	1.1	-0.7
Investment	1.1	0.6	-2.1	0.8	-0.1
Total domestic demand	7.9	4.7	1.2	7.9	0.6
Foreign balance	-3.3	-1.5	0.6	-3.4	3.3
Exports of goods and NFS	2.2	1.9	0.4	-1.1	3.3
Imports of good and NFS	-5.4	-3.4	0.2	-2.2	0.0

Source: Ministry of Finance.

Table A2. Cyprus: Aggregate Demand, 1995-99

(At current prices)

	1995	1996	1997	Prov.	
				1998	1999
(In millions of Cyprus pounds)					
GDP at market prices	4,003.9	4,157.4	4,365.6	4,679.6	4,942.6
Consumption	3,196.0	3,452.6	3,705.5	4,108.5	4,197.5
Private	2551.8	2704.4	2884.5	3203.8	3308.5
Government	644.2	748.2	821	904.7	889
Investment	878.3	926.9	861.4	915.2	927.6
Gross fixed-capital formation	769.7	848.1	829.8	865.2	862.6
Change in stocks	108.6	78.8	31.6	50	65
Total domestic demand	4,074.3	4,379.5	4,566.9	5,023.7	5,125.1
Foreign balance	-134.1	-261.9	-221.4	-357.2	-207.8
Exports of goods and NFS	1865.6	1946.9	2053.4	2041.1	2228.8
Imports of goods and NFS	1999.7	2208.8	2274.8	2398.3	2436.6
Statistical discrepancy	63.7	39.8	20.1	13.1	25.3
Net factor income from abroad	43.7	24.6	38.2	27.7	14.0
GNP at market prices	4,047.6	4,182.0	4,403.8	4,707.3	4,956.6
(In percent of GDP)					
Consumption	79.8	83.0	84.9	87.8	84.9
Private	63.7	65.1	66.1	68.5	66.9
Public	16.1	18.0	18.8	19.3	18.0
Investment	21.9	22.3	19.7	19.6	18.8
Gross fixed-capital formation	19.2	20.4	19.0	18.5	17.5
Change in stocks	2.7	1.9	0.7	1.1	1.3
Total domestic demand	101.8	105.3	104.6	107.4	103.7
Foreign balance	-3.3	-6.3	-5.1	-7.6	-4.2
Exports of goods and NFS	46.6	46.8	47.0	43.6	45.1
Imports of goods and NFS	49.9	53.1	52.1	51.3	49.3
Statistical discrepancy	1.6	1.0	0.5	0.3	0.5

Source: Ministry of Finance.

Table A3. Cyprus: Composition of Gross Fixed Capital Formation, 1995-99

	1995	1996	1997	Prov.	
				1998	1999
(In millions of Cyprus pounds, at constant 1995 prices)					
New buildings and works	547.9	552.6	527.5	527.3	520.6
Dwellings	285.5	306.5	276.3	249.4	252.4
Nonresidential buildings	117.9	132.4	128.7	139.7	138.0
Other construction works	144.5	113.7	122.5	138.2	130.2
Land improvement and plantation	2.0	2.2	2.2	1.3	1.4
Machinery and other equipment	171.8	198.3	218.7	224.5	215.0
Vehicles, ships and aircraft	45.9	72.9	39.6	53.8	52.5
Motor vehicles	50.1	47.6	37.8	45.2	44.0
Other	-4.2	25.3	1.8	8.6	8.5
Breeding stock, dairy cattle etc.	2.1	0.9	1.3	1.1	1.2
Total fixed capital formation	769.7	826.9	789.3	808.0	790.7
(Annual percentage changes at constant 1995 prices)					
New buildings and works	-1.4	0.9	-4.5	0.0	-1.3
Dwellings	0.4	7.4	-9.9	-9.7	1.2
Nonresidential buildings	-6.0	12.3	-2.8	8.5	-1.2
Other construction works	-1.1	-21.3	7.7	12.8	-5.8
Land improvement and plantation	33.3	10.0	0.0	-40.9	7.7
Machinery and other equipment	-4.2	15.4	10.3	2.7	-4.2
Vehicles, ships, and aircraft	5.4	58.8	-45.7	35.9	-2.4
Motor vehicles	24.4	-5.0	-20.6	19.6	-2.7
Other	-323.5	-702.4	-92.9	377.8	-1.2
Breeding stock, dairy cattle etc.	-14.3	-57.1	44.4	-15.4	9.1
Total fixed capital formation	-1.7	7.4	-4.5	2.4	-2.1
(Percent of total, at current prices)					
New buildings and works	71.2	66.8	66.8	65.3	65.8
Dwellings	37.1	37.1	35.0	30.9	31.9
Nonresidential buildings	15.3	16.0	16.3	17.3	17.5
Other construction works	18.8	13.8	15.5	17.1	16.5
Land improvement and plantation	0.3	0.3	0.3	0.2	0.2
Machinery and other equipment	22.3	24.0	27.7	27.8	27.2
Vehicles, ships, and aircraft	6.0	8.8	5.0	6.7	6.6
Motor vehicles	6.5	5.8	4.8	5.6	5.6
Other	-0.5	3.1	0.2	1.1	1.1
Breeding stock, dairy cattle etc.	0.3	0.1	0.2	0.1	0.2

Source: Ministry of Finance.

Table A4. Cyprus: Origin of Gross Domestic Product, 1995-99

	1995	1996	1997	Prov.	
				1998	1999
(In millions of Cyprus pounds at constant 1995 prices)					
Primary sector	210.7	209.3	185.0	197.4	211.0
Agriculture, hunting, and fishing	199.5	197.7	173.2	183.7	196.8
Mining	11.2	11.6	11.8	13.7	14.2
Industry	885.8	883.1	873.0	884.3	888.3
Manufacturing	469.2	462.1	463.9	469.0	469.9
Electricity, gas, and water	82.2	87.4	88.4	95.7	102.0
Construction	334.4	333.6	320.7	319.6	316.4
Services	2,118.6	2,172.0	2,274.7	2,419.0	2,561.8
Transport, storage and communications	317.1	331.4	350.6	381.2	394.3
Trade, restaurants, and hotels	855.8	854.5	880.0	929.7	962.0
Finance, insurance, and real estate	700.0	730.2	769.8	819.4	902.9
Community, social, and personal	245.7	255.9	274.3	288.7	302.6
Public administration	518.5	534.4	552.9	578.0	601.2
Other	14.3	19.1	22.3	24.5	26.8
Less imputed bank charges	121.6	131.3	139.8	151.6	170.7
Plus import duties and VAT (net)	377.6	393.4	409.8	434.1	464.7
GDP at constant 1995 prices	4,003.9	4,080.0	4,177.9	4,385.7	4,583.1
(Annual percentage changes at constant 1995 prices)					
Primary sector	16.6	-0.7	-11.6	6.7	6.9
Agriculture	18.3	-0.9	-12.4	6.1	7.1
Mining	-7.3	3.6	1.7	16.1	3.6
Industry	1.5	-0.3	-1.1	1.3	0.5
Manufacturing	1.2	-1.5	0.4	1.1	0.2
Electricity, gas, and water	14.6	6.3	1.1	8.3	6.6
Construction	-0.8	-0.2	-3.9	-0.3	-1.0
Services	7.2	2.5	4.7	6.3	5.9
Transport, storage, and communications	2.3	4.5	5.8	8.7	3.4
Trade, restaurants, and hotels	6.3	-0.2	3.0	5.6	3.5
Finance, insurance, and real estate	11.1	4.3	5.4	6.4	10.2
Community, social and personal	6.6	4.2	7.2	5.2	4.8
Public administration	3.9	3.1	3.5	4.5	4.0
Other	16.3	33.6	16.8	9.9	9.4
(Contribution to real GDP growth)					
Primary sector	0.8	0.0	-0.6	0.3	0.3
Agriculture	0.8	0.0	-0.6	0.3	0.3
Mining	0.0	0.0	0.0	0.0	0.0
Industry	0.3	-0.1	-0.2	0.3	0.1
Manufacturing	0.1	-0.2	0.0	0.1	0.0
Electricity, gas, and water	0.3	0.1	0.0	0.2	0.1
Construction	-0.1	0.0	-0.3	0.0	-0.1
Services	3.8	1.3	2.5	3.5	3.3
Transport, storage, and communications	0.2	0.4	0.5	0.7	0.3
Trade, restaurants, and hotels	1.4	0.0	0.6	1.2	0.7
Finance, insurance, and real estate	1.8	0.8	1.0	1.2	1.9
Community, social, and personal	0.4	0.3	0.5	0.3	0.3
Public administration	0.5	0.4	0.5	0.6	0.5
Other	0.1	0.1	0.1	0.1	0.1

Source: Ministry of Finance.

