



CENTRAL BANK OF CYPRUS
EUROSYSTEM

ECONOMIC BULLETIN

JUNE 2015

NICOSIA - CYPRUS



1

Introduction

2

Macroeconomic
Developments and
Projections

3

Statistical Annex

Published by the:
ECONOMIC RESEARCH DEPARTMENT

Edited by the:
Publications Section, Economic Research Department

© **CENTRAL BANK OF CYPRUS, 2015**

Address	80 Kennedy Ave 1076 Nicosia Cyprus
Postal Address	P.O. Box 25529 1395 Nicosia Cyprus
Telephone	+357 22714100
Website	http://www.centralbank.gov.cy

Design and Interactive pdf:	FBRH CONSULTANTS Ltd, www.fbrh.eu
--	---

*All rights reserved.
Reproduction for educational and non-commercial purposes is permitted
provided that the source is acknowledged.*

ISSN (online) 1986 -1060



CENTRAL BANK OF CYPRUS
EUROSYSTEM

ECONOMIC BULLETIN

JUNE 2015

NICOSIA - CYPRUS



1
Introduction

2
Macroeconomic
Developments and
Projections

3
Statistical Annex

CONTENTS

Introduction	8
Macroeconomic Developments and Projections	9
1. International Environment: main developments	10
1.1 External developments	10
1.2 Monetary developments in the euro area	16
2. Domestic environment: main developments	20
2.1 Domestic Prices, Monetary Aggregates, MIR	20
3. Domestic Competitiveness and the Balance of Payments	36
4. Domestic Demand, Production and the Labour Market	40
5. Domestic Fiscal Developments	46
6. Macroeconomic Forecasts for the Cyprus Economy	47
6.1 Eurosystem	47
6.2 Projections for the Cyprus economy	49
Statistical Annex	58
Explanatory notes for Statistical Annex	59
Technical Notes	74

Note: The cut-off date for data in this *Bulletin* is 15 May 2015.

TABLES AND CHARTS

TABLES

A.1	Loans to domestic households	29
A.2	Deposits of domestic households	30
A.3	Cyprus MFI interest rates on euro-denominated loans (new business) to euro area households	32
A.4	Cyprus MFI interest rates on euro-denominated loans (new business) to euro area non-financial corporations	32
A.5	Cyprus MFI interest rates on euro-denominated deposits (new business) by euro area residents	33
A.6	Balance of Payments (main categories)	37
A.7	Trade account (goods)	38
A.8	Tourism	39
A.9	Business and consumer surveys: confidence indicators	40
A.10	Accounts of general government	47
A.11	Eurosystem projections for the euro area	49
A.12	HICP projections	49
A.13	National accounts projections in real terms	55

CHARTS

A.1	GDP in selected countries	10
A.2	Inflation in selected countries	12
A.3	Selected exchange rates against the euro	14
A.4	Closing prices of oil (Brent)	14
A.5	Closing prices of gold	15
A.6	Selected international stock market indices	16
A.7	Official interest rates	16
A.8	Inflation in the euro area	16
A.9	ECB reference rates and EONIA	17
A.10	EONIA vs ECB minimum bid rate on main refinancing operations	18
A.11	EURIBOR (selected durations)	18
A.12	EURIBOR vs OIS spreads	18
A.13	Euro area spot yield curve	19
A.14	M3 and credit to the private sector: euro area	19
A.15	Consumer price index	21
A.16	Harmonised index of consumer prices: energy	21
A.17	Harmonised index of consumer prices: food and services	22
A.18	Harmonised index of consumer prices: non-energy industrial goods	22
A.19	Loans to domestic households and non-financial corporations: Cyprus	25
A.20	Deposits of domestic households and non-financial corporations: Cyprus	30
A.21	Euro area MFI interest rates on eurodenominated loans (new business) to euro area residents	33

TABLES AND CHARTS

A.22	Euro area MFI interest rates on eurodenominated deposits (new business) by euro area residents	34
A.23	Nominal compensation per employee by sector	35
A.24	Productivity and real compensation per employee	35
A.25	Unit labour costs: Cyprus and the euro area	35
A.26	Real and nominal effective exchange rates (IMF weights)	36
A.27	Tourist arrivals and receipts	39
A.28	(a) Quarterly GDP growth (expenditure categories)	40
	(b) Quarterly GDP growth (expenditure categories)	40
A.29	Retail sales (excluding motor vehicles)	41
A.30	Registration of motor vehicles	41
A.31	Credit card spending	41
A.32	Sales of cement	42
A.33	Lending criteria and interest rate on housing loans	43
A.34	Sales contracts (total of locals and foreigners)	44
A.35	Construction confidence indicators	44
A.36	Building permits authorised	44
A.37	Unemployment and employment	45
A.38	Registered unemployment	45
A.39	Unemployment by duration	45
A.40	Budget and primary balances of the general government	46
A.41	Total revenue and expenditure of the general government	46
A.42	General government consolidated gross debt	47
A.43	Real GDP fan chart	55
A.44	HICP fan chart	56
A.45	HICP excluding energy fan chart	56

BOXES

1	Analysis of the recent developments in interest rates and new financing to domestic MFIs	26
2	Economic uncertainty and forecasts for the Cyprus economy	52

ABBREVIATIONS

AQR	Asset Quality Review	LTROs	Long-Term Refinancing Operations
BLS	Bank Lending Survey	MFIs	Monetary Financial Institutions
BoE	Bank of England	MoU	Memorandum of Understanding
CBC	Central Bank of Cyprus	NACE	Nomenclature statistique des Activités économiques dans la Communauté Européenne (Statistical classification of economic activities in the European Community)
Cypstat	Statistical Service of the Republic of Cyprus	Rev. 1.1	économiques dans la Communauté Européenne (Statistical classification of economic activities in the European Community)
ECB	European Central Bank	Rev. 2	économiques dans la Communauté Européenne (Statistical classification of economic activities in the European Community)
EER	Effective Exchange Rate	NEER	Nominal Effective Exchange Rate
EEZ	Exclusive Economic Zone	NFCs	Non-Financial Corporations
EONIA	Euro Overnight Index Average	OIS	Overnight Index Swaps
ESA	European System of Accounts	QE	Quantitative Easing
ESI	Economic Sentiment Indicator	REER	Real Effective Exchange Rate
EU	European Union	SDW	Statistical Data Warehouse
EURIBOR	Euro Interbank Offered Rate	TLTRO	Targeted Longer-Term Refinancing Operations
Eurostat	Statistical Office of the European Union	UK	United Kingdom
GDP	Gross Domestic Product	US	United States of America
HICP	Harmonised Index of Consumer Prices	VAT	Value Added Tax
IEA	International Energy Agency		
IMF	International Monetary Fund		
IRD	Inland Revenue Department		
LFS	Labour Force Survey		

Introduction

The Cypriot economy, after an unprecedented period of deep recession, seems to have entered the early stages of recovery. This is reflected in the first, albeit small, positive real GDP growth recorded in 2015Q1, as well as the positive performance of a series of other economic indicators. At the same time, the macroeconomic and fiscal imbalances have contracted considerably, creating a favorable environment for stronger recovery and growth in the near future. In addition, the complete elimination of capital controls and the conditions that led to their imposition, have placed the banking sector on sounder foundations and enabled it to face more effectively the challenges that lie ahead.

Despite the promising signs of recovery in early 2015, growth is still considered weak and fragile, as reflected in persistent negative inflation. The stabilisation and strengthening of the positive performance of the economy depends, *inter alia*, on the continuous and effective implementation of the adjustment programme and the progress made towards the restructuring of the economy. It also depends on a number of external factors such as the geopolitical developments in the region, particularly the outcome of the Greek issue. In addition, the economy still faces major challenges, such as the high level of non-performing loans, the high unemployment rate, the modest level of lending and the low level of investment expenditure.

The continuation of prudent policies and the commitment to the goals set both for the

economy as a whole and for the financial system in particular, will help to not only overcome these challenges and to safeguard the recovery, but also to ensure the sustainability of growth in the medium and long term.

In this connection, a particularly positive development was the approval of the insolvency framework by Parliament and the implementation of the foreclosure law. This development will enable Cyprus to participate in the ECB's quantitative easing programme. It is also expected to greatly assist the CBC's efforts towards restructuring and reducing the banking sector's non-performing loans. A positive effect on the economy is also expected by the CBC's actions to reduce lending rates thus facilitating the transmission of the ECB's monetary policy mechanism in Cyprus.

Global economic activity remained stable but with variations across regions. Most of the emerging economies continued to be negatively affected by economic and geopolitical uncertainties. Advanced economies were positively affected by the significant drop in oil prices, whilst the euro area was also positively affected by the depreciation of the euro against major currencies following the ECB's expansionary monetary policy measures. Long-term government bond yields have reached historically low levels in most euro area countries mainly due to the ECB's decision to expand its asset purchase programme to the public sector as well. The above euro area developments had a positive impact on the Cyprus economy, which is reflected, *inter alia*, in lower government bond yields.

Macroeconomic Developments and Projections



1

Introduction

2

Macroeconomic
Developments and
Projections

3

Statistical Annex

International Environment: main developments

- Euro area growth was positively affected by the ECB's continued expansionary monetary policy, the sharp fall in international oil prices and the deceleration of the euro.
- Long-term government bond yields have declined in most euro area countries.
- Inflation in the euro area remained at historically low levels.
- In the US, GDP growth accelerated while in the UK it continued to be robust.
- Economic activity in Japan slowed down.
- Major central banks kept their key interest rates at historically low levels.

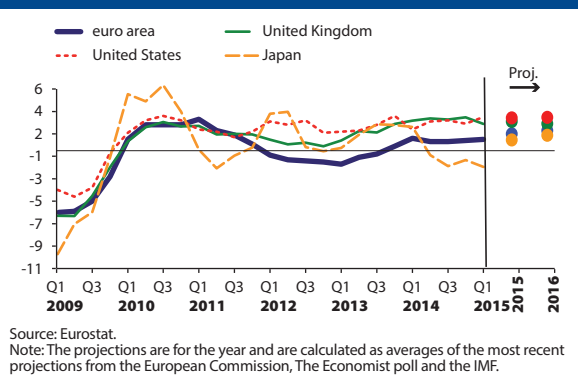
1.1 External developments

GDP growth¹

Global economic activity remained stable but with variations across regions. Advanced economies were positively affected by the sharp fall in oil prices with the euro area also being positively affected by the depreciation of the euro and the ECB's expansionary monetary policy measures. However, the continued exceptionally low levels of inflation and the high, albeit improved, unemployment levels continue to contain growth dynamics. In contrast, economic growth in emerging economies remained subdued mainly due to economic and geopolitical uncertainties.

More analytically, annual GDP growth in the euro area reached 1% (Chart A.1) in 2015Q1. The significant decrease in oil prices as well as the ECB's decision to introduce the public sector purchase programme (PSPP)

CHART A.1 GDP in selected countries
(annual change %, seasonally adjusted %)



1. GDP projections are estimated as the average of the most recent projections from: The Economist Poll of Forecasters (9 May 2015), the European Commission (*European Economic Forecasts*, spring 2015) and the IMF (*World Economic Outlook*, April 2015).

among other existing purchase programmes as a way to address the prolonged period of low inflation resulted in a reduction of long-term bond yields. Following the ECB's expansionary monetary policy, the euro exchange rate fell and subsequently euro area exports increased. This had a positive impact on euro area GDP despite the ongoing uncertainty prevailing due to the worsening of the economic climate in Greece. International organisations and analysts estimate that euro area growth will reach 1,5% in 2015 and 1,8% in 2016.

In the US, GDP growth accelerated to 3% in 2015Q1 compared with 2,4% in 2014Q4 mainly due to an improvement in the balance sheet of households. This was mainly attributed to the steady increase in employment, rising revenues, falling oil prices and improving housing market and consumer confidence. The above factors, which contributed to the overall increase in domestic demand, are also expected to offset the negative impact of the dollar appreciation on the country's exports. International organisations and analysts estimate that GDP growth will be around 2% in 2015 and 3% in 2016.

In Japan, annual GDP growth contracted by 1,4% in 2015Q1 compared with growth of -0,8% in 2014Q4, despite registering a quarter-on-quarter increase. The decrease in economic activity observed during 2014Q2 was mainly attributed to the increase in consumption tax in April 2014, the impact of which is expected to be fully eliminated in 2015Q2. In this respect, economic growth is expected to be positively impacted by several factors including the: improvement of households' real disposable income due to the fall in oil prices; the increase in exports due to the recent depreciation of the yen against the dollar; and the less than



expected restrictive fiscal policy following the government's intention to take additional expansionary fiscal measures in 2015. International organisations and analysts estimate that GDP growth rate will fluctuate around 1% in 2015 and 1.4% in 2016.

Economic activity in the UK increased in 2015Q1 by 2,4%, albeit a slight slowdown compared with the 3% increase recorded in 2014Q4. This development was mainly due to the slowdown of activity registered by the main sectors of the economy, such as the services and construction sectors. On the other hand, households' real disposable income has increased partially due to a fall in the prices of food, energy and imported products. This, along with the low cost of financing, is expected to contribute to an increase in domestic demand. International organisations and analysts estimate that GDP growth will be around 2,6% in 2015 and 2,4% in 2016.

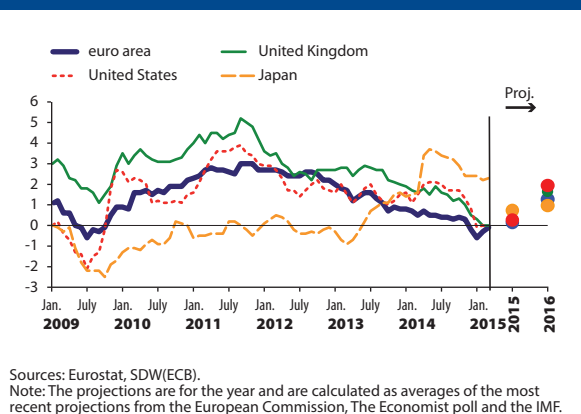
Inflation²

Global inflation remains exceptionally low compared with historical averages. This primarily reflects the existence of significant global excess capacity as well as the sharp decrease in international oil prices and the subsequent drop in global energy prices (Chart A.2).

More specifically, euro area HICP inflation remained at negative levels during 2015Q1, although it recently recorded a deceleration. Analytically, in April 2015 it recorded zero growth compared with a contraction of 0,1% and 0,3% in March and February 2015, respectively. The recent trend in HICP is mostly attributed to the less negative growth rate in

2. Inflation projections are estimated as the average of the most recent projections from: The Economist Poll of Forecasters (9 May 2014), the European Commission (*European Economic Forecasts*, Spring 2015) and the IMF (*World Economic Outlook*, April 2015).

CHART A.2 Inflation in selected countries (annual change, %)



energy prices. At the same time, the rate of inflation excluding energy stabilised at 0,6% in 2015Q1, remaining around the same levels since mid-2014. HICP is expected to record a small increase later in 2015 supported mainly by the ECB's decision to expand its asset purchase programme to include the PSPP, the depreciation of the euro against other major currencies and the expected pick up in oil prices. According to the latest forecasts from international organisations and analysts, euro area inflation is expected to be marginally positive at around 0,1% in 2015 and increase further to 1,3% in 2016.

In the UK, inflation decelerated further in 2015Q1 reaching 0% in March 2015, the lowest level since the introduction of the Consumer Price Index (CPI) as a measure of inflation in 1989. This mainly reflects the fall in energy prices, the appreciation of sterling and the reduced profit margins of food retailers. Analysts project inflation in the UK will be around 0,3% in 2015 and 1,6% in 2016.

In the US, inflation recorded mostly negative growth rates since the beginning of the year and stood at -0,1% in March 2015 compared with 0% in February 2015. This was mainly due to the drop in international oil prices and, in general, import prices. Prices are expected to marginally increase later this year in line with expectations of a gradual increase in energy prices and a fall in unemployment. According to the latest projections, inflation in the US is expected to increase by 0,3% in 2015 and 1,9% in 2016.

In Japan, inflation reached 2,3% in March 2015, remaining approximately around the levels of December 2014 (2,4%). However, since May 2014 it has exhibited a continuous downward trend mainly due to a base effect from the depreciation of the yen against the



dollar. Analysts expect that inflation will slow down to 0,7% in 2015 on account of falling energy prices and the dissipating effect of the consumption tax imposed in April 2014. Inflation is expected to increase to 1% in 2016 owing to a partial recovery in nominal wages.

Exchange rates

The effective exchange rate of the euro against major currencies significantly weakened throughout 2014 and up to 15 May 2015 (the cut-off date for data in the current *Bulletin*), primarily due to the ECB's expansionary monetary policy. More specifically, from 2 January 2015 until 15 May 2015, the euro depreciated by 4,59%, 7,04% and 5,59% against the dollar, sterling and the yen, respectively (**Chart A.3**).

Oil and gold

The price of Brent crude oil continued to record a downward trend since June 2014 up to and including January 2015. On 23 January 2015, the closing price of Brent crude oil reached its lowest level since the financial crisis of 2008 and stood at \$48,8 per barrel (**Chart A.4**). This sharp fall was driven by the co-existence of excess supply of oil and reduced consumer demand. Since then, oil price recorded a small increase, albeit remaining at historically low levels. More specifically, on 15 May 2015 the closing price of oil was \$66,8 per barrel compared with \$109,8 on 16 May 2014. Despite expectations for a gradual increase in oil prices in the medium term, the recent decline is expected to positively affect economic growth and domestic demand, as a result of a positive impact on households' real disposable income and corporate profits.

CHART A.3 Selected exchange rates against the euro
(weekly data, 2000=100)

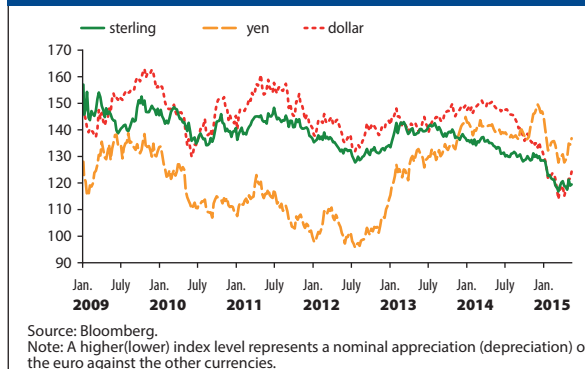
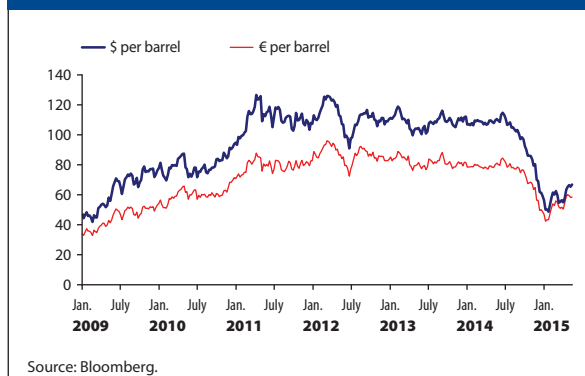


CHART A.4 Closing prices of oil (Brent)
(weekly data)



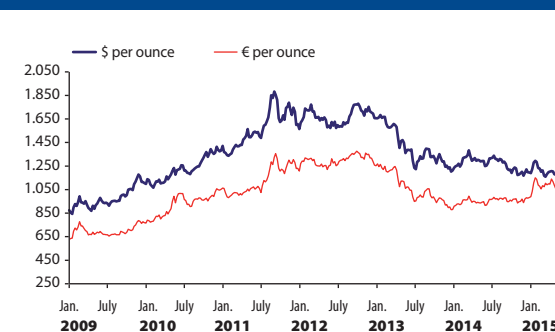
Growth in gold prices was negatively affected by the dollar appreciation and the expectations of an increase in the opportunity cost of holding non-interest bearing assets related to possible interest rate hikes in the US from mid-2015 onwards. However, in mid-May 2015 gold prices increased following weak economic data releases and the publication of lower than expected producer prices. These developments led investors to express doubts as to whether the Fed would implement higher policy rates in June 2015, as originally planned. More analytically, since 2 January 2015 and until 15 May 2015, gold prices increased by 2,9% from \$1.189,2 per ounce to \$1.224,1 per ounce, respectively, with the lowest price being recorded on 13 March 2015 at \$1.158,6 per ounce (Chart A.5).

Selected international stock market indices

The stock market indices in the US, Japan and the euro area recorded an overall increase during the first months of 2015, exhibiting only some minor fluctuations. Since the beginning of the year and until 15 May 2015 (the cut-off date for data in the current *Bulletin*), the euro area stock index (DJ Eurostoxx) recorded an increase of 13,8% compared with an increase of 3,1% in the US stock index (S&P's 500). European stock markets benefited from the ECB's asset expansion through the introduction of the PSPP, the decrease in government bond yields and the subsequent reduction in the equity discount factor³. At the same time, the Nikkei 225 stock index recorded an increase of 13,1%, mainly

3. The discount rate consists of the real risk free rate and the risk premium used to extrapolate future revenue at current prices. Given that the present value of the share (price) is a negative function of the discount rate, a lower discount rate signals that investors place a greater value on future revenues than on current revenues.

CHART A.5 Closing prices of gold
(weekly data)



Source: Bloomberg.

due to expectations related to Japan's economic recovery (Chart A.6).

International official interest rates

The major central banks continued to adopt an expansionary monetary policy in 2015 through the implementation of non-standard monetary policy measures (Chart A.7), while keeping their interest rates unchanged at 0,05%, 0,25% and 0,50% for the ECB, the Federal Reserve and the Bank of England, respectively. The continued implementation of expansionary monetary policy using all available tools by the major central banks, remains imperative in maintaining real interest rates at low levels in order to boost global economic activity inflation expectations. The recent decision of the ECB's Governing Council to extend its asset purchase programme with the introduction of PSPP is considered to be supportive in this regard.

