

Economic Development in Small Island States (SIDs) And Integration to International Financial Markets: A Case of Cyprus

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1. Introduction

Over the past 20 years, the World economies have increasingly integrated with each other. Since the mid-eighties, the business cycle frequency correlations of output, employment and investment increased between the countries and continents. Although financial integration have been associated with high growth rates, because of collapses which some developing countries went through an intense debate has emerged on the effects of financial integration on developing countries.

The purpose of this paper is to answer the following questions:

- (i) Does financial globalization promote economic growth in Small Island Developing Countries (SIDs)?
- (ii) What are the factors that help countries obtain the benefits of financial globalization?
- (iii) What role should SIDs play in the financial globalization process?

Finally, we will investigate Cyprus Case, a SID in the Mediterranean Sea, and discuss the result of the present study.

2. Financial Integration and Globalization

Financial globalization and financial integration are, in principle, different concepts. The process of globalization leads to international financial stability and global security (Moshirian, 2003). Financial globalization is an aggregate concept that refers to increasing global linkages created through cross-border financial flows. Financial integration refers to an individual country's linkages to international capital markets (Prasad, 2003). Clearly, these concepts are closely related. For instance, increasing financial globalization is perforce associated with increasing financial integration on average. In this paper, therefore, the two terms are used interchangeably.

The volume of cross-border capital flows has risen substantially in the last decade (Heathcote and Peri, 2003). There has been not only a much greater volume of flows among industrial countries but also a surge in flows from industrial to developing countries. This surge in international capital flows to developing countries is the outcome of both "pull" and "push" factors. Pull factors arise from changes in policies and other aspects of opening up by developing countries. These include liberalization of capital accounts and domestic stock markets, and large-scale privatization programs. Push factors include business-cycle conditions and macroeconomic policy changes in industrial countries. The importance of these factors suggest that, despite temporary interruptions during crisis periods, the past 20 years have been characterized by pressures for rising global capital flows to the developing world(Prasad et al,2003).

3. Does Financial Globalization Promote Growth in Developing Countries?

Financial globalization could, in principle help to increase the growth rate in developing countries through a number of channels. On behalf of that, average per capita income for the group of more financially developing economies grows at a more favorable rate than that of the group of less financially open economies.

Table 1. Fastest and Slowest Growing Economies
During 1980–2000 and Their Status of Financial Openness

Fastest Growing Economies, 1980–2000		Total Percentage Change in p.c. GDP	More Financially Integrated?	Slowest Growing Economies, 1980–2000		Total Percentage Change in p.c. GDP	More Financially Integrated?
1	China	391.6	Yes/No	Haiti		-39.5	No
2	Korea	234.0	Yes	Niger		-37.8	No
3	Singapore	155.5	Yes	Nicaragua		-30.6	No
4	Thailand	151.1	Yes	Togo		-30.0	No
5	Mauritius	145.8	No	Cote d'Ivoire		-29.0	No
6	Botswana	135.4	No	Burundi		-20.2	No
7	Hong Kong SAR	114.5	Yes	Venezuela		-17.3	Yes/No
8	Malaysia	108.8	Yes	South Africa		-13.7	Yes
9	India	103.2	Yes/No	Jordan		-10.9	Yes
10	Chile	100.9	Yes	Paraguay		-9.5	No
11	Indonesia	97.6	Yes	Ecuador		-7.9	No
12	Sri Lanka	90.8	No	Peru		-7.8	Yes

Note: Growth rate of real per capita GDP, in constant local currency units.
Reference: Prasad et al ,2003

However the results of the research undertaken on this subject suggest that there is no strong and uniform support for the theoretical argument financial globalization per se increases the rate of economic growth (see Table 2).