Table A5. Cyprus: Origin of Gross Domestic Product, 1995-99

(At current prices)

	1995	1996	1997	Prov.	
				1998	1999
(In millions of Cyprus pounds)					
Primary sector	210.7	200.4	189.1	210.0	216.6
Agriculture, forestry and fishing	199.5	189.0	178.1	197.0	201.9
Mining and quarrying	11.2	11.4	11.0	13.0	14.7
Secondary Sectors	885.8	913.8	930.4	965.6	995.1
Manufacturing	469.2	479.2	491.6	510.1	522.6
Electricity, gas, and water	82.2	85.9	88.5	94.4	103.2
Construction	334.4	348.7	350.3	361.1	369.3
Services	2,118.6	2,223.2	2,401.4	2,622.4	2,834.6
Transport, storage, and communications	317.1	335.1	357.8	398.1	419.5
Trade, restaurants and hotels	855.8	859.1	913.6	986.4	1,040.0
Finance, insurance, estate, business	700.0	755.5	822.1	898.6	1,010.1
Community, social and personal services	245.7	273.5	307.9	339.3	365.0
Government Services	518.5	559.3	613.2	657.9	698.3
Other producers	14.3	19.1	23.0	26.2	29.0
Less imputed bank service charges	121.6	134.8	148.7	165.6	190.0
Plus import duties	186.0	178.4	150.9	137.3	122.9
Plus value added tax, net	191.6	198.0	206.4	225.8	236.1
GDP at current prices	4,003.9	4,157.4	4,365.7	4,679.6	4,942.6
(Percentage share of GDP)					
Primary sector	5.3	4.8	4.3	4.5	4.4
Agriculture, forestry, and fishing	5.0	4.5	4.1	4.2	4.1
Mining and quarrying	0.3	0.3	0.3	0.3	0.3
Secondary sector	22.1	22.0	21.3	20.6	20.1
Manufacturing	11.7	11.5	11.3	10.9	10.6
Construction	2.1	2.1	2.0	2.0	2.1
Electricity, gas, and water	8.4	8.4	8.0	7.7	7.5
Services	52.9	53.5	55.0	56.0	57.4
Transport, storage, and communications	7.9	8.1	8.2	8.5	8.5
Trade, restaurants and hotels	21.4	20.7	20.9	21.1	21.0
Finance, insurance, estate, business	17.5	18.2	18.8	19.2	20.4
Community, social and personal services	6.1	6.6	7.1	7.3	7.4
Government Services	12.9	13.5	14.0	14.1	14.1
Other producers	0.4	0.5	0.5	0.6	0.6

Source: Ministry of Finance.

Table A6. Cyprus: Gross Manufacturing Output by Major Industries, 1995-99

	1995	1996	1997	1998	1999 Prov.
Food, beverages, and tobacco	437.1	467.0	487.7	511.8	540.2
Textiles, clothing, and leather products	181.1	166.7	155.9	141.2	129.6
Wood products and furniture	157.1	158.4	158.1	158.8	160.5
Paper products, printing, and publishing	82.7	87.2	86.2	86.6	86.4
Chemicals, petroleum and plastic products	170.6	178.6	200.1	117.0	216.9
Nonmetallic mineral products	120.1	120.1	114.1	110.4	110.7
Metal products, machinery, and equipment	137.8	140.9	154.6	153.8	157.2
Other manufacturing industries 1/	9.8	10.5	10.4	11.2	12.3
Total	1,296.3	1,329.4	1,367.1	1,290.8	1,413.8
	(In percent of total)				
Food, beverages, and tobacco	33.7	35.1	35.7	39.6	38.2
Textiles, clothing, and leather products	14.0	12.5	11.4	10.9	9.2
Wood products and furniture	12.1	11.9	11.6	12.3	11.4
Paper products, printing, and publishing	6.4	6.6	6.3	6.7	6.1
Chemicals, petroleum and plastic products	13.2	13.4	14.6	9.1	15.3
Nonmetallic mineral products	9.3	9.0	8.3	8.6	7.8
Metal products, machinery and equipment	10.6	10.6	11.3	11.9	11.1
Other manufacturing industries 1/	0.8	0.8	0.8	0.9	0.9
	(Annual percentage change, at current prices)				
Food, beverages, and tobacco	9.6	6.8	4.4	4.9	5.5
Textiles, clothing, and leather products	-22.0	-8.0	-6.5	-9.4	-8.2
Wood products and furniture	2.0	0.8	-0.2	0.4	1.1
Paper products, printing, and publishing	-1.1	5.4	-1.1	0.5	-0.2
Chemicals, petroleum and plastic products	3.0	4.7	12.0	-41.5	85.4
Nonmetallic mineral products	8.3	0.0	-5.0	-3.2	0.3
Metal products, machinery and equipment	2.7	2.2	9.7	-0.5	2.2
Other manufacturing industries 1/	0.3	7.1	-1.0	7.7	9.8
Total	0.5	2.6	2.8	-5.6	9.5

Source: Central Bank of Cyprus.

1/ Including cottage industries.

Table A7. Cyprus: Tourist Arrivals and Receipts, 1995-99

	1995	1996	1997	1998	1999
(In thousands)					
Total arrivals	2,100.0	1,950.0	2,088.0	2,222.7	2,434.3
European countries	1,807.0	1,699.5	1,909.0	2,058.7	2,248.4
Of which: United Kingdom	850.0	720.0	846.3	1,015.2	1,155.6
Other countries	293.0	250.5	179.0	164.0	185.9
(Changes in percent)					
Total arrivals	1.5	-7.1	7.1	6.5	9.5
European countries	-2.5	-5.9	12.3	7.8	9.2
Of which: United Kingdom	-12.4	-15.3	17.5	20.0	13.8
Other countries	35.6	-14.5	-28.5	-8.4	13.4
(In percent of total)					
European countries	86.0	87.2	91.4	92.6	92.4
Of which: United Kingdom	40.5	36.9	40.5	45.7	47.5
Other countries	14.0	12.8	8.6	7.4	7.6
(In millions of Cyprus pounds at current prices)					
Foreign exchange receipts from tourism	810.0	780.0	843.0	878.0	1,022.0

Source: Cyprus Tourism Organization.

Table A8. Cyprus: Labor Force and Employment by Sector, 1995-99

	1995	1996	1997	Prov.	
				1998	1999
(In thousands)					
Total labor force	303.3	304.8	305.5	309.3	313.7
Employed domestically	282.0	284.7	284.0	287.0	290.2
Primary sectors	31.2	30.7	27.7	28.1	27.5
Agriculture, forestry, and fishing	30.5	30.0	27.1	27.5	26.9
Mining and quarrying	0.7	0.7	0.6	0.6	0.6
Industry	71.1	68.9	67.1	65.2	64.3
Manufacturing	44.0	42.2	40.8	39.6	38.6
Electricity, gas, and water	1.4	1.4	1.4	1.5	1.5
Construction	25.7	25.3	24.9	24.1	24.2
Services	179.7	185.1	189.2	193.7	198.4
Trade, restaurants, hotels	79.6	80.8	81.6	82.4	83.6
Transport, communications	17.9	18.2	18.6	19.0	19.4
Finance, insurance, real estate	24.3	25.3	26.1	27.5	28.5
Other services	57.9	60.8	62.9	64.8	66.9
Employed abroad and other 1/	13.4	10.7	11.1	11.9	12.1
Unemployed	7.9	9.4	10.4	10.4	11.4
(Percent of total)					
Employed domestically	93.0	93.4	93.0	92.8	92.5
Primary sector	10.3	10.1	9.1	9.1	8.8
Agriculture, forestry, and fishing	10.1	9.8	8.9	8.9	8.6
Mining and quarrying	0.2	0.2	0.2	0.2	0.2
Industry	23.4	22.6	22.0	21.1	20.5
Manufacturing	14.5	13.8	13.4	12.8	12.3
Electricity, gas and water	0.5	0.5	0.5	0.5	0.5
Construction	8.5	8.3	8.2	7.8	7.7
Services	59.2	60.7	61.9	62.6	63.2
Trade, restaurants, hotels	26.2	26.5	26.7	26.6	26.6
Transport, storage, and communications	5.9	6.0	6.1	6.1	6.2
Finance, insurance, real estate, business	8.0	8.3	8.5	8.9	9.1
Other services	19.1	19.9	20.6	21.0	21.3
Employed abroad and other 1/	4.4	3.5	3.6	3.8	3.9
Unemployed	2.6	3.1	3.4	3.4	3.6
Memorandum items:					
Percentage change in total labor force	3.1	0.5	0.2	1.2	1.4
Percentage change in employment	3.4	1.0	-0.2	1.1	1.1

Source: Ministry of Finance.

1/ Includes employees of British military authorities and the national guard.

Table A9. Cyprus: Wage and Productivity Indicators, 1995-99

(Percentage change over previous year)

	1995	1996	1997	1998	1999 Prov.
Average wage 1/	6.6	6.1	6.8	5.2	4.0
Of which:					
Agriculture	6.0	5.8	5.0	3.9	4.3
Manufacturing	6.4	5.8	5.7	4.2	3.7
Construction	6.6	6.0	6.7	4.4	3.5
Trade, restaurants, and hotels	6.5	6.3	6.3	5.1	4.0
Government	6.2	5.8	8.2	6.0	6.8
Average earnings 2/	6.1	6.1	6.6	5.0	4.0
Of which:					
Agriculture	6.2	5.3	4.7	4.0	4.3
Manufacturing	5.9	6.0	5.6	3.8	3.7
Construction	6.3	6.3	6.5	5.7	3.5
Trade, restaurants, and hotels	6.3	6.0	5.9	4.5	4.0
Government	5.7	5.8	8.3	5.9	6.8
Output per person employed	2.6	0.9	2.7	3.9	3.3
Of which:					
Agriculture	16.8	0.2	-3.4	5.0	10.0
Manufacturing	2.8	2.7	3.8	4.2	2.8
Construction	-4.3	1.3	-2.3	3.0	-1.4
Trade, restaurants, and hotels	0.9	-2.5	7.6	5.0	5.7
Memorandum items:					
Average real wage					
deflated by the CPI	4.0	3.1	3.2	3.0	2.3
Unit labor cost 3/	3.5	5.2	3.9	1.1	0.7
Unit labor cost in manufacturing 3/	3.1	3.3	1.8	-0.4	0.9
Real unit labor cost 4/	0.7	2.2	0.3	-1.1	-1.0
Manufacturing sector 5/	0.9	1.4	-0.7	-2.5	-0.2

Source: Ministry of Finance.

