



CENTRAL BANK OF CYPRUS  
EUROSYSTEM

# ECONOMIC BULLETIN

DECEMBER 2014



1

Synopsis

2

Macroeconomic  
Developments and  
Projections

3

Statistical Annex

**1**

Synopsis

**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, 2014**

<b>Address</b>	80 Kennedy Ave 1076 Nicosia Cyprus
<b>Postal Address</b>	P.O. Box 25529 1395 Nicosia Cyprus
<b>Telephone</b>	+357 22714100
<b>Website</b>	<a href="http://www.centralbank.gov.cy">http://www.centralbank.gov.cy</a>

<b>Design and Interactive pdf:</b>	FBRH CONSULTANTS Ltd, <a href="http://www.fbrh.eu">www.fbrh.eu</a>
--	---

*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  
DECEMBER 2014

NICOSIA - CYPRUS



1

Synopsis

2

Macroeconomic  
Developments and  
Projections

3

Statistical Annex

## CONTENTS

<b>Introduction</b>	<b>8</b>
<b>SECTION A: Macroeconomic Developments and Projections</b>	<b>13</b>
1. International Environment	14
1.1 External developments	14
1.2 Monetary developments in the euro area	23
2. Domestic Prices, Monetary Aggregates and Labour Costs	28
3. Domestic Competitiveness and the Balance of Payments	41
4. Domestic Demand, Production and the Labour Market	45
5. Domestic Fiscal Developments	55
6. Macroeconomic Forecasts as recorded in the MoU	60
6.1 Eurosystem	60
6.2 Projections for the Cyprus economy	62
<b>SECTION B: Statistical Annex</b>	<b>74</b>
Explanatory notes for Statistical Annex	75
<b>Technical Notes</b>	<b>90</b>

Note: The cut-off date for data in this *Bulletin* is 17 November 2014.



**1**

Synopsis

**2**

Macroeconomic  
Developments and  
Projections

**3**

Statistical Annex

## TABLES AND CHARTS

### TABLES

A.1	Loans to domestic households	34
A.2	Deposits of domestic households	35
A.3	Cyprus MFI interest rates on euro-denominated loans (new business) to euro area households	38
A.4	Cyprus MFI interest rates on euro-denominated loans (new business) to euro area non-financial corporations	38
A.5	Cyprus MFI interest rates on euro-denominated deposits (new business) by euro area residents	39
A.6	Balance of payments (main categories)	42
A.7	Trade account (goods)	43
A.8	Tourism	44
A.9	Business and consumer surveys: confidence indicators	45
A.10	Accounts of general government	56
A.11	Eurosystem projections for the euro area	61
A.12	HICP projections	62
A.13	National accounts projections in real terms	64
A.14	Comparison of projections for the Cyprus economy	67

### CHARTS

A.1	GDP in selected countries	16
A.2	Inflation in selected countries	19
A.3	Selected exchange rates against the euro	21
A.4	Closing prices of oil (Brent)	21
A.5	Closing prices of gold	22
A.6	Selected international stock market indices	22
A.7	Official interest rates	23
A.8	Inflation in the euro area	23
A.9	ECB reference rates and EONIA	24
A.10	EONIA vs ECB minimum bid rate on main refinancing operations	26
A.11	EURIBOR (selected durations)	26
A.12	EURIBOR vs OIS spreads	27
A.13	Euro area spot yield curve	27
A.14	M3 and credit to the private sector: euro area	27
A.15	Consumer price index	29
A.16	Harmonised index of consumer prices: energy	29
A.17	Harmonised index of consumer prices: food and services	30
A.18	Harmonised index of consumer prices: non-energy industrial goods	30
A.19	Loans to domestic households and non-financial corporations: Cyprus	33
A.20	Deposits of domestic households and non-financial corporations: Cyprus	35
A.21	Euro area MFI interest rates on euro-denominated loans (new business) to euro area residents	39

## TABLES AND CHARTS

A.22	Euro area MFI interest rates on euro-denominated deposits (new business) by euro area residents	40
A.23	Nominal compensation per employee by sector	40
A.24	Productivity and real compensation per employee	40
A.25	Unit labour costs: Cyprus and the euro area	41
A.26	Real and nominal effective exchange rates of the Cyprus currency (IMF weights)	41
A.27	Tourist arrivals and receipts	44
A.28	(a) Quarterly GDP growth (expenditure categories)	45
	(b) Quarterly GDP growth (expenditure categories)	45
A.29	Retail sales (excluding motor vehicles)	46
A.30	Registration of motor vehicles	46
A.31	Credit card spending	46
A.32	Building permits authorised	47
A.33	Sales contracts (total of locals and foreigners)	48
A.34	Lending criteria and interest rate on housing loans	49
A.35	Business and Consumers Surveys: construction confidence indicators	49
A.36	Sales of cement	49
A.37	Unemployment and employment	54
A.38	Registered unemployment	54
A.39	Unemployment by duration	55
A.40	Budget and primary balances of the general government	55
A.41	Total revenue and expenditure of the general government	55
A.42	General government consolidated gross debt	56
A.43	Real GDP fan chart	65
A.44	HICP fan chart	65
A.45	HICP excluding energy fan chart	65

## BOXES

1	New statistical standards	50
2	Vintages of forecasts produced by the Troika relating to the main macroeconomic variables of the Cyprus economy	69

## 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	
ECB	European Central Bank	Rev. 2	
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		



1

Synopsis

2

Macroeconomic  
Developments and  
Projections

3

Statistical Annex

## Introduction

One of the most positive developments in 2014 was the successful participation of four systemic domestic resident banks in the EU-wide comprehensive assessment conducted jointly by the European Banking Authority (EBA) and the European Central Bank (ECB). This development, together with the implementation of a series of key structural reforms, has laid the foundations for a sound banking sector that will allow it to take a leading role in Cyprus's full economic recovery. Healthy and well capitalised banks will again be able to provide viable lending to households and small and medium-sized enterprises, which are the backbone of the economy.

More specifically, the systemic banks have increased their capital adequacy level with prospects for further improvement, while the banking regulatory and supervisory framework has been significantly strengthened. The largest credit institutions are proceeding with the implementation of their restructuring plans, while corporate governance practices have improved and will continue doing so.

On the basis of these developments, the Central Bank of Cyprus (CBC) will now be able to focus on loan restructurings, which must be reasonable, fair and sustainable, so that the level of non-performing loans is reduced, with a positive impact on interest rates and the general economic climate.

With regard to real GDP, the developments were less negative than had previously been expected. While the Troika's fifth evaluation of the Cyprus economic adjustment programme in July 2014 predicted a real GDP decline of approximately 4,2% for 2014, the most recent revised forecasts by the International Monetary Fund (IMF) and the European Commission expect a decline of 3,2% and 2,8%,

respectively. Based on the latest available data, the CBC expects a decline of 2,6%.

During their visit for the fifth assessment, the Troika's forecast for the budget deficit was 4,7% of GDP in 2014. However, this forecast is already out of date: most recent forecasts by the IMF and the European Commission refer to a deficit of around 4,4% and 3%, respectively. These revisions enable relatively more optimistic fiscal estimates for 2015, provided that the consistent and prudent management of the state budget continues.

With regard to the fifth assessment, it should be noted that October 2014 marked the first delay in the implementation of the Cyprus economic adjustment programme. Therefore, the assessment could not be completed in time and the consequent tranche of €436 million was not released as planned.

However, it appears that the reasons that led to the delay, i.e. the political disagreements around the foreclosures legislation, are going to be resolved and therefore the financial aid to Cyprus by its international lenders will resume soon.

Overall, the developments so far in the banking sector, the fiscal front and the economy in general have increased the likelihood of an exit from the crisis. These developments were noted by the credit rating agencies which recently upgraded the Cypriot economy. The upgrades reflect the gradual but steady restoration of market confidence to the Cypriot financial sector and the wider economy. However, there is no room for complacency. The ultimate goal is to fully restore confidence in the Cypriot economy, ensuring healthy macroeconomic conditions associated with sustainable growth and full employment.



1

Synopsis

2

Macroeconomic  
Developments and  
Projections

3

Statistical Annex



## International developments

Global economic activity started showing signs of recovery in the middle of the year. Among advanced economies, the rapid recovery primarily reflects the slower deleveraging of the private sector, the reduced fiscal drag and further easing of expansionary monetary policy. In contrast, emerging economies are still experiencing weak growth due to the ongoing structural reforms, domestic and external imbalances, tightened financial conditions and labour market uncertainty.

Global inflation declined further mainly due to excess capacity and falling oil prices. Most major central banks, including those of the euro area, Japan and the UK, continued to adopt an expansionary monetary policy stance, with key interest rates reaching historical low levels, and to provide additional liquidity through the implementation of further non-standard monetary policy measures. In contrast, the US Federal Reserve decided to end its long-running asset purchase programme as a result of the country's better economic prospects.

The liquidity and refinancing operations conducted by the ECB continued to provide unlimited liquidity to euro area monetary and financial institutions (MFIs). These actions were deemed necessary for maintaining a smooth and effective transmission of monetary policy in the euro area. Analytically, in June 2014 the ECB decided to proceed with the implementation of additional standard monetary policy measures on the basis of sluggish economic prospects, subdued monetary and credit expansion, weak economic growth and low inflation. Specifi-

cally, the ECB lowered its key interest rate by 10 basis points to 0,15% and decided to introduce a negative deposit facility rate equal to -0,10%. In September 2014, the ECB decided to further decrease its key interest rates by 10 basis points. As a result, the main refinancing operations rate, the deposit facility rate and the marginal lending facility rate currently stand at 0,05%, -0,20% and 0,30%, respectively. Moreover, the ECB proceeded with the introduction of further non-standard monetary policy measures in order to ensure the smooth functioning of the money market. In particular, in September 2014 the ECB conducted the first Targeted Longer-Term Refinancing Operation (TLTRO) through which a total of €82,6 billion was allotted to euro area MFIs. Furthermore, in October 2014 the ECB launched its third Covered Bond Purchase Programme (CBPP) and announced that it will soon start purchasing non-financial private sector assets through the implementation of an Asset-Backed Securities Purchase Programme (ABSPP) with underlying assets consisting of claims against the euro area non-financial private sector.

The marginally positive economic recovery observed in the euro area primarily reflects the euro area's better net trade position and increased private consumption. It is worth mentioning that the introduction of the new European System of Accounts (ESA) 2010, which resulted in revisions to national accounts and European macroeconomic statistics, had marginally impacted the main macroeconomic indicators' growth rates. The risks to the economic outlook are still on the downside. Increased geopolitical risks and recent developments taking place in emerging econo-



1

Synopsis

2

Macroeconomic  
Developments and  
Projections

3

Statistical Annex

mies and global financial markets are expected to negatively affect the global economic conditions and consequently those of the euro area. Meanwhile, the high unemployment persisting in the euro area as well as the excess capacity and the necessary adjustment of the public and private sector balance sheets, are factors that could also negatively affect the recovery in the euro area.

Economic activity in the US and the UK accelerated during the third quarter of 2014. Private consumption in the US reached its highest level since the start of the last recession owing to better market prospects, low borrowing costs and falling oil prices. The UK maintained its strong momentum mainly due to positive developments in the business, transport and communication sectors. The labour market also continued to strengthen during the summer of 2014, with unemployment reaching 6%, the lowest rate in five years. In contrast, private consumption in Japan was subdued. This was mainly the result of reduced exports as well as the sharp decrease in domestic demand, following the growth in consumption prior to the increase in consumption tax in April 2014.

### **Domestic developments**

Based on data for the first half of 2014, real GDP in Cyprus recorded a year-on-year decline of 3%, compared with a decrease of 5,7% in the corresponding period of last year. According to preliminary data for the third quarter of 2014, real GDP contracted further by 1,9%, which is less than what was expected. The slowdown of the recession is confirmed by most economic indicators, which registered a deceleration in their decline, and some even recorded small increases in recent months.

The Harmonised Index of Consumer Prices (HICP) was negative in the first ten months of 2014 and stood at -0,2% compared with a positive growth rate of 0,7% in the corresponding period of 2013. It should be noted that successive negative inflation rates were recorded in the Cyprus economy for the period October 2013-May 2014, mainly as a result of the severe domestic recession, the sizeable cuts in wages and the significant reductions in energy prices. However, since June 2014 onwards, the HICP has started to show zero or positive monthly growth rates, mainly because of increases in the prices of services.

In the monetary sector, the negative annual growth rate of loans to the domestic private sector, which began in May 2013, also continued in the first nine months of 2014. This mainly reflects the developments in the aftermath of the decisions of the Eurogroup in March 2013 and the resulting deleveraging by domestic banks. Similarly, the growth of domestic private sector deposits has been recording consecutive negative rates since March 2013. However, it is worth mentioning that there has been a significant reduction in the rate of outflows of deposits, particularly during the third quarter of 2014 compared with the corresponding period of 2013, which could be interpreted as some form of stabilisation of the domestic banking sector. Moreover, both the Asset Quality Review (AQR) and the stress tests provided positive results for the participating local banks. These results, which were published on 26 October 2014, are expected to further strengthen the confidence of depositors in the domestic banking sector. The further stabilisation of the banking sector is expected to contribute to the recovery of the domestic economy, creating the



**1**

Synopsis

**2**

Macroeconomic  
Developments and  
Projections

**3**

Statistical Annex

right conditions for the lifting of the remaining restrictive measures on the movement of foreign capital.

During the first nine months of 2014, most loan categories recorded, on average, slightly lower lending interest rates compared with the corresponding period of 2013, albeit remaining at high levels. According to the latest data available, domestic lending rates in all loan categories, remained at higher levels at the end of September 2014 compared with the corresponding interest rates in the euro area. Nevertheless, the expected acceleration in the restructuring of loans following the successful results of the recent EU-wide comprehensive assessment exercise of banks, the recent reduction in the key ECB interest rates and the most recent decisions by the ECB to use additional standard and non-standard monetary policy measures, are factors that should contribute to the further reduction in domestic lending rates in the near future. Domestic deposit rates have begun to stabilise, remaining at levels below 3%. This has followed the sharp decrease recorded in April 2013, as a result of the CBC decision to impose additional capital requirements on credit institutions that offered deposit rates which exceeded EURIBOR plus 300 basis points with effect as from May 2013, and excluding some minor fluctuations. However, according to the latest data available, at the end of 2014Q3, deposit rates in Cyprus in the main categories of deposits remained at higher levels compared with the corresponding rates in the euro area.

With regard to external trade, the current account deteriorated in the first half of 2014 recording a deficit of €840,2 million compared with a deficit of €728,3 million in the first half of 2013. This deterioration was mainly due to

increased imports of goods and declining revenues from triangular trade, despite a small increase in exports of goods. The services account recorded a marginal deterioration in the same period. Available data for the entire 2014 show that total imports will rise slightly in the second half of the year, while the current account is expected to record a small deterioration compared with the previous year. The financing of the current account deficit stems mainly from the major sell-off in the portfolio account.

Concerning the labour market, employment recorded a year-on-year decrease of 2,8% in the first half of 2014 compared with a fall of 5,4% in the first half of 2013, and an annual reduction of 5,3% over 2013. Moreover, according to data from the Labour Force Survey (LFS), unemployment continues to remain at high levels, although it has started showing some signs of stabilisation. More specifically, the unemployment rate stood at 15,4% in the second quarter of 2014 remaining at the same level as the corresponding period of the previous year, and slightly below the 15,9% recorded in 2013.

Preliminary data on public finances, published by Cystat for the first nine months of 2014, demonstrate a significant improvement owing to the ongoing implementation of the fiscal consolidation programme, the prudent execution of the state budget as well as the less severe deterioration in economic activity than expected for 2014. In particular, the budget balance as a percentage of GDP recorded a surplus of 1,1% over the period under consideration compared with a deficit of 1,5% over the first nine months of 2013.

General government consolidated gross debt as a percentage of GDP (based on ESA



**1**

Synopsis

**2**

Macroeconomic  
Developments and  
Projections

**3**

Statistical Annex

2010) increased further to 105,6% as at the end of 2014Q3, up from 102,2% as at end of 2013. This development was primarily due to the impact of the unfavourable difference between the average interest rate for servicing the public debt and the rate of economic growth (interest-growth differential) and despite a primary surplus of 3,3% over the period under consideration.

The projections for the Cyprus economy, included in the context of the fifth review of the economic adjustment programme in July 2014, proved to be very pessimistic. Shortly after the concluding statement of the fifth review, according to which a contraction in GDP of around 4,2% was expected in 2014, both the European Commission and the IMF revised their forecasts upwards, highlighting a more positive picture. Recently, and especially after the successful recapitalisations and subsequent stress tests, the credit rating agencies have made positive revisions to both the sovereign rating and the prospects of the economy.

In the most recent CBC forecasts for the Cyprus economy, prepared within the framework of Eurosystem forecasts, GDP is expected to contract by 2,6% in 2014, while a contained recovery is expected in 2015 and 2016 of around 0,8% and 2,1%, respectively. Inflation is expected to remain close to marginally negative levels of -0,1% in 2014, reflecting the GDP trend, whereas it is projected to be marginally positive in 2015 and 2016, reaching 0,2% and 1,3%, respectively.



**1**

Synopsis

**2**

Macroeconomic  
Developments and  
Projections

**3**

Statistical Annex

## Macroeconomic Developments and Projections



**1**

Synopsis

**2**

Macroeconomic  
Developments and  
Projections

**3**

Statistical Annex

## 1 International Environment

### 1.1 External developments

#### GDP growth<sup>1</sup>

Global economic activity started showing signs of recovery in the middle of the year. Among advanced economies, the rapid recovery primarily reflects the slower deleveraging in the private sector, the reduced fiscal drag and further easing of monetary policy. In contrast, emerging economies are still experiencing some difficulties. The recovery of advanced economies did not have the expected impact on emerging economies foreign demand mainly due to factors containing growth dynamics such as structural reform challenges, labour market uncertainty, domestic and external imbalances and further tightening of MFIs credit standards for lending. At the same time, the global composite Purchasing Managers Index (PMI) excluding the euro area, started recording a downward trend by the middle of the year. More analytically, in October 2014 the index declined to 54, which was slightly lower than its long-term average, owing to a fall in output in the services sector. The global PMI on the other hand, remained unchanged.

The risks to the economic outlook are still on the downside. Increased geopolitical risks and recent developments taking place in emerging economies and global financial markets are expected to negatively affect global economic conditions. Nevertheless, ongoing geopolitical risks, mostly related to

1. GDP projections are estimated as the average of the most recent projections from: The Economist Poll of Forecasters (8 November 2014), the European Commission (*European Economic Forecasts*, Autumn 2014) and the IMF (*World Economic Outlook*, October 2014).



1

Synopsis

2

Macroeconomic  
Developments and  
Projections

3

Statistical Annex

the Ukraine crisis, as well as the tensions in major oil-producing countries had, until now, a limited effect on global economic activity.

Global inflation declined further mainly due to excess capacity and falling oil prices. In particular, the Consumer Price Index (CPI) slowed down in the UK, Japan and China, while it remained stable in the US. With regard to the euro area, the Harmonised Index of Consumer Prices (HICP) recorded a marginal increase of 0,4%, in October 2014 remaining at very low levels. As a result, the Governing Council of the ECB used both standard and non-standard monetary policy measures in order to address the risks posed by a prolonged period of low inflation. More specifically, in June 2014 the Governing Council decided to cut its main refinancing rate from 0,25% to 0,15% and its deposit facility rate from 0% to -0,10%. By September 2014, it decided to lower further the aforementioned interest rates by 10 basis points, with the former reaching 0,05% and the latter reaching -0,20%. It should be emphasized that the ECB's decision on 6 June introduced for the first time in its history a negative deposit facility rate. Apart from the standard monetary measures, the ECB decided to adopt further non-standard monetary measures to help facilitate the monetary policy transmission mechanism. In this respect, on 18 September 2014 the Eurosystem conducted the first Targeted Longer-Term Refinancing Operation (TLTRO) through which a total of €82,6 billion was allotted to the euro area MFIs, an amount which is expected to be passed on in the form of lending to the euro area non-financial private sector, excluding housing loans. The TLTROs series mature in September 2018 and are based on a fixed interest rate equal to the Eurosystem's main refinancing operation rate

**1**

Synopsis

**2**Macroeconomic  
Developments and  
Projections**3**

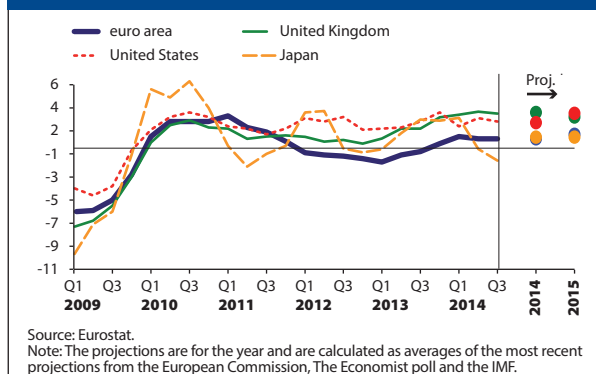
Statistical Annex



prevailing at the time of the take-up plus a fixed spread of 10 basis points, i.e. 0,05%. In order to create a meaningful impact on the monetary transmission mechanism, TLTROs are subject to specific criteria. More specifically, the repayment period of the TLTROs will be reduced if a participating bank does not increase its credit lending to the non-financial private sector under a minimum amount which is predefined for each bank. Moreover, on 2 October 2014 the ECB launched its third Covered Bond Purchase Programme (CBPP) and announced the forthcoming implementation of an Asset-Backed Securities Purchase Programme (ABSPP), whereby the ECB will purchase a broad portfolio of simple and transparent asset-backed securities with underlying assets consisting of claims against the euro area non-financial private sector.

The annual economic growth rate in the euro area remained marginally positive during the last quarters of 2014, standing at 0,8% in Q2 and Q3 compared with a negative annual rate of 0,3% in the corresponding period of 2013 (**Chart A.1**). This was mainly due to the euro area's improved net trade position and increased private consumption, coming from an accelerated household spending on cars and retail products. However, during the summer there was a weakening of economic momentum, which subsequently affected the medium-term prospects for economic growth. Also, by the end of Q3, the consumer confidence index stood at lower levels than its third quarter average, despite an increase observed during October 2014. Nonetheless, the index remains at higher levels compared with its long-term average. Leading indicators and various surveys confirm the medium recovery of the euro area for the rest of 2014, with domestic demand being supported by

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





the new non-standard monetary measures, as well as the improvement in financing conditions, the progress in fiscal consolidation, structural reforms and falls in energy prices. Meanwhile, the high unemployment persisting in the euro area as well as the excess capacity and the necessary adjustment in the public and private sector balance sheets could potentially impact negatively on the economic recovery. International organisations and analysts estimate that GDP growth will be around 0,8% in 2014 and 1,2% in 2015, with risks to the projections remaining on the downside.

In the US, the recovery in economic activity is stable with GDP growing by 2,3% in the third quarter of 2014. This mainly reflects the growth in domestic demand and the improvement in the US trade balance, as exports increased considerably and imports decreased. Also, in October 2014 consumer spending reached its highest level since the start of the recession owing to better market prospects, low borrowing costs and falling oil prices. Growth in the housing market continues to remain at low levels reflecting subdued housing investment. Looking ahead, the economic activity in the US is expected to accelerate and be supported by the easing in fiscal policy measures, the reduced negative impact on balance sheets coming from adjustments related to households and fiscal policy and the continuous improvement in the labour market. In light of improved economic prospects and better macroeconomic projections, the Federal Reserve's FOMC announced on 29 October 2014 the end of its long-running asset purchase programme. International organisations and analysts forecast GDP growth to be around 2,2% in 2014 and 3% in 2015.