Table 2. Summary of Recent Research on Financial Integration and Economic Growth

Study	Number of Countries	Years Covered	Effect on Growth
Alesina, Grilli, and Milesi-Ferretti (1994)	20	1950-89	No effect
Grilli and Milesi-Ferretti (1995)	61	1966-89	No effect
Quinn (1997)	58	1975-89	Positive
Kraay (1998)	117	1985-97	No effect / mixed
Rodrik (1998)	95	1975-89	No effect
Klein and Olivei (2000)	Up to 92	1986-95	Positive
Chanda (2001)	116	1976-95	Mixed
Arteta, Eichengreen, and Wyplosz (2001)	51-59	1973-92	Mixed
Bekaert, Harvey, and Lundblad (2001)	30	1981-97	Positive
Edwards (2001)	62	1980s	No effect for poor countries
O'Donnell (2001)	94	1971-94	No effect, or at best mixed
Reisen and Soto (2001)	44	1986-97	Mixed
Edison, Klein, Ricci, and Sløk (2002)	Up to 89	1973-95	Mixed
Edison, Levine, Ricci, and Sløk (2002)	57	1980-2000	No effect

Reference: Edison, Klein, Ricci, and Sløk;2002

4. Factors that Help Countries Obtain the Benefits of Financial Globalization

While it is difficult to find a strong effect of financial integration on economic growth, there is some evidence in the literature of various kinds of threshold effects. Financial integration in combination with high absorptive capacity appears to be conducive to growth.

A country's absorptive capacity can be thought of in terms of human capital, depth of domestic financial market, quality of governance and macroeconomic policies. For example, for countries whose human capital has exceeded a certain threshold there is some evidence that FDI (Foreign Direct Investments) promotes economic growth. (Borenstein, De Gregorio and Lee, 1998)

The evidence obtained on this matter is consistent with the view that countries need to build up a certain amount of absorptive capacity in order to effectively take advantage of financial globalization (Prasad et al,2003).

The role of domestic governance is another crucial element of this absorptive capacity. Recent evidence shows that there is a close connection between a country's quality of domestic governance and its ability to attract FDI, as FDI tends to go to countries with good governance. Moreover, there is increasing evidence that aid flows are used more efficiently in countries with better governance structures. (Prasad et al, 2003)

5. Impact of Financial Globalization on Small Island States

While there is no formal definition of a small state, it's generally accepted that this label applies to economies with populations of less than one and a half million people.

Small states are relatively more open to trade on the fact that they are generally more reliant on export earnings. While these states have developed strong trade linkages with the global economy, their financial linkages are weaker. Aid dependency is an important problem as foreign aid is still a major source of income.

Small island states, surely cannot be isolated from the globalization process, too. These island states have nothing to do but to take advantage of the process and adopt themselves to its challenges.

The most important challenges in this regard relate to:

- more intense competition
- the need to adopt sound macroeconomic policies
- the need to manage risks
- the modernization of financial legislation
- grappling with the high rate of exposure to international business cycles. (Larose, 2003)

Being part of a global financial market necessarily implies more intense competition in all economic activities including financial services. One of the musts of financial globalization is the removal / reduction of trade barriers which in turn will not necessarily lead to economic success. Small island states, with their limited capacity should work harder to upgrade their productivity or to promote innovation if they want to win this competitiveness game.

The financial integration of the small island states does also require continuous effort to maintain sound macroeconomic policies such as external current account equilibrium, disciplined fiscal policy, transparent management of exchange and interest rates, stability oriented monetary targets and price stability (Larose, 2003).

Also, exposure to international transactions on a limited range of goods and services will inevitably lead to greater risk of fluctuations in economic activity. In order to overcome these problems, small states should consider product and factor market integration with larger trading blocks in a globalized market-place (Larose, 2003).

A common problem that SIDs been exposed to is the money laundering activities in their financial institutions. To avoid that, small island states should develop their financial sectors in line with the OECD or EU guidelines while taking steps to modernize their financial legislation and introducing control mechanisms to detect unlawful activities.

Perhaps the most difficult problems of SIDs on the road to financial globalization is that they are vulnerable both to economic cycles and crises and also to development in the global trade regime (Dawenport, 2001, Exaith and Keiji, 2001).

In addition they have to cope with a variety of disadvantages arising from their locations. Many of them are located far from major trade centers and are highly susceptible to natural disasters which can have devastating economic impacts. Therefore, it is very important for these states to step up their resilience in order to enhance their ability to withstand and manage their vulnerability (Binger, 2002).

