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To: Members of the Executive Board

From: The Acting Secretary

Subject: **Cyprus—Selected Issues and Statistical Appendix**

This paper provides background information to the staff report on the 2004 Article IV consultation discussions with Cyprus (SM/05/40, 1/31/05), which is tentatively scheduled for discussion on **Friday, February 18, 2005**. At the time of circulation of this paper to the Board, the Secretary's Department has not received a communication from the authorities of Cyprus indicating whether or not they consent to the Fund's publication of this paper; such communication may be received after the authorities have had an opportunity to read the paper.

Questions may be referred to Ms. Westin (ext. 39746) and Mr. Hatanpaa (ext. 35484) in EUR.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Friday, February 11, 2005; and to the European Central Bank, the European Commission, the European Investment Bank, the Food and Agriculture Organization, and the United Nations Development Programme, following its consideration by the Executive Board.

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CYPRUS

Selected Issues and Statistical Appendix

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Approved by European Department

February 2, 2005

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I. LABOR MARKET INSTITUTIONS AND REFORMS¹

A. Introduction

1. **The Cypriot labor market contains a number of specific features that render it of interest**, despite the fact that relatively little has been written about it internationally. Some of the features characterizing the Cypriot labor market are arguably very positive, such as the low level of unemployment, consensus decision making, which in turn contributes to maintaining labor peace, a voluntary framework with limited legislation, flexible hiring and firing rules, non-binding minimum wages, an efficient unemployment insurance system, and a tax system favorable to labor income. At the same time, there are important sources of rigidity in the Cypriot labor market, in particular the wage-setting mechanism and labor supply bottlenecks. In the past, these rigidities have contributed to real wage growth that is in excess of productivity growth, and to Cypriot competitiveness falling behind that of its competitors. Looking ahead, with accession to the European Union, such rigidities may prove to be even more disadvantageous as the Cypriot economy faces increased competition from other European enterprises and an inflow of EU workers.

2. **This paper is structured as follows.** Section B describes the legal and institutional framework of the Cypriot labor market, and discusses the voluntary framework for negotiations, the degree of unionization and the system of tripartism, the wage setting mechanism, entry and exit conditions and working hours, labor market programs, employment by sectors etc., the roles of foreign and Turkish-Cypriot workers, and lastly, the recently issued National Action Plan for Employment. Section C makes an assessment of the flexibility and efficiency of the Cypriot labor market, and in particular the wage-setting mechanism. International comparisons are made, and wage indexation is examined from both a theoretical and an empirical perspective. Section C also provides some suggestions for reform to enhance the efficiency of the wage-setting mechanism, and to enhance labor utilization. Lastly, Section D summarizes and concludes.

B. Legal and Institutional Framework

Voluntary Agreements²

3. **Since the establishment of the Republic of Cyprus in 1960, social partners have approached industrial relations and conflict resolution mechanisms in a voluntary manner**, with a minimum of legislative measures governing the relations between employers and employees. Framework laws guarantee the right of workers and employers to form

¹ Prepared by Ann-Margret Westin.

² This section draws mainly on Brender (1994), Kontolemis (1994), and Messios (2004).

associations, bargain collectively, and strike (or lock out). Meanwhile, voluntary norms, such as collective agreements and codes of conduct, determine the procedural framework for the bargaining process and the guidelines for labor relations.³

4. **The Industrial Relations Code of 1977 sets the framework for collective bargaining in the private sector (except for the banking sector) and for the semi-government organizations (public enterprises).**⁴ The code asserts the rights to organize and to bargain collectively, and defines the proper issues for collective bargaining. It affirms the strict adherence to the provisions of international labor conventions ratified by the government, contains limitations regarding the right to resort to industrial actions, and assigns the government the function of mediator in labor disputes. In 2004, the code was extended with a voluntary agreement on the provision of essential services during labor disputes.

5. **The government's philosophy behind the promotion of a voluntary system has been the fostering of strong employer and employee organizations,** with a view to maintaining a balance of power between the two sides. The focus of the government has been on assisting the two sides in reaching agreement, thereby safeguarding peaceful labor relations and preventing the outbreak of labor actions. All in all, the system has contributed to maintaining good industrial relations and labor peace in Cyprus and reducing the number of labor disputes and work days lost to conflicts, in particular in the sectors covered by the Industrial Relations Code.⁵

Unionization and Tripartism

6. **A second characteristic of the Cypriot labor market is its high degree of centralization.** On average, some 80 percent of all workers belong to industry-based trade unions, which are organized in a small number of closely coordinated national federations. If one excludes the retail trade sector, union membership is even higher. Public sector employees, teachers, and bank employees have separate unions that are not affiliated with the national federations but which cooperate with them on issues of common interest. Despite

³ In contrast to this tradition of voluntary agreements, since EU accession the trade unions have been lobbying for legalizing the existing collective agreements as well as fringe benefits, hours worked etc., possibly fearing waning influence given the expected inflow of workers from other EU countries. The employer organizations, meanwhile, have so far successfully opposed any changes to the current voluntary framework.

⁴ The code was signed by the Cyprus Employers' Federation and the two largest trade union confederations, and countersigned by the Ministry of Labor and Social Insurance (Republic of Cyprus, 1977).

⁵ The proven ability of the Cypriot economy to weather storms and act in a unified manner when faced by adverse circumstances may be linked to the strong relationships among the social partners and the sense of consensus achieved during more peaceful times.

the high degree of unionization, trade union membership is not a condition for employment in any sector.

7. **The strength and importance of unions differ.** The three large private sector unions, PEO, SEK, and DEOK, are divided along more or less politically-driven lines, with each union associated with one or more of the large political parties. Workers in the semi-government companies are also mainly organized in SEK and PEO, by far the two largest unions in Cyprus. While SEK is mainly a white-collar union, allied with the right-wing DYSY party, PEO is a blue-collar left-of-center trade union that is closely allied with the socialist ruling coalition member AKEL party. Private sector unions are generally seen as less “driven,” in part reflecting the dispersion of private sector employees across a large number of small firms. In fact, parts of the private sector, in particular the retail sector, have basically no unionization. Meanwhile, the banking and insurance sectors are dominated by one strong union, ETYK, which enjoys virtually 100 percent membership. Over the years, ETYK has acquired a role, rights, and status that, according to Messios (2004), in many cases reach into fields that typically are considered management prerogatives.⁶ The public sector is represented by one strong union, PASYDY, which enjoys effectively a 100 percent unionization rate. Membership rates also reach 100 percent in case of the teachers union.

8. **Most employers are members of industrial associations, in particular Cyprus Employers and Industrialists Federation, and the Chamber of Commerce and Industry.** Both organizations have equal representation in the various tripartite bodies, such as the Labor Advisory Board, the Economic Consultative Committee, the Social Security Committee, and others.

9. **The existence of highly concentrated representative organizations of labor and employers facilitates the process of tripartism.** This process, which also includes the government, has become the main mechanism for discussion not only of a wide range of labor issues but also economic issues more generally. For example, the recently published medium-term Convergence Program has been the subject of an extensive discussion between the government and the social partners.⁷

⁶ Messios (2004), p. 13.

⁷ Still, the social partners have raised concerns that the Convergence Program was prepared without adequate consultation.

Wages

10. **The common process in which the terms and conditions of employment, including wage setting, are determined is collective bargaining.**⁸ Negotiations are usually first conducted at a broad sectoral level and then concluded at the branch level. At times, negotiations take place at the national level, either to define a framework for the sectoral discussion, or when issues of broader impact are being negotiated, such as the indexation of wages, and the length of the work week. Furthermore, the organization of unions into main federations ensures that agreements reached at the different sector and branch levels do not deviate greatly from a “national target.” Most collective agreements last two years although in some cases sectoral collective agreements are signed for a 3-year period.

11. **One important part of the wage determination process in Cyprus is the cost-of-living allowance (COLA).** Through the COLA, wages are indexed to average CPI inflation in the preceding six months twice a year, on January 1 and on July 1.⁹ The COLA is strongly supported by the trade unions and has remained a non-negotiable issue at the time of collective wage bargaining. Only minor changes to the system have been accepted in the last few years, in particular the exclusion of excise tax increases since the second half of 1999. In turn, the existence of the COLA has facilitated achieving long-term contracts and private sector wage increases in line with average productivity growth.¹⁰ Meanwhile, employer organizations have increasingly expressed concerns that the system undermines flexibility and competitiveness, and that it does not respond to real increases in productivity in specific sectors or individual enterprises.

12. **Minimum wages in Cyprus remain relatively low and do not constitute effective constraints on employment.** The legal minimum wage applies only to a few non-unionized occupations like clerks, salespersons, and day care and elderly care personnel, and is increased annually roughly in line with the minimum wage set in collective agreements.

13. **While minimum wages so far have been effectively non-binding, a recent government decision may change that.** According to this decision, which was taken in October 2004, minimum wages, which currently are about 42–43 percent of the national median wage, will be raised to 50 percent of the national median by 2008, implying some

⁸ Given the limited scope of labor market legislation, the range of topics covered in collective agreements is wide, including—in addition to wages—overtime pay, distribution of working hours during the week, holidays, sickness pay, and retirement benefits.

⁹ The COLA was first introduced as a war bonus to civil servants in 1941 but its use was gradually extended and since 1951 it has been a regular part of the remuneration of all employees.

¹⁰ The COLA does not only enjoy the support of the unions. Also various government officials, including the president, have expressed their support of the system. Only in times of real crisis, such as after the military conflict in 1974, have a temporary suspension of the COLA been accepted by the unions.

10 percent increase a year. As a result, the legal monthly minimum wage was increased by 8 percent to £C 345 upon hiring, and by 6 percent to £C 367 after six months of employment.

Entry, Exit, and Working Hours

14. **Hiring and firing remains quite flexible in Cyprus.** There are no hiring quotas in the private sector, except for employees dismissed due to redundancy, which according to law shall have priority for rehiring within eight months of dismissal. Also, termination of employment in Cyprus is less restrictive than in most other European countries, both in case of redundancies and dismissals for other reasons. Employees that are laid off due to redundancy reasons are not entitled to compensation directly from the employer but instead receive a lump-sum payment from a central redundancy fund financed by regular employer contributions. Employers are also required to notify the Ministry of Labor and Social Insurance at least four weeks in advance of planned redundancy layoffs. In case of dismissal for other reasons, the employee receives severance pay of up to two years' salary depending on the cause of dismissal and the length of service. There are specific rules regarding advance notices and paid leave during the notice period and the Industrial Relations Code imposes a "first in first out" rule for such dismissals. In contrast to many OECD countries, there are virtually no legal restrictions on the cause of dismissal. Still, sectors dominated by very strong unions, in particular the banking sector, in reality experience very few dismissals, e.g. in connection with mergers.

15. **With a few exceptions, working hours are set through collective agreements.** In line with the 1992 national collective agreement, the then 40-hour work week was gradually reduced to 38 hours as of 1998. Recent efforts by the employer organization to return to 40 hours a week have been thwarted by the unions. One curious aspect of the Cypriot labor market is the uniformity as to which hours are worked. Literally all work places, ranging from government offices to stores and schools, are open almost exactly the same hours, from around 7:30 in the morning to around 2:30 in the afternoon, resulting in bunching of traffic, parents dropping off their children at school consistently being late for work, and not allowing for shopping after working hours.

16. **While part-time employment has long been permitted without any special restrictions, it remains rare.** In particular, though such employment now is safeguarded through EU harmonized legislation, it still faces strong resistance by the unions, which worry that part-time employment takes place outside the negotiated collective agreements. In 2003, only 8.9 percent of the gainfully employed population was working on a part-time basis, compared with over 17 percent in EU25. Mostly women work part time, or 13.2 percent of employed Cypriot women in 2003 compared with 30 percent of women in employment in EU25, and compared with 5.5 percent of employed Cypriot men. Still, part-time employment is increasing, rising by 7.2 percent between 2002 and 2003.¹¹

¹¹ The Ministry of Labor and Social Insurance, and the Planning Bureau; and the European Commission (2004).

Labor Market Programs

17. Unemployment benefits are relatively less generous than in most other EU countries, with a high earnings' replacement rate offset by shorter duration of benefits.

Benefits are paid from the fourth day of unemployment and for a maximum of 156 days, which is relatively short compared with EU standards. Also, in order for unemployment benefits to be renewed, the individual needs to be reemployed for at least 26 weeks. However, replacement rates are relatively high, amounting to about 70 percent of previous gross earnings in 2003.¹² The short duration of benefits is mainly meant to encourage efficient job search and reflects the situation of the Cypriot labor market, which is functioning at or near full employment with mainly frictional unemployment. Generally, the unemployment benefits system has not been tested since the early 1980s, as high growth and a limited supply of labor have contributed to a constant decline in the now very low unemployment rate. Furthermore, international labor mobility has functioned as a safety valve at the margin, with Cypriots emigrating initially, and since the early 1990s the recruitment of foreign labor.

18. In total, spending on labor market programs remains limited in Cyprus compared with other European countries. In 2002, spending on unemployment compensation amounted to only 0.4 percent of GDP, while spending on labor market policies, such as measures for public employment services and labor market training, amounted to 0.75 percent.¹³ Meanwhile, spending on unemployment benefits averaged 1.2 percent of GDP in EU-15 in 2001 while spending on labor market programs averaged 0.9 percent.¹⁴

¹² In 2003, unemployment benefits for a skilled industrial worker with three dependants amounted to 69.2 percent of gross earning prior to unemployment.

¹³ Ministry of Labor and Social Insurance and the Planning Bureau.

¹⁴ OECD (2004).

Employment by Sector, Gender, and Age¹⁵

19. **As in most other rich industrialized economies, primary and secondary sectors in Cyprus have become less important while the tertiary sector has gained in importance over the last decades.** In particular, between 1980 and 2003, service sector employment increased from 46 percent to 71 percent of total employment, while employment in agriculture and industry declined from 20 percent and 34 percent, respectively, to 8 percent and 21 percent, respectively. For comparison, industry accounted for 28 percent of total employment in EU-15 in 2003 while the services sector accounted for 68 percent.¹⁶

20. **The economically active population has increased dramatically since independence.** The total labor force participation rate has risen from approximately 40 percent in 1960 (Kontolemis, 1994) to 72.2 percent in 2003, mainly reflecting an increase in female labor market participation. However, there is still a large difference between male and female participation rates, with the former at 82.1 percent and the latter at 63.1 percent in 2003.

21. **Cyprus also fares well with respect to employment rates.** Between 2000 and 2003, the overall employment rate in Cyprus rose by 3.5 percentage points to 69.2 percent while the employment rate for women rose by almost 7 percentage points to 60.4 percent. This measures well both compared with the Stockholm/Lisbon criteria for 2005 and 2001, and the EU15 and EU25 averages. In fact, within EU25, only three countries, Cyprus, Hungary, and Latvia, have seen increases in overall employment rates over the last five years, and by 2003, only Cyprus and the Czech Republic among the new EU members had employment rates above the EU15 average.

Cyprus and the Stockholm/Lisbon Employment Criteria 1/
(in percent)

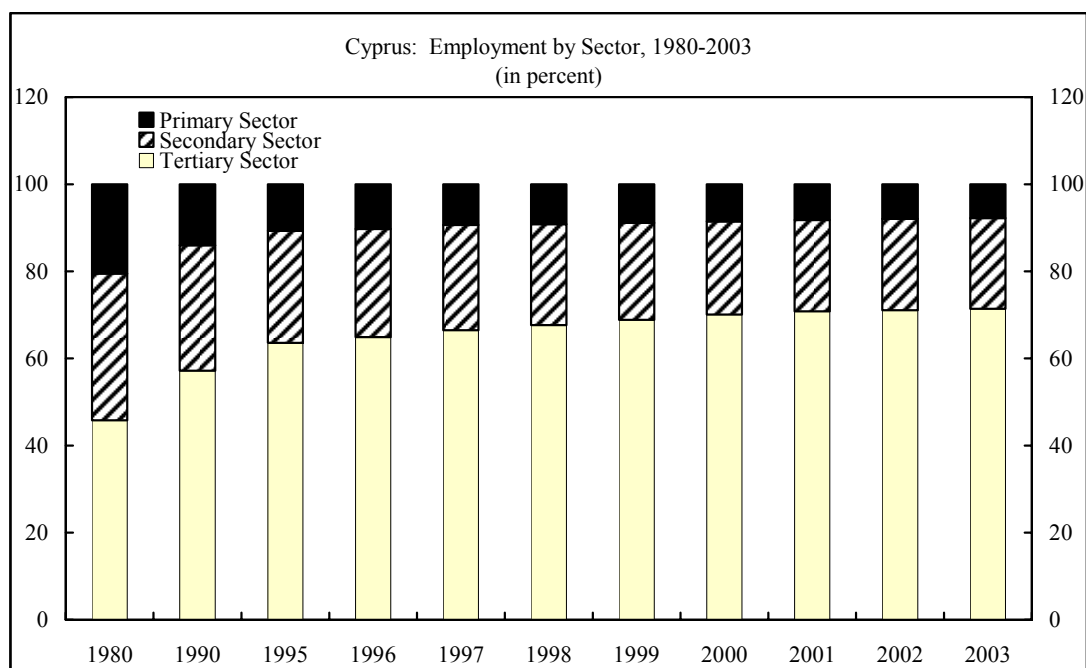
	2005 target	2010 target	EU15 2003	EU25 2003	Cyprus 2003	Cyprus 2006 target
Overall employment rate	67	70	64.3	62.9	69.2	70
Female employment rate	57	>60	56	55	60.4	62
Elderly employment rate		50	41.7	40.2	50.4	52

Sources: European Commission, *Employment in Europe 2004 - Recent Trends and Prospects*; and Republic of Cyprus, *National Action Plan for Employment 2004-06*.

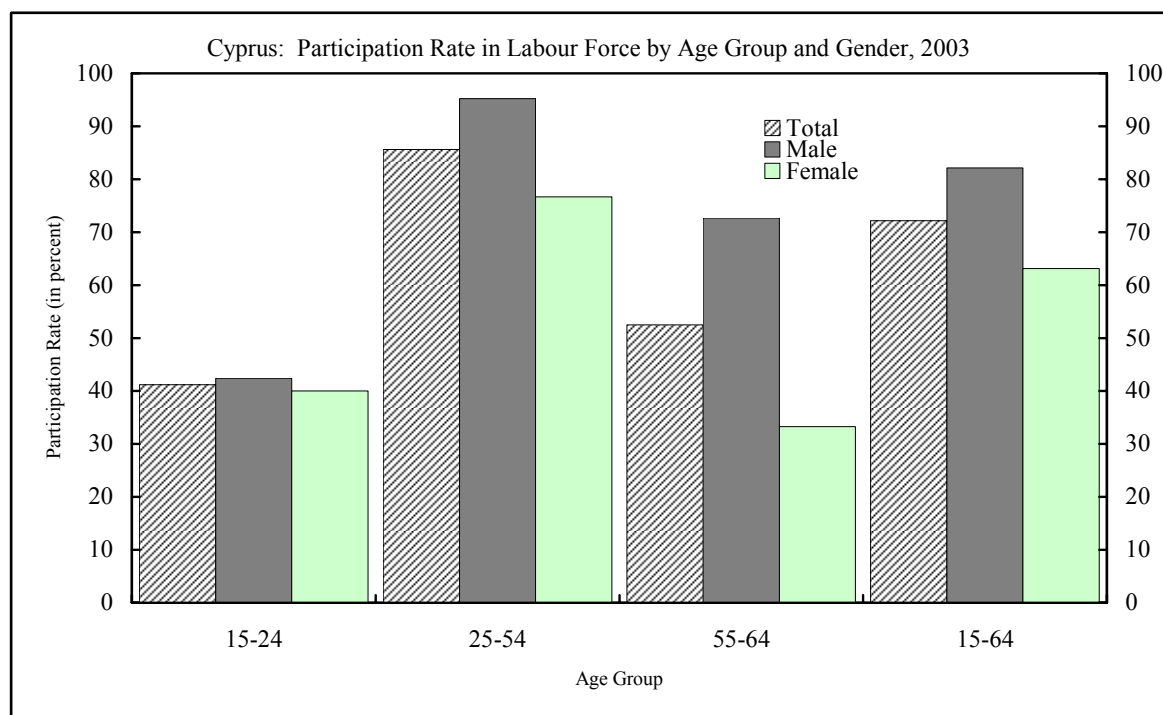
1/ The Lisbon European Council of 2000 set strategic goals for 2010 for the EU overall and female employment rates. The Stockholm Council of 2001 set intermediate targets for 2005 and added a new target for 2010 for the EU elderly employment rate. Denmark, Sweden, and the United Kingdom had reached the Lisbon employment rate criteria by 2003.

