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ABBREVIATIONS

ВоЕ	Bank of England
CBC	Central Bank of Cyprus
CEBS	Committee of European Banking Supervisors
COLA	Cost of Living Allowance
CPI	Consumer Price Index
CSE	Cyprus Stock Exchange
СТО	Cyprus Tourism Organisation
CYSTAT	Statistical Service of the Republic of Cyprus
ECB	European Central Bank
ECOFIN	Economic and Financial Affairs
EER	Effective Exchange Rate
EMTN	Euro Medium-Term Note
EONIA	Euro Overnight Index Average
ESA 95	European System of Accounts 1995
ESFS	European System of Financial Supervisors
ESI	Economic Sentiment Indicator
ESRB	European Systemic Risk Board
EU	European Union
EUR	Euro
EURIBOR	Euro Interbank Offered Rate
EUROSTAT	Statistical Office of the European Community
HICP	Harmonised Index of Consumer Prices

FED	US Federal Reserve
FSAP	Financial Sector Assessment Program
GDP	Gross Domestic Product
IMF	International Monetary Fund
JPY	Japanese Yen
LFS	Labour Force Survey
MFIs	Monetary and Financial Institutions
NACE	Nomenclature statistique des Activités économiques dans la Communauté Européenne (Statistical classification of the economic activities in the European Community)
NEER	Nominal Effective Exchange Rate
NFCs	Non-Financial Corporations
OIS	Overnight Index Swaps
REER	Real Effective Exchange Rate
ROA	Return on Assets
ROE	Return on Equity
SDW	Statistical Data Warehouse
UK	United Kingdom
US	United States
USD	United States Dollar



Introduction

International developments

The remedial measures implemented since the end of 2008 by central banks and governments worldwide, have contributed towards a more stable financial environment. The latest indicators reinforce the view that the significant contraction in global economic activity has come to or is nearing an end, both in emerging and developed economies. Analysts have revised upwards their 2010 projections for GDP and inflation for most countries. The Governing Council of the ECB expects the euro area economy to recover at a gradual pace, at the same time emphasising that the outlook remains highly uncertain. It is expected that the recovery will mainly emanate from the improved functioning of the financial system and the revival in global demand, as evidenced by the recovery of exports and the increased production of new inventories. Thus, as recently noted by the President of the ECB, provided that a stable environment is maintained, the non-conventional measures adopted in order to inject liquidity may not be required to the same extent that they were during the crisis. This is also reflected in the "wait and see" stance adopted by the major central banks since they continue to maintain low interest rates. Furthermore, central banks have emphasised the need for cautious fiscal policies, given that many euro area governments are faced with high and sharply rising fiscal imbalances.

Regarding the major economies worldwide, third quarter growth indicators have recorded a mild improvement, but have remained in negative territory. Inflation has continued at modest levels, mainly because of subdued economic activity and the low price of oil, a trend which is expected to be reversed in the coming months. Unemployment is still high in the largest economies, but without any significant fluctuations compared with the previous quarter.

Turning to financial markets, fiscal and monetary measures have boosted corporate profits while low interest rates have created demand for high yielding assets. As a result, global markets have reaped significant gains, although high volatility remains due to market uncertainty. The price of gold has reached historically high levels as the dollar's weakness has kept demand high for the precious metal. The price of Brent crude rose sharply in October, fuelled by expectations of high demand from China and generally improved expectations about future economic activity.

Domestic developments

The negative consequences for the Cyprus economy, especially the tourism and construction sectors, continue to worsen. This is partly reflected in the relatively low growth rate of the economy in the first three quarters of 2009, which, according to recent data by the Statistical Service of Cyprus (Cystat), reached 1,1% compared with 3,8% in the corresponding quarters of 2008. The confidence indicators for services, industry, retail trade, consumption and construction have remained in negative territory. With respect to prices, the Harmonised Index of Consumer Prices (HICP) registered a significant slowdown, recording zero growth during the first ten months of 2009 compared

with an increase of 4,8% during the same period of 2008. Domestic inflation has been negatively affected by the fall in oil prices and the slowdown in the world economy as well as subdued domestic demand.

In the monetary sector, credit expansion has continued to show strong signs of deceleration, thus reflecting the general slowdown in the Cyprus economy. Credit growth recorded the lowest rate of expansion since November 2006, the first month for which there is comparable data. More specifically, the annual growth of credit expansion was 6,9% at the end of the third quarter of 2009, compared with 11,9% at the end of the second quarter and 24,6% at the end of the third quarter of 2008.

With respect to the cost of loans, interest rates in Cyprus in recent months have decreased. However, they have remained at levels higher than the corresponding rates in the euro area.

It is expected that following the recent passing of the bill on the special government bonds, banks will be able to raise cheaper funding from the Eurosystem open market operations, using these bonds as collateral. In addition, the maturity of long-term deposits locked at high interest rates, is expected to reduce the cost of money and, as a result, the lending rates of banks.

After reaching the historical high of 17,7% of GDP in 2008, the current account deficit showed a significant improvement in the first half of 2009. Specifically, a current account deficit of 9% of GDP was recorded in the first half of the year, a noticeable improvement on

the 16% deficit in the corresponding period of 2008. The improvement in the current account resulted mainly from a significant improvement in the trade balance and, more specifically, the sharp decline in imports of goods due to reduced domestic demand and lower oil prices. However, despite the significant improvement in the current account, the deficit continues to remain at relatively high levels. As regards tourism, the revenues for the first nine months of 2009 clearly worsened compared with the same period in 2008 as a result of reduced external demand arising from the global economic crisis.

As far as the labour market is concerned, employment in the first half of 2009 was affected to a large degree by the economic crisis, recording zero growth and remaining well below the increase of 2,8% in the corresponding half of 2008. Furthermore, according to data from the Labour Force Survey, the unemployment rate was recorded at 4,9%, an increase by 1 percentage point compared with the corresponding half of 2008. Recent data for registered unemployment for the first ten months of 2009 also reflect the impact of the crisis, with the registered unemployment rate reaching 4,1%, 1,3 percentage points higher than last year's corresponding period. It is also noted that the number of registered unemployed in the first ten months of 2009 increased by 50% over the same period of 2008.

According to preliminary figures published by Cystat, a budget deficit of 2,4% of GDP was recorded during the first two quarters of 2009 compared with a surplus of 0,8% of GDP for

the corresponding period of 2008. At the same time, the primary balance changed from a surplus of 1,9% of GDP to a deficit of 1,4%. The deterioration in public finances is due to a combination of very large increases in public expenditure and a reduction in public revenues. The reduction in public revenues in 2009 is mainly due to the decline in the revenues from capital gains tax due to the slowdown in the construction and property market as well reduced VAT receipts due to the lower level of economic activity. The increase in public expenditure is due to the increase in government expenditure on compensation of employees and social transfers. On the basis of the above, the government's official target of a budget deficit of 2,9% for 2009, as announced by the Ministry of Finance in the 2010 state budget, appears unlikely and unrealistic. If the fall in revenue and increase in expenditure continue at the same pace, then it is projected that the deficit will be considerably higher than the government's target.

In 2008 public debt as a percentage of GDP registered a significant reduction from 58,3% to 48,4% mainly due to the running down of the sinking funds. It should be noted that the surplus on the primary balance also contributed to this drop. During the first quarter of 2009 there was a significant increase in public debt and this was due to the issuance of nine month treasury bills worth €1,4 billion, which, however, will not affect the final debt of 2009 as they will mature during the year.

Regarding the Central Bank of Cyprus (CBC) projections for the main indicators of the domestic economy and according to the base-

line scenario, in 2009 real GDP growth is expected to contract by 1,3% while a marginal increase of 0,3% is expected in 2010. In 2011 a contained recovery of 1,8% is expected to take place, based mainly on the recovery of our trading partners. The current projections are lower than those of June 2009, mainly due to the significant international developments and their impact on the island's economy as well as the recent revision of the national accounts data.

Financial stability conditions

Overall, risks to financial stability originating from conditions in the household sector, although contained, have increased over the last six months. Despite the fact that households' debt-servicing burden seems to be levelling-off, following the continued deceleration of loans granted to households and the relatively small decrease in lending rates, any potential further weakening of domestic macroeconomic conditions, especially in the labour market, may pose higher risks to household income and have a negative impact on households' debt repayments.

The environment in which non-financial corporations (NFCs) operate is expected to remain difficult, at least for the coming months. In the event that the unfavourable domestic macroeconomic conditions deteriorate further, the revenues and profitability of the NFCs will be adversely affected. Moreover, higher borrowing costs with which enterprises in Cyprus are confronted, compared with other euro area member states, as well as the limited

possibility for external finance may have a negative impact on firms' profitability. At the same time, the high level of firms' indebtedness makes them less resilient to further shocks. Looking forward, weak profits, high leverage and firms' dependence on bank finance remain the key vulnerabilities of the corporate sector.

In the first ten months of 2009, domestic real estate activity remained subdued despite some signs for improvement in a number of core indicators recently. At the same time, residential property prices are expected to decline in the 2009. In addition, the annual rate of growth of MFI loans to the broad real estate sector declined significantly in 2009.

In the first half of 2009, for which the latest consolidated data for the Cyprus banking sector are available, banks in Cyprus had to cope with the negative developments recorded in the domestic economy as well as an unfavourable external operating environment characterised by a high degree of uncertainty due to the adverse effects of the recent global financial crisis, which, nevertheless, has had a limited direct impact on the domestic banking system. During the period under review, banks remained profitable despite a deceleration in profit growth. At the same time, high funding costs have put pressure on banks' net interest margins. Stock liquidity indicators show a gradual depletion of excess liquidity in the banking system in the first six months of 2009. In contrast, the capital buffers of the banking system have increased, while banks' overall solvency ratio remains at a satisfactory level, well above the minimum regulatory requirement of 8% applied to individual banks. Moreover, banks' asset quality does not seem to exhibit any deterioration at present, although total loss provisions per total (gross) non-performing and doubtful loans and debt instruments (coverage ratio) declined significantly during the period under review.

However, banks face a number of potential risks in the near term. Firstly, the deceleration in domestic economic activity, coupled with the weak external macroeconomic environment, lead to a tightening of credit standards and a slowdown in demand for new lending by households and NFCs, thereby reducing credit expansion. These developments are expected to adversely affect banks' earnings and, therefore, their profitability. Moreover, credit risks stemming from lending to households and NFCs have also increased, while any potential reduction in their debt-servicing capacity may lead to future asset quality problems for banks and have a negative impact on their financial results. As a result of the easing of tensions in international financial markets as well as the remedial measures taken by governments and central banks in support of the banking sectors in many countries and by the ECB at the eurosystem level, counterparty risk has been mitigated to a large extent. At the same time, market risks facing banks remain limited. In contrast, banks' funding liquidity risks continue to be significant as a result of the increased cost of funding emanating, mainly, from the high interest rates offered by banks on retail deposits due to the strong competition in the Cyprus and Greek markets. Banks face several challenges in their effort to

secure medium- and long-term funding. However, the issue of special government bonds with a maturity of up to three years totalling up to €3 billion, which can be used as collateral by banks for the purpose of raising cheap funds from the ECB, is expected to help alleviate banks' funding needs, at least in the short term. Risks originating from the presence of the three largest domestic banking groups in overseas markets have also escalated due to worsening macroeconomic conditions in some of the countries, especially Greece, in which these banks operate.

In conclusion, banks in Cyprus remain healthy and sound and are generally in a solid position to weather satisfactorily any potentially difficult times ahead. However, the banking sector is facing significant risks and challenges that might affect its capacity to sustain current profitability levels in the near term.

General conclusions

This issue of the *Bulletin* coincides with a particularly difficult time for the economy of our country. The deterioration in various economic indicators due to the international recession is now firmly established, and is reflected in the decrease in real GDP in the first nine months of 2009 as well as by other negative developments analysed in this *Bulletin*. Particularly alarming is the high level of unemployment which is expected to increase further to historically high levels. The deterioration in the economy, especially during the third quarter, has occurred at a time when the

economic climate in the euro area shows improvement. Apart from the slowdown in economic activity in our country, what is particularly worrying is the significant growth of the projected fiscal deficit, especially from 2010 onwards, at levels that are unsustainable.

There is now an urgent need to use financial resources to facilitate the recovery of the Cyprus economy. However, financial resources are limited as the deficit is expected to significantly exceed 3% of GDP. The main challenge is to set a well targeted and restructured fiscal policy in order to facilitate economic recovery and to lay the foundations for the sustainability of public finances. The challenge for fiscal policy is great as the issue of social welfare will need to be taken into account.

Generally, the two basic principles on which the long-term planning of fiscal policy should be based are fiscal discipline and fiscal flexibility. Fiscal discipline is necessary for the safeguarding of the credibility and efficiency of macroeconomic policies that help reduce long-term financing cost as well as increase the productivity and the wealth of the country. On the other hand, fiscal flexibility is necessary for managing unexpected fluctuations in the economic environment, just like the recession we are currently facing. When fiscal policy over the longer term is based on these two principles, it strengthens the effectiveness of state intervention in times of economic difficulties. In other words, it can be used as a countercyclical policy tool to stimulate aggregate demand.

Apart from the challenge of implementing financial discipline while at the same time

promoting growth and welfare, we also face the acute problem of finding resources for funding pensions. This problem is exacerbated because of the island's ageing population and low birth rate. A reasonable solution to this problem should also be a part of the long-term planning of fiscal policy.

The developments in the Cyprus economy are particularly difficult and require well designed policy measures. Structural changes in the public sector that have been repeatedly discussed in the past may be the first important step. Public spending should, to the highest possible extent, focus on measures that have an important and long-term effect on growth as well as leading to an improvement in productivity and competitiveness. And public spending in the area of welfare provision should be selective and well targeted. It is also important that the long-term planning of fiscal policy should be set as part of the government's medium-term budget planning. Apart from the control of public expenditure, there must also be an implementation of the structural changes needed to enhance the long-term sustainability of economic development and to limit the need for public sector financial support. Long-term economic development cannot be dependent on lengthy fiscal support. Instead, it should be based on the healthy functioning of the economy, with the role of the state focused on setting and upholding the rules of free market competition. The stability of the system and its protection against exposure to risks should be the primary aim of the state. For example, just like the CBC does through the supervision of the banking sector, which remains strong despite the effects of the international financial crisis.

The economic situation today is difficult and the challenges of economic policy are great. Early reassessment and adjustment of fiscal and macroeconomic policies can contribute to bringing the economy back to a sustainable path. The more slow the implementation of fiscal consolidation and of the structural policies needed, the greater will be the long-term cost to Cyprus's growth prospects.

SECTION A

Macroeconomic Developments and Projections

1. External Environment

1.1 International developments

GDP growth¹

Signs of stabilisation in the world economy became more pronounced in mid 2009 with analysts expecting further improvement in the coming months. At the same time, although economic uncertainty still remained high, analysts began referring to the possibility of a gradual phasing out of the emergency measures taken by the monetary authorities. Furthermore, central banks, especially the ECB, have called for greater caution in fiscal policy, given the large deficits in most countries resulting from government support measures. The 2010 forecasts by analysts for both GDP and inflation for most economies have been revised upwards for the first time since the beginning of the crisis.

In general, the negative annual growth rates for the third quarter remained at modest levels. Unemployment remained stable, albeit at high levels in the largest economies, while inflation remained subdued. In addition, an increasing number of confidence indicators and other data point towards more optimistic future developments.

The euro area annual GDP growth rate for the third quarter stood at -4,1% compared with -4,8% in the second quarter. On a quarter-on-quarter basis, the rate of change for the third quarter was 0,4%, up from -0,2% in the second quarter and -2,5% in the first. The breakdown of GDP by sector for the third

GDP projections are estimated as the average of the most recent projections from The Economist poll (5 November 2009), the European Commission (Economic Forecasts, Autumn 2009) and the IMF (World Economic Outlook, October 2009).

quarter was not available by the Bulletin's cutoff date. However, there are indications that the quarter-on-quarter increase in growth was driven by government support measures, increased exports and the rise in inventories. The largest economies in the euro area (Germany, France and Italy) registered positive growth rates in the third quarter compared with the second. The driving force, especially in Germany, seems to have been the boost in exports. This gave partial support to increased investment expenditure by German companies. Unemployment in the euro area remained relatively stable at 9,7% in September compared with 9,6% in August. Analysts have revised upwards their latest GDP forecasts for 2010, expecting the growth rate to be close to 0,7%, up from -0,1% which was the forecast in the second quarter. The GDP projection for 2009 is still around -4%.

In the UK, the annual growth rate for the third guarter stood at -5,2% compared with -5,5% in the previous quarter. On a quarterly-on-quarter basis, it stood at -0,4% compared with -0,6% in the previous quarter. The recession in the UK continues to be strong across all the main sectors i.e. manufacturing, services and agriculture. The latest projections by analysts for GDP growth in 2009 have worsened, reaching -4,5% compared with the previous forecast of -3,9% in the second quarter. In contrast, the 2010 forecasts have been revised upwards to 1% compared with zero growth or forecast in the second quarter. Unemployment stood at 7,8% in the third quarter, virtually unchanged from the previous quarter. The optimistic outlook for 2010 stems partly from the expected recovery in the global economy. As a result, external demand is expected to improve, with further positive effects through exports which also benefit from the weakness of sterling. In addition, government support measures are expected to have further positive effects on the economy in 2010.

In the US, GDP contracted by 2,3% year-onyear in the third quarter, compared with -3,8% in the second quarter. On a quarter-on-quarter basis, the figures were 0,9% and -0,2%, respectively. Analysts' forecasts for the economy in 2010 are optimistic. Specifically, it is expected that the annual growth of GDP will be close to 2,1% compared with 0,8% projected in the second quarter. Regarding the current year, the forecast remains negative at -2,5%, slightly improved from -2,9% in the second quarter. The general optimism of analysts is mainly based on improved credit expansion, the build-up of new inventories, balanced demand and supply conditions in the real estate market, and the reduction in the of household arowth savings. The unemployment rate, stood at 9,8% in September compared with 9,7% in August.

Japan's economy continues to move slowly as the annual GDP growth for the third quarter decreased by 4,7%. The driving forces for this growth were primarily the fiscal support measures and the accumulation of new inventories. The latest figures for the labour market, which refer to August, show that unemployment was 5,5% compared with 5,7% in July. Analysts expect the export-reliant economy to shrink by 5,7% this year, slightly

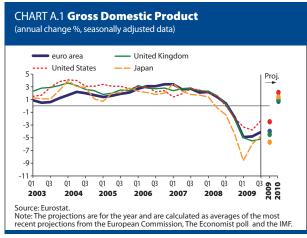
below the 6% which was forecast in the second quarter. GDP in 2010 is expected to grow at 1,4% compared with the previous projection of 0,4% (**Chart A.1**).

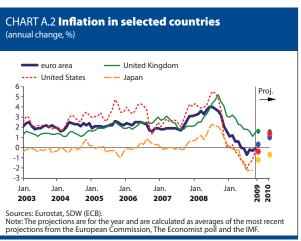
Inflation²

Inflation, although generally at low levels and in some cases even negative, registered a slight increase in some countries, mainly due to the base effect following very low oil prices last October. It is expected that during the next few quarters, inflation will return with a positive sign in most economies.

Analysts' projections for inflation in 2010 have been revised slightly upwards (**Chart A.2**). More specifically, in the euro area the growth in HICP inflation was -0,1% in October compared with -0,3% in September, mainly due to the aforementioned base effect. Within subsequent quarters, inflation is anticipated to rise further, remaining below the ECB target, which is close to but lower than 2%. The latest projections for this year are around 0,3%, very close to the projections announced in the second quarter. Analysts expect inflation in 2010 to be around 1%, again very close to 0,9% which was the projection maintained in the second quarter of 2009.

In the UK, inflation accelerated to 1,5% in October compared with 1,1% in September, mainly due to the upward base effect of the oil price and its consequent effect on the transportation sector. Analysts anticipate that in both 2009 and 2010, inflation will be 1,6% compared with the projections in the second quarter which placed inflation at





Inflation projections are estimated as the average of the most recent projections from The Economist poll (5 November 2009), the European Commission (Economic Forecasts, Autumn 2009) and the IMF (World Economic Outlook, October 2009).

1,3% for both years.

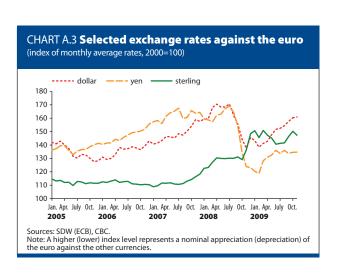
In the US, inflation fell by 0,2% in October compared with a decrease of 1,3% in September due to the base effect of energy prices in 2008. Analysts anticipate that during the current year, inflation will be approximately -0,4% compared with -0,8%, which was the previous projection. In 2010 inflation is expected to be around 1,4% while previous projections placed it at around 0,5%.

In Japan, inflation reached -2,2% in September, remaining unchanged from August. Analysts anticipate that inflation will be around -1,2% for 2009, slightly worse than -1% which was the previous projection. In 2010 inflation is expected to be around -0,7% while previous projections placed it at around -0,5%.

Exchange rates

Between May and 13 November 2009 (the cutoff date for the present *Bulletin*) the euro appreciated against the other three main currencies (**Chart A.3**). The dollar's weakness resulted partly from the extremely low interest rates and the increased appetite for risk by investors, which consequently led to the reduction in demand for safer currencies such as the dollar. As regards sterling, negative economic data and uncertain prospects for the UK caused further weakening.

The markets have been witnessing a growing popularity for "carry trade" strategies, both for the dollar and sterling, effectively borrowing in a low yielding currency and investing in a high yielding one.



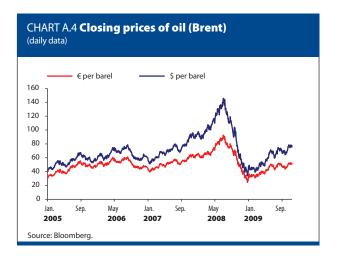
Despite many fluctuations in the euro/yen exchange rate during the period under review, the euro came out stronger overall. The demand for yen appears to have been negatively affected by investors' increased appetite for risk and market worries about Japan's exchange rate policy.

In the period May - 13 November, the average value of the euro increased by 8,9%, 1,5% and 1,7% against the dollar, sterling and the yen, respectively (**Table C.1**, p. 138). Since the beginning of the year and until 13 November 2009, the euro appreciated by 7,2% against the dollar and 5,4% against the yen but depreciated by 7,3% against sterling.

Oil and gold

The price of Brent crude increased during the period under review (Chart A.4). This was on the back of higher demand stemming from market expectations regarding the end of the global economic downturn. Specifically, on 13 November the price of oil closed at \$75,48 (€50,56) compared with \$47,78 (€34,41) at the beginning of the year, thus recording an increase of 58% (46,9%). At the same time, the International Energy Agency successively revised upwards its demand projections for 2010, especially for North America and Asia. Furthermore, data on China's trade activities have further supported demand expectations. On the supply side, the reduction by non-OPEC members was partially offset by the increased production from OPEC members.

The price of gold rose above \$1.110 per ounce in November (**Chart A.5**). Investors





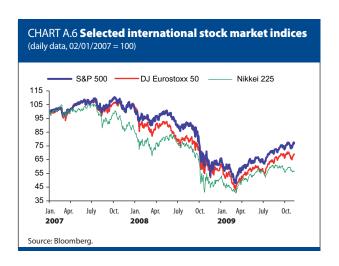
turned to gold, as a hedge against further weakening of the dollar. The dollar's weakness in turn was partly the result of carry trade strategies away from the dollar, following the expectation that fiscal and monetary measures would persist longer in the US than in the rest of the world. The price of gold recorded an increase of 27,2% from the beginning of the year until 13 November 2009.

Selected international stock market indices

The upward trend in stock market values has continued since the summer of 2009, with large but short-lived fluctuations. Better economic data, partly supported by the fiscal and monetary measures in the euro area and the US, improved banking conditions as well as corporate profits, thus driving investors towards riskier assets. The Nikkei 225 was a partial exception, posting only a modest increase in the period under review, following a drop in October due to negative economic data in Japan (Chart A.6). In particular, during the period mid May to 13 November, the DJ Eurostoxx, S&P 500 and the Nikkei posted an increase of 22.3%, 23.7% and 4.6%, respectively. The same indices registered an increase of 13,7%, 17,4% and 8%, respectively, during the period 1 January - 13 November.

International official interest rates

The major central banks continued with their expansionary monetary policy, maintaining interest rates stable and at low levels, while at



the same time continuing to offer liquidity to the markets via conventional and nonconventional measures. Towards the end of October, the markets started considering the possibility of the gradual phasing out of the non-conventional measures, following encouraging signs of stability in the global economy. In contrast, on 5 November the Bank of England's Monetary Policy Committee announced that it would continue its quantitative easing policy by purchasing another £25 billion of assets. With regard to key interest rates, the Federal Reserve maintained rates at 0% - 0,25%, the ECB at 1% and the Bank of England at 0,50% (Chart A.7).

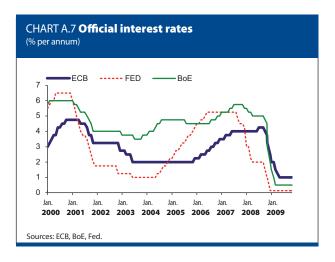
1.2 Monetary developments in the euro area

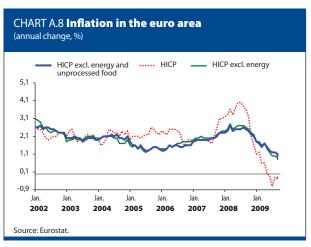
Inflation

According to the latest available data, HICP inflation in the euro area reached -0,1% in October compared with -0,3% in September 2009 and 3,2% in October 2008 (**Chart A.8**).

The fall in inflation was mainly due to reductions in the prices of energy and unprocessed food. However, within the next few months inflation in the euro area is expected to revert to positive levels mainly due to the base effect of the price of oil which is anticipated to increase. According to the most recent indicators, market expectations for inflation remain within the ECB mediumterm target, which is close to but below 2%.

Regarding HICP excluding energy, there was a rise of 0,8% in October, remaining



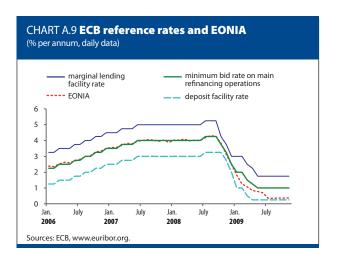


virtually unchanged from the 0,9% registered in September. Moreover, annual HICP inflation excluding energy and unprocessed food increased by 1%, also remaining virtually unaltered compared with September when it rose by 1,1%. It is noted that since the beginning of this year, both HICP and core inflation excluding energy have slowed down. Core inflation, however, has remained in positive territory.

Reference rates and ECB interventions

During the June – November 2009 period, the ECB maintained its three key interest rates unchanged. Since 13 May, the main refinancing rate has stood at 1%, the marginal lending facility rate at 1,75% and the deposit facility rate at 0,25% (**Chart A.9**).

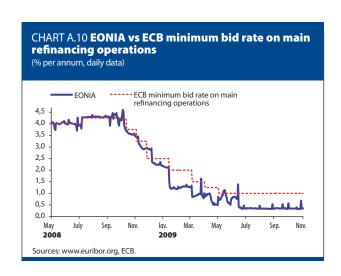
Within the context of the non-conventional monetary policy measures used to tackle the financial crisis, the Governing Council of the ECB announced on 6 June 2009 its intention to purchase €60 billion worth of covered bonds from the Eurosystem. The procedure will be completed by the end of June 2010. Between 6 July and 18 November 2009, the amount that had already been purchased reached €24 billion. At the same time, on 24 June 2009 the ECB carried out its first longer-term refinancing operation with a maturity of 12 months, which provided liquidity amounting to €442 billion to the interbank market at a fixed interest rate of 1% against collateral. The second 12- month refinancing operation that took place in October had limited demand, amounting to €75 billion of liquidity at a fixed



interest rate of 1%. A similar operation is planned for 16 December 2009, at a rate which will be determined using the average of minimum bid rates for the main refinancing operations to be carried out until mid-December 2010. The markets do not expect this operation to be extended further into the coming year given the lower demand exhibited. As far as the regular ECB operations for providing liquidity are concerned, between January and November 2009 the ECB provided liquidity amounting to €161 billion, through the weekly main refinancing operation at a rate of 1%, and €19 billion, through the three month refinancing operation, also at a rate of 1%. This compares with €200 billion and €56 billion, respectively, during the same period in 2008. Furthermore, the ECB continued to provide dollar liquidity through its weekly operations against eligible collateral as well as liquidity in Swiss francs through foreign currency swaps with the Swiss National Bank. In view of the ongoing interventions of the ECB and the increased confidence among market participants, the EONIA remained relatively stable and at low levels, close to 0,35%, without substantial fluctuations since July 2009 (Chart A.10). This development provides further evidence of stabilisation in the international banking system.

Interbank market and interest rate differentials

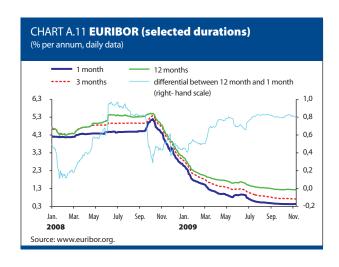
Interbank rates have remained relatively stable and at very low levels, reflecting smoother market conditions, which prevailed as a result

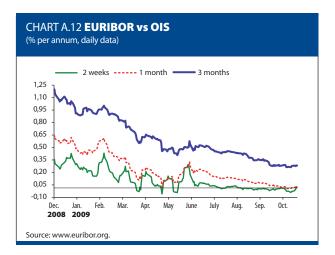


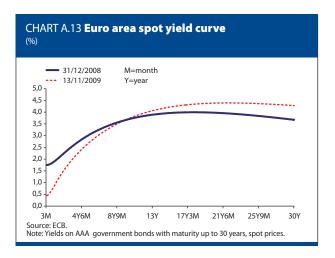
of measures taken by the ECB (Chart A.11). Specifically, the one month EURIBOR rate was approximately at 0,43% in mid-November down from 0,85% in mid-May, the 3-month EURIBOR stood at 0,71%, down from 1,28%, and the 12-month EURIBOR stood at 1,22% down from 1,64%. The yield spread between the 1-month and 12-month EURIBOR remained stable at 0,79%. Chart A.12 depicts the spreads between EURIBOR and OIS³ products, which recorded a significant decrease since mid-May 2009, reflecting better conditions in the money market as well as market expectations that the existing rates would remain at the same level for the most part of 2010. Specifically, the spread between the 3-month EURIBOR and the OIS was around 60 basis points in mid-May versus 28 basis points on 13 November 2009.

Euro area yield curve

Chart A.13 shows the yield curve for AAA rated government bonds with a 30 year maturity (spot prices). Compared with the end of 2008, the mid-November curve was steeper due to further reductions in short-term interest rates following the high volatility during the crisis. The long-term yields rose as investors moved away from government bonds which generally bear lower risk, thus pushing their prices down and their yields up. Generally, a steeper yield curve tends to be interpreted as representing expectations of a smoother economic environment, indicating positive growth in the future.







OIS (Overnight Index Swaps) are derivative products where EONIA
is swapped with a fixed interest rate of selected duration. OIS are
used for hedging or speculative moves in the interbank overnight
rate or the reference rates of central banks.

M3 and credit expansion

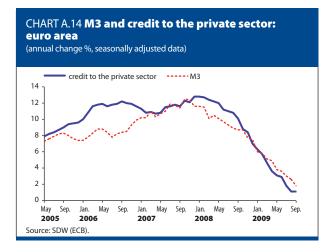
The monetary aggregate M3 grew by 1,8% in September 2009 compared with 2,6% in August 2009 and 8,7% in September 2008. At the same time, the average growth of M3 in the third quarter of 2009 slowed to 2,5% from 4,1% in the second quarter of 2009, thus reflecting the general slowdown in credit expansion in the euro area (**Chart A.14**). More specifically, the annual growth rate of credit expansion to the private sector increased by only 1,1% in September, unchanged from August, compared with a rise of 10,1% in September 2008.

Turning to the annual growth of loans to non-financial corporations (NFCs), this recorded a fall of 0,1% in September compared with a rise of 0,7% in the previous month. The annual growth of lending to households registered a further decrease of 0,3% compared with a reduction of 0,2% in August. More analytically, in September housing and consumer credit loans recorded further reductions of 0,6% and 1,1%, respectively, compared with a fall of 0,4% and 1%, respectively, in the previous month.

The slowdown in both the growth rate of M3 and credit to the private sector, provide further support for the view that a moderate expansionary monetary policy and low inflationary pressures will prevail in the medium term.

2. Domestic Prices, Monetary Aggregates and Labour Costs

During the period July - October of 2009,



inflation in Cyprus was in negative territory, mainly due to the significant reductions in the international price of oil. It is noted that October 1986 was the last time when Cyprus recorded negative inflation. In contrast, HICP excluding energy slowed down while still in positive territory. This indicates that the global economic recession and its consequences for the Cyprus economy have not had a significant impact on the domestic prices of goods. The effects of the global crisis are strongly reflected in the monetary aggregates, where the rate of credit expansion to domestic residents registered a significant slowdown.

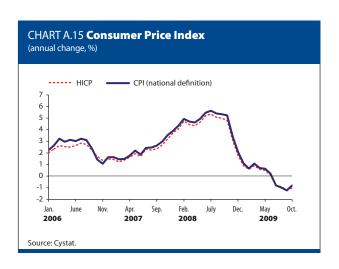
Prices

The Consumer Price Index (CPI) fell by 0,8% in October 2009 compared with -1,2% in September 2009 and a rise of 5,2% in October 2008.

During the first ten months of 2009, the CPI rose by 0,1% compared with the same period of 2008. At the same time, HICP inflation fell by 1% in October 2009 compared with a drop of 1,2% in the previous month and a rise of 4,8% in October 2008. During the period January-October 2009, the HICP remained unchanged compared with the same period of 2008 (Chart A.15).

The large drop in inflation observed since the third quarter of 2009 has been mainly driven by significant reductions in energy prices. In addition, the appreciation of the euro against the dollar has also supported lower inflation in Cyprus.

Furthermore, reductions in the prices of

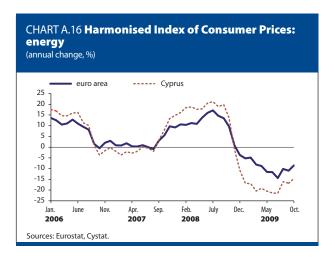


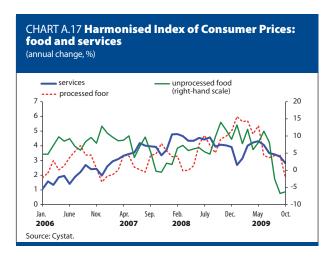
unprocessed food and industrial goods excluding energy, have also contributed to the overall reduction in HICP.