For a small state which has gone through all of these challenges associated with being a small state, international risk sharing has significant welfare implications. Indeed, potential gains for small states are much larger even than those of other developing countries since consumption is so much volatile in small states than in other developing countries. Trade openness has already helped many small state economies to increase the size of their markets for their products and benefit from economies of scale.

Both trade and capital flows can also enhance the rate of technology transfers to these economies. Furthermore, globalization offers opportunities for these economies to absorb and adopt best international practices in terms of governance and other institutional structures.

Table 3. Are Small States Different? Some Summary Statistics (1960–2000)

Groups of Countries	Integration and Aid Dependence			Measures of Volatility			(Percent)
	Trade Openness	Financial Openness	Aid Dependency	Output	Private Consumption	Terms of Trade	Welfare Gains (%)
Small States	111.5	7.9	19.5	5.8	12.6	5.6	15.3
Other							
Developing Countries	60.5	4.5	8.4	4.9	8.2	4.2	6.1
Industrial Countries	63.3	10.4	-	2.5	2.6	1.5	0.7

Reference: Kose and Prasad, 2003.

6. An Examination on Cyprus

Cyprus is an island in the Mediterranean Sea, south of Turkey. Independence from the UK was approved in 1960, with constitutional guarantees by the Greek Cypriot majority to the Turkish Cypriot minority. In 1974, a Greek-sponsored attempt to seize the government was met by military intervention from Turkey, which soon controlled almost

40% of the island. In 1983, the Turkish-held area declared itself the "Turkish Republic of Northern Cyprus," but it is recognized only by Turkey. The latest two-year round of UN-brokered direct talks - between the leaders of the Greek Cypriot and Turkish Cypriot communities to reach an agreement to reunite the divided island - ended when the Greek Cypriots rejected the UN unity plan in an April 2004 referendum. Although only the internationally recognized Greek Cypriot-controlled "Republic of Cyprus" joined the EU on May, 1 2004, every Cypriot carrying a Cyprus passport will have the status of a European citizen.

The Greek Cypriot economy is prosperous but highly susceptible to external shocks. Erratic growth rates over the past decade reflect the economy's vulnerability to swings in tourist arrivals, caused by political instability in the region and fluctuations in economic conditions in Western Europe. Economic policy is focused on meeting the criteria for admission to the EU. EU-driven tax reforms in 2003 have introduced fiscal imbalances, which, coupled with a sluggish tourism sector, have resulted in growing fiscal deficits. As in the Turkish sector, water shortages are a perennial problem; a few desalination plants are now on-line. After 10 years of drought, the country received substantial rainfall from 2001-03, alleviating immediate concerns. The Turkish Cypriot economy has roughly one-third of the per capita GDP of the south (see Appendix 1). Because it is recognized only by Turkey, it has had much difficulty arranging foreign financing and investment. It remains heavily dependent on agriculture and government service, which together employ about half of the work force (Table 4). To compensate for the economy's weakness, Turkey provides grants and loans to support economic development. Ankara provided \$200 million in 2002 and pledged \$450 million for the 2003-05 periods (<http://www.cia.gov/cia/publications/factbook>).

Table.4. Industrial Indicators of Cyprus

	Turkish Cypriot Area	Greek Cypriot Area
Purchasing Power Parity	\$1.217 billion (2003 est.)	\$14.82 billion (2003 est.)
Agriculture	10.6%	4.1%
Industry	20.5%	20.3%
Services	68.9%	75.6%

Reference: Central Bank of Cyprus, 2003

6.1. Cyprus in the Financial Globalization Process

Being part of a global financial market necessarily implies more competition in all economic activities including financial services. There are many island states competing with larger and better resource-endowed countries in a variety of goods and services, notably in tourism and financial services. In the case of financial services, small island states have to compete with giant financial centers, like New York, London and Tokyo. One problem with small states in this regard is that a free-market mentality is often difficult to instill, given that many small states have for a long time been accustomed to protective policies, which sheltered their industries from international competition (Larose, 2003).