¹⁵ This section draws mainly on information provided by the Ministry of Labor and Social Insurance and the Planning Bureau, unless otherwise indicated.

¹⁶ European Commission (2004).



Source: Ministry of Labor and Social Insurance; Planning Bureau.



Source: Ministry of Labor and Social Insurance; Planning Bureau.

Foreign Labor¹⁷

22. **In 1991 working permits were issued for the first time to foreign workers and since 1992 there have been large-scale inflows.** Foreign workers now constitute some 13 percent of the labor force. Foreign workers receive wages according to the collective agreements, just as comparable Cypriot workers, although apparently often at lower starting wages, and they are entitled to the same social benefits and health insurance.¹⁸

23. **While foreign workers are active in most sectors of the Cypriot economy, most are found in the services sector.** In 2003, half of all foreign workers were employed in private households (30 percent of foreign workers) and in restaurant and hotels (20 percent); another 42 percent were evenly distributed among the agriculture, manufacturing, construction, retail trade, and international business sectors. As shares of total employment in Cyprus, foreign workers constituted 15 percent of the employed population in the agriculture, forestry, and fishing sector in 2003, 13 percent in the trade, hotel and restaurant sector, 11 percent in the construction sector, and 10 percent in the manufacturing sector.

Cyprus: Foreign Workers by Sector, 1998-2003

	1998	1999	2000	2001	2002	2003	Average annual percentage change 1999-2003	Distribution in percent of total	
								1998	2003
Total	20,713	23,879	25,766	30,215	35,276	40,702	14.5	100	100
<i>of which:</i>									
Agriculture and Hunting	1,675	1,958	2,061	2,487	2,958	3,417	15.3	8.1	8.4
Manufacturing	2,018	2,128	2,102	2,313	2,749	3,380	10.9	9.7	8.3
Construction	1,464	1,589	1,555	1,828	2,492	3,450	18.7	7.1	8.5
Wholesale and Retail Trade	1,475	1,588	1,685	2,079	2,749	3,394	18.1	7.1	8.3
Restaurants and Hotels	3,288	3,986	4,423	5,874	7,045	7,994	19.4	15.9	19.6
Private Households with Employed persons	5,952	6,713	7,717	9,278	10,537	12,041	15.1	28.7	29.6
International Business (former offshore)	2,787	3,803	3,803	3,495	3,496	3,375	3.9	13.5	8.3

Source: Ministry of Labor and Social Insurance, and the Planning Bureau

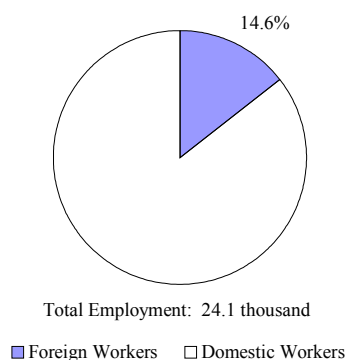
24. **Work permits are required for foreign workers.** Until May 1, 2004, the issuance of work permits to foreign workers needed the approval of the unions, and permits were only to be issued in case no eligible Cypriot workers were available. However, since EU accession on May 1, 2004, EU nationals are treated in the same manner as Cypriots as to employment and no work permits are needed for workers from EU countries. Instead, employers now need to “prove” that there are no EU workers available in order for working permits to be issued to

¹⁷ This section draws in large part on information provided by the Ministry of Labor and Social Insurance and the Planning Bureau.

¹⁸ The Social Insurance Scheme is financed by equal contributions by employers and employees of 6.3 percent, respectively, of earnings, and by the state of 4 percent.

Cyprus: Share of Foreign Workers in Total Employment by Sector, 2003

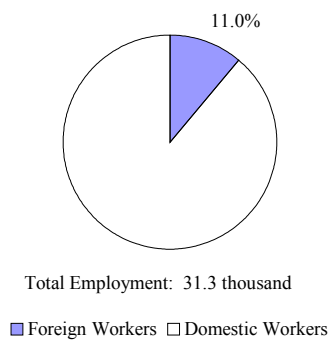
Agriculture, Forestry, and Fishing



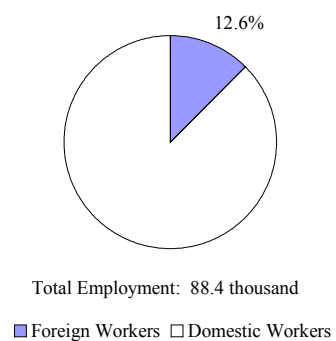
Manufacturing



Construction



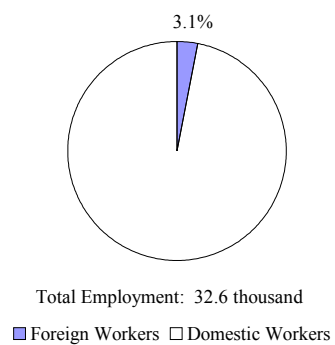
Trade, Restaurant, Hotels



Transport and Communications



Finance, Insurance, Real Estate



Source: Cyprus Statistical Service.

non-EU workers. The unions have expressed some consternation over these developments, fearing the waning of their control over the Cypriot labor market. As a result, they have been lobbying to legalize the existing voluntary collective agreements and fringe benefits. The unions are also supporting recent government proposals to limit the inflows of workers from non-EU countries, which currently constitute the majority of foreign workers in Cyprus. Meanwhile, the employer organizations have expressed deep concerns regarding any further restrictions on the inflow of foreign workers in light of the severe labor shortages characterizing the Cypriot economy.¹⁹

Turkish-Cypriot Workers

25. **In the last few years, Turkish-Cypriot (T/C) workers have started to become an important source of labor for the Greek-Cypriot economy.** In April 2003, restrictions on movement across the “green line” dividing the government controlled areas from the Turkish-Cypriot community in the north were partially removed, immediately leading to a large increase in the flow of T/C workers to the government controlled areas. While some 700 T/C workers were already commuting to work in the government controlled areas before the removal of restrictions, this number had increased to at least 2,300 as of August 2004, according to data from the Department of Social Insurance (based on social security contributions—as Cypriot citizens, T/C workers are entitled to the same social security and health benefits as residents in the government controlled areas²⁰). In addition to the officially registered T/C workers, there is also a large number of T/C workers unofficially employed in the government controlled areas, possibly bringing the total number of T/C workers currently employed in the south to 10,000.

26. **Most T/C workers are found in industry.** More than half of the 2,300 T/C workers registered in August 2004 were employed in the construction sector while 12 percent were employed in the manufacturing sector; 5 percent were employed in the trade sector.²¹

27. **While a further inflow of T/C workers could ease the problem of labor shortages in the south, there are also concerns that inflows will start to taper off.** In particular, there are concerns that the current construction boom in the north, in part triggered by the Annan Plan of last spring and mainly financed by European (in particular British)

¹⁹ Ireland recently introduced similar rules in light of the latest EU expansion, now only issuing working permits to non-EU workers that constitute highly qualified or highly specific personnel for which there is also a demonstrable and verified shortage in the Irish labor market (Republic of Ireland, 2004).

²⁰ E.g., from January 2003 to August 2004, £C 5.8 million was paid out in the form of pensions to some 4,400 Turkish Cypriots, of which about 900 reside abroad. Also, in August 2004, some 1,400 Turkish Cypriots were treated at medical institutions in the government controlled areas, compared with about 200 in April 2003. (Department of Social Insurance Services)

²¹ Department of Social Insurance Services.

vacationers and retirees, might reduce the number of T/C workers coming to the south.^{22 23} There are also concerns that the lack of a solution to the Cyprus “problem” and the resulting political uncertainty may put a damper on the number of T/C workers willing to come to work on a more permanent basis in the government controlled areas.²⁴

National Action Plan for Employment 2004–06

28. **As a result of EU accession, Cyprus has prepared its first National Action Plan for Employment for 2004–06.** This plan was submitted to the European Commission in September 2004.²⁵ The plan aims at enhancing the supply of labor, mainly through increased use of part-time and temporary work, and at wage flexibility (while maintaining a “sufficient” degree of security). In addition to the EU guidelines, the plan also contains three country-specific policies:

- *Increase the adaptability of workers and enterprises* to enhance innovation capacity and diversify the services sector;
- *Enhance the supply of labor* through: increased female participation (in part through enhanced access to child and elderly care, and by raising the attractiveness of and opportunities for part-time work); active employment policies and services, enhanced by coordination through the European Employment Service; and encouragement of further employment of T/C workers (all while limiting the inflow of non-EU workers).
- *Investment in human capital and life-long learning.*

²² According to the Annan V Plan that was voted on in April 2004, improvements of 100 percent of properties in the T/C areas, which may well have belonged to someone else before the 1974 conflict, would lead to legal ownership. Although the plan was rejected by the Greek-Cypriot voters, there may be a belief that this will still hold in the future. See www.AnnanPlan.org.

²³ According to news reports, construction increased by 600 percent in 2004 in the T/C community in the northern part of Cyprus. Also, over half of the land in the T/C-controlled ghost town of Famagusta was reportedly sold to foreigners in the last eight months (Alithia Newspaper, January 19, 2005).

²⁴ At the same time, the lack of a permanent solution to the Cyprus problem implies that property rights remain obscure, which in turn may put a damper on the current construction boom. There have already been instances where Greek Cypriots have legally challenged new construction in the north, claiming ownership of the land under the construction and ordering its demolition. The Greek-Cypriot government has recently announced plans to take such actions on behalf of its citizens. So far, there has been one legal verdict in favor of a Greek Cypriot property owner; however, this verdict is currently being challenged by the defendants.

²⁵ The National Action Plan for Employment 2004–08 can be found at http://europa.eu.int/comm/employment_social/employment_strategy/nap_2004/nap2004cy_en.pdf.

C. Assessment of the Cypriot Labor Market's Efficiency and Flexibility

29. **In many aspects, the Cypriot labor market is significantly more flexible than those of other advanced countries.** Legislation is reduced to a minimum, hiring procedures are simple, there are a few constraints on dismissal compared with most other European countries, minimum wages are low enough not to be binding, and unemployment benefits are limited in their duration. Furthermore, the emphasis on consensus decision making among the social partners has contributed to maintaining labor peace and reduced the number of labor disputes and work days lost to disputes.

30. **The centralized wage bargaining process also seems to have benefited the Cypriot economy.** While centralization can imply rigidities, as discussed in Brender (1994), it has been argued in the literature, starting with Calmfors and Driffil (1988) and Calmfors (1993), that either a fully centralized or a fully decentralized bargaining system will produce better outcomes as to employment and inflation than a middle-ground solution. The main idea is that while the cooperative behavior of fully centralized bargaining creates incentives for moderate wage demands, market forces will restrain wage claims when bargaining takes place on the firm level.

31. **Moreover, the economy is functioning at or near full employment.** There is mostly frictional unemployment, and there are shortages of both unskilled and skilled labor. In October 2004, only 2.9 percent of the economically active population was unemployed. Furthermore, long-term unemployment remains limited, with more than two thirds of registered unemployed remaining unemployed for less than 6 months, and with less than 10 percent unemployed for more than a year.

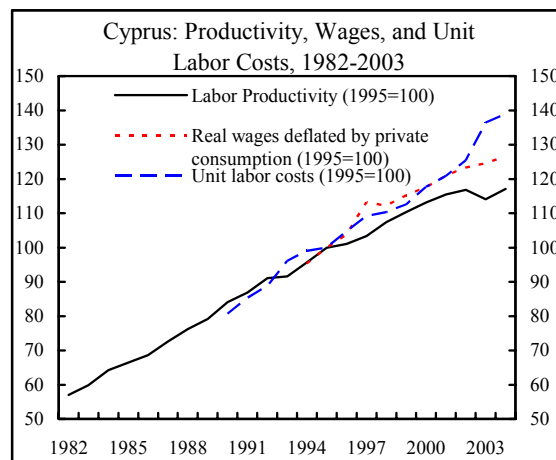
32. **Lastly, as a result of the 2002–04 tax reform, direct taxation remains very low in an international comparison.** The tax reform shifted taxation from direct to indirect taxes and gradually increased the tax-free threshold, which now is among the highest in the EU. The marginal effective rate is only 30 percent (compared with EU15, only Denmark has a lower rate).²⁶ In addition, the 2 percent defense levy on employers' and employees' payroll and the professional tax on incomes of physical persons were abolished as a result of the tax reform, resulting in an overall significant reduction in taxation on labor.

33. **However, there are also sources of rigidity in the Cypriot labor market, in particular regarding the wage setting mechanism, and labor supply bottlenecks.** Below, these issues are discussed more fully and suggestions for reforms are outlined. Before turning to these issues, however, productivity and real wage developments in Cyprus are compared with those for a number of selected European countries.

²⁶ As of January 1, 2004, the tax-free threshold is £C 10,000 (US\$23,000), after which incomes are taxed by 20 percent up to £C 15,000 (US\$34,500); by 25 percent up to £C 20,000 (US\$46,000); and by 30 percent above £C 20,000.

Productivity and Wage Developments

34. Since the mid-1990s, Cypriot labor productivity growth has been lagging behind increases in real wages and unit labor costs. This in turn suggests that Cypriot competitiveness is falling behind that of its competitors. Overall Cypriot labor productivity hovers around 70 percent of the EU average. However, different segments of the labor market perform differently: indeed, while the public and semi-public sectors may be overstaffed, showing low productivity growth, the private sector—with the exception of the banking sector—demonstrates much less rigidity.



Sources: IMF, *World Economic Outlook*; and ECB.

35. In comparison with other European countries, Cyprus fares reasonably well as to productivity growth but less so as to wage growth. In Figures 1–3, developments in labor productivity and nominal and real wages for selected European countries, including Cyprus, are displayed for 1979–2004.²⁷ Cypriot labor productivity growth has lagged behind that of Finland, Greece, Ireland, and Sweden, but has exceeded productivity growth in Belgium, Denmark, and Spain. Meanwhile, real wage growth in Cyprus, deflated by private consumption, has exceeded real wage growth in almost of all of these comparator countries, the only exceptions being Norway (where the oil boom has spurred wage growth) and (in 2003) Greece, which until very recently also relied on wage indexation.

Wage Setting Mechanisms

Theoretical considerations

36. The use of wage indexation in Cyprus can be criticized on theoretical grounds. The seminal study by Modigliani and Padoa-Schioppa (1978) showed that when indexation is complete (after a lag), downward flexibility of real wages can be attained only at the cost of permanently raising the rate of inflation. After a one-off negative shock to productivity, labor market equilibrium cannot be restored by reducing the real wage through a one-off increase in prices as, with a lag, wages will catch up. Real wages can only be permanently lowered by preventing wages from catching up with prices, i.e., through an inflationary process. Also, full indexation may exacerbate the inflationary pressure from an increase in

²⁷ Cypriot wage data are only available from 1994.

prices of imported inputs or from a hike in indirect taxes. Furthermore, in the case of a pegged exchange rate regime, an inflationary spiral caused by these factors may also lead to balance of payments difficulties. Indeed, as pointed out in Calmfors (2003), a country looking ahead to monetary union will require greater wage flexibility as a currency union implies a more rigid monetary policy.

Empirical considerations

37. Cyprus's use of wage indexation can also be criticized on empirical grounds.

Kontolemis (1994) argues that Cyprus' low level of unemployment, which is a reflection of chronic labor shortages, in combination with the indexation mechanism and the strong union movement, have resulted in large increases in real wages and a deterioration in competitiveness of domestic firms.²⁸ He shows through regression analysis that between 1970 and 1990, unemployment had a very limited role in the determination of wages, in contrast to prices, which was the biggest determinant of wage inflation. Furthermore, annual productivity growth (output per head in manufacturing) averaged 2.2 percent during 1981–90 compared with 4.1 percent during 1963–90, and did not explain the rapid growth in wages. Between 1977 and 1992, average real wages in a large number of sectors, including the finance, insurance, real estate, manufacturing, and government sectors, increased by some 150 percent, or just below 10 percent per annum. These increases could not be justified by economic fundamentals. While the unions had argued that real wage increases in excess of productivity had been necessary in order to improve the distribution of income in the economy, it was clear, according to Kontolemis, that wage increases of these magnitudes had considerably damaged the competitiveness of the domestic industry.

38. Further distortions are created by the wage-setting process in the public sector.

Wage increases that may be justified by higher productivity growth and profits in the semi-government organizations typically spill over to the public sector in the form of demands that are of equal cost to the government as an employer. Given the COLA and the additional seniority-based increments, total wage increases in the public sector routinely exceed productivity growth by a wide margin, leading to a drain of the best and brightest employees in the private sector to the public sector. In the language of some Cypriot observers, in Cyprus the private sector is the “poor cousin.”²⁹

²⁸ While the COLA in Cyprus is intrinsically linked to the strong union movement, some analysts would argue that institutions such as wage indexation generally reduces incentives for unionization (see Checchi and Lucifora, 2002).

²⁹ The 2002–04 tax reform also contributed to further widening the gap between the public and private sectors, as it included a 7.5 percent retrospective public sector wage increase, which subsequently became part of the salary structure.

39. **Even current “zero wage-increase” agreements in the public sector may turn out to be very costly and further widen the wage gap versus the private sector.** Under the Convergence Program, the government and social partners have reached preliminary agreement on a zero percent increase in public sector salaries in 2004–05 and a 2 percent “negotiated” wage increase in 2006. Under this arrangement, the increase in total wage costs for the 50,000 public servants will still reach £C 80 million (around 1 percent of GDP) a year according to calculations by the Employers and Industrialists Federation, taking into account also the estimated 4 percent increase each year due to the automatic seniority-based “increments,” as well as the COLA. Such developments make for a widening wage differential between the public (including the semi-government organizations) and the private sectors, where there are no “increments” and where negotiated wage increases typically average productivity, i.e. around 1.5 percent.

40. **The achieved labor peace may have proven too costly.** Arguably, the COLA has contributed to long-term contracts and labor market peace. However, this can be contrasted with, say, Ireland, where the social partnerships have not only allowed for labor peace and fewer disputes but also a moderation in wage demands and a significant decline in wages as a share of GDP. This in turn has contributed to the steady increase in competitiveness experienced in Ireland during the 1990s. Meanwhile, it could be argued that labor peace in Cyprus has been mainly achieved through wage agreements that are too expensive. Box 1 outlines briefly the wage setting mechanisms in selected European countries.

41. **The rigidity of the COLA may be exacerbated in a low-growth environment.** It may be argued that the COLA worked better in a high-growth economy, where the downward stickiness in real wages did not constitute an effective constraint on the wage determination process, as real wages increased with productivity and workers released from industries unable to pay the rising wages were absorbed by other sectors in the expanding economy. However, in an environment characterized by less robust growth, this rigidity may become an impediment to the economy’s ability to weather negative shocks. In particular, in the presence of long-duration wage contracts in some industries, the COLA mechanism constrains the markets’ ability to correct an overshooting of wages that may result from too optimistic an outlook at the time of the contract’s inception.

Box 1. Wage Setting in Selected European Countries

Belgium: Wages are indexed to CPI excluding energy items. The actual implementation of the indexation is negotiated and varies across years and sectors, i.e., forward or backward looking indexation, and the number of months to include. In its concluding statement following its most recent Article IV consultation, the Fund suggested that the system be abolished over the medium term.

Greece: For years, indexation of wages to the CPI has been the normal practice, although it has always been negotiated. However, in the wage negotiations of June 2004, wage indexation was excluded.