At the same time, prices of processed food and services registered a significant slowdown compared with the second quarter of 2009. Despite this development, during the first ten months of 2009 HICP excluding energy indicated an annual increase of 2,6% compared with a rise of 3,0% in the same period of 2008. The high levels of core inflation raise legitimate questions and concerns regarding the erosion of competitiveness in the domestic economy, while the increased profit margins of companies in the midst of a crisis requires further investigation.

Analytically, the sub-category of energy recorded a significant reduction in the prices of fuels and electricity as a result of the 40% decline in global oil prices quoted in euros within the first ten months of 2009, compared with the same period of 2008. Thus, energy prices decreased by 18,5% in the period January-October 2009 compared with the same period of 2008 (Chart A.16). The largest decrease was recorded in July 2009 and amounted to 21,5%. According to the latest available data, a smaller decrease of around 14,7% was recorded in October due to the base effect related to the previous year's very low oil prices.

With regard to food prices, there was an acceleration of 4,6% in the first ten months of 2009 compared with the same period of 2008 (**Chart A.17**). In October 2009, food prices fell by 1,4% compared with the same month of 2008. This reduction was mainly driven by the

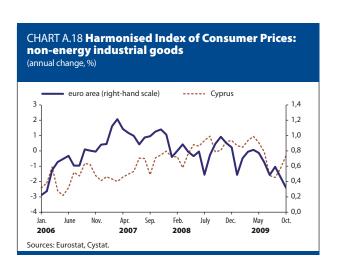




sharp reduction observed in fruit and vegetable prices since August 2009. As a result, the prices of non-processed food declined by 6,3% in October 2009 compared with the same month of 2008. At the same time, although prices of processed food continued to accelerate, in the third quarter of 2009 the annual growth rate recorded a significant slowdown reaching 3,3% compared with 4,5% in the second quarter. According to the latest available data for October 2009, the growth rate of processed food prices decelerated further to 1,8%, reflecting mainly the slowdown in the prices of milk and bread.

Chart A.17 (p. 29) also depicts the rate of growth in prices of services which decelerated to 3,5% within the first ten months of 2009, compared with an increase of 4,4% in the first ten months of 2008. This large rise is mainly due to significant increases in the prices of restaurants and medical services, despite the general slowdown in the tourism sector. However, according to the latest available data the annual growth rate in the prices of services during October 2009 recorded a significant slowdown reaching 2,8%, reflecting mainly the significant reduction in the prices of accommodation services.

The growth rate of industrial goods prices excluding energy which has been positive since May 2008, reverted to negative levels in June 2009. In particular, during the first ten months of 2009 the prices of industrial goods excluding energy, decreased by 0,2% compared with the same period of 2008 (Chart A.18). The largest reductions recorded during the third quarter of 2009, were mainly



due to buoyant summer sales in clothing and footwear as well as significant reductions in the prices of motor vehicles.

According to the latest available data, in October 2009 there was a decrease of 0,3% in the prices of industrial goods excluding energy, mainly because of lower reductions in the prices of certain items of clothing and footwear compared with the summer period of 2009.

It should also be noted that the differential between Cyprus and euro area HICP inflation has reversed since July 2009, with domestic inflation being at a lower level than inflation in the euro area. More specifically, during the first ten months of 2009, domestic inflation remained unchanged compared with the same period of 2008. In contrast, inflation in the euro area rose by 0,2%. At the same time, despite the fact that the differential between domestic HICP excluding energy and the respective euro area HICP, increased by 1,56 percentage points during the first eight months of 2009. Since September 2009, this has been reversed. Domestic inflation excluding energy is thus 0,05 percentage points lower than the respective euro area inflation.

Monetary aggregates^{4,5}

At the outset, it should be noted that

^{4.} All the monetary aggregates for Cyprus, including interest rates, are for data excluding the CBC and /or the Eurosystem.

^{5.} On 1 July 2008, the Definition of the Term "Resident of Cyprus" for Statistical Purposes Directive came into force. As a result, all monetary financial Institutions (MFIs) proceeded with the reclassification of a large number of their corporate clients with no physical presence in Cyprus (known as "brass plates") from "non-resident" to "resident". The effect of the reclassification has been excluded from the monetary and financial statistics of Section A of this publication in order to ensure comparability of data and thus help draw clear conclusions. Specifically, references to domestic data or domestic residents exclude organisations or enterprises without a physical presence in Cyprus. For purposes of uniformity, monetary time series data have been amended by the Economic Research Department.

beginning with the publication of this edition of the *Bulletin*, there has been a major change regarding the calculation of annual growth rates. The new methodology is based on the one followed by the ECB. Specifically, monthly transactions are calculated from monthly differences in outstanding amounts adjusted for reclassifications, other revaluations and any other changes which do not arise from transactions, except for exchange rate adjustments^{6,7,8}.

Regarding credit expansion, it continued to show strong signs of deceleration, reflecting the general slowdown of the Cyprus economy, and recorded the lowest annual growth rate since November 2006, which is the earliest month when comparable data are available.

With respect to the cost of loans, interest rates in recent months decreased. However, they remained at levels higher than corresponding rates in the euro area.

It is expected that following the recent passing of the law on the issue of special government bonds, banks will be able to access cheaper liquidity from the Eurosystem's open market operations using these special bonds as collateral. In addition, the maturity of long-term deposits locked at high interest rates is expected to reduce the cost of money and, as a result, the interests rates of banks.

Analysing the monetary aggregates further, the annual growth of credit expansion was 6,9% at the end of the third quarter of 2009, compared with 11,9% at the end of the second quarter and 24,6% at the end of the third guarter of 2008.

The annual rate of growth of loans to

In previous publications, the rate of change of monetary variables was calculated as the annual percentage change of the closing balances at the end of the period.

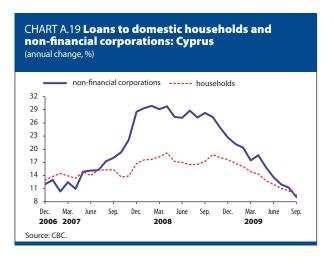
For details regarding the new methodology, please refer to the Monetary and Financial Statistics publication of the CBC's Statistics Department.

^{8.} Monetary data do not include exchange rate adjustments.

domestic NFCs was 9,1% at the end of September 2009 compared with 13,6% at the end of June 2009 and 28,3% at the end of September 2008 (Chart A.19). There was also a slowdown in loans to households (Table A.1). Specifically, at the end of the third quarter the annual growth rate was 9,5% compared with 12% at the end of June 2009 and 17,2% at the end of September of previous year. It should be noted that the biggest slowdown was recorded in the categories of housing loans and other lending. Of the loans granted by MFIs in Cyprus to domestic households at the end of the third quarter of 2009, 23,2% was accounted for by consumer spending, 49,4% by expenditure on housing and 27,3% by lending for other purposes.

As regards loans to domestic residents by economic activity, the main categories exhibited an overall deceleration in their growth rates (**Table A.2**), which is in line with the general view of the economy. In particular, there was a significant downward trend in loans for construction and real estate since the growth rate was 4,9% in September 2009 compared with 15,3% in June 2009 and 51,2% in September 2008. Furthermore, loans for hotels and restaurants increased by 2,7% in September 2009 compared with an increase of 3,9% in June 2009 and 8,1% in September 2008.

With respect to deposits by domestic NFCs, there was a considerable fall in their rate of growth (Chart A.20, p. 34). In particular, at the end of the third quarter of 2009, the annual growth of these deposits was -11% compared with -10,6% in June 2009 and an increase of 28,8% in the corresponding period of the



(Outstanding Annual percentage change						
	balance as	2008	2008	2008	2009	2009	2009
	% of total ⁽³⁾	June	Sep.	Dec.	Mar.	June	Sep.
Domestic households	100,0	17,0	17,2	17,6	14,8	12,0	9,5
Consumer credit	23,2	7,9	10,7	13,9	13,3	12,0	9,9
2. Lending for house purchas	e 49,4	25,2	24,6	22,2	18,2	14,0	11,1
3. Other lending	27,3	13,0	12,5	14,4	11,6	9,3	7,0

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

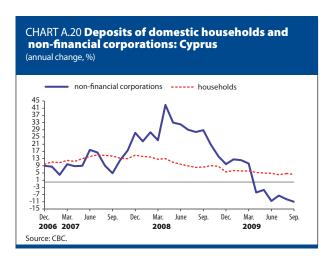
(2) Including non-profit institutions serving households.

TABLE A.2 Loans to domestic residents by economic activity of borrower: main categories							
	Outstanding	Ar	nual pe	rcentag	e chang	je	
	balance as	2008	2008	2009	2009	2009	
	% of total ⁽¹⁾	Sep.	Dec.	Mar.	June	Sep.	
Manufacturing	3,7	15,0	18,7	19,4	13,9	6,1	
Construction, real estate, renting							
and business activities	24,6	51,2	42,0	27,6	15,3	4,9	
Wholesale and retail trade	9,1	27,5	26,4	17,5	10,0	3,3	
Hotels and restaurants	4,5	8,1	4,1	1,8	3,9	2,7	
Source: CBC. (1) As at the end of the last mont	h available.						

previous year. It is possible that due to the general economic slowdown, NFCs use their deposits for repayment of their existing loans thus limiting their demand for loans for investment purposes. It is noted that NFC deposits represent approximately 17% of the overall deposits of the private sector in the domestic banking system. Since April of the current year they have registered negative growth.

The annual growth rate of domestic household deposits (Chart A.20 and Table **A.3**) reached 4,2% in September, compared with 4,8% in June 2009 and 8,3% in September of the preceding year. The slowdown in the growth rate of household deposits has continued since the end of 2007. The shift from short-term deposits to deposits of up to two years continues, partly due to the high interest rates offered by the MFIs. MFIs try to attract deposits for the longest possible maturity, since they remain the main source of financing loans. In addition, the conservative behaviour of depositors due to the uncertainty regarding the prospects for the economy is reflected in lower consumption and increased savings in deposits offering a higher return.

Short-term deposits, both overnight and redeemable at notice, continue to decline but at a lower rate compared with previous months. Specifically, the annual rates of change of these deposits recorded a fall of 4,9% and 16%, respectively, in September compared with a decrease of 9% and 24,9%, respectively, in June. It is worth noting that the deposits with an agreed maturity of up to one year constitute around 69% of total household deposits.



	Outstanding Annual percentage change						
	balance as	2008	2008	2008	2009	2009	2009
	% of total (3)	June	Sep.	Dec.	Mar.	June	Sep.
Domestic households	100,0	9,9	8,3	5,6	6,1	4,8	4,2
Overnight	14,9	2,2	-6,2	-13,6	-15,7	-9,0	-4,9
With agreed maturity	74,5	24,4	23,8	22,0	22,2	14,8	10,0
up to 2 years	70,6	26,7	26,1	24,5	24,6	16,3	11,4
over 2 years	3,9	2,1	0,6	-3,6	-5,5	-5,0	-9,8
Redeemable at notice	10,6	-24,3	-27,4	-31,2	-32,5	-24,9	-16,0
up to 3 months	7,6	-21,9	-30,1	-34,7	-37,0	-29,5	-20,5
over 3 months	3,0	-31,5	-17,2	-18,2	-16,0	-9,0	-1,7

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.

The deposits of foreign NFCs, including deposits by "brass plates", recorded an annual fall of 6,6% in September 2009 compared with an annual increase of 12,8% in September of the previous year. The growth of household deposits by non-residents of Cyprus slowed down to 4,7% in September 2009 compared with 11,1% in September 2008. It is noted that the total amount of non-resident deposits, including those by "brass plates", recorded an annual decrease of 3,2%, during the period under review.

Interest rates

In September the average interest rate on new euro denominated loans to euro area households from Cyprus MFIs with an initial fixation of up to 1 year, was 7,15 % for consumer loans, 5,48% for housing loans and 6,5% for other loans (Table A.4). It is noted that interest rates in all three categories continued the downward trend which began in March 2009. A similar path has been followed by interest rates on new euro-denominated loans to NFCs from Cyprus MFIs (Table A.5). It is expected that in view of the maturity of longterm deposits locked at high interest rates, and the wider access to cheaper Eurosystem funds using the special government bonds as collateral, the cost of borrowing by their customers will be lower.

As regards the corresponding rates for loans from MFIs in the euro area, these continued to follow a downward path during the third quarter of 2009, with the exception of consumer loans (Chart A.21, p. 36). This development is due to

TABLE A.4 Cyprus MFI interest rates on euro-denominated loans (new business) to euro area households⁽¹⁾ (% per annum, period average)

			Float	ing rate and up to 1 initial rate fixation	•
		Bank	Consumer	Lending for	Other
		overdrafts (2)	credit	house purchase	lending
2008	June	7,05	7,01	5,84	6,90
	July	7,33	7,58	6,21	7,22
	Aug.	7,37	7,78	6,37	7,30
	Sep.	7,43	7,76	6,41	7,18
	Oct.	7,44	7,73	6,45	7,22
	Nov.	7,31	7,70	6,35	7,13
	Dec.	7,43	7,84	6,47	7,25
2009	Jan.	7,63	7,94	6,69	6,98
	Feb.	7,68	7,94	6,89	7,47
	Mar.	7,60	7,90	6,79	7,20
	Apr.	7,55	7,72	6,63	7,27
	May	7,54	7,55	6,43	7,02
	June	7,48	7,65	6,10	7,03
	July	7,44	7,49	6,04	6,56
	Aug.	7,47	7,23	5,88	6,65
	Sep.	7,31	7,15	5,48	6,50

Source: CBC.

TABLE A.5 Cyprus MFI interest rates on euro-denominated loans (new business) to euro area non-financial corporations

(% per annum, period average)

			Floating rate and up to 1 year initial rate fixation	
		Bank overdrafts ⁽¹⁾	Other loans up to €1 million	Other loans over €1 million
2008	June	7,12	7,05	6,35
	July	7,42	7,22	6,93
	Aug.	7,34	7,33	7,13
	Sep.	7,45	7,43	5,32
	Oct.	7,43	7,48	6,52
	Nov.	7,16	7,05	6,88
	Dec.	7,19	7,26	5,93
2009	Jan.	7,18	7,20	5,37
	Feb.	7,35	7,66	6,97
	Mar.	7,29	7,56	7,21
	Apr.	7,22	7,25	7,04
	May	7,23	7,14	6,35
	June	7,21	7,13	4,68
	July	7,16	6,95	3,97
	Aug.	7,08	6,36	3,99
	Sep.	7,08	6,76	4,19

Source: CBC.

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

⁽¹⁾ Including non-profit institutions serving households.

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

both the overall smoothness in the financial markets and the reduction in the ECB's key interest rates as well as due to its liquidity injections. As a consequence, the monetary transmission mechanism continues to function smoothly. Significant reductions in the average interest rates of major loans sub-categories have been recorded since the end of 2008 in the euro area. The only exception has been rates on consumer loans, which have stabilised but at lower levels than the highest average rate recorded in November 2008. It is worth noting that domestic interest rates for new loans peaked in February 2009, while corresponding rates in the euro area peaked in October 2008.

With respect to the deposit rates offered by MFIs in Cyprus (**Table A.6**), the downward trend has continued since the beginning of the year, even though a small increase was recorded in household deposits rates in September. Indicatively, the average interest rate on new deposits to households with an agreed maturity of up to one year reached 4,11% in September 2009 compared with 4,06% in June and 5,6% in September 2008. The respective rate for NFCs reached 2,51% in September compared with 2,71% in June and 4,97% in September 2008.

In the euro area deposit rates were much lower than respective rates in Cyprus (**Chart A.22**, p. 37). In particular the average interest rate on deposits by households with an agreed maturity of up to one year in the euro area was 1,61% in September, compared with 1,86% in June 2009 and 4,65% in September 2008.

The respective rate for deposits by NFCs

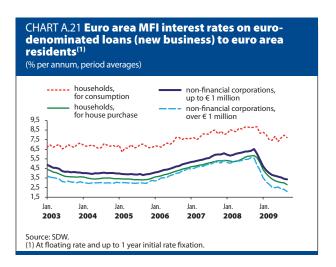


TABLE A.6 Cyprus MFI interest rates on euro-denominated deposits (new business) by euro area residents (% per annum, period average)

		Нос	useholds ⁽	1)	Non-financia	corporations
				agreed turity		
		Overnight (2)	Up to 1 year	Over 1 and up to 2 years	Overnight ⁽²⁾	With agreed maturity up to 1 year
2008	June	1,57	5,11	5,13	1,08	4,78
	July	1,60	5,36	5,31	0,94	5,02
	Aug.	1,63	5,47	5,45	0,95	4,73
	Sep.	1,66	5,60	5,53	1,01	4,97
	Oct.	1,60	5,72	5,60	0,98	4,93
	Nov.	1,54	5,74	5,38	0,90	4,63
	Dec.	1,58	6,03	5,08	0,86	4,81
2009	Jan.	1,60	6,15	5,87	0,90	5,07
	Feb.	1,56	5,36	4,74	0,88	3,86
	Mar.	1,44	4,68	3,88	0,80	3,09
	Apr.	1,36	4,25	3,69	0,73	2,61
	May	1,29	4,08	3,56	0,74	2,48
	June	1,29	4,06	3,88	0,74	2,71
	July	1,25	4,06	3,80	0,69	2,78
	Aug.	1,26	4,05	3,96	0,66	2,91
	Sep.	1,27	4,11	4,26	0,62	2,51

Source: CBC.

(1) Including non-profit institutions serving households.

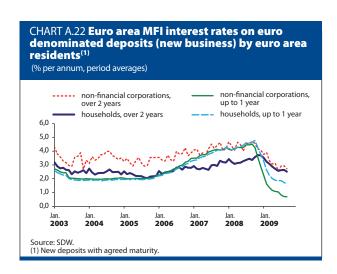
(2) For this instrument category, new business refers to end-of-period.

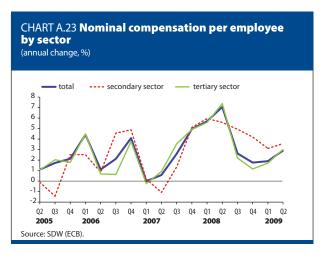
reached 0,69% in September 2009 compared with 1,04% in June and 4,52% in September 2008.

Labour costs

The impact of the international economic crisis on the Cypriot economy in the first half of 2009 led to a slowdown in the increase in labour costs. According to the latest figures from Cystat, the annual growth rate of compensation per employee slowed to 2,4% in the first half of 2009, four percentage points lower than in the corresponding period of 2008 (Chart A.23). It is worth noting that the marked deceleration was recorded despite the continued high increases in the cost of living allowance (COLA), which reached 2,15% in the first half of 2009 compared with 2,6% in the first half of 2008. The main for the deceleration compensation per employee, other than the current economic climate, are the continuing increase of the share of low-paid foreign workers and the increase of the share of parttime workers in the first half of 2009. The deceleration in labour costs in the first half of 2009 is also evident in the average monthly earnings of employees by quarter, which rose by 5,7% compared with 6,5% in the corresponding half of 2008. As regards the breakdown, the increase compensation per employee in the secondary sector has exceeded the increase in the tertiary sector by 0,9 percentage points in the aforementioned period (Chart A.23).

As far as real compensation per employee is concerned, the growth rate in the first half of 2009 was the same as in the first half of 2008,



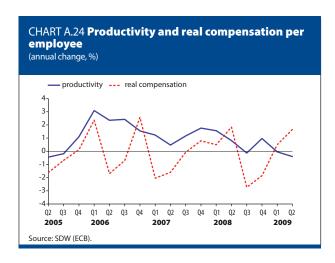


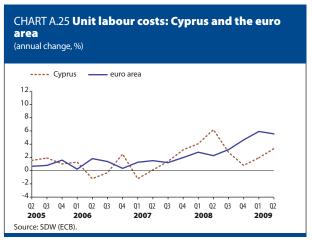
despite the strong deceleration in nominal compensation per employee. This was because of the large deceleration in domestic prices. Specifically, real compensation per employee in the first half of 2009 increased by 1,1% compared with 1,2% in the first half of 2008. As regards productivity, it recorded a 0,2% decrease in the first half of 2009 compared with an increase of 1,2% in the first half of 2008, partly reflecting the increase in the share of unskilled foreign workers in total employment (**Chart A.24**).

Unit labour costs were affected by the marked deceleration of nominal compensation per employee. Despite the decrease in productivity, unit labour costs decelerated in the first half of 2009 to 2,6% compared with 5,1% in the corresponding period of 2008. Unit labour costs in Cyprus recorded a lower increase than in the euro area in the first half of 2009, which amounted to 5,7% (Chart A.25).

3. Domestic Competitiveness and Balance of Payments

After a period of overheating of the domestic economy, which led to a deficit of 17,7% of GDP in 2008, the current account deficit decreased markedly in the first half of this year. The improvement was the result of the decrease in caused imports by reduced domestic consumption, the crisis in the construction sector and the decrease in oil prices. Despite the sharp decline of the deficit, it still remains at high levels. Even though, the deficit of the past two years does not appear to have caused any direct financing problems, it is of crucial importance





since it indicates a loss in competitiveness in specific sectors of the economy, such as tourism.

Effective exchange rate⁹

The effective exchange rate (EER) of the Cyprus currency is shown in Chart A.26 (the Cyprus pound until the end of 2007 and the euro from 2008 onwards), as calculated by the International Monetary Fund (IMF), and the real and nominal EER index, as calculated by the CBC. The chart shows an increasing trend (appreciation) in the real EER in 2007 and the first months of 2008, mainly due to the strengthening of the euro and, to a lesser extent, increased inflation in Cyprus vis-à-vis the island's trading partners. From mid-2008 to August 2009, the real EER showed a smooth decreasing trend while during September and October, the real EER showed an increasing trend caused by the strengthening of the euro against the dollar.

The real EER and unit labour costs are two important indicators of the Cypriot economy's competitiveness. Specifically, the rise in unit labour costs and an appreciating real EER, affect negatively the current account thus making domestic exports less competitive and imported products cheaper.

Balance of payments

The current account deficit in 2008 reached the historic high of 17,7% of GDP (**Chart A.27**). Preliminary data show that the increasing trend of the deficit was reversed in the first half

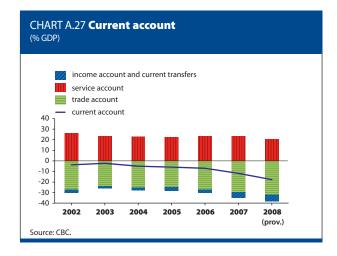


CHART A.26 Real and nominal effective exchange rates of the Cyprus currency (IMF weights) (base year 2005=100) REER (IMF) ---- REER (CBC) -NEER (CBC) 106 102 Aug. Dec. Apr. Aug. 2009 2005 2006 2007 2008 Sources: CBC, IMF

^{9.} The effective exchange rate in real terms "REER IMF" is calculated by the IMF and takes into account competition with 19 other countries. The deflator used is the CPI. Because of the time lag in publishing this index, the CBC calculates a simplified index using eight countries instead of 19 ("REER CBC"). The same index is also calculated by the CBC in nominal terms ("NEER CBC").

of 2009, falling to 9% of GDP compared with 16% in the corresponding period of 2008. The significant improvement in the current account deficit during the first half of 2009, which still remains at high levels, is primarily due to the improvement in the trade account as a result of reduced domestic demand and the decrease in oil prices. The trade account in the first half of 2009 was 25% of GDP, an improvement of 7,5 percentage points compared with the first half of 2008. During the period under review, the services account, recorded a surplus of 17,4% of GDP, marginally lower than the surplus recorded in the corresponding period of 2008. This was mainly the result the reduced receipts from travel services of offsetting the increase in receipts from other business and financial services. Finally, during the period under review, a marginal deterioration was recorded in the deficit of the income account and current transfers.

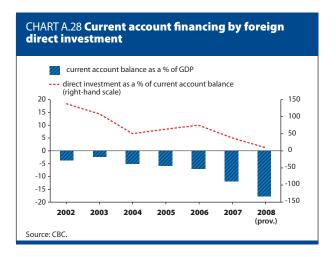
Analytical data for the third quarter of 2009 show that the improvement recorded in the first half of the year continues. Specifically, the trade account improved by 32,3% in the third quarter of 2009 compared with an improvement of 23% in the first half of 2009, while the overall improvement for the first nine months of 2009 was 26,4% (Table A.7). The significant improvement in the current account deficit was due to the reduced imports of petroleum products, intermediate inputs and transport equipment, which were affected by both lower domestic demand and reduced prices, mainly oil prices. At the same time, exports of goods registered similar rates of

TABLE A.7 Trad (€ millions)	e account		
	Imports	Exports	Trade deficit
2007	6.353,4	1.082,7	5.270,8
2008	7.366,7	1.190,4	6.176,3
annual % change	15,9	9,9	17,2
2008 Jan Sep.	5.630,2	896,3	4.733,8
2009 Jan Sep.	4.188,7	705,9	3.482,9
annual % change	-25,6	-21,3	-26,4

decline to imports. However, since the volume of imports is much bigger than the volume of exports, the trade balance is affected to a smaller extent by the decrease in exports.

In recent years, Cyprus's financing needs resulting from the current account deficit have been met mainly through foreign direct investment. However, with the increase in the deficit in 2007 and 2008, the importance of the category of 'other investments' has increased (Chart A.28). The proportion of funding from direct investment in 2008 was reduced to around 10% from almost 40% in 2007. This decline was due to the large increase in the current account deficit and to large one-off investments by banks abroad that reduced net foreign direct investment substantially. Excluding these investments, the proportion of financing from foreign direct investment was around 26% in 2008, while net investment as a percentage of GDP remained constant at around 4,5% compared with previous years. Given the stability in the proportion of foreign direct investment to GDP, if the current account deficit remains at significantly higher levels may, in the long term, lead to financing problems of the deficit.

Cyprus's total foreign debt reached approximately 119,7% of GDP in June 2009, up from around 50% in 2003 (the year prior to Cyprus's accession to the EU). It should be noted that part of the increase was due to the issuing of bonds by the former international banking units (IBUs), mostly guaranteed by their parent companies. Consequently, IBUs in Cyprus still bear no risk. Finally, the international investment position in 2008



shows that, despite the fact that Cyprus is a net creditor, the surplus has shrunk as a result of the persistent current account deficits.

Tourism

Developments in the tourism sector have been adversely affected by the economic crisis, as shown by the revenues from tourism in the first nine months of 2009 (Table A.8). Specifically, total revenues during that period decreased by 16,1% compared with a decrease of 4,1% over the same period last year. Arrivals also decreased, falling by 10,7% during the same period. Recent data on arrivals for the month of October show further deterioration, recording a decrease of 14%. The recent negative developments in tourism are mainly driven by the adverse effects of the global financial crisis, particularly on the UK economy which accounts for approximately 50% of tourist arrivals in Cyprus.

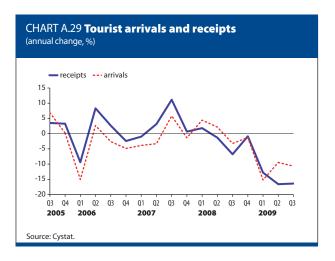
As shown in **Chart A.29**, the rate of decrease in revenue from tourism during the second and third quarter of 2009 (which are the most important quarters for tourism) is higher than the rate of decrease in arrivals. This indicates a decrease in per capita spending during this period, thus making the reduction in total tourist revenue more severe.

4. Domestic Demand, Production and the Labour Market

Quarterly national accounts

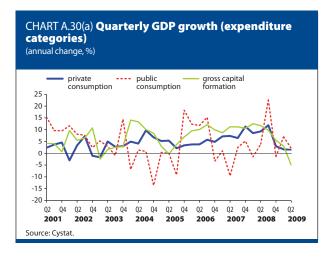
Based on the analytical data published by

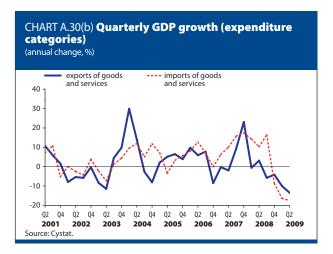
	Tourist arrivals (thous.)	Tourist receipts (€ million)	Expenditure per person (€)
2007	2.416,1	1.858,1	769,1
2008	2.403,8	1.792,8	745,8
annual % change	-0,5	-3,5	-3,0
2008 Jan Sep.	1.965,9	1.470,2	747,9
2009 Jan Sep.	1.754,9	1.233,3	702,8
annual % change	-10,7	-16,1	-6,0



Cystat, GDP grew by 3,6% in 2008 thus recording a slowdown compared with the 5,1% increase recorded in 2007. GDP began declining in the fourth quarter of 2008, due to the global economic crisis. In the first three quarters of 2009, GDP contracted by 1,1% and is expected to continue contracting in the fourth quarter of 2009 (Charts A.30(a) and A.30(b)).

The contraction of real GDP in the first half of 2009, the period for which detailed data exists, reflected weak domestic demand and the decrease in exports. Specifically, the exports of goods and services decreased by 12% compared with the 1,5% increase recorded in the corresponding period of 2008. Similarly, gross capital formation decreased significantly in the first half 2009 reaching -23,6% compared with the 15,2% increase in the corresponding period of 2008. Capital investments were mainly affected by the huge destocking and, to a lesser extent, by the decrease of gross fixed capital formation. Total imports also decreased by 17% compared with the 12.2% increase recorded in the corresponding period of 2008, mainly as the result of the reduction in oil imports and intermediate goods. Private consumption also experienced a considerable slowdown in the first half of 2009, increasing by only 1,6% compared with the 8,9% increase in the first half of 2008. At the same time, public consumption increased by 4,5% in the first half of 2009 compared with 1,2% recorded in the corresponding period of 2008, mainly reflecting an increase in the number of public sector employees.





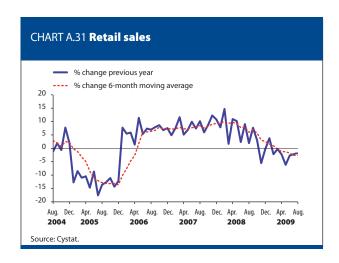
Recent indicators of domestic demand for the fourth quarter of 2009 show a steady declining trend similar to the one recorded in the first three quarters of 2009. According to the confidence indicators for October (**Table A.9**), the contraction of GDP is expected to continue in the fourth quarter of 2009. More specifically, the sub-categories for services, manufacturing, retail trade, consumption and construction remained at the same large negative levels recorded in the previous three quarters, indicating a further contraction in the aforementioned sectors.

Furthermore, other indicators such as sales of cement, car registration and credit card spending confirm the adverse impact of the global crisis on domestic demand.

Private consumption

According to the analytical national accounts data, private consumption recorded a significant deceleration in the first half of 2009 and this is expected to continue in the last quarter of 2009. Specifically, in the first half of 2009 the annual growth rate of private consumption reached 1,6% compared with 8,9% in the first half of 2008. Recent data on the retail sales index, which excludes the sales of motor vehicles, shows a further decrease. In the first eight months of 2009, the retail sales index decreased by 1,8% compared with a 7,2% increase in the first eight months of 2008 (Chart A.31). Similarly, in the first ten months of 2009, VAT receipts decreased by 11,5% compared with a 13,6% increase in the corresponding period of 2008. In addition, in

TABLE A.9 Business and consumer surveys: confidence indicators (for sub-indices: difference between percentage of positive answers and percentage of negative answers) 2009 2009 2009 2009 2009 July Sep. Oct. June Aug. FSI 67.6 70.5 56,1 66.7 57,7 Industry -20 -17 Services -21 -15 -12 -19 -33 -38 -33 -34 Consume -28 Retail trade -20 -21 -23 -26 -26 Construction -49 -44 -49 -54 Source: European Commission. Note: Seasonally adjusted data.



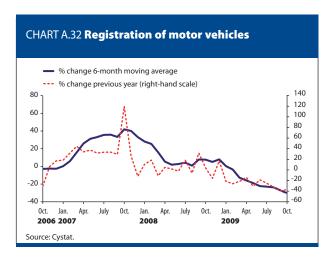
the first ten months of 2009, the registration of cars decreased by 26,7% compared with a 6,38% increase in the first ten months of 2008 (Chart A.32).

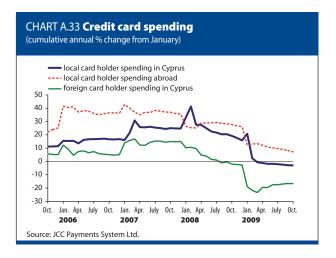
Credit card spending by domestic card holders in Cyprus (Chart A.33), which is an additional indicator of consumption patterns, decreased by 3% in the first ten months of 2009 compared with a 19,2% increase in the first ten months of 2008. Foreign credit card spending in Cyprus decreased by 16,7% in the period between January and October 2009 compared with a 2,1% increase in the corresponding period of last year. This significant decrease reflects the fall in income from tourism. Moreover, total import of goods decreased by 25,6% in the first nine months of 2009, raising more concerns about a further reduction in private consumption and hence domestic demand.

Based on the aforementioned developments, private consumption is expected to decrease in the last quarter of 2009.

Secondary sector: construction/ manufacturing production

The construction industry in Cyprus has been exhibiting a significant slowdown since the end of 2008 as a result of the financial crisis and the world economic recession. During the second quarter of 2009, the sector recorded a contraction and, based on the latest available indicators, this is expected to continue in the following quarters as well. However, the number of building permits, which constitutes a leading indicator of construction activity,





suggests an optimistic outcome for the future activity of the sector.

During the first ten months of 2009, the number of property sales contracts deposited by Cypriot buyers at the Department of Land and Surveys declined by 50,1% on an annual basis compared with a decrease of 28,3% in the corresponding period of 2008. In addition, the number of property title deeds issued to Cypriots recorded a decrease of 45,7% during the first ten months of 2009 compared with a decrease of 30% in the corresponding months of 2008. Despite the continuous decline which has been evident since last year, the latest available data for October indicates a stabilisation in the negative growth rates of both the number of sales contracts, which registered an annual fall of 28,8%, and the number of title deeds to Cypriots, which decreased by 26,1%. A similar trend was also recorded in the number of property sales contracts and property title deeds to foreigners. Construction activity in all government-controlled districts exhibited a decline, although in the last few months it appears to have stabilised.