1.2 Monetary developments in the euro area

Inflation

As mentioned above, the HICP recently followed an upward trend despite the persistence of negative inflation rates in the euro area during 2015Q1 on the back of lower energy prices and the depreciating euro. More specifically and according to the latest available data inflation reached 0% in April 2015 compared with -0,1% and -0,3% in March and February 2015, respectively (Chart A.8). The recent trend in HICP mainly reflects the lower negative growth rate in energy prices following a marginal increase in oil prices

CHART A.6 **Selected international stock market indices**
(weekly data, 31/01/2007 = 100)

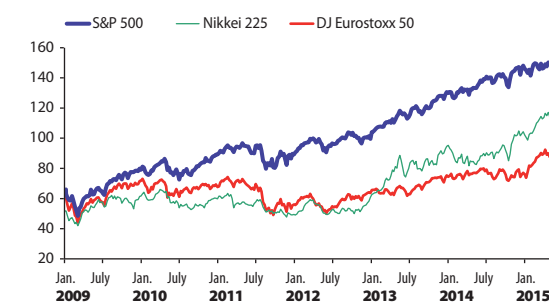


CHART A.7 **Official interest rates**
(% per annum)

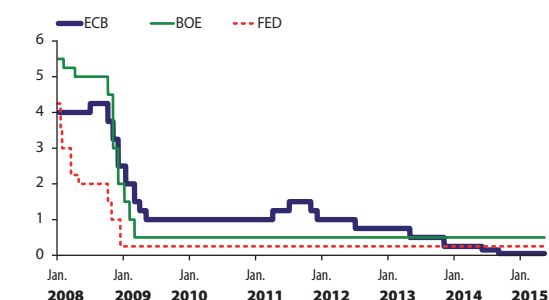
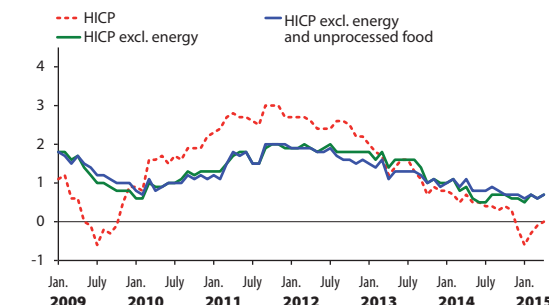


CHART A.8 **Inflation in the euro area**
(annual change, %)



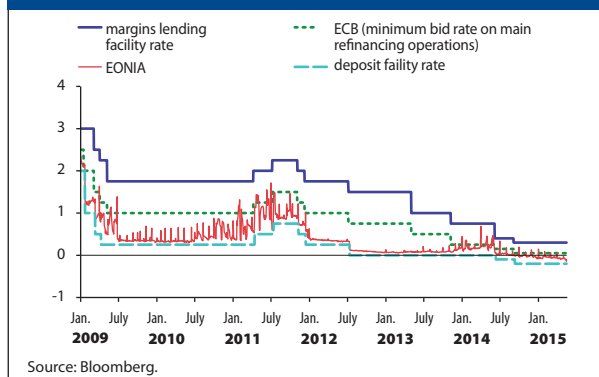
recorded since mid-January 2015. Excluding energy and food, euro area inflation reached 0,7% in April 2015, from 0,6% in March 2015, remaining within the 0,6% and 1% range recorded since the end of 2013.

Reference rates and ECB interventions

The ECB kept its key interest rates unchanged during the first four months of 2015 to 0,30%, 0,05% and -0,20% for the main refinancing operations rate, the marginal lending facility rate and the deposit facility rate, respectively (**Chart A.9**). The ECB continued to support money markets through liquidity-providing operations with a maturity of one maintenance period and three months. More specifically, during the period 26 February – 30 April 2015, the ECB's Governing Council decided to conduct four longer-term refinancing operations (LTROs) with a three month maturity. Additionally, on 19 March 2015 the ECB conducted the third Targeted Longer-Term Refinancing Operation (TLTRO) allotting €97,8 billion to euro area MFIs. Similarly important was the ECB's decision to expand its asset purchase programme to include the PSPP. In an already low key policy rate environment, this expansion will further ease monetary and financial conditions, providing access to cheaper funding for both euro area enterprises and households. At the moment, the above decision which came into effect on 9 March 2015 seems to have positively affected euro area economic activity through the depreciation of the euro and the stimulus of investment and consumption. In the medium term, it is expected to contribute to the elimination of deflationary pressures and achieve the below but close to 2% inflation target.

Nevertheless, the ECB's Governing Council

CHART A.9 ECB reference rates and EONIA
(% per annum, daily data)



Source: Bloomberg.

states that, if necessary, it will proceed to a further easing of its monetary policy while committing to maintain its key interest rates at low levels for a prolonged period of time. At the same time, it announced its commitment to use further non-standard monetary policy measures if risks associated with a prolonged period of low inflation continue to prevail.

Interbank market and interest rate differentials

Money market interest rates recorded a decrease during the first months of 2015, mainly due to the expansion of the asset purchase programme and the expected increase in liquidity through the third TLTRO. More specifically, following the ECB's decision to introduce a negative deposit facility rate and implement non-standard measures, the inter-bank overnight rate (EONIA) remained at negative levels from mid-2014 and reached -0,11% on 15 May 2015 (**Chart A.10**). On 30 April 2015 (latest available monthly data), the 1-month, 3-month and 12-month EURIBOR stood at -0,04%, -0,005% and 0,171%, respectively. The spread between the 12 and 1-month EURIBOR, which is an indicator of the slope of the money market yield curve, was 21 basis points on 30 April 2015, well below the level of December 2014 (**Chart A.11**). The spread between the 3-month EURIBOR and the OIS⁴ products illustrated in **Chart A.12**, recorded a downward trend during the first months of 2015 compared with the end of 2014 (from 0,024% in December 2014 to -0,066% in May 2015).

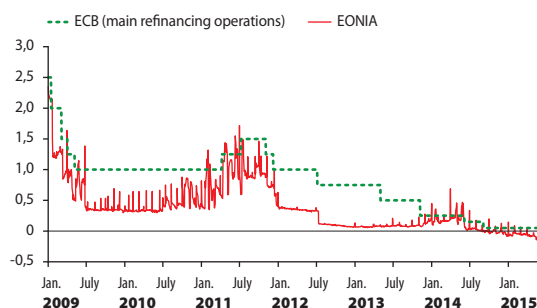
Euro area yield curve

The yield curve for AAA-rated euro area government bonds with a 30-year maturity

4. The quarterly figures published by the ECB for the euro area relate to the average price for the quarter.

CHART A.10 EONIA vs ECB minimum bid rate on main refinancing operations

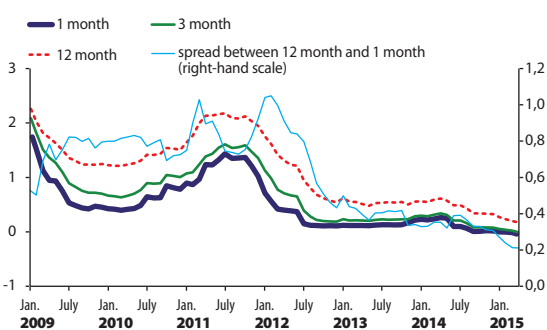
(% per annum, daily data)



Source: Bloomberg.

CHART A.11 EURIBOR (selected durations)

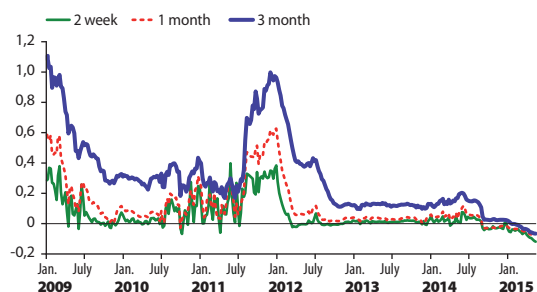
(% per annum, monthly data)



Source: Bloomberg.

CHART A.12 EURIBOR vs OIS spreads

(% per annum, weekly data)



Source: Bloomberg.

(spot prices), (Chart A.13), reflects market expectations concerning future developments in short and long-term interest rates, and also serves as a useful indicator for future economic prospects. During the current year and until 15 May 2015 (latest available data), there was a downward shift in the slope of the curve with regards to both short-term and long-term expectations compared both with 17 November 2014 (the cut-off date for data in the December 2014 *Bulletin*) and 31 December 2014. This was mainly due to improved economic activity in the euro area, reflecting the ECB's continued quantitative easing, the decrease of oil prices as well as the depreciation of the euro against major currencies.

M3 and credit expansion

The annual growth of M3 showed signs of improvement since mid-2014, whereas credit expansion to euro area residents remained subdued. More analytically, in March 2015 the annual growth of M3 accelerated to 4,6% from 3,6% in end-December 2014 and 1% in 2014Q1 (Chart A.14). This slowdown was mainly due to the recovery of marketable instruments as well as the inflows observed in short-term deposits from both households and enterprises.

Regarding credit (loans and securities) to the private sector, even though the annual growth rate of total MFI credit to euro area residents remained subdued, it started to recover at the end of 2014. The aforementioned growth rate increased to -0,2% at the end of 2015Q1 compared with -0,8% at the end of 2014Q4 and -2,5% at the end of 2014Q1, primarily reflecting the improvement in the growth of loans to both non-financial corporations and households. More analytically, the annual growth rate

CHART A.13 Euro area spot yield curve (%)

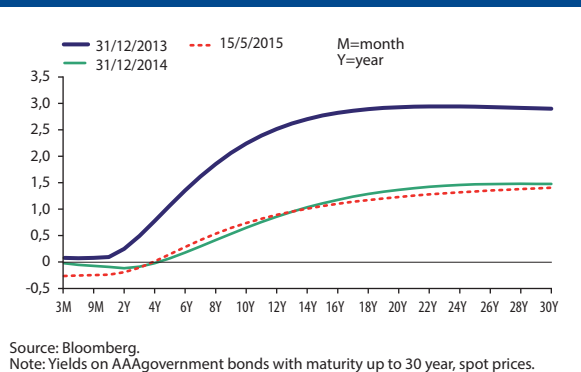
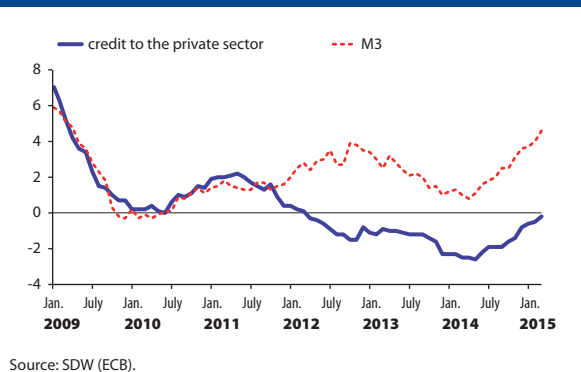


CHART A.14 M3 and credit to the private sector: euro area (annual change %, seasonally adjusted data)



of loans to non-financial corporations reached -0,6% in 2015Q1 compared with -1,4% in 2014Q4 and -3,1% in 2014Q1. The annual growth rate of loans to households remained unchanged at the end of 2015Q1 compared with -0,3% in 2014Q4 and -0,1% in 2014Q1. Despite this small improvement, the consolidation of bank balance sheets and the need for further deleveraging in some economic sectors and banking jurisdictions continue to hinder credit growth dynamics.

According to the results of the April 2015 Bank Lending Survey for the euro area, the participating banks expect net easing of credit standards for loans to businesses in 2015Q2 compared with 2015Q1. In contrast, loans to households for both house purchase and consumption purposes are expected to be tighter during the same period. At the same time, net demand for loans to households and enterprises is expected to record a further increase during 2015Q2 compared with 2015Q1.

2. Domestic environment: main developments

- *Inflation continues to exhibit a downward trend.*
- *Domestic banking sector showed signs of weak stabilisation.*
- *New credit is on the rise, whilst deposit outflows decreased significantly.*
- *Interest rates on new loans decreased.*

2.1 Domestic Prices, Monetary Aggregates, MIR

Prices

Domestic inflation, as measured by the Consumer Price Index (CPI), continued to

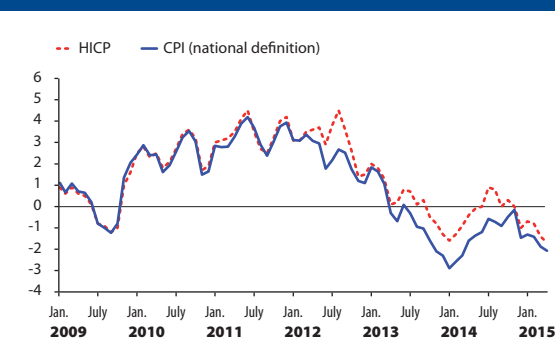
exhibit a negative trend in the first four months of 2015. Specifically, CPI inflation stood at -2,1% in April 2015 compared with -1,9% in March 2015 and -1,6% in April 2015. For the period January – April 2015, the CPI recorded a significant decrease of -1,7% compared with -2,3% in the corresponding period of 2014. HICP also registered a decrease of -1,7% in April 2015 compared with -1,4% in March 2015 and a negative growth rate of -0,4% in April 2014. During the period January – April 2015, the HICP recorded an annual decrease of -1,2% compared with -1% in the corresponding period of 2014 (**Chart A.15**). During this period, negative average inflation was registered in all components of the HICP, with the exception of food categories. These developments were mainly due to the ongoing subdued and fragile activity in the domestic economy, the sizeable cuts in wages as well as the continued significant reductions in the prices of energy compared with a year ago.

For the period under review, HICP excluding energy increased by 0,2% compared with a negative inflation of -0,5% in the corresponding period of 2014.

Analytically, in the energy component (**Chart A.16**), prices have continued to record significant consecutive annual decreases despite the slight increase in oil prices in recent months. Specifically, in the first four months of 2015, energy prices fell substantially by -14,4% compared with -6,1% in the same period last year. Based on the latest available data, the reduction in the category of energy reached -14,6% in April 2015 compared with -4,5% in April 2014.

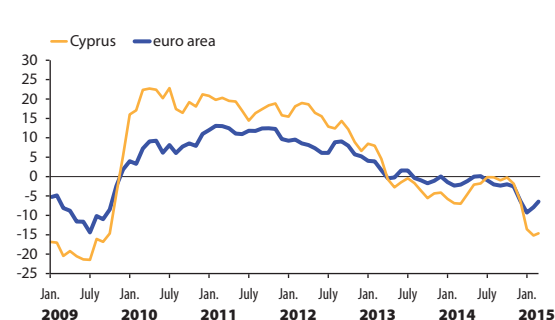
Unprocessed food prices in the first four months of 2015 recorded a sizeable increase of 5,6% compared with a significant drop of -

CHART A.15 Consumer price index
(annual change, %)



Source: Cystat.

CHART A.16 Harmonised index of consumer prices: energy
(annual change, %)



Sources: Eurostat, Cystat.

4,8% in the corresponding period of 2014 (**Chart A.17**). The increase in unprocessed food inflation was mainly driven by the significant increase in the prices of vegetables and a base effect. Unprocessed food inflation stood at 4,4% in April 2015 compared with -3,1% in April 2014.

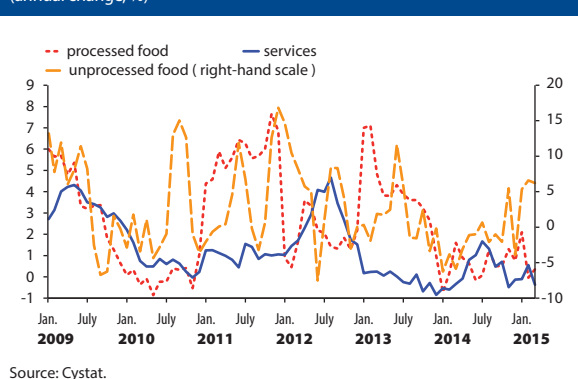
With regard to processed food, average inflation stood at 0,5% in the period January-April 2015, remaining unchanged compared with the corresponding period of 2014 (**Chart A.17**). The positive inflation was mainly attributed to increases in tobacco items as well as price increases for bread and cereals. However, according to the latest available data, processed food inflation turned negative to -0,4% in April 2015 compared with 0,9% in April 2014.

Chart A.17 also illustrates the annual percentage change in the prices of services, which recorded a decline of -0,2% in the first four months of 2015 compared with -0,4% in the corresponding period of 2014. Despite these developments, the percentage decrease in the price of services was -0,8% in April 2015 compared with a marginal decrease of -0,1% in April 2014. This was mainly due to the significant annual reductions in the prices of accommodation services.

The -1,2% in non-energy industrial goods prices in the first four months of 2015 (**Chart A.18**) was much higher than the -0,5% decline recorded in the corresponding period of 2014. The prices of this component of HICP dropped by -1,3% in April 2015, compared with an increase of 0,5% in April 2014, mainly due to the reductions in the prices of clothing and pharmaceutical products.

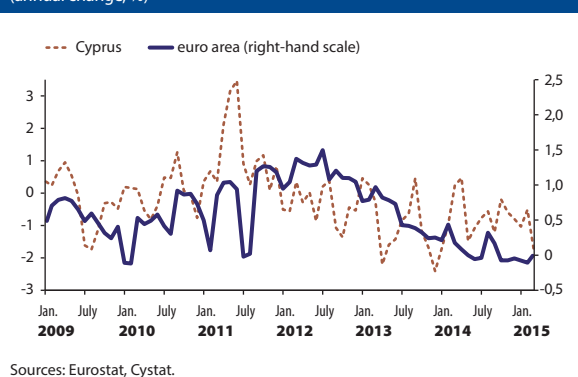
As a result of the aforementioned developments, inflation in Cyprus was on average lower than in the euro area in the first four

CHART A.17 Harmonised index of consumer prices: food and services
(annual change, %)



Source: Cystat.

CHART A.18 Harmonised index of consumer prices: non-energy industrial goods
(annual change, %)



Sources: Eurostat, Cystat.

months of 2015 for all HICP components, except unprocessed food. Inflation excluding energy and food, which together represent approximately 33% of the HICP, reached -0,5% during the period January-April 2015 compared with -0,3% in the corresponding period of 2014. The sharp decline in core inflation primarily reflected the fragile economic environment in Cyprus, the sizeable cuts in wages and the subsequent downward pressures on demand and subsequently on domestic prices. The corresponding inflation rate in the euro area rose by 0,7% during the period under review.

Monetary aggregates^{5,6}

In 2015Q1, the first signs of recovery of the domestic banking sector were observed in both loans and deposits, mostly as a result of several positive developments recorded as from October 2014 onwards. More specifically, the publication of the positive results of the ECB/EBA comprehensive assessment exercise (AQR, stress tests) motivated domestic banks with spare liquidity to gradually proceed with the granting, albeit in small volumes, of new loans to the domestic private sector. Moreover, the EIB co-financed funds to domestic small-medium enterprises (SMEs) also contributed to the small increase in new

5. For a detailed explanation of the methodology and technical analysis of monetary aggregates, see the Technical Notes on p. 74.
6. In January 2014, the Statistics Department of the CBC began revising the data on deposits and loans so that monthly transactions and annual percentage changes include the adjustment resulting from currency changes. The inclusion of such a revaluation means that trading and annual percentage changes in loans and deposits in foreign currency will not be affected by fluctuations in exchange rates. This revision significantly improves the accuracy of the data, giving information to users regarding the effective annual percentage change in the monetary aggregates, in line with the methodology applied by the ECB. It should be noted that the outstanding balances are not affected by this revision.

lending. Another important development was the adoption of the foreclosures and insolvency laws by the Cyprus Parliament. This development is expected in the near future to contribute significantly to the acceleration of the restructuring of arrears loans, the gradual reduction in the level of NPLs and to a further increase of new loans by banks. Despite the abovementioned developments related to the increase in new lending the efforts of domestic banks for further deleveraging and balance sheet restructuring has been continuing at a rapid pace. In addition, factors such as the continued positive Troika reviews for the Cyprus economy, the further stabilisation in the outflow of deposits (which resulted in the lifting of all remaining restrictive measures on the movement of foreign capital on 6 April 2015) are expected to further strengthen the confidence of depositors in the Cypriot banking sector. The further stabilisation of the banking sector is thus expected to significantly contribute to a more rapid recovery of the domestic economy.

Meanwhile, smaller negative annual growth rates of loans to the private sector were recorded during 2015Q1. A similar picture is also evident in the growth rate of domestic private sector deposits, whereby, on average, a significant reduction in the rate of outflows of deposits has been recorded during the first months of 2015. This could be interpreted as another sign of stabilisation of the domestic banking sector.

In line with the above, the April 2015 Bank Lending Survey (BLS) showed that, in 2015Q1, banks' credit standards for all loan categories remained unchanged. According to the banks participating in the BLS, credit standards for all loan categories are also expected to remain practically unchanged during 2015Q2. On the

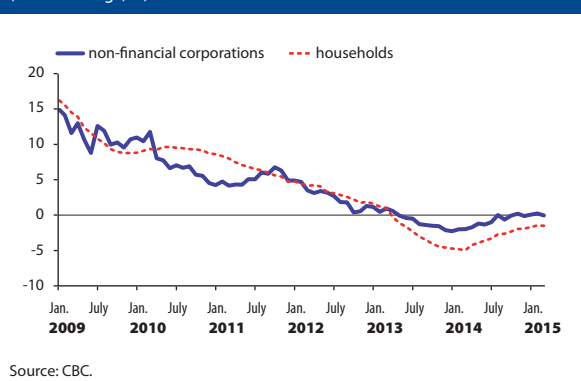
demand side, net demand for loans for house purchase, consumer credit and other lending remained unchanged during 2015Q1, whereas net demand for NFCs loans increased. According to the expectations of the participating banks, net demand for all loan categories is expected to increase in the next quarter of 2015.

Given the aforementioned developments in monetary aggregates, loans to the private sector decreased to 0,2% at end March 2015 compared with -0,4% at end December 2014 and -4,2% in the corresponding quarter of 2014. This decrease partly reflects the fact that households and NFCs continue to be in the process of loan repayments and balance sheet restructuring largely on account of the existing macroeconomic conditions prevailing in the domestic economy.

However, it is worth mentioning that a gradual increase in the granting of new loans has been evident since the beginning of 2015 (Box 1, p. 26). Consequently, less negative or zero growth rates have been registered both in loans to NFCs and to households for house purchase and consumer credit (Chart A.19). It should be noted that the actual reduction in loans to the domestic private sector could be understated due to the inclusion of the interest charged on non-performing loans.

