

# **ECONOMIC BULLETIN** DECEMBER 2011

#### Published by the:

# **ECONOMIC RESEARCH DEPARTMENT**

## Edited by the:

# **COMMUNICATIONS AND PUBLICATIONS UNIT**

#### © CENTRAL BANK OF CYPRUS, 2011

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ISSN (online) 1986 -1087



# ECONOMIC BULLETIN

DECEMBER 2011

NICOSIA - CYPRUS

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# **ABBREVIATIONS**

| BoE      | Bank of England                        |
|----------|--|
| CBC      | Central Bank of Cyprus                 |
| COLA     | Cost of Living Allowance               |
| CPI      | Consumer Price Index                   |
| СТО      | Cyprus Tourism Organisation            |
| Cystat   | Statistical Service of the Republic of |
|          | Cyprus                                 |
| ECB      | European Central Bank                  |
| EDP      | Excessive Deficit Procedure            |
| EER      | Effective Exchange Rate                |
| EONIA    | Euro Overnight Index Average           |
| ESA 95   | European System of Accounts 1995       |
| ESI      | Economic Sentiment Indicator           |
| EU       | European Union                         |
| EURIBOR  | Euro Interbank Offered Rate            |
| Eurostat | Statistical Office of the European     |
|          | Union                                  |
| FED      | Federal Reserve                        |
| GDP      | Gross Domestic Product                 |

| HICP     | Harmonised Index of Consumer Prices    |
|----------|--|
| IEA      | International Energy Agency            |
| IMF      | International Monetary Fund            |
| IRD      | Inland Revenue Department              |
| LFS      | Labour Force Survey                    |
| MFIs     | Monetary Financial Institutions        |
| NACE     | Nomenclature statistique des Activités |
| Rev. 1.1 | économiques dans la Communauté         |
| Rev. 2   | Européenne (Statistical classification |
|          | of economic activities in the European |
|          | Community)                             |
| NEER     | Nominal Effective Exchange Rate        |
| NFCs     | Non-Financial Corporations             |
| OIS      | Overnight Index Swaps                  |
| REER     | Real Effective Exchange Rate           |
| SDW      | Statistical Data Warehouse             |
| UK       | United Kingdom                         |
| US       | United States of America               |
| VAT      | Value Added Tax                        |
|          |  |



#### Introduction

### **International developments**

Global economic activity showed marked signs of a slowdown in the second half of 2011, while disparities between countries became more pronounced. Investor confidence declined significantly, as downside risks continued to increase. In conjunction with the pre-existing structural weaknesses and imbalances, a series of adverse events affected the world economy this year: Japan was significantly affected by the devastating earthquake and the subsequent tsunami; the political turmoil in some oil producing Arab countries created an upward pressure on oil prices; the US debate about raising the ceiling on government debt undermined confidence and contributed to the downgrading of the debt. At the same time, the debt crisis in Europe intensified, especially after the summer months, and so did the negative interactions between the risks in the fiscal and financial sectors and the real economy.

The upward trend recorded in inflation in developed economies in the first half of the year moderated somewhat during the latter part of the year, mainly due to the economic slowdown, and despite the continued rise in oil and commodity prices. In emerging economies, inflation remains at relatively high levels, mainly due to limitations in production capacity and the higher weight of commodities in the consumption and price indices in these countries.

At the same time, the uncertainty in international markets continues. In the euro area,

despite significant steps to address the fiscal and financial problems, the political differences between the countries of the European Union (EU) have, so far, prevented the conclusion of an agreement for a long-term solution to the issues of governance and public debt. Moreover, in the US there are strong doubts about the achievement of the necessary consensus for medium-term fiscal adjustment, which is extremely important for global economic stability. As a result, there is continuing uncertainty in the markets with adverse effects on the real economy, such as unemployment, which has risen to very high levels in virtually all developed economies.

Despite the measures agreed at the EU summit on 21 July and in the extraordinary meeting held on 26 October, which, inter alia, included the second bailout package of Greece and a 50% "haircut" on private investors' bonds, the economic prospects in the euro area were strongly contested by the markets. In particular, the yields on Belgian, Italian and Spanish bonds reached historically high levels. Interbank markets are again under pressure, and some banks may find it difficult to raise funding. The slowdown in economic activity in advanced economies and the general uncertainty have also affected equity markets, while the price of gold and bond yields of countries considered as "safe" have risen, indicating increased investor cautiousness about the prospects of some economies.

Given the continuing uncertainty in the economic environment, central banks kept interest rates low and injected large amounts of liquidity into the banking system. Although

during most of the year the European Central Bank (ECB) followed a more anti-inflationary policy than the Federal Reserve (FED) and the Bank of England, the sharp slowdown in the euro area as well as the financial market turbulence triggered by the debt crisis led to an adjustment of monetary policy. In November and December 2011, the ECB lowered its interest rates by 25 basis points and continued to provide liquidity to the euro area banking system.

# **Domestic developments**

The Cyprus economy is expected to record marginally positive growth in 2011, with GDP increasing by only 0,3% compared with 1,1% growth in 2010. After a relatively good performance in the first half of 2011, negative growth was recorded in the third quarter, following the destruction of the Vasilikos power station and the resulting impact on consumer and investor confidence, as well as the downturn in the EU. According to preliminary estimates by the Statistical Service of the Republic of Cyprus (Cystat), the annual growth rate of seasonally adjusted GDP for the third guarter of 2011 reached negative territory, -0,6% from 1,3% in the second quarter. The above picture is also confirmed by the confidence indicators for services, manufacturing, retail sales, consumption and construction, where there were significant reductions in the second half of 2011.

The Harmonised Index of Consumer Prices (HICP) recorded an increase of 3,4% in the first ten

months of 2011 compared with an increase of 2,7% over the corresponding period of 2010. This significant increase was due to the higher inflation recorded in the categories of processed food, industrial goods excluding energy and to a lesser extent, in services compared with the corresponding period last year. The increases in these categories reflect, in part, the increase VAT on food and pharmaceutical products in January 2011 and the increase in excise taxes on tobacco products in December 2010. The "energy" category continued to record double digit growth, despite the slowdown in the first ten months of 2010, mainly due to the continuing upward trend in oil prices and the increase in electricity prices that followed the events at Vasilikos in July.

In the monetary sector, the annual growth rate of loans to the domestic private sector has continued to record a slowdown from the end of 2010, as a result of the subdued and uncertain financial conditions both domestically and internationally, the slowdown in economic activity and the high cost of borrowing. It should be noted that a significant slowdown has been recorded since the beginning of the year in the annual growth rate of deposits.

According to the latest available data, at the end of September 2011 the cost of borrowing increased significantly in all categories of loans compared with the beginning of the year as well as with the corresponding period of 2010. Possible reasons for this, and which may also explain why lending rates have not fallen, include: the rise in EURIBOR since the beginning of the year; the impact on domestic banks of the

expected 50% "haircut" on Greek debt; recent downgrades of domestic government bonds by rating agencies; the absorption of domestic liquidity by the government through the issuing of bonds; and the need for banks to protect themselves from any new shocks in the macroeconomic environment.

During the first half of 2011, the current account balance registered a significant worsening, with the deficit reaching €1.373,6 million compared with a deficit of €705,3 million in the first half of 2010. More specifically, the balance in the goods and services account recorded a deterioration of €138,9 million in the first half of 2011 compared with the first half of 2010, mainly due to the sharp decline in financial and other business services. It is expected that in the second half of the year this negative picture will be mitigated by the strong performance in tourism. At the same time, the balance in the income account recorded a significant deterioration of around €472 million, as a result of the losses made by Cypriot banks abroad.

As regards the labour market, employment in the first half of 2011 recorded an annual increase of 0,6%, reflecting economic developments during the period. Furthermore, according to data from the Labour Force Survey (LFS), unemployment continued its upward course in the first half of 2011, with the unemployment rate reaching 7,2% compared with 6,8% in the first half of 2010. More recent data on seasonally adjusted registered unemployment show that the deterioration continued during the period July - October 2011. More specifically, the number of

seasonally adjusted unemployed persons who were registered during the aforementioned period increased by 5.777 compared with the corresponding period last year, reaching 29.456 persons.

With respect to domestic public finance developments, according to preliminary figures published by Cystat on revenue and expenditure of the general government, a budget deficit of 3,1% of GDP was recorded during the first nine months of 2011, remaining at similar levels compared with the corresponding period of the previous year. More specifically, total general government revenues during the aforementioned period recorded a significant annual increase of 1,9%, even though a significant annual decrease of 1,7% was recorded during the first six months of 2011. The upturn in revenues is mainly due to increases in income tax and the special contribution to the Defence Fund. At the same time, the growth in total general government expenditure registered a significant deceleration to 2%, despite the 4,2% annual increase recorded during the first six months of 2011. This follows the significant reduction in intermediate consumption and interest payments recorded in the third quarter of the year. Regarding the fiscal outlook for the year as a whole, the government budget deficit target of 6,5% of GDP, as noted in the Excessive Deficit Procedure (EDP) notification to Eurostat and published on 26 October 2011, appears to be attainable. Moreover, according to data published by the Ministry of Finance, the general government consolidated gross debt reached 67,3% of GDP in the third quarter of 2011, up from 61,5% of GDP at the end of 2010. The increase in gross debt observed in 2011 compared with 2010 primarily reflects the deterioration in the primary balance and the increasing deficit-debt adjustment as a result of the ongoing provision of financial assistance to Greece, Ireland and Portugal.

Regarding the Central Bank of Cyprus (CBC) projections for the domestic economy, and based on the central scenario, GDP is projected to increase marginally by 0,3% in 2011, while zero growth is anticipated in 2012, as a result of the continuing negative economic conditions. These forecasts were revised significantly downwards compared with the corresponding projections of June 2011, due to the deterioration in the domestic and international economic environment. In 2013 economic conditions are expected to improve, with GDP increasing by 1,3%. It should be emphasised that both the international and domestic economic environment are fragile, which makes forecasts highly uncertain.

Inflation is expected to increase from 2,6% in 2010 to 3,4% in 2011 and then decelerate to 2% in 2012. The main factors contributing to inflation in 2011 are the larger annual percentage increases recorded in the prices of processed food, industrial goods excluding energy and services. These increases partly reflect the increase in VAT on food and pharmaceuticals in January 2011 and the increase in excise duties on tobacco products in December 2010. The HICP excluding energy is expected to increase to 1,8% in 2011 from 0,5% in 2010, as a result of higher annual rates of price increases in all sub-categories, while in 2012 it is

expected to be around 1,7%. Compared with previous CBC forecasts, the expected moderation of domestic inflationary pressures is in line with the downward revision of GDP growth for both 2011 and 2012, and in particular the contained domestic demand, income and employment.

#### **Conclusions**

The Cyprus economy is showing signs of recession in the second half of 2011, with a significant decline in GDP in the third quarter of the year, and without any prospects for a substantial recovery soon. According to CBC projections, which are generally consistent with those of the European Commission published in November 2011, the sluggish economic activity is expected to result in a significant increase in unemployment. In October the unemployment rate exceeded 8%, according to seasonally adjusted data from Eurostat, which is an unprecedented figure for Cyprus. In addition, the recent European Commission forecasts confirmed the deteriorating fiscal position of Cyprus, with the general government deficit projected to reach 6,7% of GDP in 2011 and with an ominous outlook for 2012, if no corrective measures are adopted. Indeed, following Olli Rehn's letter to the Cyprus government calling for the rigorous implementation of fiscal consolidation measures as well as structural measures, there was agreement between the political parties and the government for new measures. These measures are welcome. According to CBC estimates, the deficit target of 2,8% of GDP, as noted in the 2012 budget, is considered attainable only if there is immediate and full implementation of all the measures specified in the budget adopted on 16 December 2011 as well as the complementary measures adopted by the Parliament on 14 December 2011.

The most alarming consequence of the fiscal deterioration of recent years is the loss of our sovereign credibility and the exclusion of the government from international financial markets since May 2011, which resulted in the successive sovereign and bank downgrades. This needs to be reversed immediately. According to foreign analysts, the main reason for the downgrading of Cypriot banks is the reduced ability of the government to support its banking system if necessary, mainly because of the impact of the 50% "haircut" on Greek debt, a controversial decision taken by the EU heads of state. All euro area countries are expected to support their banks, which indicates just how important the loss of sovereign credibility is for Cyprus. This demonstrates how intertwined our banking system and public finances are, with the latter considerably affecting the financial system. In order to achieve satisfactory growth rates, it is necessary to restore fiscal sustainability, in addition to the above preventive measures aiming at strengthening the banking system. Only then can we escape from the vicious circle in which we entered last year.

Over the past few years, government expenditure has increased much faster than economic growth. According to figures cited in the 2012 budget, from 2007 to 2011, central government expenditure (excluding expenditure for loan repayments) is expected to increase by

36,4% while the corresponding increase in nominal GDP is expected to reach 14,4%, and that of real GDP by only 3,3%.