Though being remotely located in the Mediterranean Sea, Cyprus cannot be isolated from the integration process. Integration can be at the regional and at the global level. At the international level, various organizations, notably the World Trade Organization (WTO) and European Union (EU) have had an effect on Cyprus. The challenges described above for small island states were in part aimed at satisfying the requisites of the EU and enable Cyprus under consideration to form part of the international community working towards freer and fairer trade between nations.

Cyprus has overcome many serious constraints to reach the present relatively well advanced economic and social development. The economy has continued over the past few years to operate at practically full employment, with relatively low inflation and manageable external debt burden. To maintain this good development record, Cypriot economic planners have started work on charting the course for future development and to examine their development options. On the basis of past performance and potential to grow further, planners have decided that future development would be anchored on two sectoral pillars, namely, tourism and manufacturing, these sectors would receive necessary promotion to achieve their potential growth. With locational and skill advantages, Cyprus has also achieved considerable growth from exports of services - off-shore businesses, warehousing and transshipment, consultancy and business services etc. The growth of these exports could accelerate if they were to be included as

another pillar of development and thus receive necessary promotion as the other two sectors (<http://www.cia.gov/cia/publications/factbook>).

As a result of the globalization and full membership of Cyprus to the EU, new conditions are created which dictate appropriate orientation of development. Among the characteristics of the new conditions are the lifting of protection through the liberalization and the opening of the economy, the intensive competition, both in export and the domestic market and the need to utilize to the greatest extent the comparative advantages of the economy (Malaos,2002).

The new conditions as a result of globalization are characterized from (Malaos,2002):

- trade liberalization and decrease or abolition of tariffs and other restrictions.
- ethnological progress, especially in the sector of communications.
- the liberalization of the financial system with the free movement of capital and the convertibility of national currencies.
- the degree to which an economy will manage to utilize the positive elements of globalization will depend on such factors as its infrastructure, the level of training of human resources, the adjustment of the public sector to the new conditions, its orientation and production on the basis of international standards.

A basic objective of the development effort was the harmonization to the EU conditions. By the approval as a full member on May 1,2004 it can be concluded that this objective has been achieved.

6.2. The Role of Cyprus as a Business Centre in the Mediterranean Region

Throughout its long history, Cyprus has played a central role in the economic activity of the Middle East region. The development Cyprus has gone through during the last two decades has transformed Cyprus into an international center for tourism, transit trade, international business and maritime activities and services in general.

The transformation of Cyprus into a reputable international business center is attributed to the following comparative advantages of the island (Malaos, 2002):

- stable macroeconomic environment and favorable entrepreneurial climate
- favorable taxation regime with low marginal tax rates and generous tax incentives
- high quality of life, comparatively low price level
- strategic geographical location of Cyprus at the crossroads of three continents
- modern legal and accounting system
- advanced infrastructure, particularly in telecommunications, airports and ports
- extensive political, cultural and economic ties with the EU as being a full member.

Conclusion

Since it could give them a larger share in the financial services market, better access to the global capital market and improvements in their standard of living; financial globalization presents new opportunities for the small island states. However, there are a number of challenges that need to be met including facing international competition, maintaining sound macroeconomic policies, the modernization of financial legislation both at the regional and global levels.

At the global level, small states must be prepared to meet these challenges through structured adjustment of their economy and encouragement of innovation and efficiency in the financial system. However at the same time, small states face many constraints in integrating to the international financial markets due to their vulnerability and limited human and physical resources.

Cyprus, being a small island state, has operated since Independence under a system of protective measures in basic sectors such as trade, services, and the financial system. At the same, development relied largely on tourism.

Becoming a full member of EU on May 1, 2004 Cyprus focused on redefining the regulatory legislations, lifting of protection and liberalization of the market, giving emphasis on the restructuring policy, fully utilizing the comparative advantages of hers.

Cyprus has gone a long way on the road of financial globalization by becoming a member EU. The challenges she has overcome can be a good example for many small island states which are eager to achieve the benefits of financial globalization.

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Appendix 1.

