

ECONOMIC DEVELOPMENTS IN 2006 AND PROSPECTS FOR 2007

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APPENDIX I: INDICATORS OF THE CYPRUS ECONOMY, 2002-2006

Acknowledgements

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I. INTRODUCTION

This paper refers to the strategic goals and objectives of the economic policy of the Government of the Republic of Cyprus, as these have been included in the Convergence Programmes and the National Lisbon Programme. Further, an overview of the international economic environment is presented briefly as it affects the course of Cyprus economy which is a small and open economy. The main part of the paper focuses on the analysis of economic developments for this year, whereas reference is made to the 2007 Budget and the economic prospects for the next year.

II. OVERALL STRATEGIC APPROACH

Within the framework of the Convergence Programmes and the National Lisbon Programme, the Government's overriding objective is to achieve satisfactory growth of the economy, increase employment and enhance social cohesion, via the achievement of the following objectives:

Macroeconomic Stability

Fiscal Policy

- Fiscal consolidation by substantially decreasing fiscal deficit and public debt, aiming at satisfying the revised Stability and Growth Pact' provisions and fulfilling the Maastricht criteria. Cyprus complied with the EU Council of Ministers for Economic and Financial Affairs (ECOFIN) recommendations for eliminating excess deficit while at the same time is working towards the mid-term budgetary objective of balanced public finances until year 2009. The excessive deficit procedure on July 2006 was put to an end for Cyprus, which increased the credibility of consumers and investors for the Cyprus economy.
- At the same time, it is expected that a substantial reduction of public debt will be achieved in compliance with the revised Growth and Stability Pact' provisions which places a lot of importance in restraining public debt at a level securing the long term sustainability of public finances.

Monetary and Exchange Rate Policy

- Enhancement of the conditions for macroeconomic stability with emphasis in preserving inflation rate at low and controllable levels and the exchange rate of the Cyprus pound within the framework imposed by the participation in ERM II, targeting at the adoption of Euro in 1st of January 2008.

Economic Development and Social Cohesion

- Ensuring the sustainability of public finances over the long term, through the enhancement of reforms in the Social Security System and health sector.
- Improve the quality of public finances via a redirection of public expenditure towards development and social expenditures.
- Diversification of the economy towards higher value added activities, through the greater utilization of Cyprus's comparative advantages.
- Promotion of research and development and innovation and facilitating ICT diffusion.
- Structural reforms targeting at enhancing competition and improving the overall business climate.
- Utilities sectors restructuring, targeting at enhancing competition and improving the overall business environment.
- Upgrading basic infrastructures.
- Development of human capital.
- Strengthening social cohesion conditions.
- Securing environmental sustainability.

III. INTERNATIONAL ECONOMIC ENVIRONMENT

The latest assessments by international organizations conclude that the world economy will grow at a satisfactory level in 2006, 5%, mainly, as a result of the high growth rate of China and the continuation of the satisfactory growth of USA and Japan.

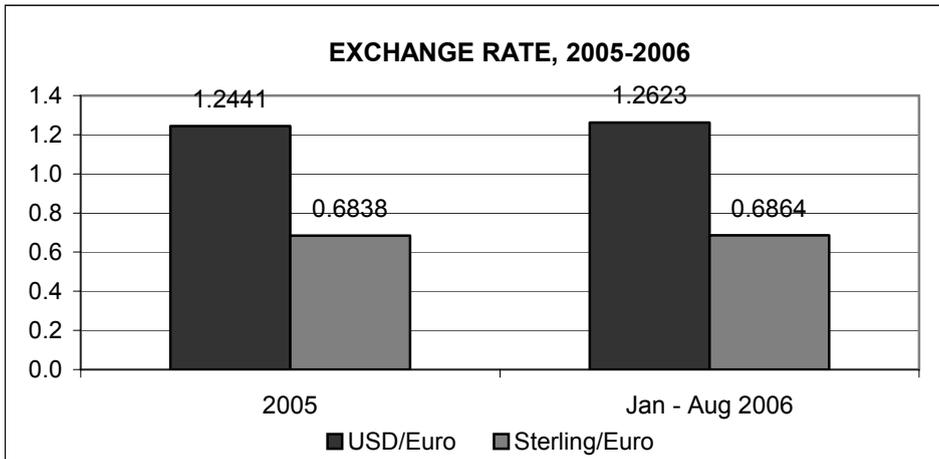
As regards the economy of the EU, growth rate, according to the estimates of the European Commission¹, is projected to reach approximately 2,7% in 2006 compared to 1,6% in 2005. From the demand side, growth rate is estimated to originate from private consumption and investment activity.

Unemployment rate in EU-25 is expected to decline and fluctuate at around 8% in 2006 compared to 8,7% in 2005. Unemployment in EU continues to fluctuate at higher levels compared to USA, where unemployment rate is expected to reach 5%. The relatively high unemployment rate in EU area reflects the structural weakness and inflexibility of its labour markets.

The harmonized consumer price index in EU-25 is expected to rise at 2,3%, and is considered to be the result of the substantial increase in the crude oil prices. The latter may be attributed to factors of temporary nature as well as of permanent nature. Despite the rise of energy prices, structural inflation fluctuated to 1,6% in July 2006.

¹ September 2006, Interim Forecasts

Euro's exchange rate continued to fluctuate at the same level during the first eight months of 2006 compared to the corresponding period in 2005 vis-à-vis US dollar and British sterling. The exchange rate of US dollar vis-à-vis Euro presented a marginal increase whereas the exchange rate of British sterling vis-à-vis Euro remained at the same level.



The interest rates in the Eurozone presented an increasing trend. This development reflects the devotion of European Central Bank to encounter prudentially and effectively the inflationary pressures and anticipations that the high energy cost creates.

EU public deficit in 2006 as a percentage of the GDP, is expected to be somehow improved than the latest estimates of the General Directorate for Economic and Financial Affairs of the European Commission which is 2,4%. EU public debt is expected to fall marginally to 63,2% of GDP towards the end of 2006 compared to 63,4% of GDP in 2005.

Conclusively, the world environment was positive for the Cyprus economy, due to the continuation of the satisfactory growth of the world economy as well as the EU economy, despite the challenges from the high energy cost and the tendency for appreciation of the Euro in the international markets.

IV. ECONOMIC DEVELOPMENTS FOR 2006

1. General Observations

Achieving the goal of Cyprus' accession to ERM II on the 2nd of May 2005 is of strategic importance, taking into consideration the benefits that derive for the whole of the economy. The most important benefits relate to the stability of the exchange rate of the Cyprus pound, which is an important factor for small and open economies, like the Cyprus economy, the creation of the necessary conditions for the convergence of interest rates in the Eurozone and Cyprus, with tangible

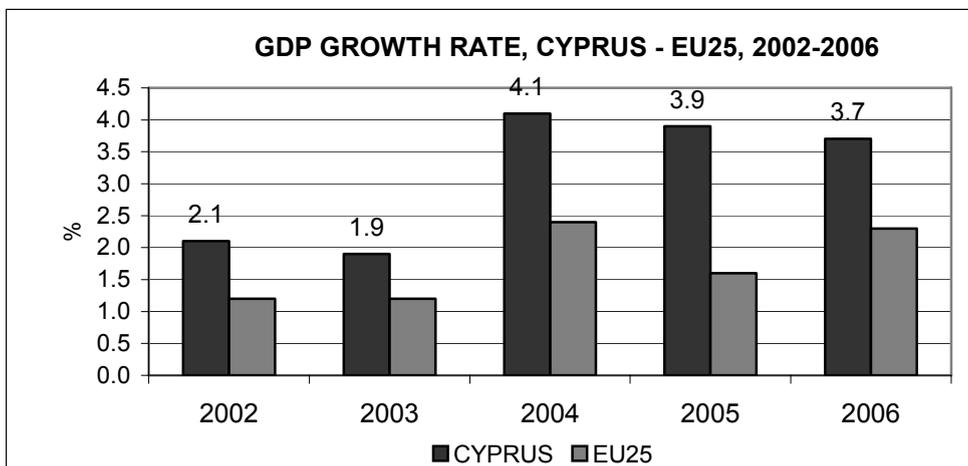
benefits for both, the public and private sector, whereas at the same time the credibility of the Cyprus economy will be enhanced.

Cyprus' participation in ERM II acts as a catalyst for the restraining of production costs, the improvement of the competitiveness of the Cyprus economy as well as the attraction of more foreign capital for investment purposes.

Strategic objective of the Government is the successful participation of the Cyprus pound in ERM II and the proper preparation of the public and private sector for the successful adoption of the Euro on the 1st of January 2008. The establishment of conditions for macroeconomic stability is required, by further reduction of the fiscal deficit and public debt as a percentage of the GDP, as well as the promotion of structural changes in order to accelerate the growth rates.

Based on today's figures, the growth rate of the Cyprus economy is estimated to remain in 2006 at the same level as 2005, at 3,7% in real terms, with driving force private consumption and exports of services.