Consequently, the focus of fiscal policy should be on curbing public expenditure. As such, the measures included in the 2012 budget as well as the supplementary fiscal consolidation measures mentioned above should be implemented immediately. In addition, further structural reforms should be examined, with emphasis placed on containing public spending. This is the area where corrective measures should focus on. Regardless of the extent to which tax revenues increase (either through tackling tax evasion and / or by increasing tax rates), it is impossible to meet the continued growth of public spending under the assumption of the same or even much lower growth rates relative to those observed in the past. The containment of public spending should be achieved mainly through cuts in unproductive spending in order to avoid undermining the country's growth.

Fiscal discipline and the restoration of market confidence is considered a prerequisite for sustainable growth to be achieved thus leading to a sustainable fiscal position. It is impossible to achieve sustainable growth in the absence of fiscal consolidation. The inability of Cyprus to borrow from international financial markets since May 2011 and the very specific recent warning of the European Commission in relation to the rigorous implementation of fiscal consolidation measures, as well as structural reforms, leave no further room for delay in the implementation of the measures passed by parliament.



Macroeconomic Developments and Projections

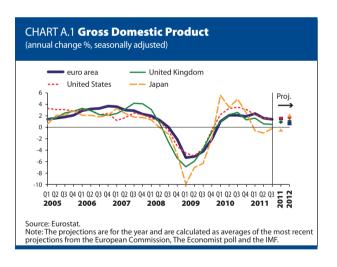
#### 1. International Environment

### 1.1 External developments

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

After a series of adverse developments, especially in the second half of 2011, global economic activity has weakened substantially, recording significant differences between countries. The destructive earthquake and the subsequent tsunami in Japan negatively affected global production, while the political problems in several Arab countries created an upward pressure in oil prices. In addition, pressure on euro area countries due to the debt crisis multiplied, US growth slowed down, and the debate on increasing the ceiling of the US government debt undermined the confidence in policy making. In view of the above, global growth forecasts have been revised downwards, particularly in countries of the developed world.

In Europe, the recovery slowed down after a positive first quarter. According to recently published data for the third quarter of 2011, GDP growth in the euro area was 1,4% compared with 2,1% in the corresponding quarter last year (Chart A.1). On a quarterly basis, growth was marginally positive at 0,2% compared with the previous quarter. The slowdown was partly a result of the escalating crisis in the euro area, which had a broader impact on domestic demand, since the low confidence levels began to affect both consumers and investors across the whole of Europe. According to analysts'



GDP projections are estimated as the average of the most recent projections from The Economist poll (4 November 2011), the IMF (World Economic Outlook, September 2011) and the European Commission (European Economic Forecasts, Autumn 2011).

macroeconomic forecasts for the euro area, annual real GDP growth will reach 1,6% in 2011 and 0,7% in 2012. Regarding unemployment in the euro area, it remained virtually constant at 10,3% in October 2011 from 10,1% in October 2010.

In the UK, economic activity remained fragile in the third quarter of 2011, rising by a mere 0,5% both on a quarterly and on an annual basis. Growth was mainly driven by services and production, while the construction sector showed a slight decline. In the short term, the recovery in economic activity is expected to be contained, although the monetary stimulus measures are expected to give a boost. The latest analysts' forecasts for GDP growth points to an increase of 0,9% in 2011 and 1,1% in 2012. Regarding unemployment, it reached 8,3% in October 2011 compared with 7,9% in the same period last year.

In the US, despite the quarterly acceleration recorded in economic activity in the third quarter of 2011, slower growth rates compared with 2010 continue to be recorded. According to analysts, real GDP grew by 1,5% on an annual basis in the third quarter of 2011 compared with 3,5% in the corresponding quarter last year. Growth in the third quarter was driven by increased consumer spending and business investment. However, the decline in real disposable income by 1,7%, and the reduction in the savings rate to its lowest level since the fourth quarter of 2007, threatens the sustainability of future growth. Analysts' forecasts converge to a GDP growth of 1,6% in

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2011 and 1,7% in 2012. Regarding unemployment, it decreased to 9% in October 2011 compared with 9,7% in October 2010.

In Japan, in the third quarter of 2011, real GDP decreased by 0,2% on an annual basis, while it increased by 1,5% on a quarterly basis, following three consecutive quarters of contraction. GDP growth reflects, in part, the revival in the production chain, particularly in the automotive industry, which was affected by the earthquake and tsunami in Japan on 11 March. Moreover, net exports contributed to GDP growth by 0,4 percentage points, marking the first positive contribution after five quarters. The latest analysts' forecasts for GDP growth indicate a decrease of 0,5% in 2011 and an increase of 2,1% in 2012. Regarding unemployment, it decreased to 4,1% in September 2011 compared with 5% in the same period last year.

#### Inflation<sup>2</sup>

After the acceleration recorded in the first half of the year, inflation shows signs of moderation in most developed economies due to the various structural problems and renewed tensions in financial markets, following concerns about fiscal sustainability. On the other hand, inflationary pressures continue in emerging economies, due to limitations in production capacity and the higher weight of commodities in the consumption and price indices. Various economic indicators and the results of recent surveys in manufacturing confirm the dampening of inflationary pressures worldwide.

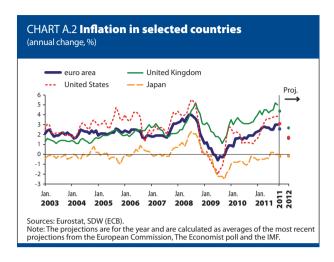
Inflation projections are estimated as the average of the most recent projections from The Economist poll (4 November 2011), the IMF (World Economic Outlook, September 2011) and the European Commission (European Economic Forecasts, Autumn 2011).

It is expected that inflation will continue to show positive rates in most economies, with recent analyst projections for 2012 being revised downwards compared with previous forecasts (Chart A.2).

More specifically, euro area HICP inflation remained unchanged at 3% in October 2011, while in October 2010 it stood at 1,9%. The highest annual percentage increases were recorded in the category of food and to a lesser extent in the category of industrial goods excluding energy. These offset the lower inflation recorded in services. The latest inflation projections by international organisations and private sector analysts for the euro area are 2,6% for 2011 and 1.6% for 2012.

In the UK, inflation has remained elevated in recent months even though it decelerated somewhat and reached 5% from 5,2% in September, mainly due to reductions in the prices of food, airline tickets and gasoline. Gradually a deceleration is expected in inflationary pressures as the influence of temporary factors, such as the depreciation of sterling, increases in commodity prices and the increase in VAT in January 2011, is dissipated. Analysts anticipate that inflation will be around 4,4% in 2011 and 2,7% in 2012.

In the US, inflation increased to 3,9% in September 2011 from 3,8% in August, while core inflation remained unchanged at 2%. Since the beginning of the year, the increases in the prices of energy and food explain a large part of the annual percentage increase in the price index. According to the latest forecasts, inflation is



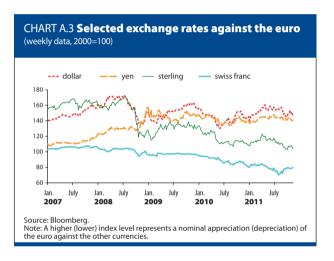
expected to be around 3,1% in 2011 and 1,7% in 2012.

In Japan, inflation slowed down to 0% in September 2011 compared with 0,2% in August. Excluding food, inflation remained unchanged at 0,2% in September, while excluding food and energy it increased from -0,5% to 0,4%. Analyst forecasts place inflation at around -0,2% for both 2011 and 2012.

#### **Exchange rates**

The euro appreciated against all major currencies from the beginning of the year until May and then depreciated, reflecting changes in the projections for public finances in many euro area countries of the euro area and challenging the survival of the euro area in its present form.

In 2011 the euro followed broadly the same path against sterling, the dollar and the yen (Chart A.3). By early May, it had appreciated significantly, while during the summer months it fluctuated primarily due to the fiscal problems in the euro area and the US, but also due to variations in the spreads between the euro area and other economies. The biggest drop in the value of the euro was recorded in September, following increasing concerns about the evolution of the sovereign debt crisis in the euro area. The euro also recorded very large fluctuations against the Swiss franc from April to September 2011. After first depreciating significantly and reaching the historically low rate of 1,05 francs on 11 August, it then appreciated sharply during the remainder of

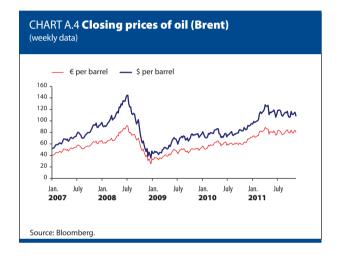


August. On 6 September, the Swiss National Bank announced that it would set a minimum exchange rate of 1,20 francs to the euro. The depreciation of the euro reflects increased market uncertainty, as the Swiss franc has benefited overall from the preference of international investors for safe haven currencies.

As a result of the aforementioned exchange rate developments, from the beginning of the year until 18 November 2011 (the cut-off date for data in the current *Bulletin*), the euro appreciated by 1,1% against the dollar, while it depreciated by 0,2% against sterling and by 4,1% against the yen (**Table B.1** in the Appendix, p. 88).

#### Oil and gold

After the upward trend continued for several months, oil prices began to record a decline in June 2011 (Chart A.4). More specifically, the price of Brent crude stood at \$108,71 per barrel on 18 November, but remained 14% higher compared with the beginning of the year. Oil prices have been influenced by the interaction of strong fundamentals of demand and the uncertainty that still exists in international markets. The demand has so far proved resilient to high prices. As for the supply side, in late June the International Energy Agency (IEA), in an effort to ease the upward pressure on prices and prevent further tightening in the market, announced the release of 60 million barrels of strategic oil stocks. This move offered only temporary relief in prices. However, given the rising tensions in the financial markets for



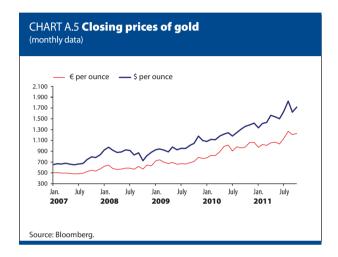
government securities and the resulting negative impact on growth, oil prices fell again amid concerns about global economic activity.

Regarding future prospects, markets anticipate a slight drop in oil prices in the medium term, since a further deterioration in the outlook for the global economy may lead to shrinking demand. Meanwhile, the recent political developments in Libya are likely to provide additional relief to the markets, provided domestic production is restored soon. On 18 November, the trading price of December 2012 futures stood at \$104,11 per barrel.

As for the price of gold the successive historical highs continued for the largest part of the year, with the price of gold reaching \$1.723,95 per ounce on 18 November 2011 (Chart A.5). This rise was the result of continued uncertainties about the course of the global economy as investors continue to turn to the precious metal, which is considered a safe haven in times of crisis. Furthermore, the low interest rate environment in the US, the reduction in the ECB policy rates in November and the extension of the quantitative easing programme of the Bank of England and the Federal Reserve are expected to lead to further increases in the price of gold, which is considered as a hedge against inflationary risks. It is worth noting that, from the beginning of the year until 18 November 2011, the price of gold increased by 21%.

## Selected international stock market indices

During the period under review, the financial

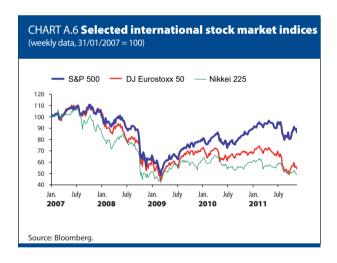


markets continued to exhibit considerable volatility, with stock prices falling in all major economies. These developments are due to the downward revision of expectations about global economic recovery. In addition, significant tensions associated with the sovereign debt crisis in the euro area and the deterioration in the creditworthiness of the US contributed to a growing reluctance of investors to invest in risky assets. The increase in stock prices in late October mainly reflected the expectations before the European Council meeting on 26 October. Following the announcement of the decisions taken at the meeting, share prices rose sharply and market sentiment continued to improve. However, much of the gains in equity prices were reversed due to the sharp deterioration in sentiment, after investor the surprise announcement by the Greek Prime Minister for a referendum on the decision taken by the Heads of States on 26 October, the political upheavals in Italy and Greece, and the new downgrade warnings from the credit rating agencies.

As a result of the aforementioned developments, from the beginning of the year until 18 November the DJ Eurostoxx decreased by 20%, the S&P500 declined by 3% and the Nikkei fell by 18% (Chart A.6).

#### International official interest rates

The major central banks continued their loose monetary policy stance, maintaining their key interest rates at very low levels and continued to supply liquidity to the markets through regular



and non-conventional monetary policy measures.

In light of the recent developments regarding the sovereign debt crisis in the euro area, the ECB's, first Governing Council meeting under the new president Mario Draghi, reduced its policy rates by 0,25%. In particular, the main refinancing operations rate was reduced to 1,25%, while the marginal lending facility and deposit facility rates stood at 2% and 0,50%, respectively. It should be recalled that the ECB had made two increases in its interest rates by 0,25% each at its Governing Council meetings in July and April 2011, amid inflationary pressures. Regarding interest rates in other major economies, up until the cut-off date for data in the current Bulletin, the Federal Reserve maintained its official interest rate unchanged between 0% and 0,25% and the Bank of England at 0,5% (Chart A.7).