1/ Including basic wages or salaries, cost of living and other allowances, bonuses, gratuities, and payments in kind. Data exclude overtime payments and are gross of income tax and social security deductions.

2/ Total gross weekly earnings, including overtime.

3/ Based on average earnings.

4/ Deflated by the GDP deflator.

5/ Deflated by the manufacturing deflator.

Table A10. Cyprus: Price Indices, 1995-99

	Weights	1995 1996 1997 1998 1999					1995 1996 1997 1998 1999				
		(Annual percentage change)					(Contribution to growth) 1/				
Food, beverages, and tobacco	28.8	1.3	3.1	5.2	4.1	2.1	0.4	0.9	1.5	1.2	0.6
Clothing and footwear	9.0	2.9	7.3	3.0	0.1	3.6	0.3	0.7	0.3	0.0	0.3
Rent, fuel, and power	17.0	5.7	5.0	5.2	1.6	2.4	1.0	0.8	0.9	0.3	0.4
Furnishings, household equipment, and supplies	7.6	2.2	0.6	2.9	1.3	0.5	0.2	0.0	0.2	0.1	0.0
Medical care	3.6	5.5	5.8	4.5	3.8	3.4	0.2	0.2	0.2	0.1	0.1
Transport and communication	23.9	0.7	-0.3	0.6	0.4	-0.1	0.2	-0.1	0.1	0.1	0.0
Recreation, education, and entertainment	7.1	5.3	4.0	3.7	4.6	2.4	0.4	0.3	0.3	0.3	0.2
Miscellaneous	3.1	2.7	1.8	3.2	2.3	0.6	0.1	0.1	0.1	0.1	0.0
Total	100.0	2.6	3.0	3.6	2.2	1.7	2.6	3.0	3.6	2.2	1.7

Source: Ministry of Finance.

1/ Components may not sum to totals due to rounding.

Table A11. Cyprus: Implicit Deflators, 1995-99

(Annual percentage change)

	1995	1996	1997	1998	<u>1999</u> Est.
Consumption	2.7	2.7	3.2	2.2	1.3
Private	2.3	2.4	2.5	1.8	1.2
Public	4.7	4.0	5.8	3.5	2.0
Investment	3.1	2.7	2.5	2.0	2.1
Fixed capital	4.2	2.6	2.5	1.9	1.9
Stocks	2.0	3.7	4.4	4.3	3.6
Total domestic demand	2.9	2.7	3.1	2.2	1.5
Exports	2.8	0.3	4.5	1.9	1.5
Aggregate demand	2.9	2.0	3.5	2.1	1.4
Imports	2.2	3.5	3.4	1.0	1.7
GDP at market prices	3.2	1.9	2.5	2.1	1.1

Source: Ministry of Finance.

Table A12. Cyprus: Consolidated Central Government Budget, 1995-99

(In millions of Cyprus pounds)

	1995	1996	1997	1998	1999 Est.
Revenue	1,270.8	1,323.7	1,375.0	1,473.9	1,591.0
Current revenue	1,266.2	1,320.5	1,372.8	1,472.3	1,589.5
Tax revenue	1,022.4	1,058.3	1,072.4	1,175.7	1,283.7
Direct taxes	328.3	353.1	374.4	421.7	494.0
Indirect taxes	513.1	507.6	491.6	534.1	562.8
Social security contributions	181.0	197.5	206.4	219.9	226.8
Nontax	243.8	262.3	300.4	296.6	305.8
Capital revenue	0.8	0.8	0.6	0.9	0.6
Foreign grants	3.9	2.4	1.6	0.7	0.9
Expenditure	1,310.7	1,465.8	1,606.2	1,731.5	1,792.3
Current expenditure	1,152.9	1,318.2	1,442.6	1,553.6	1,594.9
Wages and salaries	374.7	396.8	429.9	459.2	482.7
Other goods and services	95.3	111.5	131.8	142.2	148.2
Subsidies	37.7	46.5	36.3	33.9	39.0
Interest payments	201.1	221.7	230.0	269.2	285.0
Social security payments	191.5	217.8	235.0	252.1	273.0
Other transfers	183.4	210.6	252.9	281.3	310.3
Other	69.2	113.3	126.8	115.7	56.6
Capital	153.2	144.6	160.9	178.1	192.8
Investment	96.7	96.9	107.3	124.9	131.1
Transfers	56.6	47.7	53.7	53.2	61.8
Net lending	4.6	3.0	2.7	-0.2	4.6
Overall balance	-39.9	-142.1	-231.2	-257.6	-201.3
Primary balance	161.3	79.7	-1.2	11.5	83.7
without intragovernmental interest	87.1	-4.8	-97.0	-97.8	-36.1
Financing	39.9	142.1	231.2	257.6	201.3
Domestic	117.4	203.9	143.2	109.4	52.6
Bank	67.3	146.9	108.9	122.2	-38.1
Of which: Short-term borrowing from Central Bank	226.9	-104.4	-19.2	106.4	-207.3
Nonbank	50.1	57.0	34.3	-12.9	90.7
Foreign, net	-77.6	-61.8	88.1	148.3	148.7
Medium- and long-term	-61.2	-41.4	95.9	187.1	138.9
Amortization	-75.2	-69.9	-68.7	-33.3	-32.1
Short-term foreign borrowing 1/	-11.4	-17.2	-7.4	-38.7	16.9
Suppliers' credits	-5.1	-3.3	-0.5	-0.1	0.0
Receipts	0.2	0.0	0.0	0.0	0.0
Payments	-5.2	-3.3	-0.5	-0.1	0.0
Net IMF transactions	0.0	0.0	0.0	0.0	-7.1

Source: Ministry of Finance.

1/ Euro-commercial paper.

Table A13. Cyprus: Consolidated Central Government Budget, 1995-99

(In percent of GDP)

	1995	1996	1997	1998	1999 Est.
Revenue	31.7	31.8	31.5	31.5	32.2
Current revenue	31.6	31.8	31.4	31.5	32.2
Tax revenue	25.5	25.5	24.6	25.1	26.0
Direct taxes	8.2	8.5	8.6	9.0	10.0
Indirect taxes	12.8	12.2	11.3	11.4	11.4
Social security contributions	4.5	4.8	4.7	4.7	4.6
Nontax	6.1	6.3	6.9	6.3	6.2
Capital revenue	0.0	0.0	0.0	0.0	0.0
Foreign grants	0.1	0.1	0.0	0.0	0.0
Expenditure	32.7	35.3	36.8	37.0	36.3
Current expenditure	28.8	31.7	33.0	33.2	32.3
Wages and salaries	9.4	9.5	9.8	9.8	9.8
Other goods and services	2.4	2.7	3.0	3.0	3.0
Subsidies	0.9	1.1	0.8	0.7	0.8
Interest payments	5.0	5.3	5.3	5.8	5.8
Social security payments	4.8	5.2	5.4	5.4	5.5
Other transfers	4.6	5.1	5.8	6.0	6.3
Other	1.7	2.7	2.9	2.5	1.1
Capital	3.8	3.5	3.7	3.8	3.9
Investment	2.4	2.3	2.5	2.7	2.7
Transfers	1.4	1.1	1.2	1.1	1.2
Net lending	0.1	0.1	0.1	0.0	0.1
Overall balance	-1.0	-3.4	-5.3	-5.5	-4.1
Primary balance	4.0	1.9	0.0	0.2	1.7
without intragovernmental interest	2.2	-0.1	-2.2	-2.1	-0.7

Source: Ministry of Finance.

Table A14. Cyprus: Consolidated Central Government Budgets, 1995-99

(In millions of Cyprus pounds)

	1995	1996	1997	1998	1999 Est.
Total revenue and grants	1,270.8	1,323.7	1,375.0	1,473.9	1,591.0
Ordinary budget	861.2	888.5	914.7	956.3	1,021.4
Special relief fund	23.7	18.6	12.4	6.5	6.8
Public loans fund	2.7	2.7	2.9	3.3	2.6
Social insurance funds	255.1	281.9	302.2	329.3	346.7
Sinking funds	24.4	24.0	26.1	22.8	25.7
Defense funds	103.9	108.0	116.7	155.7	187.9
Total expenditure and net lending	1,310.7	1,465.8	1,606.2	1,731.5	1,792.3
Ordinary budget	792.7	877.5	969.1	1,061.7	1,134.7
Development budget	146.3	136.0	158.0	188.9	205.2
Special relief fund	61.8	67.0	72.2	71.0	79.9
Public loans fund	0.3	0.3	0.3	3.0	-0.2
Social insurance funds	198.6	228.0	246.0	263.0	284.5
Cyprus grain commission deficit	25.1	27.7	16.7	12.9	20.3
Defense fund	86.1	128.7	143.8	130.1	68.4
Adjustments to expenditure and net lending	-0.3	0.6	0.1	0.9	-0.4
Overall balance	-39.9	-142.1	-231.2	-257.6	-201.3

Source: Ministry of Finance.