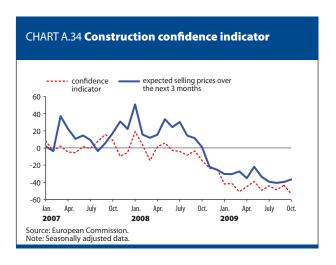
At the same time, during the period January-October 2009, the receipts of the Inland Revenue Department from immovable property tax and capital gains tax fell by 8% and 79%, respectively, compared with a fall of 7% and 27%, respectively, during the period January-October 2008. During the aforementioned period, receipts from stamp duties fell by 40% compared with a decrease of 3% during the same period of 2008. Despite the steep annual fall in government tax

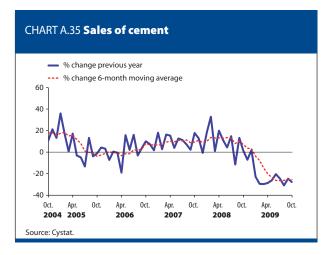
receipts from real estate, the latest available data for October, show that the annual reductions in receipts from immovable property tax, capital gains tax and stamp duties were slightly less, i.e. 9%, 60% and 27%, respectively.

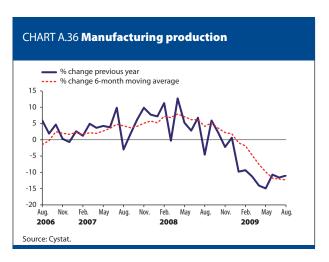
Furthermore, as already mentioned in the section on quarterly national accounts, the confidence indicator for the construction industry, has followed a broadly downward trend since July 2008 with signs of stabilisation being evident since April 2009 (Table A.9, p. 44 and Chart A.34). Chart A.34 also depicts the expectations for real estate prices during the next three months, which continue to be negative with some stabilisation being evident as of September 2009.

As far as the sales of cement are concerned (Chart A.35), during the period January-October 2009 the volume of sales of cement registered an annual decrease of 26,2%, compared with an increase of 10,8% registered during the period January-October 2008. The annual fall in October 2009 was equal to 25,2%. It should be noted that although in 2008 there were no exports of cement, during the first ten months of 2009 exports by domestic cement plants amounted to 52.789 tonnes due to the limited demand for domestic real estate properties.

Signs of stabilisation in the rate of contraction have also been evident in the manufacturing sector. During the period January-August 2009, the manufacturing index fell by 11,7% on an annual basis, compared with an increase of 5,3% recorded in the first eight months of 2008 (**Chart A.36**).

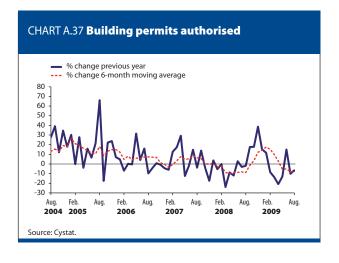






According to the latest available data for August, the index did not register any significant change compared with the average annual rate of decrease of the first eight months of 2009. In total, the index of industrial production recorded an annual decrease of 8,7% during the first eight months of 2009 compared with an increase of 4,6% during the corresponding period of 2008. In August 2009, the index recorded a smaller annual fall of 5%.

Notwithstanding the above negative figures, the number of building permits, which constitutes a leading indicator of future activity in the construction sector, recorded an annual increase of 5,1% during the first eight months of 2009 compared with a decrease of 12,7% during the first eight months of 2008 (Chart A.37). In addition, the total value of building permits increased by 7,2% compared with a decrease of 5,1% during the corresponding period of 2008. During the aforementioned period, the area and number of dwelling units decreased by 6% and 9%, respectively, which is less than the decrease of 7,4% and 9,5%, respectively, in the first eight months of 2008. The increase in the number of building permits during the period January-August 2009 can be mainly attributed to the 58.4% annual increase recorded in permits for non-residential buildings, compared with an 8,1% fall registered during the corresponding period of 2008. The number of building permits for residential buildings decreased slightly by 1,6% during the first eight months of 2009 compared with a decrease of 15,6% in the same period of 2008. Focusing on the number of building permits in each district, during the



first eight months of 2008 the biggest increase in the number of permits and the rest of the building permits indicators was registered in Famagusta followed by Limassol and Nicosia. In contrast, during the same period the biggest fall in all sub-indicators of building permits was noted in Larnaca and Paphos.

Based on the methodology described in the June 2009 issue of the Bulletin and the data available up to the third quarter of 2009, the CBC expects the house price index to record a reduction of 8% in 2009 compared with an increase of 13% in the previous year. It should be noted that this projection is significantly influenced by the data of the first quarter, during which the downward trend in house prices was rather contained. Furthermore, the fall in house prices in Nicosia and Limassol recorded up to the third quarter was significantly smaller than the fall in other areas of the island, thus containing the rate of decrease of the overall national price index. However, taking into account the world economic developments, especially those in the UK, and the consequences of the crisis on the domestic economy, the risks to the aforementioned projection are on the downside.

Labour market

Reflecting the impact of the international financial crisis on the domestic economy, employment remained roughly constant in the first half of 2009. Specifically, employment recorded an increase of 0,1% compared with 2,8% in the corresponding period of 2008. The

BOX A.1: Survey of wage and price formation of enterprises

In July 2009, the CBC undertook a survey of the wage and price formation policies of domestic firms¹ This survey was in the context of a broader effort by most of the members of the Eurosystem and was conducted using a common questionnaire. The questionnaire was divided into five sections:

- 1. General information about the firm (6 questions)
- 2. Wage setting policies (8 questions)
- 3. Adjustment of wages to exogenous shocks (10 questions)
- 4. Price setting policies and the link between wage changes and price changes (6 questions)
- 5. Reaction to the current economic downturn (7 questions).

The survey

The sample covered firms with five or more employees from six sectors of the economy: manufacturing; construction; wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods; hotels and restaurants; transport, storage and communication; and real estate, renting and business activities. The random sample was selected from the Business Register of Cystat. At the time of the sample selection, the total number of firms with five or more employees in the aforementioned sectors

amounted to 7.595 with a total of 140.920 employees. The selected firms were sent a covering letter along with the questionnaire, which was answered by the general or financial manager of the firm, mainly by phone or face to face interview and, in some cases, by mail. The number of firms which responded was 208 employing a total of 11.834 staff.

Analysis of selected results

Of the 208 firms that responded, 68 were from the secondary sector (manufacturing and construction), and 140 firms were from the tertiary sector (wholesale and retail trade, repair of motor vehicles, motorcycles, personal and household goods, hotels and restaurants, transport, storage and communication, and real estate, renting and business activities). The number of employees in the secondary sector of the responding sample amounted to 3.235 and those in the tertiary sector numbered 8.590. The weighted average size per firm was 18,9 employees. Some selected results of the survey are analysed below and relate to contractual agreements and COLA, the frequency of wage and price changes and the impact of the financial crisis on firms. A more detailed analysis of the survey will be published in due course.

Collective agreements and COLA

Of the total number of employees in the sample 54,9% are covered by collective

1. The survey was conducted on behalf of the CBC by the European University Cyprus.

TABLE 1 Collective agree (% of realised sample)	ments aı	nd COLA	
	Secondary sector	Tertiary sector	Total
Firms covered by collective agreements	44,8	19,7	28,4
Employees covered by collective agreements	80,7	43,8	54,9
Firms who offer COLA	43,9	15,5	25,5
Employees who receive COLA	92,1	37,6	53,9
Source: CBC.			

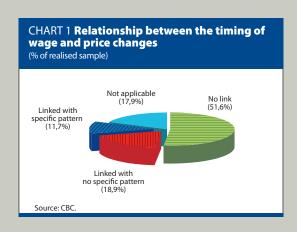
agreements (**Table 1**). This percentage is higher in the secondary sector compared with the tertiary sector and is also higher in larger sized firms (i.e.with 20 or more employees).

53,9% of employees in the sample receive COLA and, as is the case with collective agreements, it is offered more often in the secondary sector and in larger sized firms. Based on the above percentage and some assumptions regarding the firms and the sectors not covered by the survey, the CBC estimates that the overall percentage of employees who receive COLA is approximately 50% (Table 1).

Frequency of wage and price changes

The firms were asked to answer how often they adjust the wages of their employees and the prices of their products and in which month this is more likely to happen.

According to the survey, 64,8% of the respondents change the wages of their employees once a year, 16,6% change them more than once a year, while 18,6% at most once every two years. As regards the fre-



quency of price changes, 46% answered that such changes do not follow a fixed pattern 22,3% said they change them once a year and 21,9% change prices more than once a year. Finally, only 9,9% change prices at most once every two years.

Regarding the timing of wage changes, 39,9% answered that they take place in January, while 18,2% stated that January is also the month when they change prices. Also, 19,7% of firms said that they change wages any time during the year other than in January, while 14,1% said the same thing for price changes. Finally, 40,5% stated that they do not follow a specific pattern regarding the timing of wage changes while 67,7% stated the same for the timing of price changes.

In response to a question on whether there is a relationship between the timing of changes in prices and wages, the majority (51,6%) said that there is no relationship between the two (**Chart 1**). 11,7% answered that they follow some specific pattern (simultaneous change or price changes follow wage changes or vice versa) while 18,9% said that there is a relationship but without a standard

TABLE 2 Extent of the negative impact of the crisis on firms

	Marginally	Moderately	Strongly	Exceptionally strongly
Secondary sector	16,7	40,3	10,8	32,2
Tertiary sector	20,7	36,1	28,3	14,9
TOTAL	19,4	37,4	22,8	20,4
Source: CRC				

pattern. Finally, 17,9% said that the question does not apply to their firm.

It is noted that the answers regarding the setting of wages and prices of firms which belong to the secondary and tertiary sector do not differ substantially.

Impact from the economic downturn

The overwhelming proportion of firms (98,9%) stated that they were negatively affected by the economic crisis to some degree. As regards the extent of the negative impact, 57% said that they were marginally / moderately affected while 43% were strongly / exceptionally strongly affected (**Table 2**). Analysing these results by sector, it appears that the secondary sector was most affected by the crisis. Specifically, 32,2% of the respondents said that they were exceptionally strongly influenced by the crisis while the percentage for the tertiary sector was 14,9%.

The firms were also asked to stipulate how they were affected by the crisis (**Table 3**). The main problem faced buy the respondents was the difficulty in being paid by customers while the fall in demand and the difficulty in financing their activities were also important.

TABLE 3 Aspects in which the firms were affected by the crisis (% of realised sample)							
	Not at all / marginally	Moderately	Strongly	Except- ionally strongly	Don't know		
Fall in the demand for your firm's products/services	30,1	34.1	25,1	9,5	1,3		
Difficulty in financing your firm's activity through the usual financial channels	48,1	24,8	12,2	12,7	2,2		
Difficulty in being paid by customers Difficulty in obtaining intermediate products	19,6	36,4	17,3	24,7	2,0		
from your firm's usual suppliers	69,5	18,2	5,8	4,1	2,4		

However, firms were affected to a much smaller degree in obtaining intermediate products from their usual suppliers.

Conclusions

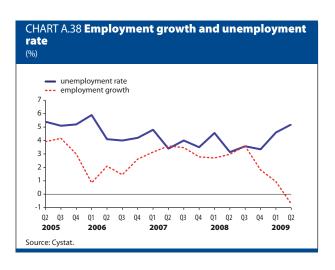
Source: CBC

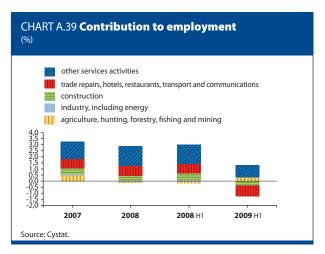
This survey provides useful information on some specific aspects of the labour market and the business environment in Cyprus, such as the degree of coverage of employees by collective agreements and COLA. In addition, the survey, which was conducted in July 2009, shows that Cypriot firms have been affected by the crisis. However, if the survey were to be undertaken today it is highly probable that it would reveal that firms have been even more affected by the crisis than indicated by the July survey.

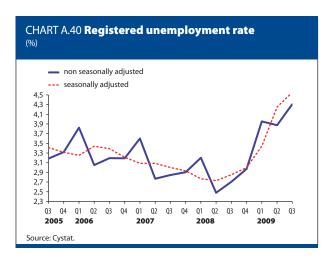
total hours worked, however, recorded a decrease of 0,6% compared with an increase of 2,8% in the first half of 2008. The reduction in total hours worked resulted from the decrease in the number of self-employed and the reduction of hours worked per selfemployed. Specifically, the self-employed fell by 3,8%, while hours worked per selfemployed decreased by 1,8%. During the period under review, the number of employees increased by 0,9%, while hours worked per employee registered a 0,2% increase. At the same time, according to the Labour Force Survey (LFS) unemployment increased by 1 percentage point in the first half of 2009 compared to the first half of 2008, thus reaching 4,9% (Chart A.38).

As regards the sectoral breakdown of employment (**Chart A.39**), the marginal increase in employment during the first half of 2009, was accounted for by other services, and to a lesser extent, by the agricultural sector. On the other hand, the construction sector and the trade, repairs, hotels, restaurants, transport and communications sector, which were affected by the crisis, contributed to an increase in unemployment. Finally, the contribution of manufacturing to employment was zero.

The most recent available data for unemployment (Chart A.40) refer to the registered unemployed which in recent years have exhibited a similar upward trend to the one recorded by the LFS, although at lower levels. The data show a downward trend up to the first half of 2008 and an increase afterwards, which is a reflection of the







slowdown in the Cypriot economy. The rate of registered unemployed in the first ten months of 2009 increased by 1,3 percentage points compared with the corresponding period of 2008, reaching 4,1%. The upward trend of the registered unemployed is confirmed by the seasonally adjusted data which show unemployment to be even higher during the summer months, despite the positive effects of the tourism sector during these months. It should be stressed that the number of registered unemployed and the respective rate of unemployment, are lower than those shown in the LFS because of differences in the methodologies used.

5. Domestic Public Finance Developments

According to the preliminary figures published by Cystat a budget deficit of 2,4% of GDP was recorded during the first half of 2009 compared with a surplus of 0,8% of GDP for the corresponding period of 2008 (**Table A.10**). At the same time, the primary balance changed from a surplus of 1,9% of GDP to a deficit of 1,4% of GDP. The deterioration in public finances is due to a combination of very large increases in public expenditure and a reduction in public revenues. More specifically, total general government expenditure rose by 13,2% during the first two quarters of 2009 compared with the corresponding period of 2008, while total general government revenues dropped by 4,1%.

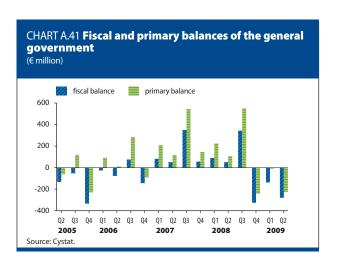
The reduction in public revenues in 2009 is mainly due to the drop in the revenues in the

TABLE A.10 Accounts of general government (€ million)					
	Jan June 2008	Jan June 2009	Change		
EXPENDITURE					
Intermediate consumption	341,3	418,8	77,5		
Capital formation	161,4	222,2	60,8		
Compensation of employees	1.090,8	1.203,5	112,7		
Other taxes on production	0,3	0,1	-0,2		
Subsidies	0,5	0,5	0,0		
Interest paid	191,6	179,5	-12,1		
Social transfers	981,2	1.121,0	139,8		
Other current transfers	411,5	436,7	25,2		
Capital transfers	9,2	25,9	16,7		
Total expenditure	3.187,8	3.608,2	420,4		
REVENUE					
Market output & output for own final use	235,1	201,8	-33,3		
Taxes on production and imports	1.559,4	1.329,6	-229,8		
of which VAT	946,9	871,6	-75,3		
Property income	28,6	88,8	60,2		
Current taxes on income, wealth, etc	778,9	766,4	-12,5		
Social contributions	682,9	765,2	82,3		
Other current transfers	40,9	33,9	-7,0		
Capital transfers	2,2	4,8	2,6		
Total revenue	3.328,0	3.190,5	-137,5		
Surplus (+) / Deficit (-)	140,2	-417,7			
Surplus (+) / Deficit (-) % of GDP	0,8	-2,4			
Source: Cystat.					

category "taxes on production and imports", for which a decrease of 14,7% was recorded. This category of receipts contains the revenues from VAT which dropped by 8% during the period under review. This is an indication of the low level of economic activity, with private consumption projected to drop considerably. The above is confirmed by VAT Department figures, which indicate that total receipts from VAT, import duties and excise duties dropped by 11,1% during the first ten months of 2009 compared with the corresponding period of 2008. Another major reason for the drop in the public revenues is the lower level of activity in the construction and property sector. More specifically, the revenues from capital gains tax declined by 78,5% during the period January-October 2009 compared with the corresponding period of last year.

As mentioned above, the reduction in public revenues was combined with a high growth rate in public expenditure. According to preliminary Cystat figures, during the first six months of 2009 general government expenditure on compensation of employees rose by 10,3% compared with the corresponding period of last year, while expenditure on social transfers rose by 14,2% (Table A.10, p. 54).

In the fourth quarter of 2008 as well as the first two quarters of 2009, a significant deterioration in public finances was registered (Chart A.41) with deficits being recorded in both the budget and primary balances for the first time in two and a half years. If one takes into account that the fourth quarter of each year is the worse in fiscal terms, since public



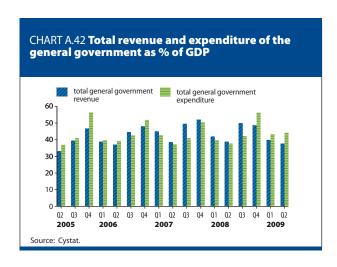
expenditure rises as a result of the payment of a thirteenth salary to public sector employees, the fiscal deficit for 2009 is even more pronounced.

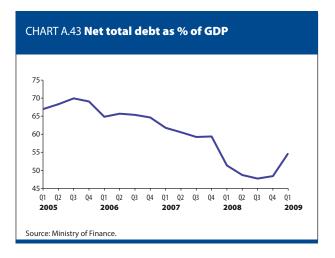
Based on the above, the official target of a 2,9% budget deficit for 2009, as announced by the Ministry of Finance in the 2010 state budget, appears doubtful and unrealistic. If the fall in revenue and the increase in expenditure (**Chart A.42**) continue at the same pace, then it is projected that the deficit will be considerably higher than the official government target.

As can be seen in **Chart A.43**, in 2008 public debt as a percentage of GDP registered a significant reduction from 58,3% to 48,4% due to the running down of the sinking funds. It should be noted that the surplus on the primary balance also contributed to this drop. During the first quarter of 2009 there has been a significant increase in public debt and this is due to the issuance of nine month treasury bills worth of €9 billion, which however will not affect the final debt of 2009 as they will mature during the year.

2010 budget and fiscal prospects

At a special meeting on 11 September 2009, the Council of Ministers approved the Budget Plan for 2010. According to the Ministry of Finance announcement, the planned Budget for 2010 projects a fiscal deficit of 4,5% of GDP. The Ministry of Finance has, however, stated that it's target is to maintain the deficit below 3% of GDP and hence avoid triggering the Excessive Deficit Procedure (EDP). The





Ministry's projections are based on the assumption of GDP growth of 0,5% in 2010, which can be considered as optimistic. In addition, despite the fact that the government has stipulated measures, which have not been included in the budget, and which it argues will allow it to maintain the deficit below 3% of GDP, the CBC is of the opinion that this is not plausible. For example, one of the measures which the government is considering in order to generate a temporary increase in revenues is that of the town planning amnesty. It should be noted, however, that several years ago a similar measure related to buildings with minor irregularities was adopted but it did not result in a substantial increase in revenues. Furthermore, despite the fact that the government is aiming to contain certain types of public expenditure, such as operational expenditures, social payments are budgeted to increase by 7,2% despite annual increases of 15% in the last two years. Although it is encouraging to see that some of these social expenditures are being targeted to the poorer sections of society, these increases tend to be of a permanent nature and consequently act as a burden on public finances.

For this reason it is important that the government adopts structural measures which will reduce public expenditure permanently. For example, one way would be through the adoption of income criteria for various benefits and grants. Such a measure would allow the government to aid the poorer groups and simultaneously achieve the containment of public expenditure. Another large inelastic category of expenditure is that

Box A.2: The sustainability of public finances in Cyprus

The sustainability of public finances is one of the most serious challenges that the Cyprus economy is faced with today. In general, excessive fiscal deficits cause serious dangers to an economy since the distortions they create harm economic efficiency, medium-term growth and social policy, while transferring the problem of debt to future generations. In Cyprus, increasing public expenditure in combination with the problem of an ageing population comprise the biggest threats to the medium and long-term sustainability of public finances.

The European Commission's recent projections for Cyprus

According to the recent projections by the European Commission for Cyprus that were published on 3 November 2009, the budget deficit for 2009 is expected to significantly exceed the 3% threshold (**Table 1**). The further deterioration of the fiscal deficit to 5,75% of GDP in 2010 and about 6% in 2011 forecast by the European Commission, despite the projected economic recovery, is especially worrying. This indicates that the deterioration from a fiscal surplus of 0,9% of GDP in 2008 to

TABLE 1 European Commission Projections (November 2009)						
	2008	2009	2010	2011		
Budget balance	0,9	-3,5	-5,7	-5,9		
Cyclically adjusted balance	-0,2	-3,4	-5,2	-5,6		
Structural budget balance	-0,2	-4,7	-5,2	-5,6		
Source: European Commission.						

the projected deficit in 2009-2011 is of a structural nature, and thus the impact of the economic cycle appears small. This is reflected by the fact that the deficits projected for 2010 and 2011 do not differ significantly from the projections of the structural fiscal deficits, that is the cyclically adjusted balance net of temporary measures (**Table 1**).

This pessimistic picture¹ of the unexpectedly negative results of third quarter GDP in Cyprus, rings alarm bells. It also highlights the urgent need for the adoption of medium-term structural measures that will return the fiscal position back to healthy and sustainable levels. Due to the fact that possible increases in taxation in order to improve budget deficits can affect negatively the economic growth of a country, emphasis should be placed on constraining public expenditure in the medium-term.

Control of expenditure

The medium-term planning of govern-

^{1.} This can in fact be considered as an optimistic scenario since the European Commission projections were prepared before the announcement on 13 November 2009 of the unexpectedly negative results for Cyprus's third quarter GDP.

ment budgets would enable the control of recurrent government expenditure categories which, over time, have registered the largest increases.

There are a number of such categories of public expenditure which are characterised as inelastic since they cannot easily be reversed downwards. The most obvious example of is that of the public sector wage bill. The much discussed containment of the public sector wage bill could mark the start of a series of structural measures that need to be implemented in order to increase the efficiency of the economy and reduce distortions.

Attention also needs to be paid to the control of expenditure on social transfers so that they are strictly targeted on the basis of income and other relevant criteria. This would allow governments to enhance their social role by aiding the poorer groups in society while not overburdening public finances.

It is also important to stress that attention has to be paid to the serious problem of the financing needs of the pension funds, a problem that will worsen due to the ageing population. Long-term fiscal planning has to take this into account as well.

Finally, it should be noted that fiscal consolidation should not be at the expense of expenditures such as research

and development, which affect the longterm productivity and growth.

Medium-term framework

All the above highlight the need for the design of fiscal policy in a way that not only supports the economy in the short run but also lays strong foundations for the future by ensuring the sustainability of public finances. For this reason, state budgets have to be prepared on the basis of medium-term planning and targeting as well as on realistic economic assumptions, so that expenditure targets can be set along with detailed analysis of their financing. The main aim should be to establish the correct foundations of fiscal policy and control of public expenditure so as to ensure their viability while simultaneously allowing fiscal policy to be used for the smoothing out of the effects of the economic cycle.

In order for the above challenges to be met there is a need for the adoption of resolute policy measures. It requires a change in outlook so that decisions can be taken urgently, thus making them more effective. of the public sector wage bill. Ways to contain the number of public sector employees and increase their productivity have to be found so as to reduce public sector wage bill.

The containment of expenditure is essential for safeguarding the long run sustainability of public finances. Calculations by the European Commission point out that the phenomenon of an ageing population will increase considerably the pressures on public finances in Cyprus. The CBC considers as positive the adoption in March 2009 of the package of measures aimed at increasing sustainability of the Social Security Fund, mainly through the incremental increase in social security contributions. However, given the challenge arising from the increase in expenditure due to ageing, further structural solutions have to be adopted, as well.

6. Macroeconomic Projections for Cyprus

Working assumptions

The projections for the Cyprus economy are based on the Eurosystem's assumptions for the world economy. These projections have been used to analyse and evaluate the international developments and risks for price stability by the ECB's Governing Council, which is responsible for setting monetary policy in the euro area. These assumptions are the same as those used by the Eurosystem for their own macroeconomic projections in the euro area and mainly cover variables such as interest rates, exchange rates, the price of oil and international trade. The projections in the

current *Bulletin* are based on the assumptions and data available as at 12 November 2009.

working assumptions of Eurosystem are as follows: the euro is expected to fluctuate at around \$1,4 in 2009 and \$1,5 in 2010. The price of oil is expected to be around \$62,2 per barrel in 2009, \$81,4 per barrel in 2010 and \$85,9 per barrel in 2011. However, recent developments in the international oil and exchange rate markets portray a different picture than the one presented by these assumptions. The dollar price of oil is rising and the euro is appreciating against the dollar, which partly offsets the rising price of oil. Moreover, the projections concerning the Cyprus economy were prepared by taking into consideration the fiscal measures that have were approved up until 12 November 2009. Therefore, public investment, public consumption and private consumption do not reflect the potential impact should Cyprus be subject to the Excessive Deficit Procedure (EDP) in 2010, or the measures that the government will adopt to correct it.

Eurosystem projections for the euro area

Based on the above working assumptions and the recent developments in the euro area, the Eurosystem's projections for the euro area (**Table A.11**) are now less pessimistic than the June 2009 projections. Specifically, the contraction of GDP in the euro area in 2009 is expected to be between -4,1% and -3,9%. In 2010 a small recovery is excepted with a growth rate of between 0,1% and 1,5%. This reflects the discretionary fiscal measures, the

TABLE A.11 Eurosystem projections for the euro area (annual change, %)					
	2009f	2010f	2011f		
GDP					
December Projections 2009	-4,13,9	0,1 - 1,5	0,2 - 2,2		
June Projections 2009	-5,14,1	-1,0 - 0,4	-		
Inflation					
December Projections 2009	0,3 - 0,3	0,9 - 1,7	0,8 - 2,0		
June Projections 2009	0,1 - 0,5	0,6 - 1,4	-		
Source: ECB.					

increase in foreign demand and the increase in stocks. HICP inflation in 2009 decelerated and is projected to be around 0,3% mainly due to the decrease in the price of oil and the weak global economy, whereas HICP inflation in 2010 is expected to be between 0,9% and 1,7%. In 2011, GDP in the euro area is expected to recover further and is projected to grow at between 0,2% and 2,2%, which reflects the positive global sentiment. Moreover, in 2011 HICP inflation in the euro area is expected to be between 0,8% and 2%.

Projections for the Cyprus economy

Prices: harmonised index of consumer prices

Based on the working assumptions of the Eurosystem, HICP inflation in 2009 is expected to reach 0,2% compared with 4,4% in 2008 (Table A.12). The significant decrease in HICP inflation is mainly due to exogenous factors, such as the lower price of oil since August 2008 and the negative impact of the global economic crisis on tourism. The foreign demand for domestic tourist services decelerated and as a result of this a slowdown in the prices of tourist services was also observed. Furthermore, unprocessed food prices decreased significantly. The decrease in the rate of growth of domestic demand and credit expansion are also expected to contribute to the slowdown in the growth of prices. Therefore, HICP inflation excluding energy is expected to be 2,3% in 2009 compared with 3,1% in 2008.

TABLE A.12 HICP projec (annual change, %)	ctions			
	2008	2009f	2010f	2011f
HICP				
December Projections 2009	4,4	0,2	2,6	2,3
June Projections 2009	4,4	1,0	3,0	
HICP excluding energy				
December Projections 2009	3,1	2,3	1,4	2,1
June Projections 2009	3,1	2,9	2,0	
Sources: Cystat, CBC.				

In 2010 HICP inflation is expected to hover at around 2,6% mainly due to the base effect from the very low oil prices recorded in 2009, and the expected increase in unprocessed food prices. In contrast, HICP inflation excluding energy is expected to fall to 1,4% mainly due to the consequences of the economic crisis on domestic consumption and on the prices of industrial products excluding energy, the lower salary increases and the slowdown in the growth of processed food prices.

In 2011 HICP inflation and HICP inflation excluding energy are expected to reach 2,3% and 2,1%, respectively. The small decrease in HICP inflation is due to the decrease in the rate of growth of energy prices. However, the anticipated recovery of the domestic economy, domestic consumption and credit expansion is expected to increase the rate of growth of food prices, service prices and non-energy industrial goods prices, which in turn will increase HICP inflation excluding energy.

Compensation, productivity and the labour market

Employment is expected to decline in 2009 due to the downturn in the domestic economy, whereas employment growth is expected to be around zero in 2010 (**Table A.13**). In 2011 economic conditions are expected to improve leading to an increase in employment by 1,3%. Similarly, the unemployment rate is expected to register a significant increase, reaching 5,9% in 2009 and 7% in 2010, the highest rates since the start of the LFS in 1999.

TABLE A.13 Labour market projections (annual change,%, unless otherwise indicated)								
	2008	2009f	2010f	20111				
Compensation per employee								
December Projections 2009	4,2	2,4	2,2	2,4				
June Projections 2009	4,1	4,1	3,2					
Unit labour costs								
December Projections 2009	3,3	2,6	1,9	1,9				
June Projections 2009	3,2	3,5	2,9					
Productivity								
December Projections 2009	0,8	-0,2	0,3	0,5				
June Projections 2009	0,9	0,6	0,3					
Total employment								
December Projections 2009	2,8	-1,1	0,0	1,3				
June Projections 2009	2,8	-0,2	0,4					
Unemployment rate (% of labour force)								
December Projections 2009	3,7	5,9	7,0	6,6				
June Projections 2009	3,7	5,0	4,8					
Sources: Cystat, CBC.								

The growth of compensation per employee is expected to slowdown significantly in 2009 because of the economic crisis and the low COLA, while some deceleration is expected to take place in 2010. In 2011, on the other hand, this is anticipated to be reversed with a marginal increase. The 2009 slowdown in compensation per employee growth will decrease unit labour costs, despite the expected small decline in productivity. Furthermore, unit labour costs are also expected to decrease in 2010 because of the expected increase in productivity.

National accounts

As far as the national accounts are concerned, real GDP growth is projected to contract by 1,3% in 2009 and to increase by 0,3% and 1,8% in 2010 and 2011, respectively. The new projections for 2009 and 2010 have been revised downwards, mainly due to the decrease in domestic demand, which, based on new data, is expected to be affected more negatively than was anticipated in June 2009 (Table A.14). Specifically, the worsening of the Cyprus economy reflects conditions in the global economy and the slowdown in the construction industry, tourism and financial services in 2009 and 2010. It should be noted that in November 2009 Cystat revised downwards the GDP figures for the first half of the year.

The deterioration in the economy is revealed by existing data. According to the confidence indicators of October 2009, GDP is expected to continue to contract in the fourth quarter of 2009. This conclusion is also supported by recent data on car registrations,

TABLE A.14 National acco (annual change, %)	ounts proj	ections i	n real t	erms
	2008	2009f	2010f	2011f
GDP				
December Projections 2009	3,6	-1,3	0,3	1,8
June Projections 2009	3,7	0,4	0,7	
Private consumption				
December Projections 2009	8,5	-4,6	-0,5	0,6
June Projections 2009	7,0	-0,9	0,0	
Public consumption				
December Projections 2009	6,2	6,7	6,1	1,0
June Projections 2009	8,7	3,5	0,6	
Gross fixed capital formation				
December Projections 2009	8,8	-8,5	0,5	1,9
June Projections 2009	9,8	0,3	0,6	
Exports of goods and services				
December Projections 2009	-1,8	-13,1	4,4	5,9
June Projections 2009	1,1	-14,4	2,6	
Imports of goods and services				
December Projections 2009	7,7	-18,5	7,2	3,6
June Projections 2009	9,9	-14,8	2,1	
Sources: Cystat, CBC.				

sales of cement, credit card spending and domestic borrowing. Private consumption is anticipated to decrease by 4,6% in 2009, as a of the negative international environment, reduced consumer confidence and high unemployment. It should be noted that the projected reduction in consumption would have been much larger without the increases in public expenditure and social benefits. Gross fixed capital formation is expected to decrease by 8,5% in 2009 and increase by 0,5% in 2010, mainly due to the slowdown of the construction industry. In 2011 a higher increase is anticipated which, however, is conditional on the recovery of our trading partners.

Total exports of goods and services are anticipated to fall significantly in 2009. As a result of the world recession, revenue from tourism, financial services and other business services are expected to be affected negatively. These sectors are expected to register either negative growth or to slow down dramatically. A similar outcome is also expected for imports of goods and services. However, towards the end of 2010 a recovery is expected in the global economy with positive effects on the trade of goods and services which in turn will impact positively on private consumption and fixed capital formation.

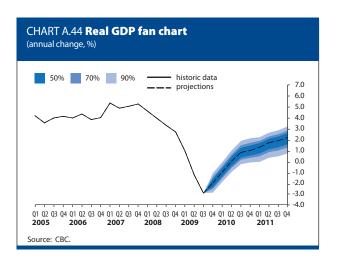
Fan charts for the macroeconomic projections

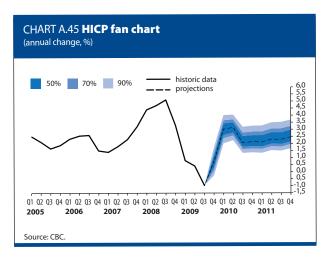
The projections for HICP inflation (**Table A.12**, p. 62) as well as those for GDP growth (**Table A.14**, p. 64) are the modal forecasts and are considered as the most likely outcomes given the working

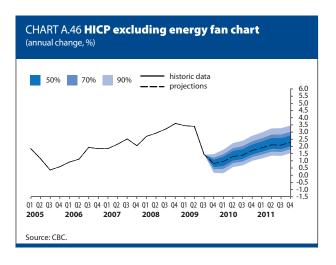
assumptions of the Eurosystem. However, the projections are subject to uncertainty, due to the tentative nature of the assumptions.

The probability of GDP, HICP inflation and HICP inflation excluding energy forecasts lying around their respective modal projections is depicted in Charts A.44, A.45 and A.46, respectively. The three confidence intervals show the bands in which the GDP, HICP inflation and HICP inflation excluding energy are expected to be 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, is based both which methodology and on expert judgement, can either be 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.¹⁰ Moreover, the bands of the fan charts widen as the time horizon is extended, indicating the increasing uncertainty of outcomes in the longer term.

Taking into consideration domestic developments, the current projections are considered to exhibit unusual uncertainty. This stems mainly from the probability of the worsening of the already weak economy, which may have a greater than expected impact on domestic demand. These downside risks imply that deviations might be below the modal forecasts. On the other hand, the probability of a higher increase in the price of oil and a faster than expected global recovery are upside risks which imply that deviations







The estimation of the intervals of the skewed distribution was based on the methodology developed by the Bank of England and the Sveriges Riksbank.

might be above the modal forecasts.