During the first three months of 2006 the economy illustrated a growth rate of 3,3% compared to 3,9% of the respective quarter in 2005. Almost all sectors of economic activity and in particular those of the financial organisations and telecommunications, as well as the retail trade demonstrated positive growth rates, while the industrial sector demonstrated a slight decrease.

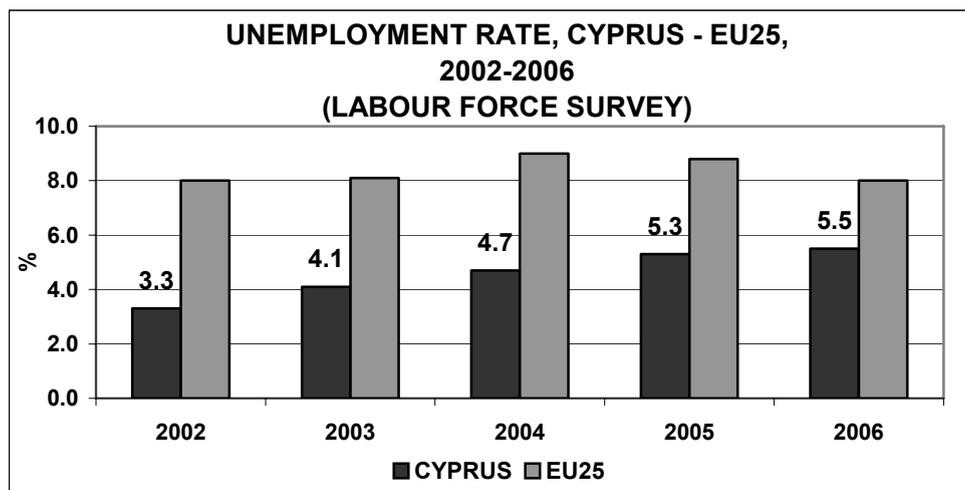


It should be noted, that the escalating tendency of oil prices acts as a restraining factor towards the recovery of the world economy, including that of the EU economy and consequently influencing negatively, in this case, the course of the Cyprus economy.

In 2006 the acceleration of the Cyprus economy reflects the rising employment rate that is around 68% for the ages 15-64. Based on the results of the first quarter of the Labour Force Survey (LFS), the unemployment rate is 5,9% of the gainfully

employed population. The relatively high unemployment rate is attributed mainly, to seasonal factors and relates with the winter period and the slow down of the tourist sector (restaurants and hotels).

For the entire year of 2006, the unemployment rate is estimated to reach 5,5% of the gainfully employed population compared to 5,3% in 2005.



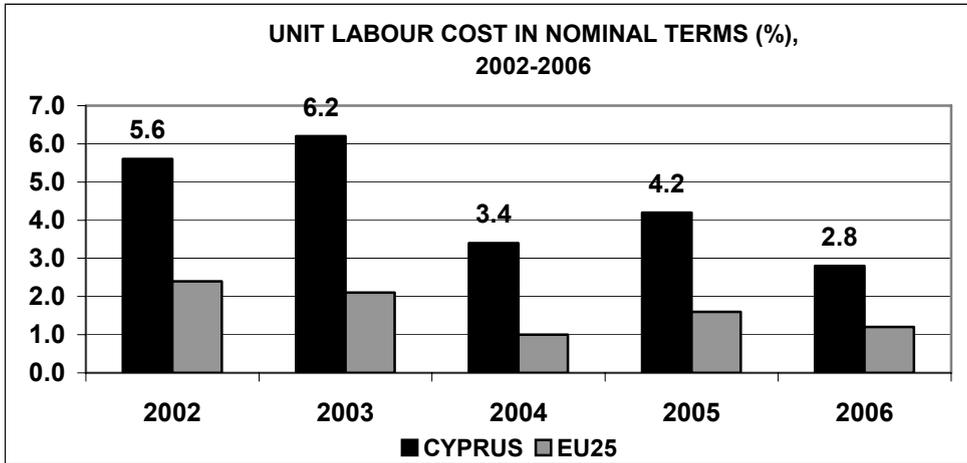
Both youth (for the ages 15-24) and female unemployment remains higher than the average unemployment rate. For the first quarter of 2006 youth (aged 15-24) and female unemployment reached 12% and 6,6% respectively.

The higher unemployment among the young population reflects mainly frictional unemployment and job searching in their effort to find an occupation to match better their skills. The higher unemployment among women mirrors job seeking for flexible forms of employment in order to make family life and career prospects compatible.

Foreign employment continues increasing rapidly. In aggregate terms, the ratio of foreign workers is expected to increase to 16% of the total work force. It is worthwhile noting that during the last two years a gradual substitution has taken place between European workers and workers from third countries. Additionally, Turkish-Cypriot employment, according to the data from the Social Insurance Department, was approximately 2.650 persons or 1% of the labour force, for the period Jan-May 2006.

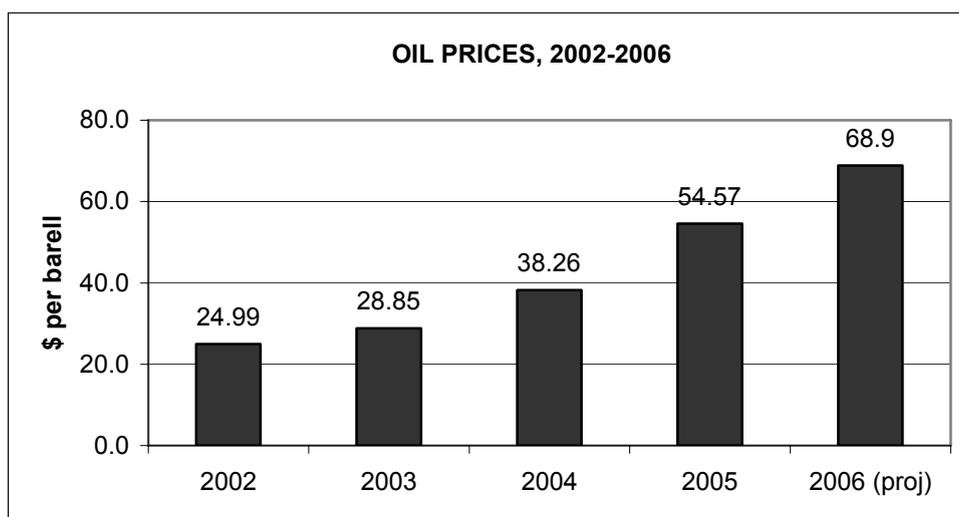
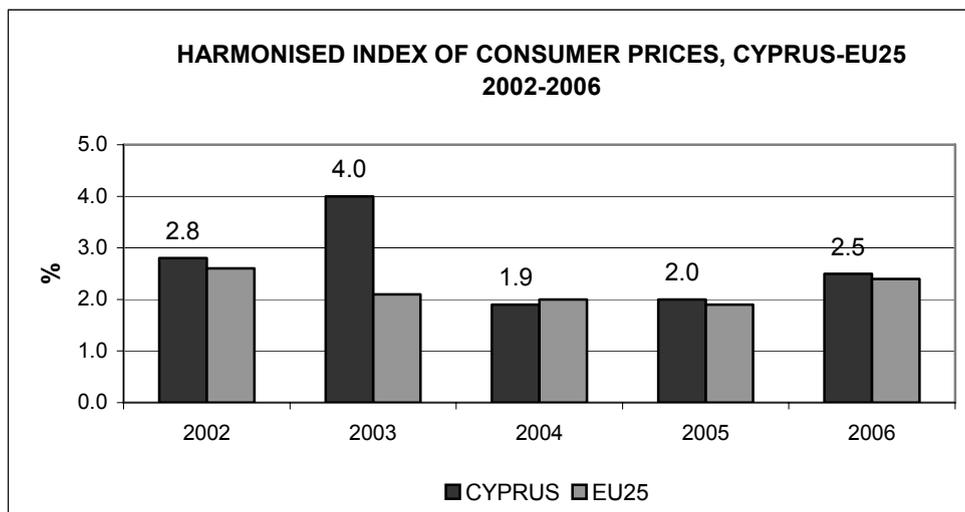
With regard to productivity, an improvement of 2,2% is expected for 2006 compared with 1,2% in 2005, stemming from a slight recovery of the Cyprus economy. The expected productivity gains are expected to improve the labour cost per production unit in nominal terms, which constitutes an important competitiveness indicator. In 2006, the nominal unit labour cost is projected to increase by 2,8% compared to 4,2% in 2005. Unit labour costs increase in Cyprus

remains higher than the EU average declaring a competitiveness deterioration of the Cyprus economy.



The Harmonized Index of Consumer Prices used by EU institutions, for assessment purposes relating to the fulfillment of the relevant Maastricht criterion, is expected to fluctuate at around 2,5% in 2006, as compared to a 2% in 2005. The said increase is attributed to the sharp rise of crude oil prices in international markets. It is estimated that the impact on the rate of inflation for 2006, attributed to the increase in oil prices, reaches 0,5 percentage points in 2006, as compared to 1,5 percentage points in 2005.