Table A15. Cyprus: Central Government Ordinary Budget, 1995-99

(In millions of Cyprus pounds)

	1995	1996	1997	1998	1999 Est.
Total revenue and grants	861.2	888.5	914.7	956.3	1,021.4
Direct taxes	267.3	281.3	299.0	335.3	380.9
Income taxes	226.6	243.8	260.2	290.7	334.0
Companies	69.5	96.7	102.0	124.4	156.5
Individuals	157.1	147.1	158.2	166.3	177.5
Property taxes	13.9	11.4	12.4	13.2	11.8
Other	26.8	26.0	26.4	31.3	35.2
Indirect taxes	449.4	456.3	44.7	459.8	483.4
Selective excises	118.5	117.5	107.7	120.0	128.5
Import duties	86.2	84.4	69.4	53.4	56.5
VAT	191.9	198.0	206.4	225.8	236.1
Other	52.8	56.4	57.2	60.6	62.3
Nontax revenue	141.1	149.5	174.0	159.8	155.6
Of which:					
Central Bank profits	7.8	10.2	8.8	11.7	8.7
Capital revenue	0.7	0.7	0.5	0.8	0.6
Foreign grants	2.6	0.8	0.5	0.6	0.9
Total expenditure and net lending	792.7	877.5	969.1	1,061.7	1,134.7
Current expenditure	779.3	865.5	949.3	1,050.8	1,120.4
Wages and salaries	364.4	386.3	418.1	446.6	469.0
Goods and services	75.5	89.8	102.4	110.9	119.7
Interest payments	184.5	205.7	212.8	253.9	273.6
Subsidies	12.7	18.8	19.6	21.0	18.8
Transfers	142.2	165.0	196.4	218.5	239.3
Capital expenditure	11.8	10.9	17.6	11.5	15.2
Fixed capital formation	11.0	9.2	13.1	8.4	13.3
Transfers	0.8	1.6	4.5	3.2	1.9
Net lending	1.7	1.1	2.3	-0.6	-0.9
Overall balance	68.4	11.0	-54.5	-105.4	-113.3

Source: Ministry of Finance.

Table A16. Cyprus: Central Government Development Budget, 1995-2000

(In millions of Cyprus pounds)

	1995	1996	1997	1998	1999 Est.
Total expenditure and net lending	146.3	136.0	158.0	188.9	205.2
Expenditure	144.8	135.6	158.0	188.9	205.2
Current expenditure	33.2	35.7	47.4	50.3	55.4
Wages and salaries	5.6	5.7	6.6	7.0	7.1
Goods and services	15.1	15.8	18.6	19.8	22.6
Transfers	12.5	14.2	22.2	23.6	25.8
Capital expenditure	111.7	99.9	110.6	138.6	149.7
Fixed capital formation	72.4	73.0	81.4	104.2	106.6
Transfers	39.3	26.9	29.2	34.4	43.1
Net lending	1.5	0.4	0.0	0.0	0.0
Overall balance	-146.3	-136.0	-158.0	-188.9	-205.2

Source: Ministry of Finance.

Table A17. Cyprus: Social Insurance Funds, 1995-99 1/

(In millions of Cyprus pounds)

	1995	1996	1997	1998	<u>1999</u> Est.
Receipts	255.1	281.9	302.2	329.3	346.7
Employees' contributions	76.2	82.3	88.1	91.9	96.2
Employers' contributions	87.3	96.7	100.0	108.3	111.5
Self-employed contributions	17.5	18.5	18.3	19.7	19.2
Nontax receipts	74.1	84.4	95.8	109.4	119.8
Expenditures	198.6	228.0	246.0	263.0	284.5
Wages and salaries	3.2	3.2	3.5	4.0	3.8
Other goods and services	1.2	0.8	1.7	2.0	0.9
Transfers	196.5	222.8	240.9	258.3	280.3
Capital expenditure	0.0	0.0	0.0	0.0	0.0
Net lending	-0.2	1.2	-0.2	-1.3	0.0
Overall balance	56.5	53.9	56.2	66.4	62.1

Source: Ministry of Finance.

1/ Includes the Social Insurance Fund, Unemployment Benefit Account, Central Holiday Fund and the Redundancy Fund.

Table A18. Cyprus: Defense Fund, 1995-99

(In millions of Cyprus pounds)

	1995	1996	1997	1998	1999 Est.
Revenue	103.9	108.0	116.7	155.7	187.9
Tax revenue	103.5	107.5	116.3	155.5	187.3
Direct	55.3	67.7	73.0	83.9	110.7
Employees	28.3	30.2	31.6	39.1	52.7
Self-employed	2.9	10.7	9.5	9.9	11.4
Pensioners	1.9	2.2	1.8	2.6	2.3
Other	22.2	24.6	30.0	32.3	44.3
Indirect	48.2	39.8	43.4	71.6	76.6
Employers	20.0	21.4	22.1	26.7	37.0
Petroleum tax	17.7	7.5	10.2	32.2	26.5
Excise on tobacco	3.0	3.4	3.7	4.5	4.9
Excise on petrol	7.4	7.5	7.4	8.3	8.2
Nontax revenue	0.4	0.4	0.3	0.2	0.6
Expenditure	86.1	128.7	143.8	130.1	68.4
Overall balance	17.8	-20.7	-27.2	25.6	119.5

Source: Ministry of Finance.

Table A19. Cyprus: Accounts of Relief Fund for Displaced Persons, 1995-99

(In millions of Cyprus pounds)

	1995	1996	1997	1998	1999 Est.
Receipts	23.7	18.6	12.4	6.5	6.8
Taxes on income and profits	5.6	4.2	2.4	2.6	2.4
Temporary import levy	15.2	11.1	7.1	2.3	2.5
Other indirect taxes	0.4	0.4	0.4	0.4	0.4
Nontax receipts	1.1	1.2	1.3	1.1	1.5
Capital revenue	0.1	0.1	0.0	0.1	0.1
Grants	1.4	1.7	1.2	0.1	0.0
Expenditures	61.8	67.0	72.2	71.0	79.9
Current expenditure	30.5	32.8	38.8	43.0	45.6
Wages and salaries	1.4	1.5	1.6	1.6	269.0
Other goods and services	3.4	5.0	8.9	9.3	5.0
Interest payments	0.0	0.0	0.0	0.0	0.0
Transfers	25.8	26.4	28.3	32.1	38.0
Capital expenditures	29.7	33.8	32.8	28.0	27.9
Fixed capital formation	13.2	14.7	12.8	12.3	11.1
Transfers	16.5	19.1	20.0	15.7	16.8
Net lending	1.6	0.4	0.6	-0.1	6.3
Overall balance	-38.2	-48.4	-59.8	-64.4	-73.0

Source: Ministry of Finance.

Table A20. Cyprus: Public Loans Fund, 1995-99
(In millions of Cyprus pounds)

	1995	1996	1997	1998	<u>1999</u> Est.
Total revenue and grants	2.7	2.7	2.9	3.3	2.6
Nontax revenue	2.7	2.7	4.3	3.3	2.6
Expenditure	0.3	0.3	0.3	3.0	-0.2
Current expenditure	0.3	0.3	0.3	1.2	0.3
Wages and salaries	0.1	0.1	0.1	0.1	0.1
Goods and services	0.2	0.1	0.1	0.2	0.1
Interest	0.0	0.1	0.1	0.0	0.0
Net lending	0.0	0.0	0.0	1.8	-0.4
Overall balance	2.4	2.4	2.6	0.2	2.8

Source: Ministry of Finance.

Table A21. Cyprus: Government and Government-Guaranteed Net Debt, 1995-99

	1995	1996	1997	1998	1999 Est.
(In millions of Cyprus pounds; end of period)					
Total government debt	2,059.1	2,199.3	2,497.6	2,791.2	3,010.9
Domestic debt 1/	1,579.8	1,796.4	1,982.3	2,126.4	2,160.2
Short term	1,134.8	1,312.7	1,305.2	1,354.7	1,260.0
Long term	445.0	483.6	677.1	771.7	900.2
Foreign debt	479.3	402.9	515.3	664.8	850.7
Short term 2/	136.5	120.1	124.8	89.0	111.4
Long term	342.8	282.8	390.5	575.8	739.2
Government-guaranteed external debt	290.0	430.8	471.9	518.7	...
Total government and government- guaranteed debt	2,349.1	2,630.1	2,969.5	3,309.9	...
(In percent of GDP)					
Total government debt	51.4	52.9	57.2	59.6	60.9
Domestic debt 1/	39.5	43.2	45.4	45.4	43.7
Short term	28.3	31.6	29.9	28.9	25.5
Long term	11.1	11.6	15.5	16.5	18.2
Foreign debt	12.0	9.7	11.8	14.2	17.2
Short term 2/	3.4	2.9	2.9	1.9	2.3
Long term	8.6	6.8	8.9	12.3	15.0
Government-guaranteed external debt	7.2	10.4	10.8	11.1	...
Total government and government- guaranteed debt	58.7	63.3	68.0	70.7	...

Source: Ministry of Finance.

1/ Excludes intragovernmental debt.

2/ Excludes short-term liabilities of the central bank.