In particular, the uncertainty about the duration and intensity of the domestic recession entails risks for the outcome of domestic demand, borrowing conditions, investment, tourism, construction and unemployment, which in turn entail risks for GDP growth. Moreover, subjecting Cyprus to the Excessive Deficit Procedure in 2010 is expected to have severe consequences on public and private consumption, investment and, hence, on GDP growth. On the other hand, the possibility of a faster global recovery will increase the exports of services, which in turn will increase GDP growth.

All of the above imply that the risks for GDP growth in 2009 and 2010 are symmetric. In other words, the probability for GDP growth being lower or higher than the projected rate is the same. The 2011 modal forecast for GDP growth is considered to be very optimistic and there are downside risks which imply that the growth rate is likely to be lower than the central scenario.

As regards HICP inflation and HICP inflation excluding energy, the greater duration and deepening of the recession will increase the possibility of deflation, mainly due to the negative impact on the prices of services and non-energy industrial goods. Moreover, the increase in unemployment and the decrease in wages will also have a dampening impact on inflation. However, the possibility of further increases in the prices of oil, agricultural products and services, as well as the possibility of larger credit expansion due to lower interest rates, will create further

inflationary pressures. These are upside risks implying that the probabilities of HICP inflation and HICP inflation excluding energy being higher than their modal forecasts are greater than the probabilities of being lower than the modal forecasts.

Focusing on the difference between **Charts A.45** and **A.46** (p. 66), it seems that the variance of the confidence intervals for HICP inflation being higher than HICP inflation excluding energy in 2010, is mainly due to the significant fluctuation in energy prices. Therefore, the model forecast of HICP inflation excluding energy is smaller and with a smaller variance compared with HICP inflation.

Comparison of projections for Cyprus economy

The 2009 autumn projections for 2009 and 2010 GDP and HICP inflation have been significantly revised downwards by the European Commission and the IMF compared with their 2009 spring projections. These new projections are now much closer to the CBC projections.

The projections for the Cyprus economy have been revised downwards in contrast to the rest of the euro area countries as Cyprus was affected by the global crisis with a time lag. The differences between the projections of the international organisations and the CBC are due to the different assumptions adopted at the time of preparing the forecasts (**Table A.15**). For instance, the CBC projection for 2009 GDP growth is below the projections of the IMF and the European Commission because it was prepared after Cystat's new announcement

TABLE A.15 Comparison of projections for Cyprus economy (annual change, %)								
		GDP			HICP			
		2009f	2010f	2011f	2009f	2010f	2011f	
European	Autumn 2009	-0,7	0,1	1,3	0,8	3,1	2,5	
Commission	Spring 2009	0,3	0,7	-	1,1	2,0	-	
IMF	Autumn 2009	-0,5	0,8	2,7	0,4	1,2	2,2	
	Spring 2009	0,3	2,1	-	0,9	2,4	-	
CBC	December 2009	-1,3	0,3	1,8	0,2	2,6	2,3	
	June 2009	0,4	0,7	-	1,0	3,0	-	
Sources: CBO	C, European Commissi	ion, IMF.						

regarding the large negative growth rate in the third quarter of 2009. As regards 2010, the CBC anticipates that the Cyprus economy will recover at a faster rate than the European Commission projection but at a slower rate than the IMF projection. In the case of 2011, the CBC staff projection is more optimistic than the European Commission forecast. With regard to HICP inflation, the CBC projection for 2009 is below the projections of the two other organisations. For 2010 the CBC expects HICP inflation to be higher than the IMF projection but lower than the Commission's projection, while for 2011 the Commission expects a marginally higher HICP inflation rate than the one forecast by the CBC.

In conclusion, it seems that the CBC projections for 2010 and 2011 are closer to the European Commission projections whereas the IMF projections seem to be more optimistic.



SECTION B
Financial Stability
Conditions

Introduction

According to the ECB, financial stability can be defined as "a condition in which the financial system – comprising of financial intermediaries¹, financial markets² and financial infrastructures³ – is capable of withstanding shocks and the unravelling of financial imbalances, thereby mitigating the likelihood of disruptions in the financial intermediation process which are severe enough to significantly impair the allocation of savings to profitable investment opportunities"⁴.

This section of the Bulletin provides an analysis of the potential risks for the stability of the financial system emanating from the macro-financial environment, by focusing on the household, non-financial corporate and real estate sectors. As regards the domestic financial system, the key developments in the financial markets as well as the main structural developments in the banking sector are briefly described. In addition, this section provides an analysis of banks' financial condition as well as an assessment of the most significant risks facing the banking sector, which constitutes by far the largest component of Cyprus's broad financial system.

1. The Domestic Macro-Financial Environment

This section includes an analysis of the

- MFIs (credit institutions, money market funds, central banks and other institutions) and other financial intermediaries (insurance corporations, occupational pension funds, financial auxiliaries, mutual funds, securities and derivatives dealers and financial corporations engaged in lending).
- $2. \ \ Money and capital \ markets.$
- 3. Payment, clearing and settlement systems.
- 4. Financial Stability Review, ECB, June 2009.

leverage and financial condition of households and non-financial corporations as well as an assessment of the potential risks facing these two sectors. Moreover, the key developments regarding domestic real estate sector activity are described, while information on the financing of real estate by banks is also provided.

1.1 Macroeconomic conditions

The domestic macroeconomic conditions, which may have an impact on the stability of the financial system, are analysed in Section A.

1.2 Household sector

1.2.1 Leverage

MFI loans to domestic households

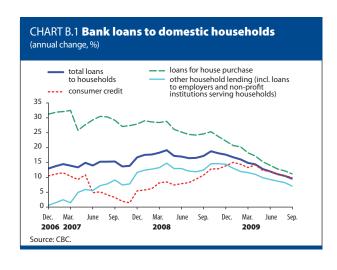
MFI loans to domestic households⁵ increased by 9,5%⁶ year-on-year in September 2009. As regards the three components of household lending, loans for house purchase, consumer credit and other household lending⁷ grew by 11,2%,

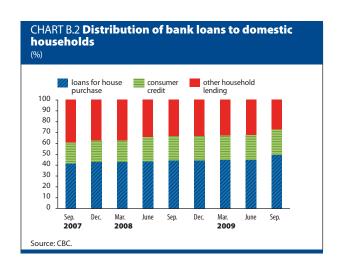
- Based on monthly balance sheet data submitted by MFIs to the CBC, which cover the aggregate non-consolidated data of all credit institutions operating in Cyprus, including the cooperative credit institutions.
- 6. In September 2009, a major change was effected regarding the methodology for the calculation of the annual growth rates based on the one followed by the ECB. In addition, following the completion of an extensive quality review of the statistical data, which was carried out during 2008-2009 by both the CBC and the MFIs, most of the necessary corrections/reclassifications have been effected as from reference month September 2009.
- Includes, inter alia, MFI loans granted to individuals, other than those included in "loans for house purchase" and "consumer credit", such as loans for medical treatment, education and debt consolidation, as well as loans to employers (including own-account workers) and non-profit institutions serving households.

9,9% and 7,0%, respectively, year-on-year in September 2009 (Chart B.1). However, the annual rate of growth of total MFI loans to domestic households has continued its downward trend. The slowdown in MFI lending to households is attributable to the deceleration in borrowing both for house purchase and for consumer credit, which reflects the significant moderation of residential real estate activity and the deterioration in domestic macroeconomic conditions. On the one hand, the significant weakening of households' expectations implies a slowdown in consumption and housing investment, leading to a reduction in the demand for loans by households. On the other hand, the tightening in credit standards by banks has limited the supply of loans to households.

At the end of September 2009, loans to the domestic household sector as a percentage of total outstanding loans to resident non-MFIs rose to 44,6%, compared with 44% at end-March 2009 and 43,4% at the end of September 2008. Loans for house purchase, consumer credit and other household lending stood at 49,4%, 23,2% and 27,3% of total loans to the household sector, respectively, at end-September 2009, compared with 44,7%, 22,6% and 32,7% at the end of March 2009 and 44,4%, 22,3% and 33,3% at end-September 2008, respectively (**Chart B.2**). Consequently, housing loans continue to constitute the largest exposure of the household sector.

Loans to households in foreign currency





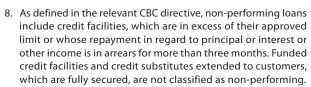
as a percentage of total outstanding loans to the household sector reached 4,2% at the end of September 2009, the same as at end-March 2009 but up from 4% at end-September 2008. At the end of September 2009, 84,8% of foreign currency loans to households was accounted for by Swiss francs, 6,9% by Japanese yen and 6,5% by US dollars, compared with 84,2%, 7,2%, and 6,9% at end-March 2009 and 85,5%, 7,5%, and 4,7% at the end of September 2008, respectively (Chart B.3).

Non-performing loans

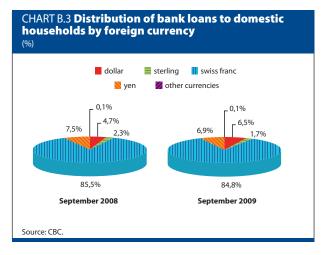
Non-performing loans8 to private individuals⁹ as a percentage of total outstanding loans to private individuals amounted to 4,3% at end-September 2009, compared with 4,4% at the end of March 2009 and 4,1% at end-September 2008 (Chart B.4). Loan loss provisions as a percentage of total non-performing loans to private individuals (coverage ratio) fell to 72% at the end of September 2009, from 86,6% at end-March 2009 and 94,7% at the end of September 2008, mainly due to the increase in non-performing loans.

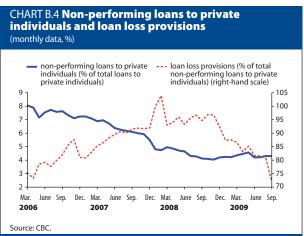
Household debt

Household debt¹⁰ as a percentage of GDP increased to 124,8% at the end of June 2009



Loans to households excluding loans to employers and nonprofit institutions serving households.





^{10.}Based on quarterly financial accounts data (provisional). Includes loans and other financial liabilities of households and non-profit institutions serving households.

from 120,7% at end-December 2008 (compared with 118,1% at the end of June 2008). **Chart B.5** exhibits the household debt-to-GDP ratio for the years 2005 to 2009.

Financing conditions

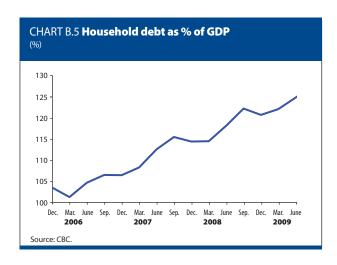
Cyprus MFI interest rates¹¹ on eurodenominated loans for house purchase and consumer loans (new business) to euro area households dropped from 6,82% and 7,92% in March 2009 to 5,51% and 7,19% in October 2009, respectively (**Chart B.6**). In comparison, euro area MFI interest rates on euro-denominated loans for house purchase and consumer loans (new business) to euro area households stood at 2,78% and 7,43% in October 2009, respectively.

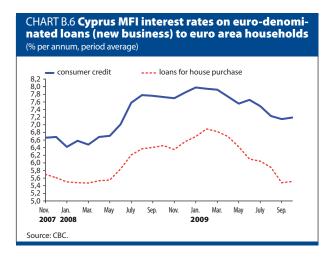
1.2.2 Financial condition¹²

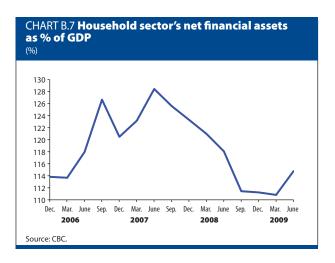
Net financial assets

The household sector's net financial assets (net worth) as a percentage of GDP rose to 114,8% at the end of June 2009, from 111,2% at end-December 2008, but declined compared with 118,1% at the end of June 2008. **Chart B.7** indicates the household sector's net financial assets as a percentage of GDP for the years 2005 to 2009.

The household sector's financial liabilities expanded by 8,9% year-on-year in June 2009, mainly due to an increase in the value of loans granted, which accounted for 95,9% of the household sector's total







^{11.} Floating rate and up to 1 year initial rate of fixation.

^{12.} Based on quarterly financial accounts data (provisional).

financial liabilities at the end of June 2009. As indicated in **Chart B.8**, the ratio of financial liabilities to financial assets reached 52,1% at the end of June 2009 (the same as at end-December 2008 but up from 50% at the end of June 2008).

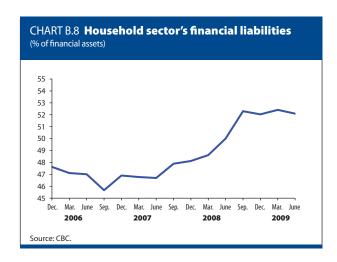
At the end of June 2009, cash and bank deposits represented the largest part of the household sector's financial assets, while bank loans constituted the biggest share of the household sector's financial liabilities. Chart B.9 exhibits the breakdown of the household sector's financial assets and liabilities at end-June 2009.

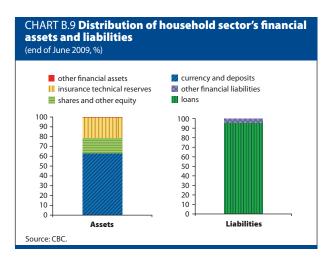
Bankruptcies of natural persons

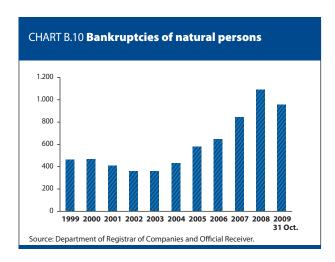
The number of bankruptcies of natural persons has exhibited a continuous upward trend since 2003, which may indicate that the financial condition of households is deteriorating over time. In 2008, 1.083 receiving orders regarding natural persons were issued by the appropriate courts of justice, while in the first ten months of 2009 the number of bankruptcies of natural persons reached 950, which indicates that the total for the year could eventually exceed the 2008 figure. Chart B.10 shows the number of bankruptcies of natural persons for the years 1999 to 2009.

Natural persons who issued dishonoured cheques

In the first eleven months of 2009, the total





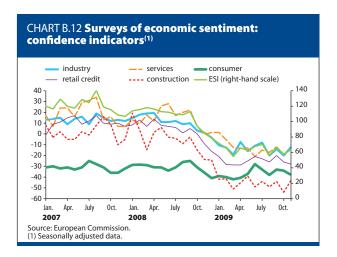


number of natural persons who issued dishonoured cheques and were recorded in the CBC's Central Information Register reached 779, compared with 492 and 508 in the corresponding periods of 2008 and 2007, respectively (**Chart B.11**). In the period from January to November 2009, the total number of natural persons controlling legal persons who issued dishonoured cheques and were recorded in the Central Information Register increased to 463, compared with 257 and 211 in the corresponding periods of 2008 and 2007, respectively.

Confidence indicators from surveys of economic sentiment

Since the publication of the June 2009 Bulletin, aggregate confidence indicators for Cyprus compiled monthly by the European Commission from surveys of economic sentiment carried out in EU member states. show that the Economic Sentiment Indicator (ESI)¹³ dropped significantly in August 2009 and has since fluctuated, improving slightly in November 2009 (Chart B.12). As regards household sector expectations, the consumer confidence indicator has fluctuated at low levels since June 2009.

In addition, a further analysis of the data regarding consumers shows that households' expectations about their financial situation in the next 12 months remain in negative territory, while their perception of future employment prospects in the next 12



^{13.} The Economic Sentiment Indicator (ESI) is composed of the industry confidence indicator (40%), the services confidence indicator (30%), the consumer confidence indicator (20%), the construction confidence indicator (5%) and the retail trade confidence indicator (5%).

CHART B.11 New natural persons recorded in the Central Information Register (dishonoured cheques) (monthly data)

— new natural persons --- new natural persons controlling legal persons (right-hand scale)

110
100
90
80
70
60
40
30
2007
2008
2009

Source: CBC.

months has deteriorated (Chart B.13).

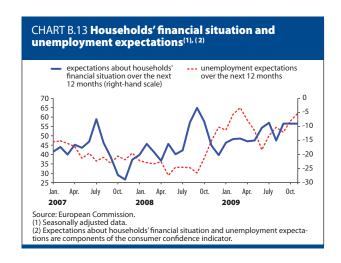
1.2.3 Risks facing the household sector

Households' debt-servicing capacity is mainly affected by fluctuations in interest rates and income. A potential overvaluation in the housing market could also represent, to a lesser extent, a source of risk for household sector balance sheets.

Overall, risks to financial stability originating from conditions in household sector, although contained, have increased over the last six months. Despite the fact that households' debt-servicing burden seems to be levelling-off, following the continued deceleration of loans granted to households and the relatively small decrease in lending rates, any potential further weakening of domestic macroeconomic conditions, especially in the labour market, may pose higher risks to household income and have a negative impact on households' debt repayments.

Interest rate risks of households

Since June 2009, the ECB has maintained key interest rates at a very low level, with a cumulative decline since July 2008 of 325 basis points (**Chart A.9**, p. 24). As shown in **Chart B.6** (p. 76), Cyprus MFI interest rates on euro-denominated loans (new business) to euro area households and non-financial corporations have been on a slightly downward trend since the spring of 2009,

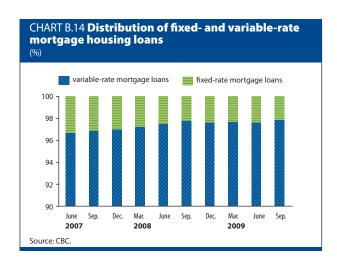


but still remain at a higher level compared with the respective euro area MFI interest rates. This can be attributed mainly to the strong competition in the domestic banking sector for retail deposits, which has led banks to continue offering higher deposit rates and, consequently, pass on some of their higher funding costs to borrowers. Any potential further decline in interest rates, coupled with the continued slowdown in household borrowing, should support a reduction in households' overall debt burden.

As regards mortgage housing loans¹⁴, the impact of rising interest rates on debtservicing costs depends on the terms and conditions of individual households' mortgage contracts. In the case where a mortgage contract provides for a variable rate of interest, households are exposed fully to interest rate risk. The trend of interest rate risk inherent in loan mortgage contracts being undertaken almost in its entirety by the borrower has not changed. Specifically, the share of variable-rate mortgage housing loans to total outstanding mortgage housing loans stood at 97,9% at the end of September 2009, compared with 97,6% at end-March 2009 and 97,8% at the end of September 2008 (Chart B.14). Hence, the predominance of mortgage housing loans which carry an adjustable rate of interest indicates that households remain vulnerable to interest rate shocks.

In order to be able to assess fully the interest rate risks facing households, it must be borne in mind that not all households

^{14.} Loans which are fully and completely secured by mortgage on residential property, which is or will be occupied by the borrower or which the borrower will let for residential purposes, as well as lending to households in the form of topup mortgages or equity release mortgages, whereby a mortgage is increased to allow funds to be used for home improvements or renovation.



hold debt, while borrower characteristics play a role in determining debt sustainability. In particular, the risks affecting the most financially vulnerable segments of the population cannot be properly addressed by looking at aggregate data. In that sense, indebted low income households tend to face higher risks.

Risks to household income

Fluctuations in household income, which are linked to developments in the labour market, constitute one of the most important indicators of households' ability to meet their debt-servicing obligations.

As a result of the recent global financial crisis, domestic economic activity has decelerated significantly, especially in the third quarter of 2009. In particular, according to the latest CBC's macroeconomic projections analysed in Section A of this Bulletin, only a marginal increase of 0,3% in GDP is expected in 2010. At the same time, the unemployment rate rose by 1,3 percentage points in the first ten months of 2009, compared with the corresponding period of 2009, and reached 4,1% (**Chart A.40**, p. 53). The unemployment rate is expected to increase further in 2010, particularly in those sectors of the economy most exposed to the downturn, namely the real estate and tourism sectors. This indicates an increase in income-related risks for households.

On the positive side, domestic inflationary pressures have been considerably

subdued in the first ten months of 2009, compared with the same period of 2008, mainly due to a substantial fall in commodity prices, especially oil prices (Chart A.4, p. 21) as well as the deceleration in domestic and external demand. These developments have been supportive of households' real disposable income.

Looking forward, the rate of employment growth is expected to continue declining, which is expected to translate into a further increase in total unemployment. At the same time, households' real disposable income is not expected to improve significantly in the near future, further increasing income-related risks.

Risks emanating from residential property prices

The tightening of credit standards by banks, as a result of the slowdown in domestic economic activity and the unfavourable external operating environment, has contributed to the deceleration in the growth of loans for house purchase, leading to a fall in demand for residential property. At the same time, construction activity in the residential real estate sector has exhibited a significant contraction. As a result of these developments, a small decrease in residential property prices is expected in 2009.

Risks to financial stability stem from the impact of a possible significant correction in house prices as well as from the effects of a

further weakening of domestic economic activity tied to the residential real estate sector. However, although any rapid decrease in residential property prices, which could reduce household sector net worth, may increase financial stability risks, the probability of a sharp downturn in house prices in the short term still remains low.

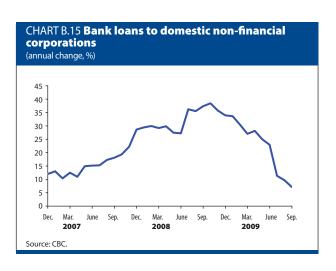
In addition, while any potential overvaluation in the housing market could represent a source of risk for household sector balance sheets, since it leads to a corresponding overvaluation of financial assets, income conditions continue to remain the more decisive factor in assessing the risks to household finances.

1.3 Non-financial corporate sector

1.3.1 Leverage

MFI loans to domestic non-financial corporations

MFI loans to domestic NFCs¹⁵ increased by 7,1% year-on-year in September 2009 (**Chart B.15**). However, the annual rate of growth of total MFI loans to domestic NFCs has continued to decline significantly. The recent slowdown in MFI lending to NFCs over the past few months reflects the generally subdued domestic economic climate. On the one hand, the tightening of credit standards by banks has limited the supply of loans to NFCs, while on the other hand, the significant weakening of corporate expectations implies



^{15.} Based on monthly balance sheet data submitted by banks to the CBC. Since July 2008, MFI loans to domestic NFCs include MFI loans to organisations or companies without a physical presence in Cyprus (i.e. "brass plates").

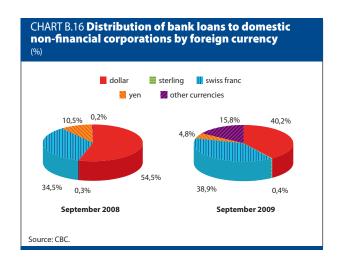
a reduction in the appetite for corporate risk taking and a slowdown in business investments, leading to a decrease in the demand for loans by enterprises.

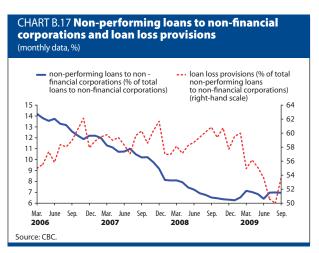
At the end of September 2009, loans to NFCs as a percentage of total outstanding loans to non-MFIs reached 48,3%, down from 48,5% at end-March 2009 and up from 47,7% at the end of September 2008.

Foreign currency loans to NFCs as a percentage of total outstanding loans to NFCs fell to 18,8% at end-September 2009, down from 19,4% at the end of March 2009 and 21,3% at end-September 2008. At the end of September 2009, 38,9% of foreign currency loans to NFCs were accounted for by Swiss francs, 40,2% by US dollars, 4,8% by Japanese yen and 0,4% by sterling, compared with 38,9%, 27,3%, 4,8% and 0,3% at end-March 2009 and 34,5%, 54,5%, 10,5% and 0,3% at the end of September 2008, respectively (Chart B.16).

Non-performing loans

Non-performing loans to NFCs as a percentage of total loans to NFCs amounted to 6,9% at the end of September 2009, compared with 7,1% at end-March 2009 and 6,5% at the end of September 2008 (Chart B.17). Loan loss provisions as a percentage of total non-performing loans to NFCs (coverage ratio) stood at 53,6% at the end of September 2009, compared with 54,9% at end-March 2009 and 60,9% at the end of September 2008.





Non-financial corporate debt

Non-financial corporate debt¹⁶ as a percentage of GDP rose to 191,6% at the end of June 2009, from 185,5% at end-December 2008 and 155,3% at the end of June 2008. **Chart B.18** exhibits the non-financial corporate debt-to-GDP ratio for the years 2005 to 2009.

Financing conditions

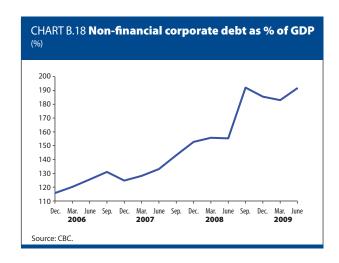
Cyprus MFI interest rates¹⁷ on eurodenominated loans (new business)¹⁸ up to €1 million to euro area NFCs dropped from 7,55% in March 2009 to 6,26% in October 2009 (**Chart B.19**). In comparison, euro area MFI interest rates on eurodenominated loans (new business) up to €1 million to euro area NFCs stood at 3,33% in October 2009.

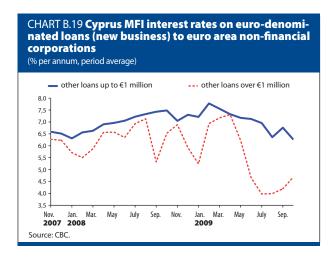
In parallel, Cyprus MFI interest rates on euro-denominated loans (new business) over €1 million to euro area NFCs dropped from 7,17% in March 2009 to 4,69% in October 2009. In comparison, euro area MFI interest rates on euro-denominated loans (new business) over €1 million to euro area NFCs stood at 2,14% in October 2009.

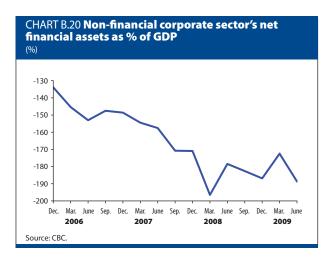
1.3.2 Financial condition¹⁹

Net financial assets

As shown in **Chart B.20**, the non-financial corporate sector's net financial assets (net







^{16.}Based on quarterly financial accounts data (provisional). Includes net loans and long-term debt securities.

^{17.} Floating rate and up to 1 year initial rate of fixation.

^{18.} Loans other than bank overdrafts.

^{19.} Based on quarterly financial accounts data (provisional).

worth) as a percentage of GDP reached -188,7% at the end of June 2009 (from -186,9% at end-December 2008 and -178,5% at the end of June 2008).

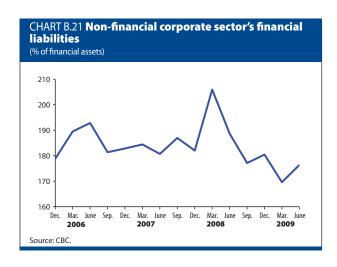
The ratio of financial liabilities to financial assets decreased to 176,4% at end-June 2009 from 180,4% at the end of December 2008 and 188,7% at end-June 2008, as the growth in financial assets outpaced the increase in financial liabilities (**Chart B.21**).

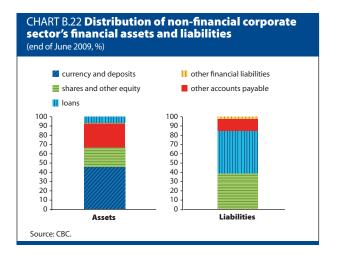
At the end of June 2009, cash and deposits represented the largest part of the non-financial corporate sector's financial assets, while loans constituted the biggest component of the sector's financial liabilities. **Chart B.22** exhibits the breakdown of the non-financial corporate sector's financial assets and liabilities at the end of June 2009.

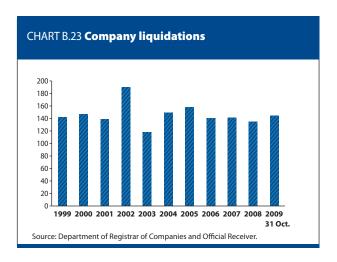
Company liquidations

The number of company liquidations reached 135 in 2008 compared with 141 in 2007 (**Chart B.23**). In the first ten months of 2009, 144 winding-up orders were issued by the appropriate courts of justice, which indicates that the total for the year will eventually exceed the 2008 figure.

The number of new company registrations reached 24.453 in 2008, compared with 29.016 in 2007 (**Chart B.24**, p. 87). In the period from January to October 2009, 12.584 new companies were registered, which indicates that the total for the year will eventually be significantly lower







than the 2008 figure and may reflect the slowdown in the activities of legal and accounting firms as a result of the recent global financial crisis.

Legal persons who issued dishonoured cheques

In the first 11 months of 2009, the total number of legal persons who issued dishonoured cheques and were recorded in the CBC's Central Information Register reached 402, compared with 219 and 176 in the corresponding periods of 2008 and 2007, respectively (**Chart B.25**).

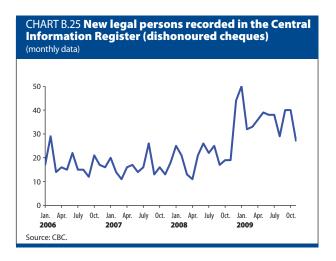
Confidence indicators from surveys of economic sentiment

Since the publication of the June 2009 *Bulletin*, the industry confidence indicator has generally fluctuated at low levels (**Chart B.12**, p. 78). In contrast, the construction confidence indicator has deteriorated significantly but showed a slight improvement in November 2009. Moreover, the services confidence indicator has exhibited no signs of improvement and has remained weak since June 2009, while the retail trade confidence indicator has remained in negative territory in the same period.

1.3.3 Risks facing the non-financial corporate sector

As regards the external operating environ -





ment, despite considerable heterogeneity at the country level, the macroeconomic conditions in the euro area have generally improved over the past six months. According to seasonally adjusted data published by Eurostat on 13 November 2009, euro area GDP expanded by 0,4% in the third quarter of 2009, whereas a contraction in economic activity had been registered in previous quarters. The improvement in the economic climate is reflected in the European Commission's macroeconomic projections published on 3 November 2009, according to which euro area GDP is expected to rise by 0,7% in 2010, against the slight decrease that had been forecasted earlier. However, uncertainty remains high as a number of supporting factors are of a temporary nature.

In Cyprus, the deterioration in economic activity is clearly reflected in the decrease recorded in real GDP in the first, second and, especially, the third quarter of 2009. Specifically, according to the latest data published by the Cystat on 13 November 2009, seasonally adjusted GDP declined by 1,4% in the third quarter of 2009, compared with the second quarter of the year. In addition, GDP growth for the first six months of 2009 has been revised substantially downwards. The difficult phase that the Cyprus economy is now going through is also partially reflected in the European Commission's November projections. According to these forecasts, real GDP is expected to decline by 0,7% in 2009 and to remain stable in 2010, compared with the positive growth rates that had been

expected in the spring projections. It must be noted that these forecasts preceded and, therefore, did not take into account the deterioration in economic activity shown by the latest data compiled by the Cystat. As a result, the economic downturn facing Cyprus is potentially more severe than suggested by these projections. This is also reflected in the CBC's new macroeconomic projections according to which, as analysed in Section A, real GDP is expected to fall by 1,3% in 2009, while only a marginal increase of 0,3% is expected in 2010.

Overall, the environment in which NFCs operate is expected to remain difficult, at least for the coming months. In the event domestic macroeconomic that the conditions deteriorate further, the revenues and profitability of the NFCs will be generally adversely affected. Moreover, higher borrowing costs facing enterprises in Cyprus, compared with other euro area member states, as well as the limited possibility of external finance may have a negative impact on firms' profitability. At the same time, the high level of firms' indebtedness makes them less resilient to any potential further adverse shocks. Looking forward, weak profits, high leverage and firms' dependence on bank finance remain the key vulnerabilities of the corporate sector.

Earnings and profitability risks

Since the publication of the June 2009

Bulletin, the environment in which firms in Cyprus operate has deteriorated further. The significant slowdown in domestic economic activity, coupled with the unfavourable external operating environment, contribute to the uncertainty as regards the future earnings and profitability of the corporate sector, with the distinct possibility of hampering their ability to generate internal funding and forcing them to remain at high leverage ratios or to further increase them. Enterprises in the construction and tourism sectors are deemed particularly vulnerable given the projections of the CBC for only a marginal GDP growth in 2010. The lower third guarter financial results for 2009 that have already been published by a number of companies listed on the Cyprus Stock Exchange, confirm that risks to corporate profitability are on the upside. According to the latest available data, many of the quoted companies have recorded a fall in their profitability or losses in the first nine months of 2009.

Risks facing leveraged companies

Although the annual rate of growth of bank lending to the non-financial corporate sector has decelerated in recent months, firms' leverage remains at a high level, rendering them more vulnerable to potential further adverse shocks.

Bank financing conditions for NFCs remain difficult. In response to the weak

domestic macroeconomic environment, banks have tightened credit standards for new loans to enterprises. At the current juncture, a further tightening of credit supply could have amplified effects on firms' solvency and lead to an increase in default rates. Moreover, the cost of bank financing of enterprises remains at a higher level, compared with other euro area member states, which is expected to have an adverse impact on firms' profitability. Overall, funding conditions for the non-financial corporate sector are not expected to improve significantly in 2010.

1.4 Real estate sector

1.4.1 Key developments in the real estate sector

Domestic real estate sector activity

According to the latest available data, in the first ten months of 2009, domestic real estate sector activity remained subdued despite some signs for improvement in a number of core indicators recently. In parallel, interest by foreigners as well as residents for the purchase of residential property has diminished.

In particular, the volume index of authorised building permits registered an increase of 3,5% during the period from January to September 2009, compared with the corresponding period of 2008 (**Chart A.33**, p. 45). In the same period of 2009, the

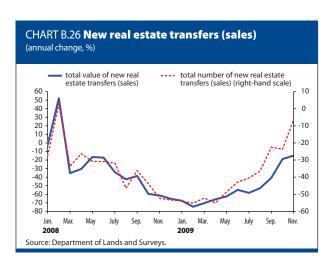
total value of building permits rose by 5% and the total area of building units decreased by 7,6%, while the number of dwelling units recorded a decrease of 8,8%, compared with the corresponding period of 2008.

In addition, cement sales in the domestic market decreased by 26,2% in the first ten months of 2009, compared with the corresponding period of 2008, reflecting the significant deceleration in construction activity. **Chart A.34** (p. 47) shows the sales of cement in the domestic market.

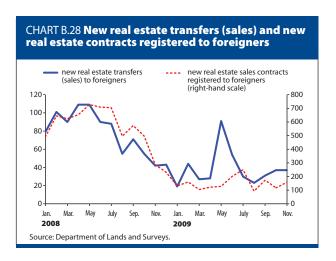
Furthermore, the total number of new real estate transfers (sales) effected dropped by 41,1% during the period from January to November 2009, compared with the same period of 2008. Similarly, in the same period of 2009 the total value of new real estate transfers (sales) declined by 56,3% (Chart B.26). Moreover, the volume of new real estate sales contracts registered fell by 47,3% in the first eleven months of 2009 (Chart B.27).