Ireland: Broad social partnerships that include some 18 umbrella organizations cover a wide array of issues ranging from the macroeconomic environment to income distribution and supply side measures such as tax changes. In the 2003–05 agreements, many volunteer organizations were also involved. Social partnerships have been a source of strength in times of crises, allowing for a more long-term view and helping to build consensus for difficult but necessary reforms. The resulting broadened perspective has not only allowed for labor peace and fewer disputes, but also for moderation in wage demands and a significant decline in wages as a share of GDP, hence contributing to the steady increase in competitiveness experienced during the 1990s. There is no wage indexation mechanism, although the 2000–2002 wage contract was opened for renegotiation due to an inflation adjustment. There are now concerns that the 3-year agreements do not allow for sufficient wage flexibility, that they may not have delivered the wage restraint they have been credited with, that they have become too broad in scope and in the number of partners involved, and, hence, that they place inappropriate constraints on public policy.

Norway: The centralized bargaining system, which in part has been justified in recent years by allowing for a fairer sharing of Norway's oil wealth, has been instrumental to the relatively tranquil labor market relations, strong employment growth, and record-low unemployment. However, the compressed wage scale, a nominal wage growth that has exceeded that of key trading partners, and anemic productivity growth have all contributed to the public sector increasingly becoming the source of net employment gain.

Spain: Collective wage bargaining covers the bulk of workers. Wages are typically indexed to the previous 12 months of headline CPI. Wage indexation remains a contentious issue during the collective bargaining process, but has become more frequent in recent years. Negotiated wage increases are based on both an inflation component (2 percent) and on productivity gains, while ex-post, wages are adjusted upward if actual inflation deviates (beyond a certain threshold for many contracts) from the initial inflation component. The IMF has advised the abolition of the system, arguing that the increasing recourse to wage indexation contract clauses contributes to the persistence of inflation shocks.

Sources: Horváth (2001); Hunt (2004); IMF (2004a and b).

Looking ahead

42. **Now is the time to gradually reform the COLA.** As argued above, while the COLA and the Cypriot wage-setting mechanism may have served the country well in the past, there are now concerns that the automaticity of the COLA implies total wage cost increases that are in excess of productivity growth, and that leave little room for performance-related rewards. Such wage developments will have negative implications for incentives and productivity. However, an abolition of the COLA system may not be politically feasible at the present time. In the last election campaign, the President reportedly promised that there would be no significant changes to the COLA system, and even the employer organizations accept the system as a “political reality.” Still, there may be room for revisions at the margin, which would reduce overall wage costs and leave some room for performance-related rewards, and which in turn could enhance productivity. Such first-stage reforms could consist of:

- *Less automaticity and more room for negotiation* regarding the implementation of the COLA each year, which would make the system better able to take into account the actual situation of the entire economy, and not just the lagged rate of inflation;
- *Excluding the impact of domestic and external shocks*, such as changes in indirect taxes (including VAT), spikes in food prices due to droughts, energy price hikes, etc.; and
- *Abolishing universal compensation and letting the COLA compensation depend on income levels/tax brackets*, which would be in line with the original idea of the COLA to cover increased cost of consumption. As it stands today, the COLA actually contributes to widening the salary gap between low- and high-income workers.³⁰

43. **Other reforms of the wage-setting mechanism are also important.** In addition to reforming the COLA, the Cypriot wage-negotiation process would also benefit from:

- *Enhancing wage flexibility and wage dispersion* by allowing firms to deviate from the centrally negotiated collective agreements and to a larger degree negotiate their own wage agreements;³¹ and
- *Reducing the seniority-related increments in the public sector and, preferably, making them less automatic and more dependent on actual performance.* This would help reduce the current imbalance in wage developments between the public and the

³⁰ Apparently, union officials have generally not been in favor of letting the COLA depend on income.

³¹ This has, e.g., been argued by the Cypriot Chamber of Commerce and Industry.

private sectors and enhance incentives for private sector employees not to leave their more productive occupations for safer employment in the public sector.

Enhancing Labor Utilization

Background

44. **One of the major challenges currently facing the Cypriot labor market is the severe shortage of both skilled and unskilled labor.** Lacking other policies, this problem is expected to gradually aggravate over the next decades with the aging of the population.³² The recent tentative agreement to increase the retirement age in the public sector from 60 years to 63, and the proposal to increase the retirement age in the private sector from 63 years to 65 and subsequently to 67, would help alleviate this problem.³³ However, raising the retirement age is unlikely to be enough to solve the problem of labor shortages. Furthermore, there is only limited room for further enhancing domestic labor supply, with female participation rates already at 60 percent—in fact, in the new generation, most women work, in part aided by the relatively short working hours mentioned earlier.

Looking ahead

45. **A number of measures could be considered to enhance labor supply and labor utilization.** Such measures could include, but are not limited to:

- Creating more incentives for part-time and temporary work;
- Enhancing access to subsidized day care;
- Increasing the work week back to 40 hours from the current 38 hours;
- Allowing more flexibility regarding when during the day work can take place;
- Facilitating the inflow of foreign workers; and
- Working toward more green line crossing-points to enhance inflow of T/C workers.

The National Action Plan for Employment includes some of the measures listed above, such as enhancing opportunities for part-time work, and promoting female labor market participation by supporting child and elderly care programs. For example, the National

³² The share of the population over 60 years of age is estimated to reach 23 percent by 2028 compared with 16 percent today (Republic of Cyprus, 2004b).

³³ Convergence Program 2004–08 (Republic of Cyprus, 2004a).

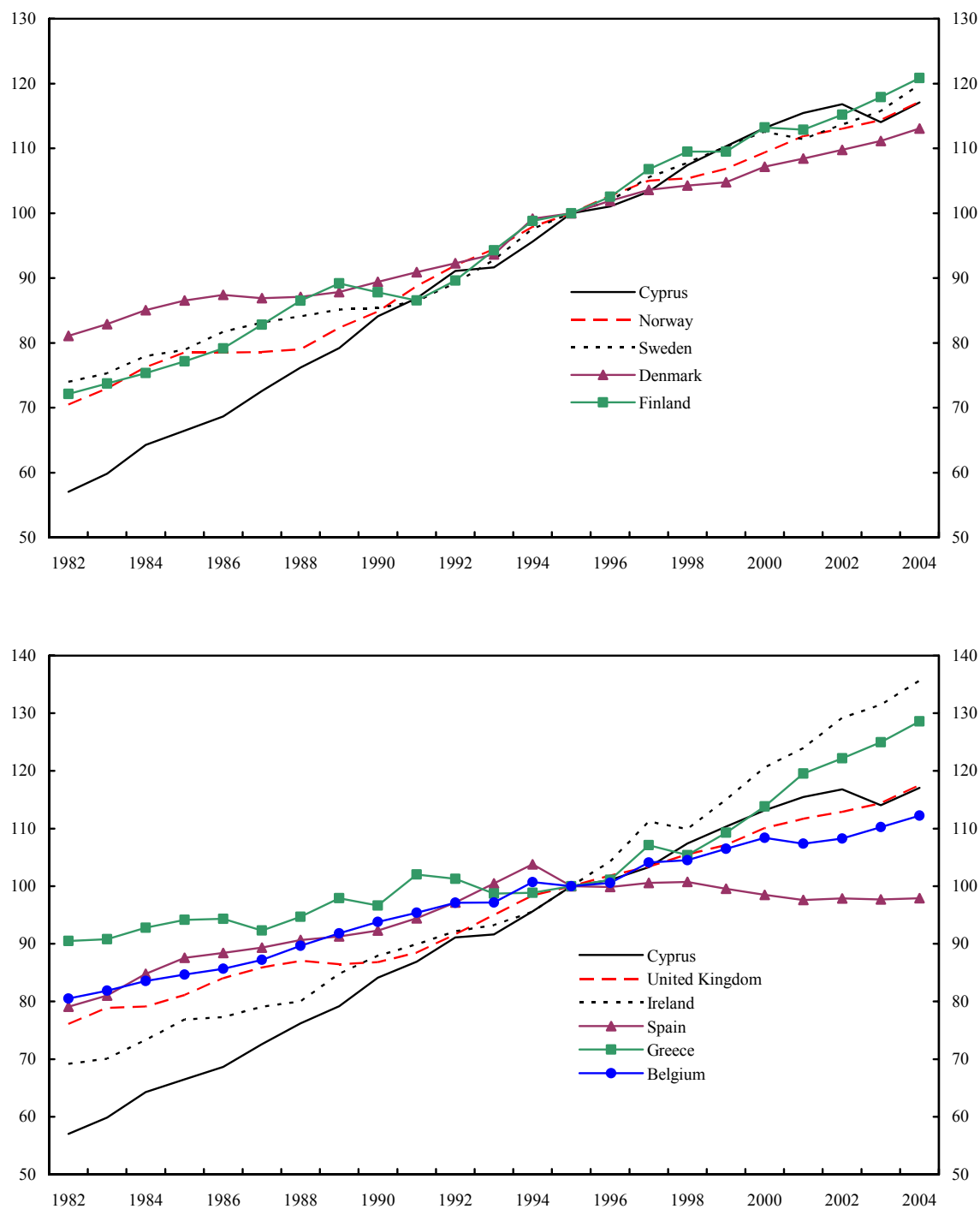
Action Plan sets a target of providing day care for at least 80 percent of all children between the age of 3 and the mandatory school age by 2010.³⁴

D. Summary and Conclusions

46. The purpose of this paper has been twofold, to give an overview of the legal and institutional framework of the Cypriot labor market, and to point to the room and need for reform. The Cypriot labor market is characterized by a number of specific features. A number of these features are arguably very positive, such as the consensus decision-making approach and the resulting labor peace, the low level of unemployment, flexible hiring and firing rules, and the voluntary nature of agreements. At the same time, there are a number of rigidities, in particular the wage-setting mechanism and the persistent shortage of labor, that have contributed to a decline in Cyprus' international competitiveness. Several potential reforms would enhance the efficiency of the wage-negotiation process and improve labor utilization. However, such reforms are only likely to become more important as the full impact of accession to the European Union gradually makes itself felt.

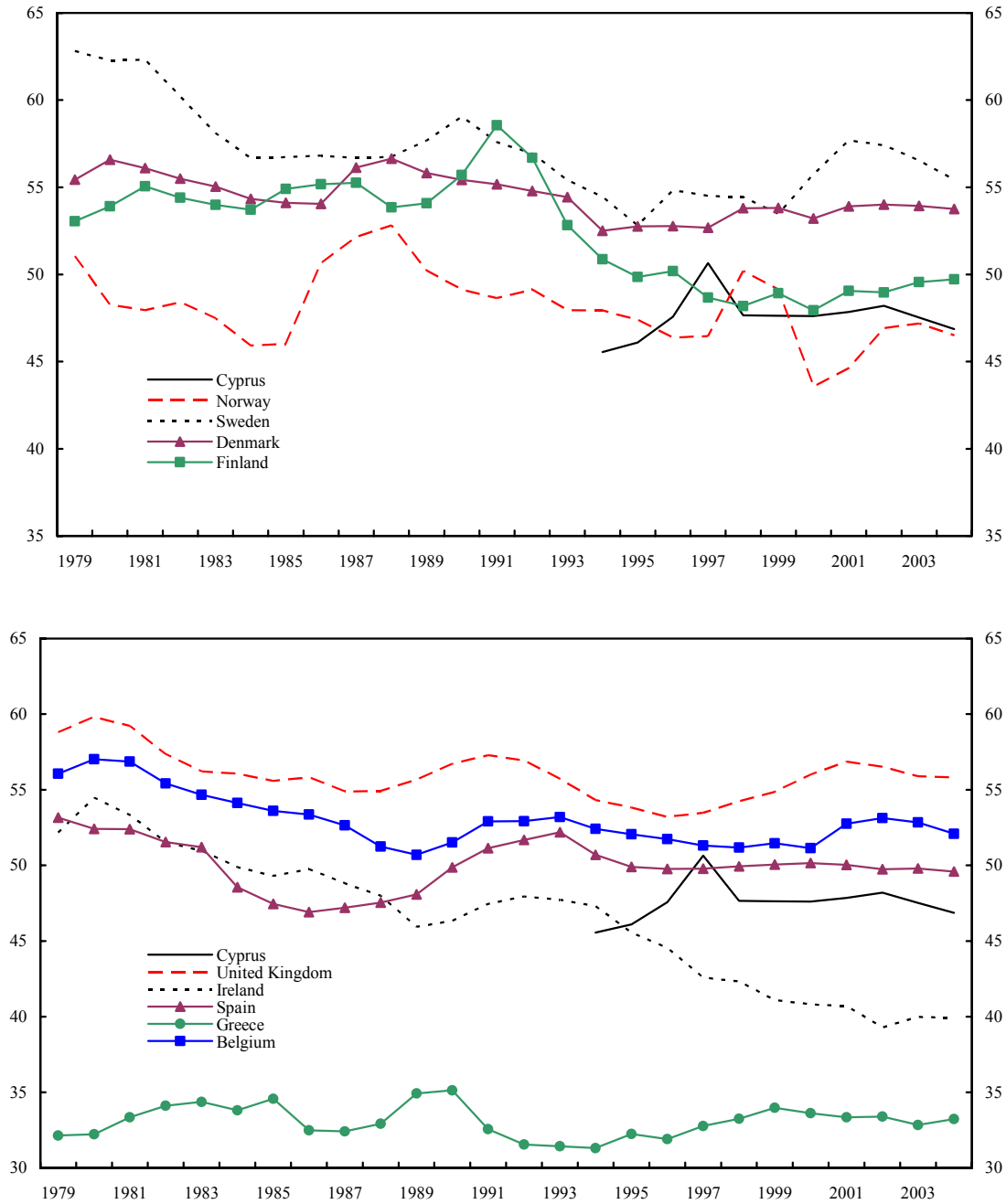
³⁴ Republic of Cyprus (2004b).

Figure 1. Cyprus and Selected European Countries: Labor Productivity, 1982-2004
(1995=100)



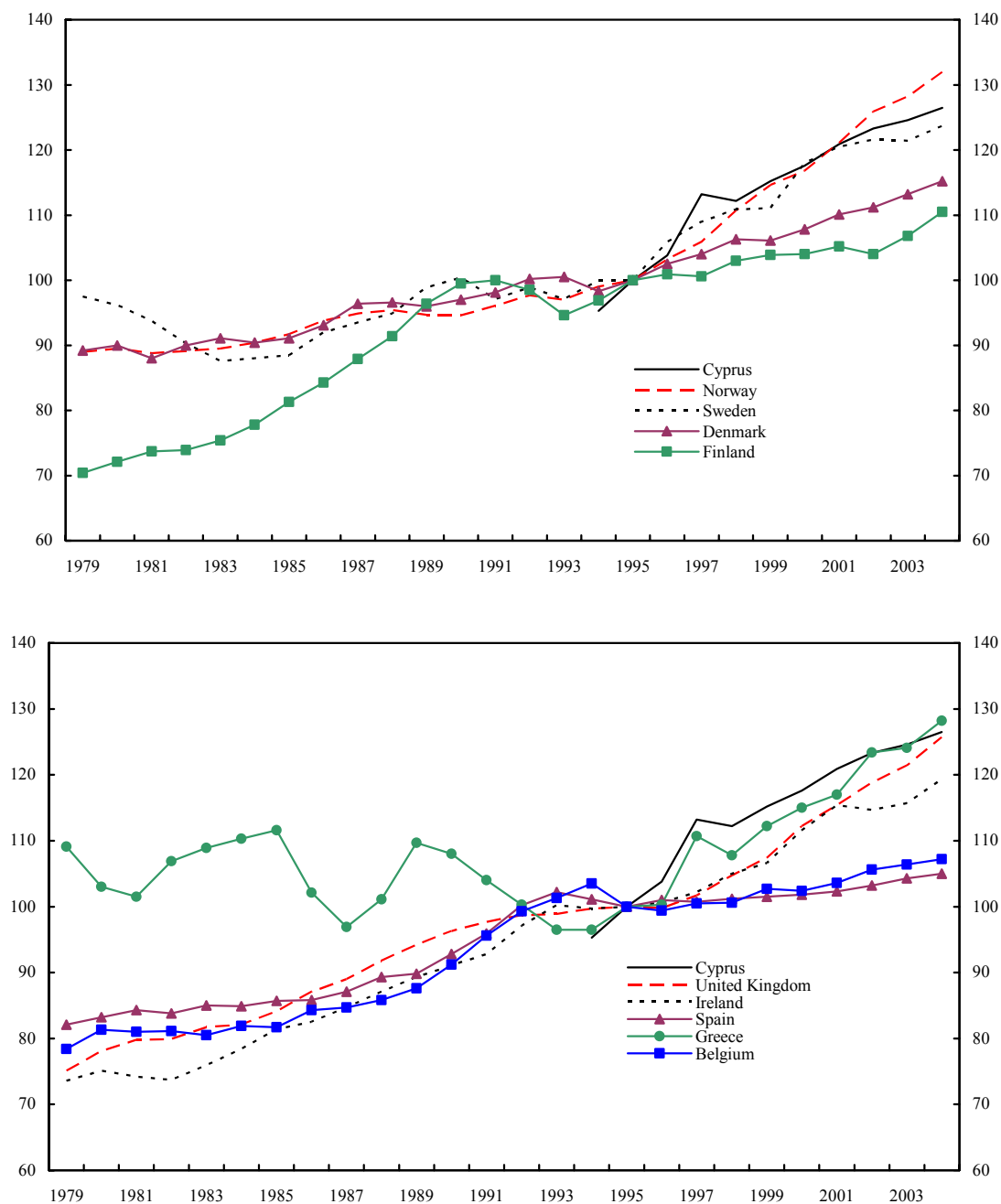
Source: IMF, *World Economic Outlook*.

Figure 2. Cyprus and Selected European Countries: Nominal Wages, 1979-2003
(in percent of GDP)



Source: ECB.

Figure 3. Cyprus and Selected European Countries: Real Wages, 1979-2003
(deflated by private consumption; 1995=100)



Source: ECB.

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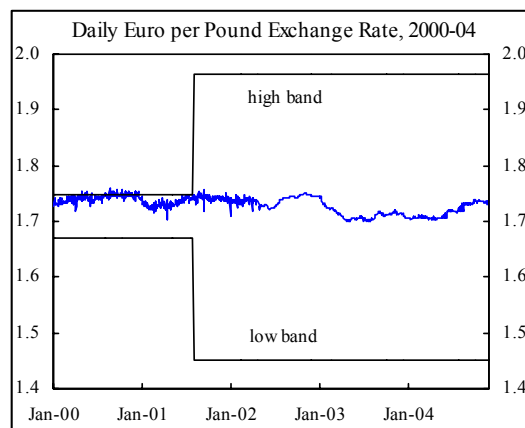
II. EXTERNAL COMPETITIVENESS DEVELOPMENTS³⁵

A. Introduction

47. **Trends and developments in the external competitiveness of Cyprus are important in light of the authorities' euro adoption plans.** The authorities' intention to join ERM2 in 2005, and the objective to adopt the euro in 2007 or 2008, underscore the need to assess recent developments in external competitiveness, despite the fact that Cyprus has a long and successful track record in employing an exchange rate framework similar to ERM2 (Box 1). Against this backdrop, this paper reviews a series of quantitative and qualitative indicators to assess the external competitiveness of the Cypriot economy.

Box 1. Evolution of the Exchange Rate Regime

Exchange rate policy in Cyprus has historically targeted macroeconomic stability through the linkage of the Cyprus pound with a currency anchor. After Cyprus gained independence in 1960, the Cyprus pound was pegged to the pound sterling until 1972. Following a brief period of peg to the U.S. dollar in 1972, the currency was pegged first to an import-weighted currency basket (1973–84) and then to a trade-weighted basket (1984–1992). In 1992, the pound was pegged to the ECU with a central rate £C 1=ECU 1.7086, and when the euro was introduced on January 1, 1999, the Cyprus pound was pegged to the euro with an unchanged central parity rate of £C 1=€1.7086. Initially, the fluctuation margins were also maintained at ± 2.25 percent. On January 1, 2001, wider bands of ± 15 percent were introduced, in order to enable the Central Bank to absorb shocks from possibly destabilizing capital movements and deter speculative capital flows during the process of capital account liberalization in the run up to EU membership. However, the narrower “softer” bands of ± 2.25 percent were also maintained for some time to help anchor expectations. Effective August 13, 2001, only the ± 15 percent margins have formally been in place. Nevertheless, the market exchange rate has subsequently remained within the former narrow band, most of the time being somewhat above the central parity rate.