**1**

Synopsis

**2**Macroeconomic  
Developments and  
Projections**3**

Statistical Annex

In Japan, GDP growth started slowing down in 2014Q2. In 2014Q3, Japan's annual GDP contracted by -1,1% compared with an increase of 0,1% and 2,6% recorded in Q2 and Q1, respectively. In addition, following a period of continuous growth, production in Japan stopped increasing, while in 2014Q3 it started falling due to weaker demand. The sharp decrease in domestic demand is mainly due to the increase in consumption prior to the anticipated increase in the consumption tax in April 2014, which subsequently adversely affected private consumption in the following months. As a result, the Bank of Japan at its monetary policy meeting on 31 October 2014, announced the expansion of its Quantitative and Qualitative Monetary Easing programme (QQE) by accelerating the annual pace of increase in the monetary base to about ¥80 trillion (from about ¥60 - ¥70 trillion before). Therefore, even with the risks remaining on the downside, the expansion of the QQE programme is expected to positively impact the future economic outlook, while exports are also expected to recover. International organisations and analysts expect growth in GDP to be around 1% in both 2014 and 2015.

Economic activity in the UK maintained its strong momentum with GDP reaching 3% in the third quarter of 2014 compared with 1,7% in the third quarter of 2013, mainly due to an increase in the business, transport and communication sectors. The labour market also continued to strengthen during the summer months of 2014, with unemployment falling to 6%, the lowest rate recorded in the last five years. However, the deterioration of external demand and the necessary adjustment in the public and private sector balance sheets will continue to weigh on economic activity. On

**1**

Synopsis

**2**Macroeconomic  
Developments and  
Projections**3**

Statistical Annex

average, international organizations and analysts expect growth in GDP to be around 3,1% in 2014 and 2,7% in 2015.

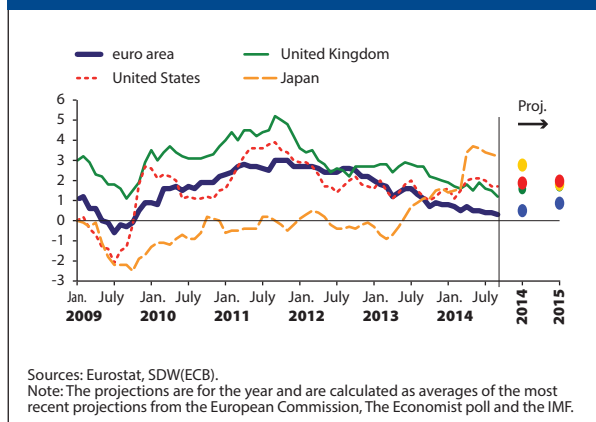
## Inflation<sup>2</sup>

Global inflation declined further and remained below its historical averages. This primarily reflects the sharp decrease in oil prices during the second half of 2014 and the significant global excess capacity (**Chart A.2**).

More specifically, euro area HICP recorded a marginal increase of 0,4% in October 2014, reflecting higher annual growth rates in the prices of food and services and a less negative growth rate in energy prices. These increases were partly offset by the reduction in the annual growth rate in the prices of industrial goods excluding energy. At the same time, in October 2014 HICP inflation excluding energy and food stood at 0,7%, from 0,8% in September 2014. The consensus of the latest forecasts for euro area inflation from international organisations and analysts are 0,5% for 2014 and 0,9% for 2015. These forecasts take into account recent developments, such as the sharp decrease in oil prices and the possible impact of the new non-standard monetary policy measures and the recent geopolitical turmoil.

In the UK, inflation decelerated to 1,2% in September 2014 from 1,5% in August 2014. Inflation excluding energy and food prices also decelerated from 1,9% in August 2014 to

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



2. Inflation projections are estimated as the average of the most recent projections from: The Economist Poll of Forecasters (8 November 2014), the European Commission (*European Economic Forecasts*, Autumn 2014) and the IMF (*World Economic Outlook*, October 2014).

1,5% in September 2014. Overall, inflationary pressures are expected to remain subdued owing to moderate wage growth and the appreciation of the sterling. According to the latest forecasts, inflation is expected to be around 1,6% in 2014 and 1,7% in 2015.

In the US, inflation remained stable at 1,7% in September 2014. The recent decrease in oil prices led to a third consecutive monthly decline in energy prices which offset the increase in the prices of food and accommodation. Analysts expect that the recent decline in oil prices and the possible appreciation of the dollar will continue to exert downward inflationary pressures. Nonetheless inflation is expected to slowly pick up due to improvements in the labour market. More specifically, inflation is expected to be around 1,9% in 2014 and 2,0% in 2015.

In Japan, inflation recorded a marginal deceleration to 3,2% in September 2014 compared with 3,3% in August 2014, mainly due to lower energy prices. It is worth mentioning that inflation, excluding the consumption tax increase imposed in April 2014, stands near 1%, whereas inflation excluding energy and food prices remains at the same levels as at end 2013, within the range of 0,5%-0,8%. Analysts estimate that inflation in Japan will be around 2,8% in 2014 and 1,8% in 2015.

### **Exchange rates**

The effective exchange rate of the euro against major currencies continued recording a downward trend during the second half of 2014. This primarily reflects market concerns about future monetary policy decisions and expectations regarding the economic outlook of the euro area relative to



**1**

Synopsis

**2**

Macroeconomic  
Developments and  
Projections

**3**

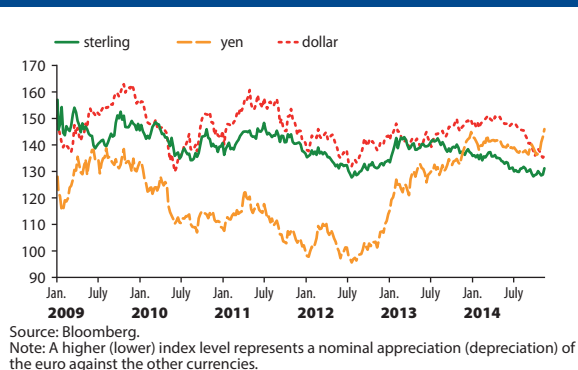
Statistical Annex

other major economies. More specifically, between 3 January 2014 and 14 November 2014 (last available data), the euro recorded a decrease of 7,83% and 3,41% against the dollar and sterling, respectively, due to low expectations regarding the euro area economy. In contrast, the euro rose against the yen by 2,24%, due to the positive announcement effects of Japan's decision to extend its QQE programme (**Chart A.3**).

### Oil and gold

Oil prices declined significantly in the second half of 2014 despite increased geopolitical tensions in major oil-producing countries. After stabilising above \$100 per barrel for about two years, Brent crude oil fell to a four-year low recording a 25% decrease in the dollar price on 14 November 2014. In particular, the closing price of Brent crude oil declined from \$108,07 per barrel in 2014Q1 then rose to \$113,30 and fell back to \$97 in Q2 and \$97 in Q3. This downward trend also continued in October closing at \$85,86 per barrel and, according to the latest available data, on 14 November 2014 Brent crude's closing price fell to \$79,41 per barrel (**Chart A.4**). The current level of low oil prices is mainly explained by excess supply following an increase in OPEC production (mainly by Libya and Iraq) accompanied by a stable increase in oil production from North America, as well as a decrease in oil demand. In light of the above developments, and taking into account the sluggish economic growth, the International Energy Agency (IEA) has further reduced its forecast for global oil demand for 2014 and 2015. In the medium term, markets expect a marginal increase in oil prices, with futures for December 2015 currently priced at \$88 per barrel.

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



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



The price of gold fell during the period January-November 2014, closing at \$1.189 per ounce, from \$1.290 in the corresponding period of 2014 (**Chart A.5**), mainly due to market concerns about falling demand from major emerging economies, particularly China. In contrast, gold prices in euro recorded a slight increase during the period mentioned above, due to the depreciation of the euro against the dollar.

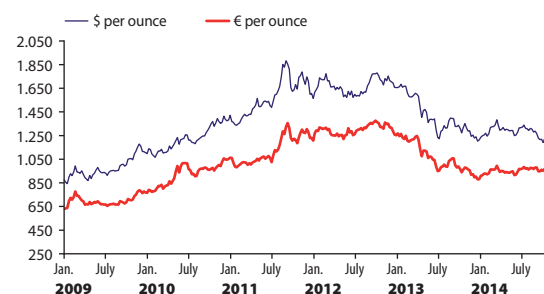
### Selected international stock market indices

The stock market indices in Japan and the US have increased since the beginning of the second half of the year. In contrast, stock prices in the euro area exhibited a small decline, mostly reflecting weak economic data releases for the euro area. Specifically, the DJ Eurostoxx index declined by 0,47% (**Chart A.6**) between the beginning of January 2014 and up until 14 November (last available data). During the same period, the S&P500 recorded an increase of 11,38% on the back of positive economic data for the US. The Nikkei 225 also increased by 7,36%, due to the positive effects coming from Japan's recent decision to extend its QQE programme.

### International official interest rates

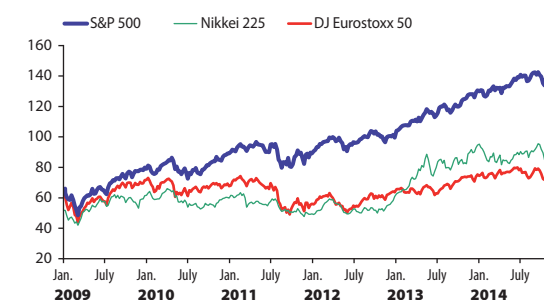
In 2014 the major central banks continued to adopt an expansionary monetary policy through the implementation of both standard and non-standard monetary policy measures. In June 2014, the ECB decided to cut its key interest rates and introduce a negative deposit facility rate as a more drastic means of addressing the risks posed by a prolonged period of low inflation. As a result, in June

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



Source: Bloomberg.

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



Source: Bloomberg.

2014 the main refinancing rate was decreased to 0,15% and the deposit facility rate to -0,10%. On 4 September 2014, the ECB further lowered its main refinancing rate by 10 basis points to 0,05% (**Chart A.7**) and reduced its deposit facility rate and the marginal lending facility rate to -0,20% and 0,30%, respectively. As a result, money market interest rates have reached historical low levels.

In the same month, the ECB proceeded with the introduction of further non-standard monetary policy measures to further smooth the monetary policy transmission mechanism (an analysis of non-standard monetary policy measures can be found in the section "Reference rates and ECB intervention").

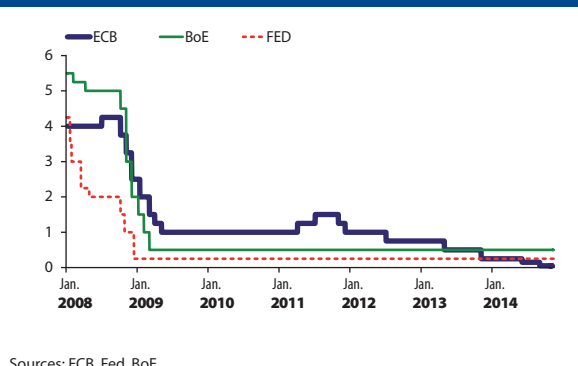
The other major central banks, i.e. the US Federal Reserve, and the Bank of England, maintained their key interest rates at 0,25% and 0,50%, respectively. In October 2014, the Bank of England announced the continuation of its QE programme by purchasing assets amounting to £375 billion. In contrast, the Federal Reserve decided to phase out its long-running asset purchase programme reflecting the country's better economic prospects.

## 1.2 Monetary developments in the euro area

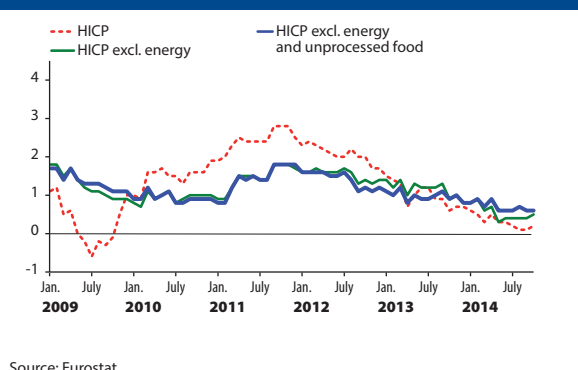
### Inflation

As mentioned above and according to the latest available data, euro area inflation recorded a marginal increase to 0,4% in October 2014 compared with 0,3% in September 2014 (**Chart A.8**). This primarily reflects higher annual growth rates in the prices of food and services, as well as a lower negative growth rate of change in energy prices, which were, however, partly offset by

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



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



the reduction in the annual growth rate in the prices of industrial goods excluding energy. At the same time, in October 2014 inflation excluding energy and food stood at 0,7% from 0,8% in September 2014.

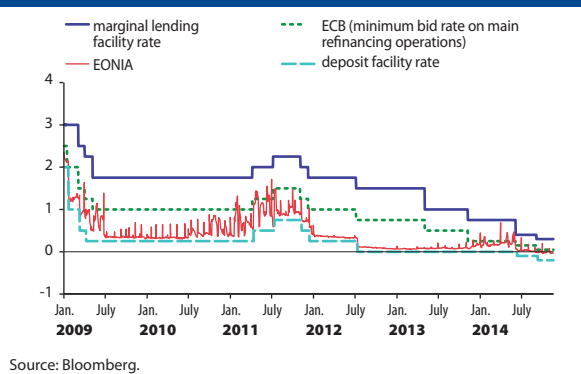
In the period January - October 2014, euro area inflation remained at very low levels, on the back of a significant drop in energy prices and lower inflation in the other HICP sub-components as a result of excess capacity. International organisations and analysts expect euro area inflation to reach 0,5% in 2014 and 0,9% in 2015. These forecasts take into account the recent sharp decrease in oil prices and the possible effects stemming from the introduction of the new non-standard monetary policy measures and recent geopolitical developments.

### Reference rates and ECB interventions

On 4 September 2014, the Governing Council of the ECB further lowered its key interest rates by 10 basis points. Since the beginning of the year, the ECB has reduced its key policy rate twice by a total of 20 basis points. Currently, the main refinancing rate and marginal lending facility rate stand at 0,05% and 0,30%, respectively (**Chart A.9**). At the same time, the ECB decided to further lower its deposit facility rate to -0,20% to ensure the proper functioning of the interbank money market which commercial banks use to lend to each other.

In conjunction with the policy rate cuts, and after taking into account the sluggish medium-term inflation prospects, the overall weak economic outlook, excess unutilised capacity, and the subdued monetary growth, the Governing Council decided to proceed with the implementation of various non-stand-

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





dard monetary policy measures to effectively address the risks posed by a very prolonged period of low inflation. More specifically, the ECB conducted its first TLTRO over a window of four years and managed to allot €82,6 million to euro area MFIs. On 2 October 2014, the ECB launched its third Covered Bond Purchase Programme (CBPP). It also announced that it would soon start purchasing non-financial private sector assets through the implementation of an Asset-Backed Securities Purchase Programme (ABSPP), with the underlying assets consisting of claims against the euro area non-financial private sector. All the above measures are expected to help address the issue of persistently low inflation and subdued monetary and credit growth. At the same time, under its price stability pillar, the Governing Council of the ECB announced its commitment to use additional non-standard monetary policy measures if risks associated with a prolonged period of low inflation pertain.

Irrespective to the above measures, the ECB continued to support money markets through standard liquidity-providing operations with the aim of maintaining a smooth and effective monetary policy transmission mechanism. More analytically, during the period 2 October - 5 November 2014, the Governing Council of the ECB conducted five main refinancing operations (MROs) as fixed rate tender procedures, whilst on 29 October it conducted a longer-term refinancing operation (LTRO) with a three-month maturity. It should be mentioned that despite the increased liquidity provided through the first TLTRO, the excess liquidity decreased in the ninth maintenance period of 2014, mainly due to the decline in demand regarding standard open market operations.

**1**

Synopsis

**2**Macroeconomic  
Developments and  
Projections**3**

Statistical Annex

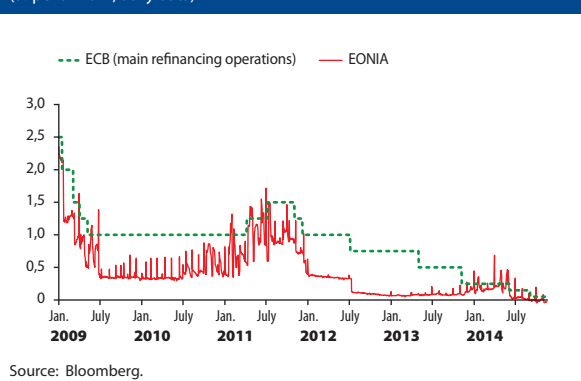
## Interbank market and interest rate differentials

Money market interest rates recorded a decrease from end-May 2014 up to the beginning of September 2014, in response to the decision of the Governing Council of the ECB to implement policy rate cuts in June and September 2014. Moreover, it should be noted that after the Governing Council's decisions to introduce a negative deposit facility rate for the first time in the history of the ECB and implement non-standard monetary policy measures as a response to low levels of inflation, money market interest rates also reached historical low levels. The first TLTRO conducted in September 2014 temporarily increased the excess liquidity in October 2014, whilst by November 2014 the excess liquidity returned to the levels prevailing prior to the operation. As a result, EONIA recorded negative levels during September 2014 while increasing only slightly in October, closing at 0,082% on 31 October 2014 (**Chart A.10**). However, due to the temporary liquidity increase during the first half of November 2014, on 17 November 2014 (the cut-off date for data in the December 2014 Bulletin) the EONIA reached the negative rate of -0,029%.

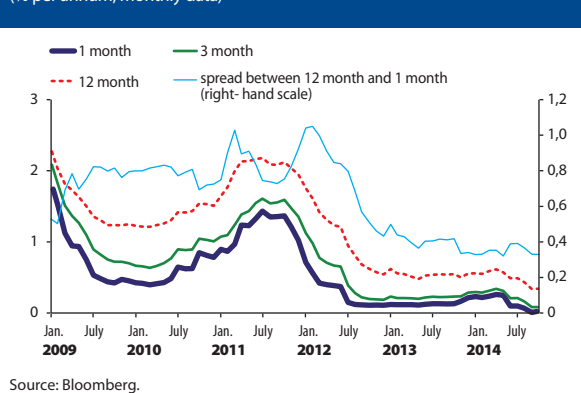
On 31 October 2014, the 1-month, 3-month and 12-month EURIBOR stood at 0,01%, 0,086% and 0,34%, respectively. The spread between the 12 and 1-month EURIBOR, which is an indicator of the slope of the money market yield curve, somewhat increased during the period end-May to early September, only to return back to 33 basis points on 31 October 2014, that is to the levels that prevailed in January 2014 (**Chart A.11**). Specifically, the spread between the 3-month EURIBOR and the OIS<sup>3</sup> products illustrated in

3. 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)



**CHART A.11 EURIBOR (selected durations)**  
(% per annum, monthly data)



**Chart A.12**, recorded a downward trend between end-May and November 2014. On 14 November 2014 (last available data) it stood at 0,2% compared with 0,023% on 30 May 2014.

### Euro area yield curve

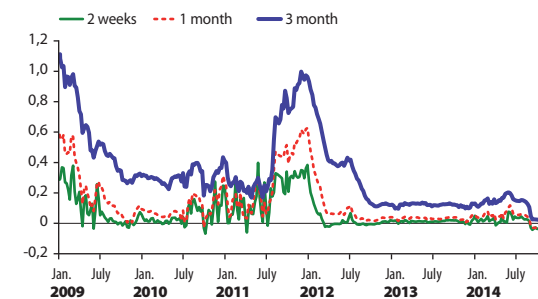
The yield curve for AAA-rated euro area government bonds with a 30-year maturity (spot prices), illustrated in **Chart A.13**, reflects market expectations concerning future developments in short and long-term interest rates, and also serves as a useful indicator for future economic activity prospects. During the course of 2014, there was a downward shift in the slope of the curve with regards to both short-term and long-term expectations, compared both with 15 May 2014 (the cut-off date for data in the June 2014 *Bulletin*) and 31 December 2013. This was mainly due to the announcement effects coming from weak euro area economic data releases as well as from the significant fluctuations of the government bond yields of the euro area stressed countries.

### M3 and credit expansion

The annual growth of M3 and credit expansion to euro area residents remained subdued in the first half of 2014, with signs of improvement in August 2014. More analytically, and according to the latest available data, in September 2014 the annual growth of M3 accelerated to 2,5% from 1,1% in May 2014 and 2,0% in the third quarter of 2013 (**Chart A.14**). This was mainly due to an increase in demand for marketable instruments, a decrease in the contraction of MFI lending to the private sector and the subsequent reduction in long-term financial liabilities.

**CHART A.12 EURIBOR vs OIS spreads**

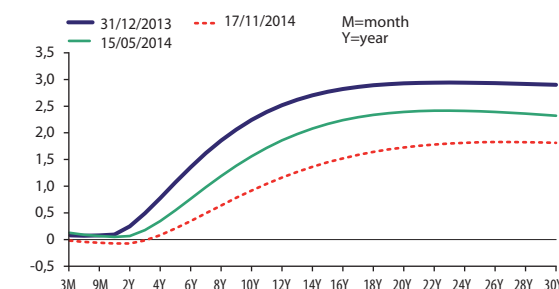
(% per annum, weekly data)



Source: Bloomberg.

**CHART A.13 Euro area spot yield curve**

(%)

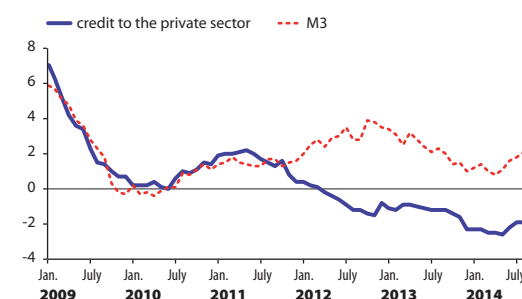


Source: Bloomberg.

Note: Yields on AAA government bonds with maturity up to 30 years, spot prices.

**CHART A.14 M3 and credit to the private sector: euro area**

(annual change %, seasonally adjusted data)



Source: SDW (ECB).

Regarding credit (loans and securities) to the private sector, the annual growth rate of total MFI credit to euro area residents have continued to be negative since April 2014 and as at end-September 2014 it decreased by 1,8%. More analytically, the growth of credit to non-financial corporations reached -2,0% in the third quarter of 2014 compared with -2,7% in the second quarter of 2014 and -1,1% in the third quarter of 2013. Marginally negative growth rates were also recorded in the category of loans to households, reaching -0,5% by the end of the third quarter of 2014 compared with -0,4% in the second quarter of 2014, and zero growth compared with 2013Q3. The above figures reflect weak economic activity in the euro area resulting in subdued demand and supply for loans.

According to the October 2014 Bank Lending Survey, participating banks expect credit standards for loans to enterprises and households to remain unchanged in the fourth quarter of 2014. At the same time, and according to the above survey, net demand for loans by enterprises and households for house purchase is expected to increase compared with the third quarter of 2014. In contrast, net demand for loans by households for consumer credit and other lending is expected to remain unchanged.

## **2. Domestic Prices, Monetary Aggregates and Labour Costs<sup>4</sup>**

### **Prices**

Domestic inflation as measured by the Consumer Price Index (CPI), continued to exhibit a negative trend in October 2014, standing at -0,5% compared with -0,9% in September 2014 and -1,6% in October 2013. For the period January – October 2014, the CPI

4. The gradual adoption of the new statistical standards begun in December 2014. Due to the transitional period, the analysis is based on the most updated data available. Consequently, the data used may vary in the standards used to calculate them. However, it is not expected to cause large deviations as far as growth rates are concerned.