As regards the purchase of residential property by foreigners, the number of new real estate transfers (sales) to foreigners decreased by 52,6% during the period from January to November 2009, compared with the same period of 2008. In parallel, in the same period of 2009 the volume of new real estate sales contracts registered to foreigners dropped significantly by 74,4% (Chart B.28).

According to the latest available data, the production index in construction for 2008 recorded a yearly average decrease of 2,3%, compared with 2007. For the component indices, a yearly average rise of







2,4% was recorded in 2008 for buildings and 2% for civil engineering projects. Also, as shown in **Chart B.29**, the output prices index in construction for the second quarter of 2009 reached 116,2 units, recording a decrease of 3,8% compared with the same period of 2008.

The price index of construction materials for October 2009 reached 117,6 units, recording a fall of 5,8% over the same month of 2008 (**Chart B.30**). For the period from January to October 2009, the index recorded a decrease of 3,7% compared with the corresponding period of 2008.

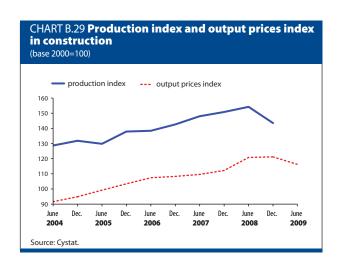
Real estate prices

Residential property prices, as indicated by the latest available trends in the CBC's residential property price index²⁰, are expected to decline by 8% in 2009, compared with a rise of 13% in 2008 (**Chart B.31**). The expected fall in residential property prices is in line with the significant weakening of construction activity exhibited in 2009.

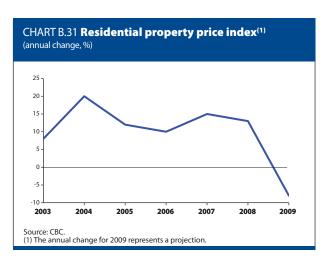
1.4.2 Real estate financing by banks

MFI loans to the domestic broad real estate sector

MFI loans to the domestic broad real estate sector²¹ rose by 9,7% year-on-year in September 2009 and represented 21,6% of the total outstanding loans to non-MFIs,







^{20.} The methodology for compiling the index is explained in Section A, pp. 53-54.

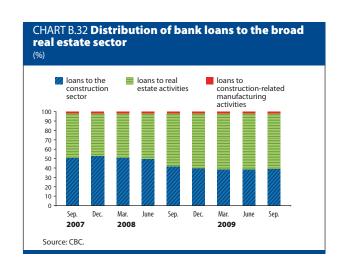
^{21.}Based on monthly balance sheet data submitted by MFIs to the CBC. Excludes loans to households for house purchase.

down from 22,9% at the end of March 2009 and up from 20,9% at end-September 2008 (**Table C.21**, p. 153). It must be noted that the annual rate of growth of MFI loans to the broad real estate sector declined significantly in 2009.

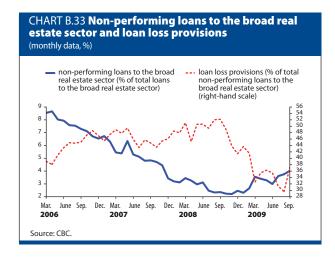
As regards the three component categories of this sector, loans to the construction sector rose by 2,1% year-on-year in September 2009 and represented 8,4% of the total outstanding loans to non-MFIs, compared with 8,9% at the end of March 2009 and 8,8% at end-September 2008. At the same time, loans to real estate activities exhibited a significant increase of 14,6% yearon-year in September 2009, constituting 12,8% of the total outstanding loans to non-MFIs, compared with 13,6% at end-March 2009 and 11,8% at the end of September 2008. Moreover, loans to construction-related manufacturing activities rose by 37,6% yearon-year in September 2009 and represented 0,4% of the total outstanding loans to non-MFIs at the end of September 2009, same as at end-March 2009 and up from 0,3% at the end of September 2008. The distribution of MFI loans to the broad real estate sector is shown in Chart B.32. It should be stressed that the annual rate of growth of total MFI loans to the three component categories of the broad real estate sector exhibited a notable decrease in 2009.

Non-performing loans

Non-performing loans to the domestic



broad real estate sector as a percentage of total loans to the domestic broad real estate sector amounted to 4% at the end of September 2009, up from 3,6% at end-March 2009 and 2,4% at the end of September 2008 (Chart B.33). Loan loss provisions as a percentage of total non-performing loans to the domestic broad real estate sector (coverage ratio) stood at 37,1% at the end of September 2009, compared with 32,6% at end-March 2009 and 52,2% at the end of September 2008.



2. The Domestic Financial System

This section provides a description of the key developments in the domestic financial markets as well as a brief overview of the main structural developments in the banking sector. In addition, an analysis of banks' financial condition and an assessment of the main risks facing the banking sector are provided. Finally, the results of the stress testing exercises for the banking sector, which were conducted by the CBC in the second half of 2009, are described.

2.1 Financial markets

2.1.1 Key developments in the money market

Since the publication of the June 2009 *Bulletin*, conditions in the euro area money market continued to ease. Since May 2009, liquidity in the euro area money market has

improved, mainly due to further enhanced credit support measures implemented by the Eurosystem. Ample liquidity and the ongoing repricing of counterparty risk facilitated the compression of money market spreads. The three month Euribor/Overnight index swap (OIS)²² spreads (Chart A.12, p. 26) continued to narrow across all maturities, falling to levels below those that prevailed prior to the Lehman Brothers default. However, despite increasing signs of improvement in the functioning of the euro money market some sources of risk still remain relevant. First, some banks seem to be still rather dependent on refinancing from the Eurosystem, for which they had to pay a significant premium above the EONIA interest rate, despite a large liquidity surplus in the system. Second, the relatively low levels of money market spreads, especially at shorter maturities, should not be interpreted in isolation because their levels appeared to be strongly affected by the Eurosystem actions. Furthermore, several indicators continue to point to protracted tensions and segmentation in the euro money market. Nonetheless, in the absence of additional market shocks, conditions in the euro money market should continue to improve in the period ahead.

As regards the cost of borrowing in the euro area interbank market, unsecured money market interest rates continued to decline in September and early October 2009, albeit at a slower rate than in previous months, reflecting the improved

^{22.}Derivative products where EONIA is swapped with a fixed interest rate of selected duration. OIS are used for hedging or speculative moves in the interbank overnight rate or the reference rates of central banks.

conditions in the euro area money market. At the same time, secured money market rates increased marginally in September 2009. As a result, the spread between unsecured and secured rates declined slightly in the same month of 2009.

In Cyprus, the average monthly highest and lowest interbank rates²³ have increased, while the average monthly spread between the highest and the lowest interbank rates has also widened (**Chart B.34**).

Chart B.35 exhibits the fluctuations of the weighted average daily interbank rates²⁴ around the EONIA swap rate and the minimum bid rate for the ECB main refinancing operations since January 2008.

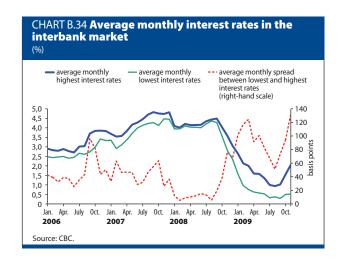
2.1.2 Key developments in the capital markets

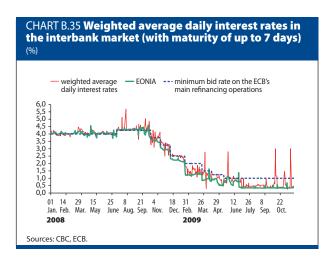
Government bond market

Since June 2009, there has been limited bond issuance activity on the domestic front by the government for the purpose of satisfying its financing needs, while no tapping of the international capital markets has taken place.

Specifically, only one auction was held on 30 September 2009 for the sale by the CBC, for and on behalf of the government, of 0,753% 82-day treasury bills of up to €1,4 billion. The total value of the bids submitted was €1,54 billion, while the total value of the bids accepted reached €1,4 billion.

It must be noted that liquidity in the





^{23.}Cost of short-term funding in euro (with a maturity of up to 7 days) of banks in Cyprus when borrowing from other domestic or foreign banks.

^{24.} With a maturity of up to 7 days.

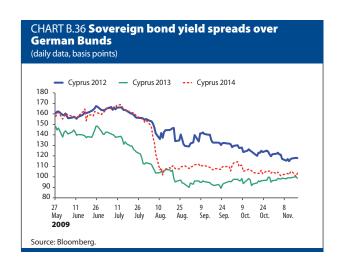
secondary market of government bonds (i.e. the Cyprus Stock Exchange) remains limited.

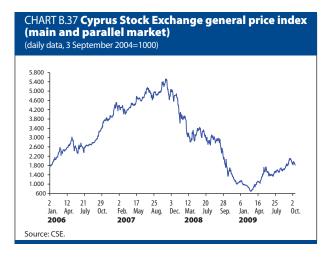
As shown in **Chart B.36**, the yield spreads of the three Cyprus sovereign bonds²⁵, which are traded in the international markets, over the respective German Bunds have shrunk since June 2009.

Equity market

Share prices of companies listed on the Cyprus Stock Exchange (CSE) have been on an upward trend since June 2009, reflecting developments positive international stock markets, with the banking sector again capturing most of the investors' interest. Specifically, the CSE General Price Index (main and parallel market) rose by 35,6% during the period from June to October 2009, reaching 1.884,20 points (Chart B.37). In parallel, the FTSE/CySE 20 Index increased by 34,7% in the period from June to October 2009, climbing to 640,91 points (up from 475,84 points at the end of June 2009).

The market capitalisation of shares²⁶ rose by 26,1% in the period from June to October 2009, reaching €8,30 billion at the end of October 2009. In total, the three largest domestic banks listed on the CSE represented 73,2% of market capitalisation at end-October 2009, compared with 66,3% at the end of June 2009. Market capitalisation of shares to GDP increased to 39,1% at end-June 2009 from 33,8% at the end of December 2008.





^{25.} Euro-denominated bonds issued by the Cyprus government under the Euro Medium-Term Note (EMTN) Programme established in 1997.

^{26.} Excluding the investment companies market.

The rise in equity prices in the domestic stock market is in line with the increase in global stock prices in the period under review, which was mainly supported by the release of positive economic news and upward revisions to earnings expecta tions, in a context of recovering risk appetite on the part of investors, low interest rates and ample liquidity conditions. However, towards the end of October 2009, profit taking and continued market uncertainty regarding the timing of future monetary policy decisions, and in particular the exit from non-standard policy measures, also weighed on stock price developments in the euro area and the United States. In the light of the above, short-term stock market uncertainty, as measured by option-implied volatility²⁷, in major international markets has declined since June 2009 but increased slightly towards the end of October 2009.

2.2 Banking sector

Banks in Cyprus play by far the most significant role in financial intermediation, representing 80,1%²⁸ of total domestic financial system²⁹ assets at end-June 2009. Moreover, the total consolidated assets of the banking sector reached 874,6% of GDP at the end of June 2009. In the light of the above, the assessment of the stability of the banking sector and its shock-absorption capacity is crucial when analysing overall financial stability.

^{27.} Expected standard deviation of percentage changes in stock prices over a period of three months, as implied in the prices of options on stock price indices.

^{28.} Based on quarterly financial accounts data (provisional).

^{29.} Includes MFIs, other financial intermediaries, insurance corporations, occupational pension funds and financial auxiliaries.

2.2.1 Key structural developments in the banking sector

This section provides a brief overview of the main structural developments in the Cyprus banking sector which took place in 2009.

Domestic banking market structure

As shown in **Table B.1**, there are currently 43 banks operating in Cyprus, comprising of 8 domestically-controlled banks and 35 foreign-controlled banks (of which 9 are subsidiaries and 26 are branches of foreign banks). The banking landscape continues to be dominated by domestic banks, which represented 63,2% of total consolidated banking system assets at end-June 2009.

In the first ten months of 2009, no new players entered the domestic banking market. At the same time, no mergers and acquisitions took place in the sector in the period from January to October 2009.

Consolidation in the cooperative credit sector continued with the number of cooperative credit institutions falling to 113 at end-October 2009, compared with 119 at the end of December 2008. It is expected that further consolidation in the above sector will take place in 2010, albeit at a slower rate.

International presence of Cypriot banking groups

In contrast to previous years, during which the three main domestic banking groups

Table B.1 Banking sector structure (1) (end of November 2009)	
	Number of banks
Domestically-controlled banks	8
Foreign-controlled banks	35
EU subsidiaries	8
EU branches	9
Non-EU subsidiaries	1
Non-EU branches	17
Total	43
Source: CBC. (1) Excludes the co-operative credit institutions.	

namely, the Bank of Cyprus Public Company Ltd, Marfin Popular Bank Public Co. Ltd and Hellenic Bank Public Company Ltd, had embarked on a geographical diversification overseas, no expansion into foreign markets through mergers or acquisitions and no opening of branches or subsidiaries in new markets took place in the first ten months of 2009.

Banking regulatory developments

As regards developments in the banking regulatory framework, the *Banking Law* was amended by the *Amending Law 100(I), 2009*, which was published in July 2009 in the Official Gazette of the Republic. The main changes effected by the *Amending Law* were the following:

- (a) The provisions of the EU Directive 2007/44/EC to the extent that they relate to the mergers and acquisitions of banks, were transposed into the national law.
- (b) The maximum limits of investments by banks in the share capital of any company, as provided for in subsection (1) of section 13 of the *Banking Law* were increased in order to reach the maximum limits permitted under article 120 of the EU Directive 2006/48/EC.
- (c) The provisions with respect to the submission by banks to the CBC of information on the beneficial share-holders possessing at least 5% of each bank's share capital were amended.
- (d) As of 24 July 2010, the maximum limits of exposures to each director and to all

BOX B.1: Redesign of the financial supervisory framework in the European Union

Current initiatives with a view to improving the supervisory architecture at the EU level rest on two pillars: micro- and macro-prudential supervision. A key objective of financial supervision is to prevent financial crises or mitigate their effects. Micro-prudential supervision aims at limiting potential distress at individual financial institutions by monitoring and analysing firm-specific information to assess, inter alia, the risks facing the institutions, their systems and management as well as their compliance with regulations. On the other hand, macroprudential supervision focuses on the risks to the financial system which may derive from the collective behaviour of individual financial institutions, the interlinkages between financial intermediaries and across markets as well as from the macroeconomic environment. It aims at identifying, monitoring and assessing potential risks and vulnerabilities that pose a threat to the financial system as a whole. The two aspects of supervision are clearly intertwined, in substance as well as in operational terms, and both contribute to safeguarding financial stability.

At the micro-prudential level, the European Council decided in June 2009, based on the recommendations of the de Larosière Group, to establish a European System of Financial Supervisors (ESFS), comprising three new European supervisory authorities¹ to deal with banking, securities and insurance. These will replace the three existing committees² responsible for financial sector supervision in the EU. Legislative proposals were adopted by the European Commission in September 2009 and agreed by the Economic and Financial Affairs (ECOFIN) Council in December 2009 on the establishment of the new bodies. These proposals aim at upgrading the quality of national supervision, strengthening the oversight of cross-border financial groups and the co-ordination between national supervisors through the setting up of supervisory colleges and creating a European single rule book applicable to all financial institutions in the Single Market to promote supervisory convergence and ensure consistent application of rules.

It was also decided by the European Council in June 2009 to entrust macro-

^{1.} European Banking Authority (EBA), European Insurance and Occupational Pensions Authority (EIOPA) and European Securities and Markets Authority (ESMA).

^{2.} Committee of European Banking Supervisors (CEBS), Committee of European Securities Regulators (CESR) and Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS).

prudential supervision at the EU level to a new body, the European Systemic Risk Board (ESRB), with the objective of increasing the focus on systemic risk within the framework of financial supervision. As with the ESFS, legislative proposals on the macro-prudential oversight of the financial system and the establishment of the ESRB were adopted by the European Commission in September 2009 and agreed by the ECOFIN Council in October 2009. The main activity of the ESRB will be to identify, monitor and assess potential threats to financial stability and, where necessary, issue specific risk warnings as well as recommendations for policy action to address the identified risks and monitor their implementation. Having a common body for the regular monitoring and assessment of risks facing the financial system as a whole will help to avoid a repetition of the mistakes made during the recent crisis, where both micro-prudential regulation and supervision focused too much on individual institutions and markets. Also, by looking at risks arising from macroeconomic conditions and trends as well as from developments within the financial system, the ESRB will be able to identify threats to financial

stability originating from both endogenous and exogenous factors. Analytical, administrative and secretarial support for the ESRB will be provided by the ECB, also drawing on technical advice from national central banks and supervisors. At the international level, the ESRB is expected to liaise closely with the IMF, the Financial Stability Board (FSB), the Bank of International Settlements (BIS) and other organisations on macro-prudential surveillance issues.

directors together of each bank will be reduced from 5% to 2% and from 40% to 20%, respectively.

Furthermore, the CBC issued two Directives to banks in accordance with the recommendations of the Basel Committee on Banking Supervision and the relevant EU Directives on banking sector issues. Specifically, in October 2009 the (Amending) Directive on the "Framework of Principles of Operation and Criteria of Assessment of Banks' Organisational Structure, Internal Governance and Internal Control Systems" was issued to banks. This aims at strengthening the overall framework of organisational structure and internal governance of banks as well as upgrading the three basic functions of banks' internal control systems, namely, internal audit, risk management and compliance.

In November 2009, the revised Directive on the "Communication between the Central Bank of Cyprus and the Approved Auditors of Banks" was issued to banks. This provides a framework for the trilateral meetings between the CBC, the banks and their approved auditors, generally describes the circumstances and conditions under which the CBC may invite the approved auditors of banks to bilateral meetings and outlines the circumstances under which reporting to the CBC needs to be made by an approved auditor.

In addition, in July 2009 a number of amendments to the Deposit Insurance

Fund regulations were approved by the House of Representatives with the aim of improving the effectiveness and efficiency of the scheme. The above amendments included, inter alia: the increase of the sum covered per depositor and per bank from €20.000 to €100.000; the coverage of deposits in all currencies; the reduction in the payout period in accordance with the recent EU Directive: the increase in the level of the initial and maximum contributions by banks; the increase in the Fund's basic capital; and the abolition of co-insurance. The above amendments render the Fund at par with similar Funds in the EU, especially the Hellenic Deposit Guarantee Fund. This is particularly important in view of the interdependencies of the Cyprus and Greek banking systems through the cross-border presence of Cyprus banks in Greece and Greek banks in Cyprus.

2.2.2 Banks' financial condition

The analysis of banks' financial condition in the first half of 2009 that follows is based, unless otherwise stated, on aggregate cross-border and cross-sector consolidated data (excluding insurance companies), which cover the entire banking system³⁰. Regarding the data for 2008, a new reporting framework has been implemented, which is based on the Financial Reporting Framework (FINREP) and the Guidelines on Common Reporting (COREP) published by the Committee of

^{30.}Includes all domestically-controlled and foreign-controlled banks operating in Cyprus but excludes the co-operative credit institutions.

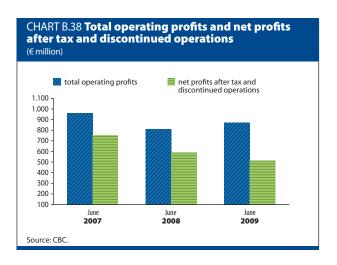
European Banking Supervisors (CEBS). As a result, a number of banking sector indicators that have been compiled so far have either been revised or are no longer available, while some new indicators have been introduced. In the light of the above, this section provides a comparison of banks' financial results in the first six months of 2009 with those recorded in the first half or the whole year of 2008, depending on the availability of data. **Table C.22** (pp. 154-155) shows a number of key aggregate indicators of the Cyprus banking sector.

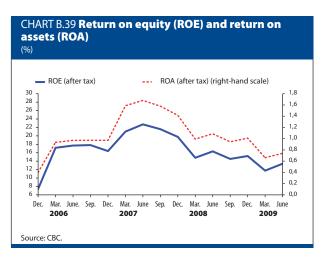
Earnings and profitability

In the first six months of 2009, despite the negative developments recorded in the Cyprus economy and the unfavourable external environment in which banks operated, banks' total operating profits increased by 7,5%, compared with the corresponding period of 2008 (**Chart B.38**). In contrast, in the period from January to June 2009, banks' net profits after tax and discontinued operations decreased by 12,3% compared with the same period of 2008.

As depicted in **Chart B.39**, in the first half of 2009 annualised return on equity (ROE) (after tax) fell to 13,4%, down from 15,2% in 2008, while annualised return on assets (ROA) (after tax) decreased to 0,7%, down from 1% in 2008.

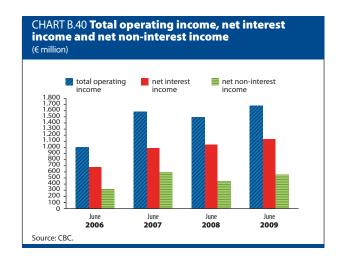
In the period from January to June 2009, banks' total operating income rose by





12,8% compared with the corresponding period of 2008 (Chart B.40). Banks continue to obtain the largest part of their earnings from net interest income, which has traditionally been a comparatively more stable source of income than net fees and commissions or capital gains on financial transactions that are more sensitive to unfavourable price or volume developments in international financial markets. In particular, net interest income rose by 8,9% in the first six months of 2009, compared with the same period of 2008, accounting for 67,6% of total operating income, compared with 70% in the corresponding period of 2008. In parallel, net non-interest income registered a significant increase of 21,8% in the first half of 2009, compared with the same period of 2008, mainly due to the rise in trading revenues. The latter represented 32,4% of total operating income in the first six months of 2009, compared with 30% in the corresponding period of 2008. As regards the two main components of non-interest income, gains on financial transactions grew by 11% in the period from January to June 2009, compared with the same period of 2008, accounting for 13,3% of total operating income (up from 6,5% in the corresponding period of 2008), while net fees and commissions income decreased by 14,5%, with its contribution to total operating income falling to 16,6% (down from 20,3% in the same period of 2008).

The strong competition in the Cyprus



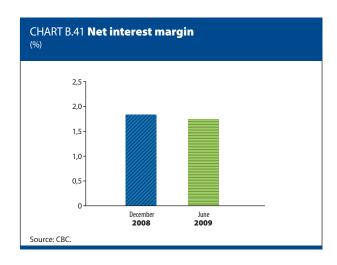
and Greek banking markets and banks' higher funding costs, which can be mainly attributed to high interest rates being offered on deposits, account for the decline in net interest margin to 1,74% in the first six months of 2009 from 1,83% in 2008 (Chart B.41).

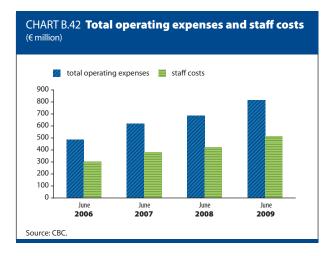
Total operating expenses rose by 19% in the first half of 2009, compared with the corresponding period of 2008 (Chart B.42). Staff costs recorded a significant increase of 21,7% in the first six months of 2009, compared with the same period of 2008, accounting for 63% of total operating expenses, compared with 61,7% in the corresponding period of 2008. The growth in operating costs, coupled with the lower rate of increase in operating revenues, has led to a small deterioration in the cost-toincome ratio from 45,8% in the period from January to June 2008 to 48,4% in the first half of 2009 (Chart B.43), indicating a slight worsening in banks' operating efficiency in the period under review.

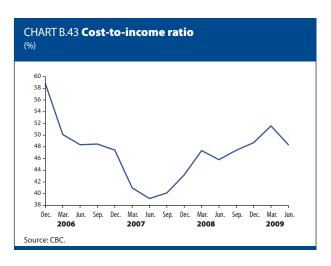
Banks' impairment on financial assets represented 0,42% of total assets in the first six months of 2009, up from 0,2% in the first half of 2008.

Asset quality

As regards asset quality indicators, (gross) non-performing and doubtful loans (loans and debt securities) per total loans and advances and total debt instruments reached to 3,2% at end-June 2009, the



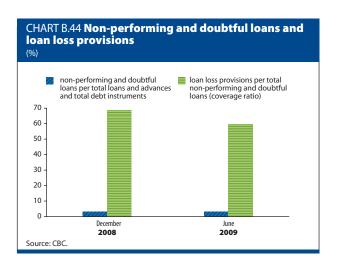


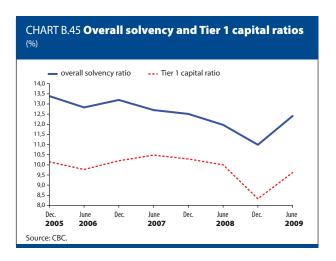


same as at the end of December 2008 (**Chart B.44**), reflecting the adequate quality of banks' loan portfolios in the period under review. However, it should be noted that non-performing loan ratios are typically pro-cyclical and may actually decrease in periods of strong credit growth, while they can be lagging indicators of the credit risk actually facing banks. Total (gross) loan loss provisions per total non-performing and doubtful loans and debt instruments (coverage ratio) dropped significantly to 59,7% at the end of June 2009, compared with 67,7% at end-December 2008.

Capital adequacy

The capital buffer available in the Cyprus banking system to cope with unexpected losses rose to 4.4% at the end of June 2009, compared with 3% at end-December 2008, mainly due to increased profits as well as a fall in risk-weighted assets in the banking book. At the same time, banks' overall solvency ratio climbed to 12,4% at the end of June 2009, up from 11% at end-December 2008 (Chart B.45). As a result, the capital position of the banking system remains adequate, with banks' overall solvency ratio standing at well above the minimum regulatory requirement of 8% applied to individual banks. Banks' Tier 1 capital ratio increased to 9,6% at the end of June 2009, compared with 8,3% at end-December 2008.



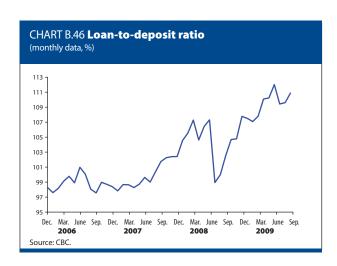


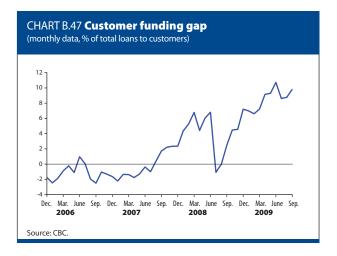
Liquidity

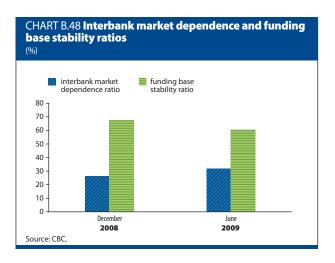
In the first six months of 2009, a number of indicators show a gradual depletion of excess liquidity in the banking system. On a non-consolidated basis³¹, total loans and advances to customers per amounts owed to customers (loan-to-deposit ratio) increased to 110,9% at the end of September 2009, up from 107,3% at end-March 2009 and 102,5% at the end of September 2008 (Chart B.46). In addition, as shown in **Chart B.47**, the banking sector's customer funding gap, which represents the proportion of customer loans not covered by customer deposits, reached 9,8% at end-September 2009 compared with 7,2% at the end of March 2009 and 2,5% at end-September 2008. This reflects the slowdown in the rate of deposit growth.

At the same time, as depicted in **Chart B.48**, the interbank market dependence ratio increased to 31,7% at the end of June 2009 (up from 26,1% at end-December 2008). The funding base stability ratio declined from 67,5% at the end of December 2008 to 60,5% at end-June 2009.

In addition, the cash and trading assets ratio dropped to 6,4% at the end of June 2009 compared with 7,8% at end-December 2008 (**Chart B.49**, p.111). In contrast, the cash, trading and available-for-sale assets ratio rose from 16% at the end of December 2008 to 17,1% at end-June 2009.





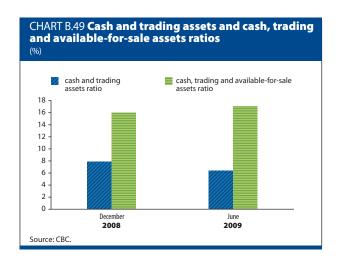


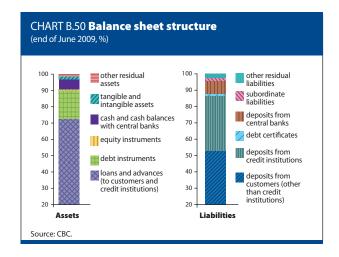
^{31.}Based on monthly balance sheet data submitted by MFIs to the CBC.

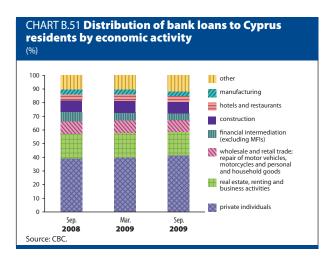
Balance sheet structure

On the consolidated balance sheet asset side, loans and advances to customers and credit institutions accounted for 72,5% of total consolidated banking assets at the end of June 2009, compared with 74,6% at end-December 2008 (Chart B.50). In addition, at the end of June 2009 total debt instruments comprised 17,6% of total consolidated banking assets, compared with 13,4% at end-December 2008. On the consolidated balance sheet liability side³², deposits from customers represented 53,1% of total liabilities at the end of June 2009, compared with 61,4% at end-December 2008. At the same time, deposits from credit institutions constituted 33,5% of total liabilities at the end of June 2009, compared with 27,8% at end-December 2008.

The analysis of bank loans to Cyprus residents by economic activity, on a nonconsolidated basis³², (**Chart B.51** and **Table C.21**, p. 153) shows that lending to most sectors has increased, albeit at a slower rate than in previous periods. As noted in Section 1.4.2, loans to the broad real estate sector rose by 9,7% year-onyear in September 2009 and represented 21,6% of total outstanding loans to non-MFIs, compared with 22,9% at end-March 2009 and 20,9% at end-September 2008. Loans to the wholesale and retail trade sector rose by 2,2% year-on-year in September 2009 and constituted 9% of





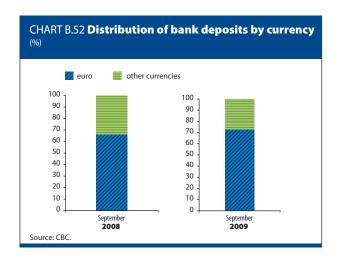


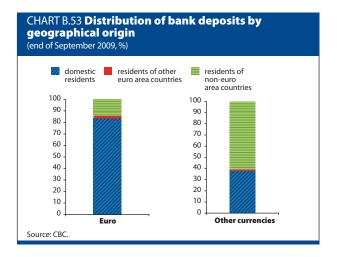
^{32.} Excludes equity. As a result, the total assets of the consolidated balance sheet do not equal the total liabilities.

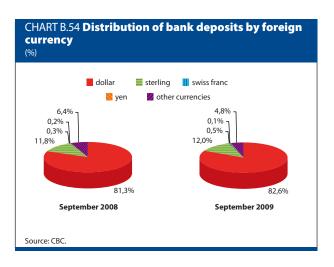
^{33.}Based on monthly balance sheet data submitted by MFIs to the CBC.

total outstanding loans to non-MFIs, down slightly from 9,4% at the end of March 2009 and at end-September 2008. In addition, loans to hotel and restaurants increased by 4,9% year-on-year September 2009 and represented 4,4% of total outstanding loans to non-MFIs, compared with 4,6% at end-March 2009 and 4,5% at end-September 2008. Moreover, loans to the non-bank financial intermediation sector decreased significantly by 26,7% year-on-year in September 2009 and represented 4,6% of total outstanding loans to non-MFIs, compared with 5,3% at end-March 2009 and 6,6% at end-September 2008.

On a non-consolidated basis³⁴, at the end of September 2009 72,8% of deposits were denominated in euros and 27,2% in foreign currencies, compared with 66,5% and 33,5% respectively at end-September 2008 (Chart **B.52**). As regards the distribution of bank deposits by geographical origin, at end of 2009 September 83,6% of denominated deposits emanated from domestic residents, 2,0% from residents of other euro area countries and 14,3% from residents of third countries, compared with 84,2%, 2% and 13,8% at end-September 2008, respectively (Chart B.53). At the end of September 2009, 82,6% of foreign currency deposits was accounted for by US dollars, 12% by sterling, 0,5% by Swiss francs and 0,1% by Japanese yen, compared with 81,3%, 11,8%, 0,3%, 0,2%, respectively, at end-September 2008 (Chart B.54).



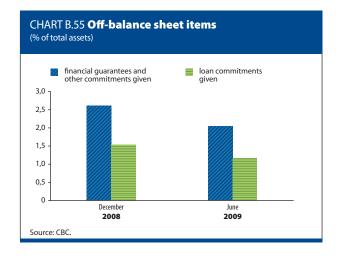




^{34.}Based on monthly balance sheet data submitted by MFIs to the CBC. Includes deposits from both Cypriot residents and non-residents.

Off-balance sheet items

As shown in **Chart B.55** the ratio of financial guarantees and other commitments given to total assets declined to 2,1% at the end of June 2009, compared with 2,6% at end-December 2008. At the same time, the ratio of loan commitments given to total assets declined to 1,2% at the end of June 2009, compared with 1,5% at the end of December 2008. These indicate that banks' off-balance sheet exposures are not sizeable.



2.2.3 Risks facing the banking sector

This section of the *Bulletin* discusses the main potential risks facing banks. It should be noted that the key risks identified should not necessarily be seen as the most probable outcome, but rather as likely factors that can have a potential negative impact on banks.

The direct impact of the recent global financial crisis on the Cyprus banking sector remains limited mainly due to the fact that banks have not been exposed to any US subprime-related products or other toxic financial assets. In contrast, the negative impact on the Cyprus economy has intensified as shown, for example, by developments in the tourism and construction sectors.

In the short term, banks must face the difficulties associated with the unfavourable domestic macroeconomic

conditions and an external operating environment in which, despite the concrete signs that the significant contraction in economic activity has come to or is nearing an end, uncertainly remains high and many challenges still lie ahead. Against the backdrop of the negative developments recorded in the Cyprus economy and concerns about the rise in unemployment and the deterioration in public finances, it is expected that banks will now have to cope with a period of adverse market conditions for revenue growth, while potential risks ahead will increasingly relate to the turn of the credit cycle. At the same time, despite the improvement in the economic climate, uncertainty in the euro area remains high.

Earnings and profitability risks

The accumulation of profits is important in strengthening banking sector resilience by generating capital buffers against potential future losses. Overall, banks in Cyprus, which typically have business models focusing on traditional intermediation activities and derive the largest part of their earnings from interest income, weathered the global financial turmoil well in the first half of 2009 and remained profitable.