## 1.2 Monetary developments in the euro area

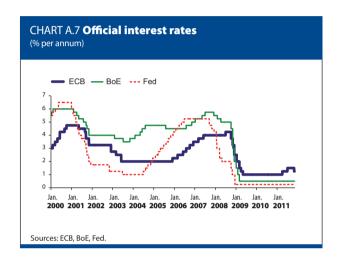
#### Inflation

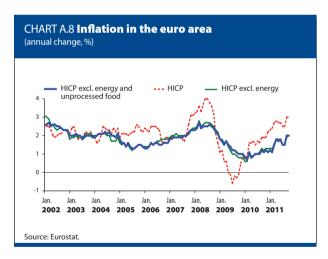
As already mentioned, inflation in the euro area remained unchanged at 3% in October 2011 compared with the previous month, while it stood at 1,9% in October 2010 (**Chart A.8**).

The HICP excluding energy increased to 2% in October 2011 compared with 1,9% in September. The HICP excluding energy and unprocessed food also recorded an increase of 2%.

#### **Reference rates and ECB interventions**

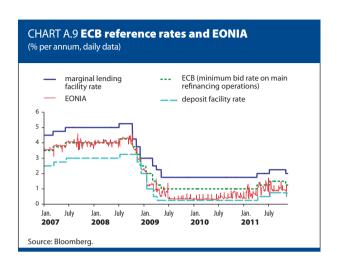
By the summer of 2011, the ECB followed a more





restrictive anti-inflationary policy than the Federal Reserve and the Bank of England. With inflation in the euro area exceeding the target of 2%, interest rates were raised in April and July. However, the sharp slowdown in the euro area growth, together with the ongoing financial turmoil resulting from the sovereign debt crisis, led to a reduction in the official ECB rates by 25 basis points on 3 November 2011. Hence, the main refinancing operations rate was reduced to 1,25%, the marginal lending facility rate to 2% and the deposit facility rate to 0,50% (Chart A.9).

During the period under review, the ECB continued to support the money markets through liquidity-providing operations with maturities of one week, one minimum reserve maintenance period and three months. On 4 August 2011, the Governing Council decided to continue the main refinancing operations and the special-term refinancing operations equal to one period, through fixed rate tenders with full allotment for as long as necessary, and at least until the last maintenance period of 2011 ending on 17 January 2012. In addition, the Governing Council decided to continue its longer-term refinancing operations of three months dated 26 October, 30 November and 21 December 2011, through fixed rate tender procedures with full allotment. Due to the new pressures that occurred in some financial markets of the euro area, the ECB conducted a supplementary refinancing operation with a maturity of approximately six months on 10 August 2011. According to the ECB, the provision of liquidity and the allotment of refinancing will continue to



support euro area MFIs in order not to face liquidity constraints.

On 7 August 2011, the ECB began again to actively implement the Securities and Markets Programme which was first announced on 10 May 2010, combined with weekly liquidity absorbing operations lasting one week. The aim of the programme is to reduce the pressure on the yields of government bonds, while the additional liquidity provided through the programme is absorbed so as not to influence the money supply in the euro area.

Monetary policy in the euro area continues to be regarded as loose. All non-conventional measures which are still in force remain compatible with the Governing Council's focus on temporary measures.

# Interbank market and interest rate differentials

Money market rates rose during the period under review. The EONIA rate continued to exhibit large volatilities until mid-July and repeatedly rose above the ECB main refinancing rate. Since then, its volatility has decreased significantly. This decrease was due to the banks' increased use of the Eurosystem liquidity-providing operations amid new financial market tensions. Consequently, there was an increase in excess liquidity in the system, keeping the EONIA rate at lower levels. From mid-July onwards, the EONIA rate has decreased and currently stands at between 10 and 20 basis points higher than the deposit facility rate. More

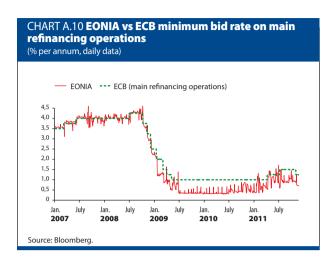
specifically, on 18 November the EONIA rate was 0,722% (Chart A.10).

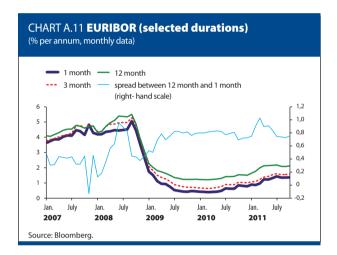
On the same date, the 1, 3 and 12-month EURIBOR was 1,199%, 1,465% and 2,031%, respectively – i.e. 42, 46 and 52 basis points higher than in early 2011. The difference between the 12 and 1-month EURIBOR, which is an indicator of the slope of the money market yield curve, increased during this period and stood at 83 basis points on 18 November up from 73 basis points at the end of 2010 (Chart A.11).

Chart A.12 depicts the spreads between EURIBOR and OIS<sup>3</sup> products, which increased significantly during the year. This reflects a deterioration in money market conditions. Indicatively, the spread between the 3-month EURIBOR and the OIS was around 41 basis points at the end of 2010, while on 18 November 2011 (the cut-off date for data in the current *Bulletin*) it reached 91 basis points.

#### Euro area yield curve

Chart A.13 (p. 28) shows the yield curve for AAA rated euro area government bonds with a 30-year maturity (spot prices). Compared with the end of 2010, the mid-November 2011 curve had a flatter slope, while in relation to mid-May (the cut-off date for data in the June 2011 *Bulletin*), the curve shifted downwards for all maturities. The slope of the curve, which shows market expectations about the future path of interest rates, and hence economic growth, reflects the increased uncertainty in the market in relation







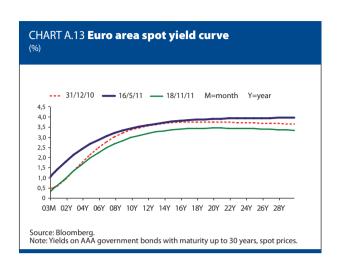
OIS (Overnight Index Swaps) are derivative products where EONIA
is swapped with a fixed interest rate of selected duration. OIS are
used for hedging or speculative moves in the interbank overnight
rate or the reference rates of central banks.

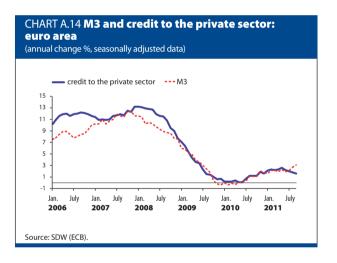
to other periods. This occurred mainly as a result of the downward revision in euro area economic projections compared with the beginning of the year, and the increased investor demand for AAA rated bonds, which are considered the safest in the market. Generally, as the slope of the yield curve gets flatter, it indicates a worsening in market conditions.

#### M3 and credit expansion

The annual growth of M3 accelerated to 3,1% in September 2011 compared with 2,1% in the second quarter and 1,9% in first quarter of 2011. The increase in M3 growth reflects rising tensions in some financial markets. In particular, households increased their holdings of liquid monetary assets over riskier assets because of the large uncertainty regarding the economic outlook and the significant drop in stock values.

With regards to credit expansion, the annual growth rate of total MFI loans to euro area residents slowed down to 1,9% in the third quarter of 2011, from 2,4% in the second quarter and 2,1% in first quarter (**Chart A.14**). More specifically, the annual growth of loans to households stood at 3% in the third quarter, from 3,4% and 3,1% in the second and first quarter, respectively, while the annual growth of loans to non-financial corporations (NFCs) increased to 1,5% in the third quarter, from 1,1% and 0,6% in the second and first quarter, respectively. These figures, at least until the third quarter of the year, do not suggest that



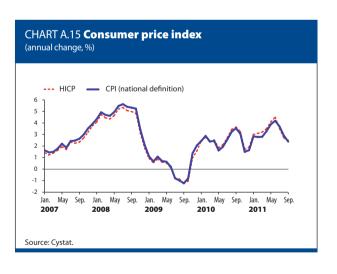


the increased tensions in the financial markets affected the supply of credit. However, since the impact may occur with a time-lag, careful monitoring of credit developments in the coming months is required. According to the results of the October 2011 Bank Lending Survey in the euro area, in the fourth quarter of 2011 banks were expected to tighten their criteria for all categories of loans, while a reduction was expected in the demand for loans from both businesses and households for housing and consumer loans.

# 2. Domestic Prices, Monetary Aggregates and Labour Costs

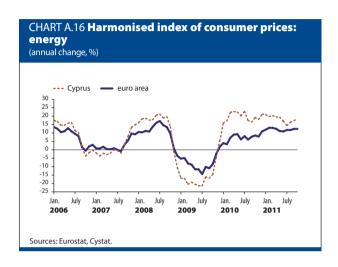
#### **Prices**

In Cyprus inflation based on the Consumer Price Index (CPI) in October 2011 stood at 3% compared with 2,4% in September 2011 and 3% in October 2010. During the first ten months of 2011, the CPI registered an average increase of 3,2% compared with 2,6% in the corresponding period of 2010. Furthermore, HICP inflation accelerated to 3,2% in October 2011 from 2,5% in September 2011. In October 2010, HICP inflation was also 3,2%. During the period January-October 2011, the HICP recorded an average increase of 3,4% compared with 2,7% in the corresponding period of 2010 (Chart A.15). The increase in inflation during the first ten months of 2011 compared with the corresponding period of 2010 was due to the higher increases recorded



in the prices of processed food and industrial goods excluding energy and services. In contrast, unprocessed food and energy recorded lower annual growth rates in relation to 2010. However, like last year, the double-digit inflation rates registered in the energy subcategory continue to account for a large part of overall inflation (more than 1,5 percentage points). For the first ten months of 2011, inflation excluding energy increased by 1,7% compared with 0,7% in the corresponding period of 2010.

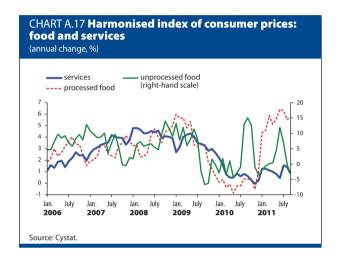
More specifically, in the energy sector, energy prices increased on average by 18,3%, during the first ten months of 2011 compared with an increase of 19,6% in 2010 (Chart A.16). According to the latest available data, in October 2011 the increase in energy prices was 18,4% compared with 19,2% in October 2010. The ongoing double-digit annual growth rates recorded in the prices of electricity, fuels and lubricants were the result of a variety of factors apart from the continuing increases in oil prices. As regards electricity, the increase in prices reflects the various charges imposed on the price of electricity in 2010 and 2011. These charges include: the 1,9% fine imposed on Cyprus by the EU in May 2010 because of higher emissions; the 2% increase in the contribution to public sector obligations4 and the Renewable Energy Fund in August 2010; and the increase in the basic electricity tariffs by 1,5% in January 2011. Moreover, in September and October 2011 a significant increase of 8% was imposed on electricity



<sup>4.</sup> In June 2010, the Cyprus Energy Regulation Authority decided to allow the Electricity Authority of Cyprus to recover its costs towards public sector obligations, specifically the loss of revenue as a result of introducing/applying the new tariff to large and needy families.

prices, after the approval of the Cyprus Energy Regulatory Authority and following the Electricity Authority of Cyprus's request for a recovery of the increased operating costs after the destruction of the Vasilikos power station. With respect to fuels, a duty of 9% was imposed in June 2010. It should also be noted that the average price of oil in the first ten months of 2011 was €20,3 higher than in 2010, despite the appreciation of the euro against the dollar during the same period.

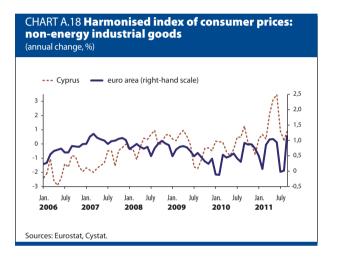
Food prices in the first ten months of 2011 increased by 4% compared with an increase of 1% in the corresponding period of 2010 (Chart A.17). This increase was due to inflation in processed food, which increased by 5.6% compared with a zero increase in the first ten months of 2010. The introduction of 5% VAT on food items had an upward effect on the prices of most items in this subcategory with the exception of dairy products, the prices of which decreased by 1% in the first ten months of 2011. The annual growth of approximately 16,5% in the prices of tobacco products reflects the increase in excise taxes imposed on these items in December 2010. In October 2011, the prices of processed food increased by about 6% compared with a marginal increase of 0,4% in October 2010. The prices of unprocessed food increased by 1,7% in the first ten months of 2011 compared with an increase of 2,6% over the corresponding period of 2010. The smaller annual increase was due to negative growth rates in the prices of vegetables, since the rest of the items in this category registered positive



annual growth rates compared with last year. According to the latest available data, in October 2011 this category recorded an increase of 0,7% compared with an increase of 12,6% in October 2010.