Table A22. Cyprus: Total Gross Public Debt by Instrument and Lender, 1995-99 1/

(In million of Cyprus pounds)

	1995	1996	1997	1998	1999
Domestic	2,730.7	3,102.5	3,462.0	3,760.2	3,980.3
Long term	445.5	484.1	677.6	772.2	900.7
Development stocks	414.7	454.0	644.6	736.4	862.8
Central bank	29.8	30.9	42.9	45.5	77.5
Deposit money banks	5.0	0.0	111.8	145.5	173.5
Private sector	379.9	422.7	489.4	544.9	611.3
Sinking funds 2/	0.0	0.0	0.0	0.0	0.0
Social security funds 2/	0.5	0.5	0.5	0.5	0.5
Savings bonds	21.1	21.0	22.5	22.5	20.0
Central bank	3.7	2.0	3.5	3.6	0.8
Private sector	17.3	19.0	19.0	18.9	19.2
Savings certificates	9.3	9.1	10.5	13.3	18.0
Private sector	9.3	9.1	10.5	13.3	18.0
Other	0.0	0.0	0.0	0.0	0.0
Deposit money banks	0.0	0.0	0.0	0.0	0.0
Short term	2,285.2	2,618.4	2,784.4	2,988.0	3,079.6
Treasury bills	1,925.2	2,286.1	2,422.6	2,589.4	2,674.2
Central bank	282.4	205.8	191.8	247.7	47.3
Deposit money banks	458.7	722.1	722.7	708.4	791.2
Private sector	33.7	52.6	28.9	0.0	16.1
Sinking funds 2/	0.0	0.0	0.0	0.0	0.0
Social security funds 2/	1,150.9	1,305.7	1,479.2	1,633.3	1,819.6
Central bank advances	360.0	332.3	361.8	398.6	405.4
Foreign	484.1	407.7	520.1	669.5	855.4
Short-term liabilities of the					
Central bank to the IMF	4.8	4.8	4.8	4.8	4.8
Long-term loans	342.8	282.9	236.8	220.3	223.4
Of which: Defense fund	10.7	3.6	2.2	1.8	1.4
Medium-term loans (E.M.T.N.)	0.0	0.0	153.8	355.5	515.9
Short-term loans (E.C.P.)	136.5	120.1	124.8	89.0	111.4
Total debt	3,214.7	3,510.2	3,982.1	4,429.8	4,835.7
Net of Intragov. Debt	2,063.9	2,199.3	2,497.6	2,791.2	3,010.9

Source: Ministry of Finance.

1/ Includes intragovernmental debt and short-term liabilities of the central bank.

2/ Intragovernmental debt.

Table A23. Cyprus: Targets and Outturns for Monetary and Credit Aggregates, 1995-2000

	1995		1996		1997		1998		1999		2000	
	Prog.	Outturn	Prog.	Outturn	Prog.	Outturn	Prog.	Outturn	Prog.	Outturn	Prog.	Outturn 1/
(Rates of growth, in percent)												
Total liquidity (M2)	14.0	11.5	9.0	10.5	9.3	10.8	11.6	8.5	8.6	15.4	12.6	17.8
Domestic credit 2/	10.5	11.0	8.9	9.3	11.3	12.6	11.9	14.7	11.1	13.4	9.9	15.0
Credit to private sector 3/	11.0	17.0	13.0	11.9	11.0	12.0	11.0	14.2	10.0	11.6	12.0	19.8
Gross domestic product	8.2	9.3	7.3	3.6	5.7	4.9	6.8	6.9	6.4	6.6	9.5	...
(As a ratio to average M2)												
Memorandum items:												
Income velocity of M2	1.0	1.1	1.1	1.0	1.0	0.9	1.0	0.9	0.9	0.9	0.8	...
Rate of change, in percent	6.4	-1.7	1.9	-6.3	-5.7	-5.4	-4.0	-1.4	-1.1	-7.5	-2.7	...

Source: Central Bank of Cyprus.

1/ 12-month growth as of April 30, 2000.

2/ Adjusted for government foreign borrowing.

3/ Original 1996 target was revised from 10-13 percent in July 1996.

Table A24. Cyprus: Monetary Survey, 1995-2000

	1995	1996	1997	1998	1999	2000 1/
(In millions of Cyprus pounds, end-of-period stocks)						
Foreign assets, net	498.6	318.0	238.2	92.4	216.2	80.5
Official reserves 2/	797.8	778.7	764.2	725.6	1,107.1	1,206.1
Deposit money banks	-299.1	-460.6	-525.9	-633.2	-890.9	-1,125.6
Payments agreements	-0.1	-0.1	-0.1	0.0	0.0	0.0
Domestic credit, net	4,057.6	4,639.0	5,180.8	5,845.1	6,451.6	6,892.2
Public sector	800.9	909.0	1,003.2	1,075.0	1,127.5	1,090.2
Central government	819.3	920.7	1,017.6	1,079.0	1,152.7	1,115.5
Advances	308.7	342.7	332.3	289.7	344.6	411.0
Treasury bills and securities	776.7	960.7	1,072.7	1,164.5	1,160.8	1,118.9
Deposits	-266.1	-382.7	-387.4	-375.2	-352.7	-414.5
Government agencies	-1.1	5.5	3.7	4.6	2.6	3.8
Other	-17.3	-17.2	-18.0	-17.5	-27.8	-29.0
Private sector	3,256.7	3,730.0	4,177.6	4,770.1	5,324.1	5,802.0
Other items, net	-475.7	-740.0	-741.9	-860.9	-899.4	-906.4
Broad money (M2)	3,760.2	4,156.4	4,606.8	4,997.6	5,768.5	6,066.4
Money supply (M1)	613.8	653.2	704.1	730.0	1,036.6	1,081.2
Currency in circulation	257.1	265.8	276.3	290.1	313.8	315.8
Demand deposits	356.7	387.4	427.8	439.9	727.7	765.3
Quasi-money	3,146.4	3,503.0	3,902.7	4,267.7	4,722.7	4,985.2
Savings deposits	167.1	168.2	173.2	176.5	182.1	175.2
Time deposits	2,979.2	3,334.8	3,729.5	4,091.2	4,540.6	4,810.0
(Absolute change over preceding 12 months)						
Foreign assets, net	192.0	-180.6	-79.8	-145.9	123.8	137.4
Official reserves 2/	118.6	-19.1	-14.5	-38.7	381.5	558.9
Deposit money banks	73.4	-161.5	-65.3	-107.3	-257.7	-422.2
Payments agreements	0.0	0.0	0.0	0.1	0.0	0.7
Domestic credit, net	478.3	581.4	541.8	664.3	606.5	898.4
Public sector	49.4	108.1	94.2	71.8	52.5	-61.4
Central government	54.5	101.4	96.9	61.4	73.7	-59.6
Advances	12.6	34.0	-10.4	-42.6	54.9	43.5
Treasury bills and securities	95.5	184.0	112.0	91.8	-3.7	-42.4
Deposits	-53.6	-116.6	-4.7	12.2	22.5	-60.7
Government agencies	-5.5	6.6	-1.8	0.9	-2.0	1.2
Other	0.4	0.1	-0.8	0.5	-10.3	-3.0
Private sector	428.9	473.3	447.6	592.5	554.0	959.8
Other items, net	37.4	-264.3	-1.9	-119.0	-38.5	-116.9
Broad money (M2)	387.4	396.2	450.4	390.8	770.9	915.3
Money supply (M1)	39.1	39.4	50.9	25.9	306.6	328.1
Currency in circulation	10.5	8.7	10.5	13.8	23.7	34.1
Demand deposits	28.6	30.7	40.4	12.1	287.8	294.0
Quasi-money	348.3	356.6	399.7	365.0	455.0	587.2
Savings deposits	3.3	1.1	5.0	3.3	5.6	2.4
Time deposits	380.5	355.6	394.7	361.7	449.4	584.8
Memorandum items:						
Income velocity of M2 3/	1.1	1.0	0.9	0.9	0.9	...
Income velocity of M1 3/	6.5	6.3	6.2	6.4	4.8	...
Deposits with cooperatives 4/	1,800.4	1,976.9	2,200.0	2,360.3	2,580.0	...
Loans by cooperatives 4/	1,652.9	1,836.4	2,000.0	1,995.9	2,380.0	...

Source: Central Bank of Cyprus.

1/ As of April 30, 2000.

2/ Includes holdings of SDRs, government holdings of foreign exchange, and reserve position in the IMF.

3/ Nominal GDP/average of money stock at beginning and end of year.

4/ Data exclude the operations of the Cooperative Central Bank, which is included in the monetary survey.

Table A25. Cyprus: Financial Indicators, 1995-99

(End of year)

	1995	1996	1997	1998	1999
(In millions of Cyprus pounds)					
Gross official reserves (including gold) 1/	838.7	805.2	802.7	754.0	1135.6
Central bank short-term foreign liabilities 2/	40.8	75.4	47.6	78.4	23.5
Short-term foreign assets of the financial sector 3/	1,343.2	1,444.5	1,805.0	1,551.7	1,823.5
Short-term foreign liabilities of the financial sector 2/ 5/	1,699.4	2,008.3	2,454.3	2,368.8	3,128.9
Foreign currency exposure of the financial sector 3/ 4/ 6/	38.3	37.7	53.4	158.2	89.1
(Percent)					
Central bank lending to banks/GDP 7/	1.0	1.1	0.7	1.1	0.0
Share of substandard loans in total loans	...	7.8	8.4	8.7	8.4
Risk-based capital asset ratio (capital/ risk-weighted liabilities)	10.5	9.9	10.1	9.9	11.8
Share of foreign exchange loans in total lending					
to domestic residents	2.7	4.1	4.6	6.3	8.7
Share of foreign deposits in total deposits	26.9	28.1	28.5	28.1	29.2
Average maturity of deposits (in days)	227.3	229.0	233.0	234.2	210.1
(Index, 29.3.96 = 100)					
Share prices					
Cyprus Stock Exchange	...	82.3	77.3	90.6	714.0
Banking	...	91.7	88.1	105.3	770.9
Investment	...	74.8	60.3	58.4	737.5
Insurance	...	58.3	58.6	64.9	402.7

Source: Central Bank of Cyprus, Cyprus Stock Exchange.

1/ Includes IMF reserve position and reserves of the government.