Despite the slightly improved financial results reported by banks in the first half of 2009, the prospect of a further deterioration in domestic macroeconomic conditions as well as the uncertainty

surrounding the rebound in the world economy, may imply lower revenue and significant challenges for banks' earnings from core activities in the period ahead. Given the unfavourable environment in which banks are currently operating, lower profits and a slower organic growth of banks' capital bases should likely be expected in the near term.

Looking at the different components of banks' income, growth in net interest income will be negatively affected by a lower volume of net new lending both in domestic and in foreign markets and downward pressure on net interest margins. The net tightening of banks' credit standards as a response to unfavourable operating environment, coupled with the decline in demand for loans to both households and NFCs, may lead to even lower lending volumes, which can further depress revenues. The nearterm outlook for earnings on the non-interest income side could also be negatively affected by declining trading revenues and the possibility of further mark-to-market losses on holdings of financial assets.

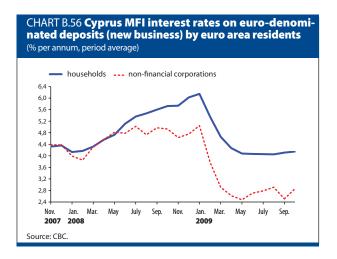
On the positive side, since the share of lending at variable rates is dominant, any potential decline in lending rates is expected to strengthen the capacity of households and NFCs to meet their debt-servicing obligations and, consequently, help to maintain asset quality at satisfactory levels, thereby boosting banks'

profitability.

In addition, although the cost of funding through the interbank market has been reduced significantly, banks continue to rely extensively on retail deposits, which represent their main source of funding. The strong competition for deposits (mainly fixed-term deposits) in the domestic banking sector has led banks to maintain the rates offered on new deposits at significantly higher levels than the respective rates in other euro area countries. In particular, Cyprus MFI interest rates³⁵ on euro-denominated deposits (new business) by euro area households and NFCs decreased from 4,66% and 2,91% in March 2009, respectively, to 4,15% and 2,86% in October 2009, respectively (Chart **B.56**). In comparison, euro area MFI interest rates on euro-denominated deposits (new business) by euro area households and NFCs stood at 1,68% and 0,66% in October 2009, respectively.

In the first half of 2009, the increased cost of funding put pressure on banks' net interest margins. As a result, to compensate for the reduced income banks have continued to pass the higher funding costs on to new and existing borrowers.

The negative outlook regarding operating income in the short term should be seen against the significant growth in the profitability of most banks recorded in recent years. However, given the deteriorating domestic economic climate as well as the unfavourable external operating environment

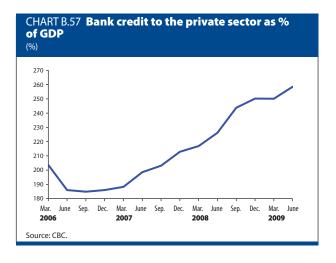


in which banks operate, a further decline in banks' profitability is expected to adversely affect the capital buffers of the banking sector. Actions on behalf of banks to mitigate such a risk could include, *inter alia*, the adoption of a more prudent dividend policy.

Credit risk

Bank credit to the private sector³⁶ rose by 1,6% year-on-year in September 2009 and reached 258,5% of GDP at the end of June 2009, compared with 250,2% at end-December 2008 and 226,2% at the end of June 2008 (**Chart B.57**). It must be noted that credit risk remains the most significant risk to which banks are exposed. In this regard, the capital allocated by banks for credit risk stood at 89,9% of the total consolidated capital requirements for the banking system at end-June 2009, compared with 90,1% at the end of December 2008.

Since the publication of the June 2009 *Bulletin*, the domestic economic climate has deteriorated substantially, especially in the third quarter of 2009. As regards the external operating environment, despite some concrete signs of improvement, the outlook for the euro area economy continues to be surrounded by a high degree of uncertainty. However, demand at the global level as well as in the euro area is expected to recover to some extent during the course of 2010. This likely development may have a positive impact on the quality



^{36.} Based on monthly balance sheet data submitted by MFIs to the CBC. Includes MFI loans to Cyprus residents and MFI holdings of securities issued by Cypriot residents.

of the loan portfolio of domestic banking groups in the countries in which they operate.

As regards household sector credit risk, the outlook is influenced adversely by the contraction in domestic economic activity, deteriorating labour market prospects, tighter credit market conditions and a decline in residential real estate prices. These developments are expected to have a negative impact on households' ability to service their debt and may lead to an increase in non-performing loans and arrears.

The challenging operating environment confronting domestic NFCs in the first half of 2009 has since been aggravated further by negative developments regarding the outlook for the Cyprus economy. Any potential substantial reduction in the debtservicing capacity of corporations may lead to future asset quality problems and, consequently, adversely affect banks' financial results. An important vulnerability of corporate sector balance sheets is the fact that firms generally entered the economic downturn with considerable debts, which implies that refinancing pressures are likely to emerge in the medium term. These high levels of leverage, which were built up gradually over a number of years, are consistent with the past strong growth in external financing favourable macroeconomic environment. However, in the present context and macroeconomic given significant risks on the downside, the highly leveraged sectors appear increasingly vulnerable to adverse shocks to cash flows or debt-servicing costs, as well as to disruptions in the refinancing of existing loans and short-term debt.

At the same time, although a potential abrupt and sharp further downturn in residential property prices in the near term is not expected, any further house price correction in 2010 will have a negative impact on household net worth and, if combined with further unfavourable income and labour market developments, it could also weaken households' debt-servicing capacity, leading to future banks' asset quality problems. It must be noted that mortgages account for a large proportion of credit to households. Furthermore, any potential fall in real estate prices, in general, may have an adverse effect on the value of collateral, thus diminishing the ability of households and NFCs to obtain financing from banks and, given the importance of real estate as loan collateral, could also increase banks' collateral risk.

Counterparty risk

During the course of the global financial crisis, counterparty credit risk had become one of the most important reasons for banks' reluctance to lend to each other as well as for their preference to maintain their levels of liquidity due to the uncertainty surrounding the exposures of the different counterparties and the inability to value

accurately the assets held. Counterparty risk is also important for banks in Cyprus given their exposures to other credit institutions in the form of money market placements and bond holdings. At the end of September 2009, banks' total holdings in other euro area banks and in banks from the rest of the world (non-euro area EU banks and non-EU banks) stood at €10,2 billion and €11,9 billion, respectively, on a non-consolidated basis³⁷. However, the remedial measures taken by governments and central banks in support of the banking sector in various countries as well as by the ECB at the eurosystem level have helped to gradually ease market tensions and considerably alleviate concerns associated with counterparty risk.

Market risk

The global financial turmoil has had a major adverse impact on the earnings which a number of banks in the euro area and the rest of the world generate from their trading book assets. Accordingly, mark-to-market losses have exerted a negative drag on these banks' profits. In contrast, market-related risks do not play such an important role in the overall risk profiles of banks in Cyprus. The fact that banks are not exposed to structured products, i.e. products with structured flows which are associated with other debt securities, price indicators (such as equity, bond and commodity price indices) or derivatives, has contributed to limiting market risks, despite

^{37.}Based on monthly balance sheet data submitted by MFIs to the CBC.

the negative developments in the international financial system. In this regard, the capital allocated by banks for market risk amounted to 1,3% of the total consolidated capital requirements for the banking system at end-June 2009, compared with 1,1% at the end of December 2008.

Banks are subject to interest rate risk, which is related mainly to developments in the shape of the yield curve. This has implications for income derived from the banking books and from fixed-income assets held in the trading books. At end-September 2009, banks' holdings of fixed-income securities issued by general government and MFIs, on a nonconsolidated basis³⁸, comprised 9,8% and 6,6% of total banking sector assets, respectively, compared with 4,9% and 7,3% at the end of September 2008. The share of corporate bonds, excluding bonds issued by other banks, in total banking sector assets stood at 12% at end-September 2009, up from 6,5% at the end of September 2008. It must be noted that banks tend to hedge their fixed-income portfolio holdings by using interest rate derivatives. Overall, banks' exposure to traded debt instruments remains limited.

As regards equity price risk, the share of banks' equity investments (excluding shares in group undertakings and participating interests), on a non-consolidated basis³⁹, declined to 0,3% of total banking sector assets at end-September 2009 from 0,5% at the end of

^{38.}Based on monthly balance sheet data submitted by MFIs to

^{39.}Based on monthly balance sheet data submitted by MFIs to the CBC.

September 2008. Therefore, equity-investment related risks are limited.

Banks direct exposures to foreign exchange risk are also limited and adequately hedged. In this regard, the ratio of banks' overall net open position in foreign exchange to capital remains at a low level.

Funding liquidity risk

Customer deposits remain the main source of funding for banks. Banks in Cyprus have limited reliance on the international wholesale funding markets and have not adopted the "originate and distribute" banking model, whereby banks originate loans, repackage the cash-flows generated by these loans into asset-backed securities, often via so-called Special Purpose Entities (SPEs) or Vehicles (SPVs), and sell-on the securities to investors. Such funding structures carry greater funding liquidity risks than traditional ones that rely heavily on customer deposits. This is because of the relative ease with which wholesale funding can be withdrawn as opposed to customer deposits. In the light of the above, banks in Cyprus have continued to focus their strategies on increasing or maintaining retail deposits, thereby trying to reduce customer funding gaps.

Regarding banks' other funding sources, there have been concrete signs of improvement in euro area money market conditions, as indicated by a marked decline in spreads between the EURIBOR and OIS rates. These positive developments are reflected in higher transaction volumes in unsecured interbank markets and by a decline in banks' recourse to the ECB deposit facility. However, it must be said that the dependence of banks in Cyprus on market-based funding remains limited.

In their effort to increase their deposit base, especially fixed-term deposits, banks have maintained the high interest rates offered on deposits. As a result, banks' cost of funding has remained at an elevated level.

In addition, the issuance of long-term debt securities is expected to remain a less attractive option, despite the normalisation of financial market conditions and the recovery of risk appetite on the part of investors. Any new debt issuance is also likely to take place at higher spreads and shorter maturities, thereby contributing to the maintenance of banks' high funding costs and implying increased roll-over risks.

The tight conditions still prevailing in some other segments of the funding markets, such as that for issues of innovative capital instruments (e.g. preference shares/subordinated debt and hybrid Tier 1), are also adversely affecting the availability and cost of banks' funding.

Furthermore, given market uncertainty and the high volatility in bank stock prices, access to funds of those banks that might need to tap the equity market for additional funds to strengthen their capital base against possible future losses may remain difficult in the near term.

However, the issue of special government bonds with a maturity of up to three years totalling up to €3 billion, which can be used, if deemed necessary, as collateral by banks for the purpose of raising cheaper funds from the ECB, is expected to provide an alternative source of funding for banks and help alleviate to some extent their funding needs, at least in the short term.

In addition, the maturity of fixed-term deposits locked at high interest rates, is expected to reduce the cost of money and, as a result, the lending rates of banks.

The strict but simple prudential regulations on banks' liquidity, which have long been prescribed by the CBC, as well as prudent liquidity management practices of the banks themselves, have helped to shield the domestic banking system from the severe liquidity problems that developed in the banking sectors of other countries during the recent financial turmoil. The effectiveness of these prudential liquidity requirements has been acknowledged by the IMF in its recent financial system stability assessment of Cyprus under the Financial Sector Assessment program (FSAP), which was published in November 2009.

Operational risk

As a result of the implementation of the CBC Directive on the "Calculation of the Capital Requirements and Large Exposures of Banks", all banks incorporated in Cyprus

^{40.} The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and includes legal risk.

have been required, since the first half of 2008, to calculate capital requirements against operational risk⁴⁰ as well. According to the Directive, the methodological approach chosen by credit institutions regarding operational risk should be based on the complexity and the magnitude of the risks undertaken by banks and must cover all business areas both at a bank and group levels.

At the end of June 2009, the capital allocated by banks for operational risk amounted to 8,7% of the total consolidated capital requirements for the banking system, compared with 8,8% at end-December 2008.

Risks stemming from the international presence of the Cypriot banking groups

During the past few years, intensified competition and saturation in the domestic banking market have triggered significant international expansion by the three largest domestic banking groups, namely the Bank of Cyprus Public Company Ltd, Marfin Popular Bank Public Co. Ltd and Hellenic Bank Public Company Limited, in the form of mergers and acquisitions and/or organic growth. Banks have been expanding their branch network in Greece and, more recently, have been increasingly focusing on the south-eastern European countries as well as Russia and the Ukraine. These new markets provide ample growth opportunities and banks are also keen to further extend the business relationships

with their existing clients, currently serviced by banks' international business departments.

At the end of September 2009, the overseas operations of the Bank of Cyprus Public Company Ltd, Marfin Popular Bank Public Co. Ltd and Hellenic Bank Public Company Limited represented around 45%. 63% and 24% of their total consolidated group assets, respectively. Moreover, at end-December 2008, loans and advances granted by the three banking groups to (excluding customers other institutions) in Greece reached around 38%, 53% and 22% of total group loans, respectively. Furthermore, at December 2008, loans and advances granted by the Bank of Cyprus Public Company Ltd and Marfin Popular Bank Public Co. Ltd to customers (excluding other credit institutions) in south-eastern European countries, Russia and the Ukraine, constituted around 8% and 5% of total group loans, respectively.

The expansion of banks in overseas markets, while entailing significant benefits such as the diversification of business operations and the associated reduction in the sensitivity to domestic shocks, exposes banks to country risks.

Risks to financial stability stemming from banks' exposures to the emerging market economies of south-eastern Europe, Russia and the Ukraine have decreased somewhat, mainly on account of the recovery of investor confidence in these countries, which has eased funding conditions to some extent. Although most of these countries have not been at the epicentre of the crisis, their high dependence on external demand and the limited room for manoeuvre for monetary and fiscal policies have contributed to increased risks to banks operating in several of these markets. These risks could crystallise in a scenario involving a potential sharp deterioration in macroeconomic conditions, through higher delinquency rates and defaults on household and corporate loans. As the outlook for economic recovery in these countries is surrounded by a high degree of uncertainty, the risks to domestic banks that stem from their exposures to this region remain elevated.

In summary, the main sources of risk that banks face with respect to this region in the near term originate from: (i) asset deterioration related to a worse-than-anticipated macroeconomic slowdown in this region, coupled with a possible further correction of real estate prices; (ii) foreign currency lending practices, given remaining interest rate differentials and possible adverse exchange rate developments in countries with flexible exchange rates; and (iii) portfolio concentration risks and insufficient differentiation across sectors, currencies and geographical entities. However, it must be stressed that, as a percentage of total consolidated group assets, banks in Cyprus do not have significant exposures to the region.

In addition, the growing dependence of the three main domestic banking groups on

BOX B.2: Assessment of the shockabsorption capacity of the Cyprus banking sector on the basis of stress testing results

In the second half of 2009, a single-factor sensitivity analysis, based on a "top-down" approach, was conducted by the CBC using end-June 2009 data in order to assess the resilience of the Cyprus banking system to a range of hypothetical adverse shocks. A number of shocks concerning individual risk factors, namely credit risk, market risk (interest rate risk, foreign exchange risk and equity price risk) and liquidity risk were considered. The aggregate results of the above stress testing exercise suggest that the banking sector's shock-absorption capacity remains strong.

In addition, a more comprehensive "bottom-up" stress testing exercise¹ was carried out by the CBC, again based on end-June 2009 data, in which four systemically important banks participated. The above exercise aimed at assessing the resilience of the Cyprus banking sector to a number of hypothetical adverse shocks concerning individual risk factors, namely interest rate risk, foreign exchange rate risk, asset price risks (equity price risk and real estate price risk), credit risk and net interest margin risk. For liq-

uidity risk, a number of multi-factor scenarios were included. Furthermore, a number of scenarios, which included various extreme but plausible combinations of potential individual shocks, were considered. The four banks that participated in the exercise were asked to quantify the impact of these shocks on their portfolios, on a consolidated basis, assuming that there were no other extraordinary sources of income or injections of new capital that would offset the impact of the hypothetical shocks. It must be noted that the above stress testing exercise is conducted by each individual bank on a bi-annual basis and the results are submitted to the Financial Stability Section of the CBC.

Overall, the results show that the banks which participated in the bottom-up stress testing exercise remain resilient to potential adverse shocks and, therefore, the Cyprus banking sector is capable of withstanding the impact of the extreme but plausible shocks considered in the exercise. In particular, the results of these stress tests indicated that out of all the shocks that were applied, those regarding credit risk had the largest impact on banks' capital adequacy ratio. In general, the various shocks had a minor effect on banks' overall solvency ratio, except in the particular case in which

^{1.} The exercise was conducted for the first time in 2008 as part of the assessment of the Cyprus financial sector by the IMF under its Financial Sector Assessment Programme (FSAP). The results of this bi-annual exercise are now submitted to the IMF on a regular basis as part of the bi-lateral "Article IV consultations".

non-performing loans increased by 100% and the Loss Given Default (LGD) exceeded 70%. The application of such a shock resulted in banks' aggregate capital adequacy ratio of banks falling below the supervisory minimum of 8% applied to individual banks. The application of the shocks concerning all the other risk factors that were considered in the exercise did not have a significant impact on banks' solvency position.

As regards liquidity risk, four combinations of individual shocks (scenarios) were considered. The stress testing exercise assessed the resilience of banks in the event of a significant withdrawal of deposits and under conditions of new funding being anavailable through the borrowing from the ECB or other banks in the interbank market. For this purpose, the impact of the four scenarios on two specific liquidity ratios was quantified over a time horizon of 5 and 30 days. In general, the results of the exercise confirmed that banks' liquidity remains at a satisfactory level, mainly due to their wide retail deposit base and the CBC regulation regarding the placement of a large part of banks' foreign currency deposits in liquid assets. Consequently, banks in Cyprus would be able to withstand extreme potential shocks without the need to turn to the CBC for emergency liquidity assistance.

Finally, multi-factor scenarios were considered which included various com-

binations of shocks regarding individual risk factors. Due to the fact that assessing the impact of the various individual shocks on a stand-alone basis may not offer the most complete picture in an environment of deteriorating macroeconomic conditions, the said scenarios were used in order to assess the impact of a combination of such shocks on banks' capital adequacy. Under one extreme scenario, which combined: (a) an increase in non-performing loans by 100%; (b) a real estate price decline by 30%; (c) an increase in interest rates by 200 basis points; (d) an exchange rate appreciation against all other currencies by 30%; and (e) an equity price decline by 50%, it was calculated that, in the event of a simultaneous crystallisation of all of the above shocks, the banks' aggregate capital adequacy ratio would decline to 6,6% and that capital injections equal to around 7,3% of GDP would be needed to ensure that each bank satisfied the supervisory minimum of 8%.

It should be noted that, in general, the capacity of banks to absorb potential adverse shocks has improved to some extent compared with the results of the previous stress testing exercise which was based on end-December 2008 data.

the Greek market renders them vulnerable to the current economic slowdown in Greece. Following the recent placement by Standard & Poor's of the country's rating on negative watch, Fitch Ratings also downgraded Greece to BBB+ from A- and assigned a negative outlook, while leaving open the possibility of a further downgrade. In parallel, the short-term Issuer Default Rating (IDR) was reduced to F2 from F1. As stated in the Fitch report, the downgrade reflects the concerns over the medium-term outlook for public finances and the uncertainty regarding the prospects for a balanced and sustainable economic recovery. Since the Greek macroeconomic outlook remains weak, banks operating in the country will have to cope with an increase in non-performing loans and loan loss provisions, which may put additional pressure on their bottom-line results.

2.2.4 Overall assessment and outlook

In the first half of 2009, for which the latest consolidated data for the Cyprus banking sector are available, banks in Cyprus had to cope with the negative developments in the domestic economy as well as an unfavourable external operating environment characterised by a high degree of uncertainty due to the adverse effects of the recent global financial crisis. However, it must be noted that the financial turmoil has had a limited direct impact on the domestic banking system.

During the period under review, banks remained profitable despite a deceleration in profit growth. At the same time, high funding costs have put pressure on banks' net interest margins. Stock liquidity indicators show a gradual depletion of excess liquidity in the banking system in the first six months of 2009. In contrast, the capital buffers of the banking system have increased, while banks' overall solvency ratio remains at a satisfactory level, well above minimum the regulatory requirement of 8% applied to individual banks. Moreover, banks' asset quality does not seem to exhibit any deterioration at present, although total loan loss provisions per total (gross) non-performing and doubtful loans and debt instruments (coverage ratio) declined significantly during the period under review.

must be noted lt that the implementation of the CBC Directive on "Calculation the the of Capital Requirements and Large Exposures of Banks" since the first half of 2008 has helped to better align regulatory capital requirements to the underlying risks which banks face and has also enhanced banks' risk management practices.

However, banks face a number of potential risks in the near term. Firstly, the deceleration in domestic economic activity, coupled with the weak external macroeconomic environment, lead to a tightening of credit standards and a slowdown in demand for new lending by

households and NFCs, thereby reducing credit expansion. These developments are expected to adversely affect banks' earnings and, therefore, their profitability. Moreover, credit risks stemming from lending to households and NFCs have also increased, while any potential reduction in their debt-servicing capacity may lead to future asset quality problems for banks and have a negative impact on their financial results. As a result of the easing of tensions in international financial markets as well as the remedial measures taken by governments and central banks in support of the banking sectors in many countries as well as by the ECB at the eurosystem level, counterparty risk has been mitigated to a large extent. At the same time, market risks facing banks remain limited. In contrast, banks' funding liquidity risks continue to be significant as a result of the increased cost of funding emanating, mainly from the high interest rates offered by banks on retail deposits due to the strong competition in the Cyprus and Greek markets. In this regard, banks face several challenges in their effort to secure medium- and long-term funding. However, the issue of special government bonds with a maturity of up to three years totalling up to €3 billion, which can be used as collateral by banks for the purpose of raising cheaper funds from the ECB, is expected to help alleviate banks' funding needs, at least in the short term. The risks originating from the

presence of the three largest domestic banking groups in overseas markets have also increased due to the deterioration in macroeconomic conditions in some of the countries, especially Greece, in which these groups operate.

In conclusion, banks in Cyprus remain healthy and sound and are generally in a solid position to weather satisfactorily any potentially difficult times ahead. However, the banking sector is facing significant risks and challenges that might affect its capacity to sustain current profitability levels in the near term.



SECTION C
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 sub-categories 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 C.1 shows the bilateral exchange rates of selected currencies against the euro. The source of the data is the ECB's Statistical Data Warehouse (SDW).

Tables C.2-C.7 refer to the Consumer Price Index (CPI), which is published on a monthly basis by Cystat with 2005 as the base year. The tables show 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 C.2 and C.3 show the percentage change in CPI by economic category and the corresponding weighted contribution to the total change in CPI by economic category, respectively. Tables C.4 and C.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 C.6 and **C.7** show the percentage change in the CPI in the prices of services and the corresponding weighted contribution to the percentage change in prices of services, respectively.

Table C.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 C.9 shows the trade balance of Cyprus, which records the trade in goods between residents and non-residents of Cyprus.

Tables C.10 and **C.11** present the direct investments by non-residents in Cyprus and Cypriot residents' direct investments abroad, respectively.

Table C.12 shows the international investment position of Cyprus, namely the assets and liabilities of residents over non-residents. The data for **Tables C.8**, **C.10** - **C.12** are collected and compiled by the CBC and are based on the IMF's methodology (BPM5). **Table C.9** is prepared and published by Cystat.

Table C.13 shows the tourist arrivals and revenue from tourism as published by Cystat and are based on the results of the monthly Passenger Survey.

Table C.14 shows GDP by category of expenditure at constant 2000 market prices calculated using the chain linking method while **Table C.15** 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 C.16 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 the Cystat with 2005 as the base year.

Table C.17 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 C.18 presents the index of industrial 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 C.19 shows key indicators of the labour market in Cyprus based on the Labour Force Survey (LFS), which is published by Cystat. The LFS is conducted in all EU member states in accordance with the EU Regulation 577/98.

Table C.20 presents gross and net public debt, as compiled by the Ministry of Finance. The table breaks down public debt into its domestic and foreign components as well as distinguishing between long-term and short-term debt.

Table C.21 presents the distribution of bank loans to Cypriot residents by economic activity based on the EU's NACE Rev. 1.1 classification. The data refer to the loans of domestic residents of Cyprus, including enterprises with no physical presence in Cyprus. The data are collected by the CBC.

Table C.22 shows a number of key aggregate indicators of the Cyprus banking sector based on aggregate cross-border and cross-sector consolidated data (excluding insurance companies) collected by the CBC.

TABLE C.1 Exchange rates of selected currencies against the euro			
	GBP/EUR	JPY/EUR	USD/EUR
Average for January	0,9182	119,7329	1,3239
Average for February	0,8869	118,3005	1,2785
Average for March	0,9197	127,6532	1,3050
Average for April	0,8976	130,2460	1,3190
Average for May	0,8844	131,8460	1,3650
Average for June	0,8567	135,3918	1,4016
Average for July	0,8609	133,0939	1,4088
Average for August	0,8627	135,3143	1,4268
Average for Septemer	0,8913	133,1441	1,4562
Average for October	0,9156	133,9141	1,4816
Average for November (until 13 Nov.)	0,8975	134,0820	1,4870
Average for Jan-November (until 13 Nov.)	0,8901	130,2472	1,3867
Closing rate on 02/01/2009	0,9610	126,6400	1,3866
Closing rate on 13/11/2009	0,8913	133,5100	1,4868
	(1 Jan)	(26 Oct)	(23 Oct)
Highest exchange rate vs the euro	0,961	138,09	1,502
	(5 Aug)	(23 Jan)	(4 Mar)
Lowest exchange rate vs the euro	0,8426	113,65	1,256
% appreciation (+)/depreciation (-) of the currency vs the euro from closing rate on 02/01/2009 to closing rate on 13/11/2009	7,3	-5,4	-7,2

											Wei	ghts
		2006	2007	2008	0ct. 2008/07	Sep. 2009/08	0ct. 2009/08	Jan Oct. 2008/07	Jan Sep. 2009/08	Jan Oct. 2009/08	2005=100 (for 2006)	2005=100 (for 2007- 2009) ⁽¹⁾
	GENERAL INDEX	2,49	2,38	4,70	5,24	-1,23	-0,80	5,06	0,14	0,05	100,00	100,00
A	Domestic products	4,35	3,94	7,36	10,65	-4,08	-3,69	7,32	1,39	0,85	28,60	28,98
A.1	Agricultural	6,51	7,83	10,71	20,30	-10,12	-8,36	10,57	4,49	3,12	6,92	6,93
A.2	Industrial	2,47	3,02	3,64	3,77	1,93	1,46	3,34	2,89	2,67	19,24	19,29
A.3	Electricity	13,10	-0,33	23,16	31,29	-20,26	-19,27	24,51	-15,13	-15,61	2,44	2,76
В	Petroleum products	8,09	2,81	10,54	7,36	-16,53	-13,57	15,98	-21,54	-20,78	6,44	6,63
c	Imported products	-1,14	-1,92	-0,35	-0,44	-1,19	-0,55	-0,42	-0,48	-0,49	25,31	24,62
С1	Motor vehicles	-1,38	-8,50	-1,29	-1,20	-4,51	-4,72	-1,29	-2,81	-3,01	6,15	5,41
C2	Other imported products	-1,07	-0,08	-0,11	-0,25	-0,34	0,48	-0,19	0,12	0,15	19,16	19,21
D	Services	2,57	3,58	4,48	4,08	3,97	3,65	4,58	3,72	3,71	39,65	39,77
	HICP	2,2	2,2	4,4	4,8	-1,2	-1,0	4,8	0,1	0,0		

TABLE C.3 Weighted contribution to the total percentage change in CPI by eco	nomic category
(%)	

											We	ights
		2006	2007	2008	0ct. 2008/07	Sep. 2009/08	0ct. 2009/08	Jan Oct. 2008/07	Jan Sep. 2009/08	Jan Oct. 2009/08	2005=100 (for 2006)	2005=100 (for 2007 - 2009) ⁽¹⁾
_	GENERAL INDEX	2,49	2,38	4,7	5,24	-1,23	-0,80	5,06	0,14	0,05	100,00	100,00
Α	Domestic products	1,25	1,16	2,21	3,19	-1,28	-1,16	2,19	0,34	0,26	28,60	28,98
A.1	Agricultural	0,45	0,56	0,81	1,48	-0,87	-0,70	0,81	0,33	0,25	6,92	6,93
A.2	Industrial	0,47	0,58	0,71	0,74	0,36	0,28	0,64	0,58	0,55	19,24	19,29
A.3	Electricity	0,32	-0,01	0,69	0,97	-0,78	-0,74	0,72	-0,52	-0,54	2,44	2,76
<u>B</u>	Petroleum products	0,52	0,20	0,74	0,52	-1,27	-0,97	1,11	-1,21	-1,50	6,44	6,63
c	Imported products	-0,29	-0,46	-0,08	-0,10	-0,25	-0,12	-0,10	-0,10	-0,11	25,31	24,62
<u>C1</u>	Motor vehicles	-0,08	-0,44	-0,06	-0,05	-0,19	-0,20	-0,06	-0,12	-0,13	6,15	5,41
C2	Other imported products	-0,20	-0,01	-0,02	-0,05	-0,06	0,08	-0,04	0,02	0,03	19,16	19,21
D	Services	1,02	1,43	1,80	1,64	1,58	1,45	1,85	1,14	1,44	39,65	39,77

Source: Cystat.
(1) The weights were updated as a result of the change in the taxes on motor vehicles.

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

				Oct.	Sep.	Oct.	Jan Oct.	Jan Sep.	Jan Oct
	2006	2007	2008	2008/07	2009/08	2009/08	2008/07	2009/08	2009/08
GENERAL INDEX	2,49	2,38	4,67	5,24	-1,23	-0,80	5,06	0,14	0,05
Food and non-alcoholic beverages	4,80	5,56	7,59	12,09	-2,87	-3,00	7,32	4,92	4,08
Alcoholic beverages and tobacco	0,49	1,34	0,23	0,65	4,00	3,77	0,11	3,09	3,16
Clothing and footwear	-0,32	0,29	-1,32	-3,12	-5,78	-2,28	-1,13	-4,90	-4,62
Housing, water, electricity and gas	4,90	2,07	7,01	9,34	-3,92	-3,77	7,55	-2,82	-2,92
Furnishings, household equipment and supplies	0,13	0,27	2,15	2,25	2,13	2,12	2,00	1,34	1,42
Health	1,31	6,22	4,93	3,72	7,27	7,29	5,23	6,15	6,27
Transport	2,87	-0,48	4,47	2,52	-7,44	-5,68	6,54	-8,83	-8,53
Communications	-1,83	1,30	0,16	0,22	0,01	0,01	0,20	0,00	0,01
Recreation and culture	-0,33	0,59	3,65	3,31	2,14	2,02	3,72	2,05	2,05
Education	4,68	4,88	5,05	5,20	7,30	5,07	5,02	5,36	5,33
Restaurants and hotels	2,18	4,20	7,65	7,11	5,11	4,67	7,76	5,96	5,83
Miscellaneous goods and services	2,23	2,48	2,50	1,92	3,33	3,17	2,54	2,95	2,98

Source: Cystat.