**1**

Synopsis

**2**

Macroeconomic  
Developments and  
Projections

**3**

Statistical Annex

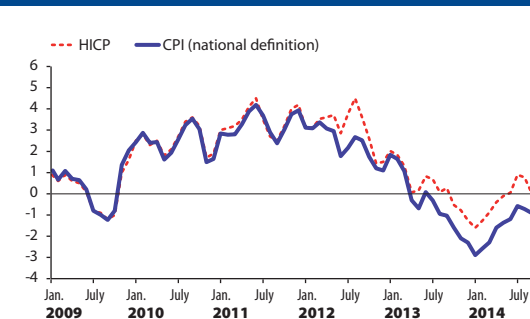
recorded a significant decrease of 1,5% compared with a zero growth in the corresponding period of 2013. At the same time, the HICP recorded consecutive negative rates for the period October 2013-May 2014, as from June 2014, the HICP has started to show zero or positive growth rates. In particular, the HICP registered a positive growth rate of 0,3% in October 2014 compared with a zero growth in September 2014 and a negative growth rate of 0,5% in October 2013. During the period January - October 2014, the HICP recorded an annual decrease of 0,2% compared with an increase of 0,7% in the corresponding period of 2013 (**Chart A.15**).

During the same period, a lower inflation compared with the corresponding period of 2013, was registered in all components of the HICP, apart from the services and processed food categories. These developments were mainly due to the severe ongoing domestic recession, the sizeable cuts in wages as well as the significant price reductions in the major sub-categories of energy inflation, despite the increase in VAT rates and excise duty on motor fuels imposed since January 2014.

In addition, for the period under review, inflation excluding energy decelerated to 0,1% compared with a positive annual growth of 0,7% in the corresponding period of 2013.

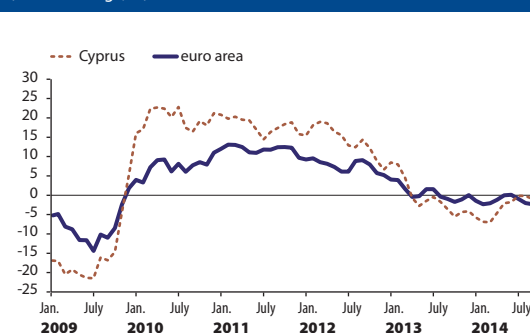
Specifically, in the energy component (**Chart A.16**), the significant downward effect of lower oil prices and the decision of the Cyprus Energy Regulatory Authority to convert the temporary reduction in electricity prices of 8% into a longer-term reduction (starting in March 2014), more than outweighed the upward effect of the increase in excise duties on motor fuels and the hike in VAT rate from 18% to 19% implemented in January 2014. Consequently, energy inflation

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



Source: Cystat.

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



Sources: Eurostat, Cystat.

continued registering negative growth rates. During the first ten months of 2014, energy inflation stood at -3,0% compared with a positive rate of 0,4% in the same period last year.

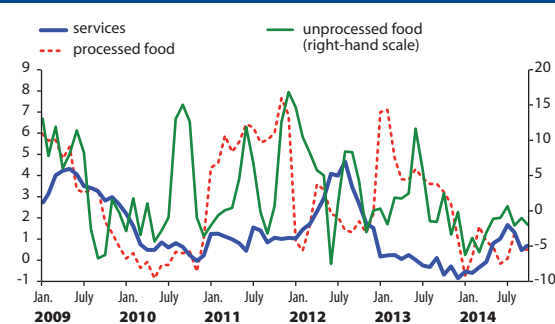
Unprocessed food prices (**Chart A.17**) in the first ten months of 2014 decreased by 2,6% compared with an increase of 2,1% in the corresponding period of 2013. The inflation rate in the relevant HICP component remained negative for the period under review, mainly due to the reduced prices of vegetables and meat. According to the latest available data, in October 2014 unprocessed food inflation reached -2,1% compared with an increase of 2,5% in October 2013.

With regard to the processed food component of the HICP (**Chart A.17**), inflation slowed down to 0,5% for the period January-October 2014, well below the 4,5% increase recorded in the corresponding period of 2013. Despite the increase in VAT on alcoholic beverages and tobacco, the aforementioned deceleration in inflation was mainly driven by decreases in the prices of key items of the component such as bread and cereals.

**Chart A.17)** also illustrates the annual percentage change in the prices of services, which in contrast to the other components of the HICP, recorded an increase of 0,4% during the first ten months of 2014 compared with a zero increase in the corresponding period of 2013. This increase was mostly reflected in the tourism related sub-categories of the aforementioned component, such as accommodation services and passenger transport by air. In October 2014, the percentage increase in the price of services was about 0,7% compared with a decrease of 0,1% in October 2013.

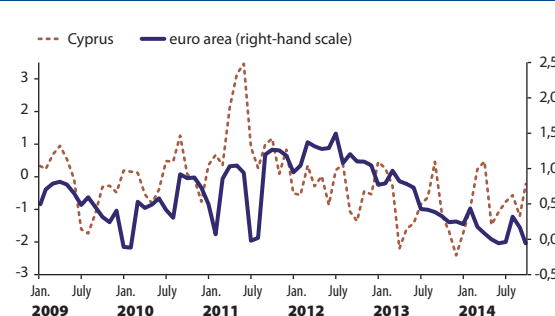
Non-energy industrial goods inflation (**Chart A.18**) fell on average by 0,7% for the first

**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 2014 as in the corresponding period of 2013. It should be noted that downward price pressures in this component of HICP were recorded, despite the fact this category was almost entirely subject to the above mentioned increase in VAT as of January 2014. In October 2014, the prices of industrial goods excluding energy dropped by 0,2%, as a result of the ongoing reductions in the prices of cars and furniture. The decrease was partly contained by the increases recorded in the categories of clothing and footwear.

As a result of the aforementioned developments, in the first ten months of 2014 inflation in Cyprus was on average lower than in the euro area for all HICP components. Inflation excluding energy and food, which together represent approximately 30% of the HICP, accelerated to 0,2% during the period January – October 2014 compared with a negative growth rate of 0,1% in the corresponding period of 2013. Despite the ongoing economic recession in Cyprus and the subsequent downward pressures on demand and domestic prices, the small increase in core inflation was mostly mirrored in the tourism related sub-categories of services inflation. The corresponding inflation rate in the euro area rose by 0,8% during the period under review.

### **Monetary aggregates<sup>5,6</sup>**

The negative annual growth in loans observed in the private sector since May 2013 continued during the first nine months of

5. For a detailed explanation of the methodology and technical analysis of monetary aggregates, see the Technical Notes on p. 90.

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.



**1**

Synopsis

**2**

Macroeconomic  
Developments and  
Projections

**3**

Statistical Annex



2014. This negative trend is due to supply factors, such as the ongoing effort of domestic banks to deleverage further, following the decisions of the Eurogroup in March 2013, as well as demand factors, such as the subdued private consumption as a result of the ongoing economic domestic recession. At the end of 2014Q3, the annual growth rate of loans to the domestic private sector reflected the negative rates of growth in the most important categories of loans, i.e. to households and non-financial corporations (NFCs). A similar picture has also been observed in the growth rate of domestic private sector deposits. The data suggests that for the period March 2013 - September 2014, these deposits recorded consecutive negative growth rates, reflecting the severe impairment of the credibility in the Cyprus banking system, following the decisions of the Eurogroup<sup>7</sup>. Nevertheless, the successful recapitalisation of the domestic banks and, consequently, the positive results from both the Asset Quality Review (AQR) and stress tests for the participating systemic local banks, which were published on 26 October 2014, are factors that are expected to contribute to the strengthening of depositor confidence in the domestic banking sector.

In line with the above, the October 2014 Bank Lending Survey (BLS) showed that, in the third quarter of 2014, banks further tightened their credit standards for all loan categories, although to a lesser extent compared with the previous quarter. According to the banks

7. Recall that according to the statistical treatment applied to the decisions of the Eurogroup (see *Economic Bulletin* December 2013), the growth rate of deposits is not affected by these decisions, but relate to the impairment of a significant amount of uninsured deposits. These impairments are only reflected in the total outstanding amounts of deposits.


**1**

Synopsis

**2**

 Macroeconomic  
Developments and  
Projections

**3**

Statistical Annex

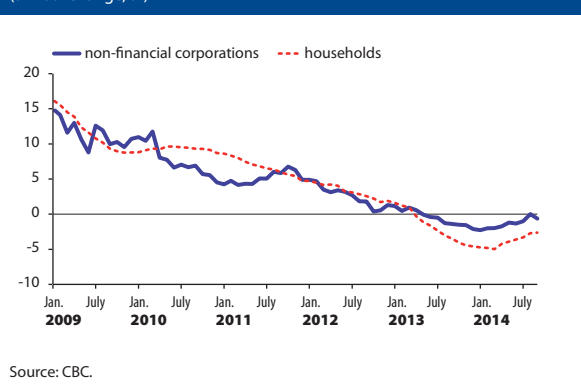


participating in the BLS, during the fourth quarter of 2014 the net tightening of credit standards for all loan categories is expected to remain unchanged. Moreover, net demand for loans for consumer credit and other lending recorded a decrease during 2014Q3, while net demand for the rest of the loan categories remained unchanged.

According to the expectations of the participating banks, net demand for housing loans by households as well as net demand for loans by enterprises in 2014Q3 is expected to increase. In contrast, net demand for loans for consumer credit and other lending by households is expected to remain unchanged.

A further analysis of monetary aggregates shows that at the end of September 2014, the annual growth rate of loans to the private sector registered a decrease of 1,8% compared with a decrease of 3,0% at end June 2014 and a decrease of 2,4% in the corresponding quarter of 2013. This 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 unfavourable macroeconomic conditions prevailing in the domestic economy. At the same time, banks have been cautious in granting new loans due to the fragile economic environment, the reduced liquidity in the banking system and the large stock of non-performing loans. Thus, banks have been engaged largely in loan restructurings and, to a lesser extent, in limited new lending contracts. Consequently, continuous negative growth rates have been registered both in loans to NFCs and to households for house purchase, albeit to a lower degree than before, while significant negative growth rates have also been recorded in loans to households for consumption (**Chart A.19**). It should

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



be noted that the actual reduction in loans to the domestic private sector could be understated owing to the inclusion of the interest charged on non-performing loans.

Loans to domestic NFCs continued to register negative growth, albeit lower than in previous months, reaching -0,6% in September 2014. In line with the above, and in accordance with the results of the latest BLS, in the third quarter of 2014 banks further tightened their lending criteria to enterprises. The main factors that, inter alia, contributed to the net tightening policy of banks regarding loans to enterprises were the increased cost related to banks' capital position and the lower expectations concerning the general economic activity. Furthermore, during 2014Q3, the demand for loans by enterprises remained unchanged.

Similarly, loans to domestic households recorded negative growth of 2,6% at the end of 2014Q3. All sub-categories of loans to households presented in **Table A.1** also continued to show significant negative growth rates. For instance, housing loans to domestic residents registered a negative growth rate of -3,2% in September 2014. According to the latest BLS results, in 2014Q3, participating banks further tightened their credit standards for loans to households for house purchase and for consumer and other lending. With regard to housing loans, the main factors that contributed to the net tightening of credit standards were the cost of funds and balance sheet constraints, expectations regarding general economic activity as well as housing market prospects. Factors such as 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,

**TABLE A.1 Loans to domestic households <sup>(1),(2)</sup>**

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

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.

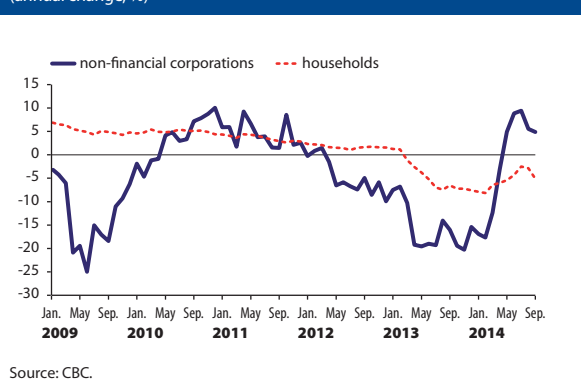
contributed to the tightening of credit standards for loans to households for consumer credit and other lending.

In addition, in 2014Q3 demand for housing loans by households remained unchanged. During the same period, there was a decrease in net demand for loans for consumer credit and other lending by households on the back of the reduced spending on durable consumer goods and the overall decline in consumer confidence regarding general economic activity.

Regarding deposits, the annual growth rate of deposits of the domestic private sector (see footnote 4, p.28) has been recording consecutive negative growth rates since March 2013. Specifically, in September 2014 private sector deposits recorded a decrease of 3,5%, mainly reflecting the negative growth of domestic households, as well as insurance companies and pension funds.

Analytically, the annual growth rate of deposits by domestic households (**Chart A.20** and **Table A.2**) stood at -5,1% in September 2014. It should be noted that the continuing trend of negative growth rates of the aforementioned deposits is consistent with the general uncertainty prevailing in the domestic macroeconomic environment. 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 prompt improvement of the deposit base of the banking sector. However, the recent positive results of the ECB/EBA comprehensive assessment (AQR, stress tests), which included Cyprus's three largest domestic banks and a foreign subsidiary,

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



**TABLE A.2 Deposits of domestic households <sup>(1),(2)</sup>**

	Outstanding balance as % of total <sup>(3)</sup>	Annual percentage change					
		2013 June	2013 Sep.	2013 Dec.	2014 Mar.	2014 June	2014 Sep.
<b>Domestic households</b>	<b>100,0</b>	<b>-5,2</b>	<b>-6,5</b>	<b>-7,6</b>	<b>-6,4</b>	<b>-4,3</b>	<b>-5,1</b>
<b>Overnight</b>	<b>19,3</b>	<b>1,1</b>	<b>14,5</b>	<b>17,4</b>	<b>24,9</b>	<b>17,6</b>	<b>3,8</b>
<b>With agreed maturity</b>	<b>74,2</b>	<b>-4,8</b>	<b>-9,9</b>	<b>-11,4</b>	<b>-11,4</b>	<b>-8,6</b>	<b>-5,6</b>
up to 2 years	70,7	-6,9	-11,8	-13,1	-13,3	-8,2	-4,9
over 2 years	3,4	15,3	6,7	0,7	2,7	-15,1	-18,7
<b>Redeemable at notice</b>	<b>6,5</b>	<b>-20,1</b>	<b>-10,7</b>	<b>-17,0</b>	<b>-14,2</b>	<b>-7,2</b>	<b>-20,7</b>
up to 3 months	4,5	-22,6	-19,4	-17,8	-15,0	-6,1	-11,9
over 3 months	2,0	-13,7	9,5	-15,0	-12,4	-9,8	-35,7

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.

should help boost the confidence of depositors in the banking system. This increased confidence should also set the right conditions for lifting the remaining restrictive measures on the movement of foreign capital, which in turn is expected to contribute to the faster recovery of the domestic economy. On account of the above economic developments, domestic deposits with an agreed maturity continued to record negative growth rates, reaching -5,6% at the end of the third quarter of 2014 (**Table A2, p.35**). Moreover, deposits redeemable at notice continued to register negative growth since last year, reaching -20,7% at end-September 2014.

Deposits of domestic NFCs (**Chart A.20 p.35**) recorded consecutive negative growth rates up to April 2014, mainly due to the prolonged recession in economic activity, which led to a reduction in the turnover of most businesses and increased use of existing deposits to cover their business and operating costs. Since May 2014, deposits of domestic NFCs have recorded consecutive positive growth rates for the first time since March 2012. This could be related to the fact that some enterprises have started to show slight signs of recovery in their turnover. As a result, these deposits recorded an increase of 4,9% at end September 2014.

With regard to total deposits of non-residents, including deposits by special purpose entities (SPEs), an annual decline of 5,9% was observed at the end of 2014Q3. In particular, deposits of non-resident NFCs, including SPEs, recorded a significant annual decline from March 2013 onwards, reaching -6,4% in September 2014. The deposits of non-resident households displayed a similar pattern by registering a negative growth rate of 4,9% at the end of 2014Q3.



1

Synopsis

2

Macroeconomic  
Developments and  
Projections

3

Statistical Annex

## Interest rates

During the first nine months of 2014, most lending rates in Cyprus recorded a slight decrease compared with the corresponding period of 2013, albeit remaining on average at high levels. Factors such as the increased risk faced by banks in granting new loans as a result of the increase in non-performing loans as well as the adverse macroeconomic conditions in the domestic environment contributed to domestic lending interest rates remaining high. Nevertheless, the continuation of the successful implementation of the MoU, the successful completion of the restructuring of the banking system in Cyprus and the acceleration in the restructuring of loans following the satisfactory results of the AQR and the stress tests for the participating local systemic banks, are factors that are expected to contribute to a reduction in domestic lending rates in the near future. Furthermore, the recent further reduction in the key ECB interest rate in September 2014 as well as the most recent ECB decisions to use additional standard and non-standard monetary policy measures, are also expected to have a positive impact on domestic lending rates (see [p.24](#)). With regard to loan restructurings, it is expected that the enactment of the office of Financial Ombudsman will contribute positively to this process.

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, and the cost of borrowing for new euro denominated loans from Cypriot MFIs to euro area NFCs, showed small decreases at the domestic level during 2014Q3 compared with both year end of 2013 and the same period last year. Nevertheless,



1

Synopsis

2

Macroeconomic  
Developments and  
Projections

3

Statistical Annex

they remained at high levels compared with other euro area countries. For instance, in September 2014 the average interest rate on housing loans, consumer credit and other lending to households reached 4,31%, 5,59% and 4,01%, respectively (**Table A.3**), while for the same period, the average rate on new loans to NFCs of up to and over €1 million reached 5,48% and 5,21%, 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 loans to households and businesses.

During the third quarter of 2014Q3, most euro area interest rates on loans from MFIs (**Chart A.21**, p.39) continued to record, for the most part, a downward trend compared with both the beginning of 2014 and the respective period of 2013. The downward trend in euro area interest rates reflects the consecutive reductions in key ECB interest rates with the most recent one being in September 2014, whereby the key ECB rate was reduced to a new all time low of 0,05%. Indicatively, at the end of 2014Q3 the average rate on new loans to households for house purchase, consumer credit and other lending stood at 2,51%, 5,39% and 2.84%, respectively. Similarly, an easing in the cost of borrowing was also recorded on loans to euro area NFCs of up to and over €1 million, which at the end 2014Q3 stood at 3,32% and 1,88%, 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 other lending and housing loans to households as well as to corporate loans.

Deposit rates offered by Cyprus MFIs to households and NFCs (**Table A.5**, p.39) con-

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

		Bank overdrafts <sup>(2)</sup>	Floating rate and up to 1 year initial rate fixation		
			Consumer Credit	Lending for house purchase	Other lending
2013	June	7,30	6,77	5,17	6,71
	July	7,30	6,80	5,33	6,83
	Aug.	7,40	7,04	5,33	6,60
	Sep.	7,36	7,17	4,86	6,47
	Oct.	7,32	7,14	4,88	6,71
	Nov.	7,03	6,57	4,71	5,79
	Dec.	6,89	6,00	4,67	5,98
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

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 <sup>(1)</sup>	Floating rate and up to 1 year initial rate fixation	
			Other loans up to € 1 million	Other loans over € 1 million
2013	June	6,77	6,48	5,73
	July	6,91	6,88	6,35
	Aug.	6,87	6,04	5,02
	Sep.	6,75	6,47	6,10
	Oct.	6,66	6,44	6,16
	Nov.	6,69	5,62	4,26
	Dec.	6,59	6,01	5,42
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

Source: CBC.

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

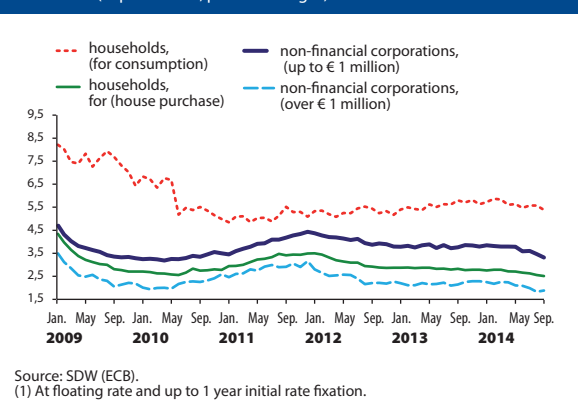
tracted sharply as from April 2013. Nevertheless, during the first nine months of 2014, they began to stabilise with some minor increases, but at levels below 3%. This decline was mainly due to the policy initiative of the CBC in May 2013 whereby credit institutions offering deposit rates higher than EURIBOR plus 300 basis points, would be required to raise additional capital. Indicatively, in September 2014 the average interest rate on new deposits for households with an agreed maturity of up to one year reached 2,59%, while the corresponding rate for NFCs for the same reference period stood at 2,53%.

In the euro area, deposit interest rates, which range at much lower levels than in Cyprus, largely recorded a further decrease in September 2014 compared with the beginning of 2014 (**Chart A.22, p.40**). Specifically, the average interest rate on euro denominated deposits for households with an agreed maturity of up to one year stood at 1,20% at the end of 2014Q3. The corresponding interest rate on deposits for NFCs reached 0,49% in September 2014.

Overall, banks in Cyprus have maintained 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, as a result of the lower risk compared with NFCs.

According to the latest ECB data for September 2014, 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 are ranked the second highest in the euro area after Greece. A similar picture presents itself for euro denominated deposit rates. Specifically, for the same month under

**CHART A.21 Euro area MFI interest rates on euro-denominated loans (new business) to euro area residents<sup>(1)</sup>** (% 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 <sup>(1)</sup>			Non-financial corporations	
		With agreed maturity			With agreed maturity up to 1 year	
		Overnight <sup>(2)</sup>	Up to 1 year	Over 1 and up to 2 years	Overnight <sup>(2)</sup>	Up to 1 year
2013	June	0,86	2,34	3,63	0,44	2,17
	July	0,70	2,24	3,77	0,42	2,05
	Aug.	0,68	2,18	3,52	0,44	1,96
	Sep.	0,63	2,20	3,58	0,45	1,90
	Oct.	0,62	2,36	3,58	0,43	1,97
	Nov.	0,62	2,20	3,37	0,40	1,91
	Dec.	0,61	2,23	4,08	0,40	2,25
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

Source: CBC.

(1) Including non-profit institutions serving households.

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



review, Cyprus recorded the highest deposit rates with agreed maturity up to one year for both households and NFCs compared with other euro area countries.

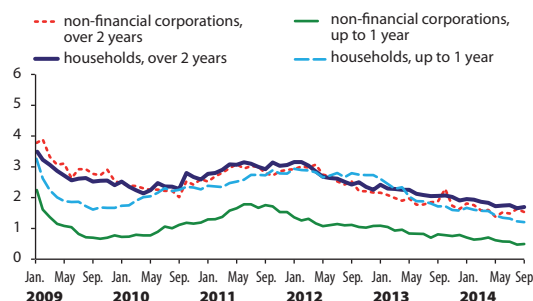
## Labour costs

Labour costs in the first half of 2014 registered a significant drop compared with the corresponding period in 2013, mainly driven by the contraction in economic activity. More specifically, the year-on-year rate of decline in compensation per employee was of the order of 4,7% in the first six months of 2014, compared with a decrease of 5,6% in the same period in 2013 (**Chart A.23**). This development was mainly the result of year-on-year reductions of 2,9% and 8,3% in private and public sector compensation per employee, respectively. As regards the sectoral breakdown, declines were observed in the secondary sector, and to a greater extent in the tertiary sector. In particular, compensation per employee in the tertiary sector registered a year-on-year decrease of 5,3% in the first half of 2014, compared with a decrease of 5,4% in the corresponding period of 2013 (**Chart A.23**).