Excluding food and energy items, which together represent about 28% of the HICP, inflation accelerated to 1,2% in the first ten months of 2011 from 0,6% in the corresponding period of 2010. Inflation excluding energy and food is mainly determined by domestic factors, such as developments in wages, profit margins and indirect taxes, and consists of two components, industrial goods excluding energy and services.

The prices of industrial goods excluding energy exhibited an increase of 1,4% in the first ten months of 2011 compared with a marginal increase of 0,1% over the corresponding period of 2010 (Chart A.18). This was mainly due to an increase in the prices of clothing and footwear, the introduction of 5% VAT on pharmaceuticals as well as the smaller reductions in the prices of motor vehicles compared with the first ten months of 2010. According to the latest available figures for October 2011, the annual percentage increase in this category was 1,2% compared with a 0,1% increase in October 2010. The implementation of the new EU Regulation on the treatment of seasonal items in the HICP pushed clothing and footwear prices upwards in April, May and June 2011, increasing the overall index by 0,1, 0,2, and 0,2 percentage points, respectively. On the other hand, the implementation of the



Regulation decreased the overall index in July and August 2011 by 0,2 percentage points, respectively.

Chart A.17 (p. 31) also illustrates the annual percentage change in the prices of services. More specifically, during the first ten months of 2011 this category recorded an increase of 1,1% compared with an increase of 0,9% in the corresponding period of 2010. Looking at the major categories of this HICP sub-component, the slightly higher inflation registered in the first ten months of 2011 compared with the corresponding period of 2010 was mainly due to higher inflation in domestic and household services, telephone and telefax services, recreational and sporting services, restaurants and cafes, as well as lower negative percentage price changes in passenger transport by air.. Other major categories which registered increases in prices were education and medical services, while package holidays and accommodation services recorded negative price increases. The increase in the prices of restaurants and cafes can be linked, at least in part, to the increase in VAT from 0% to 5% on foodstuffs in January 2011. In October 2011, the percentage increase in the prices of services reached 1,1% compared with 0,2% in October 2010.

Domestic inflation remains higher than in the euro area. More specifically, during the first ten months of 2011, the domestic HICP increased by 3,4% compared with 2,7% in the euro area. The picture is different if we exclude the components of the HICP that are highly volatile, i.e. energy and food. In particular, the domestic HICP excluding energy increased by 1,7% during the period January-October 2011, which is a mere 0,1 percentage points higher than the 1,6% inflation recorded in the euro area. It is worth mentioning that in 2010, inflation excluding energy in Cyprus was 0,5 percentage points lower than in the euro area. Moreover, inflation excluding energy and food, which is a measure of core inflation, reached 1,2% in Cyprus compared with 1,3% in the euro area in the first ten months of 2011, while for the entire 2010 the difference was larger, namely 0,5 percentage points. Therefore, the pass-through of the oil price increases onto consumer prices and the higher direct impact of oil prices on the Cyprus economy, together with the higher food prices in Cyprus explain the difference between domestic and euro area. inflation.

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

The annual growth rate of loans to the domestic private sector showed signs of slowing down from the end of September of 2010 until the end of 2010, increasing by 8,2%. The slowdown continued until the end of the third quarter of 2011, reaching 6,1% compared with 9,1% at the end of the third quarter of 2010, as a result of the overall sluggish economic conditions and uncertain environment.

- 5. For a detailed explanation of the methodology and technical analysis of monetary aggregates, see the technical notes on pp. 106-107.
- 6. With regard to the classification of loans by economic activity, it is noted that as a result of the change in the Directive on the monthly balance sheets of banks and the replacement of NACE Rev. 1.1 with NACE Rev. 2, there is a structural change in the statistical series and therefore annual growth rates cannot be calculated. Further checks are required in order to reconcile the differences between the two classifications. In view of the above, the sectoral loan analysis is not presented in Part A of this Bulletin.

According to the results of the Bank Lending Survey (BLS) conducted in October 2011, banks in the third quarter of 2011 tightened their standards for all loan categories, i.e. housing loans, consumer credit and other lending to households and corporate loans. According to the banks participating in the BLS, during the fourth quarter of 2011 credit standards for corporate loans and for consumer credit as well as other lending, are expected to be tightened while no change is expected in credit standards for housing loans. Moreover, it is expected that there will be a further reduction in the demand for loans by enterprises and households.

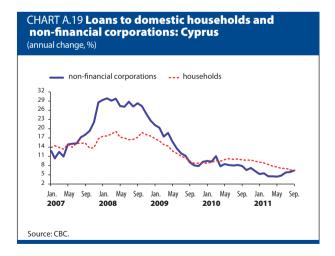
A further analysis of monetary aggregates shows that the slowdown in the annual growth rate of loans to the domestic private sector was primarily due to the ongoing slowdown in the housing loans to domestic households. In particular, in September 2011 housing loans recorded an increase of 7,5%, which is the lowest growth rate in recent years (**Table A.1**).

Regarding the growth rate of loans to domestic NFCs, this increased to 6,4% in September 2011 compared with 4,7% in June, but was lower than the 7,9% recorded in September 2010 (**Chart A.19**). Nevertheless, according to the results of the recent BLS, banks expect a tightening of credit standards for loans to NFCs in the fourth quarter of 2011. This is expected to take the form of higher interest rates and increased collateral in the context of a revision to bank lending policy for

| TABLE A.1 Loans to domestic households (1),(2) |               |      |      |          |          |       |      |
|--|---------------|------|------|----------|----------|-------|------|
| (  | Outstanding   |      | Annu | al perce | ntage ch | nange |      |
|  | balance as    | 2010 | 2010 | 2010     | 2011     | 2011  | 2011 |
|  | % of total(3) | June | Sep. | Dec.     | Mar.     | June  | Sep. |
| Domestic households                            | 100,0         | 10,3 | 9,9  | 9,4      | 8,4      | 7,1   | 6,3  |
| 1. Consumer credit                             | 14,6          | 3,9  | 1,9  | 0,2      | 0,5      | -0,4  | 0,1  |
| 2. Lending for house purcha                    | ase 53,6      | 15,9 | 15,4 | 14,3     | 11,5     | 8,8   | 7,5  |
| 3. Other lending                               | 31,8          | 5,6  | 6,0  | 6,7      | 7,2      | 7,9   | 7,3  |
|  |               |      |      |          |          |       |      |

Source: CBC.

- (1) Sectoral classification is based on ESA 95.
- $\ \, \hbox{(2) Including non-profit institutions serving households}.$
- (3) As at the end of the last month available. Figures may not add up due to rounding



the containment of credit risk. At the same time, demand for loans by NFCs is expected to decrease in the fourth quarter of 2011.

During the third quarter of 2010, a slowdown in the growth of loans to domestic households was recorded. At the end of September 2011 the annual growth rate reached 6,3% compared with 7,1% at the end of June 2011 and 9,9% at the end of September 2010. More specifically, the annual growth rate of housing loans to residents experienced a deceleration to 7,5% in September 2011 compared with an increase of 8.8% at the end of the previous quarter and an increase of 15,4% in September 2010. It should be noted that a significant part of the growth in housing loans was due to interest rate capitalisation. According to the BLS, households reduced their demand for these loans in the third quarter of 2011 due to the deterioration in housing market prospects and reduced consumer confidence. Of the loans offered by MFIs in Cyprus to domestic households at the end of the first quarter of 2011, 53,6% were housing loans, 31,8% other lending, and 14,6% consumer loans (Table A.1, p. 35).

With respect to deposits, the annual growth rate of deposits by domestic households remained low, namely 2,9% in September 2011 compared with 3,5% in June 2011 and 5,4% at the end of the third quarter of 2010 (**Chart A.20** and **Table A.2**). It should be noted that the continuing slowdown in the growth of these deposits, which began in August 2010, is consistent with the uncertain economic

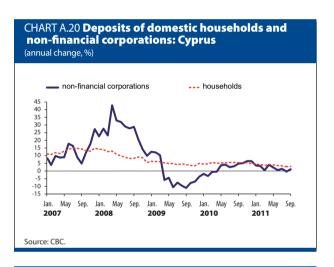


TABLE A.2 Deposits of domestic households (1),(2)

|                      | Outstanding    | Annual percentage change |       |      |      |      |      |
|----------------------|----------------|--------------------------|-------|------|------|------|------|
|                      | balance as     | 2010                     | 2010  | 2010 | 2011 | 2011 | 2011 |
|                      | % of total (3) | June                     | Sep.  | Dec. | Mar. | June | Sep. |
| Domestic households  | 100,0          | 5,3                      | 5,4   | 4,7  | 3,6  | 3,5  | 2,9  |
| Overnight            | 14,2           | 5,6                      | 5,4   | 1,8  | -0,4 | -0,2 | -0,8 |
| With agreed maturity | 76,6           | 5,6                      | 6,3   | 6,3  | 5,2  | 5,6  | 4,8  |
| up to 2 years        | 72,7           | 6,9                      | 7,2   | 7,1  | 5,6  | 5,2  | 4,3  |
| over 2 years         | 3,9            | -15,9                    | -10,0 | -7,7 | -3,6 | 15,1 | 16,8 |
| Redeemable at notice | 9,3            | 3,0                      | -0,5  | -2,4 | -2,2 | -6,5 | -5,6 |
| up to 3 months       | 6,8            | 2,4                      | -0,8  | -2,8 | -2,1 | -8,8 | -8,1 |
| over 3 months        | 2,4            | 4,5                      | 0,5   | -0,9 | -1,7 | 0,7  | 1,9  |

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.

environment. Moreover, the slowdown in domestic credit expansion and the use of household deposits to cover current obligations are additional factors explaining the reduced growth of deposits. Deposits with agreed maturity accounted for 76,6% of total deposits by domestic households, of which deposits with agreed maturity of up to 2 years accounted for 72,7% of total deposits at the end of September 2011.

Higher interest rates continued to be offered by MFIs at a time of strenuous efforts to increase liquidity, since deposits remained their main source of funding. The generally cautious attitude of depositors, following uncertainties about the economy, continued to be reflected in a substantial reduction in consumer spending and preference for higher interest-bearing deposits, which, however, increased at a slower pace. It should be noted that although at the beginning of 2011 deposits increased,, in recent months there has been a decline in in overnight deposits by domestic households. More specifically, the aforementioned deposits recorded an annual decrease of 0,8% in September 2011 compared with a decrease of 0,2% in June 2011 and an increase of 5,4% in September 2010. Depositors have continued to prefer interestbearing deposits with higher returns and longer-term maturity, while an increase was observed in the growth rate of deposits with agreed maturity over two years. Nevertheless, a slowdown was also experienced in deposits with agreed maturity, since their growth rate reached 4,8% at the end of the third quarter of 2011 compared with a growth rate of 5,6% at the end of the second quarter of 2011, and an increase of 6,3% at the end of the third quarter of 2010. It should be noted that the change recorded in September 2011 was the lowest since March 2010. Regarding deposits redeemable at notice, these continued to decline throughout the year. More specifically, in September 2011 the decrease amounted to 5,6% compared with a decrease of 6,5% in June 2011 and a decrease of 0,5% in September 2010.

With regard to deposits of domestic NFCs, these also recorded low annual growth rates since the beginning of the year (Chart A.20, p. 36). More specifically, these deposits recorded an increase of 1,1% at the end of September 2011 compared with a positive growth of 0,6% at the end of June 2011 and an increase of 4,8% in September 2010. It should be noted that the subdued growth in deposits recorded in recent months is consistent with the downturn which has led to a reduction in corporate earnings. As a result, a number of businesses have been forced, in part, to use their savings for covering both their operational costs for capital and operating expenses, such as rent and taxes. NFC deposits represent approximately 17% of total deposits by the domestic private sector in the banking system.

With regard to deposits of non-resident NFCs, including "brass plates", these also recorded a significant slowdown since

December 2010. More specifically, the annual growth of these deposits reached a mere 1,5% at the end of the third quarter of 2011 compared with an increase of 11% at the end of the second quarter. The growth in the third quarter of 2010 was 38,6%. The corresponding deposits of non-resident households increased by 26,6% at the end of September 2011 compared with 26% at the end of June 2011 and 51,9% at the end of September 2010. It should be noted that the share of these deposits to total non-resident deposits is around 28%. Changes in the above growth rates were partly due to changes in the exchange rate, following the appreciation of the euro since December 2010, and developments in the domestic economy following the explosion of the Vasilikos power station. It should also be noted that large inflows of non-resident deposits were recorded in 2010, which reached unusually high levels. Hence, part of the slowdown in the growth of deposits was due to the base effect of 2010. Total non-resident deposits, which include those of non-resident NFCs (including "brass plates"), recorded a slowdown, growing by 8,3% at the end of the third guarter of 2011 compared with 12,5% at the end of the second guarter of 2011 and an increase of 54,6% in September 2010, as a result of the aforementioned factors.