It should be noted, that core inflation, which excludes temporary factors such as the increase in crude oil prices, thus reflecting an objective picture as regards the formulation of the general price level, is expected to remain at below 2% for the whole year 2006, resulting in the continuation of price stability conditions.

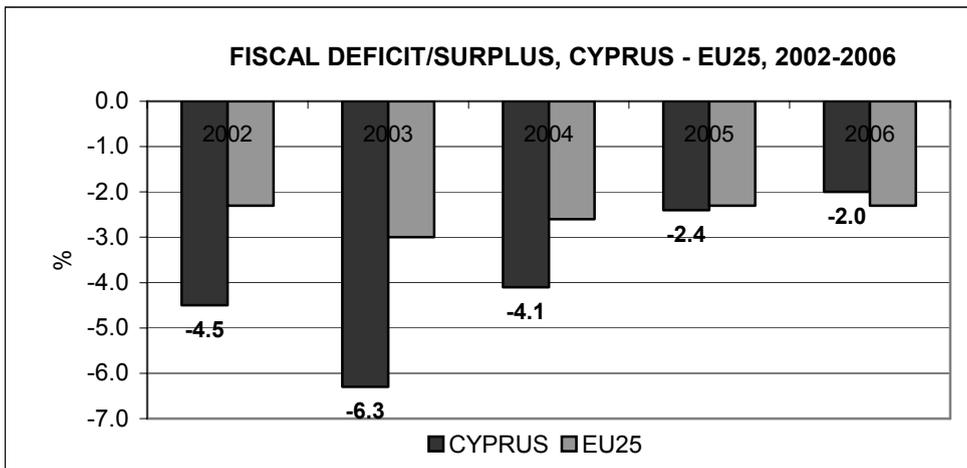


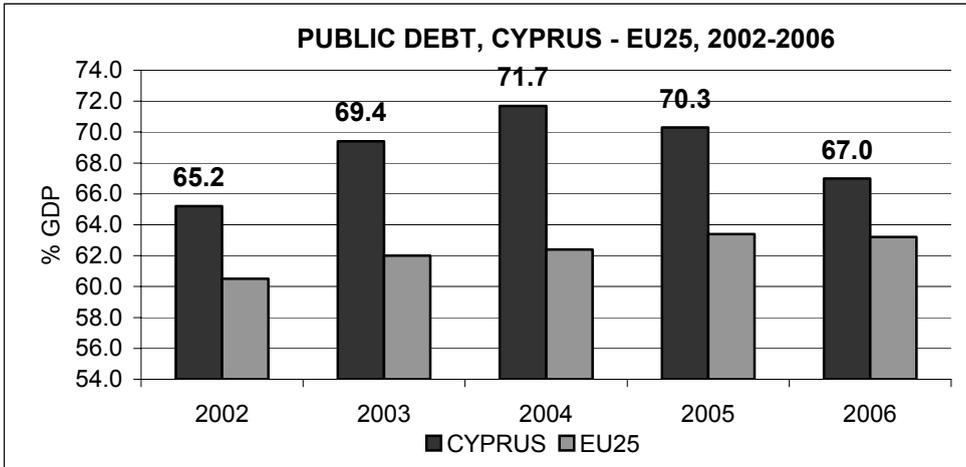
Fiscal deficit is expected to improve further in 2006 and to fluctuate at 2% of GDP. The reason for this improvement is the effective implementation of the measures of the public debt consolidation programme, satisfying the relevant criterion of the Maastricht Treaty.

The public consolidation of the debt and the creation of primary surpluses led to the reduction of public debt as percentage of GDP, which is also, expected to present improvement and to fluctuate at 67% until the end of year, marking reduction of the order of 3,3 percentage points of GDP compared to the previous year.

The above positive developments were a result of containment of the rate of increase of public expenditures in percentages smaller than the rate of increase of GDP in combination with the improvement of tax collection. According with the revised Stability and Growth Pact's provisions, the consolidation of public finances is necessary for the achievement of the required annual structural improvement of the fiscal deficit by 0,5% of GDP. It is, also, essential for the achievement of national medium-term budgetary objective and the placement of public debt as percentage of GDP in a continuous declining trend.

During 2006 the fiscal deficit is estimated to be financed completely through the domestic market, paying back at the same time, part of the foreign debt. During the first half of 2006 the yields of government securities continued exhibiting the declining trend that was observed during 2005, while a small increasing trend was observed during July of 2006. Favourable market conditions are expected to prevail during the coming months.





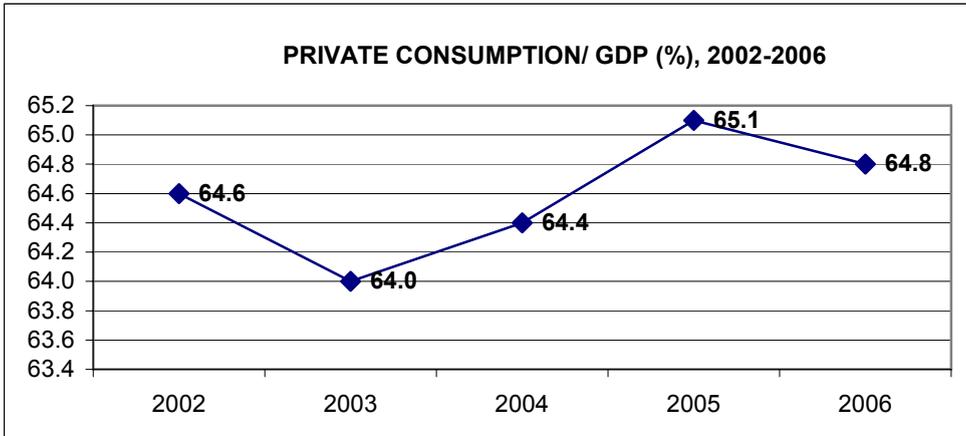
Current Account deficit is estimated to fluctuate at relatively high levels in 2006, at 5,9% of GDP compared to 5,2% in 2005. This development is mainly due to the high cost of oil imports.

2. Demand

A. Private Consumption

The private consumption demand is expected to expand at 3,7% in 2006, in real terms, as compared to 4,7% in 2005, reflecting the continuous expansion of the real household disposable income, which is a result of the expansion of employment and real earnings. Also the expansion of private consumption was influenced positively by a gradual reduction of the Central Bank interest rates since May 2004 as well as the enhancement of the confidence climate after our accession in the ERM II, in May 2, 2005.

The expansion of private consumption is also reflected in the satisfactory expansion of retail trade. Particularly, the volume index of retail trade turnover, increased by 6% during the period January-June 2006, as against an increase of 5,8% the corresponding period of 2005. The propensity for consumption remained constant at around 65% of GDP.



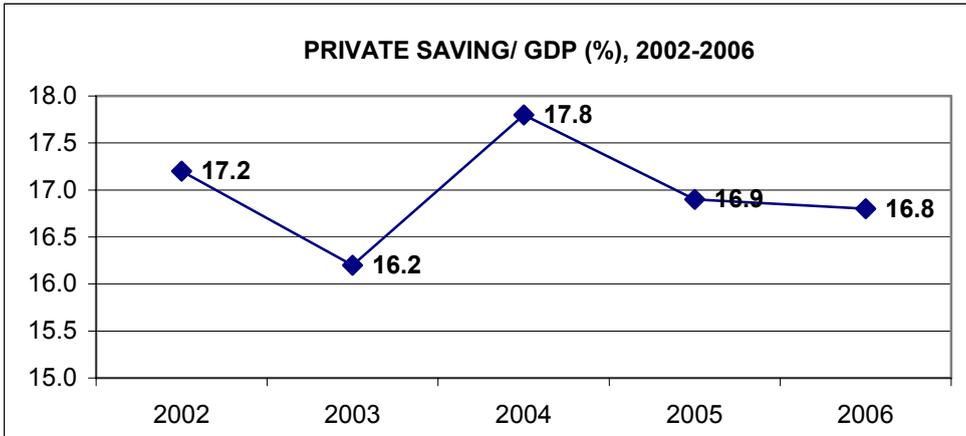
B. Public Consumption

In 2006, the rate of growth of public consumption, excluding defense expenditure, is estimated to fluctuate at around 4% in real terms, as compared to 3,3% in 2005, compared to much higher percentages in the previous years, reflecting the restricted fiscal policy followed by the Government, in order to reduce public deficit.

The short-term suspension effect on the aggregate demand, as a result of the exercise of a restricted fiscal policy in the frame of the implementation of the Convergence Programme, is expected to be offset by the prospective enhancement of the optimistic climate within the economic bodies due to the reduction of the fiscal deficit.