Regarding the compensation per employee in real terms, a further year-on-year reduction of 3,4% was recorded in the first half of 2014, compared with a decrease of 6,3% in the corresponding period of last year (**Chart A.24**). Productivity, which is calculated as the change in real GDP per person employed, recorded a year-on-year decrease of 0,1% in the first half of 2014 compared with a decrease of 0,3% in the first half of 2013. (**Chart A.24**).

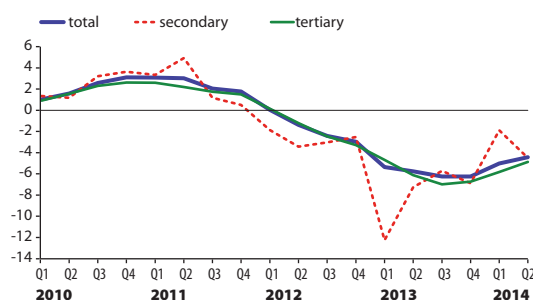
Unit labour costs, determined by the reduction in nominal compensation per employee and productivity change, recorded a year-on-year decrease of 4,6% in the first

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



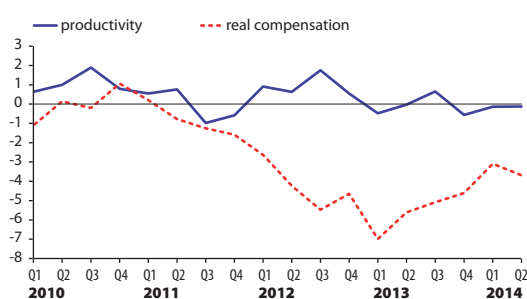
Source: SDW (ECB).  
(1) New deposits with agreed maturity.

**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.



**1**

Synopsis

**2**

Macroeconomic  
Developments and  
Projections

**3**

Statistical Annex



half of 2014, compared with a decrease of 5,3% in the corresponding period of 2013. On the other hand, unit labour costs in the euro area increased by 0,8% in the first half of 2014, compared with an increase of 1,6% in the first half of 2013 (**Chart A.25**). Unit labour costs is an important indicator of competitiveness for an economy and reflects the cost of labour per unit of output. Therefore, it is important for an economy in the medium and long term to maintain the abovementioned indicator low.

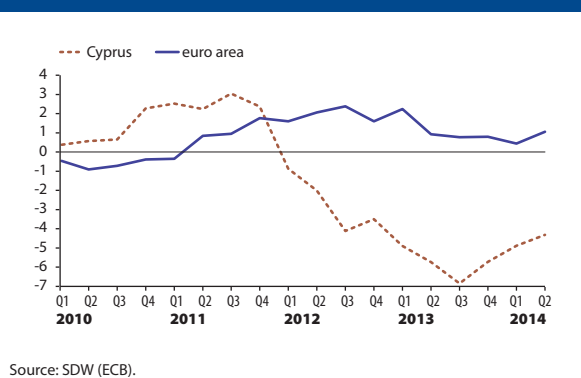
### 3. Domestic Competitiveness and the Balance of Payments

#### Effective exchange rate

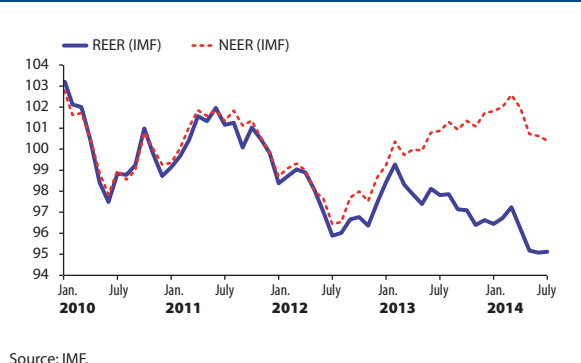
**Chart A.26** shows the effective exchange rate (EER) of the national currency, the index of real EER (REER) and the nominal index of EER (NEER), as calculated by the IMF. Both indices point to a strong weakening path in the first quarter of 2014, in contrast to the strengthening of the indices from January to March 2014. In general, the path of the REER index was affected by the negative inflation recorded in Cyprus in this period and the deterioration of economic activity.

The REER, inflation and unit labour costs are important measures of the competitiveness of the Cypriot 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. Inflation is related, to among other things, both aforementioned variables and therefore reflects the economy's compe-

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



**CHART A.26 Real and nominal effective exchange rates of the Cyprus currency (IMF weights)**  
(Base year 2010=100)



titiveness. The adoption of measures within the framework of the MoU have affected the salaries of civil servants and have resulted in significant wage reductions in the private sector. This has directly and indirectly helped in the medium-term competitiveness of Cyprus as well as increasing the prospects for economic recovery.

### Balance of payments

The presentation of external transactions incorporates significant changes in light of the new methodological and statistical changes (see **Box 1**, p.50). Specifically, these changes are attributed to three factors: the transition from the ESA 1995 statistical standards to the ESA 2010 standards, a shift from the external transaction standards BPM5 to BPM6, and changes in data collection. InWe proceed with the analysis of the statistics relating to the first half of 2014 compared with the first half of 2013, a period for which revised data are available.

The current account deficit (**Table A.6**) for the first half of 2014 registered a deficit of €840,2 million compared with a deficit of €728,3 million in the corresponding period of 2013. The deterioration of the deficit was mainly due to increased imports of goods but also to lower revenues from merchanting, which is now included in the goods category as a result of the statistical changes mentioned in the previous paragraph. In contrast, the primary income account recorded a slight improvement. The financing of the current account mainly came from the significant liquidation that took place in the portfolio account.

Specifically, the trade deficit in goods deteriorated reaching €1.524,2 million for the first

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

	Jan.-June 2013	Jan.-June 2014	Change
<b>Current account balance</b>	<b>-728,3</b>	<b>-840,2</b>	<b>-111,9</b>
<b>Goods and services balance</b>	<b>-297,7</b>	<b>-409,4</b>	<b>-111,7</b>
<b>Trade balance</b>	<b>-1.425,2</b>	<b>-1.524,2</b>	<b>-99,0</b>
Exports of goods	1.327,9	1.301,6	-26,3
Imports of goods	2.753,1	2.825,8	72,7
<b>Services balance</b>	<b>1.127,5</b>	<b>1.114,8</b>	<b>-12,7</b>
<b>Exports of services</b>	<b>3.305,0</b>	<b>3.441,2</b>	<b>136,2</b>
of which:			
Transport	1.203,7	1.174,6	-29,1
Travel	745,6	829,1	83,5
Insurance and pension services	11,9	8,2	-3,7
Financial services	788,5	827,9	39,4
Telecommunications, computer and information services	433,7	488,1	54,4
Other business services	46,0	50,8	4,8
<b>Imports of services</b>	<b>2.177,5</b>	<b>2.326,4</b>	<b>148,9</b>
of which:			
Transport	681,5	674,5	-7,0
Travel	411,4	416,0	4,6
Insurance and pension services	48,3	63,4	15,1
Financial services	442,1	494,6	52,5
Telecommunications, computer and information services	402,3	406,4	4,1
Other business services	105,3	179,7	74,4
<b>Primary income ( net)</b>	<b>-282,5</b>	<b>-230,4</b>	<b>52,1</b>
<b>Secondary income (net)</b>	<b>-148,2</b>	<b>-200,5</b>	<b>-52,3</b>

Source: CBC.

half of 2014, compared with a deficit of €1.425,2 million in the first half of 2013. This deterioration was mainly the result of increased imports of about €72,7 million due to large unexpected transactions and the reduction in revenue from the triangular trade of €59,8 million compared with the same period of 2013.

The latest available data published by Cystat for the first nine months of 2014, show a trade deficit of goods of the order of €2.774,4 million and an increase of 16,8% compared with the same period of 2013 (**Table A.7**). This development is attributed to the increase in total imports<sup>8</sup> and, to a lesser extent, to a reduction in total exports.

The surplus in the services account in the first half of 2014 showed a slight decrease of €12,7 million compared with the first half of 2013 (**Table A.6, p.42**). This marginal deterioration was due to the increase in imports of services, which was partially offset by an increase in exports of services. Regarding exports of services, the most significant increase was observed in the category of “telecommunications services, computer and information” with an increase of 12,5% (or €54,4 million). Travel revenues, which include revenues from tourism, increased by 11,2% (or €83,5 million) in the first half of 2014 as a result of the increase in the total number of arrivals and the per capita expenditure of tourists. An increase of 5% (or €39,4 million) was also observed in revenues from financial services. Regarding imports of services, a significant increase of 6,8% was recorded, reflecting increases in most categories, with major increases occurring in financial services, insurance services and other business services. In particular, imports of other business services increased by €74,4 million (70,7%), imports of financial ser-

8. Total inputs /arrivals for September 2014 include the transfer of economic ownership of mobile transport equipment with total value of €176 million.

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

	Imports	Exports	Trade deficit
2012	5.742,2	1.422,4	4.319,8
2013	4.830,4	1.609,3 <sup>(1)</sup>	3.221,1
annual % change	-15,9	13,1	-25,4
2013 Jan.-Sep.	3.584,0	1.209,3	2.374,7
2014 Jan.-Sep.	3.883,0 <sup>(2)</sup>	1.108,6	2.774,4
annual % change	8,3	-8,3	16,8

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, € 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.

vices increased by €52,5 million (11,9%), and imports of insurance services rose by 31,3% (or €15,1 million).

The primary income account registered an improvement of 18,5% (or €52,1 million) mainly due to lower interest costs while secondary income decreased by 35,3% (or € 52,3 million) due to non-recurring income in the first half of 2013, thereby offsetting the aforementioned improvement.

The financing of the current account deficit in the first half of 2014, originated largely from inflows of around €1.694,2 million in the portfolio investment category, mainly due to liquidations of debt securities issued by non-residents. On the other hand, a net decrease of €1.939 million was recorded in other investments during the reviewed period, as a result of the significant reduction in the CBC's liabilities with the Eurosystem.

## Tourism

According to the most recently available data, tourist arrivals increased by 1,5% during the first ten months of 2014. Available data on revenue from tourism in the first eight months of the year recorded an increase of 2,8%, while arrivals in the same period increased by 5,9%. As a consequence, per capita expenditure recorded a decrease of 3% (**Table A.8** and **Chart A.27**). The trend of tourist arrivals observed in recent months is below original expectations, as reductions have been recorded compared with the same period of 2013. Specifically, arrivals from Russia increased by 5,4% in the first ten months of 2014 (compared with an increase of 16,8% in first eight months of the year), while tourists from the United Kingdom, the main country of tourists origin, decreased by 2,3% (compared with a 1,3% growth in the first eight

TABLE A.8 Tourism

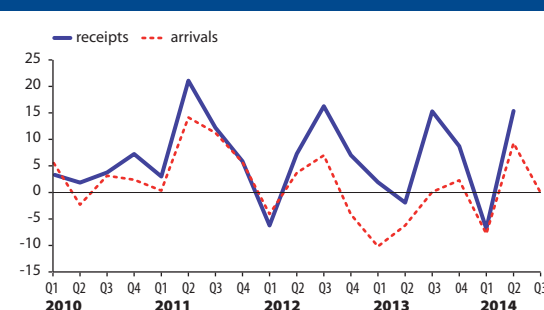
	Tourist arrivals (thous.)	Tourist receipts (€ million)	Expenditure per person (€)
2012 <sup>(1)</sup>	2.464,9	1.927,7	782,1
2013 <sup>(2)</sup>	2.405,4	2.082,4	865,7
annual % change	-2,4	8,0	10,7
2013 Jan. - Aug.	1.637,8	1.385,6	846,0
2014 Jan. - Aug.	1.734,9	1.424,2	820,9
annual % change	5,9	2,8	-3,0
2013 Jan. - Oct.	2.269,0	-	-
2014 Jan. - Oct.	2.302,9	-	-
annual % change	1,5	-	-

Source: Cystat.

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

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

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



Source: Cystat.

months of 2014). Both in 2013 and in the first ten months of 2014 the tourism sector has been one of the most important sectors for domestic growth. It should be noted that significant efforts are being made to attract tourists from new markets and emphasis is being given to new types of tourism products with the construction of the Limassol Marina and plans to build a casino in Cyprus.

#### 4. Domestic Demand, Production and the Labour Market

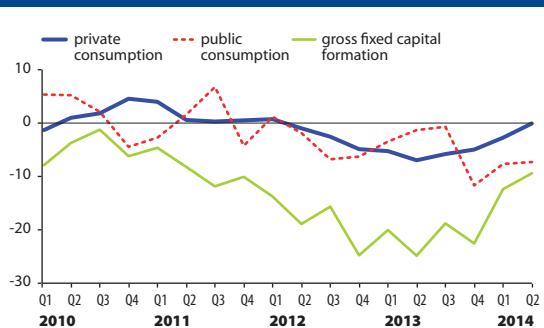
##### Quarterly national accounts

Following a contraction of 5,4% recorded in 2013, GDP deteriorated further by 3% in the first half of 2014, albeit to a much smaller extent than originally expected. Analytical data for the first half of 2014 (**Charts A.28 (a)** and **A.28 (b)**) show a decline in private consumption by 1,5% and a decrease in gross fixed capital formation by 10,9%. Despite the ongoing negative trend (albeit at a slower pace) in domestic demand, imports and exports of goods and services recorded an increase of 2,5% and 0,1% in real terms, respectively. Overall, national accounts appear to be affected by the March 2013 base effect, where the banks were closed and execution of transactions was almost impossible. The latest preliminary data for 2014Q3 recorded a smaller contraction of GDP (-1,9%) compared with previous quarters. Therefore, the year-on-year GDP decline for the first nine months of 2014 stood at -2,5%.

##### Domestic demand

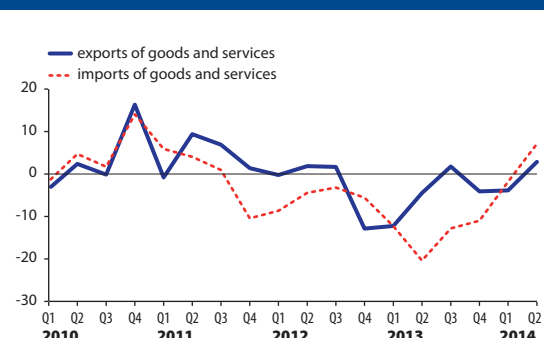
Domestic demand has stabilised as observed by recent economic indicators (**Table A.9**). More specifically, the Economic Sentiment

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



Source: Cystat.

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



Source: Cystat.

**TABLE A.9 Business and consumer surveys: confidence indicators**

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

	2013 Dec.	2014 Mar.	2014 June	2014 Sep.	2014 Oct.
ESI	90,3	93,5	99,7	99,8	98,8
Industry	-15	-13	-9	-9	-11
Services	-24	-12	5	6	5
Consumer	-44	-39	-28	-31	-30
Retail trade	-19	-23	-13	-12	-16
Construction	-55	-50	-48	-47	-52

Source: European Commission.  
Note: Seasonally adjusted data.

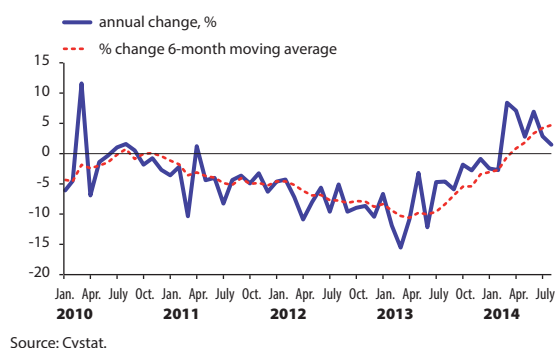
Indicator (ESI) rose from 90,3 in December 2013 to 98,8 in October 2014. Despite the small declines recorded in the period September - October 2014, the index remains at its highest level since the beginning of 2011. At the same time, the turnover index of retail trade (**Chart A.29**) continues to record positive growth rates reflecting the high levels of the consumer confidence indicator. Moreover, a significant year-on-year increase of 21,1% was observed in the registrations of motor vehicles during the first three quarters of 2014, compared with the first three quarters of 2013 (**Chart A.30**).

As regards local and foreign cardholder spending in Cyprus, an increase in both categories was recorded (**Chart A.31**). For the period January-October 2014, credit card spending by Cypriot cardholders increased by 5%, compared with a 5,4% decrease in the corresponding period of 2013. At the same time, credit card spending from foreign credit card holders increased by 16,1% in January-October 2014, compared with an increase of 2,1% in the corresponding period last year. Meanwhile, the negative annual growth rates of loans to the domestic private sector observed from May 2013 continued during the first nine months of 2014.

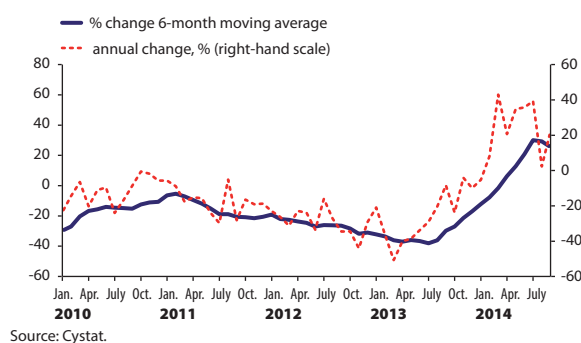
## Construction

The continuing economic downturn, together with the uncertainty regarding the labour market and the lack of liquidity as well as the expectations of increasing supply of real estate assets due to the implementation of new foreclosures regulation, have had a negative impact on the property market. However, the marginal increase in demand from foreign and local investors and the success of the

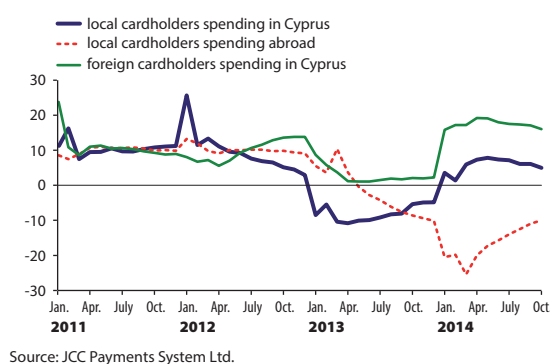
**CHART A.29 Retail sales (excluding motor vehicles)**



**CHART A.30 Registration of motor vehicles**



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



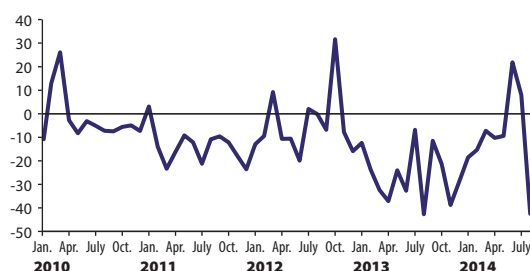
Cypriot banks on the ECB stress tests are two important developments that are expected to contribute positively to the future course of the construction sector and the real estate market in general.

Overall, the prospects for the real estate sector continue to be sluggish in the near future with indicators giving mixed signals. In 2014Q3 the residential property price index (houses and apartments) recorded an annual reduction of 8,9% compared with 9,1% in the previous quarter and a quarterly reduction of 2%, thus indicating a stabilisation in the rate of decrease from the previous quarter. Despite the significant fall in property prices and the incentives given by the government to attract foreign and local investors, demand remained low in 2014Q3, although a slight increase was recorded compared with 2013.

According to data published by the Cystat, the number of residential building permits issued in the first eight months of 2014 recorded a reduction of 10,3% compared with the same period last year (**Chart A.32**). It should be emphasised that this is an important short to medium-term indicator of activity in the sector, thus pointing to subdued future performance. The largest reduction was recorded in the Famagusta district as would be expect given the plethora of housing units that are available for sale in the area. Nevertheless, the increase in the number of sale contracts registered in the area is encouraging as it contributes towards the reduction in the stock of available housing units, reactivating the construction sector in the region.

The index of intention to build or purchase a home in the next 12 months published by the Business and Consumer Surveys (BCS) of the European Commission confirms the negative prospects of the construction sector.

**CHART A.32 Building permits authorised**  
(annual change, %)



Source: Cystat.



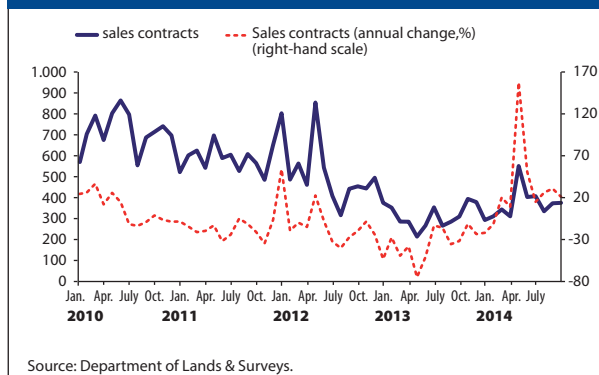
More specifically the index was more negative in 2014Q3 (-92,5) compared to Q2 (-90,2) of the same year.

Nevertheless, data published by the Department of Lands and Surveys shows that during the first nine months of 2014, property sales increased marginally in all districts compared with the same period of 2013, while they reached 70% of total sales compared with the same period of 2012. In particular, in the first nine months of 2012 the number of sales contracts has reached 4.876 compared to 2.684 and 3.328 in the same period of 2013 and 2014, respectively. The largest increases were recorded in the districts of Limassol and Famagusta (**Chart A.33**). Meanwhile, building permits for non-residential buildings recorded an increase of 19,2% in the first eight months of 2014, possibly reflecting the shift of the sector's activity to commercial construction.

Foreign investments in all districts except Paphos recorded an 18% increase in 2013, indicating that the incentives provided by the government to third country nationals relating to residence permits gave a boost to the real estate market. At the same time a 24,1% increase was recorded in sales contracts by residents in all districts in the first nine months of 2014, indicating that domestic demand also shows signs of improvement.

One of the main reasons causing the sector to shrink is the lack of liquidity in the property market. According to the Monetary and Financial Statistics published by the CBC, during the first nine months of 2014 approvals of new mortgage loans (including loans and restructurings) continued to decrease. In fact, in 2014Q3, loan approvals reached a historically low level. Lending criteria are still very strict according to the Bank Lending Survey, while

**CHART A.33 Sales contracts (total of locals and foreigners)**



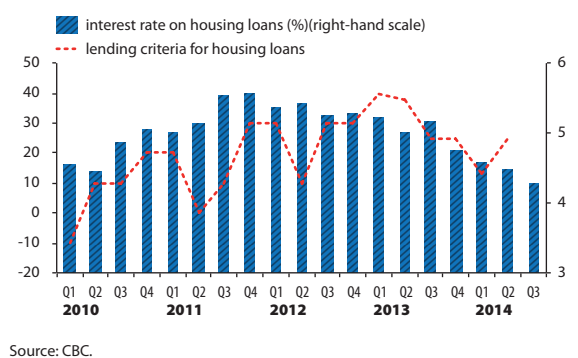


interest rates continued to show marginal decreases but are still higher compared to average interest rates in the euro area. In particular, according to CBC data, the average rate for mortgages continued to decline, reaching 4,27% in 2014Q3 compared with 4,48% in the previous quarter (**Chart A.34**).