ANNUAL ECONOMIC INDICATORS

		1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
POPULATION (Mid-year)	Th.persons	610,6	625,8	639,0	650,7	660,9	670,4	678,9	686,4	693,6	701,3	709,6	718,0
NATIONAL ACCOUNTS (12)													
G.D.P. (At Current Prices)	CYP Mil.	3102,9	3274,6	3650,7	4020,0	4168,3	4379,6	4704,2	5037,1	5525,3	5876,9	6161,0	6563,8
G.D.P. (Real Growth)	%	9,4	0,7	5,9	6,1	1,9	2,3	4,8	4,7	5,0	4,0	2,0	2,0
G.D.P. Per Capita (CYP)	CYP	5082	5233	5713	6178	6307	6533	6929	7338	7966	8380	8682	9142
G.D.P. Per Capita (PPS: Cyprus) (1)	PPS	-	-	-	-	15400	16100	17000	17500	17000	17100	17400	-
G.D.P. Per Capita (PPS: EU-15) (1)	PPS	-	-	-	-	18500	19400	20300	21300	22700	23300	24000	-
G.D.P. Per Capita (PPS: CC-10) (1)	PPS	-	-	-	-	7900	8500	9000	9500	10200	10700	11100	-
Productivity	% change	4,7	0,8	3,0	2,0	1,2	2,2	3,8	2,6	2,5	1,9	0,6	0,5
WAGES, UNEMPLOYMENT & PRICES													
Nominal Wage Rates	% change	10,5	9,6	7,7	6,6	6,1	6,8	5,2	4,8	7,2	5,1	4,7	6,0
Real Wage Rates	% change	3,8	4,4	2,9	3,9	3,1	3,1	2,9	3,0	2,9	3,1	1,8	1,4
Gainfully Employed Population	Th.persons	265,6	265,3	272,8	283,8	285,9	286,1	288,8	294,7	301,8	307,9	312,2	317,0
Unemployment Ratio	% of EAP	1,8	2,7	2,7	2,6	3,1	3,4	3,4	3,6	3,4	2,9	3,2	3,5
Inflation Rate (11)	%	6,5	4,9	4,7	2,6	3,0	3,6	2,2	1,7	4,1	2,0	2,8	4,1
PUBLIC FINANCES													
Central Government Deficit	CYP Mil.	147,6	77,8	51,9	39,9	142,1	231,2	257,6	201,3	150,5	166,5	220,0	358,0
Central Government Deficit	% of GDP	4,8	2,4	1,4	1,0	3,4	5,3	5,5	4,0	2,7	2,8	3,6	5,5