The growth rate of loans to domestic NFCs registered 0% change in March 2015 compared with a reduction of 0,1% in December 2014 and -2% in March 2014. In line with the above, and in accordance with the results of the latest BLS, banks maintained their credit standards to enterprises unchanged in 2015Q1. The main factors that contributed to the aforesaid policy of banks regarding loans to enterprises were, *inter alia*, the banks' liquidity position, the ability to

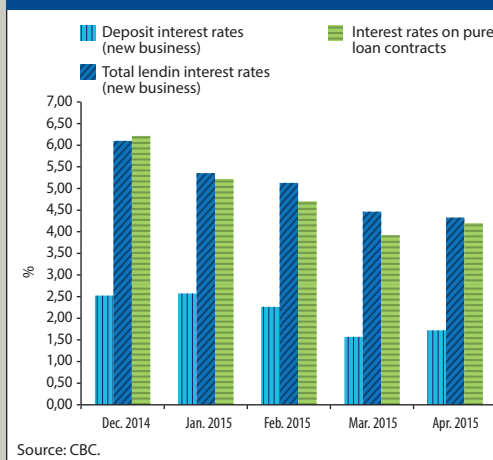
CHART A.19 Loans to domestic households and non-financial corporations: Cyprus
(annual change, %)



Box 1: Analysis of the recent developments in interest rates¹ and new financing to domestic MFIs

This box presents the latest developments in domestic deposit and lending interest rates, following the CBC's new directive issued in February 2015 which reduced the maximum deposit interest rate by one percentage point as of March 2015. The analysis focuses on lending to non-financial corporations and to households for housing purposes, as the key sectors for boosting the recovery of the real economy in the medium term. The analysis that follows is based on interest rates data from the MIR (money interest rates) database concerning new euro-denominated deposits and new loans to the aforementioned categories. Total interest rates for new loans, as published on the CBC website², can, for analytical purposes, be broken down to interest rates for pure new loan contracts and interest rates for performing existing contracts which have been restructured. It should be noted that the aforementioned breakdown (pure new contracts and performing restructured contracts) has been available, even though not published, since December 2014. Overall, there is evidence to suggest that following the CBC's announcement on the new directive in February 2015 and up until April 2015 (latest available data), both total lending rates (published data) and lending rates for pure new loan contracts

CHART 1 Deposit and lending interest rates to/from non-financial corporations to euro area
(% per annum, period average)



Source: CBC.

to euro area non-financial corporations and households for house purchase recorded a significant decrease.

Deposit rates to non-financial corporations recorded a decrease of 54 basis points, from 2,26% in February 2015 to 1,72% in April 2015, and a decrease of 80 basis points during the period December 2014 – April 2015 (Chart 1). On the other hand, lending rates to non-financial corporations recorded a significantly higher decrease equal to 80 basis points from February 2015 to April 2015 and a decrease of 177 basis points from December 2014 to April 2015. Likewise, interest rates for pure new loan contracts to non-financial corporations decreased by 50 basis points and 201 basis points during the respective periods. It should be noted that, the actual level of interest rates is affected by signifi-

1. The deposit and lending interest rates analysed in the Box relate to euro-denominated deposits by euro area residents with agreed maturity of up to 1 year, and to respective loans with floating rate and initial rate fixation up to 1 year, respectively.

2. http://www.centralbank.gov.cy/nqcontent.cfm?a_id=9837&lang=gr

TABLE 1 Net transactions and value of pure new loan contracts

	Non-financial corporations (euro area)		Households - house purchase (euro area)	
	Net transactions in loans ⁽¹⁾	Value of pure new loan contracts	Net transactions in loans ⁽¹⁾	Value of pure new loan contracts
December 2014	105,2	43,2	237,0	14,9
January 2015	-56,5	67,1	-46,9	9
February 2015	1,1	63,5	-47,7	9,5
March 2015	-24,9	107,3	-39,0	11,9
April 2015	-0,9	83,3	-48,0	15,9

Source: CBC.

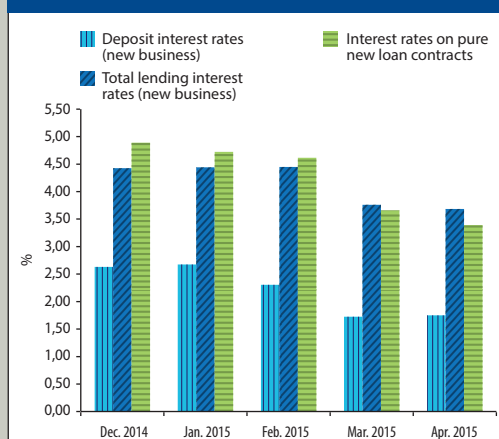
(1) Data from the "Monetary and Financial Statistics" publication, Tables 6.1 and 6.2

cant outliers due to extraordinary one-off transactions performed by particular MFIs. Nevertheless, a first analysis based on the available information suggests that these one-off loans do not affect the overall downward trend of interest rates.

Similarly, deposit rates to households recorded a decrease of 55 basis points, from 2,3% in February 2015 to 1,75% in April 2015, and a higher decrease of 88 basis points from December 2014 to April 2015. Total lending rates to households for housing purposes decreased by 77 basis points and 74 basis points, respectively (Chart 2). This decrease mainly reflects the significant fall recorded in the interest rates on pure new loan contracts, which were 123 and 150 basis points, during the respective periods.

With respect to credit developments, recent data confirm a reversal in loan dynamics in 2015Q1 given that the annual negative growth rate of loans to households and non-financial corporations has been decreasing s at end-2014 (Chart A.19, p. 25). At the same time, as shown in Table 1, total net transactions for the above categories remained negative

CHART 2 Deposit and lending interest rates to/from households to euro area (% per annum, period average)



Source: CBC.

despite an increase in pure new loan contracts, indicating that the value of loan repayments outweigh the value of pure new loan contracts.

The recent positive results of the ECB and EBA comprehensive assessment of the participating Cypriot banks, in conjunction with the reduction in the cost of financing following the CBC's new directive on interest rates and the ECB's additional non-standard monetary policy measures,

contribute to the restoration of the smooth and effective transmission of monetary policy. At the same time, the deleveraging process and the balance sheet adjustment of domestic banks continues. As a result, total transactions continued to be negative during 2015Q1.

In the short term, it is expected that the recent approval of the foreclosure and insolvency laws by the House of Representatives will significantly contribute to the restructuring of bad loans, to the decrease in the level of non-performing loans and consequently the increase in the supply of new loans, especially from domestic banks.



1

Introduction

2

Macroeconomic
Developments and
Projections

3

Statistical Annex

access market financing and the cost related to banks' capital position. On the other hand, during 2015Q1, net demand for loans by enterprises recorded an increase.

Loans to domestic households recorded negative growth of 1,5% at the end of 2015Q1. All sub-categories of loans to households (Table A.1), apart from the other lending category, continued to register negative growth rates. In particular, housing loans to domestic residents registered negative growth of 2,3% in March 2015. According to the latest BLS results, in 2015Q1 participating banks reported unchanged credit standards for loans to households for both house purchase and for consumer and other lending purposes. With regard to housing loans, factors that are associated with the cost of funds and balance sheet constraints, expectations regarding general economic activity as well as housing market prospects remained unchanged. In addition, the cost of funds and balance sheet constraints, the expectations regarding the general economic activity, the creditworthiness of consumers as well as the risk on the collateral demanded are factors that remained unchanged and contributed to the unchanged credit standards for loans to households for consumer credit and other lending. In addition, in 2015Q1 net demand for all loan categories by households remained unchanged.

Domestic private sector deposits have been recording consecutive annual negative growth rates since March 2013. Specifically, in March 2015 private sector deposits recorded a decrease of -0,5% compared with -1,4% in December 2014 and -10,9% in March 2014.

Analytically, the annual growth rate of deposits by domestic households stood at -3,2%

TABLE A.1 Loans to domestic households ^{(1),(2)}

	Outstanding balance as % of total ⁽³⁾	Annual percentage change					
		2013 Dec.	2014 Mar.	2014 June	2014 Sep.	2014 Dec.	2015 Mar.
Domestic households	100,0	-4,6	-5,0	-3,6	-2,6	-1,9	-1,5
1. Consumer credit	13,7	-10,8	-12,4	-8,3	-5,7	-3,6	-3,3
2. Lending for house purchase	53,8	-5,2	-5,2	-4,2	-3,2	-2,6	-2,3
3. Other lending	33,6	-0,8	-1,2	-0,6	-0,3	-0,1	0,4

Source: CBC.

(1) Sectoral classification is based on ESA 95.

(2) Including non-profit institutions serving households.

(3) As at the end of the last month available. Figures may not add up due to rounding.

in March 2015 (Chart A.20 and Table A.2). The negative growth rate of the aforementioned deposits is consistent with the general uncertainty prevailing in the domestic macroeconomic environment as well as the general tendency of households smoothing their private consumption. In the short run, the fragile economic conditions, reduced disposable income, high unemployment, relatively low domestic deposit rates and the fact that many households and NFCs use their deposits to cover current debt obligations and repay their existing loans, are factors that have prevented the improvement of the deposit base of the banking sector. However, the recent positive results of the ECB comprehensive assessment and the recent lifting of all remaining restrictive measures on the movement of foreign capital in conjunction with the continued positive Troika reviews are expected to contribute both in the short and medium term to the strengthening of depositors' confidence in the banking sector.

On account of the above economic developments, deposits by domestic households with an agreed maturity continued to record, albeit to a lower degree than before, negative growth rates, reaching -1,5% at the end of 2015Q1 (Table A2). Moreover, deposits redeemable at notice continued to register a significant decrease, reaching -23,9% at end-March 2015.

Deposits of domestic NFCs (Chart A.20) recorded consecutive negative growth rates up to April 2014, mainly due to the prolonged recession, which led to a reduction in the turnover of most businesses and the increased use of existing deposits to cover their current business and operating costs. Between May 2014 and December 2014, deposits of domestic NFCs recorded consec-

CHART A.20 Deposits of domestic households and non-financial corporations: Cyprus
(annual change, %)

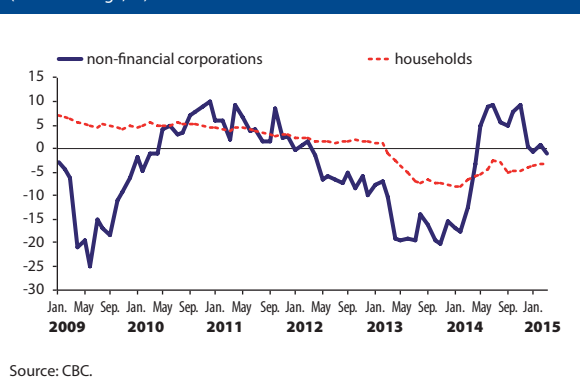


TABLE A.2 Deposits of domestic households (1),(2)

	Outstanding balance as % of total ⁽³⁾	Annual percentage change					
		2013 Dec.	2014 Mar.	2014 June	2014 Sep.	2014 Dec.	2015 Mar.
Domestic households	100,0	-7,6	-6,4	-4,3	-5,1	-4,1	-3,2
Overnight	19,7	17,4	24,9	17,6	3,8	0,2	-1,7
With agreed maturity	74,6	-11,4	-11,4	-8,6	-5,6	-3,7	-1,5
up to 2 years	71,4	-13,1	-13,3	-8,2	-4,9	-2,9	-0,5
over 2 years	3,1	0,7	2,7	-15,1	-18,7	-18,0	-19,6
Redeemable at notice	5,7	-17,0	-14,2	-7,2	-20,7	-19,6	-23,9
up to 3 months	4,1	-17,8	-15,0	-6,1	-11,9	-16,6	-19,6
over 3 months	1,6	-15,0	-12,4	-9,8	-35,7	-26,1	-33,0

Source: CBC.

(1) Sectoral classification is based on ESA 95.

(2) Including non-profit institutions serving households.

(3) As at the end of the last month available. Figures may not add up due to rounding.

utive positive growth rates for the first time since March 2012. Nevertheless, at end March 2015 these deposits recorded negative growth of -1,2%, mainly due to a base effect.

With regard to total deposits of non-residents, including deposits by special purpose entities (SPEs), an annual decline of 9,2% was observed at the end of 2015Q1. In particular, deposits of non-resident NFCs, including SPEs, continued to register an annual decline of -6,8% at end March 2015. In contrast, deposits of non-resident households, while recording consecutive negative growth rates up to December 2014, as from the beginning of the year they have recorded positive growth, registering an increase of 1,9% at the end of 2015Q1.

Interest rates

In 2015Q1, there was, on average, a sizeable decline in most lending rates in Cyprus compared to the end of 2014 and a significantly larger decrease compared with the corresponding period in 2014. Nevertheless, these rates continue to be significantly higher relative to the corresponding deposit rates, primarily due to the increased risk faced by banks in granting new loans as a result of the increase in the level of non-performing loans as well as the fragile macroeconomic conditions in the domestic environment. Several factors are expected to contribute to a further reduction in domestic lending rates in the near future. Primarily, the recent significant drop in deposit rates, reflecting the CBC's decision to reduce for a second time the maximum deposit interest rate by one percentage point (from Euribor+300 basis points to Euribor+200 basis points) with effect as of March 2015, is expected to be trans-

mitted to lending rates. Other factors include the acceleration in the restructuring of loans as well as the continuation of the successful implementation of the MoU. Furthermore, the EIB co-financing funds as well as the most recent ECB decisions to continue using additional standard and non-standard monetary policy measures, are also expected to have a downward impact on domestic lending rates. The significant reduction observed in most categories of domestic lending rates in March 2015, are thus expected to continue. As a result of the significant reductions in the domestic lending rates, the gap with the corresponding rates in the euro area narrowed considerably at the end of 2015Q1.

More analytically, the average interest rate on new euro-denominated loans from Cypriot MFIs to euro area households with an initial rate fixation of up to one year to euro area NFCs, showed significant reductions at the domestic level during 2015Q1 compared with both year end of 2014 and especially with the same period last year. Nevertheless, these rates, with the exception of interest rates on consumer credit, remained at high levels compared with other euro area countries. For instance, in March 2015 the average interest rate on housing loans, consumer credit and other lending to households reached 3,76%, 4,69% and 4,32%, respectively (Table A.3). For the same period, the average rate on new loans to NFCs of up to and over €1 million reached 5,22% and 4,28%, respectively (Table A.4). It should be noted, however, that domestic lending rates continue to reflect, in part, the level of interest charged by banks on restructured performing loans to households and businesses, especially after the acceleration of loan restructurings in recent months.

During 2015Q1, most euro area interest

TABLE A.3 Cyprus MFI interest rates on euro-denominated loans (new business) to euro area households ⁽¹⁾
(% per annum, period average)

		Bank overdrafts ⁽²⁾	Floating rate and up to 1 year initial rate fixation		
			Consumer Credit	Lending for house purchase	Other lending
2014	Jan.	7,03	6,29	4,65	5,84
	Feb.	7,01	6,43	4,58	5,41
	Mar.	7,01	6,39	4,53	5,93
	Apr.	7,00	6,22	4,67	4,97
	May	6,99	6,06	4,37	4,90
	June	6,94	5,74	4,40	4,51
	July	6,90	5,50	4,34	5,15
	Aug.	6,84	5,66	4,15	4,17
	Sep.	6,80	5,59	4,31	4,01
	Oct.	6,79	5,72	4,63	5,01
	Nov.	6,77	5,30	4,19	4,29
	Dec.	6,79	5,61	4,43	4,60
2015	Jan.	6,80	5,40	4,44	3,66
	Feb.	6,73	5,19	4,45	3,31
	Mar.	5,58	4,69	3,76	4,32

Source: CBC.

(1) Including non-profit institutions serving households.

(2) For this instrument category, new business refers to end-of-period.

TABLE A.4 Cyprus MFI interest rates on euro-denominated loans (new business) to euro area non-financial corporations
(% per annum, period average)

		Bank overdrafts ⁽¹⁾	Floating rate and up to 1 year initial rate fixation	
			Other loans up to € 1 million	Other loans over € 1 million
2014	Jan.	6,99	5,91	5,92
	Feb.	6,57	5,97	5,11
	Mar.	6,56	6,31	5,82
	Apr.	6,55	6,35	5,90
	May	6,53	6,14	5,55
	June	6,29	6,02	5,50
	July	6,49	5,95	4,99
	Aug.	6,37	6,05	5,37
	Sep.	6,34	5,48	5,21
	Oct.	6,31	5,67	4,92
	Nov.	6,30	5,42	5,63
	Dec.	6,33	5,66	6,61
2015	Jan.	6,31	5,71	5,10
	Feb.	6,25	5,75	5,00
	Mar.	5,55	5,22	4,28

Source: CBC.

(1) For this instrument category, new business refers to end-of-period.

rates on loans from MFIs continued to record, for the most part, a downward trend compared with both the end of 2014 and the respective period of 2014 (**Chart A.21**). This development was mainly attributed to the consecutive reductions in key ECB interest rates (with the most recent one being in September 2014), the ECB's announcement at the beginning of the year for the expansion of the asset purchase programme to also include bonds issued by euro area central governments, agencies and European institutions as well as to the most recent ECB decisions to continue using additional standard and non-standard monetary policy measures. Indicatively, at the end of 2015Q1 the average rate on new loans to households for house purchase, consumer credit and other lending stood at 2,10%, 5,15% and 2,61%, respectively. Similarly, a reduction in the cost of borrowing was also recorded on loans to euro area NFCs of up to and over €1 million, which at end- 2015Q1 stood at 2,94% and 1,69%, respectively.

The above analysis highlights the fact that the greatest difference between interest rates in Cyprus and those in the euro area is mainly attributed to the categories of "other lending" and "housing loans to households as well as to NFC loans". In contrast, interest rates on consumer loans in Cyprus are maintained at lower levels than the corresponding rates in the euro area, partly because of the lower risk undertaken by domestic banks as the granting of consumer loans is subject to the availability of personal guarantees.

Deposit rates offered by Cyprus MFIs to households and NFCs stabilised in 2014, with some minor fluctuations, remaining at levels below 3% (**Table A.5**). However, according to the latest available data for March 2015, domestic deposit rates fell sharply below the

CHART A.21 Euro area MFI interest rates on euro-denominated loans (new business) to euro area residents⁽¹⁾ (% per annum, period averages)

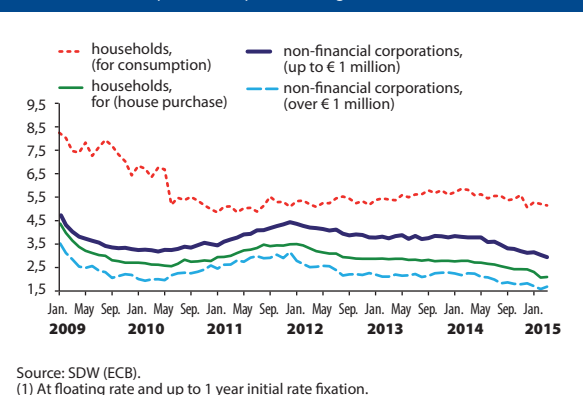


TABLE A.5 Cyprus MFI interest rates on euro-denominated deposits (new business) by euro area residents (% per annum, period average)

		Households ⁽¹⁾			Non-financial corporations	
		With agreed maturity			With agreed maturity	
		Overnight ⁽²⁾	Up to 1 year	Over 1 and up to 2 years	Overnight ⁽²⁾	Up to 1 year
2014	Jan.	0,58	2,36	3,54	0,33	2,00
	Feb.	0,57	2,35	3,29	0,33	2,19
	Mar.	0,56	2,45	3,29	0,35	2,24
	Apr.	0,55	2,67	3,26	0,36	2,42
	May	0,55	2,49	3,31	0,42	2,50
	June	0,52	2,56	3,29	0,37	2,39
	July	0,49	2,62	3,21	0,38	2,66
	Aug.	0,50	2,60	3,13	0,37	2,58
	Sep.	0,49	2,59	3,03	0,36	2,53
	Oct.	0,48	2,67	3,05	0,34	2,49
	Nov.	0,48	2,59	3,10	0,36	2,53
	Dec.	0,47	2,63	3,10	0,31	2,53
2015	Jan.	0,46	2,67	3,01	0,31	2,57
	Feb.	0,45	2,30	1,55	0,35	2,26
	Mar.	0,41	1,73	1,95	0,31	1,57

Source: CBC.

(1) Including non-profit institutions serving households.

(2) For this instrument category, new business refers to end-of-period.

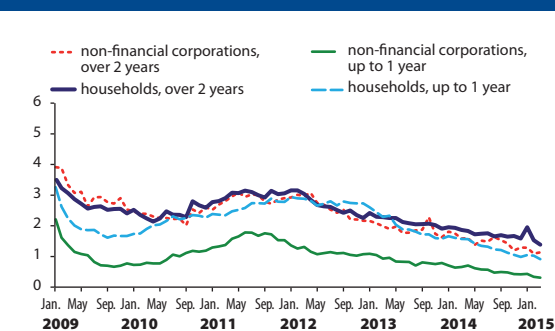
historical standards of the Cyprus economy reaching levels below 2%. The main factor that contributed to this significant reduction in domestic interest rates was the revised decision of the CBC in February 2015, whereby credit institutions offering deposit rates higher than EURIBOR plus 200 basis points, would be required to raise additional capital. Indicatively, in March 2015 the average interest rate on new deposits for households with an agreed maturity of up to one year reached 1,73%, while the corresponding rate for NFCs for the same reference period stood at 1,57%.

In the euro area, deposit interest rates, which are at much lower levels than in Cyprus, largely recorded a further decrease in March 2015 (**Chart A.22**). Specifically, the average interest rate on euro-denominated deposits for households with an agreed maturity of up to one year stood at 0,91% at the end of 2015Q1. The corresponding interest rate on deposits for NFCs reached 0,31% in March 2015.

Overall, banks in Cyprus have continued to maintain their increased spread between lending and deposit rates for NFCs. With regard to households, their respective spread is lower, mainly due to the lower lending rates charged to households, reflecting the lower risk compared with NFCs.