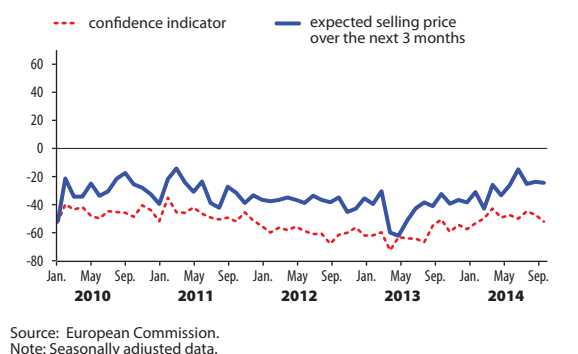
In addition, the construction sector confidence indicator in Cyprus, as published by the Business and Consumers Surveys (BCS) of the European Commission, registered a significant improvement in the first nine months of 2014. Specifically, from -62,1 in the first ten months of 2013, it stood at -49,6 in the same period of 2014 (**Chart A.35**). This is also reflected by the fact that during 2014 new foreign investments took place in the real estate sector, while further foreign investments are expected to materialise in various districts and especially in the hotel industry.

At the same time, domestic cement sales in the first ten months of 2014 (**Chart A.36**) recorded a smaller decrease compared with the same period in 2013. According to the ESI, the construction activity index in Cyprus for the second and third quarter of 2014 was less negative than the last two years (-46,6 and -47,5 in the second and third quarters of 2014 respectively, compared with -66,7 and -62,1 the same period in 2013). Finally on a positive note, the employment expectations index for the construction sector showed a further significant improvement for the next three months reaching -9,3 in 2014Q3 compared with -34,6 in the same period of 2013.

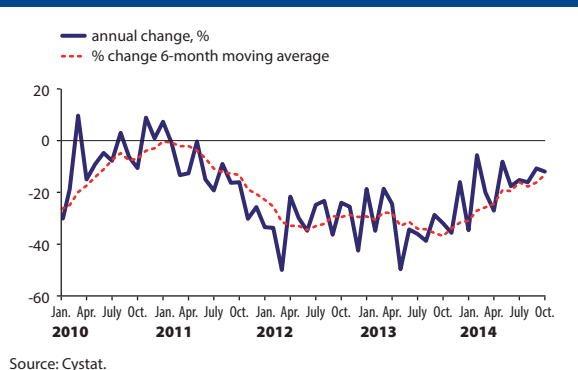
**CHART A.34 Lending criteria and interest rate on housing loans**



**CHART A.35 Business and Consumers Surveys: construction confidence indicators**



**CHART A.36 Sales of cement**



### Box 1. New statistical standards

The Central Bank of Cyprus (CBC), in line with other national central banks and in accordance with the new statistical standards, namely, the European System of Accounts, 2010 (ESA 2010) and the Balance of Payments and International Investment Position Manual of the IMF, sixth edition (BPM6), which were implemented in 2014, has adapted the statistics produced for the external sector, the financial accounts and the monetary financial sector.

The new ESA 2010 replaces ESA 1995, and is based on the System of National Accounts (SNA) 2008 which is in the process of being implemented worldwide. The aim is to adapt the national accounts to the current economic environment, advances in methodology and changing user needs. Regarding the sectoral classification, ESA 2010 provides for a clearer separation between non-financial corporations and corporations that are not directly engaged in non-financial activities. In particular, holding companies of non-financial corporations and other so-called captive financial institutions as well as certain Special Purpose Entities (SPEs) are now classified under a new category. (Perhaps it should be explained that SPEs are the former 'brass plates')

In parallel, the investment funds sector is now separated from the remaining part of other financial intermediaries and insurance companies are shown separately from pension funds.

The revision of the Balance of Payments Manual, fifth edition (BPM5) was deemed

necessary in order to capture several important developments that have occurred in the years following its first publication. In particular, the BPM6 takes into account economic developments associated with globalisation as well as financial and technological innovations. It also places increasing emphasis on the use of the balance sheet in examining vulnerabilities and it introduces the concept of economic ownership. In general, the new manual provides enhanced clarification, elaboration and level of detail to the balance of payments (BOP)/International Investment Position (IIP) statistical framework. The BPM6 also provides additional and more detailed guidance on the definition of 'resident' and the activity of SPEs, specifying that these entities are considered to be resident in the country of registration / incorporation, even if they have little or no physical presence there.

### External sector statistics

The implementation of the new manuals provided an opportunity for further changes and benchmark revisions, aimed at the improvement of the coverage and quality of external sector statistics produced. More specifically, in addition to the incorporation of data on SPEs registered in Cyprus in all external statistics produced and published, the CBC has also upgraded the data collection and compilation systems, placing more emphasis on the implementation of new surveys and the use of available administrative sources.

The implementation of BPM6 for



1

Synopsis

2

Macroeconomic  
Developments and  
Projections

3

Statistical Annex

Cyprus's external sector statistics began in June 2014. The first publication of the data appeared in October 2014 and covers the following:

- (a) BoP: 2013 and the first two quarters of 2014
- (b) IIP and external debt: December 2012, the whole of 2013 and the first half of 2014.

The newly published external statistics data are consistent with the revised national accounts data, which have been recently published by the Statistical Service of Cyprus (Cystat) on the basis of the new methodological standard ESA 2010.

In implementing BPM6 requirements, the core methodological principles of compiling the balance of payments (BoP) have remained broadly unchanged with only a few significant changes. In particular, there have been some reclassifications to previous data items, changes in conceptual treatment, enhanced coverage as well as methodological improvements to the current account, capital and financial account.

For purposes of statistical interpretation, users should take into consideration that the compilation according to the new standard (BPM6) has the following main characteristics:

1. There are changes in sign convention. Both current and capital account credits and debits are now recorded with positive signs (exceptions are the direct investment income and merchanting, which may result in negative entries). In

the financial account, increases in assets and liabilities are recorded with positive signs, whereas decreases with negative signs.

2. Transactions in goods, non-produced non-financial and financial assets are now recorded based on the use of the economic ownership principle, i.e. they are recorded when economic ownership changes.
3. The institutional sector classification follows the recommendations of the statistical standards ESA 2010 and BPM6, which have been revised and updated on the basis of the System of National Accounts 2008 (SNA 2008).

The full range of changes that have occurred with the implementation of the BPM6 as well as other relevant information regarding the new methodological framework can be found in Appendix 8 of the BPM6, and in the set of frequently asked questions, compiled by the ECB.

### **Monetary and financial statistics**

The data collection framework of monetary and financial statistics (MFS) has been adapted to reflect the new international statistical standards and the enhanced user requirements. These changes were deemed necessary so as to keep the data fit for policy-making purposes and to support the new presentation of the financial accounts and balance of payment statistics, for which the MFS represent an important source of information.

In particular, new regulations have been adopted in the areas of MFI balance sheet statistics and statistics on the assets



**1**

Synopsis

**2**

Macroeconomic  
Developments and  
Projections

**3**

Statistical Annex

and liabilities of investment funds and financial vehicle corporations engaged in securitisation transactions. Statistics on securities issues have also been reviewed in order to align the breakdowns of sectors and instruments with the new standards. The new data requirements cover more granular breakdowns in counterparty sectors and instrument categories.

Due to the significant changes in the new regulations, reporting agents were given enough time to prepare for the reporting of data under the new statistical standards. In particular, the first reference month for the new statistics was December 2014 and the resulting data will be published in 2015, when annual growth rates can be produced for the new breakdowns. Moreover, the national central banks of the euro area countries and the ECB, have produced estimates of MFS back data based on the new requirements, for the period from the fourth quarter of 2012 until the third quarter of 2014.

As already mentioned in the introduction, the main change arising from the implementation of ESA 2010 is the reclassification of a number of companies from the non-financial corporations sector to the financial sector. This change is expected to affect the relative size of the aforementioned sectors. In addition, due to the increased importance of the sector, investment funds will be presented separately from the more general 'other financial intermediaries' sector, while insurance companies will also be shown separately from pension funds.

It is worth mentioning that as far as MFS data are concerned, SPEs were incorpo-

rated in the data produced and published since July 2008, following an ECB recommendation. As a result, no changes in the aggregated data are expected. However, more detailed information regarding the data will be available following the first publication of the new statistics.

### **Quarterly financial accounts**

During 2014 the production framework for the quarterly financial accounts (QFA) has been revised in the context of the implementation of the new ECB Guideline on QFA. The implementation of the new Guideline was deemed necessary as it incorporates the new statistical standard ESA 2010, as well as additional needs of the users. The first transmission of the QFA to the ECB under the new framework took place in October 2014.

In parallel, the CBC has enriched and improved its sources of data as well as the estimation methods used for the compilation of the QFA. In addition, it has further improved and automated the data collection and processing procedures.

### **Government finance statistics and national accounts**

The adoption of the new methodological standard ESA 2010 by Cystat with respect to government finance statistics, has led to a revision of the specific data from 1995. In light of this revision and in order for the new data to be taken into account and to avoid or minimise unnecessary or duplicate data transmissions, the ECB has revised the relevant guideline for the



**1**

Synopsis

**2**

Macroeconomic  
Developments and  
Projections

**3**

Statistical Annex

provision of government finance statistics from the national central banks. Furthermore, the ECB has revised the data collection templates for the government support of the financial sector in each EU member state, in order to make them more complete and understandable to the general public.

The national accounts data was also revised for the period 1995 – 2013. The revision was deemed necessary in order to incorporate the following:

1. The methodological changes which were necessary in the context of adopting the revised ESA 2010
2. The statistical changes resulting from the integration of new information and improved data from statistical sources of information
3. The methodological improvements emanating from the adoption of the recommendations of ad hoc working groups at the European level.

The aforementioned revision resulted in an increase in the level of GDP of between 7,5% and 9,8% for the period under review.



**1**

Synopsis

**2**

Macroeconomic  
Developments and  
Projections

**3**

Statistical Annex

## Labour market

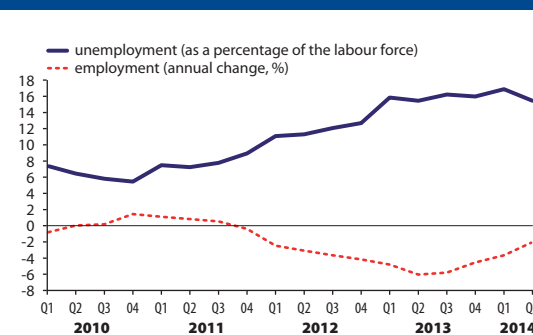
In line with the contraction in economic activity, employment recorded a year-on-year decrease of 2,8% in the first half of 2014, compared with a decline of 5,4% in the first half of 2013 and a reduction of 5,3% in 2013 (**Chart A.37**). Total working hours registered a year-on-year decrease of 3,2% in the first half of 2014, compared with a decrease of 6,6% in the first half of 2013. Therefore, hours worked per employee declined by 0,3%.

An increase in unemployment in the first half of 2014 was also observed, in line with an decrease in employment. According to LFS data, the unemployment rate in the first half of 2014 reached 16,2%, an increase of about 0,6 percentage points compared with the corresponding period of 2013 (**Chart A.37**). It should be noted that LFS unemployment for 2014Q2 remained at the same level as in the corresponding quarter of the previous year, showing the first signs of stabilisation.

The stabilisation of unemployment is confirmed by the data for registered unemployment. Specifically, the most recent data published by Cystat available up to October 2014, recorded a year-on-year decrease of 8,3% in registered unemployment (from 45.100 people to 41.300 people) compared with the same month of 2013 (**Chart A.38**). Regarding the breakdown between Cypriots and non-Cypriots, registered unemployment of Cypriots fell by 7,5% in October 2014 compared with the same month of last year, while registered unemployment of non-Cypriots recorded a reduction of 11,8%.

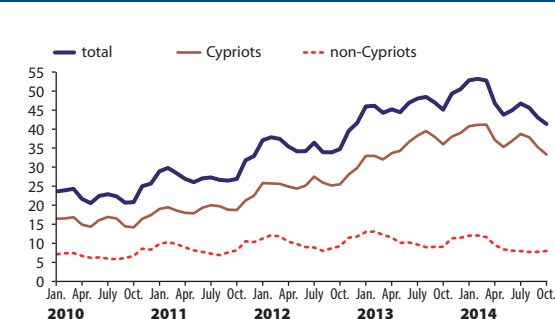
During this period, it is equally important to look at the duration of unemployment as well. According to LFS data, the unemployment rate with a maturity of equal or greater

CHART A.37 Unemployment and employment



Source: Cystat (LFS).

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



Source: Cystat.

to six months reached 10,9% in 2014Q2, compared with 11,1% in the first quarter and 9,3% in the same quarter of 2013 (**Chart A.39**). According to the latest registered unemployment data from Cystat, the number of registered unemployed with a duration of six months and over increased by 1.400 in October 2014 compared with the same month of 2013, while it decreased by 643 compared with September 2014.

## 5. Domestic Fiscal Developments

Owing to the revision in the fiscal and national accounts (both due to the transition to the ESA 2010 methodology as well as other statistical changes and methodological improvements), the 2013 general government budget deficit as a percentage of GDP was revised down by 0,5 percentage points and reached 4,9% (**Chart A.40**). Compared with 2012, the budget deficit declined by about 0,9 percentage points in 2013. This development is attributable to the annual reduction in expenditure by 8,2% and despite the annual decline in revenues by 6,1% (**Chart A.41**). Compared with 2012, the primary deficit as a percentage of GDP improved by 1,1 percentage points in 2013 and reached 1,8% (**Chart A.40**).

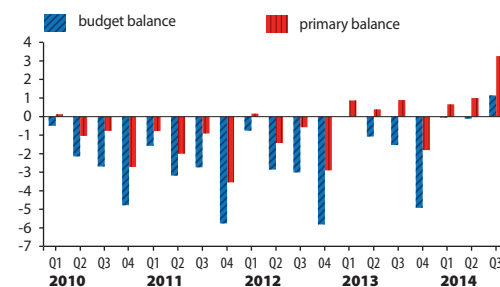
Regarding the general government consolidated gross debt-to-GDP ratio, the significant downward revision observed in the 2013 data on account of the revision in the fiscal and national accounts amounted to 9,5 percentage points and was largely attributable to the upward revision in nominal GDP. Hence, the relevant ratio stood at 102,2% of GDP in 2013 (**Chart A.42 p.56**). Compared with 2012, the gross debt-to-GDP ratio increased by 22,7 percentage points in 2013. This development was largely due to the recapita-

**CHART A.39 Unemployment by duration**  
(as % of the labour force)



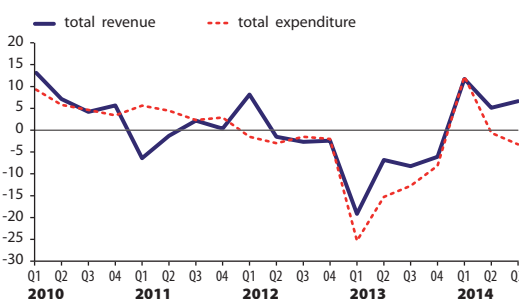
Source: Cystat (LFS).

**CHART A.40 Budget and primary balances of the general government**  
(cumulative for the period as from Q1 as % of GDP)



Sources: Cystat, CBC.

**CHART A.41 Total revenue and expenditure of the general government**  
(cumulative for the period as from Q1, annual change, %)



Source: Cystat.



lisation of the co-operative credit sector (8,3% of GDP). It is also attributable to the accumulation of government deposits due to unused programme financing in view of a better than expected performance (3,6% of GDP), the large snowball effect given the contraction in real GDP and the fall in prices that increased the burden for servicing the public debt (8,8% of GDP) and, to a lesser extent, in a primary deficit of 1,8% of GDP.

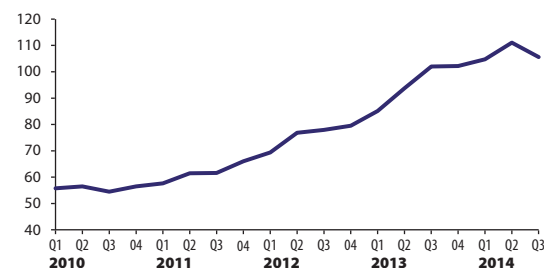
### Current fiscal developments

The budget balance over the first nine months of 2014 registered a surplus of 1,1% of GDP compared with a deficit ratio of 1,5% over the corresponding period of the previous year (**Chart A.40**, p.55). This development was primarily due to the significant year-on-year increase in revenues by 6,6% and secondly due to year-on-year reduction in expenditures by 3,3% over the period under consideration (**Chart A.41**, p.55). Moreover, the primary balance as a percentage of GDP recorded a significant surplus of 3,3% over the first nine months of 2014 compared with a smaller surplus of 0,9% over the corresponding period of the previous year (**Chart A.40**, p.55).

Specifically, based on preliminary data published by Cystat relating to general government revenue and expenditure for the first nine months of 2014 (**Table A.10**), the year-on-year increase in total revenues is mainly attributable to the significant rise in non-tax revenues by 48,7%, largely due to the high dividend from the CBC. Tax revenues also increased by 1,8%, as a result of increases in tax rates and the deceleration in the contraction of economic activity.

Regarding direct taxes, revenues in the category "Current taxes on income, wealth

**CHART A.42 General government consolidated gross debt**  
(as % of GDP)



Sources: Eurostat, Cystat, CBC.

**TABLE A.10 Accounts of general government**

	Jan.-Sep. 2013 (€ million)	Jan.-Sep. 2014 (€ million)	Change (%)
<b>EXPENDITURE</b>			
Intermediate consumption	477,2	440,0	-7,8
Capital formation less disposals <sup>(1)</sup>	14,1	189,3	1.242,6
Compensation of employees	1.812,8	1.575,8	-13,1
Other taxes on production	0,0	0,0	0,0
Current taxes on income, wealth, etc payable	0,2	0,0	-100,0
Subsidies payable	66,2	54,4	-17,8
Interest paid	439,6	369,4	-16,0
Social benefits	1.819,5	1.886,8	3,7
Other current transfers	326,5	260,2	-20,3
Capital transfers payable	59,0	75,4	27,8
<b>Total expenditure</b>	<b>5.015,1</b>	<b>4.851,3</b>	<b>-3,3</b>
<b>Total expenditure as a % of GDP</b>	<b>27,7</b>	<b>27,9</b>	
<b>REVENUE</b>			
Market output & output for own final use	291,4	325,6	11,7
Taxes on production and imports	1.834,3	1.873,0	2,1
of which VAT	1.036,6	1.078,8	4,1
Property income receivable	103,6	240,0	131,7
Current taxes on income, wealth, etc receivable	1.305,0	1.302,6	-0,2
Social contributions receivable	1.105,8	1.144,1	3,5
Other current transfers receivable	95,2	163,6	71,8
Capital transfers receivable	1,5	2,0	33,3
<b>Total revenue</b>	<b>4.736,8</b>	<b>5.050,9</b>	<b>6,6</b>
<b>Total revenue as a % of GDP</b>	<b>26,1</b>	<b>29,0</b>	
Surplus (+) / Deficit (-)	-278,3	199,6	
Surplus (+) / Deficit (-) % of GDP	-1,5	1,1	

Sources: Cystat, CBC.

(1) Includes fees from EEZ recorded as negative capital expenditure for 2013 according to Eurostat.



etc.," recorded a marginal year-on-year decrease of 0,2% over the first nine months of 2014 (**Table A.10, p.56**). This was mainly due to the deceleration in the contraction of revenues from income tax payable by employees that recorded a year-on-year decline by 10,1% as well as the year-on-year decrease in revenues from the special contribution to the Defence Fund by 7,6%, according to data published by the Inland Revenue Department (IRD). The deceleration in the contraction of revenue from income tax payable by employees is attributable to the ongoing contraction of earnings and employment, although to a smaller extent compared with the corresponding period of the previous year. As regards revenues from the special contribution to the Defence Fund, the aforementioned contraction was due to the decline in deposits and deposit rates.

With regard to indirect taxes, a year-on-year increase by 2,1% was recorded over the first nine months of 2014 in the category "Taxes on production and imports", which includes VAT receipts (**Table A. 10, p.56**). VAT receipts increased by 4,1% over the period under consideration, mainly due to the increase in the standard and reduced VAT rates to 19% and 9%, respectively, as from 1 January 2014 and despite the contraction in private consumption, which nevertheless exhibited a deceleration compared with the corresponding period of the previous year.

As regards revenue from social contributions, this recorded a year-on-year increase of 3,5% over the first nine months of 2014 (**Table A.10, p.56**), owing to the increase in the relevant tax rates as from 1 January 2014 and despite the continued decline in earnings and employment.

The aforementioned developments were


**1**

Synopsis

**2**

 Macroeconomic  
Developments and  
Projections

**3**

Statistical Annex

reinforced by the year-on-year increase in non-tax revenues, arising primarily from the increase by €136,4 million in the category "Property income receivable" (**Table A.10, p.56**) due to the high dividend from the CBC. It is also attributable to the year-on-year increases observed in the categories "Other current transfers receivable" and "Market output and output for own final use" by 71,8% and 11,7%, respectively. The aforementioned increases were partly due to the increase in EU grants (earlier than originally envisaged transfer of grants related to the EU Structural Funds and an increase in the co-financing rate) as well as additional revenues from the increase in various charges for the provision of government services (such as medical care), respectively.

Regarding developments in public expenditure (**Table A.10, p.56**), the year-on-year reduction by 3,3% over the first nine months of 2014 was primarily due to reduced expenditure related to compensation of employees as well as to decreases in the categories "Interest paid" and "Other current transfers payable".

The year-on-year decrease of 13,1% in expenditure for compensation of employees (**Table A.10, p.56**) was due to the significant cuts in wages and pensions, the continuing decline in public sector employment as well as the significantly lower expenditure for gratuities. The latter reflects the base effect due to the wave of early retirements that materialised during the corresponding period of 2013.

Regarding the year-on-year decrease observed in interest expenditure, this decrease amounted to 16% (**Table A.10, p.56**) owing to the reduction in the cost of servicing the public debt and despite the latter's large



**1**

Synopsis

**2**

Macroeconomic  
Developments and  
Projections

**3**

Statistical Annex

increase to 105,6% of GDP as at the end of 2014Q3.

With regard to the year-on-year decrease of 20,3% in the category "Other current transfers payable" over the period under consideration (**Table A.10, p.56**), this was the result of the reduction in grants to semi-governmental organisations as well as the reduction in the Republic of Cyprus contribution to the EU Budget.

The aforementioned reductions were partially offset by the year-on-year increases in expenditure on gross fixed capital formation less disposals and social benefits. The significant increase in expenditure of €175,2 million on gross fixed capital formation less disposals (**Table A.10, p.56**) was the result of the Eurostat categorisation of one-off revenues from licensing fees (arising) as negative capital expenditure.. These licencing fees arose from the sale of exploration rights for hydrocarbons in the Cyprus Exclusive Economic Zone (EEZ). Regarding the year-on-year increase of 3,7% in expenditure for social benefits (**Table A.10, p.56**), this was partly attributable to increased spending for redundancy payments over the period under consideration. Regarding the general government consolidated gross debt as a percentage of GDP, this stood at 105,6% as at the end of the third quarter of 2014 compared with 102,2% as at end of 2013 (**Chart A.42, p.56**). This development is primarily due to the impact of the unfavourable difference between the average interest rate for servicing the public debt and the rate of economic growth (interest-growth differential), and despite the materialisation of a primary surplus ratio of 3,3% over the period under consideration.

In relation to the financing of public debt, the following should be noted. First, the



**1**

Synopsis

**2**

Macroeconomic  
Developments and  
Projections

**3**

Statistical Annex

disbursement of financial assistance from the ESM and the IMF totalling about €5,8 billion up to the beginning of July 2014. The sixth tranche of financial assistance was not disbursed in September 2014 (€436 million) due to failure to comply with the adoption of foreclosure legislation, as required by the programme. Second, in June 2014 the Republic of Cyprus proceeded with the first long-term international syndicated issuance since November 2010, by issuing a five-year €750 million bond at a coupon of 4,75% (yield 4,85%). This issuance followed a private placement in May 2014 of a €100 million bond at a coupon of 6,50%. Third, since June 2014, the Republic of Cyprus has issued seven series of six-year bonds for physical persons, offering a step-up interest structure (2,75%-5,75%, with an average rate of 4,125%). Finally, the remaining market issuance related to rollovers of short-term debt, with the new target for short-term debt having been reduced to €750 million.