Central Government Debt (2)(4)	% of GDP	52,3	53,4	48,9	46,1	47,9	52,7	55,6	56,8	54,6	55,6	59,7	63,6	
BALANCE OF PAYMENTS (12)														
Exports of Goods (fob)	CYP Mil.	443,3	431,7	476,1	555,9	649,3	640,2	551,3	543,2	591,8	628,1	514,4	478,2	
Imports of Goods (fob)	CYP Mil.	-1483,8	-1181,1	-1330,5	-1499,4	-1667,4	-1704,7	-1807,4	-1796,9	-2213,7	-2268,3	-2253,4	-2057,7	
Trade Balance	CYP Mil.	-1040,5	-749,4	-854,4	-943,5	-1018,1	-1064,5	-1256,1	-1253,7	-1621,9	-1640,2	-1739,0	-1579,5	
Exports of Services (incl. Income & Cur. Transfers)		1264,5	1287,9	1431,6	1542,1	1526,9	1670,4	1771,5	2021,0	2405,7	2550,5	3162,4	2950,6	
Imports of Services (incl. Income & Cur. Transfers)	CYP Mil.	-505,2	-488,6	-533,6	-671,4	-724,2	-779,8	-827,7	-885,0	-1069,4	-1164,3	-1754,1	-1698,6	
Balance of Services (incl. Income & Cur. Transfers)		759,3	799,3	898,0	870,7	802,7	890,6	943,8	1136,0	1336,3	1386,2	1408,3	1252,0	
Current Account Balance	CYP Mil.	-281,2	49,9	43,6	-72,8	-215,4	-173,9	-312,3	-117,7	-285,6	-254,0	-330,7	-327,5	
Current Account Balance	% of GDP	-9,1	1,5	1,2	-1,8	-5,2	-4,0	-6,6	-2,3	-5,2	-4,3	-5,4	-5,0	
Tourist Arrivals	Thousands	1991,0	1841,0	2069,0	2100,0	1950,0	2088,0	2222,7	2434,3	2686,2	2696,7	2418,2	2303,2	
Tourist Arrivals	% change	43,7	-7,5	12,4	1,5	-7,1	7,1	6,5	9,5	10,3	0,4	-10,3	-4,8	
Tourist Receipts	CYP Mil.	694,0	696,0	810,0	810,0	780,0	843,0	878,0	1025,0	1194,0	1271,6	1132,5	1019,0	
Tourist Receipts	% change	45,8	0,3	16,4	0,0	-3,7	8,1	4,2	16,7	16,5	6,5	-10,9	-10,0	
Revenue from Intern. Business Sector (3)	CYP Mil.	102,4	126,1	147,2	174,6	179,4	191,8	209,6	243,1	268,1	294,5	332,0	350,0	
INTERNATIONAL RESERVES (4)														
Official Intern. Reserves (5)	CYP Mil.	504,3	578,1	705,6	518,2	805,2	802,6	754,0	1135,7	1153,3	1558,1	1734,9	1607,3	
Official Intern. Reserves / Imports (6)	No. of months	4,1	5,9	6,4	4,1	5,8	5,6	5,0	7,6	6,3	8,2	9,2	9,4	
EXTERNAL DEBT (4)														
Total External Debt	CYP Mil.	1248,0	1263,2	1215,8	1182,5	1206,8	1393,9	1539,0	1785,0	1824,0	2270,8	2361,1	2519,5	
Total External Debt	% of GDP	40,2	38,6	33,3	29,4	29,0	31,8	32,7	35,4	33,0	38,6	38,3	38,4	
Long-term External Debt	CYP Mil.	974,8	1000,8	901,8	865,2	874,0	1051,5	1243,3	1435,3	1472,5	1930,1	2057,0	2220,5	
Long-term External Debt	% of GDP	31,4	30,6	24,7	21,5	21,0	24,0	26,4	28,5	26,7	32,8	33,4	33,8	
Total Govt. External Debt	CYP Mil.	665,9	627,8	553,5	477,4	418,6	517,4	667,3	874,7	853,1	803,9	862,1	973,0	
Total Govt. External Debt	% of GDP	21,5	19,2	15,2	11,9	10,0	11,8	14,2	17,4	15,4	13,7	14,0	14,8	
Long-term Govt. External Debt	CYP Mil.	551,7	516,4	404,1	340,1	280,8	388,8	576,6	762,0	795,6	738,2	843,0	973,0	
External Debt Service Ratio (7)	%	12,1	13,2	12,2	8,8	10,0	8,4	8,3	5,8	7,7	9,4	7,1	6,8	
MONEY AND BANKING														
Total Liquidity (4)	% change	13,9	16,4	12,5	11,9	11,0	10,7	8,8	17,2	9,0	13,3	10,3	4,0	
Credit to the Private Sector (4)	% change	17,5	12,7	13,2	16,2	13,4	12,2	14,3	14,4	14,3	12,3	8,0	5,1	
INTEREST RATES														
Deposit Rate (4)(8)	%	8,0	8,0	7,0	7,0	7,0	6,5	6,5	6,5	6,5	4,00	3,80	3,35	
Lending Rate (4)(8)	%	9,0	9,0	8,5	8,5	8,5	8,0	8,0	8,0	8,0	7,12	6,88	6,90	
Lombard Rate (4)	%	*	*	*	*	7,5	7,0	7,0	7,0	7,0	5,50	5,00	4,50	
Overnight Interbank Rate (9)	%	*	*	*	*	6,85	4,82	4,83	5,15	5,96	4,93	3,42	3,35	
Overnight Deposit Facility (4)	%	*	*	*	*	5,0	4,0	4,0	4,0	4,0	2,50	2,50	2,50	
STOCK EXCHANGE														
General Price Index (4)	29/3/96=100	50,7	44,4	55,1	83,5	82,3	77,3	90,6	714,0	244,5	129,1	94,5	80,6	
Volume : Total	CYP Mil.	-	-	-	137,0	232,0	170,7	347,3	3858,5	6265,8	2219,7	370,5	154,5	
Volume : Daily Average	CYP Mil.	-	-	-	0,55	0,93	0,69	1,40	17,70	25,36	8,91	1,51	0,63	
Market Capitalisation (4)	CYP Mil.	-	-	-	-	1135	1091	1340	12134	7115	3997	2582	2233	
Market Capitalisation (4)	% of GDP	-	-	-	-	27,2	24,9	28,5	240,9	128,8	68,0	41,9	34,0	
EXCHANGE RATES														