				Oct.	Sep.	Oct.	Jan Oct.	Jan Sep.	Jan Oct.
	2006	2007	2008	2008/07	2009/08	2009/08	2008/07	2009/08	2009/08
GENERAL INDEX	2,49	2,38	4,67	5,24	-1,23	-0,80	5,06	0,14	0,05
ood and non-alcoholic beverages	0,82	0,98	1,36	2,20	-0,56	-0,58	1,33	0,91	0,75
Alcoholic beverages and tobacco	0,01	0,03	0,00	0,01	0,08	0,08	0,00	0,06	0,06
lothing and footwear	-0,03	0,03	-0,11	-0,28	-0,43	-0,19	-0,09	-0,37	-0,35
lousing, water, electricity and gas	0,76	0,34	1,13	1,55	-0,68	-0,65	1,22	-0,47	-0,48
urnishings, household equipment and supplies	0,01	0,02	0,14	0,14	0,13	0,13	0,13	0,08	0,09
Health	0,06	0,31	0,25	0,19	0,37	0,37	0,26	0,31	0,32
Transport	0,45	-0,07	0,65	0,38	-1,12	-0,82	0,96	-1,32	-1,26
ommunications	-0,07	0,05	0,01	0,01	0,00	0,00	0,01	0,00	0,00
Recreation and culture	-0,02	0,04	0,22	0,20	0,13	0,12	0,22	0,12	0,12
ducation	0,13	0,14	0,15	0,16	0,22	0,15	0,15	0,16	0,16
Restaurants and hotels	0,16	0,31	0,57	0,55	0,41	0,37	0,58	0,46	0,45
Miscellaneous goods and services	0,15	0,17	0,17	0,13	0,22	0,21	0,17	0,20	0,20

	Sep. 2009/08	0ct. 2008/07	Oct 2009/08	Jan Sep. 2009/08	Jan Oct. 2008/07	Jan Oct. 2009/08
GENERAL INDEX	-1,23	5,24	-0,80	0,14	5,06	0,05
Rents	2,89	2,84	2,89	2,98	2,58	2,97
Maintenance of houses	1,23	3,33	0,57	1,10	2,79	1,04
Fransport Fransp	0,10	2,09	1,26	1,45	2,04	1,43
Communications	0,06	0,31	0,06	0,05	0,34	0,04
nsurance	4,00	-0,85	4,00	2,83	-0,20	2,94
Public services	2,22	2,05	1,07	2,11	1,66	2,00
Education	7,30	5,20	5,07	5,36	5,02	5,33
Medical care	9,57	5,15	9,62	8,16	7,21	8,30
Restaurants	5,55	6,99	5,25	6,04	7,87	5,96
Personal and household services	3,39	5,48	2,82	2,89	6,79	2,88
Total services	3,97	4,08	3,65	3,72	4,58	3,71

	Sep. 2009/08	Oct. 2008/07	Oct 2009/08	Jan Sep. 2009/08	Jan Oct. 2008/07	Jan Oct. 2009/08
GENERAL INDEX	-1,23	5,24	-0,80	0,14	5,06	0,05
Rents	0,19	0,19	0,19	0,20	0,20	0,20
Maintenance of houses	0,03	0,07	0,01	0,02	0,07	0,02
Transport	0,00	0,05	0,03	0,04	0,06	0,04
Communications	0,00	0,01	0,00	0,00	0,01	0,00
Insurance	0,07	-0,01	0,07	0,05	0,00	0,05
Public services	0,03	0,03	0,01	0,03	0,03	0,03
Education	0,22	0,16	0,15	0,14	0,13	0,16
Medical care	0,36	0,19	0,36	0,23	0,30	0,31
Restaurants	0,42	0,52	0,39	0,34	0,64	0,43
Personal and household services	0,27	0,43	0,22	0,23	0,59	0,23
Total services	1,58	1,64	1,45	1,14	2,05	1,44

		2007			2008 (prov.)	
	CREDIT	DEBIT	NET	CREDIT	DEBIT	NET
CURRENT ACCOUNT	10.502,8	12.367,7	-1.865,0	10.828,8	13.875,9	-3.047,0
GOODS, SERVICES AND INCOME	9.901,5	11.759,5	-1.858,0	10.169,3	13.180,1	-3.010,8
GOODS AND SERVICES	7.487,1	8.526,8	-1.039,6	7.585,8	9.612,4	-2.026,6
GOODS	1.083,2	5.793,6	-4.710,4	1.149,2	6.695,6	-5.546,3
SERVICES	6.403,9	2.733,2	3.670,7	6.436,6	2.916,8	3.519,8
Transport	1.543,4	881,8	661,5	1.770,9	1.106,2	664,7
Travel	1.954,6	1.070,7	884,0	1.861,1	1.052,6	808,5
Communications services	85,9	103,3	-17,4	76,0	100,7	-24,6
Construction services	148,1	21,0	127,1	103,6	15,0	88,6
Insurance services	85,0	61,2	23,8	122,8	45,4	77,4
Financial services	528,5	116,1	412,5	745,2	148,9	596,3
Computer and information services	198,9	27,9	171,0	144,6	19,5	125,0
Royalties and licence fees	15,5	39,3	-23,8	8,2	31,9	-23,7
Other business services	1.425,1	259,1	1.166,0	1.395,6	268,2	1.127,4
Personal, cultural and recreational services	56,3	59,7	-3,3	35,7	51,0	-15,3
Government services, n.i.e.	362,6	93,2	269,4	173,0	77,4	95,6
Services not allocated	0,0	0,0	0,0	0,0	0,0	0,0
INCOME	2.414,4	3.232,7	-818,3	2.583,5	3.567,7	-984,2
Compensation of employees	31,6	162,9	-131,3	59,7	260,9	-201,2
Investment income	2.382,8	3.069,8	-687,0	2.523,9	3.306,8	-782,9
Direct investment income	603,1	1.689,5	-1.086,4	530,5	1.649,5	-1.119,0
Portfolio investment income	627,5	633,5	-5,9	881,2	741,2	140,0
Other investment income	1.152,2	746,8	405,3	1.112,1	916,1	196,1
CURRENT TRANSFERS	601,3	608,2	-7,0	659,5	695,8	-36,3
General government	176,0	199,7	-23,6	131,5	208,3	-76,8
Other sectors	425,2	408,6	16,7	528,1	487,5	40,6
CAPITAL AND FINANCIAL ACCOUNT			1.907,0			2.957,4
Capital account	63,5	57,8	5,7	54,4	45,4	9,0
Financial account			1.901,3			2.948,4
Direct investment			720,2			311,9
Abroad			-906,3			-889,6
In Cyprus			1.626,4			1.201,5
Portfolio investment			-322,7			-12.779,5
Assets			284,3			-12.132,9
Liabilities			-607,0			-646,6
Financial derivatives			101,4			-186,9
Other investment			1.182,2			15.334,3
Assets			-10.110,1			-7.469,9
Liabilities			11.292,3			22.804,1
Official reserve assets			220,2			268,7
Net errors and omissions			-42,1			89,7

	2008 (1st half)			2009 (1st half)	
CREDIT	DEBIT	NET	CREDIT	DEBIT	NET
4.796,4	6.113,2	-1.316,8	4.488,4	5.228,7	-740,3
4.488,8	5.761,3	-1.272,5	4.251,8	4.905,7	-654,0
3.433,5	4.651,8	-1.218,3	3.090,4	3.719,0	-628,6
590,7	3.277,5	-2.686,9	490,0	2.551,9	-2.061,9
2.842,9	1.374,3	1.468,6	2.600,4	1.167,1	1.433,3
859,5	561,9	297,6	757,5	475,2	282,3
718,0	420,6	297,4	594,4	389,6	204,7
47,8	57,2	-9,3	38,2	44,1	-5,9
64,6	6,2	58,5	26,8	4,5	22,3
43,1	25,4	17,7	42,2	21,8	20,5
278,2	78,6	199,6	324,8	68,7	256,
74,7	9,5	65,3	40,1	8,4	31,7
4,1	7,3	-3,2	4,0	7,9	-3,8
658,3	134,6	523,8	714,3	101,1	613,2
23,9	30,9	-6,9	11,7	17,1	-5,4
70,5	42,2	28,2	46,4	28,8	17,0
0,0	0,0	0,0	0,0	0,0	0,0
1.055,2	1.109,5	-54,2	1.161,3	1.186,7	-25,4
					-50,
					25,
·		<u> </u>	· · · · · · · · · · · · · · · · · · ·		-185,
	285,3			288,7	107,
561,5	430,8	130,8	562,2	458,4	103,8
307,6	351,9	-44,3	236,7	322,9	-86,
					-45,1
235,5	241,5	-6,0	168,9	210,1	-41,
		1.296,5			708,7
35,0	23,2	11,8	40,4	27,5	12,
		1.284,8			695,
					235,
					-104,
					339,
					-7.262,
					-10.678,
					3.415,
					45,
					7.602,
					-6.884,
					14.486,
					75,7 31, 0
	4.796,4 4.488,8 3.433,5 590,7 2.842,9 859,5 718,0 47,8 64,6 43,1 278,2 74,7 4,1 658,3 23,9 70,5 0,0 1.055,2 33,6 1.021,7 129,1 331,0 561,5	4.796,4 6.113,2 4.488,8 5.761,3 3.433,5 4.651,8 590,7 3.277,5 2.842,9 1.374,3 859,5 561,9 718,0 420,6 47,8 57,2 64,6 6,2 43,1 25,4 278,2 78,6 74,7 9,5 4,1 7,3 658,3 134,6 23,9 30,9 70,5 42,2 0,0 0,0 1.055,2 1.109,5 33,6 117,5 1.021,7 991,9 129,1 275,8 331,0 285,3 561,5 430,8 307,6 351,9 72,2 110,4 235,5 241,5	CREDIT DEBIT NET 4.796,4 6.113,2 -1.316,8 4.488,8 5.761,3 -1.272,5 3.433,5 4.651,8 -1.218,3 590,7 3.277,5 -2.686,9 2.842,9 1.374,3 1.468,6 859,5 561,9 297,6 718,0 420,6 297,4 47,8 57,2 -9,3 64,6 6,2 58,5 43,1 25,4 17,7 278,2 78,6 199,6 74,7 9,5 65,3 4,1 7,3 -3,2 658,3 134,6 523,8 23,9 30,9 -6,9 70,5 42,2 28,2 0,0 0,0 0,0 1.055,2 1.109,5 -54,2 33,6 117,5 -84,0 1,021,7 991,9 29,7 129,1 275,8 -146,7 331,0 285,3 45,6	CREDIT DEBIT NET CREDIT 4.796,4 6.113,2 -1.316,8 4.488,4 4.488,8 5.761,3 -1.272,5 4.251,8 3.433,5 4.651,8 -1.218,3 3.090,4 590,7 3.277,5 -2.686,9 490,0 2.842,9 1.374,3 1.468,6 2.600,4 859,5 561,9 297,6 757,5 718,0 420,6 297,4 594,4 47,8 57,2 -9,3 38,2 64,6 6,2 58,5 26,8 43,1 25,4 17,7 42,2 278,2 78,6 199,6 324,8 74,7 9,5 65,3 40,1 4,1 7,3 -3,2 4,0 658,3 134,6 523,8 714,3 23,9 30,9 -6,9 11,7 70,5 42,2 28,2 46,4 0,0 0,0 0,0 0,0 1,021,7 99	CREDIT DEBIT NET CREDIT DEBIT 4.796,4 6.113,2 -1.316,8 4.488,4 5.228,7 4.488,8 5.761,3 -1.272,5 4.251,8 4.905,7 3.433,5 4.651,8 -1.218,3 3.090,4 3.719,0 590,7 3.277,5 -2.686,9 490,0 2.551,9 2.842,9 1.374,3 1.468,6 2.600,4 1.167,1 859,5 561,9 297,6 757,5 475,2 718,0 420,6 297,4 594,4 389,6 47,8 57,2 -9,3 38,2 44,1 64,6 6,2 58,5 26,8 4,5 43,1 25,4 17,7 42,2 21,8 278,2 78,6 199,6 324,8 68,7 74,7 9,5 65,3 40,1 8,4 4,1 7,3 -3,2 4,0 7,9 658,3 134,6 523,8 714,3 101,1 <t< td=""></t<>

			2008	2009	
2007	2008	% change	Jan Aug.	Jan Aug.	% change
6.353,4	7.366,7	15,9	4.962,7	3.707,5	-25,3
1.834,5	2.047,5	11,6	1.316,1	1.263,2	-4,0
1.848,9	2.129,9	15,2	1.435,5	1.022,8	-28,8
571,5	664,6	16,3	444,3	407,9	-8,2
1.013,7	1.047,8	3,4	718,2	363,1	-49,4
1.071,2	1.450,0	35,4	1.041,0	643,7	-38,2
1.082,7	1.190,4	9,9	807,1	634,0	-21,4
5.270,7	6.176,3	17,2	4.155,6	3.073,5	-26,0
	6.353,4 1.834,5 1.848,9 571,5 1.013,7 1.071,2	6.353,4 7.366,7 1.834,5 2.047,5 1.848,9 2.129,9 571,5 664,6 1.013,7 1.047,8 1.071,2 1.450,0 1.082,7 1.190,4	6.353,4 7.366,7 15,9 1.834,5 2.047,5 11,6 1.848,9 2.129,9 15,2 571,5 664,6 16,3 1.013,7 1.047,8 3,4 1.071,2 1.450,0 35,4 1.082,7 1.190,4 9,9	2007 2008 % change Jan Aug. 6.353,4 7.366,7 15,9 4.962,7 1.834,5 2.047,5 11,6 1.316,1 1.848,9 2.129,9 15,2 1.435,5 571,5 664,6 16,3 444,3 1.013,7 1.047,8 3,4 718,2 1.071,2 1.450,0 35,4 1.041,0 1.082,7 1.190,4 9,9 807,1	2007 2008 % change Jan Aug. 6.353,4 7.366,7 15,9 4.962,7 3.707,5 1.834,5 2.047,5 11,6 1.316,1 1.263,2 1.848,9 2.129,9 15,2 1.435,5 1.022,8 571,5 664,6 16,3 444,3 407,9 1.013,7 1.047,8 3,4 718,2 363,1 1.071,2 1.450,0 35,4 1.041,0 643,7 1.082,7 1.190,4 9,9 807,1 634,0

T.	ABLE C.10 Direct investment in	Cyprus by	y non-	residei	nts								
(€	million)												
							Ne	et capital fl	ows				
NACE CODE	Economic activity	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008**
595	AGRICULTURE AND FISHING	-0,3	0,3	*	0,2	0,2	0,0	0,0	0,0	0,0	-0,1	-0,1	0,0
1495	MINING AND QUARRYING	0,1	4,1	8,9	2,8	2,1	2,1	4,7	50,3	19,9	0,4	2,1	-12,7
3995	MANUFACTURING	7,5	-5,2	6,0	14,3	5,6	37,8	-9,2	53,2	30,4	79,6	15,4	4,2
4195	ELECTRICITY, GAS AND WATER	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	2,0
4500	CONSTRUCTION	3,2	3,7	*	6,6	-6,3	13,6	29,8	58,9	68,3	47,9	52,2	38,6
5295	TRADE AND REPAIRS	125,1	130,2	132,4	210,7	256,1	217,8	101,1	277,3	177,2	262,5	371,3	415,9
5500	HOTELS AND RESTAURANTS	1,3	-0,6	0,4	2,3	21,3	8,3	1,9	*	*	5,7	10,6	9,0
6495	TRANSPORT AND COMMUNICATION	0,7	2,4	7,2	9,6	-0,2	44,6	119,1	*	*	-21,6	55,6	152,0
6895	FINANCIAL INTERMEDIATION	184,5	42,0	394,5	431,8	444,3	173,6	140,0	122,1	0,8	279,8	316,5	1.315,2
7395	REAL ESTATE AND BUSINESS ACTIVITIES	140,0	108,6	172,6	218,3	278,9	523,3	338,1	205,8	356,0	485,2	801,6	817,9
9995	OTHER SERVICES	17,9	20,1	30,9	12,6	35,8	67,8	40,0	75,8	269,6	322,4	1,1	-0,9
9996	NOT ALLOCATED	0,0	0,0	0,0	0,0	0,0	14,7	24,4	15,3	0,0	0,0	0,0	0,0
9999	TOTAL	479,9	305,6	754,3	909,1	1.037,8	1.103,6	789,8	873,0	940,5	1.461,9	1.626,4	2.741,1
									1				
Coogra	phical / economic zone	1997	1998	1999	2000	2001	2002	et capital f 2003	2004	2005	2006	2007	2008**
E1	EUROPEAN COUNTRIES	397.2	252.5	637.0	771,4	873,3	955,1	667,5	764.5	909,4	861.0	1.553,1	2.357,3
D2	EU-15	195,4	*	209,1	392,9	414,0	418.1	511,7	477.4	501,3	443,1	945.0	923,8
D3	EU-25	231,6	223,2	219,1	458,4	455,2	444,1	588,4	604,3	534,0	492,2	972,1	992,1
E4	AFRICA	15,3	19,0	19,1	16,2	20,8	25,3	25,9	*	*	*	-0,9	59,3
E7	AMERICA	33.1	*	75.2	82,6	82,3	*	30,3	*	-9,4	192,4	5.0	187,8
F2	ASIA	34,7	31,1	24.7	39.7	63.0	86,6	*	14.8	34,2	413,3	69,2	138,3
F7	OCEANIA	-0,4	*	-1.7	-0.8	-1,7	*	*	-1.2	*	*	0.0	-1,5
Z8	Extra EU-15 not allocated	0.0	0,0	0.0	0.0	0,0	0.0	0,0	0,0	0.0	-0,1	0.0	0.0
A1	WORLD (ALL ENTITIES)	479,9	305,6	754,3	909,1	1.037,8	1.103,6	789,8	873,0	940,5	1.461,9	1.626,4	2.741,1

Source: CBC.
*In order that the confidentiality of the data is ensured, amounts which relate to a small number of transactions are not presented on their own but are included at a higher level of aggregation.
** 2008 data include brass plates (any legal form which has been incorporated or registered in Cyprus, irrespective of whether or not it maintains a physical presence in Cyprus).
For the conversion of Cyprus pounds into euro, the irrevocable exchange rate of €1 = £0,585274 was used.

	ABLE C.11 Direct investment ak million)	oroad											
							Net capi	ital flows					
NACE CODE	Economic activity	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008**
595	AGRICULTURE AND FISHING	0,0	*	*	-2,6	*	-0,3	0,0	0,0	0,0	0,0	0,0	0,0
1495	MINING AND QUARRYING	0,0	0,0	0,0	0,0	-0,9	0,0	0,0	0,0	0,1	0,0	0,0	0,0
3995	MANUFACTURING	0,6	-2,6	-3,8	-7,1	-7,1	-4,6	-15,5	-58,9	-39,5	41,3	-2,1	-0,1
4195	ELECTRICITY, GAS AND WATER	*	0,0	0,0	*	*	-1,4	0,0	-0,1	0,0	0,0	0,0	0,5
4500	CONSTRUCTION	-1,0	-1,2	-1,2	-4,2	*	-69,5	-75,0	*	-196,8	*	-49,4	-99,5
5295	TRADE AND REPAIRS	-1,8	-0,6	-2,7	-9,1	-7,9	-5,3	-32,6	-37,3	176,9	-30,2	-22,9	-15,5
5500	HOTELS AND RESTAURANTS	*	*	-2,3	-18,2	-62,9	-16,3	-88,1	*	*	*	-22,4	-18,4
6495	TRANSPORT AND COMMUNICATION	0,0	-8,7	-39,6	-22,2	-13,5	-21,3	-18,4	-12,0	3,8	-10,0	-54,5	-13,0
6895	FINANCIAL INTERMEDIATION	-18,8	-47,5	-116,2	-98,4	-160,9	-112,1	-94,6	-122,4	42,5	-430,9	-348,1	-2.232,7
7395	REAL ESTATE AND BUSINESS ACTIVITIES	-4,3	-1,5	-2,5	-18,1	-12,7	-299,6	-132,4	-137,4	-415,8	-180,3	-406,8	-277,5
9995	OTHER SERVICES	*	*	*	*	-3,9	-0,8	-10,7	-0,7	*	114,2	-0,1	-1,1
9996	NOT ALLOCATED	0,0	0,0	0,0	0,0	0,0	-9,3	-39,5	-8,9	0,0	0,0	0,0	0,0
9999	TOTAL	-24,5	-62,6	-169,4	-183,0	-274,3	-540,6	-506,8	-555,4	-442,4	-707,2	-906,3	-2.657,4
							Not can	ital flows					
Geogra	phical / economic zone	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008**
E1	EUROPEAN COUNTRIES	-20,6	-44,6	-115,0	-139,2	-234,8	-441,4	-412,0	-475,6	-301,9	-375,8		-1.781,5
D2	EU-15	-19,8	-36,2	-104,4	-114,4	-221,9	-188.0	-319,4	-319.7	-127,1	-68,8	-494,5	72,0
D3	EU-25	-20,0	-36.0	-104,6	-116,1	-223,6	-429.0	-339,0	-359,2	-138,7	-34,7	-516,3	-8,9
<u>E4</u>	AFRICA	*	-0,6	-30,0	-7,6	*	-26,4	-35,4	*	*	-213,4	-0,8	-77,8
E7	AMERICA	-1,1	*	*	-2,4	*	*	-16,9	-6,5	*	*	-5,4	-563,0
F2	ASIA	-1,2	-16,0	-21,4	-0,6	-3,9	*	-41,1	*	*	*	-51,8	-193,8
F7	OCEANIA	*	*	*	-33,2	-32,9	-3,4	-1,4	-11,2	-4,8	-8,6	-5,8	-41,1
Z8	Extra EU-15 not allocated	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	-0,4	-0,1
A1	WORLD (ALL ENTITIES)	-24,5	-62,6	-169,4	-183,0	-274,3	-540,6	-506,8	-555,4	-442,4	-707,2	-906,3	-2.657,4

Source: CBC.

^{*} In order to ensure confidentiality of the data, amounts which relate to a small number of transactions are not presented on their own but are included at a higher level of aggregation.
** 2008 data include brass plates (any legal form which has been incorporated or registered in Cyprus, irrespective of whether or not it maintains a physical presence in Cyprus).
For the conversion of Cyprus pounds into euro, the irrevocable exchange rate of €1 = £0,585274 was used.

NANCIAL ACCOUNT rect Investment Abroad Equity capital and reinvested earnings MFIs (excluding central banks) Other sectors Other Capital			1.64
uity capital and reinvested earnings MFIs (excluding central banks) Other sectors Other Capital			
broad quity capital and reinvested earnings MFIs (excluding central banks) Other sectors ther Capital			-6.02
quity capital and reinvested earnings MFIs (excluding central banks) Other sectors ther Capital			9.11
MFIs (excluding central banks) Other sectors ther Capital			6.74
Other sectors ther Capital			1.6 5.0
ther Capital			2.3
I			2.3
MFIs (excluding central banks)			2.3
Other sectors			15.1
the reporting country			11.6
uity capital and reinvested earnings			2.8
MFIs (excluding central banks)			8.7
Other sectors			3.5
her capital FIs (excluding central banks)			3.2
ris (excluding central danks) her sectors	26.291,2	7.967,0	18.3
וונו טכנוטט	1.052,5	7.967,0 872,1	10.3
folio Investment	1.034,3	0/ 2,1	
uity securities			
Monetary authorities	2,0	615,0	
General government	1.050,5	257,1	
MFIs (excluding central banks)	25.238,7	7.094,9	
<u>Other sectors</u>	24.834,0	5.726,9	
ebt securities	2.455,4		
Bonds and notes	24.000.4	1.050,0	
Monetary authorities	21.902,4	4.676,9	
General government MFIs (excluding central banks)	476,2 404,7	1.368,0	
Other sectors	404,/	1.300,0	
Money market instruments		480,0	
Monetary authorities	342,0	813,0	
General government	62,8	75,0	
MFIs (excluding central banks)	503,7	875,8	-3
Other sectors			
nancial Derivatives	498,6	872,9	-3
Monetary authorities	5,1	2,9	-{
General government	44.215,3	55.218,6	-11.0
MFIs (excluding central banks) Other sectors	104,1 104,1	467,3 467,3	
Other sectors	104,1	407,3	
ther Investment	98,0	835,0	
Monetary authorities	90,0		
Loans/currency and deposits		835,0	
Other assets/liabilities	8,0		
General government	38.265,5	52.000,3	
Trade credits	38.265,5	52.000,3	
Loans/currency and deposits			
Other assets/liabilities	5.747,7	1.916,0	
MFIs (excluding central banks)	112,7	760,0	
Loans/currency and deposits Other assets/liabilities	5.635,0	1.156,0	
Uther assets/labilities Other sectors			7
Trade credits	94,5	613,6	
Loans/currency and deposits	4.864,2	987,9	
Other assets/liabilities	7.007,∠	ر, ۱۵۲	
Reserve assets			1.2

145

			Tourist surius la			Do soints from tour	
		Number of	Tourist arrivals % change			Receipts from tourism % change	
/ear	Month	tourists		nulative period	€ million		ulative perio
2005	January	58.894	4,2	4,2	35,4	-5,0	-5,i
	February	72.600	-4,1	-0,5	40,1	-7,6	-6,
	March	137.075	22,4	10,0	81,3	13,2	2,
	April	183.561	-4,0	3,8	105,9	-14,0	-4,
	May	284.132	8,6	5,6	180,1	5,9	-0,
	June	282.652	6,7	5,9	193,6	3,7	0,
	July	338.972	10,8	7,1	239,4	3,7	1,
	August	336.587	10,0	7,7	275,6	8,9	3,
	September	302.833	-0,2	6,4	235,6	-2,3	2,
	October November	292.273 104.822	4,8 -8,1	6,2 5,5	205,8 73,7	3,9 0,0	2, 2,
	December	75.656	-3,9	5,2	51,8	5,3	2,
2006	January	54.875	-6,8	-6,8	36,2	2,4	2,
.000	February	66.151	-8,9	-8,0	39,4	-1,7	0,
	March	107.071	-21,9	-15,1	66,5	-18,3	-9,
	April	206.548	12,5	-3,9	127,2	20,2	2,
	May	283.513	-0,2	-2,5	191,1	6,1	4,
	June	280.164	-0,9	-2,0	201,1	3,8	3,
	July	341.443	0,7	-1,3	264,9	10,6	5,
	August	314.872	-6,5	-2,4	264,8	-3,9	3,
	September	296.532	-2,1	-2,3	240,8	2,2	3,
	October	283.046	-3,2	-2,4	209,9	2,0	3,
	November	95.682	-8,7	-2,7	64,3	-12,7	2,
007	December	71.022	-6,1	-2,8	49,1	-5,2	2,2
007	January February	51.848 63.098	-5,5 -4,6	-5,5 -5,0	33,6 38,5	-7,1 -2,2	-7, -4,i
	March	104.316	-4,0	-3,9	68,5	3,1	-1,1
	April	189.310	-8,3	-6,0	123,7	-2,8	-1,
	May	273.058	-3,7	-5,1	204,6	7,1	1,
	June	282.465	0,8	-3,4	207,4	3,2	2,
	July	352.423	3,2	-1,7	287,3	8,5	4,
	August	340.534	8,1	0,1	306,0	15,5	6,
	September	315.437	6,4	1,1	263,0	9,3	7,
	October	275.103	-2,8	0,6	206,3	-1,7	5,9
	November	94.741	-1,0	0,5	67,8	5,5	5,
	December	73.742	3,8	0,6	51,4	4,5	5,
2008	January	50.658	-2,3	-2,3	35,3	4,9	4,:
	February	70.140	11,2	5,1	40,6	5,5	5,3
	March	108.164	3,7	4,4	67,3	-1,7	1,
	April May	182.091 271.599	-3,8 -0,5	0,6 0,1	107,8 191,3	-12,8 -6,5	-5, -5,
	June	307.237	8,8	2,7	229,6	10,7	-0,
	July	342.554	-2,8	1,2	272,9	-5,0	-2,
	August	328.100	-3,7	0,2	278,0	-9,1	-3,
	September	305.348	-3,2	-0,3	247,4	-5,9	-4,
	October	267.866	-2,6	-0,6	198,6	-3,7	-4,
	November	97.900	3,3	-0,5	72,4	6,8	-3,
	December	72.127	-2,2	-0,5	51,6	0,5	-3,
009	January	47.066	-7,1	-7,1	31,2	-11,6	-11,
	February	56.626	-19,3	-14,2	36,3	-10,7	-11,
	March	90.434	-16,4	-15,2	57,4	-14,7	-12,
	April	181.395	-0,4	-8,6	107,4	-0,3	-7,
	May	246.546	-9,2 15.1	-8,9	158,1	-17,4	-11,
	June July	260.931 304.126	-15,1 -11,2	-10,8 -10,9	175,4 232,5	-23,6 -14.8	-15, -15,
	August	291.583	-11,2 -11,1	-10,9 -11,0	232,5	-14,8 -15,5	-15, -15,
	September September	276.178	-11,1 -9,6	-11,0	200,2	-15,5 -19,1	-15, -16,
	October	230.431	-14,0	-11,1	n/a	n/a	-10, n/

TABLE C.14 Gross domestic product by category of expenditure at constant 2000 prices, chain linking method (€ million) Gross General Gross **Exports of** Imports of Private domestic government capital goods and goods and Year /Quarter formation product consumption consumption services services 1995 Q1 1.912,0 231,3 1.448,0 504,7 705,7 977,7 Q2 1.220,4 1.097,9 1.063,1 2.153.7 259,2 639,3 03 2.095,2 266,8 1.151,1 425,0 1.300,6 1.048,3 Q4 2.034,6 422,6 1.388,3 190,3 1.080,1 1.046,7 1996 571,7 01 251 9 1.980.5 1.437,6 793.5 1.074,1 2.171,1 299,1 1.281,0 596,5 1.136,2 1.141,6 Q2 Q3 321,7 1.211,5 377,2 1.304,6 1.092,5 2.122.5 Q4 2.072,9 482,2 1.459,9 198.5 1.096,4 1.164,2 1997 Q1 2.017,2 298,8 1.473,9 457,0 805,0 1.017,4 Q2 2.158,6 339,6 1.321,8 552,2 1.143,6 1.198,5 Q3 2.217,5 349,5 1.205,0 414,5 1.431,4 1.182,8 169.5 1.505.4 04 2.149.7 487,1 1.103.3 1.115,6 1998 Q1 2.089,5 349,9 1.601,6 382,0 852,2 1.096,2 1.185.3 340.7 1.366.6 540.3 1.132.6 02 2.300.3 Q3 2.333,4 372,6 1.255,5 472,1 1.425,9 1.192,7 Q4 2.250,8 470,9 1.607,4 282,6 1.091,3 1.201,3 1999 Q1 2.181,2 368,0 1.666,1 338,3 849,6 1.040,8 Q2 2.414,1 381,6 1.409,3 580,8 1.265,1 1.222,6 1.607,2 1.209,4 03 374,4 2.438,1 385.7 1.280.2 04 2.375,3 532,6 1.645,4 269,6 1.223,0 1.295,3 2000 Q1 336,7 1.763,6 405,6 981,7 1.180,8 2.306.8 02 2.551,8 344.7 1.506.9 6919 1.417,2 1.408,9 1.377,2 Q3 2.552,1 387,4 398,0 1.748,0 1.358,5 04 2.472.5 514,4 1.757.7 315.7 1.324,2 1.439,6 2001 Q1 2.383,5 368,7 1.877,0 389,5 1.038,0 1.289,7 1.542,1 02 2.655.6 397,6 654.4 1.569.8 1.508.2 Q3 2.677,9 424,8 1.428,0 478,8 1.851,3 1.505,0 Q4 563,3 1.838,2 176,9 1.345,7 1.363,9 2.560,1 2002 Q1 2.442,4 411,6 1.820,2 545.5 955.8 1.290,8 Q2 2.698,4 429,8 1.593,6 659,4 1.485,6 1.470,0 1.744.0 03 2.713.0 457.2 1.531.1 420.4 1.439.7 Q4 2.639,6 576,9 1.818,5 319,8 1.341,9 1.417,5 2003 Q1 2.485,5 433,3 1.789,1 648,9 876,0 1.261,7 Q2 2.747,5 442,1 1.673,4 679,8 1.315,0 1.362,7 Q3 2.760,0 1.572,9 369,7 1.823,5 1.459,1 453.0 1.873.3 04 2.699.8 660.5 172.5 1.473.2 1.479.7 2004 Q1 2.588,4 1.877,6 551,7 1.137,9 1.382,3 403,5 448.2 1.742.3 704.6 1.500.7 02 2.869.3 1.526.5 Q3 2.870,0 456,7 1.725,7 445,5 1.774,5 1.532,3 570,4 1.999,6 545,9 1.354,5 04 2.814.7 1.655.7 2005 Q1 2.698,8 405,0 1.975,2 637,1 1.162,2 1.480,7 Q2 2.968,6 447,8 1.835,5 580,5 1.578,0 1.473,2 03 2.984,1 414.8 1.762,4 499.9 1.889.8 1.582.8 2.930,8 674,6 2.067,1 531,3 1.406,8 1.748,9 2006 454.9 2.049.3 1.275.9 1.600.7 01 2.805.8 626.3 Q2 3.102,0 500,7 1.904,9 686,6 1.671,0 1.661,2 Q3 3.100,7 478,1 1.863,8 415,9 2.036,8 1.693,9 04 3.053,9 652,1 2.167,2 694,2 1.287,1 1.746,6 2007 2.929,4 459,6 2.196,2 704,0 1.272,7 1.703,1 Q1 2.044.9 02 3.228,7 452.8 921,4 1.638.3 1.828.6 Q3 3.245,8 489,8 1.984,3 508,1 2.224,5 1.960,9 04 3.194.0 686.1 2.412.9 1.583.8 2.050.4 561.6 2008 Q1 3.055,3 452,7 2.383,7 900.1 1.265,6 1.946,8 Q2 3.351,7 470,3 2.234,7 972,8 1.689,2 2.015,3 03 3.357,4 600.7 2.220,3 723.7 2.096,4 2.283.6 Q4 3.283,3 676,5 2.484,7 475,8 1.518,4 1.872,2 2009 01 484.4 2,423,9 1.626.9 3.082.6 662.4 1.138.8 Q2 3.313,7 480,0 2.267,0 768,2 1.461,1 1.662,6 Source: Cystat.