## **6. Macroeconomic Forecasts for the Cyprus Economy**

### **6.1 Eurosystem**

The Eurosystem prepares and publishes forecasts for the economy of the euro area twice a year. These forecasts are used by the Governing Council of the ECB 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 euro area forecasts based on common working assumptions. Within this context, the CBC prepares the forecasts for the domestic economy.


**1**

Synopsis

**2**

 Macroeconomic  
Developments and  
Projections

**3**

Statistical Annex

## 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, amongst others, estimates of interest rates, exchange rates, the price of oil and international trade, and are based on available data as at 20 November 2014. 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 \$1,33 in 2014 and \$1,25 in 2015 and 2016. As regards the price of oil, it is expected to reach an average \$101,24 per barrel in 2014, while in 2015 and 2016 it is expected to drop to \$85,60 and \$88,50, respectively. It should be noted that the forecasts for the domestic economy were prepared by only taking into consideration the fiscal measures that are clearly defined and the implementation of which is very probable, based on the relevant ECB methodology.

## Eurosystem projection for the euro area

Based on the above working assumptions, euro area inflation is expected to reach 0,5% in 2014 (**Table A.11**), compared with 1,4% in 2013. Inflation is expected to reach 0,7% in 2015, while HICP inflation excluding energy and food prices is expected to increase

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

	2013	2014f	2015f	2016f
<b>GDP</b>				
December Projections 2014	-0,4	0,8	1,0	1,5
June Projections 2014	-0,4	1,0	1,7	1,8
<b>Inflation</b>				
December Projections 2014	1,4	0,5	0,7	1,3
June Projections 2014	1,4	0,7	1,1	1,4
Source: ECB.				

further. Euro area GDP is expected to register a growth of around 0,8% in 2014, while a further increase of 1% and 1,5% is expected in 2015 and 2016, respectively. The projected recovery in GDP during this period is expected to reflect the gradual increase in domestic demand.

## 6.2 Projections for the Cyprus economy

This section analyses the updated forecasts of the CBC, and presents the latest forecasts by our international lenders (the Troika) as they were incorporated in the concluding statement of the fifth review of the economic adjustment programme published in July 2014. A more detailed examination of the Troika's intertemporal projections for the main macro-economic aggregates, and the divergence observed in the years 2013 and 2014, is incorporated in **Box 2**, p.69.

### Prices: Harmonised Index of Consumer Prices

HICP inflation in Cyprus is expected to stand at -0,1% in 2014 compared with a small increase of 0,4% in 2013 (**Table A.12**), mainly on account of the sizeable recession in the Cyprus economy as well as the significant projected drop in the prices of the main categories of energy inflation. Accordingly, inflation excluding energy is expected to register a marginal increase of 0,1% in 2014, down from 0,5% in 2013.

As for 2015, inflation is projected to register an increase of around 0,2%. On the upside, the expected mild domestic economic recovery is anticipated to have an upward influence on prices. On the downside, the anticipated significant reduction in energy

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

	2013	2014f	2015f	2016f
<b>HICP</b>	<b>0,4</b>	<b>-0,1</b>	<b>0,2</b>	<b>1,3</b>
<b>HICP excluding energy</b>	<b>0,5</b>	<b>0,1</b>	<b>0,6</b>	<b>1,2</b>

Sources: Cystat, CBC.

prices resulting from the latest Eurosystem assumptions is expected to contain inflationary pressures. Excluding energy, inflation is projected to be around 0,6% in 2015.

Following the further expected rise in economic activity in 2016, domestic HICP inflation is projected to increase to 1,3%.

### **Compensation, productivity and the labour market**

In 2014 the labour market continues to be affected by the economic crisis with employment recording a 2,4% contraction. The expected improvement in the economic climate will result in positive employment growth rates in 2015 and 2016, reaching 0,7% and 1,5% respectively.

In conjunction with the above, the LFS unemployment rate is expected to stabilize at 15,8% in 2014 from 15,9% in 2013, while a drop in unemployment is expected in 2015 and 2016, reaching 15,1% and 14%, respectively. It should be noted that unemployment is expected to follow a milder path than the trends projected by the Troika. This is mainly due to the significant decline of foreign workers in Cyprus and the flexibility in relation to wages as well as the labour mobility exhibited by the Cypriot labour market.

Regarding compensation per employee, a significant decline of 5% in 2014 is expected, while a marginal decrease of 0,5% is anticipated in 2015, as a result of the corrective path followed by wages in recent years due to the economic crisis. A small increase of 0,3% is expected in 2016, following a similar recovery path of GDP, but still registering lower growth compared with the years before the crisis.

Mirroring the developments in compensa-


**1**

Synopsis

**2**

 Macroeconomic  
Developments and  
Projections

**3**

Statistical Annex

tion per employee, unit labour costs are expected to decline significantly by 4,8% in 2014, whilst a slight deterioration of 0,5% and 0,3% is also expected in 2015 and 2016, respectively.

## National Accounts

Based on the latest figures for the first three quarters of 2014, GDP registered a year-on-year decline of 2,5%. Published data and the leading economic indicators indicate that the Cyprus economy will contract by 2,6% in 2014 (**Table A.13**). The better than expected path of the economy is mainly the result of the less negative trend in private consumption. In particular, private consumption is expected to register a decrease of 1,7% in 2014. Indicatively, it should be noted that the retail trade index rose by 3% in the first seven months of the year, while VAT revenues recorded a year-on-year increase of 4,1% in the first nine months of the year. As regards government consumption, it is expected to decline by 7,5%, mainly due to significant cuts in the salaries of the public sector and the continuing shrinkage of the civil service. . Gross fixed capital formation is expected to record a further decrease of 11,1% in 2014 compared with 2013, primarily owing to the decline in the activities of the construction sector. Exports of goods and services are expected to record an increase of 1,3%, driven mainly by the small increase in revenues from tourism, while other sectors are expected to fluctuate at low levels. At the same time, imports of goods and services are expected to record an increase of 2,6% in 2014.

GDP is expected to record a marginal recovery of 0,8% in 2015. Private consumption is expected to recover by 1,3%, while an

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

	2013	2014f	2015f	2016f
<b>GDP</b>	-5,4	-2,6	0,8	2,1
<b>Private consumption</b>	-6,0	-1,7	1,3	2,0
<b>Public consumption</b>	-4,9	-7,5	-1,6	-1,4
<b>Gross fixed capital formation</b>	-17,1	-11,1	4,8	5,8
<b>Exports of goods and services</b>	-5,0	1,3	3,0	3,0
<b>Imports of goods and services</b>	-13,6	2,6	2,8	2,9

Sources: Cystat, CBC.



**1**

Synopsis

**2**

Macroeconomic  
Developments and  
Projections

**3**

Statistical Annex



increase of 4,8% is expected in gross fixed capital formation, which reached historically low levels in 2014. At the same time, lending, which could emerge from both the Cypriot system and European funds, is expected to positively affect fixed capital formation. Government consumption is expected to decelerate further by 1,6% while an increase of 3% and 2,8% is expected in exports and imports, respectively.

As for 2016, GDP is expected to increase by 2,1%. More specifically, private consumption and gross fixed capital formation are expected to increase by 2% and 5,8%, respectively. At the same time, a decrease of 1,4% is expected to be recorded in public consumption. Exports are expected to increase by around 3% while imports are expected to grow by 2,9%.

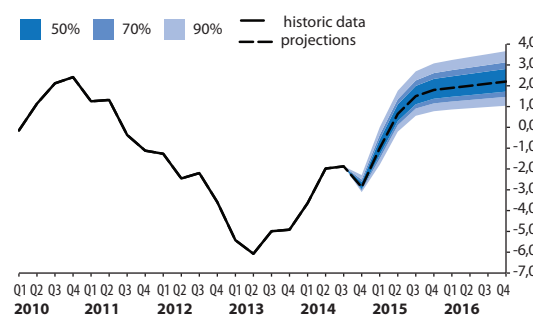
It should be stressed that the abovementioned forecasts are expected to be negatively affected by a possible adoption of further fiscal consolidation measures, which, although included in the MoU, were not taken into account in these projections, since they are not clearly specified.

### Risk assessment of macroeconomic forecasts

Forecasts for inflation (**Table A.12, p.62**) and GDP (**Table A.13, p.64**), 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.

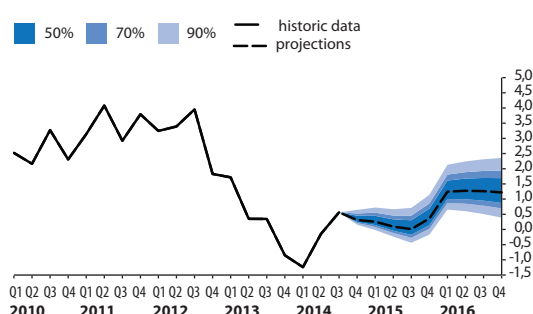
The probability of GDP, HICP inflation and HICP inflation excluding energy forecasts lying around their respective modal projections is depicted in **Charts A.43, A.44 and A.45**, respectively. The three confidence intervals

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



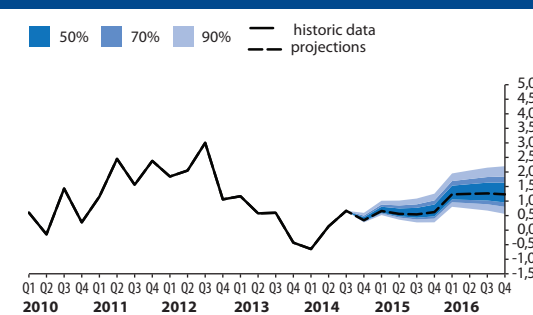
Source: CBC.

**CHART A.44 HICP fan chart**  
(annual change, %)



Source: CBC.

**CHART A.45 HICP excluding energy fan chart**  
(annual change, %)



Source: CBC.

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 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.

With regard to risks to the GDP forecasts, a possible adoption of additional fiscal consolidation measures may adversely affect the GDP projections. In such a case, government investment and government consumption are expected to be directly affected, whilst a further negative impact on domestic demand is expected, mainly through the effect on private consumption. Meanwhile, the possibility of further deterioration of the euro area economy is expected to affect tourism negatively, which will have a significant impact on exports and GDP. On the other hand, the upside risks to GDP include potential investments from the European Investment Bank as well as new investment for the exploitation of natural gas reserves. Furthermore, significant efforts are being made to penetrate into new tourism markets, while also giving emphasis to new types of tourism products to attract visitors, with the construction of the marina in Limassol and the plans to build a casino in Cyprus. In addition, the economy is expected to receive a positive boost from the



1

Synopsis

2

Macroeconomic  
Developments and  
Projections

3

Statistical Annex

probable credit expansion resulting from the targeted long-term refinancing operations (TLTROs). Overall, the risks of an upward revision to the modal forecast of GDP are more likely, and possible realisation of these risks will contribute to a higher growth rate compared with the basic scenario.

With regard to the HICP, the most significant upside risks relate to the possibility of a better than expected domestic economic outlook and the likelihood of higher oil prices and/or the depreciation of the euro against the dollar.

The most significant downside risks to inflation relate to the possibility of a more severe and prolonged recession as well as to a possible deterioration of the external demand for services. In addition, significant risks emanate from the possibility of a further worsening of credit supply conditions.

The above analysis indicates that an upward deviation from the modal forecast of the HICP and the HICP excluding energy has a greater statistical probability of being realised.

### **A comparison of the CBC projections for the Cyprus economy with other international organisations**

The forecasts by our international lenders for the Cyprus economy, as published in the concluding statement of the fifth review of the macroeconomic adjustment programme in July 2014, are deemed overly pessimistic. A contraction of GDP by 4,2% was expected for 2014, while a recovery of 0,4% and 1,6% was projected for 2015 and 2016, respectively (**Table A.14** and **Box A.2**, p.69).

In October 2014, the IMF published more positive forecasts in the context of the Article IV Consultation, with the contraction of GDP

**TABLE A.14 Comparison of projections for the Cyprus economy**  
(annual change, %)

		GDP			HICP		
		2014f	2015f	2016f	2014f	2015f	2016f
MoU 5th review							
Mission	July 2014	-4,2	0,4	1,6	0,0	0,9	1,3
IMF <sup>(1)</sup>	Autumn 2014	-3,2	0,4	1,6	0,0	0,7	1,3
European Commission	Autumn 2014	-2,8	0,4	1,6	-0,2	0,7	1,2
CBC	December 2011	-2,6	0,8	2,1	-0,1	0,2	1,3

Sources: European Commission, IMF, ECB, CBC.

(1) Published in the October 2014. Article IV report for Cyprus.

expected to be 3,2% in 2014, followed by a recovery of 0,4% and 1,6% in 2015 and 2016, respectively. Inflation is also expected to be subdued, reaching 0% in 2014 and recovering slightly in 2015 and 2016, reaching 0,7% and 1,3%, respectively.

The most recent forecast for GDP, as prepared by the European Commission in November 2014, estimates a contraction of the economy by 2,8% in 2014, while a recovery is expected in 2015 and 2016 by 0,4% and 1,6%, respectively. Regarding inflation in 2014-2016, prices are expected to have a sluggish trend, reaching 0,7% in 2015 and 1,2% in 2016.



**1**

Synopsis

**2**

Macroeconomic  
Developments and  
Projections

**3**

Statistical Annex

## **Box 2: Vintages of forecasts produced by the Troika relating to the main macroeconomic variables of the Cyprus economy<sup>1</sup>**

Successive forecasts of key macroeconomic variables of the Cyprus economy, as projected in recent months by our international lenders (the 'Troika'), have been subject to systematic revisions and have recorded positive deviations compared to actual developments as regards the years 2013 and 2014. Specifically, the aforementioned deviations concern the outturn of the annual rates of growth of real GDP, the harmonised index of consumer prices, the unemployment rate as a percentage of the labour force as well as the budget balance as a percentage of nominal GDP. These outturns demonstrate that the forecasts of the Troika have been systematically conservative. This is evident in the delay observed regarding the revision of the Troika's forecasts on the basis of the latest available data, even towards the end of 2014 when all economic indicators point to the implausibility of the forecasts materialising. For example, the Troika's forecast for a real GDP contraction of 7,7%, as incorporated in the second review of the economic adjustment programme completed on 7 November 2013, was too pessimistic. Quarterly national accounts data published on 9 October 2014 for the first half of the year pointed to a year-on-year decrease of 5,4% in real GDP while other

more recent economic indicators available at the time of the review, pointed to further improvement.

The degree of conservatism that has been demonstrated in the production of successive forecasts by the Troika could be partly attributed to previous experience in relation to the underperformance of economic targets in other euro area programme countries. A particularly negative association seems to have prevailed as regards the Troika's perception of the island's economic ties with Greece and the analogous economic performance they expected in the case of Cyprus. Finally, it could be the case that the Troika's conservative forecasts function as a lever to avoid lax implementation of the programme.

The successive forecasts produced by the Troika that are presented in this box include the initial forecasts for the aforementioned macroeconomic variables, as incorporated in the Memorandum of Understanding (MoU) agreed in April 2013, as well as the forecasts agreed during successive quarterly reviews of the economic adjustment programme. In addition, the most recent forecasts of the IMF and the European Commission (published in October and November 2014, respectively) are included in the relevant charts.

During the fifth (and most recent) review of the economic adjustment programme that took place in July 2014, the Troika adopted a very conservative economic scenario that both the IMF

1. The Troika's forecasts incorporated in the fifth review of the economic adjustment programme refer to those agreed during the visit completed on 25 July 2014 and included in the state budget for 2015.



**1**

Synopsis

**2**

Macroeconomic  
Developments and  
Projections

**3**

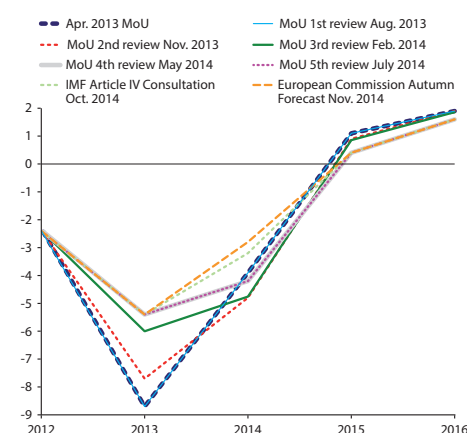
Statistical Annex

and the European Commission revised at a later stage, outside the context of the economic adjustment programme. In particular, **Chart 1** demonstrates the forecasts for economic growth in real terms. The course of the revisions in the real GDP forecasts highlights that the relevant Troika forecast, which pointed to a significant recession in 2013 of the order of 8,7%, did not materialise. It should be noted that their forecast for a recession in 2013 was revised down to 7,7% in the second review, which was also pessimistic. Regarding 2014, the respective forecast of a recession of -4.2% incorporated in the fifth review mission, concluded in July 2014, is also outdated. This is evident by the release of more updated forecasts both by the IMF and the European Commission<sup>2</sup>, in particular those relating to a real GDP contraction of 3,2% and 2,8%, respectively.

The successive upward revisions and the smaller than previously envisaged contraction in real GDP, despite the reduction in disposable income, could be attributed mainly to households' efforts to smooth their consumption using their savings. Finally, on the basis of the December 2014 CBC forecasts, which are more recent than those of the Troika, the economic growth rate in real terms is expected to be about 2,6% for 2014.

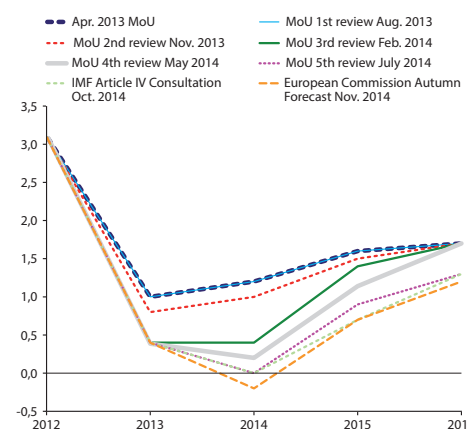
**Chart 2** demonstrates the respective forecasts as regards the rate of change of the harmonised consumer price index. The

**CHART 1 Real GDP**  
(annual change, %)



Sources: European Commission, IMF, ECB.

**CHART 2 Harmonised index of consumer prices**  
(annual change, %)



Sources: European Commission, IMF, ECB.

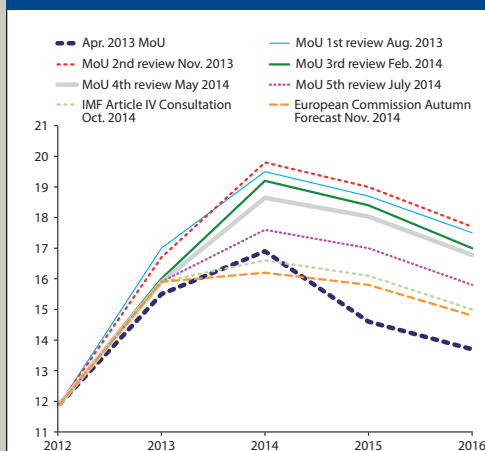
gradual downward revision of the relevant forecasts is clearly evident in **Chart 2**. This

2. The autumn 2014 economic forecasts of the European Commission were prepared in accordance with the system of national and fiscal accounts conforming to the ESA 2010 methodology. However, they remain comparable to the latest IMF forecasts and the forecast vintages of our international lenders as the GDP revision has not affected materially the relevant growth rates but only the level of GDP.

suggests that the speedy adjustment of prices as well as that of wages, which was in response to the sharp contraction in demand, was unanticipated by the Troika. As regards 2013, the initial Troika forecast of 1% GDP growth set out in the April 2013 MoU, proved optimistic compared with the actual outturn of 0,4%. A significant downward revision is associated with the relevant forecast for 2014, in line with the latest available statistical data, which is evident in the Troika's successive reviews. In particular, an annual growth of 1,2% was projected for 2014 according to the April 2013 MoU compared with zero growth incorporated in the fifth review of the adjustment programme. It should be noted that the most recent European Commission forecast for 2014, points to negative inflation of 0,2%. To conclude, the size of the aforementioned revisions suggests that the Troika did not take into account the Cypriot economy's potential to achieve internal devaluation as a mechanism for the correction of macroeconomic imbalances. It should be noted that, according to the December 2014 CBC forecasts, which are more recent than those of the Troika's, the harmonised index of consumer prices for 2014 is expected to record an annual decrease of 0,1%.

As regards the rate of unemployment in 2013, it is noteworthy that following the incorporation of a forecast of 15,5% in the April 2013 MoU, this was revised significantly upwards to 17% in the first review of the economic adjustment programme (**Chart 3**). As from the

**CHART 3 Unemployment**  
(as a percentage of the labour force)



Sources: European Commission, IMF, ECB.

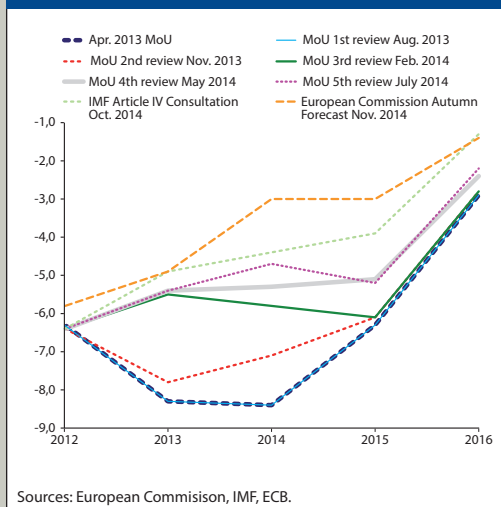
second review of the economic adjustment programme, the relevant forecast was successively revised downwards, with the outturn recording an unemployment rate of 15,9% for the year under review. For 2014, the relevant revision that accompanied the first review of the economic adjustment programme was even more pronounced than the 2013 revision. Specifically, the initial forecast for 2014 was revised by 2,6 percentage points up from 16,9%, with a further deterioration of the relevant forecast during the second review to 19,8%. As from the third review of the economic adjustment programme, a gradual reduction in the unemployment rate forecast is evident. Nevertheless, even the fifth review forecast is outdated, as demonstrated by the IMF's and European Commission's more recent projections. These point to an unemployment rate of



the order of 16,6% and 16,2%, respectively, partly due to the observed outflow of foreign workers from Cyprus. It is also worth noting that the most recent relevant forecasts of the IMF and the European Commission for 2014 are more optimistic than those incorporated in the April 2013 MoU (16,9%). It should also be noted that the direction of the revision of the unemployment rate forecast (at least up to and including the second review of the economic adjustment programme) was at odds with the direction of the revision of GDP growth forecasts. Finally, on the basis of the December 2014 CBC forecasts, which are more recent than those of the Troika, the unemployment rate for 2014 is expected to reach 15,8% of the labour force.