48. **The remainder of the paper is structured as follows.** Section B examines the implications of a number of real effective exchange rate measures and other exchange rate and price indicators. Section C reviews export performance indicators and section D assesses

³⁵ Prepared by Heikki Hatanpaa.

the sustainability of the balance of payments position. Section E discusses the competitiveness of the tourism sector, which is the most important source of export revenue in the Cypriot economy. Section F reviews survey-based methods of assessing competitiveness. Section G provides some conclusions.

B. Exchange Rate-Based Indicators

Real Effective Exchange Rate Measures

49. **Various measures of the real effective exchange rate (REER) show a gradual trend toward real appreciation** (Figure 1).³⁶ The underlying trend real appreciation seems to reflect mainly the process of real convergence rather than an erosion of competitiveness. The CPI-based REER measures have fluctuated over time but, during the 1990s the pound has tended to appreciate in real terms as the average rate of consumer price inflation in Cyprus has been above that of competitor countries. During the period that the pound has been pegged to the ECU/euro (1992-2003) average inflation in Cyprus has been about 1.1 percentage points higher than in the euro area, while the corresponding difference in the average real growth rate of GDP was about 2.6 percentage points, resulting in a steady convergence of Cypriot per capita GDP toward that of the euro area (Figure 2). This combination of real appreciation and real convergence is well in line with the patterns observed in other countries.³⁷ It suggests that the Cyprus pound's observed real appreciation against the chosen anchor currency has mainly reflected a normal catching up process, including Balassa-Samuelsson effects, rather than a long-term steady erosion in external competitiveness. However, the fact that the positive inflation differential vis-à-vis the euro area has declined only marginally during the last 5-6 years, while the growth differential (i.e., the rate of real convergence) has almost halved, suggests that Cyprus has lost some competitiveness relative to the euro area in recent years.

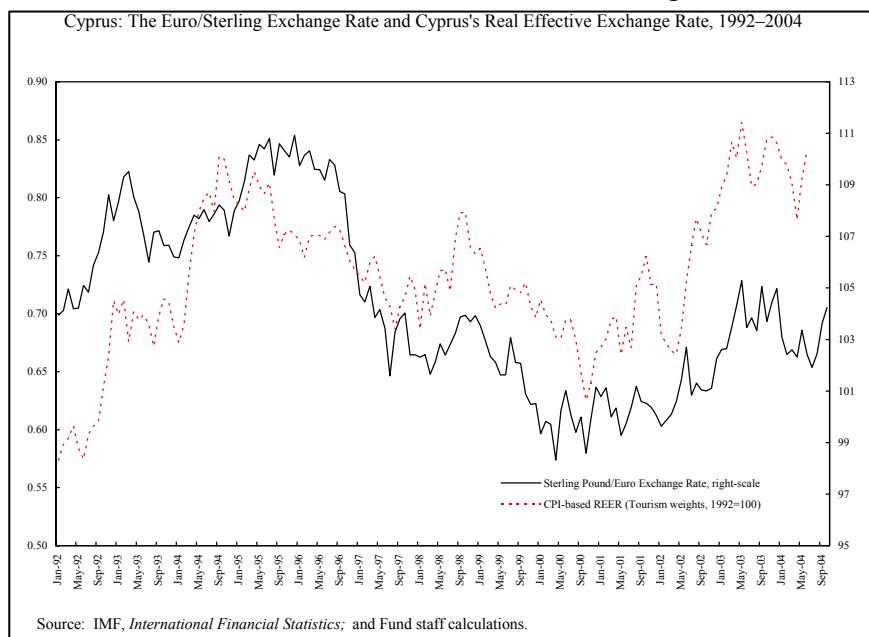
Cyprus and Euro Area: Inflation and Growth Differentials, 1992-2003 (In percentage points)			
	1992-97	1998-2003	1992-2003
Inflation differential 1/	1.3	1.0	1.1
Growth differential 2/	3.4	1.8	2.6
Ratio of inflation and growth differentials	0.38	0.55	0.44
1/ Difference in average annual CPI inflation rates: Cyprus minus the euro area.			
2/ Difference in average annual real GDP growth rates: Cyprus minus the euro area.			

50. **Large changes in the value of the euro vis-à-vis other major currencies, in particular the pound sterling, result in significant fluctuations in the real exchange rate of the Cyprus pound.** Given the Cyprus pound's tight peg to the euro, the strengthening of

³⁶ These include three CPI-based measures of price competitiveness with respect to all of Cyprus's trading partners, with respect to its trading partners in the tourism sector, and with respect to the euro area. The corresponding measures of cost competitiveness are calculated using unit labor costs (ULC) in manufacturing industries. In addition, the ratio of the GDP deflator to unit labor costs is used as a measure of "profitability."

³⁷ Evidence from a large cross-section of transition countries indicates that catching up by one percent in PPP per capita GDP tends to be associated with a 0.4 percent real appreciation, see de Broeck and Sløk (2001).

the sterling and the U.S. dollar vis-à-vis the euro in 1999 and 2000 led to a significant depreciation of Cyprus's real effective exchange rate, thus improving the economy's price and cost competitiveness. Conversely, the euro's subsequent strengthening against the same currencies has more than offset the earlier real depreciation. REER measures based on tourism weights are especially sensitive to changes in the euro/sterling exchange rate, given that over half of the tourists in Cyprus come from the United Kingdom.



51. **The current level of the real exchange rate is close to its historic trend.** Despite some deterioration in recent years, the Cyprus pound's real effective exchange rate remains in the neighborhood of trend levels obtained through Hodrick-Prescott filtering, suggesting that it is not out of line with historical patterns (Figure 3).

52. **The real appreciation has been somewhat more pronounced when measured by unit labor cost (ULC)-based indicators than with the CPI-based indicators,** implying reduced profitability.³⁸ Relatively large increases in unit labor costs reflect partly the process of real convergence, but they also reflect the rigidities of the Cypriot labor relation system.³⁹ Strong labor unions and the COLA tend to magnify inflationary shocks, such as those experienced in 2000 and 2003. In particular, the inflationary bias of the COLA tends to contribute to wage increases that are larger than would be warranted on basis of productivity developments and that have tended to exceed those in competitor countries. Indeed, in recent years unit labor costs in Cypriot manufacturing industries have risen faster than in the EU and euro area countries on average. These recent wage increases are also evident from a

³⁸ Normally, Balassa-Samuelsson effects could be expected to result in steady but sustainable increases in CPI-based REERs, but affect ULC-based REERs for manufacturing much less. In the case of Cyprus, the manufacturing industries account for a low and declining share of the economy's export earnings and, therefore, the ULC-based REER indicators may be less relevant in measuring the economy's external competitiveness.

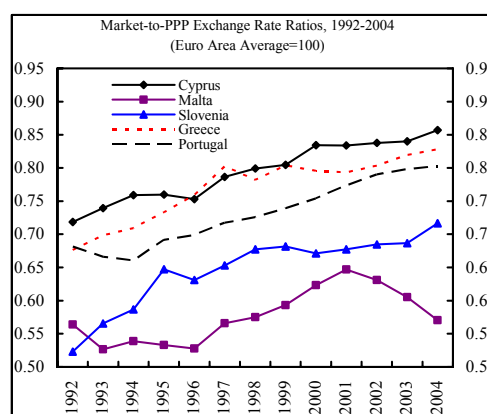
³⁹ For more details on labor market issues, see Chapter I.

declining ratio of the GDP deflator to unit labor costs (Figure 1). According to this indicator of competitiveness, “profitability” has declined slightly during the past couple of years as labor costs have increased more rapidly than the GDP deflator. This decline is likely to reflect the squeeze on profit margins as companies have had to cope with relatively high wage increases during a time in which relatively weak demand has prevented them from fully passing the increase in labor cost to prices.

Estimates of Equilibrium Exchange Rates

53. **Estimates of the equilibrium exchange rate for Cyprus suggest that the real effective exchange rate is either in line with, or slightly above, its equilibrium level.** For example, a recent study by Pattichis et al. (2003) employed the behavioral equilibrium exchange rate (BEER) approach, and found that in 1999-2000 the Cyprus pound appeared to be slightly undervalued relative to the equilibrium exchange rate estimated on the basis of smoothed long-run values of economic fundamentals.⁴⁰ The same study found that the actual real effective exchange rate and a BEER estimated on the basis of actual values of economic fundamentals had moved closely together during the period that the Cyprus pound had been pegged to the euro/ECU. Since the Cyprus pound has appreciated in real terms by about 10 percent during 2000–04, any overvaluation at present would be limited to that amount.

54. **The market-to-PPP exchange rate ratio suggests that the current rate is below its long-term equilibrium, but relatively high compared with countries at a similar level of development.** During the past decade, Cyprus’s market-to-PPP exchange rate ratio has been on a steady upward trend, with the ratio currently at about 86 percent of the euro area average. This development could suggest that the Cyprus pound is slightly overvalued, but if so, this has been the case since the Cyprus pound was pegged to the ECU/euro.



C. Export Market Share Indicators

55. **The long-term decline in the market share of exports of goods has been offset by rapid increases in services exports** (Table 1 and Figure 4). Cyprus’s market share in goods has been on a declining trend since the early 1990s, with the decline accelerating during the mid-1990s. As the increasingly service-oriented economy has caught up with income levels in more advanced economies, rising labor costs in Cyprus have eroded its earlier comparative

⁴⁰ Similar results were found in IMF (1998).

advantage in some labor intensive manufacturing sectors (e.g., textiles and footwear). Similarly, the opening of the developing world to trade, and Cyprus's closer integration to the EU economy, have increased competition in the export markets for goods, contributing to losses in Cypriots market shares in the EU and global markets. Cyprus's market share in services exports remained stable during the 1990s and has increased since 2000, thus more than offsetting the impact of the decline in goods exports in recent years. Although structural breaks in the balance of payments statistics reduce the comparability of data on services exports during the past five years, available data suggests that rapid growth in several categories of services exports, such as transport, construction, financial and other business services, has more than offset the decline in tourism revenues experienced since 2001, and has enabled Cyprus to increase its market share of the total world and EU exports of goods and services.⁴¹

56. The rapid rise in labor costs has hurt goods exports much more than the export-oriented service industries, partly reflecting differences in their cost structures. The rise in ULCs has undermined the cost competitiveness of the manufacturing sector, while the tourism sector and other export-oriented service industries have fared better.⁴² Some export-oriented service industries have been able to exploit market niches in which Cyprus has a comparative advantage (such as geographic location and good infrastructure), and this seems to have more than offset some loss in cost competitiveness during the past few years. Meanwhile, the tourism sector has relied on foreign labor to a large extent, with the result that labor cost increases may have been muted as a result. (Unfortunately, detailed data on ULC developments in different sectors are not available.)

D. Balance of Payments Sustainability

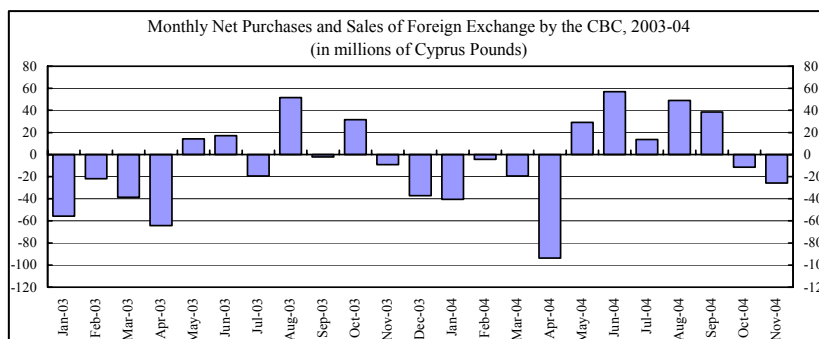
57. Cyprus's current account balance has been persistently negative over the past decade, but its financing has not been a problem. The average level of the current account deficit during the past decade (including a projection for 2004) has been about 4 percent of GDP. Large surpluses in the services sectors have only partially offset persistently large merchandise trade deficits. "Other investment" inflows, including non-resident deposits with resident financial institutions, have been the main source of financing of the current account imbalances during most of the past decade. However, in recent years net direct investment

⁴¹ Since 2000 a new residency definition (consistent with the Fifth Edition of the IMF's Balance of Payments Manual) has been applied, and all international banking units and the international business companies that have physical presence in Cyprus are treated as residents, whereas in the previous years they were treated as nonresidents. Furthermore, a new data collection and compilation system for balance of payments statistics was implemented in 2002.

⁴² At the same time, the tourism sector has been hit in recent years by sector-specific external shocks, in particular the world-wide decline in tourism following the events of September 11, 2001, and the war in Iraq. These shocks make it difficult to assess underlying trends in the competitiveness of the tourism sector during the past three years.

inflows have been a significant source of financing of the current account deficit, thus reducing the risks to external sustainability going forward⁴³

58. **The small volume of market-clearing foreign exchange transactions by the Central Bank of Cyprus (CBC) suggests that the exchange rate has been in line with economic fundamentals.** Interbank foreign exchange markets in Cyprus are relatively thin and the banks' ability to take open foreign exchange positions is very limited. On most business days, the CBC clears the market by either buying or selling foreign exchange during the daily fixing procedure to smooth out fluctuations in the exchange rate. In 2001 and 2002, the CBC made sizable net purchases of foreign currency, amounting to £C 663 million and £C 273 million respectively. In 2003, the CBC sold a modest amount of foreign currency in net terms (£C 134 million). Also in early months of the 2004, amid the uncertainty related to the outcome of the referendum on the Annan Plan, the CBC was a net seller of foreign exchange. But its decision to hike policy interest rates at the end of April reversed capital outflows, and as of end-October, the CBC's cumulative net transactions for 2004 as a whole were close to zero. In relation to the CBC's stock of official reserves, its annual net transactions during the past three years have been very modest, averaging only 2.7 percent of official reserves.



59. **Despite a rise in recent years, the level of debt remains moderate and the government has good access to external financing.** The jump in the external debt-to-GDP ratio from 2001 to 2003 reflects primarily a change in the residency definitions used in compiling the balance of payments, as external liabilities of entities previously considered as nonresidents were for the first time included in Cyprus's external debt. Cyprus's credit rating (Standard & Poor's) for non-domestic long-term debt has remained stable at A since 2000 and the government retains good access to international capital markets, as indicated by the sovereign Eurobond placement of €500 million in July 2004, which was priced at only 23 basis points over the comparable German bund benchmark.

⁴³ See IMF (2003).

E. Competitiveness of the Cypriot Tourism Sector

60. **As a tourist destination, Cyprus has relative strengths that mitigate the recent weakening in price competitiveness relative to other destinations in the Mediterranean.**⁴⁴ The World Travel and Tourism Council calculates several competitiveness indices reflecting these and a number of other factors for more than 200 countries. Table 2 presents their competitiveness indices for Cyprus and a number of other popular tourism destinations in the region. It indicates that in terms of price competitiveness, Cyprus scores well compared to the more advanced EU countries and Israel, while it is considered an expensive destination compared with Tunisia, Egypt and Turkey. Cyprus compares favorably with its potential competitors in categories such as human tourism, infrastructure, technology and openness, and it is broadly on par in environment, human resources and social development categories.

F. Other Indicators of Competitiveness

61. **Survey-based methods give mixed signals about the competitiveness of the Cypriot economy.** In 2004, Cyprus participated for the first time in an annual competitiveness survey conducted by the World Economic Forum (WEF).⁴⁵ The WEF reports two main competitiveness indices that measure complementary dimensions of competitiveness: the “growth competitiveness” index measures primarily macro factors that are central to creating a healthy business environment conducive to economic growth in the medium term, while the “business competitiveness” index evaluates the underlying microeconomic conditions defining the current sustainable level of productivity.

- In terms of *growth competitiveness*, Cyprus ranked 38th out of 104 participating economies. Among EU member countries, Cyprus ranked 19th, thus placing it behind all but one of the old EU member countries and behind four countries that joined the EU on May 1, 2004.⁴⁶
- In terms of *business competitiveness*, Cyprus ranked 45th of 103 participating economies. It ranked behind all older EU member states that participated in the survey and also behind all but three of the countries that joined the EU in 2004. Within the business

⁴⁴ Measuring the competitiveness of the tourism sector is difficult given the special characteristics of the industry. Competitiveness of the tourism sector is more difficult to measure than of that of manufacturing industries, since each tourism destination differs from others in terms of quality and other factors, such as infrastructure, environment and culture of the country.

⁴⁵ World Economic Forum (2004).

⁴⁶ The growth competitiveness index is composed of three components: the technology index, the public institutions index, and the macroeconomic environment index. Each of these component indices consists of a number of sub-indices that are calculated on the basis of both “hard data” and “survey data.”

competitiveness index, Cyprus fared particularly poorly in terms of “company operations and strategy” (59th), but fared somewhat better in terms of the “quality of national business environment” (41st).

62. Growth competitiveness measures for Cyprus point to a mixed performance.

While Cyprus has relatively competitive public institutions, its macroeconomic stability index was negatively affected by the deterioration in fiscal balances and acceleration in inflation during 2003. In terms of technology, Cyprus scored well when measured by the availability of personal computers, internet access and the prevalence of mobile phones. On the other hand, research and development spending in Cyprus is relatively low. This may in part be explained by the island’s heavy emphasis on the services sectors, such as tourism, that tend to be less R&D-intensive than manufacturing industries. It may also reflect limited collaboration between businesses and local institutions of higher education, given the relatively recent establishment of domestic universities.

63. Business competitiveness measures for Cyprus are somewhat disappointing. The sophistication of Cypriot companies’ operating practices and strategies are relatively weak and the quality of microeconomic business environment leaves room for improvement. A lack of managerial and board professionalism, partly stemming from the prevalence of family-run businesses and inadequate corporate governance, contributed to the perceived weaknesses in companies’ operations and strategy. In general, Cyprus’s competitiveness rankings seem worse than would be expected, given its relatively high per capita GDP. This may partly reflect the fact that Cyprus has been particularly adept at exploiting comparative advantages that are not captured by competitiveness surveys. For instance, Cyprus’s location, together with the underlying good infrastructure, has given it a comparative advantage for off-shore banking, shipping, and international financial centers. However, the survey does point to some weaknesses that need to be addressed in order to sustain and improve the competitiveness of the Cypriot economy, such as further fiscal consolidation and measures to enhance product and labor market competition.