According to the latest ECB data for March 2015, Cyprus had the highest lending rate in the euro area with an initial rate fixation of up to one year on housing loans, while for corporate loans up to €1 million Cyprus's rates were ranked the second highest in the euro area after Greece. A similar picture is evident for euro denominated deposit rates. Specifically, for the same month under review, Cyprus recorded the second highest deposit rates

CHART A. 22 Euro area MFI interest rates on euro-denominated deposits (new business) by euro area residents⁽¹⁾ (% per annum, period averages)



Source: SDW (ECB).
(1) New deposits with agreed maturity.



1

Introduction

2

Macroeconomic
Developments and
Projections

3

Statistical Annex

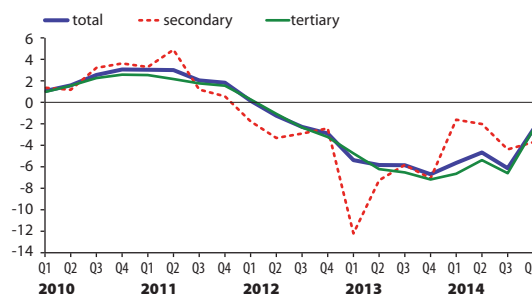
after Greece with agreed maturity of up to one year for both households and NFCs compared with other euro area countries.

Labour costs

Labour costs recorded a further decrease in 2014 compared with 2013, reflecting the contraction in economic activity. More specifically, the annual rate of change of nominal expenditure for salaries and employer contributions per employee (compensation per employee), recorded a decrease of 4,7% in 2014 compared with -5,9% in 2013 (**Chart A.23**). This development is mainly attributed to the annual reductions of 2,5% and 8,2% in private and public sector compensation per employee respectively, due to legislative reductions in salaries and pensions of government employees and general reductions in the private sector. As regards the sectoral breakdown, there were reductions in the secondary and tertiary sectors, the latter of which accounts for about 80% of total employment. In particular, compensation per employee in the tertiary sector registered an annual reduction of 5,2% in 2014, compared with a reduction of 5,8% in 2013. Productivity, (calculated as the change in real GDP per employee), registered an annual reduction of -0,4% in 2014, compared with a -0,1% reduction in 2013 (**Chart A.24**).

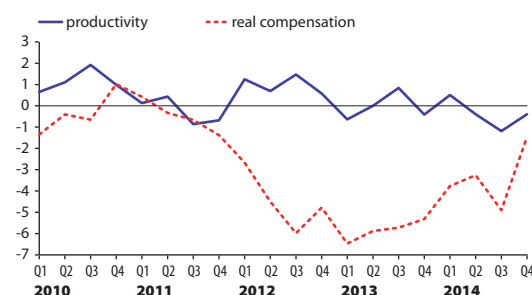
Unit labour costs, determined by the reduction in nominal compensation per employee and productivity change, dropped by 4,3% in 2014 compared with -5,9% in 2013 (**Chart A.25**). In contrast, unit labour costs in the euro area recorded an increase of 1% in 2014, compared with an increase of 1,3% in 2013. Unit labour costs is an important indicator of competitiveness and reflects the cost

CHART A.23 Nominal compensation per employee by sector
(annual change, %)



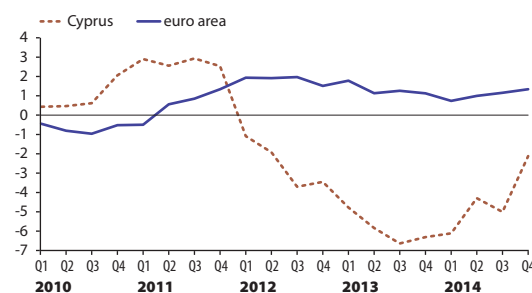
Sources: SDW (ECB), Cystat, CBC.

CHART A.24 Productivity and real compensation per employee
(annual change, %)



Sources: SDW (ECB), Cystat, CBC.

CHART A.25 Unit labour costs: Cyprus and the euro area
(annual change, %)



Source: SDW (ECB).

of labour per unit of output. Therefore, it is important for an economy to maintain the abovementioned indicator low in the medium and long term.

3. Domestic Competitiveness and the Balance of Payments

Effective exchange rate

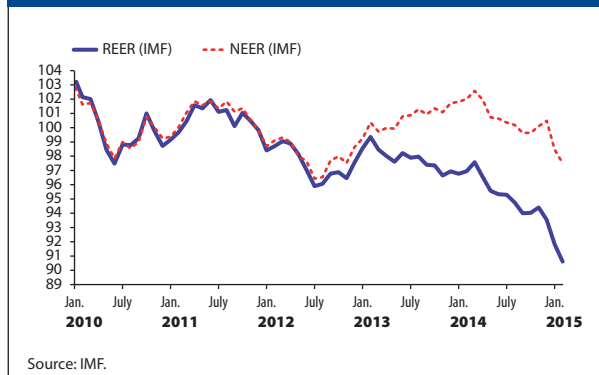
Chart A.26 shows the effective exchange rate (EER)⁷ of the national currency as well as the nominal (NEER) and real (REER) index of EER, as calculated by the IMF. Both indices point to a strong weakening path after 2014Q1 which continued until the first months of 2015. In general, the path of the REER index was influenced by the stronger negative inflation rate recorded in Cyprus in 2014, compared with the inflation rate of our trading partners.

The REER, the inflation rate and unit labour costs are important measures of the competitiveness of the Cyprus economy. Specifically, higher unit labour costs and higher REER in Cyprus compared to competitor countries suggest that domestic export potential will be less competitive with regards to price, while in the domestic market imported goods become relatively cheaper than domestically produced ones. The adoption of measures within the framework of the MoU, which have affected the salaries of civil servants and more importantly those of the private sector, have directly or indirectly helped boost the medium-term competitiveness of the Cypriot economy and the prospects for economic recovery.

7. The effective exchange rate index of the euro in Cyprus in real terms (REER) is calculated by the International Monetary Fund (IMF) and takes into account trade relations between Cyprus and its 19 main partners (countries).

CHART A.26 Real and nominal effective exchange rates (IMF weights)

(Base year 2010=100)



Balance of payments

The current account (CA) balance deteriorated in 2014, reaching a deficit of €885,3 million compared with a deficit of €552,3 million in 2013 (Table A.6). The deterioration of the deficit was mainly due to a worsening in the services balance and the primary income account. In contrast, exports of goods increased significantly during the year, while exports of services remained approximately unchanged. The financing of the current account mainly came from the portfolio account.

Specifically, the trade deficit improved reaching €2.664,9 million in 2014 compared with a deficit of €2.892,8 million in 2013⁸. The improvement was mainly driven by the increase in exports despite the reduction in revenues from merchanting and the increase in imports. The surplus recorded in the services account in 2014 decreased by €277,7 million (Table A.6). This deterioration was due to the increase in imports of services and the marginal deterioration in exports of services. Regarding the latter, a decrease of 8% (or €195,9 million) was observed in transport services, an outcome partly due to the suspended operations of Cyprus Airways, while the other categories of services exports, including tourism, decreased slightly. An increase of 19,8% (or €331 million), indicative of the confidence of foreign companies in the Cyprus banking system, was observed in the financial services category. In contrast, imports of services recorded a significant increase of 5,6%, reflecting increases in most categories, with

TABLE A.6 **Balance of Payments (main categories)**
(€ million)

	Jan. - Dec. 2013	Jan. - Dec. 2014	Change
Current account balance	-552,3	-885,3	-333,0
Goods and services balance	19,6	-30,2	-49,8
Trade balance	-2.892,8	-2.664,9	227,9
Exports of goods	2.747,2	3.163,5	416,3
Imports of goods	5.640,0	5.828,4	188,4
Services balance	2.912,4	2.634,7	-277,7
Exports of services	7.662,1	7.649,7	-12,4
of which:			
Transport	2.453,6	2.257,7	-195,9
Travel	2.178,6	2.121,7	-56,9
Insurance and pension services	19,2	17,7	-1,5
Financial services	1.668,7	1.999,7	331,0
Telecommunications, computer and information services	1.044,9	986,5	-58,4
Other business services	129,7	125,2	-4,5
Imports of services	4.749,7	5.015,0	265,3
of which:			
Transport	1.427,9	1.488,7	60,8
Travel	930,7	944,1	13,4
Insurance and pension services	109,7	124,3	14,6
Financial services	855,8	1.089,9	234,1
Telecommunications, computer and information services	848,7	797,4	-51,3
Other business services	372,2	378,9	6,7
Primary income (net)	-227,0	-459,3	-232,3
Secondary income (net)	-344,9	-395,7	-50,8

Source: CBC.

8. With the introduction of the ESA2010 and BPM 6 statistical methods, total imports and exports of Cyprus include among others a transfer of economic ownership mobile transport equipment and operations of ship-owning companies. More information is provided in Box 1, p. 26 of the December 2014 Economic Bulletin.

major increases occurring in the categories of financial services, insurance and pension services and transport services. More specifically, imports of financial services increased by 27,4% (or €234,1 million), imports of transport services increased by 4,3% (or €60,8 million), while imports of insurance and retirement services recorded a rise of 13,3% (or €14,6 million).

It should be noted that a net deterioration of around €232,3 million was recorded in the primary income account, primarily due to lower income from direct investment, while net secondary income fell by €50,8 million due to non-recurring income in the first half of 2013.

The financing of the current account deficit in 2014 originated mainly from net inflows in portfolio investment due to liquidations of debt securities issued by non-residents (asset decrease) and by the issuance of shares of banking institutions (liability increase). In contrast, a net decrease was recorded during the reporting period both by other investments, mainly due to the significant reduction of central bank liabilities to the Eurosystem as well as by foreign direct investment, primarily due to an increase in assets from equity markets.

Data on the trade balance during the first three months of 2015 show an increase in exports of goods by 45% (or €161,8 million), due to the inclusion of the transfer of economic ownership of mobile transport equipment of € 158,6 million, while imports showed a marginal increase of 0,1% (€1,5 million). As a result, the trade deficit (see. Footnote 8, p. 37) decreased by 20,1% (or €160,3 million) during this period (Table A.7).

TABLE A.7 Trade account (goods)
(€ million)

	Imports	Exports	Trade deficit
2013	4.830,4	1.609,3 ⁽¹⁾	3.221,1
2014	5.133,2 ⁽²⁾	1.441,5	3.691,7
annual % change	6,3	-10,4	14,6
2014 Jan.-Mar.	1.152,8	355,5	797,3
2015 Jan.-Mar.	1.154,4	517,3 ⁽³⁾	637,0
annual % change	0,1	45,5	-20,1

Source: Cystat.

1. Total exports / dispatches for April, September, October and November 2013 include the transfer of economic ownership of mobile transport equipment with total value of €66,9 million and € 24,5 million, €20,6 million and €32,0 million respectively.

2. Total imports/arrivals for September 2014 include the transfer of economic ownership of mobile transport equipment with total value of €176,4 million.

3. Total Exports/Dispatches for January 2015 include the transfer of economic ownership of mobile transport equipment, with total value €158,6 million.

Tourism

According to available data, there was an increase in tourist arrivals of 1,5% in 2014, while income from tourism for the whole of 2014 recorded a reduction of 2,8%. This reduction can be mainly attributed to the crisis in Russia and Ukraine and to the fall in per capita expenditure of 4,3% in 2014 (Table A.8 and Chart A.27). Tourist arrivals in the last months of 2014 were below expectations, recording decreases compared to the corresponding months of the previous year. Specifically, arrivals from Russia increased by 4,6% in 2014 despite the decline recorded in the second half of the year, while a reduction of 2,2% was recorded in tourist arrivals from the UK, the main source country for tourists.

Recent data on tourist arrivals during the first four months of 2015 show a significant increase of 13,7%. If continued, this trend could signal positive prospects during the rest of the year. However, per capita expenditure in the first two months of 2015 decreased by 11,2% as a result of the change in the composition of tourist arrivals and the relative decline in the price of tourist packages compared to last year.

It is also noteworthy that the major efforts to penetrate into new markets appear encouraging based on the increases in the number of arrivals from countries which did not traditionally have a strong presence in Cyprus. At the same time, new types of tourism products are being promoted (e.g. the marina in Limassol and Ayia Napa and plans to build casinos).

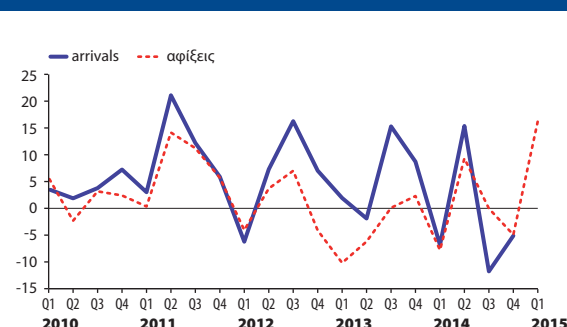
TABLE A.8 Tourism

	Tourist arrivals (thous.)	Tourist receipts (€ million)	Expenditure per person (€)
2013 ⁽¹⁾	2.405,4	2.082,4	865,7
2014	2.441,2	2.023,4	828,9
annual % change	1,5	-2,8	-4,3
2014 Jan. - Feb.	85,9	62,0	721,8
2015 Jan. - Feb.	92,5	59,3	641,0
annual % change	7,7	-4,4	-11,2
2014 Jan. - Apr.	344,4	-	-
2015 Jan. - Apr.	391,5	-	-
annual % change	13,7	-	-

Source: Cystat.

(1) Data for January 2013 are based on Cystat estimations.

CHART A.27 Tourist arrivals and receipts
(annual change, %)



Source: Cystat.

4. Domestic Demand, Production and the Labour Market

Quarterly national accounts

The Cyprus economy recorded negative growth of 2,3% in 2014 compared with -5,4% in 2013. According to detailed data for 2014 (Chart A.28 (a) and A.28 (b)), the slowdown in GDP contraction was mainly due to the marginal improvement in private consumption by 0,4%, reflecting the stabilisation of the economic environment and the recovery in confidence as well as the 5,7% increase in exports of goods and services (Footnote 8, p. 37). In the meantime, reductions were recorded in public consumption and gross fixed capital formation⁹ of the order of 8,7% and 18,8%, respectively.

More recent preliminary data show that GDP recorded an annual improvement of 0,4% in 2015Q1, the first increase recorded since 2011Q2. This growth was mainly due to positive developments in the areas of trade, hotels and restaurants, communication, electricity, education, health as well as the legal and accounting activities, which more than offset the negative rates recorded in other sectors such as mining and quarrying, manufacturing and construction.

Domestic demand

The marginal recovery in domestic demand is confirmed by recent economic indicators. Specifically, the Economic Sentiment Indicator (Table A.9) rose from 103,2 in December 2014 to 107,3 in April 2015, reaching its highest point since September 2008. The turnover index of retail trade

9. With the introduction of statistical methods ESA2010 and BPM6, the gross fixed capital formation includes transfer of economic ownership, mobile transport equipment and operations of ship owning companies.

CHART A.28(a) Quarterly GDP growth (expenditure categories)
(annual change, %)

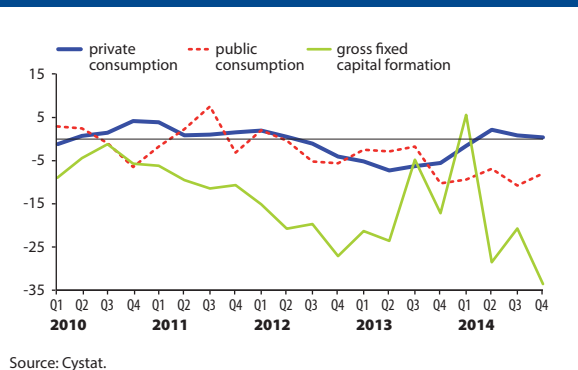


CHART A.28(b) Quarterly GDP growth (expenditure categories)
(annual change, %)

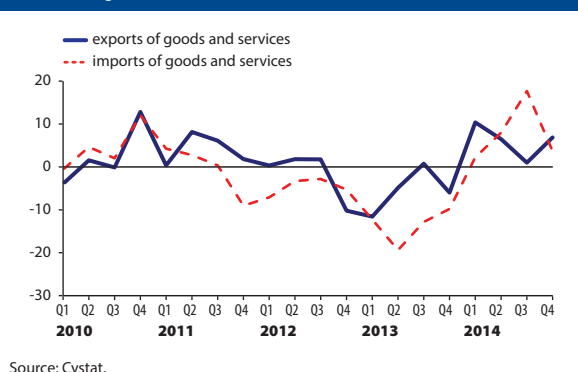


TABLE A.9 Business and consumer surveys: confidence indicators

(for sub-indices: difference between percentages of positive answers and percentage of negative answers)

	2014 June	2014 Sep.	2014 Dec.	2015 Mar.	2015 Apr.
ESI	99,9	100,1	103,2	102,6	107,3
Industry	-9	-9	-11	-8	-3
Services	5	6	11	12	17
Consumer	-28	-31	-20	-32	-22
Retail trade	-13	-12	-11	-12	-8
Construction	-48	-47	-50	-44	-43

Source: European Commission.
Note: Seasonally adjusted data.

(Chart A.29) recorded positive growth rates in the first two months of the year, while a notable improvement was observed in the services sub-index. In addition, the registrations of motor vehicles are continuing their increasing trend, rising by 12,3% in 2015Q1 compared to 2014Q1 (Chart A.30).

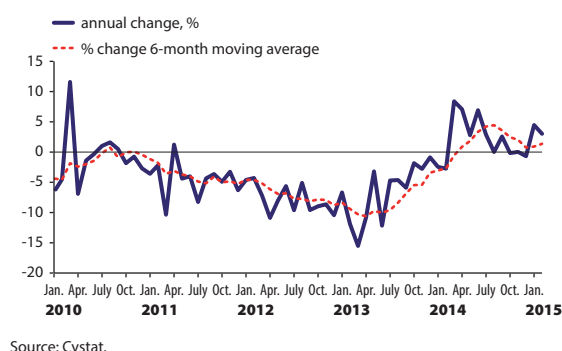
However, the construction sector index continues to fluctuate at very low levels. Regarding credit card payments, local cardholder spending in Cyprus decreased by 1,7% in 2015Q1 compared with 2014Q1, while foreign cardholder spending in Cyprus increased by 15,2% over the same time period (Chart A.31). The decline in payments by local cardholders mostly reflects the reduced spending on petroleum purchases (-11%) and on government utilities (-5,9%).

At the same time, lending to the domestic private sector registered a marginal decline of 0,2% in March 2015, compared with a reduction of 4,2% in the same month of 2014. This was a result of the granting of new loans by banks, which was offset to a large extent by the continuing deleveraging efforts and the correction of corporate balance sheets.

Construction

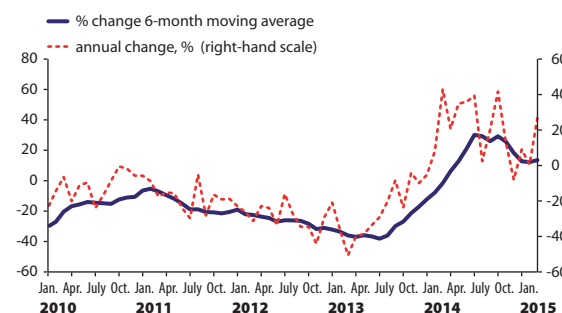
The construction sector in Cyprus continued to be in recession as confirmed by relevant indicators of the production activity of the sector, which exhibited significant declines. House prices also followed a negative path, whilst companies in the real estate sector continued to deleverage. The most important challenges that the construction sector is currently facing are the contraction of the banking system (but this contradicts previous arguments about the banking sector stabilising), evidenced by the reduced amounts of

CHART A.29 Retail sales (excluding motor vehicles)



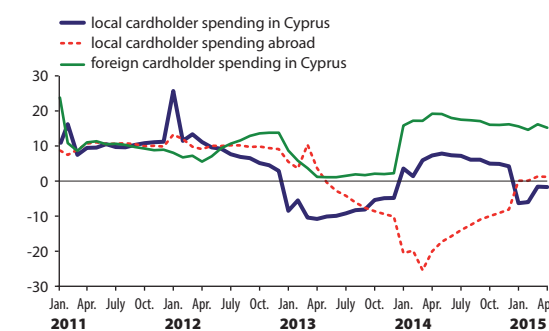
Source: Cystat.

CHART A.30 Registration of motor vehicles



Source: Cystat.

CHART A.31 Credit card spending
(cumulative annual % change from January)



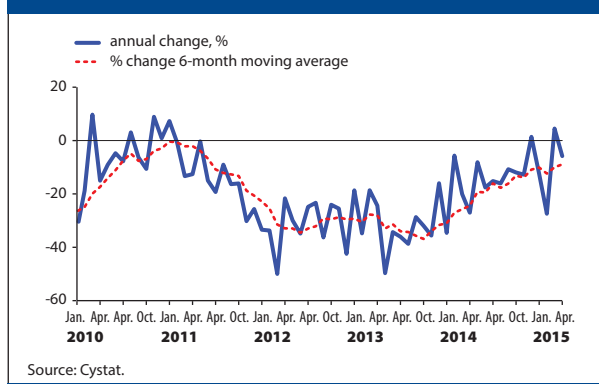
Source: JCC Payments System Ltd.

credit facilities and deposits and the non-performing loans of the real estate companies and households. Other challenges include the expectations for further reductions in property prices which lead to postponement of purchasing decisions, the uncertainty in the labor market and the increased supply of properties in the secondary market by households and companies in need of liquidity. On the positive side, demand for properties is increasing and interest rates on mortgage loans are decreasing. In addition, the enactment of the insolvency and foreclosure law keeps the Cyprus adjustment programme on a smooth trajectory, which is expected to normalise market conditions.

Specifically, construction activity stood at very low levels, as evidenced by the index of production in construction, published by the Cyprus Statistical Service (Cystat). This index recorded an average of 42,3 in 2014 compared with an average of 51 and 72,7 in 2013 and 2012, respectively. This was the lowest level since 2000, when data started to be published. The continued recession in the construction sector is also confirmed by the local sales of cement, which in the first quarter of 2015 reached their lowest level (97.155 tonnes) since 2002, when data started to be published. However, the fact that the decline in the rates of local sales of cement exhibit continued deceleration (**Chart A.32**) shows that the construction sector may have started to stabilise. The low construction activity has resulted in low demand for construction materials. This is reflected in the price index of construction materials, which recorded an annual decline of 1,2% in 2015Q1.