2/ Liabilities to nonresident banking sector of less than one-year maturity remaining.

3/ Excluding the CBC.

4/ This position includes off-balance sheet foreign currency liabilities, such as short-forward positions.

5/ Comprise short-term liabilities to nonresidents (including the nonresident banking sector).

6/ Aggregate long or short position of the banking system, whichever is the highest. 1999 figure is for 9/30/99.

7/ Lending refers to the daily average central bank lending of the year.

Table A26. Cyprus: Credit by Deposit Money Banks to the Private Sector, 1995-2000

	1995	1996	1997	1998	1999	2000 1/
(End-of-period stocks, millions of Cyprus pounds)						
Personal loans	944.6	1,153.1	1,359.2	1,637.3	2,219.3	2,460.5
Foreign and domestic trade	840.5	926.8	1,033.7	1,147.3	1,250.1	1,358.7
Manufacturing	405.9	439.0	452.8	496.3	491.5	499.7
Building and construction	489.2	538.0	595.9	647.2	676.8	721.7
Tourism	358.6	416.0	454.0	523.9	575.4	617.8
Other	237.7	251.9	284.9	345.1	379.3	418.6
Total	3,276.5	3,724.8	4,180.5	4,797.1	5,592.4	6,077.0
(As a percentage of end-of-period stocks)						
Personal loans	28.8	31.0	32.5	34.1	39.7	40.5
Foreign and domestic trade	25.7	24.9	24.7	23.9	22.4	22.4
Manufacturing	12.4	11.8	10.8	10.3	8.8	8.2
Building and construction	14.9	14.4	14.3	13.5	12.1	11.9
Tourism	10.9	11.2	10.9	10.9	10.3	10.2
Other	7.3	6.8	6.8	7.2	6.8	6.9
Total	100.0	100.0	100.0	100.0	100.0	100.0
(Flows of new credit, millions of Cyprus pounds)						
Personal loans	180.3	208.5	206.1	278.1	582.0	726.7
Foreign and domestic trade	125.2	86.3	106.9	113.6	102.8	177.9
Manufacturing	33.2	33.1	13.8	43.5	-4.8	16.3
Building and construction	57.7	48.8	57.9	51.3	29.6	69.7
Tourism	56.2	57.4	38.0	69.9	51.5	63.5
Other	26.6	14.2	33.0	60.2	34.2	46.5
Total	479.2	448.3	455.7	616.6	795.3	1,100.6
(As a percentage of total flow of new credit)						
Personal loans	37.6	46.5	45.2	45.1	73.2	66.0
Foreign and domestic trade	26.1	19.3	23.5	18.4	12.9	16.2
Manufacturing	6.9	7.4	3.0	7.1	-0.6	1.5
Building and construction	12.0	10.9	12.7	8.3	3.7	6.3
Tourism	11.7	12.8	8.3	11.3	6.5	5.8
Other	5.6	3.2	7.2	9.8	4.3	4.2
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Central Bank of Cyprus.

1/ As of April 30, 2000.

Table A27. Cyprus: Balance Sheet of the Central Bank, 1995-2000

	1995	1996	1997	1998	1999	2000 1/
(In millions of Cyprus pounds, end-of-period stocks)						
Total assets	1,186.8	1,421.4	1,398.7	1,501.9	1,712.8	1,777.5
International reserves 2/	820.7	787.3	783.9	735.8	1,107.2	1,194.8
Loans to banks	22.4	6.5	0.1	5.6	32.0	7.2
Loans to government	311.5	349.1	338.3	304.0	350.5	415.3
Government securities	313.3	239.0	238.5	310.9	203.5	84.1
other assets	-281.1	39.5	37.9	145.6	19.6	76.0
Total liabilities	1,186.8	1,421.4	1,398.7	1,501.9	1,712.8	1,777.5
Currency	282.4	294.0	305.9	324.2	352.8	351.0
Deposits by banks	602.9	501.0	497.6	593.5	692.3	705.9
Deposits by government, others	235.0	352.3	350.9	328.2	307.9	369.8
Capital and other liabilities 1/	66.5	274.1	244.3	256.0	359.8	350.8
Monetary base	885.3	795.0	803.5	917.7	1,045.1	1,056.9
Currency	282.4	294.0	305.9	324.2	352.8	351.0
Deposits by banks	602.9	501.0	497.6	593.5	692.3	705.9
(Percentage change)						
Monetary base	-1.9	-10.2	1.1	14.2	13.9	19.9
International reserves 3/	13.7	-3.8	-0.4	-6.0	40.5	62.1
Domestic assets 4/	-15.6	-6.4	1.5	20.2	-26.6	-42.2
Currency 5/	1.4	1.3	1.5	2.3	3.1	4.5
Deposits by banks 5/	-3.3	-11.5	-0.4	11.9	10.8	15.4
Memorandum items:						
M1 multiplier	0.7	0.8	0.9	0.8	1.0	1.0
M2 multiplier	4.2	5.2	5.7	5.4	5.5	5.7
International reserves (in months of GNFS imports)	5.0	4.3	4.2	3.7	5.5	6.0

Source: Central Bank of Cyprus.

1/ As of April 30, 2000.

2/ Revaluation of assets in 1996 corresponds to an increase by £C 288.4 million.

3/ Contribution to growth of monetary base, excludes the effect of the revaluation.

4/ Monetary base minus international reserves, contribution to growth in monetary base.

5/ Contribution to growth in monetary base.

Table A28. Cyprus: Selected Interest Rates, 1995-2000

(In percent per annum)

	1995	1996	1997	1998	1999	2000 1/
Central bank rates						
Loans to government agencies	6.0	6.0	6.0	6.0	6.0	6.0
Lombard facility	...	7.5	7.0	7.0	7.0	7.0
Deposits						
Minimum reserves 2/	6.0	6.0	6.0	6.0	6.0	6.0
Overnight	...	5.0	4.0	4.0	4.0	4.0
Repurchase rate	...	7.7	4.7	4.7	5.4	6.3
Interbank money market rate	7.25-7.5	6.9	4.7	4.8	5.2	6.1-6.3
Commercial bank rates						
Demand deposits 3/	2.0	2.0	2.0	2.0	2.0	2.0
Savings deposits 3/ 4/	4.0	4.0	4.0	4.0	4.0	4.0
Time deposits 4/ 5/	7.0	7.0	6.5	6.5	6.5	6.5
Advances and loans 3/	8.5	8.5	8.0	8.0	8.0	8.0
Rates on government paper						
Treasury bills 6/	6.0	6.1	5.4	5.5	5.5	5.5
Long-term bond yield 7/	7.0	7.0	6.9	7.2	7.4	7.4

Source: Central Bank of Cyprus.

1/ As of April 30, 2000.

2/ A rate of 8 percent is paid on the top 2 percent of the minimum reserve requirements.

3/ Maximum allowable rate.

4/ 1997 data refer to rate prevailing from March 18 onwards.

5/ Applies to balances of up to £C5,000 which require seven days notice for withdrawal.

6/ Period average on bills of 13-week maturity.

7/ Data from 1997 on refer to rate on 10-year bond.

Table A29. Cyprus: Balance of Payments Summary, 1995-99

(In millions of Cyprus pounds)

	1995	1996	1997	1998	1999
Trade balance	-989.2	-1,070.3	-1,099.1	-1,287.5	-1,292.5
Exports, f.o.b. 1/	510.2	597.1	605.6	519.9	504.4
Imports, f.o.b.	-1,499.4	-1,667.4	-1,704.7	-1,807.4	-1,796.9
Invisible balance	911.9	849.7	929.1	973.2	1,161.8
Invisible receipts	1,583.3	1,573.9	1,698.1	1,797.0	2,049.0
Invisible payments	-671.4	-724.2	-769.0	-823.6	-887.2
Current account balance	-77.3	-220.6	-170.0	-314.3	-130.7
Capital account balance	-11.5	-4.1	89.2	161.8	6.6
Short term (net)	6.7	4.4	-22.5	-36.7	44.5
Long-term loans (net)	-37.0	-45.4	-47.4	32.0	-180.0
Other long-term capital	18.8	36.9	159.1	167.0	142.0
Net errors and omissions	-22.1	5.2	-38.3	-37.0	-27.0
Overall balance	-110.9	-219.5	-119.1	-189.3	-151.0
Financing items					
Use of IMF credit	0.0	0.0	0.0	0.0	0.0
Gross central bank reserves	-133.5	33.4	3.4	48.0	-371.0
Gross commercial bank reserves	-485.6	-101.4	-360.4	243.0	-262.0
Other (including short-term liabilities of comm. banks)	730.0	287.5	476.1	-102.0	784.0

Source: Central Bank of Cyprus.

1/ Excluding shipstores.