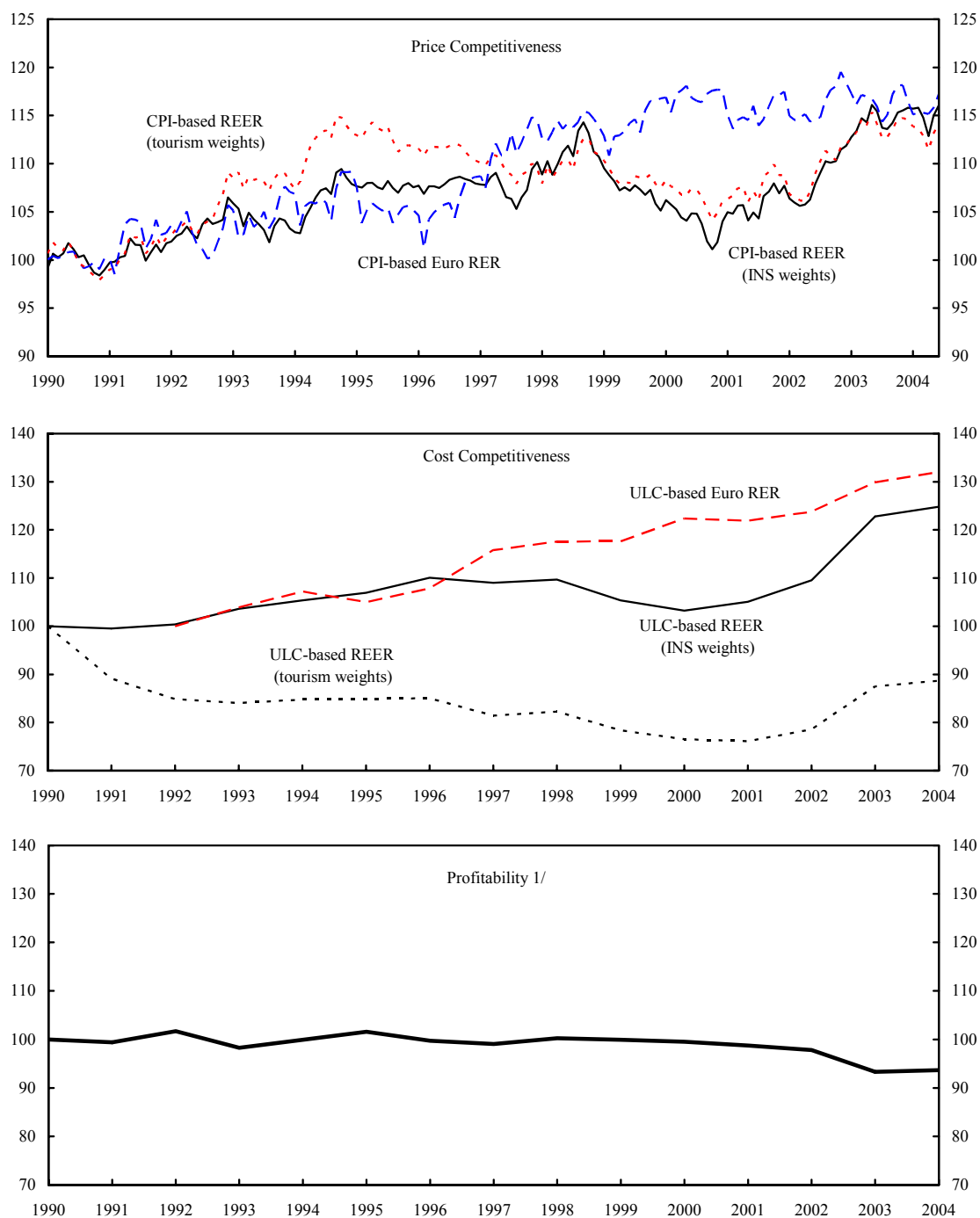
G. Conclusions

64. For more than a decade, the Cyprus pound’s peg to the ECU/euro at an unchanged central parity has been an important feature underpinning the country’s impressive economic performance. The peg has helped in bringing about macroeconomic stability, which has been conducive to rapid growth and low unemployment. Indeed, the need to import labor and high labor force participation rates indicate that the economy has been very competitive. The gradual real appreciation of the Cyprus pound since the peg was established in 1992 has reflected mainly the process of real convergence and has not posed a threat for the economy’s competitiveness.

65. However, several indicators point to some weakening of the economy’s competitiveness in recent years. The bulk of the recent deterioration in competitiveness is attributable to the strengthening of the euro vis-à-vis other major currencies—a development that is beyond the control of policymakers. To a lesser extent, but somewhat more

worryingly, the loss of competitiveness seems also to have arisen from lax fiscal and labor market policies in recent years, which have resulted in excessive price and wage increases.

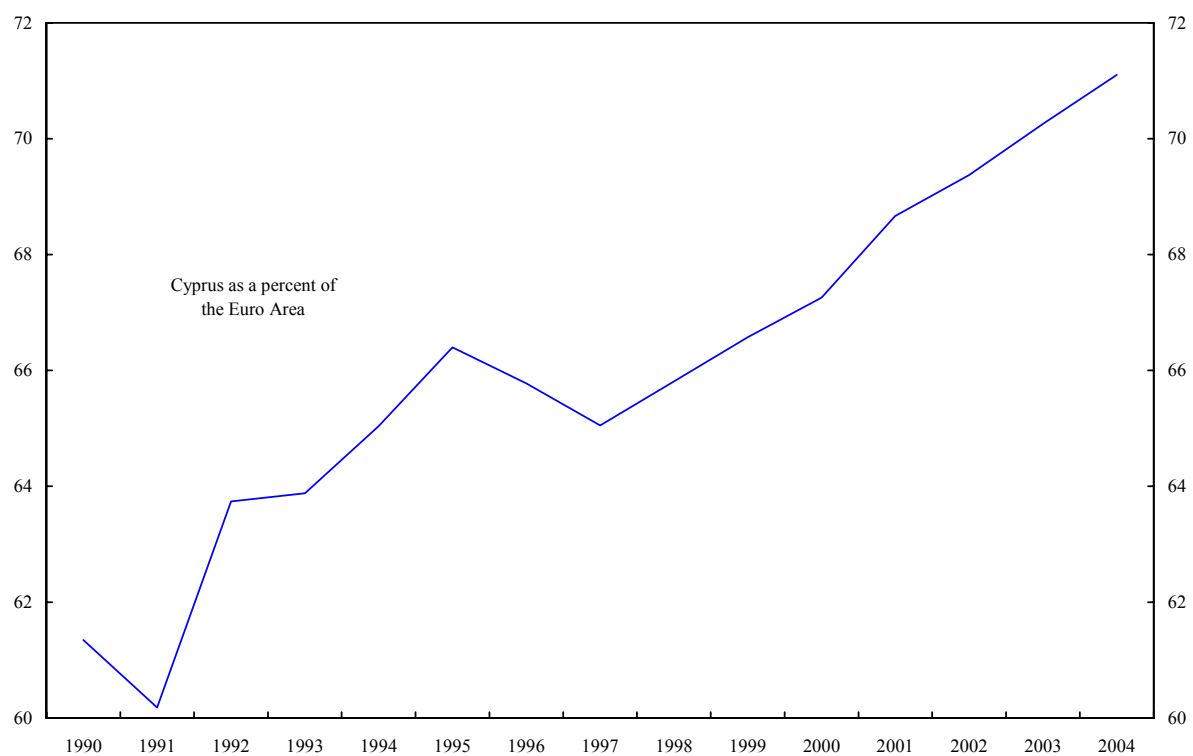
Figure 1. Cyprus: Competitiveness Indicators, 1990-2004
(1990=100)



Sources: IMF, *International Financial Statistics*; IMF, *World Economic Outlook*; and Fund staff calculations.

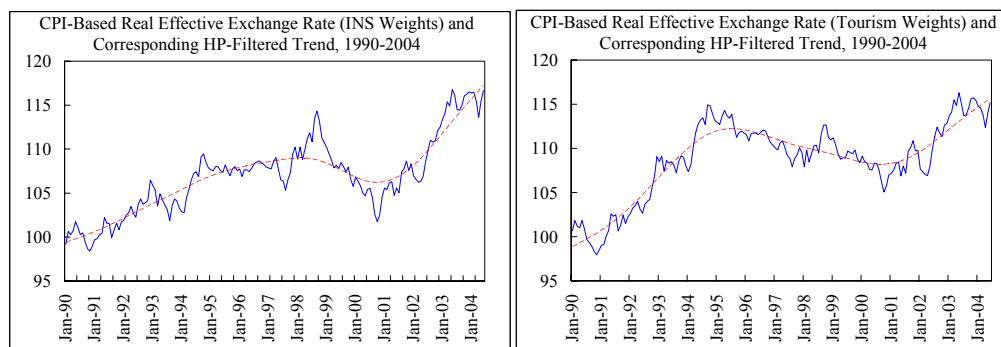
1/ Defined as the ratio of the GDP deflator to unit labor cost.

Figure 2. Cyprus: GDP Per Capita as a Share of the Euro Area Average, 1990-2004
(PPP Adjusted)



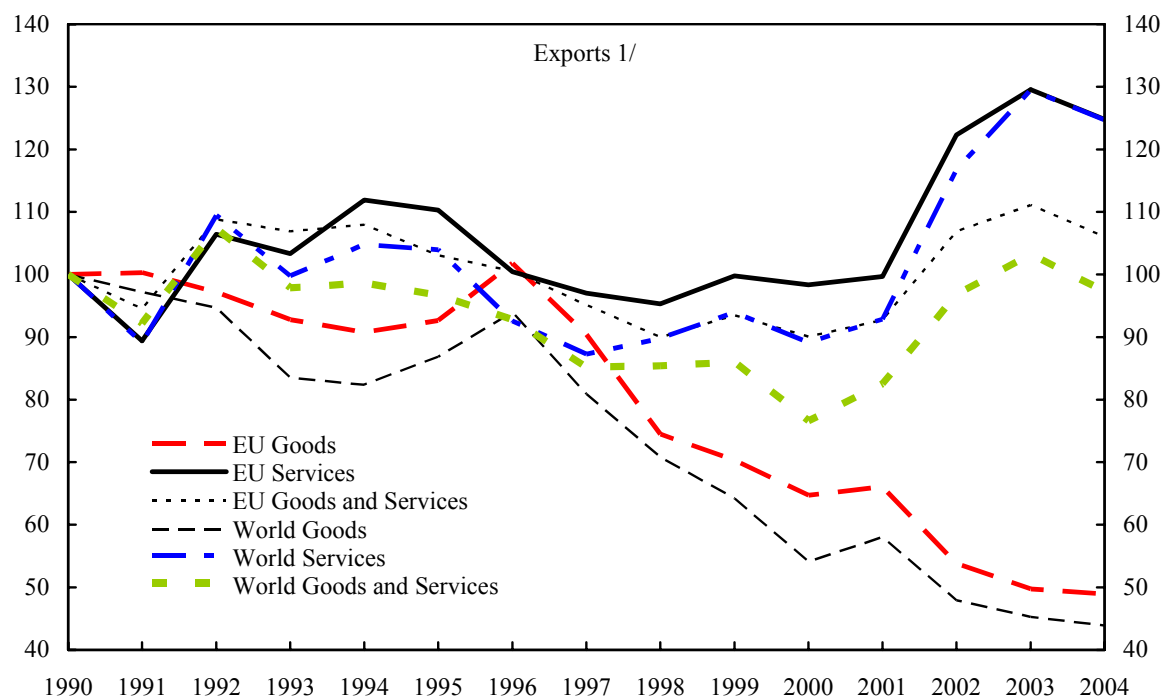
Source: IMF, *World Economic Outlook*.

Figure 3. Cyprus: Trend Real Effective Exchange rates, 1990–2004



Source: IMF staff estimates

Figure 4. Cyprus: Market Share, 1990-2004
(1990=100)



Source: IMF, *World Economic Outlook*; and Fund staff calculations.

1/ Share of Cyprus's exports over those of the EU and the world respectively.

Table 1. Cyprus and Selected Countries: Export Performance and Competitiveness Indicators, 2000-03
(In percent, unless otherwise indicated)

	Growth of Exports of Goods and Non-Factor Services (2000-03) 1/	Growth of Exports of Goods (2000-03) 1/	Growth of Exports of Non-Factor Services (2000-03) 1/	Share of Exports of Goods and Non-Factor Services in GDP		Share of Exports of Non-Factor Services in GDP		Change in Market Share of World Exports of Goods and Non-Factor Services (2000 to 2003)	Change in Market Share of World Exports of Goods (2000 to 2003)	Change in Market Share of World Exports of Non-Factor Services (2000 to 2003)	Cumulative change in Real Effective Exchange Rate (INS, 1999-2003, +=Appreciation)	Cumulative FDI in Percent of Cumulative GDP (1999-2003)
				2000	2003	2000	2003					
Cyprus	58.4	-2.5	76.4	46.8	51.5	36.1	44.3	34.7	-16.4	45.3	10.5	1.4
Croatia	72.1	37.6	110.5	47.0	51.7	22.2	29.9	46.3	18.0	73.3	3.4	5.9
Egypt	12.7	28.5	2.2	16.1	22.5	9.7	12.3	-4.2	10.1	-15.9	-44.2	0.9
Greece	24.2	22.7	24.9	25.9	21.3	17.0	14.0	5.6	5.2	2.9	9.3	0.0
Israel	-7.4	-3.5	-15.6	39.8	38.9	12.7	11.3	-21.2	-17.3	-30.5	-16.8	1.7
Italy	23.6	22.0	30.6	27.6	25.0	5.2	5.0	5.1	4.6	7.5	9.3	0.0
Malta	4.9	0.7	14.3	100.6	83.9	31.0	28.2	-10.8	-13.6	-5.9	0.8	8.3
Spain	38.6	36.9	42.3	30.2	28.1	9.6	9.1	17.9	17.4	17.2	9.5	-1.3
Tunisia	26.8	37.5	3.7	43.9	43.3	14.0	11.2	7.8	17.9	-14.6	-6.7	2.7
Turkey	34.4	66.7	-8.3	26.3	30.2	11.3	8.9	14.3	42.9	-24.5	-1.8	0.5
Average (std. dev.)	28.8 (23.7)	24.7 (22.1)	28.1 (39.5)	40.4 (23.6)	39.6 (19.2)	16.9 (10.0)	17.4 (12.5)	9.6 (20.2)	6.9 (18.9)	5.5 (32.5)	-2.7 (17.0)	2.0 (2.9)
Median	25.5	25.6	19.6	35.0	34.6	13.3	11.8	6.7	7.6	-1.5	2.1	1.1

Sources: IMF, *World Economic Outlook*; IMF, *Information Notice System*; and IMF, *International Financial Statistics*.

1/ Exports are expressed in U.S. dollars.

Table 2. Cyprus and Selected Countries: Indices of Competitiveness in Tourism Sector, 2003 1/

	Price 2/ Index value Ranking	Human Development 3/ Index value Ranking	Infrastructure 4/ Index value Ranking	Environment 5/ Index value Ranking	Technology 6/ Index value Ranking	Human Resources 7/ Index value Ranking	Openness 8/ Index value Ranking	Social 9/ Index value Ranking
Cyprus	42 85	100 6	76 7	49 86	94 41	66 56	79 13	70 52
Croatia	41 88	n/a n/a	n/a n/a	62 34	75 64	68 51	68 57	68 55
Egypt	67 37	28 75	62 36	59 45	16 149	23 120	39 118	41 125
Greece	36 93	64 37	n/a n/a	54 69	99 31	79 29	70 49	73 42
Israel	13 123	49 55	n/a n/a	51 79	100 20	76 38	65 74	83 28
Italy	20 111	50 52	n/a n/a	64 27	100 26	84 19	70 48	78 32
Malta	48 72	100 7	69 16	38 130	100 27	68 51	78 14	76 36
Spain	23 107	68 32	n/a n/a	74 2	94 40	94 12	71 40	77 33
Tunisia	70 27	59 45	n/a n/a	67 21	24 138	35 107	70 46	46 107
Turkey	60 46	31 73	59 41	46 101	70 67	45 93	64 77	59 79

Source: The World Travel and Tourism Council (<http://www.wttc.org/>).

- 1/ Index values on 0-100 scale, with 100 representing the best possible score. Rankings: most competitive=1; least competitive=212.
2/ Based on a weighted average of hotel price index, the purchasing power parity index, adjusted consumer price index, and taxes on goods and services.
3/ Measures the achievement of human development in terms of tourism activity by measuring the level of tourism impact on a country and the level of tourism participation within that country.
4/ Measures the competitiveness of infrastructure and is calculated using information on road quality, access to improved sanitation facilities, access to improved drinking water, and the railways.
5/ Measures governments' awareness towards environmental aspects of development using population density, CO₂ emissions and the ratification of environmental treaties as appropriate indicators.
6/ Measures the advances in modern technological systems and infrastructure using data regarding telephone mainlines, mobile phones, high technology exports and Internet hosts.
7/ Measures the competitiveness of human resources using data regarding life expectancy, illiteracy rates, education, employment, population, training, skills and gender indicators.
8/ Measures tourism openness using data on visa requirements, the extent to which a country is open to international tourism, trade openness and taxes on international trade.
9/ Measures a country's development in social issues using data from daily newspapers, personal computers, television sets and total crimes recorded.

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Table 1. Cyprus: Aggregate Demand, 1998–2003

(At current prices)

	1998	1999	2000	2001	2002	2003
(In millions of Cyprus pounds)						
GDP at market prices	4,862.8	5,214.2	5,679.0	6,103.5	6,370.3	6,801.7
Consumption	3,987.8	4,249.0	4,642.5	4,995.2	5,254.6	5,693.3
Private	3,165.6	3,325.1	3,712.8	3,927.3	4,083.4	4,336.7
Public	822.2	923.9	929.7	1,067.9	1,171.2	1,356.6
Investment	935.1	889.8	1,046.0	1,007.8	1,193.3	1,217.9
Of which: change in stocks	9.9	-45.6	64.3	-33.6	31.7	49.9
Total domestic demand	4,922.9	5,138.8	5,688.5	6,003.0	6,447.9	6,911.2
Foreign balance	-60.1	75.4	-9.5	100.6	-77.6	-109.4
Exports of goods and NFS	2,412.8	2,686.1	3,123.9	3,426.3	3,244.3	3,176.3
Imports of goods and NFS	2,472.9	2,610.7	3,133.4	3,325.7	3,321.9	3,285.7
Statistical discrepancy	0.0	0.0	0.0	-0.1	0.0	-0.1
Net factor income from abroad	297.7	-190.8	-337.6	-338.2	-274.4	-198.2
GNP at market prices	5,160.5	5,023.4	5,341.4	5,765.3	6,095.9	6,603.5
(Annual percentage changes)						
GDP at market prices	16.3	7.2	8.9	7.5	4.4	6.8
Consumption	13.8	6.5	9.3	7.6	5.2	8.3
Private	15.2	5.0	11.7	5.8	4.0	6.2
Public	9.0	12.4	0.6	14.9	9.7	15.8
Investment	13.8	-4.8	17.6	-3.7	18.4	2.1
Total domestic demand	13.8	4.4	10.7	5.5	7.4	7.2
Exports of goods and NFS	23.0	11.3	16.3	9.7	-5.3	-2.1
Imports of good and NFS	15.1	5.6	20.0	6.1	-0.1	-1.1
(Contribution to growth of real GDP)						
GDP at market prices	16.3	7.2	8.9	7.5	4.4	6.8
Consumption	11.6	5.4	7.5	6.2	4.3	6.9
Private	10.0	3.3	7.4	3.8	2.6	4.0
Public	1.6	2.1	0.1	2.4	1.7	2.9
Investment	2.7	-0.9	3.0	-0.7	3.0	0.4
Total domestic demand	14.3	4.4	10.5	5.5	7.3	7.3
Foreign balance	3.0	2.8	-1.6	1.9	-2.9	-0.5
Exports of goods and NFS	10.8	5.6	8.4	5.3	-3.0	-1.1
Imports of good and NFS	7.8	2.8	10.0	3.4	-0.1	-0.6

Source: Statistical Service.

Table 2. Cyprus: Aggregate Demand, 1998–2003

(At constant 1995 prices)

	1998	1999	2000	2001	2002	2003
(In millions of Cyprus pounds)						
GDP at market prices	4,534.6	4,752.2	4,991.8	5,194.7	5,303.6	5,402.0
Consumption	3,747.2	3,901.0	4,060.9	4,279.1	4,394.3	4,526.6
Private	3,009.7	3,099.2	3,299.5	3,422.1	3,472.8	3,561.8
Public	737.5	801.8	761.4	857.0	921.5	964.8
Investment	872.6	813.6	943.6	886.5	1,015.7	1,008.5
Gross fixed-capital formation	863.4	855.0	887.2	915.2	989.2	967.1
Change in stocks	9.2	-41.4	56.4	-28.7	26.5	41.4
Total domestic demand	4,619.8	4,714.6	5,004.5	5,165.6	5,410.0	5,535.1
Foreign balance	-85.0	37.4	-12.5	29.0	-106.5	-133.2
Exports of goods and NFS	2,247.7	2,438.9	2,697.6	2,867.2	2,716.9	2,680.2
Imports of goods and NFS	2,332.7	2,401.5	2,710.1	2,838.2	2,823.4	2,813.4
Statistical discrepancy	-0.2	0.2	-0.2	0.1	0.1	0.1
Net factor income from abroad	277.6	-173.9	-296.8	-287.8	-228.4	-157.4
GNP at market prices	4,812.2	4,578.3	4,695.0	4,906.9	5,075.2	5,244.6
(In percent of GDP)						
Consumption	82.6	82.1	81.4	82.4	82.9	83.8
Private	66.4	65.2	66.1	65.9	65.5	65.9
Public	16.3	16.9	15.3	16.5	17.4	17.9
Investment	19.2	17.1	18.9	17.1	19.2	18.7
Gross fixed-capital formation	19.0	18.0	17.8	17.6	18.7	17.9
Change in stocks	0.2	-0.9	1.1	-0.6	0.5	0.8
Total domestic demand	101.9	99.2	100.3	99.4	102.0	102.5
Foreign balance	-1.9	0.8	-0.3	0.6	-2.0	-2.5
Exports of goods and NFS	49.6	51.3	54.0	55.2	51.2	49.6
Imports of goods and NFS	51.4	50.5	54.3	54.6	53.2	52.1
Statistical discrepancy	0.0	0.0	0.0	0.0	0.0	0.0

Source: Statistical Service.