With regard to the Troika's forecasts for the budget deficit (**Chart 4**), it is worth noting that the relevant forecasts generally follow the Troika's pessimistic forecasts for economic growth. Taking into account the one-off expenditure relating to the compensation of provident funds in the former Cyprus Popular Bank, the budget forecast for 2013, as per the April 2013 MoU, was for a deficit of 8,3% of GDP (based on the ESA 95 methodology). The actual outturn was 5,4% of GDP, about three percentage points lower than initially forecasted. A more thorough analysis of the aforementioned deviation indicates that only about one percentage point is explained by the more favourable than expected macroeconomic environment, with the remaining deviation emanating from the forecasts on the expenditure side. Regard-

**CHART 4 General government budget balance**  
(as a percentage of GDP)



ding the relevant forecast for 2014, the most recent Troika forecast points to a budget deficit of 4,7% of GDP. This forecast is already outdated as evident in the more recent forecasts of the IMF and the European Commission pointing to a deficit of 4,4% and 3%, respectively. It should be noted that the aforementioned forecasts have been produced on a cash basis and on the basis of the ESA 2010 methodology, respectively. The European Commission forecast for the 2014 budget balance as a percentage of nominal GDP, remains comparable with forecasts when one takes into account the effect of the denominator due to the upward revision of nominal GDP. Excluding the aforementioned effect materialising via the denominator, the budget deficit forecast would have been higher by about one half of a percentage point, but it would still be lower than the



Troika's fifth review forecast.

To sum up, the aforementioned deviations in the forecast of the key macroeconomic variables demonstrate the flexibility of the Cyprus economy as well as the rapid response by both households and businesses in the adjustment of their balance sheets. Thus, the speedy adjustment of the aforementioned macroeconomic variables helped, at least partially, towards the correction of macroeconomic imbalances. Generally, it emerges that the Troika underestimated the ability of the Cyprus economy to cope with the unprecedented and unexpected decisions of the Eurogroup in March 2013.



**1**

Synopsis

**2**

Macroeconomic  
Developments and  
Projections

**3**

Statistical Annex

## Statistical Annex



**1**

Synopsis

**2**

Macroeconomic  
Developments and  
Projections

**3**

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



1

Synopsis

2

Macroeconomic  
Developments and  
Projections

3

Statistical Annex

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.



**1**

Synopsis

**2**

Macroeconomic  
Developments and  
Projections

**3**

Statistical Annex

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

	USD/EUR	GBP/EUR	JPY/EUR
Average for January	1,3623	0,8269	141,5061
Average for February	1,3670	0,8252	139,5885
Average for March	1,3826	0,8321	141,5157
Average for April	1,3811	0,8247	141,5700
Average for May	1,3733	0,8154	139,8464
Average for June	1,3600	0,8040	138,8110
Average for July	1,3538	0,7928	137,7461
Average for August	1,3314	0,7973	137,1000
Average for September	1,2895	0,7909	138,4555
Average for October	1,2682	0,7889	136,9787
Average for November (until 17 Nov.)	1,2466	0,7872	143,5791
Average for Jan-November (until 17 Nov.)	1,3415	0,8085	139,5091
Closing rate on 31/12/2013	1,3743	0,8302	144,7300
Closing rate on 17/11/2013	1,2450	0,7960	145,2200
Highest exchange rate vs. the euro	1,3934	0,8398	145,6700
	18-Mar	18-Mar	14-Nov
Lowest exchange rate vs. the euro	1,2375	0,7791	135,5100
	6-Nov	30-Sep	14-Oct
% appreciation (+)/depreciation (-) of the currency vs. the euro from closing rate on 31/12/2013 to closing rate on 17/11/2014	-9,4%	-4,1%	0,3%

Source: Bloomberg.

**TABLE B.2 Percentage change in CPI by economic category**

										Weights	
	2011	2012	2013	October 2013/12	September 2014/13	October 2014/13	Jan.-Oct. 2013/12	Jan.-Sep. 2014/13	Jan.-Oct. 2014/13	2005=100 (for 2008-2010)	2005=100 (for 2011 - 2014)
<b>GENERAL INDEX</b>	<b>3,29</b>	<b>2,39</b>	<b>-0,40</b>	<b>-1,60</b>	<b>-0,91</b>	<b>-0,49</b>	<b>-0,03</b>	<b>-1,58</b>	<b>-1,47</b>	<b>100,00</b>	<b>100,00</b>
<b>A Domestic products</b>	<b>11,04</b>	<b>6,70</b>	<b>-1,57</b>	<b>-3,05</b>	<b>-1,37</b>	<b>-1,69</b>	<b>-0,91</b>	<b>-4,14</b>	<b>-3,90</b>	<b>28,98</b>	<b>20,52</b>
A.1 Agricultural	-1,57	-1,29	-1,02	1,42	-1,91	-3,05	-0,64	-4,43	-4,29	6,93	5,96
A.2 Industrial	12,54	3,39	1,36	0,49	-0,25	-0,01	1,71	-0,29	-0,26	19,29	11,37
A.3 Electricity	14,86	27,23	-8,72	-15,85	-3,59	-4,32	-7,07	-13,13	-12,31	2,76	3,19
<b>B Petroleum products</b>	<b>19,25</b>	<b>7,94</b>	<b>3,31</b>	<b>-1,09</b>	<b>0,11</b>	<b>1,39</b>	<b>3,59</b>	<b>1,16</b>	<b>1,18</b>	<b>6,63</b>	<b>5,50</b>
<b>C Imported products</b>	<b>2,77</b>	<b>-0,55</b>	<b>-0,17</b>	<b>-0,53</b>	<b>-0,88</b>	<b>-0,38</b>	<b>0,11</b>	<b>-0,61</b>	<b>-0,58</b>	<b>24,62</b>	<b>31,74</b>
C1 Motor vehicles	-0,63	-0,64	-0,01	-0,18	-3,56	-3,43	0,10	-2,90	-2,95	5,41	6,48
C2 Other imported products	3,16	-0,54	-0,20	-0,61	-0,32	0,24	0,12	-0,13	-0,09	19,21	25,26
<b>D Services</b>	<b>1,61</b>	<b>0,96</b>	<b>-0,49</b>	<b>-1,50</b>	<b>-0,86</b>	<b>-0,19</b>	<b>-0,24</b>	<b>-1,15</b>	<b>-1,06</b>	<b>39,77</b>	<b>42,24</b>
<b>HICP</b>	<b>3,5</b>	<b>3,1</b>	<b>0,4</b>	<b>-0,5</b>	<b>0</b>	<b>0,3</b>	<b>0,7</b>	<b>-0,3</b>	<b>-0,2</b>		

Source: Cystat.

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

	2011	2012	2013	October 2013/12	September 2014/13	October 2014/13	Jan.-Oct. 2013/12	Jan.-Sep. 2014/13	Jan.-Oct. 2014/13	Weights	
										2005=100 (for 2008-2010)	2005=100 (for 2011-2014)
<b>GENERAL INDEX</b>	<b>3,29</b>	<b>2,39</b>	<b>-0,40</b>	<b>-1,60</b>	<b>-0,91</b>	<b>-0,49</b>	<b>-0,03</b>	<b>-1,58</b>	<b>-1,47</b>	<b>100,00</b>	<b>100,00</b>
<b>A Domestic products</b>	<b>2,43</b>	<b>1,58</b>	<b>-0,39</b>	<b>-0,75</b>	<b>-0,33</b>	<b>-0,41</b>	<b>-0,22</b>	<b>-1,01</b>	<b>-0,95</b>	<b>28,98</b>	<b>20,52</b>
A.1 Agricultural	-0,11	-0,09	-0,06	0,09	-0,12	-0,20	-0,04	-0,28	-0,27	6,93	5,96
A.2 Industrial	1,44	0,42	0,17	0,06	-0,03	0,00	0,22	-0,04	-0,03	19,29	11,37
A.3 Electricity	0,61	1,24	-0,49	-0,91	-0,18	-0,21	-0,40	-0,69	-0,65	2,76	3,19
<b>B Petroleum products</b>	<b>1,14</b>	<b>0,54</b>	<b>0,24</b>	<b>-0,08</b>	<b>0,01</b>	<b>0,10</b>	<b>0,26</b>	<b>0,09</b>	<b>0,09</b>	<b>6,63</b>	<b>5,50</b>
<b>C Imported products</b>	<b>0,74</b>	<b>-0,15</b>	<b>-0,04</b>	<b>-0,14</b>	<b>-0,23</b>	<b>-0,10</b>	<b>0,03</b>	<b>-0,16</b>	<b>-0,15</b>	<b>24,62</b>	<b>31,74</b>
C1 Motor vehicles	-0,03	-0,03	0,00	-0,01	-0,16	-0,15	0,00	-0,13	-0,13	5,41	6,48
C2 Other imported products	0,88	-0,15	-0,05	-0,13	-0,07	0,05	0,03	-0,03	-0,02	19,21	25,26
<b>D Services</b>	<b>0,70</b>	<b>0,41</b>	<b>-0,21</b>	<b>-0,63</b>	<b>-0,36</b>	<b>-0,08</b>	<b>-0,10</b>	<b>-0,49</b>	<b>-0,45</b>	<b>39,77</b>	<b>42,24</b>

Source: Cystat.

**TABLE B.4 Percentage change in the CPI by category of goods and services**

	2011	2012	2013	October 2013/12	September 2014/13	October 2014/13	Jan.-Oct. 2013/12	Jan.-Sep. 2014/13	Jan.-Oct. 2014/13
<b>GENERAL INDEX</b>	<b>3,29</b>	<b>2,39</b>	<b>-0,40</b>	<b>-1,60</b>	<b>-0,91</b>	<b>-0,49</b>	<b>-0,03</b>	<b>-1,58</b>	<b>-1,47</b>
Food and non-alcoholic beverages	4,07	0,82	0,22	0,66	-0,65	-1,40	0,55	-1,79	-1,75
Alcoholic beverages and tobacco	11,13	3,19	8,58	8,31	2,42	3,05	9,11	2,36	2,43
Clothing and footwear	-0,49	-2,75	-2,73	-2,61	1,19	3,08	-2,39	2,06	2,16
Housing, water, electricity and gas	10,43	11,33	-3,99	-7,83	-2,72	-2,68	-3,03	-6,32	-5,97
Furnishings, household equipment and supplies	2,46	0,08	-1,09	-2,17	-1,70	-1,02	-0,71	-2,54	-2,39
Health	2,75	0,56	-2,50	-3,22	-0,45	-0,38	-2,33	-1,66	-1,54
Transport	2,95	3,08	2,21	0,12	-0,05	1,53	2,40	1,43	1,43
Communications	0,45	1,08	0,97	0,96	1,95	1,93	0,98	1,34	1,39
Recreation and culture	1,79	0,65	-0,11	-0,97	-1,32	-1,21	0,06	-1,29	-1,29
Education	3,18	2,41	-0,74	-4,04	-3,20	-2,09	-0,04	-4,05	-3,86
Restaurants and hotels	1,48	1,06	0,39	-0,21	-1,46	-1,05	0,48	-1,43	-1,39
Miscellaneous goods and services	-1,13	0,35	0,86	0,39	-1,42	-0,94	0,98	-1,16	-1,14

Source: Cystat.

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

(%)

	2011	2012	2013	October 2013/12	September 2014/13	October 2014/13	Jan.-Oct. 2013/12	Jan.-Sep. 2014/13	Jan.-Oct. 2014/13
<b>GENERAL INDEX</b>	<b>3,29</b>	<b>2,39</b>	<b>-0,40</b>	<b>-1,60</b>	<b>-0,91</b>	<b>-0,49</b>	<b>-0,03</b>	<b>-1,58</b>	<b>-1,47</b>
Food and non-alcoholic beverages	0,71	0,14	0,04	0,12	-0,12	-0,25	0,09	-0,32	-0,31
Alcoholic beverages and tobacco	0,22	0,07	0,19	0,18	0,06	0,07	0,20	0,06	0,06
Clothing and footwear	-0,03	-0,18	-0,17	-0,18	0,08	0,21	-0,15	0,13	0,13
Housing, water, electricity and gas	1,35	1,56	-0,60	-1,20	-0,39	-0,38	-0,46	-0,94	-0,88
Furnishings, household equipment and supplies	0,17	0,01	-0,07	-0,14	-0,11	-0,07	-0,05	-0,17	-0,16
Health	0,20	0,04	-0,18	-0,23	-0,03	-0,03	-0,16	-0,12	-0,11
Transport	0,40	0,42	0,31	0,02	-0,01	0,22	0,33	0,20	0,21
Communications	0,02	0,04	0,04	0,04	0,07	0,07	0,04	0,05	0,05
Recreation and culture	0,11	0,04	-0,01	-0,06	-0,08	-0,07	0,00	-0,08	-0,08
Education	0,13	0,10	-0,03	-0,17	-0,13	-0,08	0,00	-0,17	-0,16
Restaurants and hotels	0,13	0,09	0,03	-0,02	-0,13	-0,09	0,04	-0,13	-0,13
Miscellaneous goods and services	-0,10	0,03	0,07	0,03	-0,12	-0,08	0,08	-0,10	-0,09

Source: Cystat.

**TABLE B.6 Percentage change in prices of services**

	October 2013/12	September 2014/13	October 2014/13	Jan.-Oct. 2013/12	Jan.-Sep. 2014/13	Jan.-Oct. 2014/13
<b>GENERAL INDEX</b>	<b>-1,60</b>	<b>-0,91</b>	<b>-0,49</b>	<b>-0,03</b>	<b>-1,58</b>	<b>-1,47</b>
Rents	-8,85	-5,64	-4,48	-5,98	-6,62	-6,42
Maintenance of houses	-0,92	-1,84	-1,20	-0,24	-1,79	-1,73
Transport	1,25	0,10	4,09	2,22	3,95	3,96
Communications	1,29	2,59	2,59	1,29	1,85	1,93
Insurance	2,25	-1,43	-0,09	3,12	-0,98	-0,89
Public services	2,94	8,72	9,18	2,81	9,30	9,29
Education	-4,04	-3,20	-2,09	-0,04	-4,05	-3,86
Medical care	-4,09	-0,58	-0,49	-2,73	-2,11	-1,95
Restaurants and coffee shops	-0,17	-1,43	-1,03	0,49	-1,47	-1,43
Personal and household services	-1,37	-0,57	-0,55	-0,14	-1,33	-1,25
<b>Total services</b>	<b>-1,50</b>	<b>-0,86</b>	<b>-0,19</b>	<b>-0,24</b>	<b>-1,15</b>	<b>-1,06</b>

Source: Cystat.

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

(%)

	October 2013/12	September 2014/13	October 2014/13	Jan.-Oct. 2013/12	Jan.-Sep. 2014/13	Jan.-Oct. 2014/13
<b>GENERAL INDEX</b>	<b>-1,60</b>	<b>-0,91</b>	<b>-0,49</b>	<b>-0,03</b>	<b>-1,58</b>	<b>-1,47</b>
Rents	-0,27	-0,16	-0,13	-0,18	-0,19	-0,18
Maintenance of houses	-0,02	-0,05	-0,03	-0,01	-0,04	-0,04
Transport	0,03	0,00	0,11	0,06	0,11	0,11
Communications	0,05	0,10	0,10	0,05	0,07	0,07
Insurance	0,05	-0,03	0,00	0,07	-0,02	-0,02
Public services	0,04	0,11	0,12	0,04	0,12	0,12
Education	-0,17	-0,13	-0,08	0,00	-0,17	-0,16
Medical care	-0,22	-0,03	-0,03	-0,15	-0,11	-0,10
Restaurants and coffee shops	-0,01	-0,13	-0,09	0,04	-0,13	-0,13
Personal and household services	-0,12	-0,05	-0,05	-0,01	-0,12	-0,11
<b>Total services</b>	<b>-0,63</b>	<b>-0,36</b>	<b>-0,08</b>	<b>-0,10</b>	<b>-0,49</b>	<b>-0,45</b>

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
<b>1. Current account</b>	<b>6.186,6</b>	<b>6.914,9</b>	<b>-728,3</b>	<b>6.029,9</b>	<b>6.870,1</b>	<b>-840,2</b>
<b>Goods and Services</b>	<b>4.632,9</b>	<b>4.930,5</b>	<b>-297,6</b>	<b>4.742,8</b>	<b>5.152,2</b>	<b>-409,4</b>
<b>Goods</b>	<b>1.327,9</b>	<b>2.753,1</b>	<b>-1.425,1</b>	<b>1.301,6</b>	<b>2.825,8</b>	<b>-1.524,2</b>
General merchandise on a balance of payments basis	1.124,6	2.753,0	-1.628,3	1.155,8	2.824,8	-1.669,0
Net exports of goods under merchanting	203,0	0,0	203,0	143,2	0,0	143,2
Non-monetary gold	0,3	0,1	0,2	2,6	1,0	1,6
<b>Services</b>	<b>3.305,0</b>	<b>2.177,5</b>	<b>1.127,5</b>	<b>3.441,2</b>	<b>2.326,4</b>	<b>1.114,8</b>
Manufacturing services on physical inputs owned by others	0,0	0,0	0,0	1,7	0,6	1,1
Maintenance and repair services not included elsewhere (n.i.e.)	0,4	13,1	-12,7	2,3	14,0	-11,7
Transport	1.203,7	681,5	522,1	1.174,6	674,5	500,1
Travel	745,6	411,4	334,2	829,1	416,0	413,1
Construction	11,3	9,4	1,9	11,4	2,3	9,1
Insurance and pension services	11,9	48,3	-36,4	8,2	63,4	-55,2
Financial services	788,5	442,1	346,4	827,9	494,6	333,3
Charges for the use of intellectual property n.i.e.	1,6	21,6	-20,1	0,7	28,3	-27,6
Telecommunications, computer, and information services	433,7	402,3	31,4	488,1	406,4	81,7
Other business services	46,0	105,3	-59,2	50,8	179,7	-128,9
Personal, cultural and recreational services	12,8	16,0	-3,2	15,9	19,0	-3,1
Government goods and services n.i.e.	49,5	26,5	22,9	30,5	27,5	2,9
Services not allocated	0,0	0,0	0,0	0,0	0,0	0,0
<b>Primary income</b>	<b>1.391,3</b>	<b>1.673,8</b>	<b>-282,5</b>	<b>1.170,5</b>	<b>1.400,9</b>	<b>-230,4</b>
Compensation of employees	28,6	23,4	5,2	24,9	35,6	-10,7
Investment income	1.298,0	1.608,5	-310,5	1.071,5	1.332,6	-261,1
Direct investment	196,0	347,6	-151,7	226,3	397,8	-171,5
Portfolio investment	262,1	213,4	48,8	264,9	257,6	7,3
Other investment	838,6	1.047,5	-208,9	580,2	677,2	-97,0
Reserve assets	1,3	0,0	1,3	0,1	0,0	0,1
Other primary income	64,7	41,9	22,8	74,1	32,7	41,4
<b>Secondary income</b>	<b>162,4</b>	<b>310,6</b>	<b>-148,2</b>	<b>116,5</b>	<b>317,0</b>	<b>-200,5</b>
General government	20,7	93,7		40,5	84,7	
Other sectors	141,7	216,9		76,0	232,3	
<b>2. Capital account</b>	<b>200,5</b>	<b>5,5</b>	<b>194,9</b>	<b>70,1</b>	<b>1,2</b>	<b>68,8</b>
	<b>Assets</b>	<b>Liabilities</b>	<b>Net</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Net</b>
<b>3. Financial account</b>	<b>-14.141,1</b>	<b>-13.291,9</b>	<b>-849,2</b>	<b>-1.876,9</b>	<b>-1.157,8</b>	<b>-719,1</b>
<b>Direct investment</b>	<b>2.669,8</b>	<b>778,7</b>	<b>1.891,1</b>	<b>790,0</b>	<b>970,5</b>	<b>-180,5</b>
Equity and investment funds shares/units	2.680,7	561,8		785,9	337,4	
Debt instruments	-10,8	217,0		4,1	633,1	
<b>Portfolio investment</b>	<b>-12.062,9</b>	<b>430,4</b>	<b>-12.493,4</b>	<b>-1.694,2</b>	<b>770,2</b>	<b>-2.464,4</b>
Equity and investment fund shares	-217,5	69,5		-397,5	144,8	
Debt securities	-11.845,5	361,0		-1.296,8	625,4	
<b>Financial derivatives (other than reserves) and employee stock options</b>	<b>-140,1</b>	<b>-172,7</b>	<b>32,5</b>	<b>-73,1</b>	<b>-85,8</b>	<b>12,6</b>
<b>Other investment</b>	<b>-4.530,1</b>	<b>-14.328,5</b>	<b>9.798,4</b>	<b>-873,7</b>	<b>-2.812,7</b>	<b>1.939,0</b>
of which						
Currency and deposits	-1.527,6	-15.790,0		-917,4	-3.173,1	
Loans	-3.030,6	1.534,5		14,7	377,6	
<b>Reserve assets</b>	<b>-77,8</b>			<b>-25,8</b>		
<b>4. Net errors and omissions</b>			<b>-315,8</b>			<b>52,3</b>

Source: CBC.

**TABLE B.9 Trade account**

(€ million unless otherwise indicated)

	2012	2013	% change	2013 Jan.-Aug.	2014 Jan.-Aug.	% change
Imports	5.742,2	4.830,4	-15,9	3.140,8	3.258,8	3,8
Consumer goods	1.870,0	1.717,8	-8,1	1.112,8	1.184,2	6,4
Intermediate inputs	1.354,5	1.158,5	-14,5	753,5	769,2	2,1
Capital goods	351,9	292,5	-16,9	180,0	188,4	4,6
Transport equipment	421,0	264,5	-37,2	176,9	249,1	40,8
Fuels and lubricants	1.728,7	1.394,4	-19,3	915,6	864,5	-5,6
Exports	1.422,4	1.609,3	13,1	1.062,9	995,9	-6,3
Trade deficit	4.319,8	3.221,1	-25,4	2.078,0	2.262,9	8,9

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, €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.



**1**

Synopsis

**2**

Macroeconomic  
Developments and  
Projections

**3**

Statistical Annex

**TABLE B.10 Annual international investment position 2013 (provisional)**  
(€ million)

	ASSETS	LIABILITIES	NET
<b>Financial account</b>	<b>99.110,4</b>	<b>127.528,3</b>	<b>-28.417,9</b>
<b>Direct investment</b>	<b>35.453,4</b>	<b>49.918,4</b>	<b>-14.465,0</b>
Equity and investment funds shares/units	33.376,4	44.963,9	-11.587,5
Debt instruments	2.076,9	4.954,5	-2.877,6
<b>Portfolio investment</b>	<b>13.607,1</b>	<b>8.659,4</b>	<b>4.947,6</b>
Equity and investment fund shares	5.220,4	2.104,3	3.116,0
Equity securities	4.299,4	733,0	3.566,4
CBC	0	0	0
Other MFIs	39,1	430,0	-391,0
General government	0	0	0
Other sectors	4.260,3	303,0	3.957,4
Investment fund shares	921,0	1.371,3	-450,4
CBC	0	0	0
Other MFIs	2,3	0	2,3
General government	0	0	0
Other sectors	918,7	1.371,3	-452,7
Debt securities	8.386,7	6.555,1	1.831,6
Short-term	1.622,0	349,8	1.272,2
CBC	0	0	0
Other MFIs	-26,7	4,3	-31,0
General government	0	0	0
Other sectors	1.648,7	345,5	1.303,2
Long-term	6.764,7	6.205,3	559,4
CBC	922,0	0	922,0
Other MFIs	1.786,0	26,1	1.759,9
General government	1.500,0	1.796,7	-296,7
Other sectors	2.556,7	4.382,5	-1.825,8
<b>Financial derivatives (other than reserves) and employee stock options</b>	<b>1.561,6</b>	<b>1.414,7</b>	<b>146,9</b>
CBC	0	0	0
Other MFIs	91,9	165,3	-73,4
General government	0	0	0
Other sectors	1.469,7	1.249,4	220,3
<b>Other investment</b>	<b>47.822,3</b>	<b>67.535,8</b>	<b>-19.713,5</b>
Other equity	338,1	0	338,1
Currency and deposits	20.216,0	32.197,1	-11.981,1
CBC	100,7	7.504,1	-7.403,5
Other MFIs	6.450,1	24.693,0	-18.242,9
General government	11,6	0	11,6
Other sectors	13.653,6	0	13.653,6
Loans	25.857,6	32.547,4	-6.689,7
CBC	0	0	0
Other MFIs	16.455,7	0	16.455,7
General government	392,8	8.781,9	-8.389,2
Other sectors	9.009,2	23.765,4	-14.756,2
Insurance, pension schemes, and standardised guarantee schemes	250,0	578,7	-328,7
Trade credits and advances	1.001,4	1.969,8	-968,4
Other accounts receivable/payable	159,1	115,6	43,5
SDRs	0	127,1	-127,1
<b>Reserve assets</b>	<b>666,1</b>		<b>666,1</b>

Source: CBC.