Voar //	Quarter	Gross domestic product	General government consumption	Private consumption	Gross capital formation	Exports of goods and services	Imports of goods and services
1995	Q1	1.627,7	188,4	1.223,5	454,4	601,7	840,4
	Q2	1.889,9	212,0	1.106,0	556,7	935,0	919,8
	Q3	1.829,3	218,0	1.055,5	355,8	1.107,7	907,6
	Q4	1.803,4	347,4	1.238,2	200,0	931,8	914,0
1996	Q1	1.722,6	209,5	1.257,4	515,1	688,6	948,1
	Q2 Q3	1.944,6 1.904,1	250,0 272,9	1.188,4 1.135,2	533,5 333,3	988,5 1.140,5	1.015,8 977,8
	Q4 Q4	1.878,0	411,3	1.331,3	227,4	964,3	1.056,4
1997	Q1	1.793,3	263,3	1.318,7	429,3	716,9	934,9
	Q2	1.978,6	300,4	1.244,9	514,8	1.027,2	1.108,6
	Q3	2.037,0	314,0	1.153,0	371,4	1.298,9	1.100,3
	Q4	2.001,6	437,7	1.401,6	196,9	1.005,2	1.039,9
1998	Q1	1.912,2	318,3	1.457,7	367,6	782,1	1.013,5
	Q2 Q3	2.171,1 2.214,3	310,1 340,0	1.309,2 1.220,1	518,0 436,7	1.090,3 1.320,9	1.056,5 1.103,4
	Q3 Q4	2.147,6	430,9	1.518,9	297,9	1.011,6	1.103,4
1999	Q1	2.055,5	344,6	1.545,9	343,3	791,1	969,5
	Q2	2.327,0	359,7	1.369,8	558,9	1.193,7	1.155,1
	Q3	2.360,3	363,1	1.266,6	356,0	1.529,6	1.155,0
	Q4	2.319,8	507,1	1.604,2	285,2	1.175,6	1.252,3
2000	<u>Q1</u>	2.246,0	330,1	1.699,4	408,1	959,1	1.150,8
	<u>Q2</u> <u>Q3</u>	2.544,8 2.564,5	340,0 391,3	1.524,0 1.412,6	648,6 378,8	1.411,9 1.754,8	1.379,7 1.373,0
	Q3 Q4	2.527,8	521,8	1.769,2	375,8	1.734,8	1.373,0
2001	Q1	2.409,8	384,3	1.851,7	407,1	1.062,8	1.296,1
	Q2	2.770,7	413,5	1.600,3	671,8	1.614,8	1.529,6
	Q3	2.779,6	439,6	1.496,5	472,2	1.898,4	1.527,1
	Q4	2.667,9	581,4	1.894,1	195,5	1.374,2	1.377,4
2002	<u>Q1</u>	2.504,5	434,5	1.835,0	567,5	972,6	1.305,2
	<u>Q2</u>	2.797,7	452,6	1.679,5	672,0	1.501,6	1.508,0
	Q3 04	2.846,5 2.831,2	486,3 623,5	1.647,5 1.932,1	433,5 387,1	1.757,7 1.340,6	1.478,5 1.452,0
2003	Q1	2.681,2	493,8	1.896,7	716,0	871,8	1.432,0
2003	Q2	3.027,7	511,6	1.840,1	749,9	1.309,9	1.383,7
	Q3	3.044,4	533,9	1.739,1	414,1	1.840,6	1.483,4
	Q4	3.008,1	783,2	2.062,5	166,4	1.501,4	1.505,4
2004	Q1	2.890,0	483,4	2.024,0	622,9	1.168,6	1.408,8
	<u>Q2</u>	3.232,8	535,5	1.933,3	784,2	1.562,8	1.582,9
	Q3	3.274,9	549,5	1.937,0	515,8	1.878,2	1.605,6
2005	Q4 Q1	3.255,9 3.101,5	686,9 507,1	2.262,4	629,7 737,2	1.436,6 1.241,4	1.759,7
2003	Q2	3.422,5	559,7	2.193,9	673,9	1.699,4	1.603,3
	Q3	3.472,7	522,2	2.026,3	615,5	2.042,5	1.733,7
	Q4	3.465,4	838,1	2.385,9	655,4	1.521,6	1.935,5
2006	Q1	3.318,5	585,9	2.321,9	796,1	1.393,7	1.779,1
	Q2	3.693,2	640,9	2.233,6	831,9	1.841,6	1.854,8
	<u>Q3</u>	3.722,0	618,5	2.203,8	527,6	2.259,3	1.887,3
2007	Q4	3.701,5	837,2	2.538,6	840,5	1.435,0	1.949,8
2007	Q1 Q2	3.562,6 3.964,2	607,8 601,9	2.540,1 2.450,7	897,7 1.146,7	1.422,7 1.845,4	1.905,7 2.080,5
	Q2 Q3	4.046,3	652,2	2.430,7	696,5	2.531,4	2.242,7
	Q4	4.023,5	902,7	2.943,1	742,3	1.812,3	2.376,9
2008	Q1	3.918,9	628,4	2.899,5	1.210,1	1.467,1	2.286,3
	Q2	4.332,1	650,6	2.815,9	1.301,2	1.974,1	2.409,7
	Q3	4.396,4	837,6	2.844,2	987,9	2.476,6	2.749,9
	Q4	4.286,4	946,8	3.142,2	657,0	1.796,1	2.255,6
2009	Q1	3.955,1	713,9	2.989,3	779,7	1.356,1	1.884,0
	Q2	4.277,4	709,5	2.891,7	936,4	1.675,7	1.935,8

006 Jar Fel Ma Ap Ma Jur Jul Au Sel Occ No De 007 Jar Fel Ma Ap Ma Jur Jul Au Sel Ma Ap Ma Ap Ma Ap Ma Ap Ma Ap Ma Ma No No No No No No No No No No No No No	ay nee ly ly lgust ptember tober wember nuary bruary arch wril ay nee ly ly lgust ptember tober over and ay nee ly	Volume 96,0 88,4 97,1 101,7 104,6 107,7 116,3 107,4 109,1 108,0 106,7 139,7 100,7 95,1 108,4 106,9 111,8 118,4 124,9 118,3 115,6 117,5 119,8 154,8 108,6 109,1	6-month moving average 104,5 102,5 101,8 102,2 103,0 99,3 102,6 105,8 107,8 108,9 109,2 114,5 111,9 109,9 109,8 109,6 110,4 106,9 110,9 114,8 116,0 117,8 119,1 125,2	previous year 7,7 5,5 5,9 1,4 11,4 5,4 7,4 7,0 7,9 8,7 6,8 7,5 4,9 7,6 11,6 5,1 6,9 9,9 7,4 10,1 6,0 8,8 12,3 10,8	6-month movin averag
006 Jar Fel Ma Ap Ma Jur Jul Au Sel Occ No De 007 Jar Fel Ma Ap Ma Jur Jul Au Sel Ma Ap Ma Ap Ma Ap Ma Ap Ma Ap Ma Ma No No No No No No No No No No No No No	nuary bruary arch viil ay ne ly gust ptember tober evember nuary bruary arch viil ay pertenber totober evember nuary bruary bruary arch viil ay ne ly gust ptember tober evember nuary bruary arch viil ay ne ly gust ptember tober evember evember evember nuary bruary arch viil ay ne ly gust ptember tober evember evember tober evember evember evember nuary bruary bruary arch	96,0 88,4 97,1 101,7 104,6 107,7 116,3 107,4 109,1 108,0 106,7 139,7 100,7 95,1 108,4 106,9 111,8 118,4 124,9 118,3 115,6 117,5 119,8 154,8 108,6	104,5 102,5 101,8 102,2 103,0 99,3 102,6 105,8 107,8 108,9 109,2 114,5 111,9 109,9 109,8 109,6 110,4 106,9 110,9 114,8 116,0 117,8 119,1 125,2	7,7 5,5 5,9 1,4 11,4 5,4 7,4 7,0 7,9 8,7 6,8 7,5 4,9 7,6 11,6 5,1 6,9 9,9 7,4 10,1 6,0 8,8 12,3	-10, -7, -7, -7, -7, -7, -8, 8, 8, -7, -10, -10, -10, -10, -10, -10, -10, -10
Fet Maa Ap Oct Mo Dee	bruary arch vril ay ne by gust ptember tober ovember nuary bruary arch vril ay pre	88,4 97,1 101,7 104,6 107,7 116,3 107,4 109,1 108,0 106,7 139,7 100,7 95,1 108,4 106,9 111,8 118,4 124,9 118,3 115,6 117,5 119,8 154,8 108,6	102,5 101,8 102,2 103,0 99,3 102,6 105,8 107,8 108,9 109,2 114,5 111,9 109,9 109,8 109,6 110,4 106,9 110,9 114,8 116,0 117,8 119,1 125,2	5,5 5,9 1,4 11,4 5,4 7,4 7,0 7,9 8,7 6,8 7,5 4,9 7,6 11,6 5,1 6,9 9,9 7,4 10,1 6,0 8,8 12,3	-7 -4 -2 11 -6 -6 -6 -6 -7 -7 -7 -7 -7 -7 -7 -7 -7 -7 -7 -7 -7
Ma Ap	arch arch arch arch arch arch arch ptember tober tober arch bruary bruary arch arch arch brill ay ne by gust ptember tober ay ne cember tober ay ne bruary arch cember tober	97,1 101,7 104,6 107,7 116,3 107,4 109,1 108,0 106,7 139,7 100,7 95,1 108,4 106,9 111,8 118,4 124,9 118,3 115,6 117,5 119,8 154,8 108,6	101,8 102,2 103,0 99,3 102,6 105,8 107,8 108,9 109,2 114,5 111,9 109,9 109,8 109,6 110,4 106,9 110,9 114,8 116,0 117,8 119,1 125,2	5,9 1,4 11,4 5,4 7,4 7,0 7,9 8,7 6,8 7,5 4,9 7,6 11,6 5,1 6,9 9,9 7,4 10,1 6,0 8,8 12,3	-4 -2 1 6 6 6 6 7 7 7 7 7 7 7 8 8 8 8
Mai Juri Juli Au Sel Oct Mo Dee Mai Au Sel Oct Mo Dee Mai Juri Feta Mai Ap Mai Juri Juli Juli Juli Juli Juli Juli Juli Jul	ay nee ly ly lgust ptember tober wember nuary bruary arch wril ay nee ly ly lgust ptember tober over and ay nee ly	101,7 104,6 107,7 116,3 107,4 109,1 108,0 106,7 139,7 100,7 95,1 108,4 106,9 111,8 118,4 124,9 118,3 115,6 117,5 119,8 154,8 108,6	103,0 99,3 102,6 105,8 107,8 108,9 109,2 114,5 111,9 109,9 109,8 109,6 110,4 106,9 110,9 114,8 116,0 117,8 119,1 125,2	1,4 11,4 5,4 7,4 7,0 7,9 8,7 6,8 7,5 4,9 7,6 11,6 5,1 6,9 9,9 7,4 10,1 6,0 8,8 12,3	1 6 6 6 6 7 7 7 7 7 7 7 7 7 7 8 8
Juli	ne ly ly ligust ptember tober ovember occember nuary bruary arch ligust	107,7 116,3 107,4 109,1 108,0 106,7 139,7 100,7 95,1 108,4 106,9 111,8 118,4 124,9 118,3 115,6 117,5 119,8 154,8 108,6	99,3 102,6 105,8 107,8 108,9 109,2 114,5 111,9 109,9 109,8 109,6 110,4 106,9 110,9 114,8 116,0 117,8 119,1 125,2	5,4 7,4 7,0 7,9 8,7 6,8 7,5 4,9 7,6 11,6 5,1 6,9 9,9 7,4 10,1 6,0 8,8 12,3	66 66 67 77 77 77 77 77 77 78 88 88
Jul Au Seq Oct No De Oct Ma Ap Ap Ap Au Seq Oct No De Oc	by agust ptember tober wember cember and any ptember and any p	116,3 107,4 109,1 108,0 106,7 139,7 100,7 95,1 108,4 106,9 111,8 118,4 124,9 118,3 115,6 117,5 119,8 154,8 108,6	102,6 105,8 107,8 108,9 109,2 114,5 111,9 109,9 109,8 109,6 110,4 106,9 110,9 114,8 116,0 117,8 119,1 125,2	7,4 7,0 7,9 8,7 6,8 7,5 4,9 7,6 11,6 5,1 6,9 9,9 7,4 10,1 6,0 8,8 12,3	66 66 77 77 77 77 77 77 78 88 88
Auu Sephananananananananananananananananananan	gust ptember tober svember cember nuary bruary arch sil day ne ly gust ptember tober svember cember nuary bruary arch sil day ne ly gust ptember tober svember tober svember scember nuary bruary bruary bruary	107,4 109,1 108,0 106,7 139,7 100,7 95,1 108,4 106,9 111,8 118,4 124,9 118,3 115,6 117,5 119,8 154,8 108,6	105,8 107,8 108,9 109,2 114,5 111,9 109,9 109,8 109,6 110,4 106,9 110,9 114,8 116,0 117,8 119,1 125,2	7,0 7,9 8,7 6,8 7,5 4,9 7,6 11,6 5,1 6,9 9,9 7,4 10,1 6,0 8,8 12,3	6 6 7 7 7 7 7 7 7 7 7 7 7 7 7 7 8 8 8 8
Sel Octo No Dev Octo Ma Ap Ma Jur Jul Au Sel Octo Dev Octo Ma Ap Ma Ap Ma Au Sel Ma Au Sel Ma Au Sel Ma Au Dev Dev Ma Au Dev Ma Au Dev Ma Ma Ma Ma Ma Ma Ma Ma Ma Ma Ma Ma Ma	ptember tober wember ccember nuary bruary arch viil ay nee ly ggust ptember tober wember ccember	109,1 108,0 106,7 139,7 100,7 95,1 108,4 106,9 111,8 118,4 124,9 118,3 115,6 117,5 119,8 154,8 108,6	107,8 108,9 109,2 114,5 111,9 109,9 109,8 109,6 110,4 106,9 110,9 114,8 116,0 117,8 119,1 125,2	7,9 8,7 6,8 7,5 4,9 7,6 11,6 5,1 6,9 9,9 7,4 10,1 6,0 8,8 12,3	6 77 77 77 77 77 77 78 88
Octoor Jar Fel Ma Ap Octoor Dee 1008 Jar Fel Ma Ap Jur Jul Au Seg Octoor Dee 1008 Jar Fel Ma Ap Ma Jur Jul	tober syember scember nuary bruary bruary arch ril ay ne ly gust prember tober syember tober syember scember nuary bruary	108,0 106,7 139,7 100,7 95,1 108,4 106,9 111,8 118,4 124,9 118,3 115,6 117,5 119,8 154,8 108,6	108,9 109,2 114,5 111,9 109,9 109,8 109,6 110,4 106,9 110,9 114,8 116,0 117,8 119,1 125,2	8,7 6,8 7,5 4,9 7,6 11,6 5,1 6,9 9,9 7,4 10,1 6,0 8,8 12,3	77 77 77 77 77 77 77 88 88
No Dec	ovember ovember huary bruary bruary arch ril ay ne ly gust prember tober ovember ovember exember huary bruary bruary bruary bruary bruary	106,7 139,7 100,7 95,1 108,4 106,9 111,8 118,4 124,9 118,3 115,6 117,5 119,8 154,8	109,2 114,5 111,9 109,9 109,8 109,6 110,4 106,9 110,9 114,8 116,0 117,8 119,1 125,2	6,8 7,5 4,9 7,6 11,6 5,1 6,9 9,9 7,4 10,1 6,0 8,8 12,3	77 77 77 77 77 77 78 88
Dee	cember nuary bruary bruary arch ril ay ne ly sigust ptember tober ovember seember nuary bruary bruary bruary	139,7 100,7 95,1 108,4 106,9 111,8 118,4 124,9 118,3 115,6 117,5 119,8 154,8 108,6	114,5 111,9 109,9 109,8 109,6 110,4 106,9 110,9 114,8 116,0 117,8 119,1 125,2	7,5 4,9 7,6 11,6 5,1 6,9 9,9 7,4 10,1 6,0 8,8 12,3	77 77 77 77 77 77 88 88
OO7 Jar Fel Ma Ap Ma Jur Jul Au Seq Occ No De OO8 Jar Ap Ma Ap Ma Jur Jul	nuary bruary arch arch ary ary ne by gust prember tober exember exember nuary bruary bruary arch	100,7 95,1 108,4 106,9 111,8 118,4 124,9 118,3 115,6 117,5 119,8 154,8	111,9 109,9 109,8 109,6 110,4 106,9 110,9 114,8 116,0 117,8 119,1 125,2	4,9 7,6 11,6 5,1 6,9 9,9 7,4 10,1 6,0 8,8 12,3	77 77 77 77 77 78 88 88
Fet Maa Ap Maa Juri Juli Sel Occi No Dee Maa Ap Maa Juri Juli Juli Juli Juli Juli Juli Juli Jul	bruary arch vril ary ne ly gust ptember tober evember ecember nuary bruary arch	95,1 108,4 106,9 111,8 118,4 124,9 118,3 115,6 117,5 119,8 154,8	109,9 109,8 109,6 110,4 106,9 110,9 114,8 116,0 117,8 119,1 125,2	7,6 11,6 5,1 6,9 9,9 7,4 10,1 6,0 8,8 12,3	77 77 77 77 77 88 88
Ma Ap Ma Jur Jul Au Sep Occ No De De Ma Ap Ma Jur Jul	arch	108,4 106,9 111,8 118,4 124,9 118,3 115,6 117,5 119,8 154,8 108,6	109,8 109,6 110,4 106,9 110,9 114,8 116,0 117,8 119,1 125,2	11,6 5,1 6,9 9,9 7,4 10,1 6,0 8,8 12,3	7 7 7 7 8 8 8 7
Ap Mad Jur Au Sep Oct No De De Mad Ap Mad Jur Jur Jur Jur Jur Jur Au Au Au Au Au Au Au Au Au Au Au Au Au	oril ory one ly orgust ptember tober ovember	106,9 111,8 118,4 124,9 118,3 115,6 117,5 119,8 154,8 108,6	109,6 110,4 106,9 110,9 114,8 116,0 117,8 119,1 125,2	5,1 6,9 9,9 7,4 10,1 6,0 8,8 12,3	7 7 7 8 8 8
Jur Jur Jur Jur Au Sep Oct No De De De Ma Ap Ma Jur Jur	ay ne ly ngust ptember tober ovember ovember nuary bruary	118,4 124,9 118,3 115,6 117,5 119,8 154,8 108,6	110,4 106,9 110,9 114,8 116,0 117,8 119,1 125,2	6,9 9,9 7,4 10,1 6,0 8,8 12,3	7 8 8 7
Jul Au Sep Oct No De 108 Jar Fel Ma Ap Ma Jur Jul	ly Igust ptember tober ovember cember huary bruary	124,9 118,3 115,6 117,5 119,8 154,8 108,6	110,9 114,8 116,0 117,8 119,1 125,2	7,4 10,1 6,0 8,8 12,3	\$ 7 8
Au Seq Oct No De OO8 Jar Feb Ma Ap Ma Jur Jul	gust ptember tober ovember cember huary bruary	118,3 115,6 117,5 119,8 154,8 108,6	114,8 116,0 117,8 119,1 125,2	10,1 6,0 8,8 12,3	? ? 8
Sel Oct No Dev DOS Jar Fel Ma Ap Ma Jur Jul	ptember tober ovember ccember nuary bruary	115,6 117,5 119,8 154,8 108,6	116,0 117,8 119,1 125,2	6,0 8,8 12,3	7
Octo No Dec DOS Jar Fel Ma Ap Ma Jur Jul	tober pvember scember nuary bruary arch	117,5 119,8 154,8 108,6	117,8 119,1 125,2	8,8 12,3	8
No Dev DOS Jar Fel Ma Ap Ma Jur	ovember ocember nuary bruary arch	119,8 154,8 108,6	119,1 125,2	12,3	
Dec DOS Jar Fel Ma Ap Ma Jur Jul	rcember nuary bruary arch	154,8 108,6	125,2		
DOS Jar Feb Ma Ap Ma Jur Jul	nuary bruary arch	108,6			9
Feb Ma Ap Ma Jur Jul	bruary arch	<u> </u>	122,4	7,8	9
Ma Ap Ma Jur Jul	arch		120,9	14,7	10
Ap Ma Jur Jul		110,2	120,0	1,7	9
Ma Jur Jul	ril	118,6	120,2	10,9	9
Jul		123,2	120,8	10,2	9
_	ne .	121,2	115,2	2,4	7
	ly	136,2	119,8	9,0	8
	gust	120,6	121,7	1,9	- 6
	ptember	124,5	124,1	7,7	7
_	tober	121,0	124,5	3,0	5
_	vember	113,2	122,8	-5,5	3
	cember	154,3 112,7	128,3 124,4	-0,3 3,8	
	nuary bruary	106,7	124,4		1 1
	arch	109,9	119,6	-0,3	-(
Ap		115,9	118,8	-2,3	-1
Ma		115,6	119,2	-6,2	-1
Jur		118,0	113,1	-2,6	-1
Jul	ly**	133,2	116,6	-2,2	-2
Au	gust*	118,6	118,5	-1,7	-2
		August *	August*	JanAug.*	JanAu
ercentag eneral in	ge change by category	2008/2007 1,9	2009/2008	2008/2007 7,2	2009/200
	ndex excluding automotive fuel	0,6	0,7	6,6	-1,
on-specia	lised stores with food, beverages or tobacco predominating	7,4	0,7	8,2	0
her retail	sale in non-specialised stores	17,7	-3,0	18,6	(
	rages and tobacco in specialised stores	6,7	-2,6	11,1	_g
od produ		7,3	0,1	8,7	-1
	roducts (except automotive fuel)	1,0	-2,6	7,5	-2
	othing and footwear	-2,7	7,3	6,5	4
	oods and furniture	-3,7	-3,7	4,0	-6
	equipment, books and other e fuel in specialised stores	-5,3 -7,1	-4,3 -2,3	5,2 1,9	- (

			Sales of cement (v		Build	ing permits authori	
				change			6 change
/	Mandh	Total	Previous	6-month moving	Area	Previous	6-month m
ear/ 106	Month	(m. ton) 112.257	year -7,20	average	(sq. m) 280.754	year 4,75	ave
UO	January			0,40			
	February March	127.234 149.825	-0,52 -0,58	-0,67 -0,06	265.808 331.444	-6,97 0,19	
	April	118.938	-19,04	-3,30	251.063	-0,38	
	May	154.815	15,80	-3,30 -1,44	380.135	31,46	
	June	146.826	2,13	-1,55	309.252	4,11	
	July	157.298	16,03	2,12	296.102	15,97	
	August	73.669	-3,15	1,87	199.623	-9,79	
	September	145.224	3,67	2,67	253.311	-4,23	
	October	150.045	10,09	8,16	331.638	0,79	
	November	156.958	7,34	6,69	333.853	-0,85	
	December	134.066	1,69	6,68	274.504	-4,46	
)7	January	132.561	18,09	6,70	263.912	-6,00	
,,	February	130.638	2,68	7,00	299.455	12,66	
	March	174.292	16,33	9,32	388.979	17,36	
	April	137.205	15,36	10,10	324.503	29,25	
	May	160.929	3,95	9,41	333.002	-12,40	
	June	165.444	12,68	11,26	304.133	-1,66	
	July	174.989	11,25	10,36	339.730	14,73	
	August	78.961	7,18	11,29	192.004	-3,82	
	September	148.393	2,18	8,68	288.517	13,90	
	October	176.722	17,78	9,37	318.083	-4,09	
	November	177.170	12,88	11,04	275.785	-17,39	
	December	133.152	-0,68	8,83	284.703	3,72	
)8	January	156.587	18,12	9,90	249.822	-5,34	
	February	173.499	32,81	13,66	299.159	-0,10	
	March	175.963	0,96	13,04	295.942	-23,92	
	April	164.519	19,91	13,30	296.211	-8,72	
	May	179.007	11,23	13,00	293.231	-11,94	
	June	172.650	4,36	13,45	312.757	2,84	
	July	200.922	14,82	13,04	329.337	-3,06	
	August	69.945	-11,42	7,98	188.451	-1,85	
	September	168.055	13,25	10,30	339.160	17,55	
	October	178.855	1,21	7,07	374.647	17,78	
	November	164.606	-7,09	3,62	382.457	38,68	
	December	135.678	1,90	3,22	327.935	15,18	
)9	January	120.871	-22,81	-3,79	278.876	11,63	
	February	122.367	-29,47	-7,78	273.892	-8,45	
	March	123.823	-29,63	-14,79	255.578	-13,64	
	April	117.392	-28,65	-20,00	234.397	-20,87	
	May	132.204	-26,15	-23,44	254.844	-13,09	
	June	137.449	-20,39	-26,23	359.744	15,02	
	July	151.742	-24,48	-26,40	295.814	-10,18	
	August	48.329	-30,90	-26,18	176.594	-6,29	
	September	126.657	-24,63	-25,27	n/a	n/a	
	October	128.881	-27,94	-25,19	n/a	n/a	

			ndex			% change	
ar/	Month	Monthly	Cumulative	Previous year	6-month m av	oving erage	Cumulati Peri
06	January	88,20	88,20	-1,34		n/a	-1,
	February	89,40	88,80	-4,89		n/a	-3,
	March	101,70	93,10	-5,04		n/a	-3,
	April	92,60	92,98	-11,22		n/a	-5
	May	108,00	95,98	2,96		n/a	-3
	June	109,40	98,22	1,39		-3,01	-3
	July	108,80	99,73	-0,64		-2,84	-2
	August September	76,80 106,40	96,86 97,92	5,93 1,92		-1,47 -0,25	-1 -1
	October October	105,30	98,66	4,67		2,48	-(
	November	102,70	99,03	0,29		2,40	-(
	December	102,30	99,30	-0,68		1,67	-(
17	January	90,50	90,50	2,61		2,26	
	February	90,50	90,50	1,23		1,65	
	March	106,70	95,90	4,92		2,17	
	April	96,00	95,93	3,67		1,97	
	May	112,60	99,26	4,26		2,69	
	June	113,60	101,65	3,84		3,50	
	July	119,50	104,20	9,83		4,75	
	August	74,50	100,49	-2,99		4,29	
	September	108,20	101,34	1,69		3,72	
	October	111,80	102,39	6,17		4,15	
	November	112,80	103,34	9,83		5,09	4
_	December	110,20	103,91	7,72		5,76	
8	January	97,10	97,10	7,29		5,24	
	February	100,90	99,00	11,49 0,00		7,24	
	March	106,70	101,57			6,94	
	April May	107,80 118,80	103,13 106,26	12,29 5,51		7,95 7,17	
	June	117,20	108,08	3,17		6,33	
	July	127,80	110,90	6,95		6,31	
	August	71,20	105,94	-4,43		4,27	
	September	114,80	106,92	6,10		5,32	
	October	114,60	107,69	2,50		3,78	
	November	111,70	108,05	-0,98		2,64	
	December	113,10	108,48	2,63		2,54	
9	January	87,50	87,60	-9,89		-0,28	-
	February	91,30	89,40	-9,51		-1,25	
	March	94,40	91,07	-11,53		-4,21	-1
	April	93,00	91,55	-13,73		-7,00	-1
	May	100,80	93,40	-15,15		-9,57	-12
	June	104,30	95,22	-11,01		-11,90	-1
	July	112,80 63,30	97,73 93,43	-11,74 -11,10		-12,16 -12,46	-1 ⁻
	August	03,30	75, 4 5			·	-1 ⁻
	tage change by category					Jan Aug. 2008/2007	Jan A 2009/2
	index	avaduete		-4,4	-11,1	5,4	-
	cture of food products, beverages and tobacco			-6,0 -21.6	-3,4	2,6	
	cture of textiles, wearing apparel and leather p cture of wood and products of wood and cork, (-21,6 5,7	-28,1 -7,2	-14,8 10,7	
	cture of paper products and printing	элеерстиппине		11,5	-7,2	8,1	
	cture of refined petroleum products, chemicals and	d chemical products and pharmaceutical n	roducts and preparations	-2,8	0,9	7,4	
	cture of rubber and plastic products	produces and pridimacedition p	preparations	10,9	-27,2	15,6	_
	cture of other non-metallic mineral products			-14,4	-26,5	7,8	-2
nufa	cture of basic metals and facricated metal prod	ucts		-2,5	-10,4	1,9	
	cture of electronic and optical products and ele			28,0	-27,1	26,5	
	cture of machinery	1-1		34,5	-21,7	3,2	-
	cture of motor vehicle and other transport equi	pment		6,8	-13,2	8,3	
	cture of furniture, other manufacturing and reg			-7,4	-20,5	11,6	-

		20	008		2	009
	Q1	Q2	Q3	Q4	Q1	Q2
abour force	397.937	396.476	396.049	399.036	394.996	403.780
imployed	379.790	384.028	381.903	385.686	376.807	382.899
By type of employment:						
Full time	350.076	354.295	353.119	355.173	345.388	350.613
Part time	29.714	29.733	28.783	30.513	31.420	32.287
By sector of employment:						
Primary sector	15.871	16.081	16.662	16.182	14.805	14.719
Secondary sector	86.206	86.933	89.639	90.144	86.660	82.963
Tertiary sector	277.714	281.014	275.602	279.360	276.342	285.217
Employees	304.067	307.878	304.046	309.961	301.420	306.243
Jnemployed	18.146	12.448	14.146	13.351	18.189	20.881
By unemployment duration:						
Less than 12 months	15.514	10.975	12.227	11.478	15.916	19.067
12 months and above	2.632	1.473	1.919	1.872	2.274	1.814
imployment rate (%)	61,4	62,1	61,8	62,0	60,6	61,1
Male	70,2	71,0	71,3	70,7	68,7	69,2
Female	53,2	53,8	53,0	53,8	53,0	53,4
Jnemployment rate (%)	4,6	3,1	3,6	3,3	4,6	5,2
Male	4,2	2,6	3,0	3,0	4,1	4,9
Female	5,0	3,9	4,2	3,8	5,2	5,5
			44.6	44.5	43.4	
Activity rate (%)	64,3	64,2	64,1	64,2	63,6	64,4
Male	73,3	72,8	73,5	72,8	71,7	72,8 56,4
Female	56,0	56,0	55,4	56,0	55,8	_

		2006			2	007			20	08		2009
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
A. Domestic debt	12.780,94	12.816,82	12.876,08	13.153,97	13.032,27	12.993,33	12.944,89	12.905,66	12.508,01	12.434,67	12.595,06	14.191,93
Long-term debt	6.757,48	6.751,52	6.757,38	6.951,27	7.075,94	6.997,94	6.928,11	6.723,41	6.280,79	6.020,29	5.992,60	5.964,87
Short-term debt	6.023,45	6.065,30	6.028,70	6.202,69	5.956,34	5.995,40	6.016,78	6.182,25	6.227,21	6.414,38	6.602,46	8.227,06
B. Foreign debt	2.006,80	2.003,83	2.049,18	2.040,57	2.043,35	2.040,59	2.132,33	2.131,90	2.117,67	2.209,10	2.354,17	1.992,07
Short-term liabilities of the Central Bank to the IMF	8,15	8,15	8,15	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Long-term loans	625,62	622,65	656,75	656,30	659,07	656,32	732,33	731,90	717,67	714,95	827,74	827,29
Medium-term loans (EMTN)	1.373,03	1.373,03	1.384,27	1.384,27	1.384,27	1.384,27	1.400,00	1.400,00	1.400,00	1.050,00	1.050,00	1.050,00
Short-term loans (ECP)	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	444,15	476,43	114,79
C. Total public debt	14.787,74	14.820,65	14.835,26	15.194,54	15.075,62	15.033,92	15.077,45	15.037,56	14.625,68	14.643,77	14.949,23	16.184,01
D. Net total debt (excl.												
intragovermental & short-term												
liabilities of the CBC to the IMF)	9.482,54	9.436,11	9.330,93	9.634.41	9.443.47	9.239,15	9.261,52	8.854.49	8.397,65	8.228,57	8,345,95	9.356,12

TABLE C.21 Distribution of bank loans to Cyprus residents by eco classification (monthly data, %)	onomic activit	y Daseu C	in the EO 3	WACE NEV. 1.1
		tstanding amo as a % of tota		% change
	Sep. 2008	Mar. 2009	Sep. 2009	Sep. 2008 - Sep. 2009
A Agriculture, hunting and forestry	0,77	0,84	0,78	7,71
B Fishing	0,04	0,04	0,02	-36,83
C Mining and quarrying	0,33	0,33	1,91	508,37
D Manufacturing	3,63	3,67	3,51	2,47
of which: construction-related activities (20.1 to 20.3 and 26.3 to 26.7)	0,33	0,41	0,43	37,63
E Electricity, gas and water supply	0,09	0,10	0,35	305,43
F Construction	8,76	8,91	8,43	2,09
G Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	9,35	9,35	9,00	2,16
H Hotels and restaurants	4,46	4,58	4,42	4,92
Transport, storage and communication	1,94	2,19	2,31	25,91
Financial intermediation (excluding other MFIs)	6,63	5,30	4,58	-26,65
K Real estate, renting and business activities	17,80	17,99	17,01	1,36
of which: real estate activities (70)	11,79	13,62	12,75	14,61
Public administration and defence; compulsory social security	2,54	2,46	2,45	2,10
M Education	0,38	0,39	0,31	-12,16
N Health and social work	0,56	0,56	0,49	-6,86
O Other community, social and personal service activity	3,37	3,37	2,87	-9,57
P Private individuals	39,36	39,92	41,54	11,93
Q Extra-territorial organisations and bodies	0,00	0,00	0,00	0,00
Total	100	100	100	6,04

				Dec. 08	Jun.
Efficiency (%)		1.1	Cost-to-income ratio	48,72	48
Expenditure (9	6 of total assets)	2.1	Staff expenses	0,85	(
		2.2	Other administrative expenses	0,46	(
		2.3	Depreciation	0,09	(
		2.4	Total operating expenses	1,41	1
Expenditure (% of total	% of total operating expenses)	3.1	Staff expenses	60,58	6.
		3.2	Other administrative expenses	32,91	2
		3.3	Depreciation	6,51	
Income (% of total ass	total assets)	4.1	Net interest income	2,01	
		4.2	Net non-interest income	0,88	
		4.3	Dividend income	0,03	
		4.4	Net fees and commissions income	0,59	
		4.5	Gains (losses) on financial transactions	0,19	
		4.6	Realised gains (losses) on financial assets and liabilities not measured at fair value through profit or loss	0,02	
			Gains (losses) on financial assets and liabilities held for trading, net	0,03	
			Gains (losses) on financial assets and liabilities designated at fair value through profit or loss (net)	0,05	
		4.9	Other net operating income	0,08	
			Total operating income	2,89	
Income (% of	total income)		Net interest income	69,56	(
		5.2	Net non-interest income	30,44	
			Dividend income	0,95	
		5.4	Net fees and commissions income	20,27	
		_	Gains (losses) on financial transactions	6,45	
			Realised gains (losses) on financial assets and liabilities not measured at fair value through profit or loss (net)	0,82	
			Gains (losses) on financial assets and liabilities held for trading, net	1,14	
			Gains (losses) on financial assets and liabilities designated at fair value through profit or loss (net)	1,77	
			Other net operating income	2,63	
Profitability (%)	6)		Operating profits per total assets	1,48	
	·)		Provisions per total assets	0,00	
			Impairment per total assets	0,32	
			Impairment on financial assets not measured at fair value through profit or loss per total assets	0,32	
			Total profit (loss) before tax from continuing operations per total assets	1,16	
			Total profit (loss) after tax and discontinued operations per total assets	1,10	
			Total profit (loss) after tax and discontinued operations per total assets (ROA)	1,01	
. Assets (% of total assets)			Total profit (loss) after tax and discontinued operations per total equity (ROE)	15,22	
			Net interest margin	1,83	
	atal accete)		Financial assets held for trading	1,11	
	rtai assets)		Financial assets designated at fair value through profit or loss	0,68	
			Available-for-sale financial assets	8,13	
			Loans and receivables (including finance leases)	76,28	
			Held-to-maturity investments	2,43	
			,		
			Derivatives-hedge accounting Tangible and intangible assets	0,03	
				2,41	
			Investments in associates, subsidiaries and joint ventures Tetal large and advances	0,25	
			Total loans and advances	74,59	
			Debt instruments Total equity instruments	13,38 0,66	

		Dec. 08	Jun. 09
8. Liabilities (% of total assets)	8.1 Deposits from central banks	4,22	7,6
	8.2 Financial liabilities held for trading	1,15	0,8
	8.3 Financial liabilities designated at fair value through profit and loss	13,53	2,3
	8.4 Financial liabilities measured at amortised cost	73,08	81,8
	8.5 Financial liabilities associated with transferred financial assets	0,00	0,0
	8.6 Derivatives-hedge accounting	0,20	0,2
	8.7 Loan loss provisions	0,46	0,4
	8.8 Total deposits from credit institutions	26,12	31,7
	8.9 Total deposits (other than from credit institutions)	57,81	50,1
	8.10 Total debt certificates (including bonds)	1,67	1,0
9. Value of equity (%)	9.1 Issued capital per total equity	23,88	22,3
	9.2 Revaluation reserves and other valuation differences per total equity	-6,85	-4,1
	9.3 Reserves (including retained earnings) per total equity	21,77	29,8
	9.4 Income from current year per total equity	14,46	6,3
	9.5 Minority interest per total equity	1,95	2,1
	9.6 Tangible equity per tangible total assets	4,36	4,0
10. Off-balance-sheet items (% of total assets)	10.1 Loan commitments given	1,54	1,1
	10.2 Financial guarantees and other commitments given	2,61	2,0
	10.3 Financial guarantees and credit derivatives received	0,73	0,5
11. Liquidity (% of total assets)	11.1 Cash and trading assets ratio	7,83	6,4
	11.2 Cash, trading and available-for-sale assets ratio	15,97	17,0
	11.3 Interbank market dependence ratio	26,12	31,7
	11.4 Funding base stability ratio (denominator other than total assets)	67,54	60,4
12. Asset quality and loan loss provisioning (%)	12.1 Total (gross) doubtful and non-performing loans (loans and debt securities) per total loans and advances and total debt instruments	3,20	3,1
	12.2 Total loan loss provisions per total (gross) doubtful and non-performing loans	67,65	59,7
13. Capital adequacy (%)	13.1 Overall solvency ratio	10,99	12,4
	13.2 Tier 1 capital ratio	8,33	9,6
	13.3 Capital buffer	2,99	4,4

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