Table 3. Cyprus: Origin of Gross Domestic Product, 1998–2003

(At constant 1995 prices)

	1998	1999	2000	2001	2002	2003
(In millions of Cyprus pounds at constant 1995 prices)						
Primary sector	200.0	221.4	211.0	218.5	230.6	240.0
Agriculture and hunting	174.9	193.7	178.1	185.4	196.0	205.8
Fishing	10.7	12.4	15.8	15.9	16.2	15.9
Mining	14.4	15.3	17.1	17.2	18.4	18.3
Industry	891.4	897.5	912.4	926.5	942.9	961.5
Manufacturing	475.9	479.6	490.0	481.7	470.6	466.3
Electricity, gas, and water	96.1	101.7	109.9	119.7	131.9	139.9
Construction	319.4	316.2	312.5	325.1	340.4	355.3
Services	3,269.5	3,477.5	3,750.7	3,945.1	4,060.1	4,242.0
Transport, storage and communications	380.1	418.5	479.1	509.7	529.4	541.2
Trade, restaurants, and hotels	972.6	1,013.7	1,078.6	1,129.3	1,105.3	1,082.4
Finance, insurance, and real estate	940.4	998.8	1,062.8	1,120.8	1,160.5	1,191.8
Community, social, and personal	290.8	306.3	325.6	334.9	348.6	358.3
Public administration	663.8	716.2	777.1	817.2	878.4	1,024.3
Other	21.8	24.0	27.5	33.2	37.9	44.0
Less imputed bank charges	151.5	167.7	191.1	222.5	224.4	219.0
Plus import duties and VAT (net)	410.5	438.5	474.0	517.0	524.3	524.9
GDP at constant 1995 prices	4,534.6	4,752.2	4,991.8	5,194.7	5,303.6	5,402.0
(Annual percentage changes at constant 1995 prices)						
Primary sector	8.1	10.7	-4.7	3.6	5.5	4.1
Agriculture	7.2	11.0	-5.9	3.8	5.4	4.5
Mining	22.0	6.3	11.8	0.6	7.0	-0.5
Industry	1.6	0.7	1.7	1.5	1.8	2.0
Manufacturing	1.2	0.8	2.2	-1.7	-2.3	-0.9
Electricity, gas, and water	8.7	5.8	8.1	8.9	10.2	6.1
Construction	0.1	-1.0	-1.2	4.0	4.7	4.4
Services	6.6	6.4	7.9	5.2	2.9	4.5
Transport, storage, and communications	8.7	10.1	14.5	6.4	3.9	2.2
Trade, restaurants, and hotels	6.3	4.2	6.4	4.7	-2.1	-2.1
Finance, insurance, and real estate	6.4	6.2	6.4	5.5	3.5	2.7
Community, social and personal	4.0	5.3	6.3	2.9	4.1	2.8
Public administration	7.0	7.9	8.5	5.2	7.5	16.6
Other	10.7	10.1	14.6	20.7	14.2	16.1
(Contribution to real GDP growth)						
Primary sector	0.3	0.5	-0.2	0.2	0.2	0.2
Agriculture	0.3	0.5	-0.3	0.1	0.2	0.2
Mining	0.1	0.0	0.0	0.0	0.0	0.0
Industry	0.3	0.1	0.3	0.3	0.3	0.4
Manufacturing	0.1	0.1	0.2	-0.2	-0.2	-0.1
Electricity, gas, and water	0.2	0.1	0.2	0.2	0.2	0.2
Construction	0.0	-0.1	-0.1	0.3	0.3	0.3
Services	4.7	4.6	5.7	3.9	2.2	3.4
Transport, storage, and communications	0.7	0.8	1.3	0.6	0.4	0.2
Trade, restaurants, and hotels	1.3	0.9	1.4	1.0	-0.5	-0.4
Finance, insurance, and real estate	1.3	1.3	1.3	1.2	0.8	0.6
Community, social, and personal	0.3	0.3	0.4	0.2	0.3	0.2
Public administration	1.0	1.2	1.3	0.8	1.2	2.8
Other	0.0	0.0	0.1	0.1	0.1	0.1

Source: Statistical Service.

Table 4. Cyprus: Origin of Gross Domestic Product, 1998–2003

(At current prices)

	1998	1999	2000	2001	2002	2003
(In millions of Cyprus pounds)						
Primary sector	213.0	218.7	216.1	240.7	257.6	284.4
Agriculture, forestry	188.2	191.4	187.8	211.9	226.8	251.1
Fishing	10.7	12.4	11.4	11.4	11.8	12.4
Mining and quarrying	14.1	14.9	16.9	17.4	19.0	20.9
Secondary sector	975.3	1,002.1	1,055.4	1,114.4	1,162.5	1,219.5
Manufacturing	516.2	536.1	563.0	579.0	581.7	581.1
Electricity, gas, and water	95.4	94.9	114.2	123.1	128.1	143.5
Construction	363.7	371.1	378.2	412.3	452.7	494.9
Services	3,481.3	3,809.0	4,172.3	4,483.2	4,632.2	4,873.2
Transport, storage, and communications	397.7	444.3	492.6	538.1	526.7	542.8
Trade, restaurants and hotels	1,038.1	1,104.0	1,213.7	1,317.1	1,304.2	1,289.5
Finance, insurance, real estate, business	1,039.9	1,175.5	1,284.2	1,378.2	1,450.3	1,512.0
Community, social and personal services	341.8	369.0	404.7	432.6	472.6	504.6
Government services	663.8	716.2	777.1	817.2	878.4	1,024.3
Less imputed bank service charges	165.6	188.8	223.0	265.2	272.6	277.2
Plus import duties	111.2	113.1	134.1	152.6	148.9	134.7
Plus value added tax, net	225.8	236.1	296.6	344.7	403.8	523.1
GDP at current prices	4,862.8	5,214.2	5,679.0	6,103.6	6,370.3	6,801.7
(Percentage share of GDP)						
Primary sector	4.4	4.2	3.8	3.9	4.0	4.2
Agriculture, forestry, and fishing	4.1	3.9	3.5	3.7	3.7	3.9
Mining and quarrying	0.3	0.3	0.3	0.3	0.3	0.3
Secondary sector	20.1	19.2	18.6	18.3	18.2	17.9
Manufacturing	10.6	10.3	9.9	9.5	9.1	8.5
Construction	2.0	1.8	2.0	2.0	2.0	2.1
Electricity, gas, and water	7.5	7.1	6.7	6.8	7.1	7.3
Services	71.6	73.1	73.5	73.5	72.7	71.6
Transport, storage, and communications	8.2	8.5	8.7	8.8	8.3	8.0
Trade, restaurants and hotels	21.3	21.2	21.4	21.6	20.5	19.0
Finance, insurance, real estate, business	21.4	22.5	22.6	22.6	22.8	22.2
Community, social and personal services	7.0	7.1	7.1	7.1	7.4	7.4
Government services	13.7	13.7	13.7	13.4	13.8	15.1

Source: Statistical Service.

Table 5. Cyprus: Gross Manufacturing Output by Major Industries, 1998–2003

	1998	1999	2000	2001	2002	2003
(In millions of Cyprus pounds)						
Food, beverages, and tobacco	511.8	534.1	577.6	623.3	645.8	689.4
Textiles and textile products	105.1	90.7	81.8	72.5	70.6	60.9
Leather and leather products	25.1	19.3	16.2	15.0	13.8	10.9
Wood and wood products	72.1	75.6	76.4	78.2	86.0	91.2
Pulp; paper and paper products, printing, and publishing	93.6	95.9	103.7	116.6	114.3	119.2
Refined petroleum products	63.4	96.1	160.9	139.3	132.6	118.3
Chemicals, chemical products and man-made fibres	75.3	81.0	89.3	94.3	92.0	93.5
Rubber and plastic products	41.8	39.7	41.0	40.1	41.5	41.3
Nonmetallic mineral products	117.4	124.8	144.9	164.7	182.3	198.3
Basic metals and fabricated metal products	113.3	116.2	124.1	121.0	130.0	137.1
Machinery and equipment	29.7	30.6	34.0	39.6	42.0	39.8
Electrical and optical equipment	18.8	18.1	24.0	27.4	23.5	22.3
Transport equipment	10.0	10.9	12.5	14.1	17.6	15.8
Manufacturing n.e.c. (including cottage industry)	87.9	93.8	95.1	92.8	90.5	89.7
Total	1,365.3	1,426.8	1,581.5	1,638.9	1,682.5	1,727.7
(In percent of total)						
Food, beverages, and tobacco	37.5	37.4	36.5	38.0	38.4	39.9
Textiles and textile products	7.7	6.4	5.2	4.4	4.2	3.5
Leather and leather products	1.8	1.4	1.0	0.9	0.8	0.6
Wood and wood products	5.3	5.3	4.8	4.8	5.1	5.3
Pulp; paper and paper products, printing, and publishing	6.9	6.7	6.6	7.1	6.8	6.9
Refined petroleum products	4.6	6.7	10.2	8.5	7.9	6.8
Chemicals, chemical products and man-made fibres	5.5	5.7	5.6	5.8	5.5	5.4
Rubber and plastic products	3.1	2.8	2.6	2.4	2.5	2.4
Basic metals and fabricated metal products	8.3	8.1	7.8	7.4	7.7	7.9
Machinery and equipment	2.2	2.1	2.1	2.4	2.5	2.3
Electrical and optical equipment	1.4	1.3	1.5	1.7	1.4	1.3
Transport equipment	0.7	0.8	0.8	0.9	1.0	0.9
Manufacturing n.e.c. (including cottage industry)	6.4	6.6	6.0	5.7	5.4	5.2

Source: Statistical Service.

Table 6. Cyprus: Tourist Arrivals and Receipts, 1998–2003

	1998	1999	2000	2001	2002	2003
(In thousands)						
Total arrivals	2,222.7	2,434.3	2,686.2	2,696.7	2,418.2	2,303.2
United Kingdom	1,015.2	1,155.6	1,362.9	1,486.7	1,337.6	1,347.0
Germany	208.4	238.8	233.7	214.2	173.7	129.0
Greece	70.8	83.1	100.1	89.8	93.2	110.2
Switzerland	83.7	88.7	79.0	76.6	64.6	37.5
Netherlands	48.2	53.6	55.4	50.7	39.8	32.0
Nordic countries	242.4	265.3	264.2	270.8	234.7	200.3
Russia and other ex-Soviet countries	197.6	134.2	146.0	128.5	123.0	114.8
(Changes in percent)						
Total arrivals	6.5	9.5	10.3	0.4	-10.3	-4.8
United Kingdom	20.0	13.8	17.9	9.1	-10.0	0.7
Germany	-16.7	14.6	-2.1	-8.3	-18.9	-25.7
Greece	4.6	17.4	20.5	-10.3	3.8	18.2
Switzerland	-12.2	6.0	-10.9	-3.0	-15.7	-42.0
Netherlands	5.5	11.2	3.4	-8.5	-21.5	-19.6
Nordic countries	7.7	9.4	-0.4	2.5	-13.3	-14.7
Russia and other ex-Soviet countries	-11.0	-32.1	8.8	-12.0	-4.3	-6.7
(In percent of total)						
Total arrivals	100.0	100.0	100.0	100.0	100.0	100.0
United Kingdom	45.7	47.5	50.7	55.1	55.3	58.5
Germany	9.4	9.8	8.7	7.9	7.2	5.6
Greece	3.2	3.4	3.7	3.3	3.9	4.8
Switzerland	3.8	3.6	2.9	2.8	2.7	1.6
Netherlands	2.2	2.2	2.1	1.9	1.6	1.4
Nordic countries	10.9	10.9	9.8	10.0	9.7	8.7
Russia and other ex-Soviet countries	8.9	5.5	5.4	4.8	5.1	5.0
(In millions of Cyprus pounds at current prices)						
Foreign exchange receipts from tourism	878.0	1,025.0	1,194.0	1,277.0	1,132.3	1,015.0

Source: Statistical Service.

Table 7. Cyprus: Labor Force and Employment by Sector, 1998–2003

	1998	1999	2000	2001	2002	2003
	(In thousands)					
Total labor force	312.4	318.8	325.1	330.6	335.3	340.1
Employed domestically	290.1	295.3	302.0	308.6	311.9	316.0
Primary sector	26.7	26.2	25.8	25.3	24.9	24.7
Agriculture, forestry, and fishing	26.1	25.6	25.2	24.7	24.3	24.1
Mining and quarrying	0.6	0.6	0.6	0.6	0.6	0.6
Industry	67.2	65.7	64.7	64.7	65.3	66.7
Manufacturing	39.6	38.0	37.0	35.7	34.6	34.0
Electricity, gas, and water	1.5	1.5	1.5	1.5	1.4	1.4
Construction	26.1	26.2	26.2	27.5	29.3	31.3
Services	196.2	203.4	211.5	218.6	221.7	224.6
Trade, restaurants, hotels	82.6	84.6	87.2	89.5	88.8	88.4
Transport, communications	19.7	20.4	21.4	22.2	21.9	21.6
Finance, insurance, real estate 1/	27.9	29.9	31.2	31.4	31.9	32.6
Other services	66.0	68.5	71.7	75.5	79.1	82.0
Employed abroad and other 2/	11.9	12.1	12.2	12.5	12.8	12.1
Unemployed	10.4	11.4	10.9	9.5	10.6	12.0
	(In percent of total)					
Total labor force						
Primary sector	8.5	8.2	7.9	7.7	7.4	7.3
Agriculture, forestry, and fishing	8.4	8.0	7.8	7.5	7.2	7.1
Mining and quarrying	0.2	0.2	0.2	0.2	0.2	0.2
Industry	21.5	20.6	19.9	19.6	19.5	19.6
Manufacturing	12.7	11.9	11.4	10.8	10.3	10.0
Electricity, gas and water	0.5	0.5	0.5	0.5	0.4	0.4
Construction	8.4	8.2	8.1	8.3	8.7	9.2
Services	62.8	63.8	65.1	66.1	66.1	66.0
Trade, restaurants, hotels	26.4	26.5	26.8	27.1	26.5	26.0
Transport, storage, and communications	6.3	6.4	6.6	6.7	6.5	6.4
Finance, insurance, real estate, business	8.9	9.4	9.6	9.5	9.5	9.6
Other services	21.1	21.5	22.1	22.8	23.6	24.1
Employed abroad and other 2/	3.8	3.8	3.8	3.8	3.8	3.6
Unemployed	3.3	3.6	3.4	2.9	3.2	3.5
Memorandum items:						
Percentage change in total labor force	1.7	2.0	2.0	1.7	1.4	1.4
Percentage change in employment	1.6	1.8	2.3	2.2	1.1	1.3

Source: Statistical Service.

1/ Includes business services.

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

Table 8. Cyprus: Guest Worker Employment, 1998–2003

	1998	1999	1999	2000	2001	2002	2003
(Number of workers)							
By Sector:							
Primary sector	1,745	1,992	1,992	2,130	2,552	3,050	3,560
Agriculture, forestry, and fishing	1,716	1,964	1,964	2,107	2,528	3,015	3,514
Mining and quarrying	29	28	28	23	24	35	46
Industry	3,591	3,967	3,967	3,754	4,240	5,358	6,799
Manufacturing	2,097	2,307	2,307	2,220	2,385	2,842	3,344
Electricity, gas, and water	4	7	7	18	13	10	11
Construction	1,490	1,653	1,653	1,516	1,842	2,506	3,444
Services	15,376	18,100	18,100	20,514	23,402	26,713	26,922
Trade, restaurants, hotels	6,026	7,462	7,462	8,130	8,980	10,703	11,130
Transport, communications	830	1,021	1,021	1,204	1,365	1,358	437
Finance, insurance, real estate 1/	1,085	1,386	1,386	1,688	2,002	2,064	1,013
Other services	7,435	8,231	8,231	9,492	11,055	12,588	14,342
Total	20,712	24,059	24,059	26,398	30,194	35,121	37,281

Source: Statistical Service.

1/ including business services.

Table 9. Cyprus: Wage and Productivity Indicators, 1998–2003

(Percentage change over previous year)

	1998	1999	2000	2001	2002	2003
Average wage 1/	5.2	4.8	7.2	5.1	5.8	6.2
Of which:						
Agriculture	3.9	4.0	6.7	4.4	4.7	5.3
Manufacturing	4.2	4.2	6.2	4.2	5.2	5.2
Construction	4.4	4.0	6.4	4.9	5.5	6.1
Trade, restaurants, and hotels	5.1	4.8	7.2	5.6	4.8	5.0
Government	6.0	4.7	8.1	5.0	8.0	7.9
Gross Value Added per person employed						
Of which:						
Agriculture	8.7	13.0	-6.1	5.9	7.6	5.9
Manufacturing	4.3	5.0	4.9	1.9	0.8	0.8
Construction	3.2	-1.4	-1.2	-0.9	-1.7	-2.3
Trade, restaurants, and hotels	3.7	1.8	3.2	2.0	-1.4	-1.6
Memorandum items:						
Average real wage						
deflated by the CPI	2.9	3.0	3.0	3.0	2.9	2.0
Unit labor cost 2/	1.7	1.8	4.1	3.2	4.6	4.7
Real unit labor cost 3/	-0.7	-0.5	0.4	-0.1	2.3	-0.1

Source: Statistical Service.

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/ Based on average earnings.

3/ Deflated by the GDP deflator.

Table 10. Cyprus: Price Indices, 2002-04

	Weights	(Annual percentage change)			(Contribution to growth) 1/		
		2002	2003	2004*	2002	2003	2004
Food and non-alcoholic beverages	18.2	4.6	5.1	3.8	0.9	0.9	0.7
Alcoholic beverages and tobacco	1.8	13.3	24.2	11.1	0.3	0.4	0.2
Clothing and footwear	8.2	-3.5	1.2	-1.0	-0.3	0.1	0.0
Housing, water, electricity and gas	21.3	4.1	5.0	4.1	0.9	1.1	0.9
Furnishings, household equipment and supplies	7.1	0.8	3.6	-0.6	0.1	0.2	0.0
Health	4.9	4.7	5.7	3.7	0.2	0.3	0.2
Transport	17.4	0.4	0.4	-3.7	0.1	0.1	-0.5
Communication	1.8	-8.8	-7.2	-8.3	-0.1	0.1	-0.1
Recreation and culture	5.9	2.2	3.5	2.2	0.1	0.2	0.1
Education	2.3	5.7	4.0	3.8	0.1	0.1	0.1
Restaurants and hotels	6.1	4.0	5.3	4.6	0.3	0.3	0.3
Miscellaneous goods and services	5.0	5.5	5.5	5.2	0.3	0.3	0.3
Total	100.0	2.8	4.1	2.1	2.8	4.1	2.3

Source: Statistical Service.

* Refers to Jan-Nov 2004

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

Table 11. Cyprus: Implicit Deflators, 1998–2003

(Annual percentage change)

	1998	1999	2000	2001	2002	2003
Consumption						
Private	0.9	2.0	4.9	2.0	2.5	3.6
Public	2.4	3.4	6.0	2.1	2.0	10.6
Investment	1.3	2.1	1.4	2.6	3.3	2.8
Fixed capital	1.3	2.1	1.1	2.8	3.2	2.9
Total domestic demand						
Exports	2.1	2.6	5.1	3.2	-0.1	-0.8
Imports	-0.3	2.6	6.4	1.4	-0.4	-0.7
GDP at market prices	2.4	2.3	3.7	3.3	2.2	4.8

Source: Statistical Service.