1

Synopsis

2

Macroeconomic  
Developments and  
Projections

3

Statistical Annex

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
2010	January	45.952	-2,4	-2,4	29,7	-4,8	-4,8
	February	55.250	-2,4	-2,4	33,9	-6,6	-5,8
	March	103.803	14,8	5,6	65,6	14,3	3,4
	April	139.658	-23,0	-8,2	89,0	-17,1	-6,1
	May	258.014	4,7	-3,1	164,8	4,2	-1,9
	June	275.280	5,5	-0,6	195,3	11,3	2,2
	July	306.106	0,7	-0,3	231,1	-0,6	1,4
	August	304.264	4,3	0,7	241,1	2,7	1,7
	September	289.126	4,7	1,3	220,5	10,1	3,1
	October	241.698	4,9	1,7	175,5	12,3	4,1
	November	92.643	3,3	1,8	62,4	2,3	4,0
	December	61.199	-7,6	1,5	40,9	-4,2	3,8
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 <sup>(1)</sup>	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	0,0	10,2
2013	January <sup>(2)</sup>	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	n/a	n/a	n/a
	October	251.453	-8,1	1,5	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
2000	Q1	2.682,8	420,5	1.864,5	452,1	140,5	1.049,0	1.243,7
	Q2	2.952,0	428,0	1.773,0	538,8	166,4	1.515,4	1.469,6
	Q3	2.956,7	480,6	1.725,7	464,6	-145,2	1.872,0	1.441,0
	Q4	2.847,7	642,5	1.935,7	498,8	-88,0	1.420,7	1.561,9
2001	Q1	2.785,4	460,0	2.044,4	475,6	63,2	1.111,8	1.369,6
	Q2	3.046,6	493,8	1.837,6	524,8	118,0	1.679,0	1.606,6
	Q3	3.116,0	526,5	1.667,0	503,9	31,8	1.985,8	1.598,9
	Q4	2.951,7	704,7	2.015,1	508,2	-272,8	1.439,6	1.443,0
2002	Q1	2.850,4	513,4	2.010,7	517,5	155,4	1.023,4	1.370,0
	Q2	3.158,4	534,5	1.861,5	616,0	129,8	1.587,3	1.570,7
	Q3	3.117,9	566,2	1.787,1	493,4	-55,6	1.865,7	1.538,8
	Q4	3.026,4	714,3	2.033,2	559,7	-188,4	1.436,9	1.529,2
2003	Q1	2.906,2	539,4	2.031,8	497,3	273,1	937,6	1.373,0
	Q2	3.168,2	550,4	1.928,1	599,8	152,2	1.407,5	1.469,8
	Q3	3.175,2	561,7	1.813,6	532,0	-122,0	1.957,2	1.567,3
	Q4	3.130,1	816,3	2.104,1	609,6	-401,4	1.585,0	1.583,4
2004	Q1	3.020,6	504,2	2.142,6	557,7	80,6	1.225,4	1.489,8
	Q2	3.290,1	556,6	2.014,6	667,5	104,5	1.613,2	1.666,3
	Q3	3.309,3	568,2	2.001,4	593,0	-112,9	1.913,8	1.654,1
	Q4	3.283,7	702,8	2.233,4	679,7	9,2	1.458,4	1.799,7
2005	Q1	3.162,0	506,1	2.237,8	586,6	186,8	1.255,8	1.611,1
	Q2	3.393,2	556,3	2.121,3	670,2	-52,1	1.706,4	1.609,0
	Q3	3.438,9	518,9	2.029,8	618,1	-43,0	2.043,0	1.727,8
	Q4	3.408,0	829,1	2.292,7	724,3	-41,1	1.510,7	1.907,6
2006	Q1	3.292,7	563,9	2.319,5	647,2	145,7	1.374,2	1.757,8
	Q2	3.550,8	618,7	2.213,2	750,1	-13,1	1.798,9	1.817,1
	Q3	3.565,6	593,7	2.141,9	677,9	-191,1	2.192,5	1.849,2
	Q4	3.546,5	804,0	2.412,6	790,2	53,0	1.382,7	1.896,0
2007	Q1	3.443,2	577,7	2.492,2	721,3	163,2	1.359,7	1.871,0
	Q2	3.714,2	570,1	2.396,3	850,3	178,6	1.746,8	2.027,9
	Q3	3.760,4	615,1	2.366,6	786,6	-216,3	2.371,5	2.163,1
	Q4	3.748,4	849,6	2.761,2	891,5	-202,5	1.685,7	2.237,2
2008	Q1	3.610,2	568,5	2.735,7	824,7	233,4	1.423,0	2.175,1
	Q2	3.873,6	588,9	2.640,2	928,6	167,6	1.752,2	2.203,8
	Q3	3.889,5	745,6	2.627,1	822,0	-16,0	2.228,9	2.518,1
	Q4	3.819,0	867,7	2.795,4	869,7	-326,7	1.722,9	2.110,0
2009	Q1	3.627,8	620,0	2.568,4	772,0	43,8	1.448,7	1.825,1
	Q2	3.798,0	612,5	2.433,7	839,6	90,7	1.582,0	1.760,5
	Q3	3.779,7	641,2	2.400,4	706,1	180,2	1.790,9	1.939,2
	Q4	3.705,0	1.086,4	2.581,1	792,3	-490,2	1.544,4	1.809,0
2010	Q1	3.621,3	652,8	2.533,7	709,7	127,0	1.403,0	1.804,8
	Q2	3.837,2	644,6	2.457,8	808,2	150,8	1.619,8	1.844,0
	Q3	3.858,6	654,7	2.444,4	697,3	246,6	1.788,8	1.973,1
	Q4	3.788,2	1.038,1	2.699,3	743,1	-425,7	1.796,9	2.063,4
2011	Q1	3.681,3	634,8	2.634,6	676,8	254,5	1.392,1	1.911,5
	Q2	3.898,4	654,7	2.471,8	741,9	177,0	1.772,3	1.919,3
	Q3	3.840,9	698,8	2.451,6	614,7	155,9	1.912,4	1.992,5
	Q4	3.751,6	994,3	2.713,6	668,3	-598,1	1.822,1	1.848,6
2012	Q1	3.623,1	642,1	2.653,9	583,7	101,1	1.388,8	1.746,4
	Q2	3.801,9	642,6	2.447,5	601,6	139,2	1.805,7	1.834,7
	Q3	3.765,5	651,4	2.388,9	518,5	190,9	1.945,1	1.929,2
	Q4	3.615,3	931,9	2.580,7	502,7	-242,6	1.588,3	1.745,7
2013	Q1	3.432,1	619,9	2.514,4	466,7	144,5	1.218,8	1.532,1
	Q2	3.571,2	634,2	2.276,6	452,0	-55,3	1.724,9	1.461,2
	Q3	3.570,2	646,8	2.250,4	421,1	-45,3	1.979,5	1.682,3
	Q4	3.431,4	823,0	2.452,6	389,3	-203,2	1.523,8	1.554,1
2014	Q1	3.302,0	572,4	2.445,8	408,9	207,2	1.172,3	1.504,6
	Q2	3.494,0	587,8	2.274,9	409,5	12,4	1.774,4	1.565,0

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
2000 Q1	2,241.0	328.0	1,598.6	385.9	115.7	963.8	1,150.9
2000 Q2	2,505.9	337.8	1,548.0	459.4	130.6	1,412.0	1,381.8
2000 Q3	2,530.6	388.8	1,493.2	400.2	-136.8	1,751.4	1,366.1
2000 Q4	2,478.6	523.6	1,711.3	432.0	-46.2	1,347.4	1,489.5
2001 Q1	2,414.1	381.9	1,803.3	418.2	40.0	1,068.8	1,298.0
2001 Q2	2,717.4	410.8	1,653.5	464.0	105.5	1,614.4	1,530.8
2001 Q3	2,769.1	436.9	1,484.3	447.1	28.6	1,894.5	1,522.3
2001 Q4	2,647.2	583.9	1,844.8	450.1	-228.0	1,376.5	1,380.1
2002 Q1	2,521.7	431.7	1,810.8	467.8	141.2	979.3	1,309.1
2002 Q2	2,798.5	449.8	1,704.3	556.8	96.0	1,501.6	1,510.1
2002 Q3	2,797.6	483.4	1,640.0	450.4	-60.5	1,754.3	1,470.0
2002 Q4	2,774.6	619.7	1,900.2	509.6	-141.4	1,342.2	1,455.7
2003 Q1	2,679.6	490.5	1,915.2	456.8	236.6	879.1	1,298.6
2003 Q2	2,978.0	508.2	1,836.2	550.7	159.3	1,312.2	1,388.7
2003 Q3	2,991.3	530.6	1,700.6	493.2	-89.0	1,836.7	1,480.8
2003 Q4	2,981.6	778.2	2,031.8	566.4	-393.6	1,502.0	1,503.1
2004 Q1	2,887.3	480.2	2,037.1	525.7	79.6	1,173.8	1,409.1
2004 Q2	3,163.1	531.9	1,935.4	638.2	85.5	1,563.9	1,591.8
2004 Q3	3,222.7	545.8	1,923.6	573.3	-98.3	1,876.0	1,597.7
2004 Q4	3,249.1	682.2	2,216.0	661.8	10.2	1,440.4	1,761.5
2005 Q1	3,123.1	503.5	2,193.0	582.8	174.2	1,248.0	1,578.4
2005 Q2	3,372.0	555.8	2,115.4	667.9	-62.0	1,701.1	1,606.2
2005 Q3	3,446.9	518.4	2,029.3	619.3	-30.6	2,040.4	1,729.9
2005 Q4	3,460.1	832.6	2,343.8	729.3	-31.0	1,526.4	1,941.0
2006 Q1	3,352.4	579.9	2,339.3	665.1	148.9	1,400.2	1,781.0
2006 Q2	3,653.6	634.7	2,278.7	776.2	-16.5	1,843.2	1,862.7
2006 Q3	3,701.6	612.4	2,209.5	705.6	-193.1	2,256.7	1,889.5
2006 Q4	3,724.7	829.7	2,515.2	827.3	54.7	1,443.7	1,945.9
2007 Q1	3,636.8	608.0	2,572.4	764.5	167.3	1,433.0	1,908.3
2007 Q2	3,989.0	602.1	2,543.3	911.2	180.6	1,851.5	2,099.7
2007 Q3	4,096.4	652.0	2,528.3	849.8	-221.7	2,530.2	2,242.3
2007 Q4	4,107.5	901.1	2,993.2	974.9	-208.7	1,818.2	2,371.2
2008 Q1	4,021.6	627.8	2,957.4	928.9	254.0	1,575.6	2,322.1
2008 Q2	4,373.2	650.1	2,940.2	1,063.4	185.1	1,938.1	2,403.6
2008 Q3	4,419.4	836.1	2,949.3	950.0	-35.8	2,466.9	2,747.1
2008 Q4	4,342.9	972.8	3,129.2	994.0	-337.3	1,882.4	2,298.3
2009 Q1	4,057.6	718.2	2,807.5	870.5	51.8	1,560.8	1,951.2
2009 Q2	4,308.5	713.9	2,739.7	940.1	91.4	1,722.0	1,898.6
2009 Q3	4,256.5	733.8	2,686.1	782.3	182.9	1,933.7	2,062.3
2009 Q4	4,230.4	1,227.0	2,920.6	868.4	-525.3	1,666.4	1,926.6
2010 Q1	4,120.0	755.0	2,828.1	798.7	140.8	1,533.6	1,936.2
2010 Q2	4,414.2	749.1	2,806.5	918.9	184.6	1,790.0	2,034.9
2010 Q3	4,458.4	769.0	2,811.1	789.4	293.3	1,950.4	2,154.8
2010 Q4	4,413.2	1,209.2	3,115.7	824.8	-504.6	2,029.2	2,261.1
2011 Q1	4,250.8	759.6	3,025.4	747.7	256.5	1,575.7	2,114.0
2011 Q2	4,598.8	786.7	2,930.4	816.0	234.6	1,988.7	2,157.7
2011 Q3	4,558.6	849.2	2,913.5	677.2	201.8	2,131.7	2,214.8
2011 Q4	4,469.6	1,189.8	3,239.0	734.0	-705.2	2,087.8	2,075.7
2012 Q1	4,247.4	769.0	3,130.9	646.3	60.9	1,605.5	1,965.2
2012 Q2	4,571.4	768.1	2,987.8	675.0	180.3	2,069.0	2,108.7
2012 Q3	4,560.5	778.5	2,930.4	585.2	253.8	2,217.6	2,205.1
2012 Q4	4,340.9	1,094.7	3,134.4	562.2	-271.2	1,818.1	1,997.4
2013 Q1	4,044.6	706.4	3,018.4	522.7	94.4	1,451.8	1,749.0
2013 Q2	4,229.3	719.0	2,774.6	508.4	-53.3	1,987.3	1,706.6
2013 Q3	4,224.0	729.3	2,727.0	458.9	-23.7	2,265.9	1,933.4
2013 Q4	4,005.9	924.2	2,927.2	426.1	-204.5	1,725.9	1,793.0
2014 Q1	3,767.1	617.0	2,877.6	450.3	184.1	1,357.5	1,719.4
2014 Q2	4,078.7	635.6	2,750.9	451.7	32.3	2,021.3	1,813.0

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	
2011	January	86,6	101,0	-3,6	-1,2
	February	82,7	97,8	-2,2	-1,8
	March	89,1	95,8	-10,3	-3,6
	April	94,0	95,0	1,2	-3,1
	May	92,8	95,0	-4,4	-3,7
	June	97,2	90,4	-4,0	-4,0
	July	106,0	93,6	-8,3	-4,9
	August	97,7	96,1	-4,4	-5,2
	September	97,4	97,5	-3,6	-4,1
	October	93,8	97,5	-4,9	-5,0
	November	89,8	97,0	-3,2	-4,8
	December	117,0	100,3	-6,3	-5,3
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	89,7	85,1	1,5	4,7
<b>Percentage change by category</b>					
	<b>Weights</b>	<b>August 2013/2012</b>	<b>August 2014/2013</b>	<b>Jan.-Aug. 2013/2012</b>	<b>Jan.-Aug. 2014/2013</b>
<b>General index (GI) (1+2+3)</b>	<b>100,00</b>	<b>-4,63</b>	<b>1,48</b>	<b>-8,58</b>	<b>3,03</b>
(1) Retail sale of automotive fuel in specialised stores	11,60	-6,85	-6,06	-12,69	-3,76
<b>General index excluding automotive fuel (GI-(1)) (2+3)</b>	<b>88,40</b>	<b>-4,35</b>	<b>2,48</b>	<b>-8,00</b>	<b>3,93</b>
(2) Retail sale of non food products (2.1+2.2)	35,88	10,20	-1,10	7,46	2,43
of which					
(2.1) Retail sale in non-specialised stores with food, beverages or tobacco predominating	29,75	9,95	-1,28	6,84	2,21
(2.2) Retail sale of food, beverages and tobacco in specialised stores	6,13	11,45	-0,31	10,37	3,43
(3) Retail sale of non food products (except automotive fuel)	52,52	-15,51	6,10	-19,90	5,52
(3.1+3.2+3.3+3.4)					
of which					
(3.1) Other retail sale in non-specialised stores	11,36	-53,18	-28,35	-52,45	-32,25
(3.2) Retail trade of textiles, clothing and footwear	9,50	-11,20	5,61	-11,96	6,41
(3.3) Retail sale of electrical goods and furniture	12,93	-6,70	10,70	-20,88	14,14
(3.4) Retail sales of computer equipment, books and other	13,62	-9,00	12,50	-11,58	10,09
(4) Food beverages and tobacco and other retail trade in non-specialised stores (2.1)+(3.1)	46,51	-2,40	-3,80	-4,45	-1,08
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	n/a	n/a	n/a
	October	43.987	-11,95	-13,16	n/a	n/a	n/a

Source: Cystat.

TABLE B.16 Volume index of manufacturing production

Year / Month	Index		% change			
	Monthly	Cumulative	Previous year	6 - month moving average	Cumulative period	
2011	January	83,40	83,40	-5,98	2,24	-6,20
	February	87,80	85,60	-3,73	1,03	-4,84
	March	96,40	89,20	-10,91	-2,13	-7,12
	April	90,60	89,55	-6,31	-3,46	-6,91
	May	102,70	92,18	-4,55	-4,79	-6,40
	June	101,60	93,75	-8,72	-6,82	-6,82
	July	101,70	94,89	-11,41	-7,78	-7,56
	August	64,40	91,08	-2,72	-7,84	-7,15
	September	96,00	91,62	-12,01	-8,04	-7,74
	October	91,00	91,56	-9,63	-8,58	-7,93
	November	90,90	91,50	-12,17	-9,91	-8,33
	December	92,10	91,55	-9,79	-10,11	-8,46
2012	January	73,80	73,80	-11,51	-10,05	-11,42
	February	79,40	76,60	-9,57	-10,81	-10,51
	March	84,00	79,07	-12,86	-10,93	-11,36
	April	84,60	80,45	-6,62	-10,46	-10,16
	May	93,60	83,08	-8,86	-9,86	-9,87
	June	87,70	83,85	-13,68	-10,56	-10,56
	July	93,30	85,20	-8,26	-10,02	-10,21
	August	59,50	81,99	-7,61	-9,81	-9,98
	September	83,60	82,17	-12,92	-9,82	-10,32
	October	84,50	82,40	-7,14	-9,90	-10,00
	November	82,60	82,42	-9,13	-9,97	-9,93
	December	76,20	81,90	-17,26	-10,52	-10,54
2013	January	66,20	66,20	-10,30	-10,94	-10,30
	February	67,20	66,70	-15,37	-12,02	-12,92
	March	67,60	67,00	-19,52	-13,09	-15,26
	April	76,50	69,38	-9,57	-13,57	-13,77
	May	77,00	70,90	-17,74	-15,13	-14,66
	June	75,40	71,65	-14,03	-14,55	-14,55
	July	84,50	73,49	-9,43	-14,24	-13,75
	August	56,50	71,36	-5,04	-12,97	-12,96
	September	74,10	71,67	-11,36	-11,61	-12,78
	October	74,90	71,99	-11,36	-11,91	-12,63
	November	70,00	71,81	-15,25	-11,36	-12,87
	December	70,30	71,68	-7,74	-10,30	-12,47
2014	January	61,80	61,80	-6,65	-9,94	-6,65
	February	66,70	64,25	-0,74	-9,23	-3,67
	March	69,70	66,07	3,11	-6,95	-1,39
	April	70,90	67,28	-7,32	-6,17	-3,03
	May	78,60	69,54	2,08	-2,95	-1,92
	June	77,70	70,90	3,05	-1,05	-1,05
	July	82,70	72,59	-2,13	-0,42	-1,22
	August	54,80	70,36	-3,01	-0,71	-1,40
Percentage change by category			August 2013/12	August 2014/2013	Jan.-Aug. 2013/2012	Jan.-Aug. 2014/2013
General index			-5,0	-3,0	-13,0	-1,4
Manufacture of food products, beverages and tobacco products			-7,2	-3,8	-7,0	-1,5
Manufacture of textiles, wearing apparel and leather products			-8,8	-10,3	-27,3	0,0
Manufacture of wood and products of wood and cork, except furniture			-27,4	-15,1	-33,7	-11,3
Manufacture of paper products and printing			-18,0	0,4	-19,6	5,9
Manufacture of refined petroleum products, chemicals and chemical products and pharmaceutical products and preparations			-10,5	15,3	7,8	2,1
Manufacture of rubber and plastic products			-7,1	-14,6	-15,4	1,6
Manufacture of other non-metallic mineral products			35,7	1,1	-4,2	-7,3
Manufacture of basic metals and fabricated metal products			1,1	-26,1	-23,0	-8,2
Manufacture of electronic and optical products and electrical equipment			-7,3	-1,0	-38,7	-2,5
Manufacture of machinery and equipment, motor vehicles and other transport equipment			8,7	4,7	-40,2	4,8
Manufacture of furniture, other manufacturing and repair and installation of machinery and equipment			-9,0	-3,7	-25,5	12,5
Source: Cystat.						

Source: Cystat.

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

	2012		2013				2014	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
<b>Labour force</b>	437.175	438.622	437.021	431.095	434.504	433.176	431.089	431.626
<b>Employed</b>	384.393	382.903	367.790	364.523	364.010	363.990	358.287	364.964
By type of employment:								
Full time	346.965	338.014	321.869	319.444	319.321	314.740	304.256	311.866
Part time	37.429	44.889	45.921	45.079	44.689	49.249	54.031	53.097
By sector of employment:								
Primary sector	10.822	11.806	10.290	10.020	12.935	12.104	14.563	15.469
Secondary sector	76.678	76.289	69.550	64.533	60.510	61.874	59.825	59.337
Tertiary sector	296.893	294.808	287.950	289.970	290.565	290.012	283.899	290.158
Employees	323.060	318.371	304.124	301.299	301.327	297.143	288.646	298.268
<b>Unemployed</b>								
By unemployment duration:								
Less than 12 months	35.811	36.570	45.201	42.257	42.768	39.881	40.577	33.258
12 months and above	16.971	19.150	24.030	24.314	27.725	29.306	32.225	33.405
<b>Labour force (% of the population)</b>								
<b>Total</b>	<b>63,5</b>	<b>63,6</b>	<b>63,5</b>	<b>62,8</b>	<b>63,5</b>	<b>63,4</b>	<b>63,2</b>	<b>63,3</b>
Male	71,0	70,8	70,4	69,7	70,6	70,3	69,3	69,3
Female	56,8	57,2	57,3	56,6	57,2	57,2	57,7	58,0
<b>Employment (% of the population)</b>								
<b>Total</b>	<b>55,9</b>	<b>55,5</b>	<b>53,4</b>	<b>53,1</b>	<b>53,2</b>	<b>53,3</b>	<b>52,5</b>	<b>53,6</b>
Male	62,3	61,5	59,0	58,4	59,0	58,3	57,1	57,6
Female	50,1	50,2	48,5	48,3	48,1	48,8	48,4	49,9
<b>Unemployment (% of the labour force)</b>								
<b>Total</b>	<b>12,1</b>	<b>12,7</b>	<b>15,8</b>	<b>15,4</b>	<b>16,2</b>	<b>16,0</b>	<b>16,9</b>	<b>15,4</b>
Male	12,3	13,2	16,2	16,2	16,5	17,2	17,6	16,8
Female	11,8	12,2	15,4	14,6	16,0	14,6	16,1	13,9

Source: Cystat (LFS).



**1**

Synopsis

**2**

Macroeconomic  
Developments and  
Projections

**3**

Statistical Annex

## Technical Notes



**1**

Synopsis

**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



1

Synopsis

2

Macroeconomic  
Developments and  
Projections

3

Statistical Annex

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.



**1**

Synopsis

**2**

Macroeconomic  
Developments and  
Projections

**3**

Statistical Annex