The greatest challenge currently faced by the property sector is the limited liquidity of buyers and land developers, which is directly

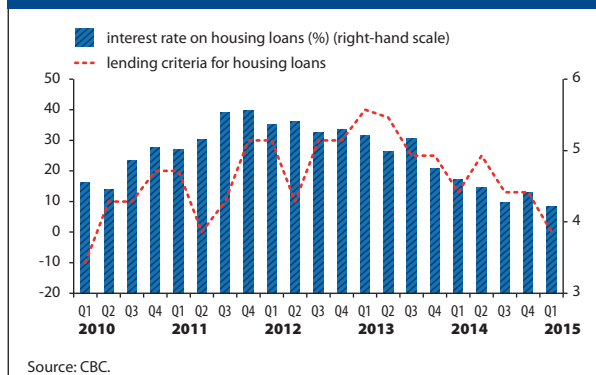
CHART A.32 Sales of cement



connected with the increases of non-performing loans in the construction sector. The deleveraging of the sector can be observed in the monetary and financial statistics of the CBC where housing loans (residents and non-residents) have exhibited negative annual percentage changes since February 2013. It is worth mentioning, however, that new loans have been granted to the real estate sector as from the beginning of 2015. The decrease in interest rates on housing loans, as observed in the aforementioned statistics, is also considered to be a positive development. Specifically, the average interest rate on housing loans in March 2015 was 3,76% compared with 4,45% in February 2015 and 4,54% in March 2014 (**Chart A.33**). Despite this decrease, interest rates on housing loans in Cyprus remain high compared with respective rates in other euro area countries. Furthermore, according to the CBC's Bank Lending Survey lending criteria have become continuously stricter since 2010 onwards (**Chart A.33**), constraining the access to finance by individuals and companies in the real estate sector.

As a result of the difficulties relating to the access to finance and the relatively low level of demand for properties, property prices continue to decrease, albeit at a decelerating pace. According to the CBC *Residential Property Price Index*¹⁰ (houses and apartments), residential property prices in Cyprus recorded an annual decline of 6,5% in 2015Q1, compared with 8,2% and 8,9% in 2014Q4 and 2014Q3, respectively. The continued decreases in prices are making properties more affordable to prospective buyers. This is also reflected by the sale contracts deposited with the Department of Lands and Surveys, which recorded an annual increase of 15,8%

CHART A.33 Lending criteria and interest rate on housing loans



10. The results presented refer to the RPPI before the revision of the series that occurred in 2015Q1.

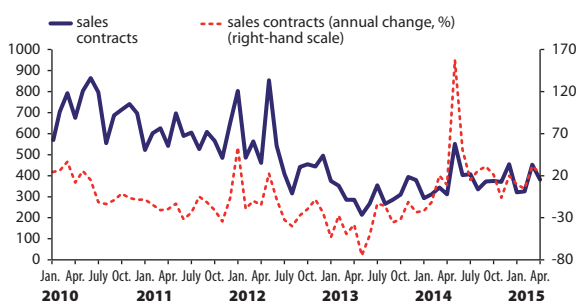
for the whole of Cyprus in 2015Q1. However, the level of sales still remains at relatively low levels (**Chart A.34**). On a positive note, the building sentiment indicator, which is published in the Business and Consumer Surveys of the European Commission, recorded less negative levels. Specifically, in April 2015 the indicator was -42,9 and in 2015Q1 was, on average, -46 compared with on average -53,7 and -61,4 in 2014Q1 and 2013Q1, respectively (**Chart A.35**).

While the prospects of the construction sector remain broadly negative, these are considered to be less negative compared with previous periods. Specifically, the number of authorised building permits exhibited signs of stabilisation in the first two months of 2015 compared with the first two months of 2014 (**Chart A.36**). The index of property price expectations for the next three months recorded a less negative figure in April 2015 (-14,4) and in 2015Q1 (on average -17) compared with 2014Q1 (on average -37,6) (**Chart A.35**). In addition, the index of employment expectations for the next three months in the construction sector recorded a positive figure in April 2015 (0,6), compared with -11,9 in April 2014. This was the first positive figure of the index since September 2008, something which reflects the gradual improvement of market conditions.

Labour market

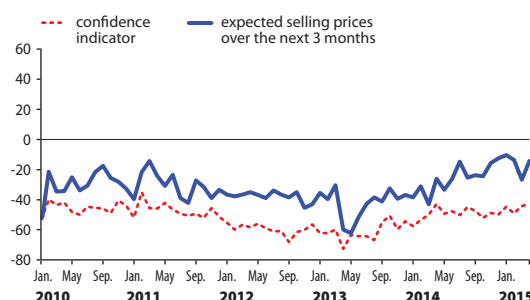
In line with the lower contraction of the economy recorded in 2014, employment registered an annual reduction of 1,9% compared with a reduction of 5,3% in 2013 (**Chart A.37**, p. 45). At the same time, total hours worked declined by 2,9% in 2014 compared with 2013, and therefore a 1% drop

CHART A.34 Sales contracts (total of locals and foreigners)



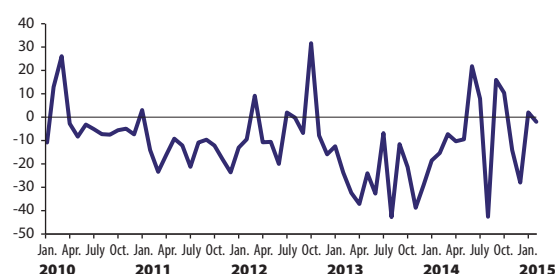
Source: Department of Lands and Surveys.

CHART A.35 Construction confidence indicators



Source: EC.
Note: Seasonally adjusted data.

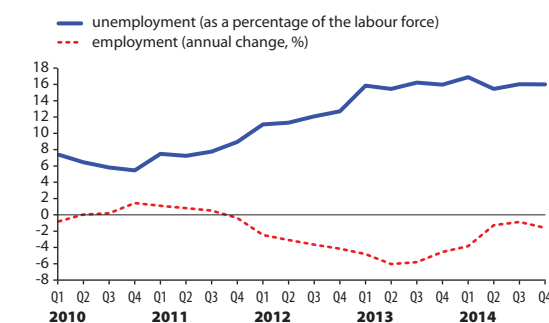
CHART A.36 Building permits authorised (% change previous year)



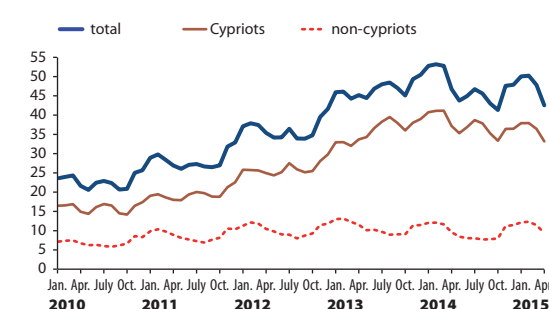
Source: Cystat.

was registered in hours worked per employee. Despite the drop in employment, unemployment remained at the same levels in 2014 as in the previous year. During 2014 there was also a change in the composition of unemployment, mostly due to the significant reduction of foreign workers (mainly from EU) and the parallel increase of Cypriot unemployed as a percentage of the labour force. According to data from the Labour Force Survey (LFS), unemployment as a percentage of the labour force reached 16,1% in 2014, compared to 15,9% in 2013. It should be noted that in 2014Q3 and Q4 unemployment stood at 16%, signalling a stabilising trend, a result of the lower than expected contraction of the economy.

However, according to the number of registered unemployed (**Chart A.38**), for which we have more recent monthly data from Cystat available up to April 2015, a substantial drop in unemployment is observed. Specifically, registered unemployment fell by 9% in April 2015 compared to the same month of 2014 (from 46,8 thousand to 42,5 thousand registered unemployed). Regarding the breakdown between Cypriots and non-Cypriots, unemployment for Cypriots declined by 10,7% (3,989 people) in April 2015, while for non-Cypriots there was a reduction of 2,3% (218 people). In times of economic crisis with prolonged levels of high unemployment, it is of particular importance to monitor unemployment by durations (**Chart A. 39**). According to LFS data, the unemployment rate with a maturity of equal to or greater than six months reached 10,1% in 2014Q4, compared with the historic high of 11,1% in 2014Q1. According to the latest registered unemployment data from Cystat, the number of registered unemployed with a

CHART A37 Unemployment and employment


Source: Cystat (LFS).

CHART A.38 Registered unemployment
(number of unemployed, thousands)


Source: Cystat.

CHART A.39 Unemployment by duration
as a percentage of the labour force


Source: Cystat (LFS).

duration of six months and over decreased by 1,707 people in April 2015, compared with the same month of 2014.

5. Domestic Fiscal Developments

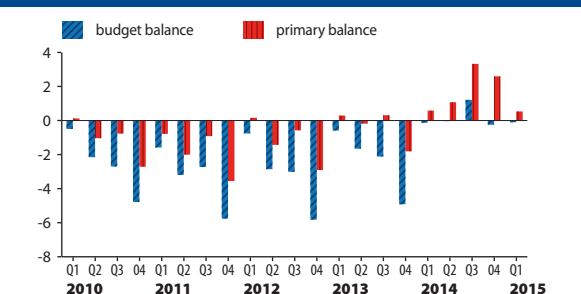
Current fiscal developments

The general government budget deficit-to-GDP ratio reached 8,8% in 2014 (**Chart A.40**). This is due to the incorporation in the budget deficit figure of the amount relating to the equity injection to restore the capital base of the Co-operative Central Bank (CCB) totalling 8,6% of GDP. According to preliminary data published by Cystat, the general government accounts relating to 2015Q1 demonstrates a small budget deficit-to-GDP ratio of 0,1%, unchanged compared with the corresponding quarter of the previous year once the impact of the aforementioned equity injection is excluded (**Chart A.40**). This development relating to 2015Q1 is attributable to the annual reduction of 3,3% in expenditure, which was offset almost entirely by the annual reduction of 3,1% in revenue (**Chart A.41**). Moreover, the primary balance-to-GDP ratio exhibited a surplus of 0,5% over 2015Q1 compared with a slightly larger surplus of 0,6% over the corresponding period of the previous year, excluding the impact relating to the equity injection to restore the capital base of the CCB (**Chart A.40**). According to the European Commission spring forecast (May 2015), the budget deficit-to-GDP ratio for 2015 is projected at 1,1%. This forecast is based on a real GDP growth rate of -0,5%, a rate which is not realistic given the flash estimate of a growth rate of 0,4% published by Cystat for 2015Q1.

Regarding public revenue, the aforementioned annual decrease of 3,1% over 2015Q1

CHART A.40 Budget and primary balances of the general government

(cumulative for the period as from Q1 as a percentage of GDP)

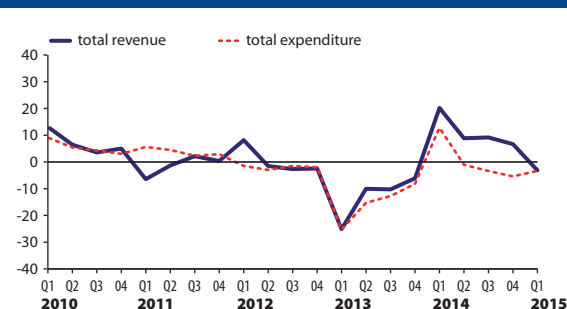


Source: Cystat, CBC.

Note: The budget and primary balance of the general government for the first quarter of 2014 includes the equity injection to restore the capital base of the Co-operative Central Bank (€1,500,0 million).

CHART A.41 Total revenue and expenditure of the general government

(cumulative for the period as from 1st quarter, annual change, %)



Source: Cystat.

Note: Total expenditure for the first quarter of 2014 includes the equity injection to restore the capital base of the Co-operative Central Bank (€1,500,0 million).

(Table A.10) is primarily due to the decrease observed in the category "current taxes on income, wealth, etc." reflecting mostly the reduction in receipts relating to the special contribution for defence. This development is partly due to the decrease in revenues relating to taxes on dividends and interest. On the spending side (Table A.10), the 3,3% annual reduction in public expenditure in 2015Q1 reflects the reductions across almost all categories (an annual increase of 19,1% was recorded in the category "other current expenditure") and relates mainly to the annual decline of 6,1% in expenditure for social benefits (Table A.10). This development is partly due to lower expenditure on unemployment benefits and redundancy payments due to the correction that has started to be observed in the labour market.

The general government consolidated gross debt-to-GDP ratio reached 107,5% as at end-2014. For the year under consideration, according to the most recent data available by Cystat, the debt-to-GDP ratio stabilised at 107,3% as at end of 2015Q1 (Chart 42). This development reflects the primary surplus of 0,5% of GDP (Chart A.40, p. 46) and negative stock-flow adjustments (0,8% of GDP, mainly due to the reduction in government deposits) over the period under consideration. The aforementioned positive developments were largely offset by the burden for servicing the public debt (1,1% of GDP).

6. Macroeconomic Forecasts for the Cyprus Economy

6.1 Eurosystem

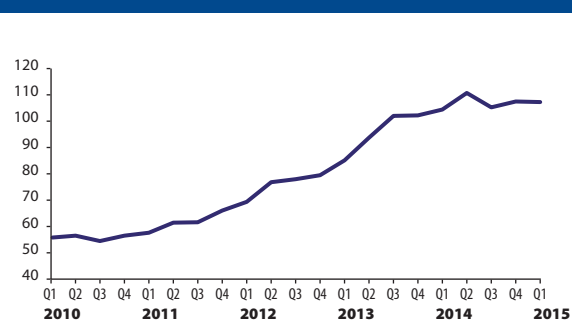
The Eurosystem prepares and publishes forecasts for the euro area economy twice a year. These forecasts are used by the ECB's

TABLE A.10 Accounts of general government

	Jan.- Mar. 2014 (€ million)	Jan.- Mar. 2015 (€ million)	Change %
EXPENDITURE			
Intermediate consumption	128,7	117,0	-9,1
Compensation of employees	533,6	527,6	-1,1
Social transfers	605,9	569,1	-6,1
Interest	124,5	111,2	-10,7
Subsidies	32,3	30,3	-6,2
Other current expenditure	112,8	134,4	19,1
Gross fixed capital formation	46,8	41,6	-11,1
Other capital expenditure ⁽¹⁾	17,1	16,9	-1,2
Total expenditure	1.601,7	1.548,1	-3,3
Total expenditure as a % of GDP	9,1	8,9	
REVENUE			
Taxes on production and imports	589,4	608,3	3,2
Current taxes on income, wealth, etc	442,2	387,6	-12,3
Social contributions	379,8	392,6	3,4
Other current resources	65,9	37,3	-49,9
Sales	101,2	103,7	2,5
Capital transfers received	0,8	0,4	-50,0
Total revenue	1.579,3	1.529,9	-3,4
Total revenue as a % of GDP	9,0	8,8	
Surplus (+) / Deficit (-)	-22,4	-18,2	
Surplus (+) / Deficit (-) % of GDP	-0,1	-0,1	

Sources: Cystat, CBC.
(1) Includes equity injection to restore the capital base of the Cooperative Central Bank (€1.500,0 million).

CHART A.42 General government consolidated gross debt (as a percentage of GDP)



Source: Eurostat, Cystat, CBC.

Governing Council for the evaluation of economic developments as well as the risks that may arise, in particular with regard to price stability. National central banks and ECB technocrats work together to prepare these forecasts based on common working assumptions. Within this context, the CBC prepares the forecasts for the domestic economy.

Working assumptions

Macroeconomic forecasts for Cyprus are based on common euro area working assumptions about the economy, commodity prices and financial data. These assumptions are the same as those used by the Eurosystem to prepare the respective macroeconomic forecasts in the euro area and include, among other things, estimates of interest rates, exchange rates, the price of oil and international trade, and are based on available data as at 12 May 2015. These projections are used to evaluate economic developments and the risks to price stability by the ECB's Governing Council, which is responsible for monetary policy in the euro area.

Regarding the working assumption for exchange rates, the euro is expected to fluctuate around \$1,12 in 2015 and 2016. As regards the price of oil, it is expected to reach an average of \$63,8 per barrel in 2015, while in 2016 it is expected to reach \$71. It should be noted that the forecasts for the domestic economy were prepared by taking into consideration the fiscal measures that have been approved by parliament or that have already been defined in detail by the government and are likely to pass the legislative process based on the relevant ECB methodology.



1

Introduction

2

Macroeconomic
Developments and
Projections

3

Statistical Annex

Eurosystem projections for the euro area

Based on the above assumptions, inflation in the euro area is expected to reach 0,3% in 2015 (Table A.11), compared with 0,4% in 2014. In 2016, inflation is expected to reach 1,5% while the growth rate of the HICP excluding energy and food prices is expected to record further growth. The GDP growth rate in the euro area is expected to increase in 2015, ranging around 1,5%, while in 2016 it is expected to record a further increase of 1,9%. The projected recovery in GDP during the period under review reflects the envisaged gradual increase in domestic demand.

6.2 Projections for the Cyprus economy

This section analyses the updated estimates of the CBC as developed within the framework of the Eurosystem projections. With respect to 2015, GDP projections recorded a slight improvement compared with the forecast of the CBC published recently in its *Annual Report*.

The upward revision mainly reflects the publication of the real GDP flash estimates figure for 2015Q1, which was more positive than expected and was not available during the preparation of the *Annual Report*.

Prices: HICP

Inflation in Cyprus is expected to register a negative growth rate of around -1% in 2015 compared with -0,3% in 2014 (Table A.12). This mainly reflects the continued decline in oil prices. Inflation excluding energy is projected to be marginally positive reaching 0,1% in 2015 from 0% in 2014. Prices excluding energy and food are expected to

TABLE A.11 Eurosystem projections for the euro area
(annual change, %)

	2014	2015f	2016f
GDP			
June Projections 2015	0,9	1,5	1,9
December Projections 2014	0,8	1,0	1,5
Inflation			
June Projections 2015	0,4	0,3	1,5
December Projections 2014	0,5	0,7	1,3

Source: ECB.

TABLE A.12 HICP projections
(annual change, %)

	2014	2015f	2016f
HICP	-0,3	-1,0	0,9
HICP excluding energy	0,0	0,1	0,5

Sources: Cystat, CBC.

record negative inflation of around -0,3%, reflecting mainly reduced labour costs.

Inflation is expected to be around 0,9% in 2016 affected mainly by the anticipated small domestic economic recovery. Excluding energy, inflation is projected to be around 0,5%.

Earnings, productivity and labour market

Following the recent positive preliminary GDP data for 2015Q1, the labour market is expected to record the first signs of improvement. Specifically, while employment recorded a contraction of 1,6% in 2014Q4, with the expected further improvement in the economic climate in 2015, employment is projected to record positive growth rates, reaching 0,2% in 2015. The unemployment rate, as defined by the LFS, is expected to be reduced in 2015 at to 15,3% from 16,1% in 2014, with further improvement expected in 2016, reaching 14,2%. The path followed by the unemployment rate has thus far been milder than that forecast by our international creditors, mainly due to the significant reduction of foreign workers in Cyprus and the flexibility exhibited by the Cypriot labour force, both in relation to wages as well as its willingness to seek employment abroad.

The rate of change of compensation per employee is expected to record a decrease of -0,3% in 2015, mainly due to lower retirements from the public sector and a consequent reduction of gratuities. A small 0,3% increase is expected to be recorded in 2016, following the GDP recovery path.

Mirroring the developments in compensation per employee, unit labour costs are expected to decrease in 2015 by -0,6% and to record a further -0,4% reduction in 2016.



1

Introduction

2

Macroeconomic
Developments and
Projections

3

Statistical Annex

National accounts

According to the latest preliminary figures for 2015Q1, GDP registered an annual increase of 0,4%. The better than expected growth reflects the trend of almost all the main production sectors except construction. From existing data, and in conjunction with leading economic indicators, the Cyprus economy is projected to record a marginal recovery of 0,5% in 2015 (Table A.13). This forecast also includes the preliminary data for 2015Q1. However, it should be viewed as conservative as it accounts for the possibility of negative quarterly GDP growth rates in some of the subsequent quarters.

In particular, private consumption is expected to record an increase of 1,9% in 2015, mainly reflecting the increase in disposable income due to the decline in energy prices but also the lower interest rates and reduced unemployment. As regards public consumption, a decline of 1,8% is expected, mainly reflecting the reduction of retirement gratuities, as well as the ongoing reduction in public sector employment. Gross fixed capital formation, which reached historically low levels in 2014, is expected to record growth of 12,8% in 2015 due to the implementation of agreed development projects, such as the two marinas in Larnaca and Ayia Napa, which are expected to begin in the second half of 2015.

At the same time, the increase in new loans granted (see **Box 2**, p. 52) is expected to support economic recovery. Exports of goods and services are expected to register an increase of 3,5%, driven mainly by a marginal increase in revenues from tourism, which is anticipated to be affected positively by countries outside the euro area due to the depreciation of the euro, thus offsetting to a



1

Introduction

2

Macroeconomic
Developments and
Projections

3

Statistical Annex

Box 2: Economic uncertainty and forecasts for the Cyprus economy

Over the recent years, the Cyprus economy has been experiencing a deep crisis. Even though the first optimistic signs of recovery are now visible, the return to a stable, healthy and dynamic path of sustainable growth remains fragile. Continued efforts are still needed to ensure the achievement of all the economic adjustment programme objectives. These relate to the restructuring and reorganisation of the Cyprus economy, which thus far have been achieved to a very satisfactory level.

The economic adjustment programme included, among other measures, the bail in of banks' own resources and hence entailed a strong element of endogenous uncertainty. When the economic adjustment programme was initially designed before March 2013, the impact of the unprecedented measures on public finances and the banking sector was extremely uncertain to predict given the fact that the economy was already in recession and the banking system was weak¹.