### Interest rates

At the end of the third quarter of 2011, interest

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rates on new loans in Cyprus generally recorded significant increases compared with the third quarter of 2010. Moreover, in September 2011 these rates generally experienced the biggest increase compared with the beginning of the year. This was a consequence of both external and domestic economic factors. On the one hand, there was the increase in the EURIBOR, the financial and political uncertainty in Greece and the exposure of domestic financial institutions to Greek bonds and loans in Greece. On the other hand, the subdued lending policies of domestic banks, the recent downgrades of domestic government bonds and domestic banks by credit rating agencies, and the negative outlook of the economy, led to a rise in the cost of borrowing from international markets. As a result, in 2011 Cyprus turned for financing to the domestic market and, in particular, to domestic credit institutions, thus limiting the liquidity available. In addition, the existing competition between domestic financial institutions to attract deposits through higher interest rates hinders the reduction in lending rates in the near future.

More analytically, at the end of September 2011 the average interest rate on new euro denominated loans to euro area households from Cyprus MFIs with an initial fixation of up to one year reached 6,98% for consumer loans, 5,61% for housing loans and 6,48% for other lending (Table A.3). It should be noted that all three categories recorded interest rates that are among the highest in recent years. More

TABLE A.3 Cyprus MFI interest rates on euro-denominated loans (new business) to euro area households(1)

(% per annum, period average)

|      |      |                |          | ng rate and up to 1  | year         |
|------|------|----------------|----------|----------------------|--------------|
|      |      |                | i        | nitial rate fixation |              |
|      |      | Bank           | Consumer | Lending for          | <b>Other</b> |
|      |      | overdrafts (2) | credit   | house purchase       | lending      |
| 2010 | June | 7,01           | 6,84     | 4,63                 | 6,22         |
|      | July | 6,99           | 6,81     | 4,82                 | 6,23         |
|      | Aug. | 7,02           | 6,96     | 4,80                 | 6,33         |
|      | Sep. | 7,01           | 6,82     | 4,96                 | 6,08         |
|      | Oct. | 7,18           | 6,54     | 4,88                 | 5,99         |
|      | Nov. | 7,18           | 6,77     | 5,11                 | 6,43         |
|      | Dec. | 7,23           | 6,79     | 5,16                 | 6,31         |
| 2011 | Jan. | 7,16           | 6,75     | 4,97                 | 6,19         |
|      | Feb. | 7,15           | 6,78     | 4,98                 | 6,09         |
|      | Mar. | 7,11           | 6,76     | 5,07                 | 6,28         |
|      | Apr. | 7,12           | 6,64     | 4,91                 | 6,47         |
|      | May  | 7,15           | 6,62     | 5,16                 | 6,30         |
|      | June | 7,42           | 6,74     | 5,38                 | 6,88         |
|      | July | 7,44           | 6,84     | 5,47                 | 6,63         |
|      | Aug. | 7,43           | 6,99     | 5,50                 | 6,54         |
|      | Sep. | 7,45           | 6,98     | 5,61                 | 6,48         |

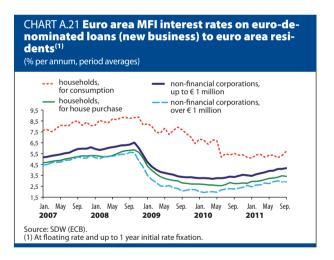
<sup>(1)</sup> Including non-profit institutions serving households

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

specifically, at the end of June 2011 these rates reached 6,74%, 5,38% and 6,88%, respectively, while at the end of September 2010 they reached 6,82%, 4,96% and 6,08%, respectively. Interest rates on new euro denominated loans by MFIs in Cyprus to NFCs also followed an upward trend. It is worth noting that the average rate for other loans to NFCs of up to €1 million was 7,04% in September 2011 from 7,10% in June 2011 and 6,43% in September 2010, following an upward trend since February 2010. In contrast to the above, the average interest rate for other loans to NFCs of over €1 million reached 5,54% in September 2011 and continued a downward trend compared with June 2011, the beginning of this year, as well as September 2010 (Table A.4).

As regards the corresponding rates for loans from MFIs in the euro area (Chart A.21), in 2011 they followed an upward trend, which contrasts with 2010 when, on average, they were stable with a downward path towards the end of that year. As a result of the increases in the key ECB interest rates in April and July 2011 by 25 basis points, respectively, the EURIBOR also increased and market expectations changed towards an increase or stabilisation in the key ECB rate. More specifically, the latest data, which refer to September 2011, show that the average interest rate for new consumer loans to households reached 5,74% compared with 5,37% in June 2011 and 5,52% in September 2010. In addition, the average interest rate on new loans to households for

|      |      | rea non-financ<br>n, period average) | ial corporations                 |                                 |
|------|------|--------------------------------------|----------------------------------|---------------------------------|
|      |      |                                      |                                  | and up to 1 year<br>te fixation |
|      |      | Bank<br>overdrafts <sup>(1)</sup>    | Other loans up to<br>€ 1 million | Other loans over<br>€ 1 million |
| 2010 | June | 6,52                                 | 6,19                             | 4,97                            |
|      | July | 6,54                                 | 6,24                             | 6,01                            |
|      | Aug. | 6,57                                 | 6,44                             | 6,27                            |
|      | Sep. | 6,57                                 | 6,43                             | 5,77                            |
|      | Oct. | 6,66                                 | 6,34                             | 5,68                            |
|      | Nov. | 6,73                                 | 6,56                             | 6,54                            |
|      | Dec. | 6,67                                 | 6,64                             | 6,18                            |
| 2011 | Jan. | 6,67                                 | 6,69                             | 6,38                            |
|      | Feb. | 6,70                                 | 6,48                             | 5,76                            |
|      | Mar. | 6,72                                 | 6,73                             | 6,19                            |
|      | Apr. | 6,75                                 | 6,60                             | 6,62                            |
|      | May  | 6,92                                 | 6,75                             | 6,57                            |
|      | June | 7,08                                 | 7,10                             | 6,97                            |
|      | July | 7,14                                 | 7,00                             | 6,00                            |
|      | Aug. | 7,12                                 | 7,00                             | 6,83                            |
|      | Sep. | 7,20                                 | 7,04                             | 5,54                            |



house purchase increased to 3,41% at the end of the third quarter of 2011 compared with 3,26% at the end of the second quarter of 2011 and 2,75% at the end of the third quarter of 2010. Regarding the average interest rate for other loans to NFCs of up to €1 million in the euro area, it recorded the highest increase since February 2009, reaching 4,18% in September 2011 compared with 3,94% and 3,35% in June 2011 and September 2010, respectively.

The above analysis shows that the largest differences between the interest rates in Cyprus and the euro area relate to housing loans and other lending to households as well as corporate loans.

Since late September 2011, market expectations have become negative as a result of the turmoil in the global macroeconomic environment. In particular, after the ECB decision on 3 November 2011 for a 25 basis point reduction in interest rates, market analysts anticipate a further small reduction in ECB rates.

With respect to the deposit rates paid by Cyprus MFIs to households and NFCs (**Table A.5**), there was also an upward trend from the beginning of the year. Indicatively, the average rate on new deposits for households with an agreed maturity of up to 1 year increased to 4,14% in September 2011 compared with 4,02% in June 2011 and 3,96% in September 2010. The respective rate for NFCs in September 2011 reached 3,68% compared with 3,41% in June 2011 and 3,08% in

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

|      |      | Hou           | Households (1)  |                                   |                          | Non-financial corporations              |  |  |
|------|------|---------------|-----------------|-----------------------------------|--------------------------|---|--|--|
|      |      | Wi            | ith agree       | d maturity                        | i                        |   |  |  |
|      |      | Overnight (2) | Up to<br>1 year | Over<br>1 and<br>up to<br>2 years | Overnight <sup>(2)</sup> | With agreed<br>maturity<br>up to 1 year |  |  |
| 2010 | June | 1,12          | 3,87            | 4,02                              | 0,51                     | 3,17                                    |  |  |
|      | July | 1,13          | 3,92            | 4,01                              | 0,55                     | 3,33                                    |  |  |
|      | Aug. | 1,13          | 3,94            | 4,16                              | 0,51                     | 3,26                                    |  |  |
|      | Sep. | 1,14          | 3,96            | 4,00                              | 0,52                     | 3,08                                    |  |  |
|      | Oct. | 1,11          | 3,96            | 4,08                              | 0,52                     | 3,14                                    |  |  |
|      | Nov. | 1,13          | 3,97            | 4,12                              | 0,52                     | 3,05                                    |  |  |
|      | Dec. | 1,10          | 3,98            | 4,20                              | 0,50                     | 3,25                                    |  |  |
| 2011 | Jan. | 1,08          | 4,01            | 4,07                              | 0,48                     | 3,39                                    |  |  |
|      | Feb. | 1,09          | 4,02            | 4,04                              | 0,49                     | 3,41                                    |  |  |
|      | Mar. | 1,09          | 4,00            | 4,05                              | 0,48                     | 3,25                                    |  |  |
|      | Apr. | 1,08          | 4,00            | 4,10                              | 0,47                     | 3,29                                    |  |  |
|      | May  | 1,12          | 4,01            | 4,14                              | 0,46                     | 3,38                                    |  |  |
|      | June | 1,11          | 4,02            | 4,14                              | 0,47                     | 3,41                                    |  |  |
|      | July | 1,12          | 4,11            | 4,32                              | 0,48                     | 3,12                                    |  |  |
|      | Aug. | 1,13          | 4,13            | 4,18                              | 0,49                     | 3,66                                    |  |  |
|      | Sep. | 1,11          | 4,14            | 4,31                              | 0,50                     | 3,68                                    |  |  |

Source: CBC.

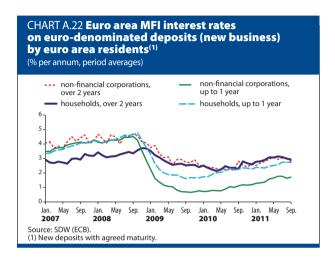
<sup>(1)</sup> Including non-profit institutions serving households.

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

September 2010. According to bank officials and financial analysts, domestic credit institutions have increased their deposit rates in an effort to preserve and increase their liquidity through deposits, in view of the "haircut" on Greek government debt. It should be noted that foreign banks based in Cyprus also compete for deposits by offering higher interest rates.

Although deposit rates in the euro area fluctuated at lower levels than in Cyprus, they recorded an increase in September 2011 compared with both June 2011 and September 2010 (Chart A.22). More specifically, the average interest rate on euro denominated deposits by households with an agreed maturity of up to one year reached 2,73% at the end of the third quarter of 2011 compared with 2,58% at the end of June 2011 and 2,25% at the end of the third quarter of 2010. The corresponding rate on NFC deposits increased to 1,72% in September 2011 compared with 1,78% in June 2011 and 1,11% in September 2010.

Banks in Cyprus have maintained their margin between lending and deposit rates for NFCs. The respective margins for households are at lower levels, mainly due to the higher deposit rates. According to the latest ECB data for September 2011, Cyprus has the highest lending rate on both corporate and housing loans in the euro area. Regarding euro denominated deposit rates, Cyprus's rate is among the highest.

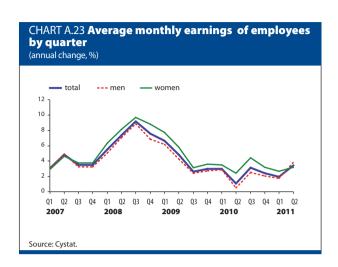


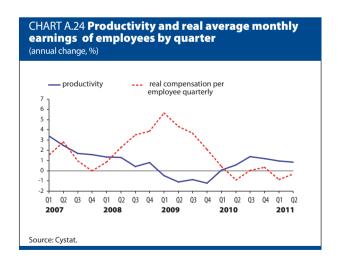
### Labour costs<sup>7</sup>

Labour costs were affected by the small recovery in GDP in the first half of 2011 and recorded a small acceleration compared with the first six months of 2010. The average monthly earnings of employees increased by 2,7% in the first half of 2011 compared with an increase of 2% in the first half of 2010 (**Chart A.23**). Apart from the positive economic developments in the first half of 2011, the acceleration of the average monthly earnings of employees was also due to the higher increase in COLA during the first half of 2011 compared with the corresponding period of 2010.

In relation to the average monthly earnings of employees by gender, the earnings of men recorded an acceleration, while the earnings of women recorded a marginal slowdown in the first half of 2011. It should also be noted that according to this index, in the period for which the data are available, the seasonally adjusted earnings of women were at 81,2% of the earnings of men in the second quarter of 2011 compared with 77,2% in the first quarter of 2004. The convergence of earnings by gender is also confirmed by the fact that the increase in women's earnings was higher than the corresponding increase for men (Chart A.23).

With regards to the real average monthly earnings of employees<sup>8</sup>, these continued to decline in the first half of 2011, recording a negative growth rate of 0,6% compared with a decrease of 0,2% in the first half of 2010 (**Chart A.24**). This was mainly the result of the increase





The analysis of this section is mainly based on the average monthly earnings of employees by quarter, instead of the compensation per employee as in previous *Bulletins*. This is because the compensation per employee was not available for the first quarters of 2011.