C. Saving

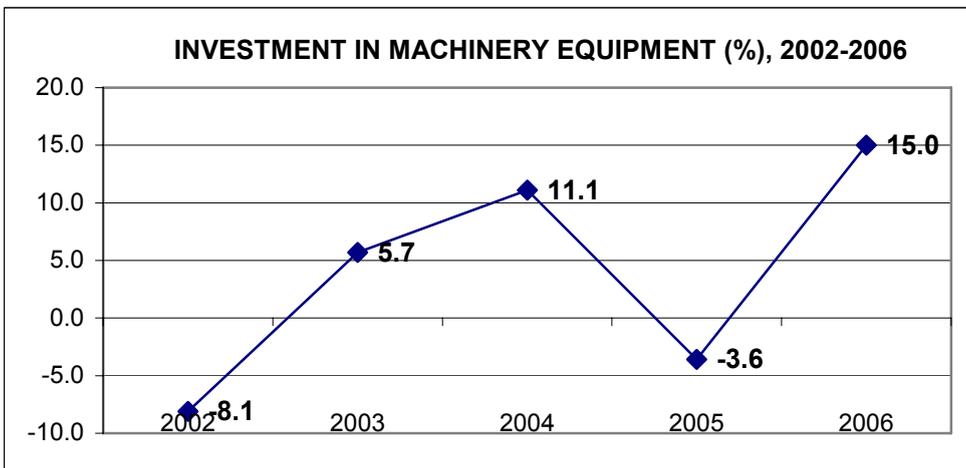
As a result of the developments of public and private consumption, the percentage of domestic savings towards GDP is expected to be at the same level as 2005, i.e. at 17%.



D. Investments

On the basis of developments in certain basic indicators, it seems that the expansion of the investment activity in construction works which has been recorded since 2001, also continued this year, but at lower rates. In particular, the volume of cement sales in the domestic market, increased by 0,6% in the period January-August 2006, following an increase of 5% in the corresponding period of 2005, while the building permits granted for residences, commercial buildings and tourist resorts have expanded by 5,9% in the period January-May 2006, following an increase of 12,9% for the same period of 2005.

The investment activity in machinery and equipment exhibited further expansion, as indicated by the increase of total imports of machinery by 12,7% during the period January-May 2006, as against 14,8% decrease in the respective period of 2005.



The investment activity in transport equipment is expected to increase by 8% in 2006, compared to a decrease of 8,3% in 2005, as indicated by the increase in imports of transport equipment, excluding the imports of private cars, by 0,7% in nominal terms the first five months of 2006.

By inference, the investment activity in construction works continued its course of satisfactory expansion during the first months of 2006. Investment demand was strengthened by the satisfactory expansion of the investment activity of the central government within the framework of continuous expansion and improvement of infrastructures.

For the whole of 2006, the total fixed investments are expected to record an increase of 8,5% in real terms, following an increase of 2,6% in 2005.

E. External Demand

(i) External Demand for Goods

External demand for domestically produced goods and re-exports, including goods procured in ports by carriers, recorded an increase of 0,3% in nominal terms during the first half of 2006, as compared to 22,4% increase during the same period in 2005. The relative containment of total exports reflects the significant reduction of re-exports, following the high increase noted in 2005.

The value of domestic exports (excluding goods procured in ports by carriers) exhibited satisfactory expansion 8,9% during the period January-June 2006, as compared to a decrease of 1,1% in the corresponding period of 2005, mainly reflecting the expansion of agricultural exports and the exports of industrial products of manufacturing origin.

Analytically, the value of agricultural exports recorded an increase of 16,2% during the first half of 2006, as against a decrease of 14,1% the corresponding period of 2005, mainly due to the expansion of the value of exports of potatoes.

The value of exports of industrial products increased at a lower rate, 4,7%, following an expansion of 8,5% in the respective period in 2005, as a result of the increase of the exports of industrial products of manufacturing origin. In contrast, the value of the industrial products of agricultural origin recorded significant decrease of the order of 21,4%, mainly due to the decrease of the exports of meat and wines, as against a high increase during the corresponding period of 2005. The value of exports of industrial products of mineral origin decreased by 43%, mainly affected by the termination of the exports of cathodes of refined copper, due to the termination of the operations of Skouriotissas mine, as well as the reduction of the exports of bentonite.

The value of exports of industrial products of manufacturing origin recorded a growth of 15,3%, in nominal terms, during the first six months of 2006, as against 1,4% increase in the respective period of 2005, mainly reflecting the increasing trend of exports of photovoltaics, as well as the exports of metallic and non-metallic

waste and scrap for recycling. A smaller increase was also recorded in the exports of cement and aluminium products. The exports of clothing and footwear exhibited stagnation, as a result of the chronic structural problems faced by the sector. The exports of pharmaceutical products exhibited a small reduction, whereas the exports of cigarettes decreased significantly. From a medium term perspective, despite the expansion of the domestic exports during the period 2004-2006, the domestic exports recorded average annual decrease 1%, in nominal terms, for the period 2001-2005, revealing a decrease in Cyprus' share in the international markets which reflects the deterioration of competitiveness of the Cypriot manufacturing products.

The value of re-exports recorded a significant decrease of 14,6%, during the first six months of 2006, as against 32,9% increase in the respective period of 2005. This development, to a certain extent, was expected following the sharp expansion observed in 2005.

(ii) External Demand for Services – Tourism Demand

Tourist flow exhibited a small decline during the first seven months of 2006. Specifically, tourist arrivals decreased by 1,3% during the period January-July 2006, as against 7,1% increase during the same period of 2005. The decrease in tourist arrivals, in total, is attributed to the significant reduction in tourist arrivals, from Germany, France and Greece as well as from a number of less important tourist markets for Cyprus. At the same time, the arrivals from United Kingdom, Russia, Sweden, Norway, Switzerland and Ireland recorded an increase, which was not adequate to compensate for the above reductions.

A positive development during the first seven months of 2006 constituted the increase in the revenues from tourism. According to the results of a survey conducted by the Statistical Service, the revenue from tourism increased by 5,8% during the period January-July 2006, as compared to an increase of 1,4% during the same period of 2005, a development which implies that the per capita expenditure of tourists increased substantially during the period January-July 2006.

(iii) External Demand for Others Services

The external demand for services, excluding tourism, is expected to increase by 7%, in real terms in 2006, following an increase of 3,8% in 2005, a development reflecting the dynamism exhibited by the sectors of private services, other than tourism, as well as the comparative advantages of Cyprus in these sectors.

3. Domestic Supply – Sectoral Developments

The recovery course of the economy that prevailed in 2005 continued throughout the year 2006, with main driving force the sectors of construction, trade, hotels and restaurants, financial services and real estate activities.

A. PRIMARY SECTORS

Agriculture

The agricultural production, in total, is estimated to have decreased slightly during the first months of 2006, due to the decrease in crop production as well as in livestock production. The decrease in crop production is attributed to the decline of the production of the main agricultural products of Cyprus and more specifically potatoes, cereals, citrus fruits and grapes. In general terms, crop production, and specifically the production of cereals was negatively affected by the low rainfall that was recorded during the cultivating period 2005-2006. In particular, the production of citrus fruits and grapes decreased due to the implementation of schemes for restructuring these cultivations, which need some time for their successful performance. The volume of production of potatoes decreased, due to smaller cultivations in order to avoid the non securing of high prices, as happened in the previous year. Positive development was the securing of satisfactory prices for exports of potatoes, due to the expanded external demand from European countries, of which the domestic production was negatively affected by adverse weather conditions. The volume of production of the sub-sector of livestock decreased, reflecting the fall of both external and domestic demand.

Mining – Quarrying

The sector of mining and quarrying exhibited deceleration as shown by the increase of its production volume index, 1,7% during the first half of 2006, as against a 4,8% increase during the corresponding period of 2005, reflecting the deceleration of the construction activity.

B. SECONDARY SECTORS

Manufacturing

The manufacturing sector recorded a decrease of its production volume by 2% during the first half of 2006, following a decline of 2,4% in the corresponding period of 2005. The fall in the production volume, despite the expansion of the external demand, is attributed to the decrease in domestic demand due to the increasing importing penetration, that is, a large part of the domestic demand is satisfied by imported goods.

In particular, the production of the sub-sectors of clothing and leather products exhibited significant decline, reflecting the continuous structural problems encountered by the specific sectors. The production volume of the sub-sector of food, beverage and tobacco also decreased, negatively affected by the fall of external demand for tobacco and industrial products of agricultural origin. A smaller decline was observed in the sub-sectors of non-metallic products. On the contrary, a significant increase was observed in the sub-sector of the production of electric equipment and optical appliances, reflecting the significant expansion of external demand for the specific products.

From a medium term perspective, the manufacturing sector exhibits low rate of growth 0,3% reflecting, on the one hand, the structural problems faced by the sector, which negatively affects the potentials of the sector to successfully meet the conditions of intense competition of the recent years, and, on the other hand, the redistribution of production resources of the economy towards the tertiary sectors, in which Cyprus has comparative advantages.