The increase in uncertainty worsened the economic climate and hindered the prospects for an exit from the crisis. It also had, and still has, an impact on the process of economic analysis and forecasting of macroeconomic variables. In such an envi-

ronment, it is very natural for economic forecasts and analyses to be conservative, with a tendency to err on the side of caution. In the case of Cyprus, and in contrast to other euro area economies which were or are currently subject to an economic adjustment programme, the relevant Troika forecasts were consistently and significantly more pessimistic than the actual outcomes during the last two years. This was documented in the previous edition of the CBC *Economic Bulletin* (see **Box 2**, p. 75 in the December 2014 issue). In addition to the official Troika forecasts, it should also be noted that the forecasts of the Ministry of Finance and the CBC were also conservative but to a lesser extent than those of the Troika. However, as more data became available over time, the CBC forecasts converged more quickly to the actual outcome than those of the Troika.

As mentioned above, in an environment characterised by economic uncertainty, it is very natural to err on the side of caution and to be biased in favour of the production of pessimistic rather than optimistic forecasts. It should be noted, however, that the usefulness of this principle of prudence has its limits in relation to the degree to which it is applied. Beyond some point, excessive prudence leads to adverse outcomes. More specifically, overly cautious forecasts can create a

1. The unusually high level of uncertainty prevailing at the time led to the incorporation of significant amounts of buffers in the financial assistance programme most of which, as it turned out in retrospect, were not used over the course of the implementation of the programme. For example, while €2,5 billion from the loan was allocated to cover the needs of the banking system (excluding former Cyprus Popular Bank and Bank of Cyprus), only €1,5 billion was used (for the co-operative credit sector). Also, in order to cover for the possible extreme scenarios, the programme provided for the isolation of Cypriot banks operating in Greece (through the sale of the branches of Cypriot banks in Greece in order to avoid transmission of possible adverse shocks to the banking systems in Greece and the euro area in general).

vicious cycle of negative economic climate and expectations fuelled by self-fulfilling prophecies. In other words, if consumers and investors believe that the most pessimistic scenarios for the economic outlook are true their economic behaviour will be adversely affected, which in turn reinforces the initial pessimistic forecasts. This is particularly problematic when there are signs pointing to an exit from a crisis but excessive conservatism in the production of economic forecasts creates unnecessary setbacks and additional uncertainty.

The most recent macroeconomic forecasts for the Cyprus economy produced by domestic and international organisations (Table 1) underline the importance of producing conservative projections but without being excessively pessimistic. Specifically, in April 2015 the Economics Research Centre of the University of Cyprus (CypERC) announced its forecast of a 0,9% contraction in real GDP for 2015. In May, the European Bank for Reconstruction and Development (EBRD) announced its forecast for growth in the Cyprus economy of around 0,5% in 2015. Subsequently, the European Commission's spring forecast that was based on approximately the same set of economic indicators together with the Troika forecasts, predicted a contraction in real GDP of 0,5%. It should be noted that up until end-April 2015, when discussions between the Cypriot authorities and the Troika on the issue of economic projections were ongoing, many leading economic indicators for Cyprus were pointing to the reversal of the negative trends observed in the previous two quarters and the exit of the economy from the

TABLE 1 Comparison of real GDP projections
(annual change, %)

		2014	2015f
University of Cyprus ⁽¹⁾	April 2015	-2,3	-0,9
European Commission	May 2015	-2,3	-0,5
EBRD	May 2015	-2,3	0,5
CBC	June 2015	-2,3	0,5

Sources: University of Cyprus, European Commission, EBRD, CBC.

(1) Relates to the projection published in April 2015 by the University of Cyprus Economic Research Centre in its Economic Outlook.

TABLE 2 Economic Indicators as at 30 April 2015
(annual change, unless otherwise indicated)

	2014	2015	Period
Economic Sentiment			
Indicators (ESI) - Index	97,5	107,3	April
Registered Unemployed			
(number, seasonally adjusted)	48.353	44.113	April
Turnover volume index of retail trade			
(2010=100)	-2,74	3,8	Jan.-Feb.
Registration of motor vehicles	11,3	12,3	Q1
Foreign cardholders spending in Cyprus	17,2	16,2	Q1
Tourist arrivals (period)	-7,8	16,2	Q1
Tourist arrivals (month)	-16,3	25,7	March
Receipts from tourism (period)	-5,4	-4,4	Jan.-Feb.
Title deeds issued	311	381	April
MFI loans to domestic private sector	-4,2	-0,2	Q1
MFI loans to domestic Non			
Financial Corporations	-2,0	0,0	Q1

Sources: University of Cyprus, Cystat, CBC.

crisis (Table 2). In hindsight, the negative outlook for the Cyprus economy, as captured in the Commission's spring forecast, created a cycle of negative publicity which was unfortunate given the uncertain economic climate prevailing at the time. Within days of the announcement of the aforementioned negative forecasts, Cystat published the flash estimate of the real GDP growth rate for 2015Q1, which stood at 0,4% on a year-on-year basis compared with the corresponding quarter of 2014. On a quarter-on-quarter basis, a

very significant increase of 1,6% was recorded. On this occasion, three organisations reported very different projections on the basis of approximately the same information, thus generating uncertainty in the markets regarding the recovery of the economy, despite the emerging an emerging favourable climate that was created after Cyprus successfully borrowed from the international markets in April 2015.

It should be noted that the release of the more positive than expected real GDP estimate for 2015Q1 led to the Troika forecasting positive growth. It also led the CBC to revise upwards its 2015 forecast from 0,2% to 0,5% following the release. This data release led to an upward revision of the CBC real GDP projections close to those produced prior to the Russian-Ukrainian crisis. The crisis had a negative impact on 2014Q3 and Q4, and consequently the prospects for 2015. In fact, the data for the first quarter allayed concerns that the impact of adverse developments at the end of 2014 would have a significant effect on developments in 2015.

Besides the negative climate generated in May 2015 by the overly conservative Troika forecasts, the potential adverse effect on international markets due to the production of pessimistic forecasts, mainly by the European Commission, should also be noted. Specifically, even after the release of the real GDP flash estimate by Cystat for the first quarter, the rating agency DBRS announced in early June its forecast for a contraction of 0,5% in 2015, possibly influenced by the forecasts of the European Commission. This was despite

the fact that the release of the flash estimate for 2015Q1 pointed to a recovery of the Cyprus economy

To conclude, the importance of producing prudent forecasts, especially during a period of very high uncertainty, cannot be underestimated. However, excessive use of this principle could adversely affect the path of economic recovery and create even more uncertainty. The principle of conservatism as regards the production of economic forecasts can become negative if it creates a vicious cycle of negative economic climate and expectations fuelled by negative self-fulfilling prophecies. This principle may also adversely influence, to the extent that it is adopted by international lenders, other participants in international markets. Therefore, increased caution is required in the production of economic forecasts as well as in their interpretation, especially during periods of unusually high uncertainty.

large extent the expected reductions in arrivals from Russia. Imports of goods and services are expected to record an increase of 4,9% in 2015.

A further recovery in GDP of the order of 1,6% is expected in 2016. In particular, private consumption is expected to record a recovery of 2,2%, while gross fixed capital formation is expected to grow by 10,2%. The borrowing that may arise both from the Cypriot banking system as well as through European funds is expected to have a positive impact on gross fixed capital formation. A continued decrease of 1% in government consumption is expected, mainly due to the ongoing reduction in public sector employees. Exports and imports are expected to increase by 4,1 % and 6,2%, respectively.

Risk assessment of macroeconomic forecasts

Forecasts for inflation (Table A.12, p. 49) and GDP (Table A.13), as previously reported, are considered modal and as the most likely outcomes given the working assumptions of the Eurosystem. However, owing to the tentative nature of the assumptions, the projections are subject to uncertainty.

The probability of GDP, HICP inflation and HICP inflation excluding energy forecasts lying around their respective modal projections is depicted in Charts A.43, A.44, p. 56 and A.45, p. 56, respectively. The three confidence intervals show the bands in which GDP, HICP inflation and HICP inflation excluding energy are expected to lie with a probability of 50%, 70% and 90%. For example, the darkest band includes the modal projection and covers 50% of the probability.

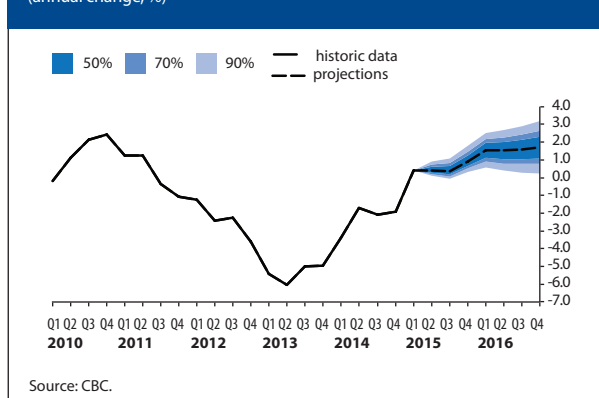
The probability distribution, which is based

TABLE A.13 National accounts projections in real terms
(annual change, %)

	2014	2015f	2016f
GDP	-2,3	0,5	1,6
Private consumption	0,4	1,9	2,2
Public consumption	-8,7	-1,8	-1,0
Gross fixed capital formation	-18,8	12,8	10,2
Exports of goods and services	5,7	3,5	4,1
Imports of goods and services	8,1	4,9	6,2

Sources: Cystat, CBC.

CHART A.43 Real GDP fan chart
(annual change, %)



both on statistical methodology and on expert judgment, can be either normal or two-piece normal with a degree of asymmetry around the modal projections. In particular, the skewed distribution is separated into two unequal parts, above and below the modal forecast. Moreover, the bands of the fan charts widen as the time horizon is extended, indicating the increasing uncertainty of outcomes in the longer term.

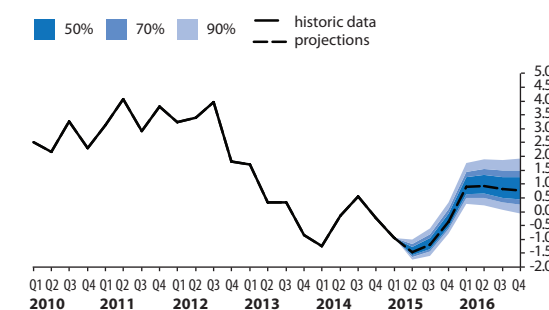
The upward risks for real GDP seem to predominate (**Chart A.43, p. 55**) for 2015. In particular, a further improvement of confidence is expected to positively influence the recovery of the domestic economy, mainly through private consumption. Moreover, the possibility of exploiting natural gas in the coming years (not included in the baseline scenario) will positively affect the economic prospects of the Cyprus economy. The creation of casinos in Cyprus, with the legal framework already in place, is expected to improve our tourism product.

The recent application by Cobalt airline to register as a Cypriot company and to operate 7-10 aircraft from Cyprus, could also affect positively tourist arrivals through improved accessibility to the island. As regards 2016, the upward risks are considered to be equal to the downside risks.

However, there are also significant downside risks relating mainly to the developments in Greece. In addition, if the sanctions imposed on Russia extend beyond 2016, exports of services, such as tourism, business and other financial services may be adversely affected. Additional significant downside risks relate to the further deterioration in credit conditions. Finally, a further deterioration in the real estate sector could negatively affect the construction sector.

CHART A.44 HICP fan chart

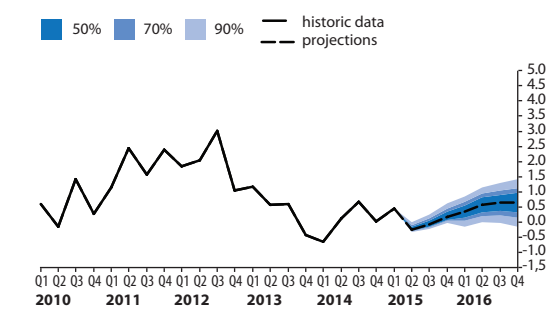
(annual change, %)



Source: CBC.

CHART A.45 HICP excluding energy fan chart

(annual change, %)



Source: CBC.

With regard to HICP, the most significant upward risks for 2015 and 2016 (**Chart 44, p. 56**) relate to the possibility of a better than expected domestic economic environment and the likelihood of higher oil prices and/or the depreciation of the euro against the dollar. In contrast, the likelihood of a potential deterioration of external demand for services (e.g. unfavorable economic climate in Russia) and a deterioration in credit conditions may push inflation lower than that envisaged in the baseline scenario.

Taking into account the above risks, it is noted that any upward deviations regarding the dominant projected HICP are more statistically probable. As regards the HICP excluding energy, downside risks are consistent with the risks to GDP (**Chart 45, p. 56**).



1

Introduction

2

Macroeconomic
Developments and
Projections

3

Statistical Annex

Statistical Annex

Explanatory notes for Statistical Annex

The statistical annex contains data on, mostly, the domestic economy and, where possible, longer time series than in the main body of the *Bulletin*. In the notes below, there is aggregate information on the aforementioned data, including explanations for both the subcategories and the sources of the data. The most recent data are, in general, preliminary and thus may need to be revised in future editions of the *Bulletin*.

Table B.1 shows the bilateral exchange rates of selected currencies against the euro. The source of the data is Bloomberg.

Tables B.2-B.7 refer to the Consumer Price Index (CPI), which is published on a monthly basis by Cystat with 2005 as the base year. **Table B.2** shows both the national CPI and the HICP. Even though the two indices exhibit similar fluctuations, they differ in two respects. First, the expenditures of charitable institutions (i.e. nursing homes, religious organisations, etc.) and foreign tourists are included in the HICP but not in the national CPI. The second difference concerns imputed rents, which were included in the national CPI until 2005 but not in the HICP. Since January 2006, only part of the imputed rents is included in the national CPI.

Tables B.2 and B.3 show the percentage change in the CPI by economic category and the corresponding weighted

contribution to the total change in the CPI by economic category, respectively. **Tables B.4 and B.5** present the percentage change in the CPI by category of goods and services and the corresponding weighted contribution to the total change in the CPI by category of goods and services, respectively. **Tables B.6 and B.7** show the percentage change in the CPI for prices of services and the corresponding weighted contribution to the percentage change in prices of services, respectively.

Table B.8 presents the balance of payments of Cyprus which records the transactions between residents and non-residents. The balance of payments is divided into the current account and the capital and financial account which, because of the double entry principle, must be equal with opposite signs. **Table B.9** shows the trade balance of Cyprus, which records the trade in goods between residents and non-residents of Cyprus. **Table B.10** shows the international investment position of Cyprus, namely the assets and liabilities of residents over non-residents. The data for **Tables B.8, B.10 - B.12** are collected and compiled by the CBC and are based on the IMF's methodology ("BPM5"). **Table B.9** is prepared and published by Cystat.

Table B.11 shows tourist arrivals and revenue from tourism as published by Cystat and based on the results of the monthly Passenger Survey.

Table B.12 shows GDP by category of

expenditure at constant 2005 market prices calculated using the chain linking method, while **Table B.13** shows GDP by category of expenditure at current market prices. The data for GDP are prepared by Cystat and are based on the concepts and methodology of the European System of Accounts (ESA 95). Provisional data are based on the last available indicators, until the results of various economic surveys are finalised.

Table B.14 shows the turnover volume index of retail trade which uses the EU's new version of the statistical classification of economic activities, NACE Rev. 2, as published by Cystat with 2005 as the base year.

Table B.15 shows construction indicators as published by Cystat. Specifically, it shows the total area of building permits authorised by the municipal authorities and the district administration offices as well as the sales of cement in metric tons.

Table B.16 presents the index of manufacturing production, which shows the monthly change in volume production in the sectors of mining and quarrying, manufacturing industries, electricity, gas and water supply, i.e. sectors B, C, D and E of the EU's new statistical classification of economic activities, NACE Rev. 2. This index is published by Cystat with 2005 as the base year.

Table B.17 shows key indicators of the labour market in Cyprus based on the Labour Force Survey (LFS), which is publi-

shed by Cystat. The LFS is conducted in all EU member states, based on the Regulation 577/98 of the EU Council.

TABLE B.1 Exchange rates of selected currencies against the euro

	USD/EUR	GBP/EUR	JPY/EUR
Average for January	1,1630	0,7671	137,6268
Average for February	1,1354	0,7404	134,8670
Average for March	1,0829	0,7234	130,3282
Average for April	1,0818	0,7231	129,2868
Average for May (until 15 May)	1,1266	0,7296	134,8527
Average for Jan-May (until 15 May)	1,1166	0,7374	133,1963
Closing rate on 31/12/2014	1,2098	0,7765	144,8500
Closing rate on 15/05/2015	1,1451	0,7279	136,5400
Highest exchange rate vs. the euro	1,2104	0,7848	144,9400
	1 Jan.	6 Jan.	1 Jan.
Lowest exchange rate vs. the euro	1,0496	0,7064	126,9500
	13 Mar.	11 Mar.	13 Apr.
% appreciation (+)/depreciation (-) of the currency vs. the euro from closing rate on 31/12/2014 to closing rate on 15/05/2015	-5,3%	-6,3%	-5,7%

Source: Bloomberg.

TABLE B.2 Percentage change in CPI by economic category (%)

	2012	2013	2014	April 2014/13	March 2015/14	April 2015/14	Jan.-Apr. 2014/13	Jan.-Mar. 2015/14	Jan.-Apr. 2015/14	Weights	
										2005=100 (for 2008-2010)	2005=100 (for 2011 - 2015)
GENERAL INDEX	2,39	-0,40	-1,35	-1,60	-1,88	-2,07	-2,33	-1,54	-1,68	100,00	100,00
A Domestic products	6,70	-1,57	-3,41	-4,82	-1,60	-2,91	-6,20	-0,25	-0,91	28,98	20,52
A.1 Agricultural	-1,29	-1,02	-3,65	-5,67	8,15	5,54	-7,37	7,58	7,07	6,93	5,96
A.2 Industrial	3,39	1,36	-0,14	-0,21	-0,13	-0,42	-0,29	0,10	-0,03	19,29	11,37
A.3 Electricity	27,23	-8,72	-11,21	-14,79	-18,53	-20,75	-18,42	-11,51	-13,84	2,76	3,19
B Petroleum products	7,94	3,31	0,27	0,14	-13,43	-12,56	-0,17	-16,51	-15,52	6,63	5,50
C Imported products	-0,55	-0,17	-0,58	0,53	-1,44	-2,45	-0,37	-0,47	-0,97	24,62	31,74
C1 Motor vehicles	-0,64	-0,01	-3,07	-2,52	-1,91	-1,79	-2,47	-1,74	-1,76	5,41	6,48
C2 Other imported products	-0,54	-0,20	-0,06	1,16	-1,34	-2,58	0,07	-0,20	-0,81	19,21	25,26
D Services	0,96	-0,49	-0,94	-1,35	-0,23	-0,27	-1,64	-0,20	-0,22	39,77	42,24
HICP	3,1	0,4	-0,3	-0,4	-1,4	-1,7	-1	-1	-1,2		

Source: Cystat.

TABLE B.3 Weighted contribution to the total percentage change in CPI by economic category
(%)

	2012	2013	2014	April 2014/13	March 2015/14	April 2015/14	Jan.-Apr. 2014/13	Jan.-Mar. 2015/14	Jan.-Apr. 2015/14	Weights	
										2005=100 (for 2008-2010)	2005=100 (for 2011 - 2015)
GENERAL INDEX	2,39	-0,40	-1,35	-1,60	-1,88	-2,07	-2,33	-1,54	-1,68	100,00	100,00
A Domestic products	1,58	-0,39	-0,83	-1,18	-0,38	-0,69	-1,53	-0,06	-0,22	28,98	20,52
A.1 Agricultural	-0,09	-0,06	-0,23	-0,36	0,49	0,33	-0,47	0,46	0,43	6,93	5,96
A.2 Industrial	0,42	0,17	-0,02	-0,03	-0,02	-0,05	-0,04	0,01	0	19,29	11,37
A.3 Electricity	1,24	-0,49	-0,58	-0,79	-0,85	-0,96	-1,02	-0,53	-0,64	2,76	3,19
B Petroleum products	0,54	0,24	0,02	0,01	-1,04	-0,97	-0,01	-1,28	-1,20	6,63	5,50
C Imported products	-0,15	-0,04	-0,15	0,14	-0,38	-0,65	-0,09	-0,12	-0,25	24,62	31,74
C1 Motor vehicles	-0,03	0	-0,14	-0,11	-0,08	-0,08	-0,11	-0,08	-0,08	5,41	6,48
C2 Other imported products	-0,15	-0,05	-0,02	0,25	-0,29	-0,57	0,02	-0,05	-0,22	19,21	25,26
D Services	0,41	-0,21	-0,40	-0,57	-0,10	-0,11	-0,69	-0,08	-0,09	39,77	42,24

Source: Cystat.

TABLE B.4 Percentage change in the CPI by category of goods and services
(%)

	2012	2013	2014	April 2014/13	March 2015/14	April 2015/14	Jan.-Apr. 2014/13	Jan.-Mar. 2015/14	Jan.-Apr. 2015/14
GENERAL INDEX	2,39	-0,40	-1,35	-1,36	-1,88	-2,07	-2,33	-1,54	-1,68
Food and non-alcoholic beverages	0,82	0,22	-1,45	-2,05	2,60	1,45	-2,90	2,66	2,36
Alcoholic beverages and tobacco	3,19	8,58	2,59	3,38	1,02	1,50	1,84	2,47	2,23
Clothing and footwear	-2,75	-2,73	2,08	5,39	-2,36	-0,51	3,08	0,63	0,32
Housing, water, electricity and gas	11,33	-3,99	-5,58	-7,24	-8,45	-9,28	-8,70	-6,66	-7,32
Furnishings, household equipment and supplies	0,08	-1,09	-2,05	-2,93	-0,74	-0,98	-2,76	-0,58	-0,68
Health	0,56	-2,50	-1,31	-2,35	0,69	0,73	-3,14	0,59	0,62
Transport	3,08	2,21	0,99	1,67	-6,01	-5,67	0,81	-6,80	-6,52
Communications	1,08	0,97	1,48	0,88	0,99	0,87	0,86	1,12	1,06
Recreation and culture	0,65	-0,11	-1,31	-1,52	-1,55	-1,31	-1,42	-1,66	-1,58
Education	2,41	-0,74	-3,51	-4,20	-1,61	-1,61	-4,23	-1,68	-1,66
Restaurants and hotels	1,06	0,39	-1,38	-1,60	0,13	0,11	-1,52	0	0,03
Miscellaneous goods and services	0,35	0,86	-1,12	-1,03	-0,40	-0,85	-0,98	-0,52	-0,60

Source: Cystat.