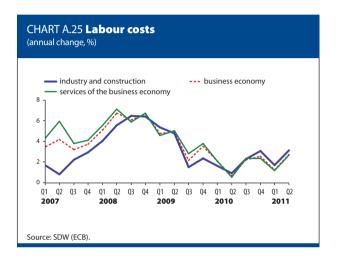
<sup>8.</sup> This series was created by deflating the quarterly nominal average monthly earnings of employees by the CPI.

in the price level. Moreover, the change in the real average monthly earnings of employees was lower than productivity growth in 2010 and the first half of 2011, whereas in 2008 and 2009 this picture was reversed. With respect to productivity, which is calculated as GDP per employed person, it increased by 0,9% during the first half of 2011 compared with an increase of 0,3% in the first half of 2010. This increase is possibly due to an improvement in economic activity during the period under review, with businesses utilising their employees more efficiently.

The acceleration in nominal labour costs in the first half of 2011 is also confirmed by the labour costs index of the business economy<sup>9</sup>, which is published by Eurostat. More specifically, it recorded an increase of 2% in the first half of 2011 compared with 1,4% in the first half of 2010 (**Chart A.25**). This is primarily due to the increase in labour costs in manufacturing and construction<sup>10</sup> by 2,4% compared with 1,3% in the first half of 2010. A smaller acceleration was recorded in business services<sup>11</sup>, which increased by 1,9%, i.e. 0,6 percentage points higher compared with the same period in 2010.

# 3. Domestic Competitiveness and Balance of Payments

Despite the improvement observed in the current account deficit in 2009 and 2010, it still remains high as a percentage of GDP and the indications for the first half of 2011 are not encouraging. It is important to have an



<sup>9.</sup> The business economy is composed of sectors NACE 2 B-N.

<sup>10.</sup> The manufacturing and construction sectors consist of NACE 2 B-F.

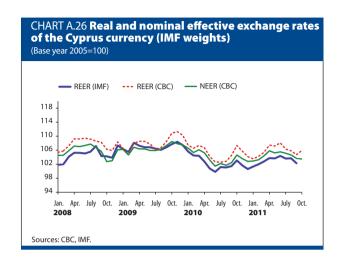
<sup>11.</sup> Business services consist of sectors NACE 2 G-N.

improvement in the current account deficit which results from structural rather than cyclical factors, so that a low deficit can be sustainable. Even though the deficit of the past two years does not appear to have caused any direct financing problems, it is of concern since it may signify a further loss in competitiveness in specific sectors of the economy, which may be in need for restructuring.

### Effective exchange rate

Chart A.26 presents the effective exchange rate (EER) of the Cyprus currency: the real EER (REER) as calculated by the IMF, and the real and nominal EER index, as calculated by the CBC<sup>12</sup>. The chart shows a weakening (depreciation) in the REER from October 2010 until early 2011. In the first six months of 2011, the REER strengthened, while from the summer onwards the REER weakened once more, mainly as a result of the path followed by the euro.

The REER, inflation and unit labour costs are important indicators of the competitiveness of the Cyprus economy, especially when compared with the respective indicators of competing countries. More specifically, the rise in unit labour costs and an appreciating REER indicate that domestic exports are more likely to be less competitive and imports to be cheaper. Higher inflation encompasses, among other things, the two aforementioned indicators and therefore reflects the potential competitiveness problems faced by the Cyprus economy.



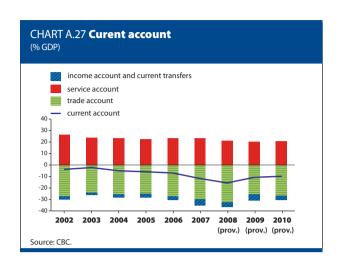
<sup>12.</sup> The effective exchange rate in real terms "REER IMF" is calculated by the IMF and takes into account third country competition with 19 other countries. The deflator used is the CPI. Because of the time lag in publishing this index, the CBC calculates a simplified index using eight countries instead of 19 ("REER CBC"). The same index is also calculated by the CBC in nominal terms ("NEER CBC").

### Balance of payments<sup>13, 14</sup>

Despite remaining at high levels in 2010, the current account balance recorded an improvement, reaching a deficit of 9,9% of GDP, while in 2008 and 2009 it recorded a deficit of 15,6% and 10,7%, respectively (**Chart A.27**). It should be noted that despite this improvement, the goods and services account deteriorated from a deficit of 5,5% in 2009 to a deficit of 6,2% of GDP in 2010. On the other hand, the income account and current transfers improved with the deficit falling from 5,2% of GDP to a deficit of 3,6% during the same period.

According to the latest data, in the first half of 2011 there was a significant deterioration in the current account balance, which recorded a deficit of 7,8% of GDP compared with a deficit of 4,1% over the same period in 2010. The main reason for this deterioration was the increased deficit in the income account from 0.1% of GDP in the first half of 2010 to 2,8% of GDP in the first half of 2011, primarily due to the reduction in income from direct investment. This was partly a result of the losses made by Cypriot banks operating abroad. Moreover, a deterioration was recorded in the balance of goods and services in the first half of 2011 compared with the first half of 2010, which registered a worsening of €138,9 million or 0,8% of GDP.

More specifically, the deterioration recorded in the balance of goods and services in the first half of 2011 compared with first half of 2010 was mainly due to the sharp decline in financial and other services. It is expected that in the second



It should be noted that the balance of payments data analysed in this section are not yet included in the national accounts published by Cystat.

<sup>14.</sup> The percentages to GDP calculated refer to the annual GDP.

half of the year this negative picture will be mitigated by the much better performance of the tourist sector.

Additional Cystat data on the foreign trade balance, which refer to the first nine months of 2011, show an improvement, with a reduction in the deficit to €3.690,8 million compared with €3.900,6 million in the corresponding period of 2010 (Table A.6). This improvement is due to the significant increase in exports by 26,3%, while imports remained at roughly the same levels as last year. It should be noted that, excluding the leasing of aeroplanes by Cyprus Airways in the first half of 2010, valued at €126 million compared with only €20 million in 2011<sup>15</sup>, the annual increase in imports in the first nine months of the year was 2,4%. The slowdown in imports was due to the general slowdown in the economy with consumer confidence recording a significant decrease after the destruction of the Vasilikos power station. If we take into account the fact that the 2,4% increase in imports includes an increase of 33,4% in oil imports in the first eight months of 2011, due to rising oil prices, the impact of the economy's slowdown on imports of goods is even more evident.

The significant increase in exports was mainly due to re-exports, which increased by 46,4% in the first eight months<sup>16</sup> of 2011 compared with the corresponding period of 2010. During the same period, re-exports accounted for 52,6% of total exports.

The financing of the current account deficits until 2006 as well as for 2009 was primarily by foreign direct investment. The only exceptions

| TABLE A.6 <b>Trad</b> (<br>(€ million) | e account |         |                  |
|--|-----------|---------|------------------|
|  | Imports   | Exports | Trade<br>deficit |
| 2009                                   | 5.691,8   | 970,4   | 4.721,3          |
| 2010                                   | 6.517,4   | 1.136,8 | 5.380,6          |
| annual % change                        | 14,5      | 17,1    | 14,0             |
| 2010 JanSep.                           | 4.719,3   | 818,8   | 3.900,6          |
| 2011 JanSep.*                          | 4.725,0   | 1.034,2 | 3.690,8          |
| annual % change                        | 0,1       | 26,3    | -5,4             |
| Source: Cystat.<br>* provisional data  |           |         |                  |

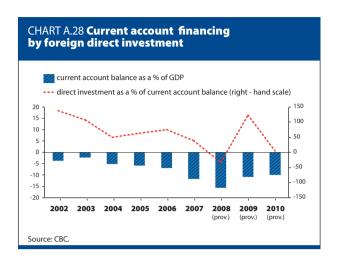
<sup>15.</sup> This was treated as imports of goods by Cystat.

Data on re-exports are available only for the first eight months of the year, while data for total exports are available until September.

were the years 2007 and 2008, where the very large deficits were financed mainly by "other investments" (**Chart A.28**). In 2010 the current account deficit was also financed by "other investments" as a result of the increase in non-resident deposits in Cypriot banks, while the proportion of financing by direct investment in 2010 was only 3,8%, which represents 0,4% of GDP. The current account deficit in the first half of 2011 was mainly financed by portfolio investment, namely investments in bonds, notes and money market instruments by MFIs.

#### **Tourism**

In the first nine months of 2011, revenues from tourism recorded a significant increase of 14,4% compared with the same period last year (Table A.7). Arrivals have also showed a large improvement, increasing by 10,6% in the first ten months of 2011 compared with the corresponding period of 2010. This improvement was the result of various developments. Specifically the geopolitical unrest in the Middle East and North Africa played an important role in increasing tourist arrivals. Furthermore, the base effect created by the lower than normal arrivals in the second quarter of 2010, as a result of the large number of cancelled flights due to the volcanic ash in April of that year, also played a significant role in the higher numbers recorded in 2011. Moreover, it appears that the efforts of the Cyprus Tourism Organisation (CTO) and the private sector to penetrate into the Russian market were successful.



| TABLE A.7 <b>Tourism</b> |                              |                                 |                            |
|--------------------------|------------------------------|---------------------------------|----------------------------|
|                          | Tourist arrivals<br>(thous.) | Tourist receipts<br>(€ million) | Expenditure per person (€) |
| 2009                     | 2.141,2                      | 1.493,2                         | 697,4                      |
| 2010                     | 2.173,0                      | 1.549,8                         | 713,2                      |
| annual % change          | 1,5                          | 3,8                             | 2,3                        |
| 2010 Jan Sep.            | 1.777,5                      | 1.271,0                         | 715,1                      |
| 2011 Jan Sep.            | 1.974,1                      | 1.454,1                         | 736,6                      |
| annual % change          | 11,1                         | 14,4                            | 3,0                        |
| Source: Cystat.          |                              |                                 |                            |

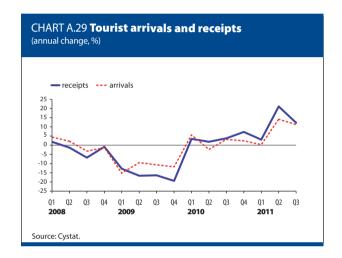
As regards the geographical breakdown of tourist arrivals, even though the UK is considered to be the most important market, in 2011 the largest increase in the number of tourists was from Russia, which is now the second most important market. More specifically, the number of tourists from Russia during the first ten months of 2011 increased by 50,4%, reaching 321.400 compared with 213.700 in the corresponding period last year. On the other hand, a small recovery of the order of 2% was recorded in the number of tourists from the UK. It should also be noted that, on average, during the last two years, the per capita spending of tourists from Russia has been higher than that of tourists from the UK. Overall, there is cautious optimism about the tourist sector this year, despite the reduced competitiveness of the country's tourist product in relation to competitor destinations.

As shown in **Chart A.29**, the rate of increase in tourism revenue was on average higher in the first nine months of 2011 than the growth of arrivals, indicating that per capita spending increased during this period.

# 4. Domestic Demand, Production and the Labour Market

## **Quarterly national accounts**

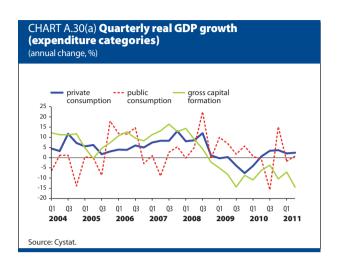
The Cyprus economy experienced a marginal recovery in 2010 which continued in the first half of 2011 while in the third quarter of 2011 GDP growth recorded a decrease of 0,6%. More specifically, based on quarterly data published by

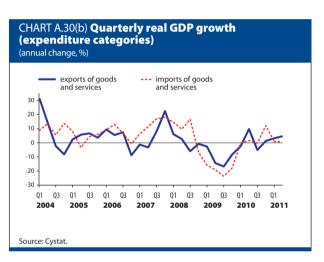


Cystat, the economy recorded a growth of 1,5% in the first half of 2011 compared with zero growth in the corresponding period of 2010. At this point, it should be noted that the picture was reversed in the second half of 2011, after the destruction of the largest electricity power station in Cyprus. Growth in the first half of 2011 originated from the increase in private consumption by 2,3% and the increase in the exports of goods and services, particularly tourism (Charts A.30(a) and A.30(b)), Gross fixed capital formation continued to record negative growth rates in the first half of 2011, reaching 11,1%. This large reduction is the result of a significant decrease in the construction of houses during the period under review, which reached 20,5% compared with the same period last year.

As regards the sectoral breakdown of real GDP in the first half of 2011, construction recorded a decrease of 7% compared with the corresponding period last year. A smaller contraction of 1,7% was recorded in manufacturing. On the other hand, the contribution of financial intermediation, real estate and business activities was positive, registering an increase of 3,6%.