Construction

The construction sector continued to exhibit satisfactory growth during the first quarter of 2006. In particular, for the first quarter of 2006, the volume index of production increased by 3,7% as compared to 1,9% increase in the first quarter of 2005. The positive rate of growth continued during the more recent months, based on various indicators analysed with regards to investment in construction activity. This development reflects the expanded investment activity in the construction works of both the private sector and the public sector. The course of satisfactory growth of the sector is expected to continue, albeit at a lower rate, in view of the continuous interest of the private sector for houses, as indicated by the further increase of building permits, in square meters, 5,9% during the period January-May 2006, following a 13,3% increase for the whole 2005. The increased interest of the private sector reflects the positive prospects of the Cyprus economy. Other positive factors are the reduction of the basic interest rates by the Central Bank which led to reduction of the cost for lending, in conjunction with the extended liquidity in the economy. A positive factor is also the external demand, mainly by pensioners from the EU member states.

Electricity, Water, Gas

This sector is estimated to continue to expand in 2006 as shown by the volume index of production which increased by 3,9% in the first half of 2006, following an increase of 6,9% in the corresponding period of 2005, benefited by the ongoing recovery of the Cyprus economy.

C. TERTIARY SECTORS

The increasing contribution of the tertiary sector of services to GDP and employment continued in 2006. The tertiary sector of services are expected to exhibit satisfactory growth of around 4,5%, constituting, for yet another year, the main engine of economic growth.

Hotels and Restaurants

The sector of restaurants and hotels increased its level of economic activity during the first half of 2006, as indicated by the value of turnover, which grew by 6,3% in the first half of 2006, following an increase of 2,4% in the corresponding period of 2005.

The positive course of the sub-sector of hotels during the first eight months of 2006 is also confirmed by the Business Trends Survey. Based on the recent

results for July and August 2006, the percentage of the hotel owners that characterised the present condition of their business as satisfactory for the season, was exceeding the percentage of those that characterised it as unsatisfactory by 41 and 80 percentage points respectively, as compared to 46 and 34 points for July and August 2005. Moreover, based on the same Survey, the percentage of the hotel owners who expect improvement in the economic situation of their hotels exceeds the negative expectations by 94 and 0 percentage points for July and August 2006, as compared to 27 and 72 points respectively for 2005.

Trade – Whole sale and Retail trade

The sector of wholesale and retail trade exhibited increase in its level of economic activity during the first months of 2006, as a result of the expansion of private consumption demand for goods as well as the increase of tourist demand. In particular, the course of the sub-sector of the retail trade was satisfactory, as shown by the volume index of turnover, which increased by 6% during the first six months of 2006, following a 5,8% increase in the corresponding months of 2005. The volume of retail sales was significantly increased in the purchases of pharmaceuticals products and cosmetics, in the purchases of food, beverage and tobacco, in the sales of clothing and footwear, as well as in the purchases of furniture and other household goods. A smaller increase was observed in the purchases of books and stationery products. On contrast, a reduction was recorded in the sales of secondhand goods. The sub-sector of the wholesale trade, also, exhibited an expansion and the value index of turnover increased by 5,7% during the first quarter of 2006, following a 5,2% increase in the corresponding quarter of 2005.

Services

The broader sector of services expanded during the first months of 2006. Indicatively, the value index of turnover of the sector of computer and related activities and other business services, for which there is available data, exhibited an increase of 8,7% during the first six months of 2006, following a 6% increase during the corresponding period of 2005. Expansion of the value index of turnover was also recorded by the sub-sector of communication, 5,5% during the first quarter of 2006, as against a marginal decrease of 0,6% during the same period in 2005. In this respect, the liberalization of the sector of telecommunications and the gradual penetration of new suppliers of telecommunication services seems to have provided an additional momentum to the specific sector.

As far as entrepreneurs' prospects for the next months are concerned, a positive climate still exists. Indicatively in July and August of 2006, the percentage of businesses in the wider sector of services that expected an increase in their activities for the next few months, exceeded the percentage of those who expected a decline by 22 and 9 percentage points, as compared to 17 and 14 percentage points respectively in July and August of 2005.

4. Labour Market

A labour force shortage prevails in the Cyprus labour market, which is mainly offset by the employment of foreign labour. The rate of unemployment in Cyprus is maintained at relatively low levels, while unemployment among female and the youth is higher than the average unemployment rate.

According to the Labour Force Survey (LFS), in the first quarter of 2006 the unemployment rate was 5,9% of the gainfully employed population. The relatively higher rate of unemployment is attributed to seasonal factors negatively affecting the hotels and restaurants sector during the winter period. For the whole of 2006, the unemployment rate is expected to fluctuate around 5,5% of the gainfully employed population, which is favourably compared with the EU (25) average.

The relatively higher female unemployment reflects, both, their will for working under flexible forms of employment to combine family life with their career and the absence of such flexible arrangements in the Cyprus labour market. Concerning higher youth unemployment this is possibly based on their searching effort to find a better occupation that matches their skills (both academic and professional).

In April 2006, employment of Europeans and workers from third countries, based on Social Insurance Department data increased by 6,7% and reached 59.154 persons in comparison with 55.417 in 2005.

Productivity is projected to improve by 2,2% in 2006 compared to 1,2% in 2005. The level of productivity in Cyprus lagging the EU (25) average productivity.

Wage increases in 2006 are estimated to fluctuate around 5% in nominal terms and 2,4% in real terms, in excess of productivity gains. Partial earnings moderation in the sectors of agriculture, construction and tourist is due to the extensive employment of foreigners.

The relationship between productivity gains and wage increases forms a significant competitiveness indicator, which is the unit labour cost. The former indicator is expected to increase in 2006 by 2,8% compared with 1,2% in the EU (25) average.

5. Inflation Rate

The rate of increase of the Consumer Price Index during the period January-August 2006 accelerated as compared to the respective eight months of the previous year, a development attributed, mainly, to the sharp increase in energy cost. Another factor that contributes to the increase of inflation rate is the excess liquidity in the economy, mainly due to the increased capital inflows. It should be noted though that within the framework of its anti-inflationary policy, the CBC continues its efforts to absorb the excess liquidity. Moreover, salary increases beyond the limits of productivity growth, contribute to the rise of production costs.

Despite the above, there are also factors, which contribute to the containment of the increase of inflation rate. The appreciation of the Cyprus pound vis-à-vis the dollar, pound sterling and yen, leads to the containment of the prices of imported goods and, in combination with the low levels of inflation in the EU, contributes subsequently to the restraint of inflationary pressures. Moreover, the increase of the employment of foreigners, contributes to the relative restraining of labour costs in the sectors of tourism and construction. In addition, the implemented policy of fiscal consolidation, combined with the positive expectations created by the forthcoming entry of our country in the eurozone, result to the further restraint of inflationary pressures.

As a total, the Consumer Price Index increased at a rate of 2,9% during the first eight months of 2006 compared to 2,5% in the respective period of 2005.

The prices of domestically produced goods increased at a rate of 4,8% during the period January-August 2006, compared to 1,4% increase in the respective period of 2005, mainly because of the increase of production costs due to the sharp rise in oil prices in international markets.

The prices of petroleum products increased at a rate of 13,5% during the period January-August 2006 compared to a rate of 14,3% in the respective period of 2005. The high rate of increase of petroleum prices reflects the increase in the price of crude oil in international markets.

The prices of imported goods exerted a downward impact on the total price level. More specifically, the prices of imported goods decreased at a level of 0,9% during the period January-August 2006 as against a higher decrease of 2,7%, in the respective period of the previous year, reflecting the observed fall in the prices of imported industrial products. This development is attributed partially to the increase of the value of the Cyprus pound vis-à-vis the dollar, pound sterling and yen.

Increase in the prices of services during the period January-August 2006 fluctuated at around 2,4% as against 3,6% in the respective period of 2005. As in 2005, a fall was observed in 2006 in the prices of the telecommunications services, reflecting the intensified conditions of competition created in the market. In contrast, particularly high increases were observed in the sectors of transport and education, housing rents and the services provided by state organizations.

Overall, the inflation rate for the whole year 2006 is expected to fluctuate at around 2,8%, whereas the core inflation is expected to formulate at levels below 2%. The rate of increase of the Harmonized Index of Consumer Prices is expected to fluctuate at around 2,5% for the same period of time.

6. Monetary Developments

In July 2006 M2 grew at an annual rate of 12,8%, compared with 4,1% in the same month of the previous year. The acceleration in the growth of M2 was mainly due to the expansion of credit to the private sector and, to a lesser extent, credit to

the public sector. The low growth rate of M2 observed in 2005 was partly a result of the tax amnesty.

The Central Bank of Cyprus maintained interest rates unchanged for most of 2006. After taking into account higher inflationary pressures during the second half of the year, the continuous rise in credit to the private sector and the consequent acceleration in the growth of the money supply, the Monetary Policy Committee (MPC) decided on 1 September 2006 to increase the official interest rates. More specifically, the interest rates on the marginal lending facility (lombard) and the overnight deposit facility were raised by 0,25 percentage points to 4,5% and 2,5%, respectively. At the same time, within the framework of gradual harmonisation with euro area practices, the MPC decided to raise the interest rate of the main refinancing operations (repo rate) to 4,50%. The repo rate replaced the lombard rate which until then, was used as the basis for the pricing of credit institution loans in Cyprus pounds.