Table 12. Cyprus: Consolidated Central Government Budgets, 1998–2003

(In millions of Cyprus pounds)

	1998	1999	2000	2001	2002	2003
Revenue	1,473.2	1,590.1	1,857.6	2,081.2	2,122.3	2,402.8
Current revenue	1,472.3	1,589.5	1,857.0	2,080.4	2,121.6	2,401.6
Tax revenue	1,175.7	1,283.7	1,455.6	1,659.4	1,744.4	1,950.6
Direct taxes	421.7	494.0	558.1	659.4	641.7	582.0
Indirect taxes	534.1	562.8	653.6	722.0	799.3	1,046.3
Social security contributions	219.9	226.8	244.0	278.0	303.4	322.3
Nontax revenue	296.6	305.8	401.4	421.0	377.2	450.9
Capital revenue	0.9	0.6	0.7	0.8	0.7	1.2
Foreign grants	0.7	0.9	2.5	2.5	2.8	5.2
Expenditure	1,731.7	1,787.7	1,988.9	2,213.1	2,398.6	2,824.3
Current expenditure	1,553.6	1,594.9	1,773.2	1,995.9	2,166.4	2,518.9
Wages and salaries	458.9	482.7	526.3	559.4	600.5	726.8
Other goods and services	141.1	148.2	160.9	182.2	201.9	242.0
Subsidies	33.9	39.0	79.5	91.1	63.9	90.9
Interest payments	269.2	285.0	311.8	330.0	304.2	327.0
Social security payments	253.5	273.0	304.2	319.2	355.1	386.7
Other transfers	265.1	289.1	322.9	370.0	457.7	595.4
Other	115.7	56.6	43.2	118.2	156.4	113.6
Capital expenditure	178.1	192.8	215.8	217.2	232.2	305.3
Investment	124.9	131.1	153.2	155.6	174.0	218.8
Transfers	53.2	61.8	62.5	61.6	58.2	86.6
Net lending	-0.2	4.6	0.0	0.0	0.0	0.0
Overall balance	-257.6	-201.3	-128.8	-129.4	-273.5	-416.2
Primary balance	11.6	83.7	183.1	200.6	30.7	-89.2
Financing	257.6	201.3	128.8	129.4	273.5	416.2
Domestic	109.3	52.6	163.6	194.4	226.6	203.2
Bank	122.2	-38.1	156.7	226.3	309.4	100.6
Of which: short-term borrowing from Central Bank	106.4	-207.3	396.8	-118.7	230.4	-12.2
Nonbank	-12.9	90.7	6.9	-31.9	-82.8	102.6
Foreign, net	148.3	148.7	-34.8	-65.0	46.9	213.0
Medium- and long-term	187.1	138.9	19.8	-69.7	105.1	120.1
Amortization	-33.2	-32.1	-16.0	-83.1	-32.7	-13.4
Short-term foreign borrowing 1/	-38.7	16.9	-54.6	4.7	-48.4	92.9
Suppliers' credits	-0.1	0.0	0.0	0.0	0.0	0.0
Receipts	0.0	0.0	0.0	0.0	0.0	0.0
Payments	-0.1	0.0	0.0	0.0	0.0	0.0
Net IMF transactions	0.0	-7.1	0.0	0.0	-9.8	0.0

Source: Ministry of Finance.

1/ Euro-commercial paper.

Table 13. Cyprus: Consolidated Central Government Budgets, 1998–2003

(In percent of GDP)

	1998	1999	2000	2001	2002	2003
Revenue	30.3	30.5	32.7	34.1	33.3	35.3
Current revenue	30.3	30.5	32.7	34.1	33.3	35.3
Tax revenue	24.2	24.6	25.6	27.2	27.4	28.7
Direct taxes	8.7	9.5	9.8	10.8	10.1	8.6
Indirect taxes	11.0	10.8	11.5	11.8	12.5	15.4
Social security contributions	4.5	4.4	4.3	4.6	4.8	4.7
Nontax revenue	6.1	5.9	7.1	6.9	5.9	6.6
Capital revenue	0.0	0.0	0.0	0.0	0.0	0.0
Foreign grants	0.0	0.0	0.0	0.0	0.0	0.1
Expenditure	35.6	34.3	35.0	36.3	37.7	41.5
Current expenditure	31.9	30.6	31.2	32.7	34.0	37.0
Wages and salaries	9.4	9.3	9.3	9.2	9.4	10.7
Other goods and services	2.9	2.8	2.8	3.0	3.2	3.6
Subsidies	0.7	0.7	1.4	1.5	1.0	1.3
Interest payments	5.5	5.5	5.5	5.4	4.8	4.8
Social security payments	5.2	5.2	5.4	5.2	5.6	5.7
Other transfers	5.5	5.5	5.7	6.1	7.2	8.8
Other	2.4	1.1	0.8	1.9	2.5	1.7
Capital expenditure	3.7	3.7	3.8	3.6	3.6	4.5
Investment	2.6	2.5	2.7	2.5	2.7	3.2
Transfers	1.1	1.2	1.1	1.0	0.9	1.3
Net lending	0.0	0.1	0.0	0.0	0.0	0.0
Overall balance	-5.3	-3.9	-2.3	-2.1	-4.3	-6.1
Primary balance	0.2	1.6	3.2	3.3	0.5	-1.3

Source: Ministry of Finance.

Table 14. Cyprus: Consolidated Central Government Budgets, 1998–2003

(In millions of Cyprus pounds)

	1998	1999	2000	2001	2002	2003
Total revenue and grants	1,473.9	1,591.0	1,860.1	2,083.7	2,125.1	2,408.0
Ordinary budget	962.9	1,028.2	1,304.4	1,482.9	1,532.6	1,853.1
Public loans fund	3.3	2.6	2.7	3.1	3.1	2.0
Social insurance funds	329.3	346.7	369.7	408.3	416.3	424.2
Sinking funds	22.8	25.7	26.4	33.4	22.6	15.7
Defense funds	155.7	187.9	157.0	156.1	150.6	113.1
Total expenditure and net lending	1,731.5	1,792.3	1,988.9	2,213.1	2,398.6	2,824.3
Ordinary budget	1,321.6	1,419.7	1,605.3	1,723.6	1,843.2	2,278.2
Public loans fund	3.0	-0.2	0.4	0.2	0.2	0.2
Social insurance funds	263.0	284.5	317.1	332.0	369.4	402.3
Cyprus grain commission deficit	12.9	20.3	23.0	39.1	29.6	30.0
Defense fund	130.1	68.4	43.5	117.9	156.6	114.1
Adjustments to expenditure and net lending	0.9	-0.4	-0.3	0.3	-0.2	-0.6
Overall balance	-257.6	-201.3	-128.8	-129.4	-273.5	-416.2

Source: Ministry of Finance.

Table 15. Cyprus: General Government Accounts, 1998–2003

(In millions of Cyprus pounds)

	1998	1999	2000	2001	2002	2003
Total revenue	1,611.3	1,722.3	2,005.5	2,234.7	2,299.3	2,661.7
Total current resources	1,607.7	1,719.5	2,001.2	2,230.8	2,296.7	2,656.0
Taxes on production and imports	546.8	565.5	718.9	806.4	856.4	1,125.8
Current taxes on income and wealth, etc.	479.9	564.3	632.7	692.1	715.5	658.5
Social contributions	339.9	351.6	378.5	421.5	430.7	480.6
Other current resources	241.1	238.1	271.1	310.8	294.1	391.1
Capital transfers, received	3.6	2.8	4.3	3.9	2.6	5.7
Total expenditure	1,815.4	1,951.4	2,139.4	2,373.5	2,583.2	3,089.4
Total current expenditure	1,647.6	1,782.9	1,938.3	2,162.3	2,354.7	2,812.7
Government final consumption expenditure	822.2	923.9	929.7	1,067.9	1,171.2	1,356.5
Collective consumption expenditure	448.5	527.0	493.9	608.2	643.3	746.1
of which, compensation of employees	629.6	676.0	736.6	774.7	832.9	1,026.1
Social transfers in kind	373.7	396.9	435.8	459.7	527.9	610.4
Social transfers other than in kind	429.9	469.7	518.5	572.3	656.9	776.3
Interest	151.5	161.1	193.9	208.8	201.0	234.7
Subsidies	56.1	38.7	78.4	87.0	67.3	82.2
Other current expenditure	187.9	189.5	217.8	226.3	258.3	363.0
Capital expenditure	167.8	168.5	201.1	211.2	228.5	276.7
Gross fixed capital formation	141.4	130.2	169.6	181.7	191.5	230.7
Other capital expenditure, net	26.4	38.3	31.5	29.5	37.0	46.0
Current balance	-39.9	-63.4	62.9	68.5	-58.0	-156.7
Overall balance	-204.1	-229.1	-133.9	-138.8	-283.9	-427.7
Overall balance (in percent of GDP)	-4.2	-4.4	-2.4	-2.3	-4.5	-6.3
General government consolidated debt	2,898.2	3,123.7	3,402.5	3,776.7	4,153.3	4,751.5
General government consolidated debt (in percent of GDP)	59.6	59.9	59.9	61.9	65.2	69.9

Source: Ministry of Finance.

Table 16. Cyprus: Government and Government-Guaranteed Net Debt, 1998–2003

	1998	1999	2000	2001	2002	2003
(In millions of Cyprus pounds; end of period)						
Total government net debt	2,898.2	3,123.7	3,008.3	3,203.3	4,153.3	4,745.7
Domestic debt 1/	2,233.4	2,273.0	2,581.7	3,016.0	3,308.5	3,686.5
Short-term	1,354.7	1,260.0	1,406.8	1,436.1	594.2	535.9
Long-term	878.7	1,013.0	1,174.9	1,580.0	2,714.3	3,150.6
Foreign debt	664.8	850.7	820.8	760.6	844.7	1,059.1
Short-term 2/	89.0	111.4	55.8	63.9	17.7	111.0
Long-term	575.8	739.2	765.0	696.6	827.1	948.2
Government-guaranteed debt	518.7	554.8	534.3	616.1	625.6	668.0
Total government and government-guaranteed debt	3,416.9	3,678.4	3,542.6	3,819.4	4,778.9	5,413.7
(In percent of GDP)						
Total government net debt	59.6	59.9	53.0	52.5	65.2	69.8
Domestic debt 1/	45.9	43.6	45.5	49.4	51.9	54.2
Short-term	27.9	24.2	24.8	23.5	9.3	7.9
Long-term	18.1	19.4	20.7	25.9	42.6	46.3
Foreign debt	13.7	16.3	14.5	12.5	13.3	15.6
Short-term 2/	1.8	2.1	1.0	1.0	0.3	1.6
Long-term	11.8	14.2	13.5	11.4	13.0	13.9
Government-guaranteed debt	10.7	10.6	9.4	10.1	9.8	9.8
Total government and government-guaranteed debt	70.3	70.5	62.4	62.6	75.0	79.6

Source: Ministry of Finance.

1/ Excludes intragovernmental debt.

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

Table 17. Cyprus: Total Gross Public Debt by Instrument and Lender, 1998–2003 1/
(In million of Cyprus pounds)

	1998	1999	2000	2001	2002	2003
Domestic	3,867.2	4,093.1	4,582.1	5,232.8	5,710.0	6,295.5
Long term	879.2	1,013.5	1,175.4	1,580.5	2,714.8	3,151.1
Development stocks	736.4	862.8	1,012.6	1,368.1	1,528.9	1,946.5
Central bank	45.5	77.5	75.8	70.0	53.7	52.4
Deposit money banks	145.5	173.5	253.1	695.2	938.9	1,096.1
Private sector	544.9	611.3	683.2	602.5	535.8	797.5
Sinking funds 2/	0.0	0.0	0.0	0.0	0.0	0.0
Social security funds 2/	0.5	0.5	0.5	0.5	0.5	0.5
Savings bonds	22.5	20.0	19.8	20.0	16.5	13.5
Central bank	3.6	0.8	1.9	3.1	0.0	0.0
Private sector	18.9	19.2	17.9	16.9	16.5	13.5
Savings certificates	13.3	18.0	23.8	45.7	53.6	69.3
Private sector	13.3	18.0	23.8	45.7	53.6	69.3
Other	107.0	112.8	119.2	146.7	1,115.8	1,121.8
Short term	2,988.0	3,079.6	3,406.8	3,652.3	2,995.2	3,144.4
Treasury bills	2,619.0	2,702.0	2,821.4	3,113.6	2,995.2	3,144.4
Central bank	277.2	75.1	205.8	179.6	7.9	0.1
Deposit money banks	708.4	791.2	627.9	689.2	533.8	574.4
Private sector	0.0	16.1	-12.2	28.7	52.5	-38.6
Sinking funds	0.0	0.0	0.0	0.0	0.0	0.0
Social security funds 2/	1,633.3	1,819.6	2,000.0	2,216.2	2,401.0	2,608.5
Central bank advances	369.0	377.6	585.4	538.7	0.0	0.0
Foreign	669.5	855.4	825.6	765.3	849.5	1,063.9
Short-term liabilities of the central bank to the IMF	4.8	4.8	4.8	4.8	4.8	4.8
Long-term loans	220.3	223.4	249.1	180.8	152.3	273.4
Of which: defense fund	1.8	1.4				
Medium-term loans (E.M.T.N.)	355.5	515.9	515.9	515.9	674.8	674.8
Short-term loans (E.C.P.)	89.0	111.4	55.8	63.9	17.7	111.0
Total debt	4,536.8	4,948.5	5,407.7	5,998.1	6,559.5	7,359.4
Net debt 3/	2,898.2	3,123.7	3,402.5	3,776.6	4,153.3	4,745.7

Source: Ministry of Finance.

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

2/ Intragovernmental debt.

3/ Excludes intragovernmental debt and short-term liabilities of the central bank.

Table 18. Cyprus: Monetary and Credit Aggregates, 1998–2004

	1998	1999	2000	2001	2002	2003	2004 1/
	(Growth rates, in percent)						
Total liquidity (M2)	8.8	17.2	9.0	13.3	10.3	4.0	7.8
Domestic credit	13.1	12.7	12.0	14.9	9.5	5.9	4.4
Credit to private sector	14.3	14.4	14.3	12.3	8.0	5.0	6.2
Gross domestic product	7.5	7.2	8.9	7.5	4.4	6.8	5.6
	(As a ratio to average M2)						
Memorandum items:							
Income velocity of M2	1.0	0.9	0.9	0.9	0.8	0.8	0.8
Rate of change, in percent	-2.0	-5.3	-3.4	-3.4	-6.6	-0.2	-0.9

Source: Central Bank of Cyprus.

1/ 12-month growth as of October 2004.

Table 19. Cyprus: Monetary Survey, 1998-2004

	1998	1999	2000	2001	2002	2003	2004 1/
(In millions of Cyprus pounds, end-of-period stocks)							
Foreign assets, net	94.9	306.6	397.1	562.2	483.7	835.8	1,098.2
Official reserves 2/	725.7	1,107.2	1,138.2	1,532.1	1,726.5	1,600.0	1,729.5
Banks	-630.7	-800.5	-741.1	-969.9	-1,242.8	-764.1	-631.2
Payments agreements	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Domestic credit, net	6,071.5	6,840.2	7,661.0	8,804.1	9,642.4	10,209.7	10,554.7
Public sector	1,088.8	1,138.0	1,145.1	1,484.1	1,738.3	1,907.7	1,951.9
Central government	1,101.8	1,163.0	1,177.8	1,512.0	1,778.4	1,956.9	1,994.9
Advances	298.7	351.3	453.1	570.0	1,030.9	1,050.0	1,066.2
Treasury bills and securities	1,181.7	1,187.9	1,241.6	1,567.5	1,413.8	1,730.1	1,727.4
Deposits	-378.6	-376.1	-517.0	-625.6	-666.3	-823.1	-798.8
Government agencies	4.6	2.8	-4.2	0.9	-3.6	-2.9	-10.5
Other	-17.5	-27.8	-28.5	-28.9	-36.5	-46.3	-32.5
Private sector	4,982.7	5,702.2	6,516.0	7,320.1	7,904.1	8,302.0	8,602.8
Other items, net	-1,052.6	-1,153.8	-1,525.6	-1,963.7	-1,960.9	-2,551.9	-2,803.3
Broad money (M2)	5,113.9	5,993.0	6,532.6	7,402.6	8,165.2	8,493.6	8,849.6
Money supply (M1)	735.6	1,041.1	1,001.5	1,012.4	1,038.8	1,377.1	1,397.0
Currency in circulation	289.9	313.6	333.3	356.5	392.8	467.2	475.8
Demand deposits	442.9	723.5	662.3	647.9	628.2	865.9	830.5
Foreign currency	2.8	4.1	5.9	8.0	17.8	44.0	90.7
Quasi-money	4,378.3	4,951.9	5,531.1	6,390.2	7,126.4	7,116.5	7,452.6
Savings deposits	179.8	185.2	200.4	219.9	239.5	294.6	305.5
Time deposits	4,125.3	4,584.1	5,064.8	5,829.0	6,553.5	6,438.7	6,552.8
Foreign currency	73.1	182.7	266.0	341.4	333.4	383.2	594.4
(Absolute change over preceding 12 months)							
Foreign assets, net	-162.8	211.7	90.5	165.0	-78.5	352.2	647.7
Official reserves 2/	-38.6	381.5	31.1	393.8	194.4	-126.5	314.7
Banks	-124.1	-169.8	59.4	-228.8	-272.9	478.7	333.0
Payments agreements	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic credit, net	701.0	768.7	820.8	1,143.1	838.3	567.3	445.1
Public sector	76.7	49.2	7.0	339.0	254.3	169.4	-60.0
Central government	75.3	61.2	14.7	334.2	266.4	178.5	-67.3
Advances	-33.5	52.5	101.8	117.0	460.8	19.1	17.8
Treasury bills and securities	98.7	6.2	53.8	325.9	-153.7	316.3	52.7
Deposits	10.1	2.5	-140.8	-108.6	-40.7	-156.8	-137.8
Government agencies	0.9	-1.7	-7.1	5.2	-4.6	0.7	-8.6
Other	0.5	-10.3	-0.7	-0.4	-7.6	-9.8	15.9
Private sector	624.3	719.5	813.8	804.1	584.0	397.9	505.1
Other items, net	-125.5	-101.3	-371.7	-438.1	2.7	-591.0	-456.2
Broad money (M2)	412.8	879.2	539.6	870.0	762.5	328.5	636.5
Money supply (M1)	24.5	305.5	-39.7	10.9	26.4	338.3	143.1
Currency in circulation	13.7	23.7	19.7	23.3	36.3	74.4	53.6
Demand deposits	12.6	280.6	-61.2	-14.4	-19.7	237.7	33.4
Foreign currency	-1.8	1.3	1.9	2.1	9.8	26.2	56.1
Quasi-money	388.3	573.6	579.2	859.1	736.2	-9.9	493.4
Savings deposits	3.6	5.4	15.2	19.5	19.6	55.1	35.2
Time deposits	383.8	458.7	480.7	764.2	724.5	-114.8	221.8
Foreign currency	0.9	109.5	83.3	75.4	-7.9	49.8	236.5
Memorandum items:							
Income velocity of M2 3/	1.0	0.9	0.9	0.9	0.8	0.8	0.8
Income velocity of M1 3/	6.7	5.9	5.6	6.1	6.2	5.6	5.4
Deposits with cooperatives 4/	2,416.4	2,570.7	2,821.6	3,109.1	3,513.4	3,985.9	4,136.1
Loans by cooperatives 4/	2,132.8	2,410.2	2,483.9	2,519.1	2,670.3	2,947.0	3,055.9

Source: Central Bank of Cyprus.

1/ As of October 2004.

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, as of June 2004.