Recent indicators of domestic demand point to a mixed picture of the economy. According to the confidence indicators compiled in October 2011 (**Table A.8**), GDP is expected to continue at subdued rates as the economic sentiment indicator was lower in the first ten months of 2011 compared with the corresponding period of 2010. Moreover, lending to the private sector remains subdued. In contrast, the turnover volume of retail trade registered a slight improvement in the first



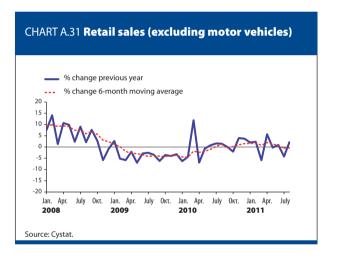


| TABLE A.8 Business an confidence indicators (for sub-indices: difference bety percentage of negative answer | ween percenta |              |              | answer       | s and        |
|---|---------------|--------------|--------------|--------------|--------------|
|   | 2011<br>Jun.  | 2011<br>Jul. | 2011<br>Aug. | 2011<br>Sep. | 2011<br>Oct. |
| ESI   | 81,1          | 80,0         | 68,8         | 71,2         | 75,4         |
| Industry  | -17           | -17          | -23          | -20          | -18          |
| Services  | -11           | -11          | -20          | -21          | -20          |
| Consumer  | -34           | -38          | -51          | -50          | -41          |
| Retail trade  | -21           | -22          | -31          | -36          | -34          |
| Construction  | -47           | -49          | -51          | -49          | -52          |

eight months of 2011. Revenue from indirect taxes also improved during the first ten months of this year, although this is partly due to increases in the rates of indirect taxation on the consumption of petroleum and tobacco products in 2010. Revenue from VAT on the other hand registered a decrease of 0,7% during the first ten months of the year and motor vehicle registrations continued to decrease in September 2011. The mixed picture of the economy highlights the need for close monitoring, especially in view of the uncertain external environment.

## **Private consumption**

Based on the detailed national accounts data for the first half of 2011, private consumption recorded a growth of 2,3% compared with a decrease of 1.8% in the first half of 2010. Data for the turnover volume of retail trade, excluding the sales of motor vehicles, recorded small increases during recent months. In particular, during the first eight months of 2011, the index was 0,2% higher compared with the same period last year (Chart A.31). On the other hand, VAT receipts registered a decrease of 0,7% in the first ten months of 2011 compared with a decrease of 0,9% in the corresponding period of last year. The decreases in 2011 were despite the introduction of 5% VAT on food and pharmaceutical products in January 2011. In addition, motor vehicle registrations continued to decline, registering negative annual growth rates. More specifically, the decrease recorded in September reached 28,2%, while the average decline for the first nine months of 2011 reached



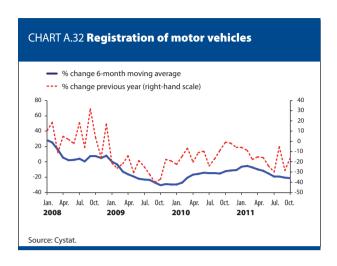
17,5% compared with a decrease of 15,1% in the corresponding period of 2010 (**Chart A.32**). Finally, the confidence indicator for consumption recorded a small deterioration in the first ten months of 2011 compared with the same period last year.

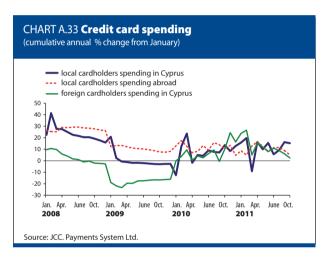
In contrast, credit card spending by domestic cardholders in Cyprus recorded an increase of 9,9% in the first ten months of 2011 compared with an increase of 4,8% in the corresponding months of 2010 (Chart A.33). At this point it should be noted that consumer loans, which include the use of credit cards, recorded an annual increase of 0,1% in September 2011. Therefore, it appears that credit cards are increasingly being used as a substitute for borrowing. The biggest increase in cardholder spending was recorded in supermarkets, partly due to the imposition of 5% VAT on food, and in petrol stations, possibly due to the increase in fuel prices.

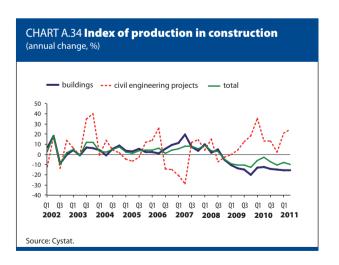
### **Construction sector**

The construction sector continued on a negative trend and a further deterioration is expected, as indicated by relevant domestic economic data. In particular, the index of production in construction registered an annual decrease of 8,9% in the first half of 2011, compared with an annual decrease of 4,3% in the first half of 2010 (Chart A.34).

As a consequence of the low output in the construction sector, there was an increase in unemployment in the sector during the period under review. Specifically, the average number







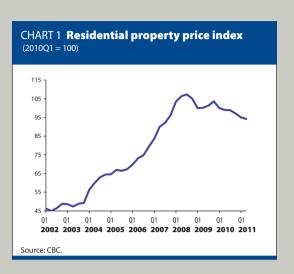
# Box A.1: Demand factors that affected residential property prices in Cyprus during the period 2002-2010

#### Introduction

Residential property prices in Cyprus increased significantly during the period prior to EU accession and until the beginning of the economic crisis in the third quarter of 2008. Specifically, according to the Residential Property Price Index depicted in **Chart 1**<sup>1</sup>, the increase in prices from the first quarter of 2002 until the third quarter of 2008, when the historically highest level was recorded, reached 131,8%. This increase corresponded to an average annual increase of 14,8%.

Following the rapid increase in residential property prices, the housing market in Cyprus exhibited negative growth in the fourth quarter of 2008. Since then, and until the second quarter of 2011, residential property prices recorded an overall decrease of 12,2%.

The purpose of this note is to analyse, on a preliminary basis<sup>2</sup>, domestic and external demand factors which had a significant contribution in the development of the residential property market in Cyprus during the period 2002 - 2010, and the degree to which these were affected by the current economic crisis.



# External demand: migration and investments

It is well known that demographic developments in a country are a key determinant of housing demand. In addition, net migration (immigration minus emigration) is the demographic component accountable for creating immediate demand for residential properties.

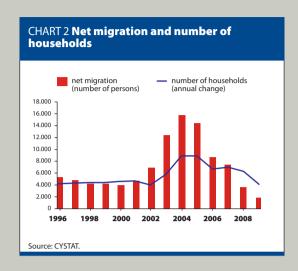
Despite the low fertility observed in recent years, there has been an increase in Cyprus's total population. From 694.000 inhabitants in 2000, the population reached 798.000 in 2009, an increase of 15% (Cystat<sup>3</sup>). This was mainly due to an increase in immigrants, consisting of those seeking employment, retirees and Cypriot repatriates. Net migration<sup>4</sup> prior to the island's accession to the EU exhibited a gradual increase reaching almost 16.000

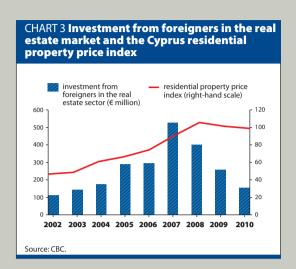
<sup>1.</sup> Prices from 2006 onwards reflect the values of the general Residential Property Price Index published by the CBC (Central Bank of Cyprus, 2011) while prices between 2002 and 2005 are obtained as the average of the historical house price indices published by Pashardes and Savva (2009), Platis (2006) and the CBC.

<sup>2.</sup> Given the very limited sample data, further statistical and econometric analysis was not feasible. This will be carried out when a sufficiently large sample is obtained.

<sup>3.</sup> Demographic Report (2009).

<sup>4.</sup> Immigration for the years 2006-2009 was 160% above the level of emigration for the same period. Moreover, the sharp decline in net migration observed in 2008 and 2009 was primarily due to significant reductions in immigration levels rather than emigration levels.





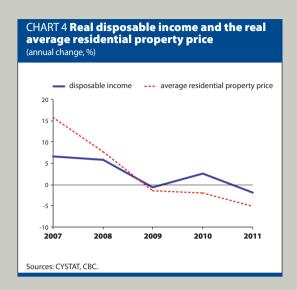
in 2004, after when it started its downward trend (**Chart 2**). A similar pattern was exhibited in the annual growth in the number of households (**Chart 2**). Thus, the large decrease in net migration in 2008 and 2009 (51,4% and 48,7%, respectively) indicates that the rapid increase in residential property prices during the period before the third quarter of 2008 may have been fuelled by external demand.

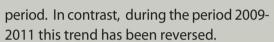
Apart from immigrants purchasing a house to be used as a primary residence, in recent years it has also become popular for both locals and and foreigners to buy secondary residences to be used as holiday homes or as a buy to let investment. As such, the investment inflows to the real estate sector exhibited an increasing trend between 2002 and until 2007, when they peaked (Chart 3). It should be noted that in 2007, foreign investment in real estate increased by 77%, compared with 2006. It can, therefore, be concluded that demand from abroad contributed substantially to

the acceleration of the increase in residential property prices during the years 2002-2008. It is worth noting that the existence of a time lag between the residential price index and investment inflows (shown in **Chart 3**) is partly due to the time usually required for an investment to be implemented and for the relevant transactions to be carried out, with a consequent impact on prices.

# Local demand: disposable income, access to credit and expectations

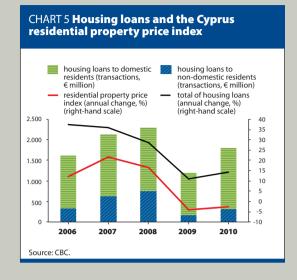
The income and budget constraints of a local household are key factors in the decision to buy or rent a residence, affecting to a large extent the demand for residential properties by locals. As shown in **Chart 4** (p. 56), during the period 2007-2008 the average real price of a residential property recorded higher growth rates compared to the corresponding growth rates of real disposable income, thus residences became less affordable compared with the preceding





Given that changes in household disposable income during the period 2006-2008 cannot fully explain the large increases observed in residential property prices during this period, one has to examine the cost and availability of credit in order to justify the large domestic demand for housing observed during the aforementioned period.

The interest rate is essentially the main cost of borrowing. When this increases, the demand for loans (and therefore the demand for real estate property) decreases, while the opposite occurs when interest rates fall. Undoubtedly, one of the reasons that led to increased demand for real estate properties in the last decade was the gradual decrease of interest rates on housing loans. The real interest rate<sup>5</sup> on housing loans was relatively low during the period from mid-2005 to mid-2008, thus increasing the demand for housing loans. However, after mid-

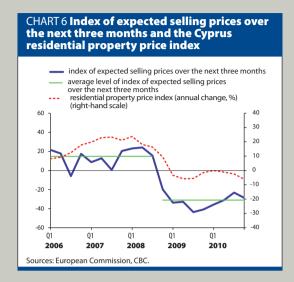


2008 and the accession of Cyprus to the euro area, this started recording an increasing trend which lasted up until mid-2009, when it began to decline again, reaching its lowest level in April 2010.

Reflecting the path followed by real interest rates and generally the easy access to credit during the prosperous period of the Cyprus economy, the amount of outstanding housing loans to residents and non-residents has increased significantly since 2005, with lower growth rates observed after 2009 (Chart 5). The slowdown experienced in the growth of housing loans was partly due to the implementation of a CBC directive to reduce the maximum loanto-value ratio during the period July 2007-May 2008 (Box A.1, Economic Bulletin, December 2010).

The general euphoria which prevailed in the construction sector until 2008 is also reflected in investors' expectations and consumer confidence. If the market expects higher prices, consumers are more willing

<sup>5.</sup> Nominal interest rate minus the inflation rate.



to buy a property now, pushing prices up, and thus fulfilling market expectations.

Chart 6 shows the expectations of construction firms for selling prices three months ahead. This is constructed by the European Commission using the Business and Consumer Survey questionnaire. It is evident from Chart 6 that, while expectations for the period from the first quarter of 2006 until the third quarter of 2008 were relatively optimistic, during the fourth quarter of 2008 they became very negative and pessimistic. This can also be seen from the average of these two periods. Consequently, it can be concluded that the positive expectations during the period 2006-2008 have con-

tributed towards the increases in demand for residential properties and, therefore, in residential property prices.

#### **Conclusions**

The large increases in prices of residential properties during the period, 2002-2010 were mainly caused by significant increases in foreign demand and the immediate demand for housing, created through the increase in immigration on the island during the period 2002-2008. Moreover, the relatively easy access to credit during the period 2005-2008, combined with the economic euphoria and the positive outlook that prevailed in the property sector, led to an increase in local demand, which peaked in 2007.

Given the significant decline in foreign demand due to the global economic crisis, rising unemployment and shrinking disposable income of households, the general euphoria was replaced in 2009-2010 by reduced demand and was, therefore, followed by a decrease in property prices. The future path of this sector is thus directly connected, *inter alia*, with domestic and external developments.

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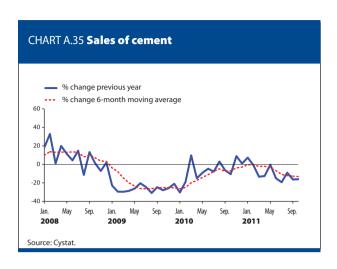
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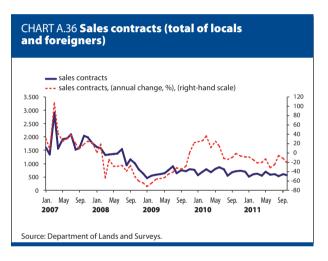
of unemployed in the sector reached 4.320 in the first ten months of 2011, compared with 3.480 in the corresponding period of 2010, thus recording an increase of 24.1%.