Within the framework of harmonising the reserve ratio with that applied in the euro area, the Central Bank of Cyprus lowered the minimum reserve requirement to 5%, from 5,75%, in November 2005. A further reduction in the reserve requirement has been suspended due to surplus liquidity conditions prevailing in the money market.

In July 2006 credit to the private sector grew at an annual rate of 12,8% compared with 4,7% in July 2005. The acceleration recorded in credit expansion emanated from the increase in foreign currency loans, especially euro and Swiss francs loans. More specifically, according to data referring to the end of July 2006, loans in euro and Swiss francs amounted to 59,8% and 31,4% of total loans in foreign currency, respectively, compared with 65,6% and 20,6% at the end of July 2005.

Personal/professional loans increased by 21,4%, year on year to July 2006, followed by credit to the construction sector which rose by 18,3%. The respective changes during July 2005 were 20,3% and 17,9%. The breakdown of bank credit by sector of economic activity shows that at the end of July 2006, personal/professional loans absorbed the largest proportion of total credit with a share of 49,6%, followed by loans to the construction sector with 18,2% and loans to the trade sector with 13,8%. Their respective shares at the end of July 2005 were 45,9%, 17,4% and 16,4%.

7. Public Finances

During the first seven months of 2006, public finances show a marginal deterioration in relation with the respective period of the previous year.

The fiscal balance of the central government excluding local authorities, depicted a deficit of 1% of GDP, for the period covering the months January-July 2006, compared with a deficit of 0,9% of GDP for the corresponding period of 2005. The fiscal deficit, in absolute numbers, for the same period showed an increase from £71,1 million in 2005 to £84,6 million in 2006. The latter

development is reflected in the primary balance, the surplus of which decreased marginally to £166,7 million compared to £182,9 million for the respective period of 2005.

For comparability purposes, the temporary measures introduced for reducing the budget deficit in 2005, must be excluded from the budget deficit of 2005. The measures in question, concern dividend payments of the order of £35 million from the Cyprus Telecommunications Authority (CYTA) as well as revenues of £98 million from the tax amnesty². With this adjustment, the fiscal deficit of the first seven months of 2006 appears improved by 1,6 percentage points of GDP, namely the deficit as a percentage of GDP was contracted to 1% compared to 2,6% of the previous year. The public debt during the first seven months of 2006 as a percentage of GDP fell to 67,9% compared to 72,3% of the respective period in 2005.

Analytically, public revenues have increased significantly by 5,8% reaching £1.653,0 million compared to £1.562,6 million in 2005. In case the temporary revenues of 2005 mentioned above were excluded, then the public revenues would exhibit a higher increase of 15,6%.

Tax revenues being the primary income source reaching £1.398,8 million during the first seven months of the year compared to £1.308,8 million for the respective period of 2005, exhibiting an increase of 6,9%. For comparability purposes, the revenue earned from the tax amnesty must be excluded. In such a case the increase in tax revenues reaches 15,5%.

Direct taxes reached, £425,5 million during the first seven months of 2006 compared to £430,5 million for the respective period in 2005, thus demonstrating a decrease of 1,3%. If the temporary revenues earned from the tax amnesty in 2005 were excluded, then direct taxes would exhibit an increase of 27,8%. Specifically, the revenues from the Inland Revenue Department during the first seven months of 2006, reached £397,2 million compared to £304,0 million during the respective period in 2005, presenting an increase of 30,6%. The fees of the Department of Land and Surveys, which are classified under direct taxes, show an increase of 71,1% in the reported period, reaching £16,6 million as opposed to £9,7 million of the previous period. Considerable increases are reflected in almost all of the subcategories of direct taxation.

It should be noted that revenues from the dividends of legal persons depicted an increased of 187,8% during the first seven months of 2006, reaching £28,2 million compared to £9,8 million of the corresponding period in 2005. This development is due to the taxation of undistributed profits which was enacted into law in 2002, with an effect on revenues in 2006.

²It is noted that, in accordance with the methodology of ESA 95 in the final accounts of the general government the recorded revenues from the tax amnesty in 2005 and 2004 were £70,0 mil. and £50,0 mil. respectively.

Indirect taxes are the most important source of tax revenue and have increased by 9,1% reaching £745,3 million during the months January-July of the year 2006 compared to £683,3 million for the respective period of 2005. The rate of increase in revenues from indirect taxation during 2006 was maintained at relatively high levels despite the 44,8% decrease in revenues from import duties.

Furthermore, non-tax revenue show a marginal increase of 0,5% during the first seven months of 2006 reaching £204 million from £202,9 million in 2005. This development is attributed to the fact that during the first seven months of 2005 dividend amounting to £35 million was paid by Cyprus Telecommunication Authority (CYTA), which was not the case in 2006. If the above income is not taken into account then the non-tax revenue would show an increase of 21,5%.

Public expenditure depicts an increase of 6,4% during the first seven months of 2006 compared to the respective period of 2005. This positive development is attributed to the fact that during the first seven months of 2006 the payments for goods and services as well as other current transfers showed a significant increase of 25,9% and 10,4% respectively. In addition, the concession of contractual salary increases by 2% in 2006, amplified the growth rate of public expenditure.

In absolute numbers public expenditure reached £1.737,6 million during the first seven months of 2006 compared to £1.633,7 million for the respective period of 2005.

Current transfers, which include expenditure such as pensions and gratuities, social pension, and other current transfers which include child allowances, student grant, social transfers, transfers to semi-government organizations and local authorities, as well as, contributions to the EU Budget, exhibit an increase of 7,4% reaching £469 million during the first seven months of 2006, compared to £436,6 million for the relevant period in 2005.

Capital expenditure during the first seven months of 2006 increased by 11,8% and in absolute numbers reached £105,9 million compared to £94,7 million in 2005. The implementation rate of budgeted development expenditure of 2006 Budget for the seven-month period, was approximately 32%, which was close to the previous year's corresponding rate.

The fiscal deficit for the whole year 2006, is estimated that it will not exceed 2% of the GDP, compared to 2,4% of the GDP for 2005. The expected decrease of the fiscal deficit in 2006 is expected to be realized mainly via the improvement of the tax effectiveness of the revenue collecting departments without the introduction of new taxes, in conjunction with the containment of the growth rate of public expenditure below the nominal rate of increase of the GDP. It is noted that, the goal of complete fiscal consolidation in the medium term³, emanates from our obligation as a member of ERM II, and the provisions of the Revised Stability and Growth Pact, which requires the gradual attainment of the National Medium Term

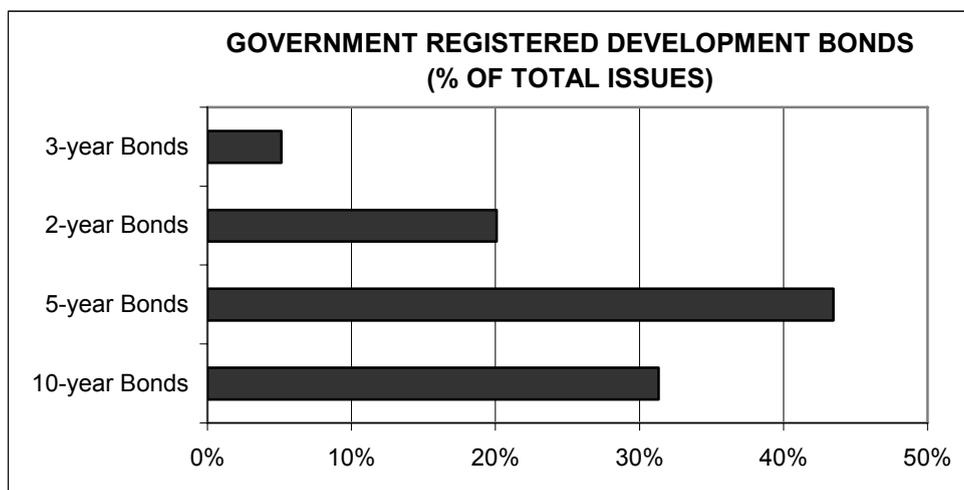
³ The obligation arises from the participation of the country in the ERM, emanating from the provisions of the Revised Stability and Growth Pact.

Budgetary Objective and the placement of public debt as a percentage to GDP in a downward path. According to the parameters set forth in the Revised Stability and Growth Pact, our National Medium Term Budgetary Objective has been calculated as a deficit of 0,5% of GDP and should be achieved by 2009. Regarding the public debt as a percentage to GDP, it has been forecasted that it will decrease to 53,5% of GDP by the end of 2009.

The financing of the deficit during 2006 is estimated to be achieved through the domestic market where during the first half of 2006 there was a continuation of favourable circumstances and yields were reduced for all government securities (Bonds and Treasury Bills) which was followed by a small increasing trend (especially in long term bonds). The demand for government bonds continued to be satisfactory with total demand oversubscribing total supply by 149%.