Nominal Effective Exchange Rate (9)	1995=100	92,1	93,0	96,3	100,0	102,0	102,8	108,3	106,0	102,2	106,0	108,8	-
Real Effective Exchange Rate (9)	1995=100	96,1	96,6	99,0	100,0	100,3	100,1	103,3	99,7	96,5	98,3	100,6	-
EUR / CYP	Period	1,7148	1,7184	1,7172	1,7093	1,7120	1,7217	1,7223	1,7278	1,7425	1,7367	1,7383	1,7120
	Aver.												
US \$ / CYP	Period	2,2215	2,0098	2,0368	2,2115	2,1450	1,9467	1,9353	1,8410	1,6087	1,5563	1,6445	1,9383
	Aver.												
Pound Stg / CYP	Period	1,2628	1,3382	1,3290	1,4011	1,3745	1,1881	1,1681	1,1382	1,0621	1,0805	1,0935	1,1851
	Aver.												
OTHER INDICATORS													
Volume Index of Manufacturing Production	1995=100	106,6	96,5	99,5	100,0	95,0	94,3	95,4	96,3	100,1	98,2	95,8	-
Volume Index of Retail Sales	1995=100	101,8	92,0	92,5	100,0	101,7	100,6	106,8	106,6	112,7	119,3	120,5	-
New Registrations of Motor Vehicles (10)	% change	1,8	-29,0	1,3	35,1	16,2	-0,1	22,1	-19,0	-6,5	19,4	24,1	6,5

NOTES:

(1) To facilitate international comparisons, 'Eurostat' converts GDP per capita into a common unit that reflects the actual purchasing power of the national currency. To remove the distortions due to price differentials, transitive Purchasing Power Parities (PPPs) are calculated in order to be used as factors of conversion. The "real" values of GDP per capita obtained by using the above conversion factors are expressed in terms of Purchasing Power Standards (PPS), a unit that is independent of any national currency.

(2) Excludes intragovernmental debt.

(3) Includes revenue from foreign ship owning companies.

(4) End of year.

(5) Since Dec. 1996 the Central Bank of Cyprus has been using a new methodology for reporting its international reserves.

(6) Imports of goods (fob).

(7) Refers to long-term foreign debt. Service payments exclude repayments of EMTN and interest paid by banks on non-debt foreign liabilities.

(8) (a) For the period 1992 - 2000 : Maximum interest rates prescribed by the Central Bank of Cyprus.

(b) As from 2001 : (i) Deposit Rate refers to the average interest rate offered to 3-month notice deposits for amounts over CP 5000.

(ii) Lending Rate refers to the average interest rate charged for secured loans to enterprises.

(9) Period average.

(10) Private saloon cars.

(11) CPI average in reference year / CPI average in previous year (% change).

(12) In 2002 a new definition of residency was adopted for the compilation of BOP statistics, based on the 1 year rule for natural persons and the physical presence criterion for enterprises.

This change of definition has also affected National Accounts data.

n.a. = Data are not available. * = Not applicable

EU-15 = The 15 member countries of the European Union.

CC-10 = The 10 countries acceding to the EU on 1 May, 2004