TABLE B.5 Weighted contribution to the total percentage change in the CPI by category of goods and services

(%)

	2012	2013	2014	April 2014/13	March 2015/14	April 2015/14	Jan.-Apr. 2014/13	Jan.-Mar. 2015/14	Jan.-Apr. 2015/14
GENERAL INDEX	2,39	-0,40	-1,37	-1,36	-1,88	-2,07	-2,33	-1,54	-1,68
Food and non-alcoholic beverages	0,14	0,04	-0,26	-0,36	0,46	0,25	-0,51	0,47	0,41
Alcoholic beverages and tobacco	0,07	0,19	0,06	0,08	0,03	0,04	0,04	0,06	0,05
Clothing and footwear	-0,18	-0,17	0,13	0,34	-0,16	-0,03	0,18	0,04	0,02
Housing, water, electricity and gas	1,56	-0,60	-0,83	-1,08	-1,19	-1,31	-1,32	-0,94	-1,03
Furnishings, household equipment and supplies	0,01	-0,07	-0,14	-0,20	-0,05	-0,06	-0,18	-0,04	-0,04
Health	0,04	-0,18	-0,09	-0,16	0,05	0,05	-0,22	0,04	0,04
Transport	0,42	0,31	0,14	0,24	-0,88	-0,83	0,11	-0,99	-0,95
Communications	0,04	0,04	0,06	0,03	0,04	0,03	0,03	0,04	0,04
Recreation and culture	0,04	-0,01	-0,08	-0,09	-0,09	-0,08	-0,08	-0,10	-0,09
Education	0,10	-0,03	-0,15	-0,17	-0,07	-0,07	-0,18	-0,07	-0,07
Restaurants and hotels	0,09	0,03	-0,13	-0,14	0,01	0,01	-0,13	0	0
Miscellaneous goods and services	0,03	0,07	-0,09	-0,09	-0,03	-0,07	-0,08	-0,04	-0,05

Source: Cystat.

TABLE B.6 Percentage change in prices of services

(%)

	April 2014/13	March 2015/14	April 2015/14	Jan.-Apr. 2014/13	Jan.-Mar. 2015/14	Jan.-Apr. 2015/14
GENERAL INDEX	-1,60	-1,88	-2,07	-2,33	-1,54	-1,68
Rents	-7,42	-1,55	-1,58	-7,96	-2,07	-1,95
Maintenance of houses	-1,86	-1,83	-1,94	-1,77	-1,86	-1,88
Transport	7,06	-0,97	-1,60	3,56	1,06	0,37
Communications	1,34	1,72	1,72	1,33	1,89	1,80
Insurance	-1,34	-0,11	-0,09	-0,46	-0,10	-0,10
Public services	9,32	0,72	0,72	9,32	0,72	0,72
Education	-4,20	-1,61	-1,61	-4,23	-1,68	-1,66
Medical care	-2,99	1,11	1,18	-3,96	0,99	1,04
Restaurants and coffee shops	-1,56	0,14	0,11	-1,60	0,01	0,02
Personal and household services	-1,90	-0,67	-0,63	-1,61	-0,79	-0,75
Total services	-1,35	-0,23	-0,27	-1,64	-0,20	-0,22

Source: Cystat.

TABLE B.7 Weighted contribution to the percentage change in prices of services

(%)

	April 2014/13	March 2015/14	April 2015/14	Jan.-Apr. 2014/13	Jan.-Mar. 2015/14	Jan.-Apr. 2015/14
GENERAL INDEX	-1,60	-1,88	-2,07	-2,33	-1,54	-1,68
Rents	-0,21	-0,04	-0,04	-0,23	-0,06	-0,05
Maintenance of houses	-0,05	-0,05	-0,05	-0,04	-0,05	-0,05
Transport	0,19	-0,03	-0,05	0,09	-0,03	0,01
Communications	0,05	0,06	0,06	0,05	0,07	0,07
Insurance	-0,03	0	0	-0,01	0	0
Public services	0,12	0,01	0,01	0,12	0,01	0,01
Education	-0,17	-0,07	-0,07	-0,18	-0,07	-0,07
Medical care	-0,16	0,06	0,06	-0,21	0,05	0,05
Restaurants and coffee shops	-0,14	0,01	0,01	-0,14	0	0
Personal and household services	-0,17	-0,06	-0,06	-0,14	-0,07	-0,07
Total services	-0,57	-0,10	-0,11	-0,69	0,08	-0,09

Source: Cystat.

TABLE B.8 Balance of payments
(€ million)

	2013 Q1-Q2 (prov)			2014 Q1-Q2 (prov)		
	Credit	Debit	Balance/ Net	Credit	Debit	Balance/ Net
1. Current account	13.921,4	14.473,7	-552,3	13.111,2	13.996,5	-885,3
Goods and Services	10.409,3	10.389,7	19,6	10.813,2	10.843,4	-30,3
Goods	2.747,2	5.640,0	-2.892,8	3.163,5	5.828,4	-2.664,9
General merchandise on a balance of payments (BOP) basis	2.403,5	5.639,8	-3.236,4	2.920,8	5.827,4	-2.906,7
Net exports of goods under merchanting	343,2		343,2	240,1		240,1
Non-monetary gold	0	0	0	2,6	1,0	1,6
Services	7.662,1	4.749,7	2.912,4	7.649,7	5.015,0	2.634,6
Manufacturing services on physical inputs owned by others	0,4	0	0,4	1,7	0,6	1,1
Maintenance and repair services not included elsewhere (n.i.e.)	5,2	35,8	-30,6	2,6	26,4	-23,8
Transport	2.453,6	1.427,9	1.025,7	2.257,7	1.488,7	769,0
Travel	2.178,6	930,7	1.247,9	2.121,7	944,1	1.177,6
Construction	30,8	14,7	16,0	23,5	9,0	14,5
Insurance and pension services	19,2	109,7	-90,5	17,7	124,3	-106,6
Financial services	1.668,7	855,8	812,9	1.999,7	1.089,9	909,8
Charges for the use of intellectual property n.i.e.	2,6	55,1	-52,5	1,0	57,4	-56,4
Telecommunications, computer, and information services	1.044,9	848,7	196,3	986,5	797,4	189,1
Other business services	129,7	372,2	-242,5	125,2	378,9	-253,7
Personal, cultural and recreational services	32,3	39,3	-7,0	42,1	36,4	5,7
Government goods and services n.i.e.	96,1	59,9	36,2	70,3	62,0	8,3
Services not allocated	0	0	0	0	0	0
Primary income	3.219,4	3.446,4	-227,0	2.069,9	2.529,2	-459,3
Compensation of employees	54,4	55,0	-0,6	50,2	65,9	-15,7
Investment income	3.075,2	3.332,5	-257,3	1.914,8	2.383,3	-468,4
Direct investment	995,7	775,0	220,7	414,4	687,1	-272,7
Portfolio investment	587,7	710,1	-122,4	390,6	389,3	1,3
Other investment	1.490,4	1.847,4	-357,0	1.109,6	1.306,9	-197,2
Reserve assets	1,4		1,4	0,2		0,2
Other primary income	89,8	58,8	31,0	104,8	80,0	24,8
Secondary income	292,7	637,6	-344,9	228,1	623,8	-395,7
General government	68,5	143,2		83,3	128,9	
Other sectors	224,2	494,4		144,8	484,9	
2. Capital account	257,0	11,7	245,3	148,2	4,2	143,9
	Assets	Liabilities	Net	Assets	Liabilities	Net
3. Financial account	-15.550,5	-14.719,6	-830,9	-3.625,6	-3.622,6	-3,0
Direct investment	2.809,3	2.828,1	-18,8	1.720,7	592,7	1.128,0
Equity and Investment Funds shares/units	2.950,3	2.594,2		1.591,5	64,3	
Debt instruments	-141,0	233,9		129,1	528,4	
Portfolio investment	-11.506,0	1.201,0	-12.707,0	-1.482,0	1.159,8	-2.641,8
Equity and investment fund shares	592,2	458,2		-7,6	961,7	
Debt securities	-12.098,2	742,9		-1.474,4	198,1	
Financial derivatives (other than reserves) and employee stock options	-155,2	-212,3	57,1	-11,4	25,5	-37,0
Other investment	-6.662,2	-18.536,4	11.874,3	-3.858,8	-5.400,6	1.541,8
of which:						
Currency and deposits	-2.135,1	-21.600,3		-3.665,7	-6.511,8	
Loans	-4.675,3	3.017,1		-214,6	1.187,0	
Reserve assets	-36,4			6,0		
4. Net errors and omissions			-524,1			738,3

Source: CBC.

TABLE B.9 Imports analysis by economic category
(€ million unless otherwise indicated)

	2013	2014	% change	2014 Jan.-Feb.	2015 Jan.-Feb.	% change
Imports	4.830,4	5.133,4	6,3	728,1	731,8	0,5
Consumer goods	1.717,8	1.816,2	5,7	250,3	255,6	2,1
Intermediate inputs	1.158,5	1.176,4	1,5	182,6	182,2	-0,2
Capital goods	292,5	492,0	68,2	40,8	42,8	4,9
Transport equipment	264,5	379,8	43,6	47,0	54,8	16,7
Fuels and lubricants	1.394,4	1.265,4	-9,2	207,1	194,9	-5,9

Source: Cystat
(1) Total Imports/Arrivals for September 2014 include the transfer of economic ownership of mobile transport equipment, with total value of €176,4 mn.



1

Introduction

2

Macroeconomic
Developments and
Projections

3

Statistical Annex

TABLE B.10 Annual international investment position 2014 (provisional)
(€ million)

	ASSETS	LIABILITIES	NET
Financial account	94.978,8	123.877,6	-28.898,7
Direct investment	35.308,0	48.678,0	-13.370,0
Equity and Investment Funds shares/units	33.078,5	43.017,2	
Debt instruments	2.229,5	5.660,8	
Portfolio investment	11.678,7	10.037,8	1.640,8
Equity and investment fund shares	4.473,2	2.939,3	
Equity securities	3.375,0	1.601,6	
Central bank	0	0	
Other MFIs	C	C	
General government	0	0	
Other sectors	S	S	
Investment fund shares	1.098,1	1.337,7	
Central bank	0	0	
Other MFIs	C	0	
General government	0	0	
Other sectors	S	S	
Debt securities	7.205,5	7.098,5	
Short-term	580,2	261,1	
Central bank	0	0	
Other MFIs	485,3	S	
General government	0	0	
Other sectors	94,9	C	
Long-term	6.625,3	6.837,4	
Central bank	927,3	0	
Other MFIs	3.510,2	27,3	
General government	0	2.289,8	
Other sectors	2.187,9	4.520,4	
Financial derivatives (other than reserves) and employee stock options	1.759,1	1.538,4	220,7
Central bank	0	0	
Other MFIs	290,9	297,4	
General government	0	0	
Other sectors	1.468,2	1.243,7	
Other investment	45.500,2	63.623,3	-18.123,1
Other equity	384,8	0	
Currency and deposits	18.506,3	26.999,4	
Central bank	156,6	2.877,7	
Other MFIs	6.287,8	24.121,7	
General government	13,9	0	
Other sectors	12.047,9	0	
Loans	25.220,0	33.885,6	
Central bank	0	0	
Other MFIs	15.053,7	0	
General government	361,7	10.153,1	
Other sectors	9.804,6	23.732,5	
Insurance, pension schemes, and standardised guarantee schemes	262,3	633,7	
Trade credits and advances	976,5	1.855,2	
Other accounts receivable/payable	150,2	118,5	
SDRs	0	130,8	
Reserve assets	732,8		

C denotes primary confidentiality (i.e. the number of statistical units under a cell is less than 3 or the dominance of one or two units in the data cell is larger or equal to 90%).

S denotes secondary confidentiality (i.e. cell is not primary confidential, but it is suppressed in order to prevent observations flagged as "primary confidential" to be indirectly deduced).

TABLE B.11 Tourist arrivals and receipts from tourism

Year	Month	Tourist arrivals			Receipts from tourism		
		Number of tourists	% change		€ million	% change	
			Previous year	Cumulative period		Previous year	Cumulative period
2011	January	44.442	-3,3	-3,3	29,8	0,3	0,3
	February	62.294	12,7	5,5	36,9	8,8	4,9
	March	98.964	-4,7	0,3	66,4	1,2	3,0
	April	199.762	43,0	17,6	136,7	53,6	23,6
	May	267.487	3,7	11,7	187,1	13,5	19,3
	June	300.817	9,3	10,9	220,0	12,6	17,0
	July	359.104	17,3	12,6	274,4	18,7	17,5
	August	337.013	10,8	12,2	267,0	10,7	16,0
	September	304.260	5,2	11,1	235,8	6,9	14,4
	October	259.863	7,5	10,6	188,8	7,6	13,6
	November	92.878	0,3	10,2	64,8	3,8	13,2
	December	65.339	6,8	10,1	41,6	1,7	12,9
2012	January	47.610	7,1	7,1	30,0	0,7	0,7
	February	55.420	-11,0	-3,5	32,3	-12,5	-6,6
	March ⁽¹⁾	94.300	-4,7	-4,1	62,5	-5,9	-6,2
	April	189.648	-5,1	-4,1	114,6	-16,2	-11,3
	May	276.781	3,5	-1,1	214,3	14,5	-0,7
	June	329.977	9,7	2,2	254,5	15,7	4,6
	July	371.453	3,4	2,6	301,5	9,9	6,1
	August	363.573	7,9	3,6	312,1	16,9	8,5
	September	335.352	10,2	4,6	289,9	22,9	10,8
	October	261.997	0,8	4,1	211,5	12,0	11,0
	November	84.020	-9,5	3,6	62,8	-3,1	10,4
	December	54.772	-16,2	3,0	41,6	0	10,2
2013	January ⁽²⁾	42.286	-11,2	-11,2	28,5	3,0	3,0
	February	42.327	-23,6	-17,9	32,7	-12,4	-5,0
	March	92.620	-1,8	-10,2	66,0	5,6	0,3
	April	162.439	-14,3	-12,2	110,4	-3,7	-1,6
	May	276.244	-0,2	-7,2	202,1	-5,7	-3,5
	June	308.219	-6,6	-7,0	259,8	2,1	-1,5
	July	361.442	-2,7	-5,8	338,6	12,3	2,6
	August	352.215	-3,1	-5,3	349,5	12,0	4,8
	September	357.635	6,7	-3,3	353,4	21,9	7,9
	October	273.587	4,4	-2,5	246,6	16,6	8,9
	November	81.542	-2,9	-2,5	59,2	-5,7	8,4
	December	54.813	0,1	-2,4	37,6	-9,6	8,0
2014	January	40.675	-3,8	-3,8	30,7	-0,6	-0,6
	February	45.227	6,9	1,5	31,3	10,6	4,7
	March	77.533	-16,3	-7,8	56,5	-14,4	-5,4
	April	180.998	11,4	1,4	132,9	20,4	6,7
	May	293.181	6,1	3,5	224,1	10,9	8,6
	June	342.221	11,0	6,0	303,2	16,7	11,6
	July	381.955	5,7	5,9	321,2	-5,1	6,2
	August	373.086	5,9	5,9	324,3	-7,2	2,8
	September	316.602	-11,5	2,8	273,4	-22,6	-2,4
	October	251.453	-8,1	1,5	217,1	-12,0	-3,6
	November	81.437	-0,1	1,4	65,0	9,9	-3,2
	December	56.863	3,7	1,5	43,7	16,2	-2,8
2015	January	41.799	2,8	2,8	28,4	-7,5	-7,5
	February	50.709	12,1	7,7	30,9	-1,3	-4,4
	March	97.479	25,7	16,2	n/a	n/a	n/a
	April	201.495	11,3	13,7	n/a	n/a	n/a

Source: Cystat.

(1) Data for March 2012 are based on Cystat estimations.

(2) Data for January 2013 are based on Cystat estimations.

TABLE B.12 Gross domestic product by category of expenditure at constant 2005 prices, chain linking method
(€ million)

Year /Quarter		Gross domestic product	General government consumption	Private consumption	Gross fixed capital formation	Changes in inventories	Exports of goods and services	Imports of goods and services
2001	Q1	2.997,4	422,1	2.056,2	589,4	100,6	1.637,2	1.808,1
	Q2	3.266,9	451,8	1.864,6	647,3	134,7	2.217,5	2.049,0
	Q3	3.332,8	480,2	1.703,4	618,3	50,6	2.523,0	2.042,7
	Q4	3.175,3	645,9	2.037,4	628,4	-228,8	1.967,9	1.875,6
2002	Q1	3.081,8	450,9	2.038,6	665,1	184,0	1.542,7	1.799,5
	Q2	3.408,3	471,4	1.906,3	780,7	140,0	2.118,8	2.008,8
	Q3	3.385,2	502,7	1.846,4	639,8	-15,5	2.393,6	1.981,8
	Q4	3.308,3	645,8	2.081,3	724,1	-134,2	1.948,9	1.957,6
2003	Q1	3.177,3	507,2	2.076,7	634,7	306,9	1.449,9	1.798,1
	Q2	3.457,5	521,0	1.986,6	761,7	163,5	1.913,0	1.888,3
	Q3	3.474,4	533,6	1.886,6	678,5	-89,9	2.453,5	1.988,0
	Q4	3.442,2	780,0	2.168,4	770,8	-355,1	2.075,9	1.997,8
2004	Q1	3.323,0	515,5	2.213,0	668,0	123,2	1.696,4	1.893,2
	Q2	3.603,9	566,7	2.102,1	794,6	116,1	2.084,9	2.060,4
	Q3	3.621,1	578,7	2.100,8	697,9	-85,1	2.386,2	2.057,4
	Q4	3.596,5	709,0	2.316,7	804,1	39,5	1.921,3	2.194,1
2005	Q1	3.477,9	515,3	2.314,9	705,9	237,2	1.689,3	1.984,6
	Q2	3.715,0	564,2	2.209,1	811,0	-34,1	2.141,7	1.976,8
	Q3	3.760,0	528,7	2.128,7	753,3	-32,6	2.481,0	2.099,1
	Q4	3.738,3	828,1	2.375,4	895,6	-30,3	1.942,9	2.273,4
2006	Q1	3.630,5	573,7	2.400,8	871,4	144,8	1.773,9	2.134,2
	Q2	3.901,6	626,7	2.310,5	991,6	-45,9	2.205,9	2.187,1
	Q3	3.918,6	602,4	2.249,4	915,3	-233,8	2.605,3	2.220,0
	Q4	3.904,2	804,8	2.504,4	1.054,7	33,6	1.774,4	2.267,7
2007	Q1	3.800,8	601,8	2.584,7	936,1	149,0	1.763,1	2.233,9
	Q2	4.071,4	593,7	2.501,6	1.081,4	119,8	2.153,3	2.378,3
	Q3	4.115,6	636,7	2.484,0	996,4	-269,8	2.791,1	2.522,8
	Q4	4.118,6	860,7	2.861,6	1.118,8	-220,2	2.093,5	2.595,8
2008	Q1	3.980,4	591,6	2.833,6	1.095,1	212,7	1.796,1	2.548,7
	Q2	4.250,9	611,3	2.754,8	1.209,9	110,2	2.135,1	2.570,3
	Q3	4.262,6	761,6	2.759,1	1.075,5	-62,7	2.623,3	2.894,2
	Q4	4.195,3	880,6	2.914,2	1.123,1	-346,4	2.094,8	2.470,9
2009	Q1	3.991,1	638,1	2.689,5	980,9	8,0	1.869,2	2.194,8
	Q2	4.156,3	632,3	2.572,5	1.046,7	33,8	1.993,8	2.122,8
	Q3	4.130,4	662,0	2.549,4	877,9	150,1	2.203,1	2.312,0
	Q4	4.070,7	1.094,4	2.711,0	972,0	-488,4	1.953,7	2.171,9
2010	Q1	3.984,4	656,9	2.658,2	893,2	160,9	1.801,5	2.186,2
	Q2	4.203,6	648,0	2.591,7	1.000,6	159,8	2.024,6	2.221,1
	Q3	4.217,7	655,8	2.586,8	867,6	265,7	2.200,6	2.358,8
	Q4	4.170,1	1.023,5	2.824,2	916,6	-365,2	2.204,1	2.433,2
2011	Q1	4.033,6	645,4	2.761,8	838,0	259,7	1.808,1	2.279,4
	Q2	4.256,5	662,9	2.614,5	905,7	166,3	2.189,4	2.282,3
	Q3	4.203,5	705,4	2.613,6	768,2	147,9	2.335,5	2.367,1
	Q4	4.125,5	991,5	2.868,0	818,9	-583,7	2.244,4	2.213,6
2012	Q1	3.983,2	658,6	2.816,4	711,5	100,2	1.813,9	2.117,4
	Q2	4.153,7	660,5	2.628,4	717,7	125,4	2.228,9	2.207,2
	Q3	4.109,3	668,7	2.585,9	617,0	161,7	2.376,6	2.300,7
	Q4	3.976,9	935,9	2.752,2	596,9	-226,8	2.015,4	2.096,7
2013	Q1	3.767,3	642,4	2.670,9	559,9	148,6	1.603,8	1.858,3
	Q2	3.902,9	641,6	2.437,3	548,4	-65,5	2.120,6	1.779,5
	Q3	3.903,4	657,1	2.423,6	587,5	-153,7	2.394,8	2.006,0
	Q4	3.780,3	840,1	2.599,8	494,5	-157,6	1.895,0	1.891,4
2014	Q1	3.640,9	582,1	2.628,7	591,3	-31,8	1.770,4	1.899,8
	Q2	3.838,0	597,5	2.489,9	392,1	22,1	2.258,0	1.921,6
	Q3	3.823,2	586,4	2.444,1	465,8	269,2	2.418,5	2.360,8
	Q4	3.705,5	773,2	2.609,9	328,5	-70,8	2.025,6	1.960,9

Source: Cystat.