Government foreign debt was reduced during 2006 due to the favourable conditions prevailing in the domestic market and let to using the domestic market to finance the government borrowing needs. Combined with the maturity of a 280 million euro EMTN bond in 2006 this let to a net reduction of foreign debt.

Investors continued to show their preference to long-term bonds and important part of the financing needs was covered by the issue of 5-year and 10-year government bonds. 10-year bonds accounted for 31% of the total bond issued for the first seven months of 2006 and the 5-year bonds represented 43% of the total bonds issued. This trend is expected to continue throughout 2006.



8. Balance of Payments

The current account deficit is expected to reach 6% of GDP in 2006, compared with 5,3% of GDP in 2005. This deterioration is mainly the result of the increase in the price of crude oil internationally.

Total imports of goods (fob) are expected to rise by 12,4% in 2006 compared with an increase of 9,9% in 2005. This acceleration is mainly due to the increase in the value of oil imports, as a result of the increase in oil prices, as well as to the significant increase in the imports of consumer goods.

A significant deceleration is expected in total exports of goods in 2006, registering an increase of 2,5% compared with 31,2% in 2005. This deceleration is due to the base effect following the significant increase recorded in re-exports in 2005.

In 2006 exports of services, other than tourism, are expected to register an increase of 5,8%, compared with 2,9% recorded in the previous year. More specifically, in 2006 exports in the sectors of transportation, financial and other business services (which include, among other things, legal and accountancy fees) are expected to increase. Receipts from tourism are expected to increase by 4% in 2006 compared with 2,4% in 2005. As far as total imports of services are concerned they are expected to accelerate, increasing by 8,2% compared with an increase of 1,5% in 2005.

9. Stock Market

A main characteristic of the Cyprus Stock Market in 2006 was the impressive upward trend observed during the first four months, with the General Index recording significant profits and reaching 3.017 points by 10/05/2006 as compared to 1.007 points at the beginning of the year. The Cyprus Stock Market, after 10/05/2006, exhibited a downward trend which again was reversed with the General Index reaching 2.764 by 30/06/2006.

As from the beginning of 2006, until 10/05/2006 the value of transactions experienced an impressive increase with the daily average volume of transactions reaching £3.94mln compared to £852 thousands in 2005.

The course of the Stock Market was mainly affected by the following factors:

- The Bank of Cyprus has attracted the interest of International Investment Companies due to its satisfactory results.
- A positive climate in the banking sector.
- Take over and mergers scenarios.
- The prospects of entering the Euro zone.
- The expected operation of the Common Platform of the Cyprus and the Greek Stock Exchanges.
- The positive climate prevailing in the international stock exchanges markets.

During the period from 10/05/06 until 30/06/06, the Stock Market exhibited a downward trend with the General Index falling to 2.309; however, the Stock Market subsequently recovered thus gaining part of the lost ground reaching 2.764 points by the end of June. A main characteristic of this period has been the intensive fluctuations of the Index.

The value of transactions, during the above period, showed an increase, with the average volume of transactions reaching £5,45mIn as compared to £3.94mIn during the preceding period.

The downward trend of the Stock Market was mainly affected by:

- The increase of interest rates, fears for inflation and slowdown of economic growth due to increase in oil prices which converted the positive climate into negative.
- The failure of the attempt of the Bank of Cyprus to take over the Emboriki Bank of Greece.

The following factors led to the subsequent partial recovery of the Stock Market:

- The positive climate in international stock markets due to the downward reversed expectations concerning the increase of interest rates, inflation and the rate of economic growth.
- The very strong corporate profits, especially in the banking sector.

10. Exchange Rate

In the first eight months of 2006, the value of the euro against the Cyprus pound recorded a marginal downward trend of 0,3% compared with the corresponding period in 2005.

Sterling also registered a downward trend, decreasing on average by 0,6% during the period January-August 2006 compared with the corresponding period of 2005.

In the first eight months of 2006, the dollar depreciated relative to the Cyprus pound compared with the second half of 2005. This was mainly the result of the increase recorded in the current account deficit in the USA, as well as the fact that the recent rises in the basic interest rates by the Federal Bank did not lead to the expected inflow of foreign investment in the United States.

The value of the Japanese yen relative to the Cyprus pound followed a downward trend in the first eight months of 2006, falling by 5,4% relative to the average value recorded in 2005.

The real effective exchange rate registered a small strengthening in the first six months of 2006, as compared with 2005. This was due to the further strengthening of the Cyprus pound against the euro, sterling, the dollar and the yen as well as the slightly higher rate of inflation in Cyprus compared with our main economic partners.

V. The Budget for 2007

The preparation of the Budget for 2007 was based on the Pre-election Programme of the President, the revised Convergence Programme 2005-2009, the National Changeover Plan of the Cyprus Pound to the Euro, the Lisbon National Reform Programme and the National Strategic Development Plan for 2007-2013.

The fiscal targets set for 2005 as far as the deficit and public debt as percentage to GDP were achieved. The fiscal deficit as percentage to GDP in 2005 was contained to 2,4% (target 2,5%) as compared to 4,1% in 2004 while debt-to-GDP, for the first time in ten years, declined by about 1.4 percentage points to 70,3% (target 70,5%) as compared to 71,7% in the previous year.

Consequently on June 21st 2006, the European Commission issued a recommendation to the European Council for Economic and Financial Affairs (ECOFIN) for the abrogation of the excessive deficit procedure for Cyprus, which was initiated in July 2004. The European Council accepted this recommendation, but pointed out that particular importance should be given in safeguarding the long-term sustainability of public finances, through the implementation of structural reforms in the sector of social insurance and health care.

The process of fiscal consolidation creates the appropriate conditions for sustainable economic growth. The Government's policy for redirecting public expenditure towards high value added activities, including the development of research and innovation, education and knowledge and social cohesion constitute reinforcing elements. These objectives are also highlighted in the National Reform Programme, which Cyprus is committed to implement, as the benefits to be gained by all stakeholders are considerable.

The Council of Ministers on the 3rd of May 2006 (Decision No. 63.722) approved the guidelines for the preparation of the Budget for 2007. More specifically, it set ceilings on the rates of growth of ordinary and development expenditure vis-à-vis the corresponding budgeted expenditure for 2006. The ceiling set for ordinary expenditure was 2% (with the exemption on salaries and wages, debt servicing costs and pensions), while for development expenditure the ceiling was set at 3%. In addition, to facilitate re-directing public expenditures to priority areas, overtime pay and grants to semi governmental organizations for 2007 are limited to budgeted levels of 2006.

The restrictive character of the Government's Budget for 2007 continues to serve the strategic goals of Cyprus' accession to the eurozone on January 1st, 2008, the containment of fiscal deficit to well below the reference value safeguarding the achievement of the national medium term budgetary objective by 2009, as well as the distinct downward trend of public debt-to-GDP ratio. The above were achieved amid the continuation of an ambitious development and social policy of the Government. Specifically, development expenditure is expected to rise to £431.6 million in 2007, as compared to £398.3 million in 2006, increasing by approximately 8.4%. The social grants are expected to increase and reach £461.7 million in 2007 compared to £403.4 million in 2006 rising by 14.5% compared to 2006, thus contributing to improving social cohesion.

In general, the Budget for 2007 as submitted to the House of Representatives includes the following:

The budgeted total net expenditure (excluding loan repayments) in 2007 are budgeted at £3.589,2 million compared to £3.408,6 million in 2006, thus exhibiting an increase of 5.3%.

The budgeted net revenue (excluding loan proceeds) is forecasted to show an increase of 10.8% reaching in absolute terms £2.577,5 million compared with £2.325,4 million in 2006. The forecast direct tax revenues for 2007 are budgeted at £787,3 million compared to £680,7 million in 2006, showing an increase of 15.7%, while indirect tax revenue forecast for 2007 is budgeted at £1.458,9 million compared with £1.338,4 million in 2006 showing an increase of 9%. The above forecast increase in both direct and indirect taxes is attributed to the estimated acceleration of the Cypriot economy and the improved tax collection efficiency of the corresponding revenue departments. Non-tax revenue is budgeted to show an increase of 8.2% and in absolute terms by about £25 million as a result of the increased revenue receipts from sale of goods and services, income from rents and royalties as well as other fees and charges.

In preparing the budget for 2007 for development expenditure, special attention was given to the labour market and social cohesion, education, research and innovation, health, energy and the environment as well as infrastructure. More specifically £5.1 million was budgeted for life-long learning and £4.7 million for attracting the inactive work force into the labour market, the encouragement of female and young entrepreneurship, the safeguarding of satisfactory living standards of vulnerable groups and their participation in the labour market.

For education, £28 million were budgeted for the operation of the University of Cyprus while plans are under way for the commencement of operations by the end of 2007 of the University of Technology (£20 million). Furthermore, budgeted appropriations have been included for the construction and extension of school buildings (£3 million), the computerization of primary schools (£6.9 million), the promotion of all day primary school (£3.3 million) and increased expenditure for the computerization of secondary schools (1.4 million).