Table A30. Cyprus: Merchandise Trade, 1995-99 1/

	Domestic Exports, f.o.b. 2/		Re-exports 3/	Total Exports, f.o.b.		Imports, c.i.f.		Trade Deficit
	In millions of £C	Percentage Change 4/	In millions of £C	In millions of £C	Percentage Change 4/	In millions of £C	Percentage Change 4/	In millions of £C
1995								
I	53.8	5.7	57.4	111.2	2.1	405.1	16.4	-293.9
II	86.3	16.6	70.4	156.7	19.5	436.9	14.2	-280.2
III	44.4	-1.6	84.7	129.1	8.1	399.8	14.5	-270.7
IV	54.1	8.0	104.4	158.5	35.9	428.7	6.5	-270.2
1996								
I	56.0	4.1	100.9	156.9	41.1	459.8	13.5	-302.9
II	75.1	-13.0	109.8	184.9	18.0	479.5	9.8	-294.6
III	48.8	9.9	91.3	140.1	8.5	419.6	5.0	-279.5
IV	52.6	-2.8	118.7	171.3	8.1	498.6	16.3	-327.3
1997								
I	57.5	2.7	88.8	146.3	-6.8	423.1	-8.0	-276.8
II	54.0	-28.1	107.3	161.3	-12.8	515.5	7.5	-354.2
III	52.7	8.0	125.3	178.0	27.1	480.7	14.6	-302.7
IV	55.6	5.7	98.8	154.4	-9.9	479.9	-3.8	-325.5
1998								
I	57.1	-0.6	97.6	155.0	5.8	465.7	10.1	-310.9
II	66.0	22.3	86.6	153.0	-5.4	472.5	-8.3	-319.8
III	50.1	-4.9	81.1	131.0	-26.3	468.1	-2.6	-336.9
IV	48.1	-13.6	64.4	112.0	-27.2	498.4	3.9	-385.9
1999								
I	50.7	-11.3	62.2	113.0	-27.1	423.3	-9.1	-310.5
II	61.2	-7.3	78.2	139.0	-8.7	508.8	7.7	-369.5
III	47.9	-4.4	108.0	156.0	18.8	466.8	-0.3	-310.9
IV	55.4	15.3	79.3	135.0	19.8	572.0	14.8	-437.3

Sources: Central Bank of Cyprus; Ministry of Finance.

1/ Based on customs data. Quarterly figures do not necessarily add up to annual figures because valuation adjustments are only made at end of the year.

2/ Includes sales of domestic shipstores.

3/ Includes sales of foreign shipstores.

4/ Over preceding year, or over the same period in the previous year.

Table A31. Cyprus: Direction of Trade, 1995-99 1/

(In percent of total trade)

	Exports (fob) 2/					Imports (cif)				
	1995	1996	1997	1998	1999	1995	1996	1997	1998	1999
EU countries:	37.8	30.9	28.7	40.4	43.1	53.4	51.4	50.1	55.1	53.8
Of which:										
Germany	5.8	4.8	3.4	4.6	4.5	8.4	7.5	6.3	8.5	7.0
France	1.5	1.4	1.1	1.3	1.2	4.2	4.2	4.4	5.0	5.4
Greece	6.6	6.3	7.6	10.4	9.7	7.4	7.6	7.5	8.2	8.5
Italy	1.4	1.7	1.4	1.0	1.8	10.1	9.7	8.7	9.4	9.2
United Kingdom	14.5	11.3	10.0	15.5	17.3	12.2	11.9	12.0	11.4	11.7
Other European Countries	34.7	43.1	39.4	25.9	18.4	8.2	7.3	8.5	7.3	7.1
Of which:										
Russia	14.9	19.1	20.7	10.9	7.0	4.1	3.0	4.8	3.0	3.1
Switzerland	0.9	0.7	0.6	0.5	0.3	1.3	1.1	1.1	1.2	1.2
Bulgaria	9.9	16.4	8.3	4.8	2.9	0.3	0.2	0.3	0.2	0.4
Middle Eastern countries	20.2	18.7	21.7	23.7	22.5	3.0	4.5	2.5	2.5	4.7
Of which:										
Egypt	2.5	2.7	2.8	3.7	2.6	0.4	1.8	0.4	1.0	2.5
Lebanon	4.7	4.3	5.8	5.8	5.2	1.5	0.2	0.2	0.3	0.2
United Arab Emirates	5.9	2.8	5.7	5.2	4.4	0.3	0.1	0.1	0.1	0.2
Other countries	7.3	7.4	10.2	10.0	15.9	35.4	36.7	38.9	35.1	34.3
Of which:										
Japan	0.2	0.1	0.1	0.3	0.2	6.9	6.3	5.6	7.5	6.9
United States	1.4	0.8	1.2	2.0	4.3	13.4	17.8	20.0	12.6	11.0
Israel	2.0	2.6	3.3	3.0	4.0	1.5	1.8	2.9	2.8	3.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Central Bank of Cyprus.

1/ Data on a customs basis. Does not include imports of military equipment.

2/ Excludes shipstores.

Table A32. Cyprus: Imports by Commodity, 1995-99 1/

	1995	1996	1997	1998	1999
(In millions of Cyprus pounds)					
Total imports, c.i.f.	1,670.4	1,857.4	1,899.2	2,014.8	2,003.9
Consumer goods	293.3	320.7	368.5	446.7	481.6
Intermediate inputs	568.0	584.9	568.7	627.0	579.8
Capital goods	151.5	161.0	162.4	201.7	189.5
Transportation equipment	171.2	161.5	149.3	182.9	180.9
Fuel and lubricants	104.3	133.8	137.8	108.0	152.3
Military equipment	53.8	103.2	95.7	124.2	78.5
Imports for re-exports	328.3	392.3	416.8	324.3	341.3
(Percent of total imports)					
Consumer goods	17.6	17.3	19.4	22.2	24.0
Intermediate inputs	34.0	31.5	29.9	31.1	28.9
Capital goods	9.1	8.7	8.6	10.0	9.5
Transportation equipment	10.2	8.7	7.9	9.1	9.0
Fuel and lubricants	6.2	7.2	7.3	5.4	7.6
Military equipment	3.2	5.6	5.0	6.2	3.9
Imports for re-exports	19.7	21.1	21.9	16.1	17.0
Total imports	100.0	100.0	100.0	100.0	100.0

Source: Central Bank of Cyprus.

1/ Data on a customs basis; excluding imports of foreign embassies and military bases.

Table A33. Cyprus: Exports (f.o.b.) by Commodity, 1995-99

	1995	1996	1997	1998	1999
(In millions of Cyprus pounds)					
Total domestic exports, f.o.b.	232.3	221.7	213.7	213.2	206.7
Agricultural products	67.7	53.3	35.9	40.5	36.5
Of which:					
Potatoes	43.1	27.7	8.4	19.0	14.0
Citrus fruit	16.8	18.1	17.3	12.7	13.8
Fresh vegetables	2.5	2.7	2.7	2.9	3.2
Industrial products - agricultural	29.2	31.2	28.1	24.4	25.3
Of which:					
Halloumi cheese	4.2	4.4	5.3	5.4	6.1
Fruit and vegetable juices	7.7	7.3	4.5	3.4	2.9
Wines	9.1	9.8	7.9	6.8	7.3
Industrial Products - manufacturing	132.4	131.8	139.7	137.7	133.0
Of which:					
Clothing	44.3	37.5	29.9	29.0	22.8
Footwear	4.9	5.3	6.2	8.4	7.1
Cement	7.8	8.8	12.5	8.9	7.8
Paper products	6.1	6.2	5.9	5.0	3.9
Minerals	2.6	5.0	9.6	10.4	11.5
Unclassified	0.4	0.4	0.4	0.2	0.4
Re-exports	277.9	375.5	391.9	306.6	297.6
Shipstores	45.7	52.2	34.6	31.4	38.7
Total exports	555.9	649.4	640.2	551.2	543.1
(Percent of total exports)					
Total domestic exports, f.o.b.	41.8	34.1	33.4	38.7	38.1
Agricultural products	12.2	8.2	5.6	7.3	6.7
Industrial products - agricultural	5.3	4.8	4.4	4.4	4.7
Industrial products - manufacturing	23.8	20.3	21.8	25.0	24.5
Minerals	0.5	0.8	1.5	1.9	2.1
Re-exports	50.0	57.8	61.2	55.6	54.8
Shipstores	8.2	8.0	5.4	5.7	7.1
Total exports	100.0	100.0	100.0	100.0	100.0

Source: Central Bank of Cyprus.

Table A34. Cyprus: Invisible Transactions, 1995-99

(In millions of Cyprus pounds)

	1995	1996	1997	1998	1999
Net invisible receipts	911.9	849.7	929.1	973.2	1,161.7
Freight and insurance, net	-159.1	-177.7	-180.6	-192.1	-190.5
Receipts	7.5	7.6	8.8	8.7	9.2
Payments	-166.6	-185.3	-189.4	-200.8	-199.7
Other transportation, net	92.6	110.4	107.1	100.9	111.4
Receipts	207.7	222.7	211.4	210.6	229.2
Payments	-115.1	-112.3	-104.3	-109.7	-117.8
Tourism, net	663.8	612.8	653.4	677.0	799.2
Receipts	812.9	783.1	851.5	888.3	1033
Payments	-149.1	-170.3	-198.1	-211.3	-233.8
Investment income, net	-13.5	-18.8	-6.0	-10.6	-21.1
Receipts	127.9	128.0	152.9	169.8	179.4
Payments	-141.4	-146.8	-158.9	-180.4	-200.5
Other goods, services, and income, net	315.1	307.6	341.9	382.8	416.3
Receipts	406.3	412.5	452.5	493.7	537.4
Payments 1/	-91.2	-104.9	-110.6	-110.9	-121.1
Transfers, net	13.0	15.4	13.3	15.2	46.4
Receipts	21.0	20.0	21.0	25.7	60.7
Payments	-8.0	-4.6	-7.7	-10.5	-14.3

Source: Central Bank of Cyprus.

1/ Includes expenditures of Cypriot students abroad.