TABLE B.13 Gross domestic product by category of expenditure at current prices
(€ million)

Year /Quarter	Gross domestic product	General government consumption	Private consumption	Gross fixed capital formation	Changes in inventories	Exports of goods and services	Imports of goods and services
2001 Q1	2.602,0	353,1	1.831,1	507,8	65,0	1.523,3	1.678,3
Q2	2.920,8	381,5	1.692,6	562,7	126,1	2.073,8	1.916,0
Q3	2.964,5	407,0	1.528,7	541,8	41,3	2.356,3	1.910,7
Q4	2.853,9	549,7	1.877,8	544,0	-190,8	1.833,9	1.760,7
2002 Q1	2.720,1	389,2	1.843,7	584,1	154,7	1.434,3	1.685,9
Q2	3.016,0	406,9	1.746,1	686,4	107,7	1.961,2	1.892,3
Q3	3.028,6	439,9	1.690,2	563,4	-22,5	2.216,0	1.858,3
Q4	3.035,0	572,5	1.948,4	637,5	-87,4	1.800,4	1.836,5
2003 Q1	2.934,6	469,3	1.964,1	574,5	263,3	1.347,5	1.684,1
Q2	3.257,8	486,8	1.896,8	691,2	172,9	1.784,1	1.774,0
Q3	3.279,8	508,4	1.768,9	617,9	-56,1	2.313,0	1.872,3
Q4	3.283,0	748,0	2.101,0	703,5	-350,6	1.975,2	1.894,1
2004 Q1	3.177,5	491,7	2.111,6	629,2	108,7	1.628,3	1.792,0
Q2	3.468,0	541,4	2.020,6	757,6	98,8	2.021,6	1.972,1
Q3	3.525,4	555,0	2.014,4	672,1	-64,6	2.336,2	1.987,7
Q4	3.561,0	687,7	2.301,4	780,1	43,3	1.896,8	2.148,2
2005 Q1	3.430,4	511,9	2.270,1	700,3	215,1	1.679,7	1.946,6
Q2	3.692,4	563,5	2.201,7	807,8	-44,3	2.136,5	1.972,8
Q3	3.769,7	527,9	2.128,0	755,1	-17,1	2.478,6	2.102,7
Q4	3.798,9	833,1	2.428,5	902,7	-13,6	1.960,1	2.311,8
2006 Q1	3.688,4	590,0	2.423,7	898,3	142,5	1.799,3	2.165,4
Q2	4.004,4	643,3	2.380,5	1.028,2	-48,9	2.245,7	2.244,4
Q3	4.054,7	621,8	2.322,1	954,2	-231,2	2.662,4	2.274,5
Q4	4.089,1	832,6	2.611,2	1.103,9	34,2	1.842,3	2.335,0
2007 Q1	4.000,0	633,5	2.668,7	992,8	143,4	1.852,8	2.291,2
Q2	4.360,7	628,2	2.656,4	1.156,0	120,3	2.274,6	2.474,8
Q3	4.468,6	677,5	2.659,4	1.073,3	-269,7	2.958,7	2.630,5
Q4	4.498,6	920,5	3.108,8	1.218,7	-226,9	2.240,4	2.762,9
2008 Q1	4.416,3	658,6	3.072,0	1.230,0	230,2	1.960,8	2.735,3
Q2	4.776,6	681,4	3.084,5	1.379,5	119,4	2.326,3	2.814,5
Q3	4.823,1	862,4	3.119,6	1.238,4	-80,8	2.859,6	3.176,2
Q4	4.752,6	995,1	3.274,5	1.282,1	-355,3	2.270,6	2.714,4
2009 Q1	4.446,4	739,5	2.947,0	1.110,5	8,7	2.018,6	2.377,9
Q2	4.699,0	735,2	2.898,7	1.176,4	28,9	2.181,6	2.321,8
Q3	4.640,2	754,2	2.858,9	978,6	152,3	2.395,3	2.499,1
Q4	4.637,5	1.234,2	3.078,6	1.072,5	-522,3	2.125,8	2.351,3
2010 Q1	4.528,6	758,4	2.984,4	1.011,7	172,5	1.979,6	2.378,0
Q2	4.831,1	752,3	2.978,3	1.138,7	199,3	2.237,9	2.475,4
Q3	4.861,7	770,6	2.994,3	984,8	317,1	2.399,4	2.604,4
Q4	4.841,7	1.196,0	3.272,1	1.024,1	-429,3	2.478,5	2.699,7
2011 Q1	4.633,6	772,9	3.181,4	937,3	253,1	2.040,0	2.551,1
Q2	5.002,1	798,4	3.105,0	1.007,9	228,3	2.456,3	2.593,7
Q3	4.958,0	860,1	3.107,7	857,9	194,1	2.600,4	2.662,2
Q4	4.892,9	1.193,5	3.430,9	910,9	-686,7	2.556,4	2.512,1
2012 Q1	4.661,4	791,5	3.338,0	787,7	57,9	2.089,6	2.403,2
Q2	4.996,9	792,9	3.227,7	799,3	171,6	2.556,9	2.551,5
Q3	4.971,6	802,8	3.195,5	690,9	226,6	2.705,7	2.649,8
Q4	4.781,3	1.106,8	3.357,5	666,1	-227,0	2.301,2	2.423,4
2013 Q1	4.450,1	735,8	3.202,2	625,6	134,1	1.903,7	2.151,2
Q2	4.634,5	731,3	2.994,3	613,6	-45,4	2.441,9	2.101,2
Q3	4.617,2	744,7	2.990,7	651,0	-160,7	2.721,1	2.329,5
Q4	4.417,2	948,5	3.125,4	541,9	-164,0	2.143,2	2.177,8
2014 Q1	4.148,3	628,6	3.090,3	654,8	-111,4	2.052,7	2.166,6
Q2	4.482,0	647,2	3.014,3	404,6	10,5	2.606,9	2.201,6
Q3	4.549,8	631,3	2.976,9	507,5	331,9	2.759,9	2.657,6
Q4	4.326,7	843,7	3.104,0	328,1	-39,3	2.284,7	2.194,5

Source: Cystat.

TABLE B.14 Turnover volume index of retail trade

Year / Month	Volume	6-month moving average	% change	
			previous year	6-month moving average
2012 January	82,6	96,4	-4,6	-4,6
February	79,2	93,3	-4,3	-4,6
March	82,7	90,9	-7,2	-5,2
April	83,8	89,2	-10,9	-6,2
May	85,4	88,4	-8,0	-6,9
June	91,7	84,2	-5,6	-6,8
July	95,8	86,4	-9,6	-7,7
August	92,7	88,7	-5,1	-7,7
September	88,1	89,6	-9,6	-8,1
October	85,4	89,8	-9,0	-7,8
November	82,1	89,3	-8,6	-7,9
December	104,8	91,5	-10,4	-8,8
2013 January	77,1	88,4	-6,7	-8,3
February	69,8	84,5	-11,9	-9,4
March	69,9	81,5	-15,5	-10,3
April	74,7	79,7	-10,8	-10,6
May	82,6	79,8	-3,2	-9,8
June	80,6	75,8	-12,2	-10,0
July	91,3	78,1	-4,7	-9,6
August	88,4	81,2	-4,6	-8,4
September	82,9	83,4	-5,9	-6,9
October	83,8	84,9	-1,8	-5,5
November	79,8	84,5	-2,8	-5,4
December	103,9	88,3	-0,9	-3,4
2014 January	75,2	85,7	-2,5	-3,0
February	67,9	82,2	-2,7	-2,7
March	75,7	81,1	8,4	-0,5
April	80,0	80,4	7,1	0,9
May	84,9	81,3	2,8	1,8
June	86,2	78,3	6,9	3,4
July	93,9	81,4	2,9	4,2
August	88,4	84,9	0	4,5
September	85,0	86,4	2,6	3,6
October	83,7	87,0	-0,2	2,5
November**	79,8	86,2	0	2,0
December **	103,2	89,0	-0,7	0,7
2015 January**	78,6	86,5	4,5	0,9
February*	69,9	83,4	3,0	1,4

Percentage change by category	Weights	February 2014/2013	February 2015/2014	Jan.-Feb. 2014/2013	Jan.-Feb. 2015/2014
General index (GI) (1+2+3)	100,00	-2,74	3,02	-2,59	3,77
(1) Retail sale of automotive fuel in specialised stores	11,60	-4,84	10,05	-5,96	20,45
General index excluding automotive fuel (GI-(1)) (2+3)	88,40	-2,42	2,16	-2,10	3,15
(2) Retail sale of food products (2.1+2.2)	35,88	1,72	-3,58	2,34	-2,41
of which					
(2.1) Retail sale in non-specialised stores with food, beverages or tobacco predominating	29,75	2,32	-5,75	2,46	-4,30
(2.2) Retail sale of food, beverages and tobacco in specialised stores	6,13	-1,08	6,91	1,82	6,52
(3) Retail sale of non food products (except automotive fuel)	52,52	-6,95	8,92	-6,58	-9,21
(3.1+3.2+3.3+3.4)					
of which					
(3.1) Other retail sale in non-specialised stores	11,36	-33,51	-10,14	-32,89	-8,67
(3.2) Retail trade of textiles, clothing and footwear	9,50	-8,63	-1,46	-8,84	5,43
(3.3) Retail sale of electrical goods and furniture	12,93	-4,92	15,31	-3,98	16,98
(3.4) Retail sales of computer equipment, books and other	13,62	2,68	17,15	2,25	13,49
(4) Food beverages and tobacco and other retail trade in non-specialised stores (2.1)+(3.1)	46,51	-0,83	-5,97	-1,04	-4,57

Source: Cystat.
* Provisional.
** Revised data.

TABLE B.15 Construction indicators

Year /	Month	Sales of cement (volume)			Building permits authorised (volume)		
		Total (m.ton)	% change		Area (sq. met)	% change	
			Previous year	6- month moving average		Previous year	6- month moving average
2011	January	90.251	7,30	-0,37	167.251	-26,91	-15,54
	February	98.610	-0,75	-0,67	204.698	-39,04	-20,34
	March	117.715	-13,35	-2,15	266.707	-15,87	-18,84
	April	87.190	-12,59	-2,08	174.749	-28,49	-24,60
	May	119.817	-0,32	-3,83	180.822	-33,15	-27,05
	June	111.297	-15,00	-6,76	173.957	-31,78	-29,26
	July	112.965	-19,28	-10,81	186.807	-22,50	-28,61
	August	45.313	-9,03	-12,15	130.118	-10,69	-24,46
	September	99.251	-16,32	-12,65	219.492	4,56	-21,99
	October	96.675	-16,08	-13,25	180.757	-23,56	-21,10
	November	92.959	-30,19	-18,79	153.763	-28,98	-19,91
	December	80.395	-25,65	-20,65	213.916	-1,34	-14,34
2012	January	60.071	-33,44	-22,84	127.078	-24,02	-14,05
	February	65.372	-33,71	-25,49	141.435	-30,91	-17,20
	March	58.865	-49,99	-31,48	148.715	-44,24	-26,20
	April	68.304	-21,66	-32,92	106.275	-39,18	-28,52
	May	83.946	-29,94	-32,93	134.085	-25,85	-28,04
	June	72.496	-34,86	-34,54	124.830	-28,24	-33,02
	July	84.914	-24,83	-33,00	142.702	-23,61	-32,81
	August	34.748	-23,32	-32,14	97.744	-24,88	-32,23
	September	63.198	-36,33	-29,21	116.257	-47,03	-32,28
	October	73.426	-24,05	-29,49	126.546	-29,99	-30,77
	November	69.252	-25,50	-28,73	143.762	-6,50	-28,05
	December	46.257	-42,46	-29,53	90.437	-57,72	-33,87
2013	January	48.860	-18,66	-29,27	109.957	-13,47	-33,21
	February	42.615	-34,81	-30,55	164.902	16,59	-27,46
	March	47.907	-18,62	-27,74	87.251	-41,33	-25,14
	April	51.629	-24,41	-28,04	85.812	-19,25	-23,46
	May	42.220	-49,71	-32,97	74.157	-44,69	-29,72
	June	47.624	-34,31	-31,34	63.687	-48,98	-25,13
	July	54.311	-36,04	-34,02	81.682	-42,76	-30,14
	August	21.299	-38,70	-34,29	53.809	-44,95	-40,82
	September	45.077	-28,67	-35,68	63.022	-45,79	-41,52
	October	49.957	-31,96	-36,89	113.123	-10,61	-39,44
	November	44.597	-35,60	-33,96	80.237	-44,19	-39,41
	December	38.864	-15,98	-31,65	67.192	-25,70	-36,01
2014	January	31.957	-34,59	-30,97	65.564	-40,37	-35,31
	February	40.210	-5,64	-27,05	77.633	-52,92	-37,92
	March	38.299	-20,06	-25,72	58.870	-32,53	-36,00
	April	37.674	-27,03	-24,44	57.330	-33,90	-40,36
	May	38.789	-8,13	-19,21	66.760	-9,97	-35,78
	June	39.252	-17,58	-19,47	66.307	4,11	-33,00
	July	46.060	-15,19	-16,07	64.129	-21,49	-29,86
	August	17.878	-16,06	-17,75	47.060	-12,54	-19,25
	September	40.230	-10,75	-16,13	70.103	-11,24	-11,96
	October	43.987	-11,95	-13,16	70.071	-38,06	-14,47
	November	38.903	-12,77	-13,91	77.428	-3,50	-13,27
	December	39.408	1,40	-10,88	63.668	-5,24	-14,51
2015	January	27.941	-12,57	-10,10	80.398	22,63	-7,73
	February	29.185	-27,42	-12,37	97.685	25,83	-1,59
	March	40.029	4,52	-10,02	n/a	n/a	n/a
	April	35.476	-5,83	-8,92	n/a	n/a	n/a

Source: Cystat.

TABLE B.16 Volume index of manufacturing production

Year / Month	Index		% change		Cumulative period
	Monthly	Cumulative	Previous year	6 - month moving average	
2012 January	75,00	75,00	-10,07	-9,84	-10,07
February	80,00	77,50	-8,88	-10,50	-9,46
March	84,60	79,87	-12,24	-10,51	-10,46
April	85,50	81,28	-5,63	-9,88	-9,24
May	94,00	83,82	-8,47	-9,20	-9,07
June	88,80	84,65	-12,60	-9,71	-9,71
July	94,20	86,01	-7,37	-9,25	-9,35
August	60,20	82,79	-6,52	-8,99	-9,10
September	84,60	82,99	-11,88	-8,92	-9,42
October	85,30	83,22	-6,26	-9,02	-9,11
November	82,30	83,14	-9,46	-9,20	-9,14
December	75,80	82,53	-17,70	-10,02	-9,86
2013 January	66,10	66,10	-11,87	-10,82	-11,87
February	67,30	66,70	-15,88	-12,11	-13,94
March	67,70	67,03	-19,98	-13,45	-16,07
April	76,70	69,45	-10,29	-14,21	-14,55
May	77,20	71,00	-17,87	-15,73	-15,29
June	75,60	71,77	-14,86	-15,22	-15,22
July	84,60	73,60	-10,19	-14,80	-14,43
August	56,50	71,46	-6,15	-13,60	-13,68
September	74,20	71,77	-12,29	-12,32	-13,52
October	75,10	72,10	-11,96	-12,60	-13,36
November	70,10	71,92	-14,82	-11,97	-13,49
December	70,50	71,80	-6,99	-10,66	-13,00
2014 January	62,70	62,70	-5,14	-9,95	-5,14
February	67,40	65,05	0,15	-8,97	-2,47
March	70,50	66,87	4,14	-6,34	-0,25
April	71,70	68,08	-6,52	-5,28	-1,98
May	79,30	70,32	2,72	-2,02	-0,96
June	78,80	71,73	4,23	-0,05	-0,05
July	83,90	73,47	-0,83	0,56	-0,17
August	54,40	71,09	-3,72	0,07	-0,52
September	76,30	71,67	2,83	-0,09	-0,14
October	74,10	71,91	-1,33	0,81	-0,26
November	66,00	71,37	-5,85	-0,60	-0,76
December	72,10	71,43	2,27	-0,97	-0,51
2015 January	58,30	58,30	-7,02	-1,93	-7,02
February	61,80	60,05	-8,31	-2,71	-7,69
Percentage change by category					
	February 2014/13	February 2015/2014	Jan.-Feb. 2014/13	Jan.-Feb. 2015/2014	
General index	0,2	-8,3	-2,5	-7,7	
Manufacture of food products, beverages and tobacco products	-4,1	-2,6	-4,2	0,8	
Manufacture of textiles, wearing apparel and leather products	-11,1	-2,9	-13,4	-8,2	
Manufacture of wood and products of wood and cork, except furniture	-26,1	-10,1	-27,2	-11,8	
Manufacture of paper products and printing	-9,1	-2,4	-4,4	-6,8	
Manufacture of refined petroleum products, chemicals and chemical products and pharmaceutical products and preparations	15,8	-8,7	2,6	-3,0	
Manufacture of rubber and plastic products	12,2	-15,9	2,3	-15,3	
Manufacture of other non-metallic mineral products	39,2	-34,1	28,3	-30,8	
Manufacture of basic metals and fabricated metal products	-20,3	-9,4	-18,4	-12,6	
Manufacture of electronic and optical products and electrical equipment	-3,2	-31,6	-17,2	-14,6	
Manufacture of machinery and equipment, motor vehicles and other transport equipment	9,0	-3,5	10,5	6,7	
Manufacture of furniture, other manufacturing and repair and installation of machinery and equipment	3,8	-12,8	4,4	-16,2	

Source: Cystat.

TABLE B.17 Labour market indicators based on the Labour Force Survey (LFS)

	2013				2014			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Labour force	437.021	431.095	434.504	433.176	431.089	431.626	436.202	439.039
Employed	367.790	364.523	364.010	363.990	358.287	364.964	366.307	368.772
By type of employment:								
Full time	321.869	319.444	319.321	314.740	304.256	311.866	318.562	317.334
Part time	45.921	45.079	44.689	49.249	54.031	53.097	47.745	51.438
By sector of employment:								
Primary sector	10.290	10.020	12.935	12.104	14.563	15.469	16.531	18.058
Secondary sector	69.550	64.533	60.510	61.874	59.825	59.337	60.560	61.156
Tertiary sector	287.950	289.970	290.565	290.012	283.899	290.158	289.216	289.558
Employees	304.124	301.299	301.327	297.143	288.646	298.268	304.354	306.236
Unemployed								
By unemployment duration:								
Less than 12 months	45.201	42.257	42.768	39.881	40.577	33.258	35.995	36.436
12 months and above	24.030	24.314	27.725	29.306	32.225	33.405	33.900	33.832
Labour force (% of the population)								
Total	63,5	62,8	63,5	63,4	63,2	63,3	64,1	64,4
Male	70,4	69,7	70,6	70,3	69,3	69,3	69,9	69,4
Female	57,3	56,6	57,2	57,2	57,7	58,0	58,8	59,8
Employment (% of the population)								
Total	53,4	53,1	53,2	53,3	52,5	53,6	53,8	54,1
Male	59,0	58,4	59,0	58,3	57,1	57,6	58,2	57,7
Female	48,5	48,3	48,1	48,8	48,4	49,9	49,9	50,8
Unemployment (% of the labour force)								
Total	15,8	15,4	16,2	16,0	16,9	15,4	16,0	16,0
Male	16,2	16,2	16,5	17,2	17,6	16,8	16,8	16,7
Female	15,4	14,6	16,0	14,6	16,1	13,9	15,2	15,1

Source: Cystat (LFS).

Technical Notes



1

Introduction

2

Macroeconomic
Developments and
Projections

3

Statistical Annex

Technical notes

Domestic monetary aggregates

All monetary aggregates' data exclude the CBC.

On 1 July 2008, a new definition of residents of Cyprus entered into force (Statistical Purposes Directive, 2008). As a result, MFIs reclassified a large number of organisations or customers' businesses without a physical presence in Cyprus, known as 'brass plates', from non-residents to residents. The effect of this change is excluded from the monetary and financial statistics series presented in Section A of this publication, which reports local data or residents excluding organisations and businesses without a physical presence in Cyprus. For purposes of normalisation and comparability of monetary time series, data have been further processed by the Economic Research Department of the CBC.

The calculation of annual percentage changes is based on the methodology used by the ECB. More specifically, the growth of monetary aggregates is calculated based on the monthly changes adjusted for reclassifications and revaluations, so as to reflect changes due to net transactions.

The above methodology has been adopted since the December 2009 edition of the *Economic Bulletin*. In

previous editions of the *Bulletin*, the growth rate of monetary variables was calculated as the annual percentage change of outstanding balances at the end of the period. Details of the methodology can be found in the *Monetary and Financial Statistics*, published by the Statistics Department of the CBC, which is available on the CBC website.

In January 2014, the Statistics Department of the CBC proceeded with a revision of the deposits and loans being published so that monthly transactions and annual percentage changes include the adjustment resulting from currency changes. With the inclusion of such a revaluation, trading and annual percentage changes in loans and deposits in foreign currency will not be affected by fluctuations in exchange rates. This revision significantly improves the accuracy of the data, giving information to users regarding the effective annual percentage change in the monetary aggregates, in line with the methodology applied by the ECB. It should be noted that the outstanding balances are not affected by this revision.

Balance of payments

The present statistical collection system adopted as of June 2014, is based on the methodology of the International Monetary Fund («BPM6»), which has also been adopted by the EU, as well as on additional



requirements and the level of detail required by both the Statistical service («Eurostat») and the European Central Bank ("ECB").

The adoption of BPM6 by the external statistics of Cyprus took place in June 2014. In October 2014 was the first publication of the data which cover the following areas:

- (a) for the Balance of Payments: 2013 and the first two quarters of 2014, and
- (b) on the international investment position and external debt: in December 2012, 2013 and the first half of 2014.

The application of new manuals provided the opportunity to adopt broader changes and revisions to improve the coverage and quality of the statistics of the external sector. Specifically, in addition to the incorporation of the special purpose entities that are registered / incorporated in Cyprus in all external statistics produced and published, the CBC has also upgraded the collection systems and compiling statistics of the external sector, giving greater emphasis to the application of new research and the use of available administrative sources.

More details on the methodology of compiling the balance of payments is available in Box 1, pp. 50-51 and on the website of the CBC.