Table 20. Cyprus: Credit by Banks to the Private Sector, 1998–2004

	1998	1999	2000	2001	2002	2003	2004 1/
(End-of-period stocks, millions of Cyprus pounds)							
Personal loans	1,731.2	2,547.1	2,985.2	3,280.2	3,559.2	3,760.4	4,088.8
Foreign and domestic trade	1,152.3	1,186.9	1,330.3	1,503.8	1,615.0	1,612.3	1,548.6
Manufacturing	526.4	460.2	505.6	538.3	560.7	540.2	528.7
Building and construction	765.0	790.8	907.6	1,061.1	1,197.8	1,377.9	1,521.5
Tourism	557.4	561.6	614.5	761.9	818.8	842.0	845.3
Other	356.5	387.2	422.5	506.6	531.9	550.0	537.3
Total	5,088.8	5,933.8	6,765.7	7,651.9	8,283.4	8,682.8	9,070.2
(As a percentage of end-of-period stocks)							
Personal loans	34.0	42.9	44.1	42.9	43.0	43.3	45.1
Foreign and domestic trade	22.6	20.0	19.7	19.7	19.5	18.6	17.1
Manufacturing	10.3	7.8	7.5	7.0	6.8	6.2	5.8
Building and construction	15.0	13.3	13.4	13.9	14.5	15.9	16.8
Tourism	11.0	9.5	9.1	10.0	9.9	9.7	9.3
Other	7.0	6.5	6.2	6.6	6.4	6.3	5.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
(Flows of new credit, millions of Cyprus pounds)							
Personal loans	300.1	815.9	438.1	295.0	279.0	201.2	328.4
Foreign and domestic trade	114.7	34.6	143.4	173.5	111.2	-2.7	-63.7
Manufacturing	43.5	-66.2	45.4	32.7	22.4	-20.5	-11.5
Building and construction	65.0	25.8	116.8	153.5	136.7	180.1	143.6
Tourism	72.8	4.2	52.9	147.4	56.9	23.2	3.3
Other	61.2	30.7	35.3	84.1	25.3	18.1	-12.7
Total	657.3	845.0	831.9	886.2	631.5	399.4	387.4
(As a percentage of total flows of new credit)							
Personal loans	45.7	96.6	52.7	33.3	44.2	50.4	84.8
Foreign and domestic trade	17.5	4.1	17.2	19.6	17.6	-0.7	-16.4
Manufacturing	6.6	-7.8	5.5	3.7	3.5	-5.1	-3.0
Building and construction	9.9	3.1	14.0	17.3	21.6	45.1	37.1
Tourism	11.1	0.5	6.4	16.6	9.0	5.8	0.9
Other	9.3	3.6	4.2	9.5	4.0	4.5	-3.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Central Bank of Cyprus.

1/ As of October 2004.

Table 21. Cyprus: Balance Sheet of the Central Bank, 1998–2004

	1998	1999	2000	2001	2002	2003	2004 1/
(In millions of Cyprus pounds, end-of-period stocks)							
Total assets	1,501.9	1,712.1	1,975.7	2,296.6	2,784.5	2,634.8	2,808.9
International reserves	735.8	1,107.2	1,124.1	1,528.8	1,697.7	1,560.3	1,703.5
Loans to banks	5.6	0.1	3.1	0.0	0.0	8.0	0.0
Loans to government	304.0	357.3	458.9	530.7	961.1	961.1	961.1
Government securities	310.9	206.1	340.9	194.7	67.8	53.6	79.7
other assets	145.6	41.4	48.7	42.4	57.9	51.8	64.6
Total liabilities	1,501.9	1,712.1	1,975.7	2,296.6	2,784.5	2,634.8	2,808.9
Currency	324.2	352.8	376.4	409.2	447.7	527.3	525.1
Deposits by banks	593.5	699.0	775.3	838.3	1,044.1	1,050.7	1,120.6
Deposits by government, others	328.2	319.2	454.6	563.3	617.2	758.3	750.3
Capital and other liabilities	256.0	341.1	369.4	485.8	675.5	298.5	412.9
Monetary base	917.7	1,051.8	1,151.7	1,247.5	1,491.8	1,578.0	1,645.7
Currency	324.2	352.8	376.4	409.2	447.7	527.3	525.1
Deposits by banks	593.5	699.0	775.3	838.3	1,044.1	1,050.7	1,120.6
(Percentage change)							
Monetary base	14.2	14.6	9.5	8.3	19.6	5.8	4.3
International reserves 2/	-6.0	40.5	1.6	35.1	13.5	-9.2	9.1
Domestic assets 3/	20.2	-25.9	7.9	-26.8	6.0	15.0	-4.8
Currency 2/	2.3	3.1	2.2	2.8	3.1	5.3	-0.1
Deposits by banks 2/	11.9	11.5	7.3	5.5	16.5	0.4	4.4
Memorandum items:							
M1 multiplier	0.8	1.0	0.9	0.8	0.7	0.9	0.8
M2 multiplier	5.6	5.7	5.7	5.9	5.5	5.4	5.4
International reserves (in months of GNFS imports)	3.6	5.1	4.3	5.5	6.1	5.7	

Source: Central Bank of Cyprus.

1/ As of October 2004.

2/ Contribution to growth in monetary base.

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

Table 22. Cyprus: Selected Interest Rates, 1998–2004

(In percent per annum)

	1998	1999	2000	2001	2002	2003	2004 1/
Central bank rates							
Lombard facility	7.0	7.0	7.0	6.5	5.5	4.6	5.1
Overnight deposits	4.0	4.0	4.0	3.5	2.5	2.5	3.1
Repurchase rate 4/	4.1	4.1	4.1	4.7	4.0	3.6	4.0
Interbank money market rate	4.8	5.2	6.0	4.9	3.4	3.4	3.8
Deposit rates							
3-month notice	6.5	6.5	6.5	4.8	4.2	3.5	4.0
Fixed deposits	6.5	6.5	6.5	6.0	4.8	3.8	3.8
Enterprises: secured loan rate	8.0	8.0	8.0	7.5	7.2	7.0	7.5
Rates on government paper							
Treasury bills 2/	5.5	5.5	5.8	6.0	4.0	3.5	4.1
Long-term bond yield 3/	7.2	7.4	7.6	7.7	5.4	4.7	5.9

Source: Central Bank of Cyprus.

1/ As of October 31, 2004.

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

3/ 10-year government bond yield.

4/ For the period 1998 - 2001 the rate corresponds to the minimum bid rate on the liquidity providing open market operations i.e. repos. From 2002 onwards, the rate corresponds to the maximum bid rate on the liquidity absorbing open market operations i.e. reverse repos/depos.

Table 23. Cyprus: Balance of Payments Summary, 1998-2003

(In millions of Cyprus pounds)

	1998	1999	2000	2001	2002	2003
Current account balance	150.9	-92.4	-303.8	-202.9	-286.1	-234.1
Trade balance	-1,256.1	-1,253.8	-1,621.8	-1,658.2	-1,731.6	-1,617.1
Exports	551.3	543.1	591.9	628.0	521.7	494.2
Imports	1,807.4	1,796.9	2,213.7	2,286.3	2,253.3	2,111.2
Fuel and lubricants	108.0	152.3	269.3	266.1	240.4	162.5
Services	1,086.0	1,296.2	1,545.3	1,758.9	1,654.0	1,507.7
Exports	1,861.5	2,143.0	2,532.0	2,798.3	2,722.6	2,682.2
Travel (mainly tourism)	889.8	1,037.6	1,208.0	1,290.0	1,158.6	1,039.7
Imports	775.5	846.8	986.7	1,039.4	1,068.6	1,174.5
Income, net	297.7	-190.8	-337.6	-338.2	-274.5	-198.1
Transfers, net	23.4	56.0	110.3	34.7	66.0	73.4
Capital and financial account balance	-174.9	112.0	338.2	227.4	340.4	210.0
Capital account balance	0.0	0.0	3.0	3.7	-3.1	10.4
Financial account balance	-174.9	112.0	335.2	223.7	343.4	199.6
Direct foreign investment, net	142.2	342.3	425.0	446.8	364.0	251.9
Portfolio investment, net	100.9	-132.0	-176.6	175.9	-309.2	147.5
Financial derivatives	0.0	0.0	2.0	0.0	-31.0	8.6
Other investment, net	-460.7	248.4	79.7	-5.2	564.8	-319.6
Reserve assets	42.7	-346.7	5.1	-393.8	-245.2	111.2
Net errors and omissions	24.0	-19.6	-34.4	-24.6	-54.2	24.0
Change in official reserves	-48.7	381.7	17.7	405.0	176.5	-127.6

Source: Central Bank of Cyprus; and IMF staff estimates.

Table 24. Cyprus: Imports by Commodity, 1998–2003 1/

	1998	1999	2000	2001	2002	2003
(In millions of Cyprus pounds)						
Total imports, c.i.f.	2,013.1	2,003.6	2,468.8	2,528.6	2,486.1	2,303.8
Consumer goods	446.7	481.6	569.6	617.7	641.6	639.2
Intermediate inputs	627.0	579.8	675.1	710.3	715.7	717.1
Capital goods	201.7	189.5	237.1	258.3	242.8	257.0
Transportation equipment	182.9	180.9	186.4	226.6	281.5	228.4
Fuel and lubricants	108.0	152.3	269.3	266.1	240.4	162.4
Military equipment	122.5	78.2	98.0	97.7	134.0	92.1
Imports for re-exports	324.3	341.3	433.3	351.9	230.2	207.6
(Percent of total imports)						
Consumer goods	22.2	24.0	23.1	24.4	25.8	27.7
Intermediate inputs	31.1	28.9	27.3	28.1	28.8	31.1
Capital goods	10.0	9.5	9.6	10.2	9.8	11.2
Transportation equipment	9.1	9.0	7.6	9.0	11.3	9.9
Fuel and lubricants	5.4	7.6	10.9	10.5	9.7	7.0
Military equipment	6.1	3.9	4.0	3.9	5.4	4.0
Imports for re-exports	16.1	17.0	17.5	13.9	9.3	9.0
Total imports	100.0	100.0	100.0	100.0	100.0	100.0

Source: Statistical Service and Central Bank of Cyprus.

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

Table 25. Cyprus: Exports (f.o.b.) by Commodity, 1998–2003

	1998	1999	2000	2001	2002	2003
(In millions of Cyprus pounds)						
Total domestic exports, f.o.b.	213.6	206.5	224.0	233.9	221.9	205.9
Agricultural products	40.5	36.5	34.4	43.8	36.9	43.6
Industrial products - agricultural	24.4	25.3	28.2	28.0	32.9	32.7
Industrial products - manufacturing	137.7	133.0	148.8	150.5	141.6	119.9
Minerals	10.4	11.5	12.4	11.6	7.4	6.7
Unclassified	0.2	0.4	0.2	0.1	0.0	0.0
Re-exports	306.6	297.6	299.6	337.0	247.1	224.5
Shipstores	31.4	38.7	68.3	57.1	42.3	46.4
Total exports	551.6	542.9	591.9	628.0	511.3	476.8
(Percent of total exports)						
Total domestic exports, f.o.b.	38.7	38.0	37.8	37.3	43.4	43.2
Agricultural products	7.3	6.7	5.8	7.0	7.2	9.1
Industrial products - agricultural	4.4	4.7	4.8	4.5	6.4	6.9
Industrial products - manufacturing	25.0	24.5	25.1	24.0	27.7	25.1
Minerals	1.9	2.1	2.1	1.8	1.4	1.4
Re-exports	55.6	54.8	50.6	53.7	48.3	47.1
Shipstores	5.7	7.1	11.5	9.1	8.3	9.7
Total exports	100.0	100.0	100.0	100.0	100.0	100.0

Source: Statistical Service of Cyprus.

Table 26. Cyprus: Services Exports and Imports, 1998–2003

(In millions of Cyprus pounds)

	1998	1999	2000	2001	2002	2003
Services balance	1086.0	1296.2	1545.3	1758.9	1654.0	1507.7
Total exports of services	1861.5	2143.0	2532.0	2798.3	2722.6	2682.2
Transport	328.6	349.5	439.6	481.6	543.2	631.2
Sea transport	182.8	192.0	240.3	262.3	283.8	397.2
Air transport	145.8	157.5	199.3	219.3	259.4	231.2
Other transportation	0.0	0.0	0.0	0.0	0.0	2.8
Travel	889.8	1037.6	1208.0	1290.0	1158.6	1039.7
Business travel	0.0	0.0	0.0	0.0	59.1	52.4
Personal travel	889.8	1037.6	1208.0	1290.0	1099.5	987.4
Other services	643.1	755.9	884.4	1026.7	1020.8	1011.3
Total imports of services	775.5	846.8	986.7	1039.4	1068.6	1174.5
Transport	424.9	446.9	543.7	565.2	510.7	571.9
Sea transport	272.7	293.7	358.4	426.4	350.0	373.7
Air transport	152.2	153.2	185.3	138.8	160.8	179.6
Other transportation	0.0	0.0	0.0	0.0	0.0	18.6
Travel	211.3	233.8	257.3	275.0	311.7	325.7
Business travel	12.9	13.7	12.7	12.8	12.1	8.1
Personal travel	198.4	220.1	244.6	262.2	299.6	317.7
Other services	139.3	166.1	185.7	199.2	246.2	276.8

Source: Central Bank of Cyprus.

Table 27. Cyprus: Balance of Payments Financial Account, 1998–2003

(In millions of Cyprus pounds; end of period)

	1998	1999	2000	2001	2002	2003
Financial account	-174.9	112.0	335.2	223.7	343.4	199.6
Direct investment (net inflows)	142.2	342.3	425.0	446.8	364.0	251.9
Abroad	-36.6	-99.1	-107.1	-160.5	-281.7	-271.1
In Cyprus	178.9	441.4	532.1	607.4	645.7	523.0
Portfolio investment (net inflows)	100.9	-132.0	-176.6	175.9	-309.2	147.5
Assets	-83.0	-400.0	-282.2	-161.1	-668.7	-253.8
Liabilities	183.9	268.0	105.6	337.0	359.5	401.3
Financial derivatives	0.0	0.0	2.0	0.0	-31.0	8.6
Other investment (net inflows)	-460.7	248.4	79.7	-5.2	564.8	-319.6
Assets	-251.6	-221.6	-800.0	-963.1	875.7	-1,252.2
Liabilities	-209.1	470.0	879.7	957.9	-310.9	932.6
Official reserve assets	42.7	-346.7	5.1	-393.8	-245.2	111.2
Net errors and omissions	24.0	-19.6	-34.4	-24.6	-54.2	24.0

Source: Central Bank of Cyprus.

Table 28. Cyprus: International Reserves, 1998–2003

(In millions of U.S. dollars, end of period)

	1998	1999	2000	2001	2002	2003
Monetary authorities (net)	1,457.0	1,927.0	1,845.4	2,356.3	3,157.2	3,438.7
Foreign assets	1,514.1	1,976.7	1,869.9	2,396.8	3,172.7	3,454.6
Central bank	1,477.4	1,927.0	1,822.6	2,351.2	3,104.6	3,353.4
Reserve position in IMF	35.2	48.4	46.1	44.4	66.7	99.6
Other claims	1.5	1.3	1.2	1.1	1.3	1.6
Foreign liabilities	-57.1	-49.7	-24.5	-40.5	-15.5	-15.9
Commercial banks (net)	-1,270.9	-1,393.2	-1,201.6	-1,491.7	-2,272.7	-1,642.4
Foreign assets	3,519.3	3,880.2	5,377.6	6,191.7	6,348.5	8,686.2
Foreign liabilities	-4,790.3	-5,273.4	-6,579.1	-7,683.4	-8,621.3	-10,328.6
Net foreign assets	186.1	533.8	643.8	864.6	884.4	1,796.3

Sources: IMF, *International Financial Statistics*.

Table 29. Cyprus: Outstanding External Debt and Debt Service, 1998–2003

	1998	1999	2000	2001	2002 3/	2003
(In millions of Cyprus pounds)						
Total outstanding external debt	1,529.0	1,737.0	1,755.0	2,213.7	3,036.3	3,541.4
Public sector	1,054.7	1,296.5	1,276.0	1,225.7	1,321.3	1,549.6
Medium- and long-term	944.0	1,161.8	1,194.5	1,140.0	1,277.2	1,408.6
Government	576.6	762.0	795.6	741.1	828.6	965.4
Public enterprises	367.4	399.8	398.9	398.9	448.6	443.2
Short-term 1/	110.7	134.7	81.5	85.7	44.1	141.0
Government	90.7	112.7	57.5	65.7	19.1	111.7
Public enterprises	20.0	22.0	24.0	20.0	25.0	29.3
Private sector	474.3	440.5	479.0	988.0	1,715.0	1,991.8
Medium- and long-term	299.3	273.5	278.0	793.0	1,455.0	1,746.9
Short-term 1/	175.0	167.0	201.0	195.0	260.0	244.9
Service payments of external debt 2/	189.9	147.5	228.4	303.1	234.4	215.2
Public sector	143.5	111.6	186.9	235.9	158.2	144.1
Amortization	101.3	63.7	121.6	169.3	100.2	83.9
Interest	42.2	47.9	65.3	66.6	58.0	60.2
Private sector	46.4	35.9	41.5	67.2	76.2	71.1
Amortization	24.0	22.0	24.0	26.0	30.5	38.9
Interest	22.4	13.9	17.5	41.2	45.7	32.2
(Percent of GDP)						
Outstanding external debt	31.4	33.3	30.9	36.3	47.7	52.1
Public sector	21.7	24.9	22.5	20.1	20.7	22.8
Medium- and long-term	19.4	22.3	21.0	18.7	20.0	20.7
Short-term debt	2.3	2.6	1.4	1.4	0.7	2.1
Private sector	9.8	8.4	8.4	16.2	26.9	29.3
Medium- and long-term	6.2	5.2	4.9	13.0	22.8	25.7
Short-term debt	3.6	3.2	3.5	3.2	4.1	3.6
(Percent of goods and services exports)						
Service payments	7.9	5.5	7.3	8.8	7.2	6.8
Public sector	5.9	4.2	6.0	6.9	4.9	4.5
Private sector	1.9	1.3	1.3	2.0	2.3	2.2

Source: Central Bank of Cyprus.

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

2/ Medium- and long-term.

3/ Since 2002 there is a break in the series due to the adoption of the BPM5 definition of residency

Table 30. Cyprus: Nominal and Real Exchange Rate Indices, 1999–2004
(Period averages, 1995 = 100)

	Nominal Exchange Rate Indices			Real Exchange Rate Indices		
	U.S. dollar/ Cyprus pound	euro/ Cyprus pound	Pound sterling/ Cyprus pound	Nominal Effective Exchange Rate 1/	Relative Consumer Price Index 1/	Real Effective Exchange Rate 1/
1999	83.4	103.7	81.3	106.0	110.8	99.1
2000	72.8	104.7	75.8	102.2	115.4	96.3
2001	70.4	104.3	77.1	106.0	117.7	98.4
2002	74.3	104.4	78.1	108.8	121.0	100.7
2003	87.5	102.8	84.5	113.5	126.0	106.4
1999						
I	87.5	103.5	84.6	107.6	109.0	100.4
II	82.6	103.7	81.2	106.2	110.2	99.0
III	82.0	103.8	80.9	105.6	110.8	99.0
IV	81.4	104.0	78.7	104.5	113.3	97.9
2000						
I	77.6	104.3	76.2	103.3	113.8	97.5
II	73.7	104.7	75.8	102.3	115.3	96.4
III	71.5	104.8	76.3	102.0	115.3	96.1
IV	68.7	104.8	74.9	101.2	117.3	95.0
2001						
I	72.2	103.9	78.2	104.7	115.8	97.6
II	68.4	104.0	76.1	105.0	117.8	97.4
III	70.2	104.6	77.1	106.9	117.2	98.5
IV	70.5	104.5	77.2	107.6	120.1	99.9
2002						
I	68.8	104.2	76.2	106.7	118.8	98.4
II	71.9	103.9	77.6	107.3	120.6	99.0
III	77.4	104.4	78.9	109.9	121.3	102.0
IV	79.0	105.2	79.5	111.5	123.4	103.3
2003						
I	83.7	103.4	82.4	112.5	124.5	105.5
II	87.5	102.4	85.3	113.8	126.5	107.0
III	86.8	102.5	85.1	113.3	125.3	105.8
IV	92.1	102.8	85.3	114.6	127.8	107.3
2004						
I	96.5	102.4	82.9	115.0	126.2	107.2
II	93.1	102.5	81.3	113.9	128.5	106.4
III	95.5	103.6	82.9	...	129.0	...

Source: IMF, *International Financial Statistics*.

1/ INS weights.