Table A35. Cyprus: Balance of Payments Capital Account, 1995-99

(In millions of Cyprus pounds; end of period)

	1995	1996	1997	1998	1999
Long-term capital movement	-18.2	-8.5	111.7	198.5	-37.9
Loans/credits received (net)	-24.8	-21.2	7.2	16.5	-18.2
Drawings	96.5	136.9	145.8	144.6	71.1
Government	10.3	25.0	10.4	29.5	10.7
Official creditors	10.3	25.0	10.4	18.5	10.7
Private creditors	0.0	0.0	0.0	11.0	0.0
Public corporations	45.6	62.4	90.3	66.1	42.4
Official creditors	9.8	13.8	52.9	...	...
Private creditors	35.8	48.6	37.4	...	...
Private sector	42.6	49.6	45.1	49.0	18.0
Repayments	-121.3	-158.1	-138.6	-128.0	-89.3
Government	-74.9	-69.5	-68.4	-32.9	-31.8
Public corporations	-26.4	-65.6	-45.2	-68.1	-31.5
Private	-20.0	-23.0	-25.0	-27.0	-26.0
Loans/credit extended (net)	-12.2	-24.2	-54.6	15.0	-161.5
Drawings (-)	-17.6	-45.8	-68.0	-7.2	-171.4
Government	-9.9	-24.2	-24.0	-4.2	-8.2
Financial institutions(net)	-7.7	-21.6	-44.0	-3.0	-163.2
Repayments (+)	5.4	21.6	13.4	22.2	9.9
Government	5.4	21.6	13.4	22.2	9.9
Financial institutions(net)	0.0	0.0	0.0	0.0	0.0
Other private long-term capital (net)	19.7	37.9	6.4	-33.6	-16.6
Foreign investments in Cyprus	56.9	93.5	50.9	54.3	249.3
Investments by Cypriots abroad	-19.0	-25.5	-30.2	-56.4	-127.7
Other private long-term capital n.i.e.	-18.2	-30.1	-14.3	-31.5	-138.2
Other official long-term capital (net)	-0.9	-1.0	152.7	200.6	158.4
Short-term capital movement (net)	6.7	4.4	-22.5	-36.7	44.5
Government (net)	-13.3	-7.6	-17.5	-38.7	23.3
Public corporations (net)	-2.0	7.0	5.0	-3.0	-1.8
Private sector (net)	22.0	5.0	-10.0	5.0	23.0
Net capital movements	-11.5	-4.1	89.2	161.8	6.6

Source: Central Bank of Cyprus.

Table A36. Cyprus: International Reserves, 1995-99

(In millions of Cyprus pounds, end of period)

	1995	1996	1997	1998	1999
Monetary authorities (net)	797.8	778.7	764.2	725.6	1,107.1
Foreign assets	838.7	805.2	802.7	754.0	1,135.6
Central bank	820.7	787.3	783.9	735.8	1,107.2
Reserve position in IMF	17.3	17.2	18.0	17.5	27.8
Government	0.7	0.7	0.7	0.7	0.7
Foreign liabilities	-40.9	-26.5	-38.5	-28.4	-28.5
Commercial banks (net)	-299.1	-460.6	-525.9	-633.2	-890.9
Net foreign assets	498.7	318.1	238.3	92.4	216.2

Source: Central Bank of Cyprus; IMF, *International Financial Statistics*.

Table A37. Cyprus: Outstanding External Debt and Debt Service, 1995-99

	1995	1996	1997	1998	1999
(In millions of Cyprus pounds)					
Total outstanding external debt	1,196.5	1,221.8	1,422.5	1,587.7	1,796.0
Public sector	784.8	735.5	906.1	1,054.7	1,277.0
Medium and long term	639.5	582.7	753.7	944.0	1,142.3
Government	340.1	280.8	388.8	576.6	742.5
Public enterprises	299.4	301.9	364.9	367.4	399.8
Of which: publicly guaranteed	290.0	290.5	340.0	343.0	378.0
Short term 1/	145.3	152.8	152.4	110.7	134.7
Government	137.3	137.8	128.6	90.7	112.7
Public enterprises	8.0	15.0	23.8	20.0	22.0
Private sector	411.7	486.3	516.4	533.0	519.0
Medium and long term	239.7	306.3	326.4	348.0	304.0
Suppliers' credits	21.0	23.0	25.0	37.0	35.0
Other	218.7	283.3	301.4	311.0	269.0
Short term 1/	172.0	180.0	190.0	185.0	215.0
Suppliers' credits	157.0	162.0	170.0	164.0	190.0
Other	15.0	18.0	20.0	21.0	25.0
Service payments of external debt 2/	172.4	203.2	177.6	177.0	144.2
Public sector	145.9	173.7	145.8	143.2	111.2
Amortization	101.1	135.1	110.8	101.0	63.3
Interest	44.8	38.6	35.0	42.2	47.9
Private sector	26.5	29.5	31.8	33.8	33.0
Amortization	20.0	23.0	25.0	27.0	26.0
Interest	6.5	6.5	6.8	6.8	7.0
(Percent of GDP)					
Outstanding external debt	29.9	29.4	32.6	33.9	36.3
Public sector	19.6	17.7	20.8	22.5	25.8
Medium and long term	16.0	14.0	17.3	20.2	23.1
Short-term debt	3.6	3.7	3.5	2.4	2.7
Private sector	10.3	11.7	11.8	11.4	10.5
Medium and long term	6.0	7.4	7.5	7.4	6.2
Short-term debt	4.3	4.3	4.4	4.0	4.3
(Percent of goods and services exports)					
Service payments	8.3	9.4	7.8	7.7	5.8
Public sector	7.0	8.1	6.4	6.3	4.5
Private sector	1.3	1.4	1.4	1.5	1.3

Source: Central Bank of Cyprus.

1/ Excludes short-term liabilities of the banking system.

2/ Medium and long term.

Table A38. Cyprus: Long-Term Foreign Debt by Creditor, 1995-99

(In millions of Cyprus pounds; end of period)

	1995	1996	1997	1998	1999
Public sector debt	634.9	582.7	753.7	944.0	1,142.8
Government	335.5	280.8	388.8	576.6	742.5
Official creditors	332.5	279.7	234.9	218.7	226.3
Multilateral	309.6	257.8	212.6	199.9	208.8
IBRD	17.5	16.8	15.7	12.3	10.6
RFCE 1/	274.0	221.6	172.2	164.5	172.3
Other	18.1	19.4	24.7	23.1	25.9
Bilateral	22.9	21.9	22.3	18.8	17.5
Private creditors	3.0	1.1	153.9	357.9	516.2
Suppliers' credits	3.0	0.0	0.0	0.0	0.0
Financial markets	0.0	1.1	0.1	0.0	0.0
Bonds and notes	0.0	0.0	153.8	357.9	516.2
Public enterprises	299.4	301.9	364.9	367.4	400.3
Official creditors	111.0	118.2	170.0	174.0	197.3
Multilateral	101.9	110.3	163.2	168.5	191.0
IBRD	15.4	13.6	14.3	0.0	0.0
RFCE 1/	72.6	71.8	106.1	0.0	0.0
Other	13.9	24.9	42.8	0.0	0.0
Bilateral	9.1	7.9	6.8	5.5	6.3
Private creditors	188.4	183.7	194.9	193.4	203.0
Suppliers' credits	8.3	2.3	1.0	0.0	0.5
Financial markets	180.1	181.4	193.9	193.4	202.5
Private sector debt (financial)	53.7	108.3	110.4	125.0	77.0
Financial markets	53.7	68.3	70.4	85.0	73.0
Bonds and notes	0.0	40.0	40.0	40.0	4.0
Private sector debt (nonfinancial)	186.0	198.0	216.0	223.0	227.0
Suppliers' credits	21.0	23.0	25.0	37.0	35.0
Financial markets	165.0	175.0	191.0	186.0	192.0
Total long-term foreign debt	874.6	889.0	1,080.1	1,292.0	1,446.0
Of which:					
International organizations	411.5	368.1	375.8	368.4	399.8
Foreign governments	32.0	29.8	29.1	24.3	23.8
Financial markets	398.8	425.8	455.4	464.4	467.0
Suppliers' credits	32.3	25.3	26.0	37.0	35.5
Bonds and Notes	0.0	40.0	193.8	397.9	520.2

Source: Central Bank of Cyprus.

1/ Resettlement Fund of the Council of Europe.

Table A39. Cyprus: Nominal and Real Exchange Rate Indices, 1995-99

(Period Averages)

	Nominal Exchange Rate Indices			Real Exchange Rate Indices		
	U.S. dollar/ Cyprus pound	ECU/ Cyprus pound 1/	Pound sterling/ Cyprus pound	Nominal Effective Exchange Rate 2/	Relative Consumer Price Index 2/	Real Effective Exchange Rate 2/
1995	101.1	97.5	111.5	113.8	94.0	107.0
1996	98.0	97.6	109.3	116.0	92.4	107.2
1997	89.0	99.0	94.4	116.9	91.5	107.0
1998	88.4	99.6	92.8	123.2	89.7	110.5
1999	84.3	99.6	90.7	120.6	88.5	106.7
1998						
I	85.8	99.5	90.6	121.0	89.8	108.7
II	86.8	99.7	91.3	122.7	89.9	110.3
III	88.2	99.4	92.7	124.3	90.1	112.0
IV	92.9	99.5	96.4	124.9	88.9	111.0
1999						
I	88.5	99.4	94.3	122.5	88.4	108.2
II	83.5	99.7	90.5	120.8	88.3	106.7
III	82.9	99.7	90.2	120.1	88.6	106.4
IV	82.2	99.9	87.7	118.9	88.6	105.3

Source: IMF, *International Financial Statistics*.

1/ ECU replaced by euro in 1999.

2/ INS weights.