It is noteworthy that, the Budget for 2007 not only redirects expenditure towards investment but it also focuses on social welfare via an increase of social transfers reaching 15% compared to the previous year. Specifically, educational grants were budgeted with an increase of 15.8%, while housing grants exhibit an increase of the order of 7%, cultural transfers, health transfers and social welfare transfers were budgeted with an increase of 6.2%, 6% and 5.8%, respectively. The budgeted health expenditure includes increased provisions for the operation of the new General Hospitals of Nicosia and Famagusta (£4.4 million), for the purchase of pharmaceuticals (£7.3 million) and other medical supplies (£5 million).

For the environment, a total of £17.5 million has been budgeted providing for the continuation of works for the creation of sanitary landfills, a total of £2.7 million was budgeted for various programmes regarding the restoration of the environment and a total of £1 million was budgeted for the creation of green areas for uncommon waste. The creation of an energy center and a terminal for the import of liquid petroleum gas was also budgeted.

Budgeted development expenditure of the 2007 budget is also appropriated for the completion of large infrastructural projects. More specifically, provisions were appropriated for the completion of the flyovers on the Limassol highway (£15.5 million) and the construction of the new Air Traffic Control Center. Moreover, provisions were also incorporated for the construction of new government buildings for the Police, Fire Service, and Prison Service, government housing schemes as well as water supply works and irrigation.

The consolidated accounts of budgetary expenditure and revenue of the Government show that the preliminary gross financing needs for 2007 will amount to £935 million or 10,6% of the GDP compared to £972 million or 11,8% of GDP in 2006.

The fiscal deficit is forecast to improve and fall to around 1,6% of GDP in 2007 compared to 2,0% estimated for 2006. At the same time, primary balance for 2007 is forecast to show a surplus amounting to £230 million compared to £216 million in 2006, while as a percentage of GDP it is estimated to be maintained at the same level as in 2006, i.e. around 2,6% of GDP. Public debt is budgeted to increase by £105,4 million reaching £5.642.2 million by the end of 2007 compared with an estimated £5.536,8 million at the end of 2006; as a percentage to GDP though the debt-to-GDP ratio is projected to show a decrease falling to 64% from 67% estimated for 2006.

VI. PROSPECTS FOR 2007

The analysis for the prospects of the Cyprus economy for 2007 takes into consideration the developments in its external environment, the economic policy, the climate between the consumers and enterprises, the domestic market and the competitiveness of Cypriot goods and services both in the domestic and in the EU single market.

Based on the predictions of international organizations, the external environment for Cyprus in 2007 will be favourable. Gradual improvement of the international economic environment is anticipated by most international organizations which is of particular importance for Cyprus because of its small size and the open character of the economy. However the risks for the short-term prospects of the European and world economies should be noted, through the possibility of further increases of oil prices and the medium term expectation that oil prices will remain at high levels.

Simultaneously, other factors are expected to have a positive influence on the economy of Cyprus such as the increase of growth rate fluctuating at a slower rate against the optimal rate of growth, the increase of the labour supply due to the employment of foreigners and T/C, combined with the relative restraining of labour costs the last few years and the confidence gained by the accession of the Cyprus pound in the Exchange Rate Mechanism II.

Considering all the above factors, a marginal increase of the growth rate of the economy is anticipated, around 3,8%, with the element of external demand of

tourism and other services to be of vital importance. The growth, of the various sectors of economic activity is anticipated to derive from the tertiary sectors of the private services.

In view of the expected acceleration of economic activity, growth of the labour market is likely to lead to a small reduction of the registered unemployed by 3,6% of the economically active population. An important element is the predicted acceleration of the improvement rate of productivity to 2,3% resulting to restraining of labour per unit costs of production to about 2,2% which is considered a significant index of competition.

The inflation rate is expected to fluctuate at around 2,3% as a consequence primarily of the containment of imported inflation, the linking of the Cyprus pound to the euro in connection with the expected preservation of the exchange rate of euro at relatively high level, the expected restriction of salary increases within the limits of the productivity growth and the restraining fiscal policy.

The fiscal deficit is expected to be reduced and vary to 1,6% of the GDP, thus achieving the criterion of the Maastricht Treaty, as a result of the strict enforcement of the revised programme for fiscal consolidation included in the Convergence Programme. The main policy measures, included in the Convergence Programme, focus on the containment of public consumption expenditures as well as the improvement of the efficiency of the tax system of Cyprus.

Finally, improvement is expected in the balance of payments mainly because of the expected increase in tourist demand and the restraining fiscal policy which will aim at the confinement of the local consumer demand and consequently imports.

As mentioned above, the external environment is positive for the Cyprus economy but it also depicts to a certain degree an amount of uncertainty. Dangers for the growth of the Cyprus economy include a further increase of crude oil prices within international markets, vast fluctuations of exchange rates eg the dollar to euro, and also the possibility of aggravation the geopolitical instability in the Middle East. In case of rapid changes in the external environment, the growth predictions for the Cyprus economy will have to be adjusted accordingly.

APPENDIX I
ECONOMIC INDICATORS OF THE CYPRUS ECONOMY, 2002-2006

	2002	2003	2004	proj. 2005	proj. 2006	Annual Percentage Change (%)			Average
						2004	2005	2006	2000-2005
1. GDP Nominal in C£ mil.	6,416.5	6,865.9	7,389.8	7,861.6	8,371.9	7.6	6.4	6.5	6.3
2. GDP at constant 1995 C£ mil.	5,405.6	5,506.8	5,730.7	5,953.3	6,170.6	4.1	3.9	3.7	3.2
3. Per Capita GDP at current prices (C£)	9,042.4	9,528.1	10,022.8	10,546.6	11,109.1	5.2	5.2	5.3	5.2
4. Per Capita GDP at current prices (\$)	14,826.0	18,411.1	21,347.6	22,886.2	23,773.4	15.9	7.2	3.9	11.7
5. Per Capita GDP at current prices (Euro)	15,671.5	16,263.4	17,177.1	18,230.9	19,323.1	5.6	6.1	6.0	5.1
6. Private Final Consumption Expenditure (constant 1995 prices)	3,513.3	3,589.0	3,811.5	3,993.0	4,139.1	6.2	4.8	3.7	3.7
7. Gross Capital Formation (constant 1995 prices)	989.2	996.4	1,095.8	1,124.8	1,220.3	10.0	2.6	8.5	4.9
8. Domestic Savings/ GDP (current prices) %	14.3	16.4	14.6	13.7	14.0				15.9
9. Investment / GDP (current prices) %	18.1	17.6	18.8	18.9	19.7				17.9
10. Unemployment Rate (%)	3.6	4.1	4.6	5.3	5.5				4.4
11. Productivity Increase (%)	0.2	0.1	1.0	1.3	2.2				1.1
12. Unit Labour Cost Increase (%)	4.6	5.4	2.3	3.0	1.7				3.8
13. Rate of Inflation (%)	2.8	4.1	2.3	2.6	2.9				3.0
14. Trade Balance in C£ mil.	-1731.6	-1616.9	-1899.3	-1995.3	-2104.3				
Trade Balance / GDP (%)	-27.0	-23.6	-25.7	-25.4	-25.1				-25.9
(excluding aircraft)	-26.1	-23.4	-25.7	-25.4	-25.1				-25.7
15. Number of long-stay visitors (000s)	2,418.2	2,303.2	2,349.0	2,470.1	2,420.7	2.0	5.2	-2.0	-1.7
16. Receipts from Tourism	1,132.3	1,015.0	982.3	1,005.7	1,045.9	-3.2	2.4	4.0	-3.4
Receipts from Tourism / GDP (%)	17.6	14.8	13.3	12.8	12.5				16.6
17. Current Account Balance	-236.4	-153.5	-394.5	-406.6	-496.8				
Current Account Balance / GDP (%)	-3.7	-2.2	-5.3	-5.2	-5.9				-4.2
18. Official Reserves in C£ mil.	1,741.3	1,617.3	1,750.5	2,147.1	⁽¹⁾ 2302.4	8.2	22.7	7.2	13.2
19. Fiscal Deficit (-)/ Surplus (+) in C£ mil.	-283.9	-427.7	-298.8	-185.6	-165.0				
20. Fiscal Deficit / GDP (%)	-4.4	-6.2	-4.0	-2.4	-2.0				-3.7
21. Public Debt in C£ mil.	6,559.5	7,359.4	7,977.3	8,485.0	8,949.9	8.4	6.4	5.5	9.4
(excluding debt to SSF)	4,153.3	4,751.5	5,198.8	5,442.9	5,536.8	9.4	4.7	1.7	9.9
22. Public Debt/ GDP (%)	102.2	107.2	107.9	107.9	106.9				103.1
(excluding debt to SSF)	64.7	69.2	70.4	69.2	66.1				65.9
23. Claims on Private Sector	7,904.1	8,302.0	8,843.7	9,390.8	10,097.2	6.5	6.2	7.5	7.6

⁽¹⁾ 31-08-2006