The sales of cement also followed a negative trend. In particular, during the period January-September 2011, the sales of cement recorded an annual decrease of 9,8% compared with an annual decrease of 9,5% in the corresponding period of 2010 (**Chart A.35**).

The negative trend in the construction sector is also evident in the data compiled by the Department of Lands and Surveys. Specifically, the total number of sales contracts to residents and non-residents, which represents the volume of sales, recorded a decrease of 17,8% during the first ten months of 2011 compared with an increase of 8,2% over the corresponding period of 2010 (Chart A.36). In addition, the number of issued title deeds decreased by 7,9% in the first ten months of 2011, while in the same period last year an increase of 23,2% was recorded. Moreover, an annual decrease of 10% and 19.1% was recorded in the number of sales contracts and the number of issued title deeds to foreigners, respectively, during the first ten months of 2011. The decrease in activity in the real estate market, as outlined by the aforementioned indicators, is expected to continue amid the climate of uncertainty prevailing in the broader economy.

In connection with the above, the receipts of the Inland Revenue Department from the capital gains tax and stamp duty registered an annual decrease of 14,9% and 18,6%, respectively, for the first nine months of 2011, compared with an

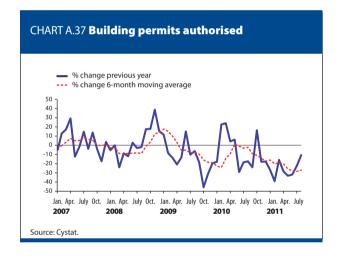




increase of 18,9% and 28%, respectively, in the corresponding months of 2010. On the other hand, immovable property tax receipts increased by 1,4% on an annual basis in the first nine months of 2011 compared with an increase of 18,3% over the corresponding period last year.

With regards to housing loans to residents, an annual increase of 7,5% was recorded in September 2011 compared with an annual increase of 15,4% in September 2010. These changes were calculated using the same methodology followed by the ECB for calculating the annual percentage change. It should be noted, however, that the aforementioned increase is partly due to the interest rate capitalisation rather than the approval of new loans. The corresponding figures for non-residents recorded an annual increase of 6,5% in September 2011, compared with an increase of 12,6% in September 2010.

The number of building permits, which constitutes a leading indicator of future activity in the construction sector, recorded an annual decrease of 13,8% during the first eight months of 2011 compared with a marginal increase of 0,4% over the corresponding months of 2010 (Chart A.37). In addition, the number of authorised building permits for non-residential buildings declined by 4,1% on an annual basis in the first eight months of 2011, while the number of authorised building permits for residential buildings decreased by 19,8% over the same period. Moreover, the total value and area of authorised building permits decreased by 23% and 27,1%, respectively, in the first eight months of 2011. Based on the aforementioned



reductions in the authorised building permits, it is expected that construction activity will continue on a negative trend. With respect to the number of authorised building permits by district, Limassol recorded the biggest percentage decrease, in both rural and urban areas in the first eight months of 2011, followed by Nicosia, Larnaca and Famagusta districts. On the other hand, in the urban areas of Paphos, there was a marginal increase in the number of authorised building permits during the period under review, while a decrease was recorded in rural areas.

Moreover, construction costs recorded a small increase during the first nine months of 2011. Specifically, the price index of construction materials recorded an annual increase of 4,1% in the aforementioned period, possibly reflecting a reduction in the profit margins of land development companies, due to a combination of declining property prices and increasing construction costs.

The Residential Property Price Index prepared by the CBC using the hedonic methodology, recorded an average annual decrease of 4,9% for the first two quarters of 2011, compared with an average annual decrease of 0,6% over the same period last year. This shows that the small recovery experienced in late 2009 and early 2010 was temporary since prices decreased again, reflecting a downturn in the construction sector.

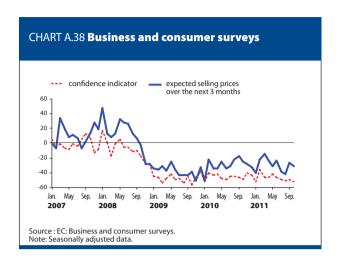
Regarding Cypriots' expectations for property prices in Cyprus in the next three months, as expressed in the European Commission's Business and Consumer Survey, these continued to be negative, with expectations for further dete-

rioration. Specifically, the average index for the second and third quarter of 2011 was -26,3 and -36,2, respectively, compared with -31,1 and -23,2, in the corresponding periods of 2010 (Chart A.38). Moreover, the confidence indicator for construction, obtained from the same survey, followed a negative path and remained at very low levels in 2010 (Table A.9, p. 64). In addition, given the path followed by the construction sector indicators, including the confidence indicators, it is expected that property prices will continue on a downward path for the remainder of the year.

In conclusion, indicators of the construction sector point to a decline in construction activity, despite a slight recovery experienced in 2010. These indicators, combined with the overall negative sentiment prevailing in the domestic economy, and the uncertainty in the euro area, are evidence that there will not be a recovery of the sector in the near future.

### Labour market

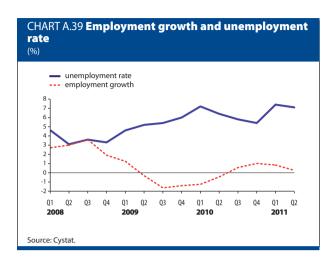
The small recovery of GDP in the first half of 2011 led to a slight increase in employment by 0,6% compared with the first half of 2010. Total hours worked recorded a similar increase during this period, implying that hours worked per employee remained unchanged. The increase in employment and hours worked resulted from the increase in the respective figures for employees, in particular the category "private households with employed persons", while decreases were recorded in the corresponding data for the self-employed. Although employment increased in the first half of

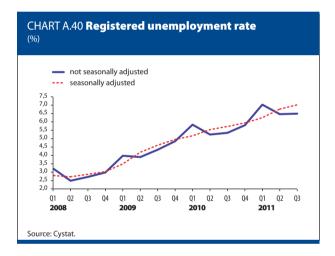


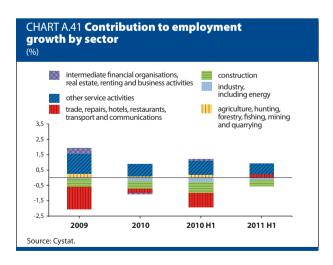
2011, it was not able to absorb those seeking work. As a result, according to LFS data, the unemployment rate increased by 0,5 percentage points in the first half of 2011 compared with the first half of 2010, reaching 7,3%, (Chart A.39).

The most recent available data for unemployment (Chart A.40) refer to registered unemployment, which is available up to October 2011. Registered unemployed persons have recorded an upward trend since the second half of 2008, while the registered unemployment rate in the third guarter of 2011 reached 6,5% compared with 5,3% in the third guarter of 2010. This deterioration is related to the fact that according to preliminary data for the third quarter of 2011, GDP recorded a negative growth of 0,6%. The upward trend of registered unemployment is confirmed by the seasonally adjusted data, which also reveal that the increase in unemployment continued at a steady pace as from the second half of 2008, while in October 2011 it reached a historically high level, of 31.022. Furthermore, according to the harmonised unemployment rate published by Eurostat, in October 2011 the seasonally adiusted unemployment increased to 8,2%. This confirms the fact that the economy is unable to absorb job seekers, while this phenomenon worsened in September and October 2011.

As regards the sectoral breakdown of employment in the first half of 2011, the performance of other service activities and construction is noteworthy (**Chart A.41**). In particular, the contribution of other service activities to the total increase in employment amounted to 0,7%, while





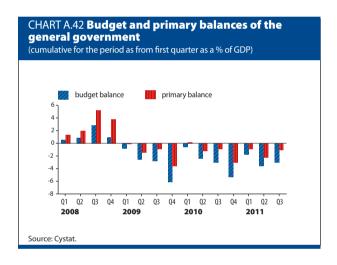


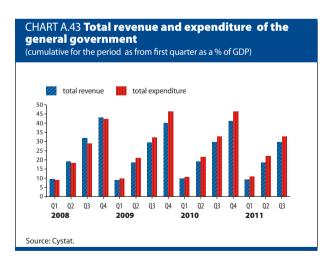
the contribution of construction continued to be negative, reaching – 0,4%. With respect to other service activities, it should be noted that a very large increase was recorded in the subcategory "private households with employed persons", which increased by 7% or 1.700 employees in the first half of 2011 compared with 11% or 2.400 employees in the first half of 2010. Furthermore, other service activities include a large proportion of employees in the general government sector, which increased by 1,1% in the first half of 2011. Regarding the contribution of the other sectors, namely trade, repairs, hotels, restaurants and transport, as well as intermediate financial organisations, real estate, renting and business activities, and agriculture, all had a small positive contribution. On the other hand, industry including energy had a small negative contribution to employment.

### 5. Domestic Public Finance Developments

# **5.1 Current fiscal developments**

During the first nine months of 2011, the budget deficit remained at similar levels compared with the corresponding period of the previous year, reaching 3,1% of GDP (Chart A.42). This was mainly due to the improvement in the budget balance observed in the third quarter of the year which recorded a surplus of 0,5% of GDP, in contrast to a deficit of 0,6% of GDP observed in the third quarter of 2010. With respect to total revenue and expenditure as a percentage of GDP during the first nine months of 2011, these reached 29,7% and 32,8%, respectively (Chart A.43).





More specifically, according to the preliminary general government figures published by Cystat (Table A.9), government revenues during the first nine months of 2011 recorded an annual increase of 1,9%. This development is especially significant if we bear in mind that an annual decrease of 1,7% was recorded during the first six months of 2011. At the same time, public spending exhibited a significant deceleration over the period in question to 2% compared with an annual increase of 4,2% during the first six months of 2011. The annual increase in revenue is mainly due to the increase in direct taxes, while the slowdown in the annual growth of expenditure is primarily due to the significant annual reduction in expenditure for intermediate consumption and interest payments.

### **Public revenue**

Regarding revenues from direct taxes, the Cystat category "Current taxes on income, wealth, etc." recorded a significant annual increase of 13,4% during the first nine months of 2011 (**Table A.9**), mainly due to increased revenue from income tax and contributions to the Defence Fund. More recent data published by the Inland Revenue Department (IRD) for the first ten months of 2011 show a relatively smaller annual growth rate of 11,6% for total direct taxes. More specifically, as is evident from IRD data for the first ten months of 2011, receipts from personal income tax increased by 7,8% on an annual basis, compared with a growth rate of 4,9% over the corresponding

| TABLE A.9 Accounts of general government            |                                |                                |             |  |  |  |
|---|--------------------------------|--------------------------------|-------------|--|--|--|
|   | Jan Sep.<br>2010<br>(€ milion) | Jan Sep.<br>2011<br>(€ milion) | Change<br>% |  |  |  |
| EXPENDITURE   |                                |                                |             |  |  |  |
| Intermediate consumption                            | 643,1                          | 589,6                          | -8,3        |  |  |  |
| Gross fixed capital formation                       | 378,1                          | 389,3                          | 3,0         |  |  |  |
| Compensation of employees                           | 1.926,0                        | 1.950,8                        | 1,3         |  |  |  |
| Other taxes on production                           | 0,4                            | 0,3                            | -25,0       |  |  |  |
| Subsidies payable                                   | 11,5                           | 9,5                            | -17,4       |  |  |  |
| Interest paid                                       | 364,8                          | 350,7                          | -3,9        |  |  |  |
| Social benefits                                     | 1.840,8                        | 1.919,9                        | 4,3         |  |  |  |
| Other current transfers                             | 377,5                          | 449,1                          | 19,0        |  |  |  |
| Capital transfers payable                           | 114,8                          | 113,4                          | -1,2        |  |  |  |
| Total expenditure                                   | 5.657,0                        | 5.772,6                        | 2,0         |  |  |  |
| Total expenditure (% of GDP)                        | 32,6                           | 32,8                           | -           |  |  |  |
| REVENUE   |                                |                                |             |  |  |  |
| Market output & output for own final use            | 310,9                          | 308,2                          | -0,9        |  |  |  |
| Taxes on production and imports                     | 1.945,1                        | 1.929,8                        | -0,8        |  |  |  |
| of which VAT  | 1.140,3                        | 1.128,4                        | -1,0        |  |  |  |
| Property income receivable                          | 231,6                          | 109,2                          | -52,8       |  |  |  |
| Current taxes on income, wealth, etc                | 1.332,6                        | 1.511,1                        | 13,4        |  |  |  |
| Social contributions receivable                     | 1.221,0                        | 1.247,0                        | 2,1         |  |  |  |
| Other current transfers receivable                  | 89,9                           | 122,7                          | 36,5        |  |  |  |
| Capital transfers receivable                        | 6,3                            | 4,6                            | -27,0       |  |  |  |
| Total revenue                                       | 5.137,4                        | 5.232,6                        | 1,9         |  |  |  |
| T-4-1(0/ -£CDD)                                     | 29,6                           | 29,7                           | -           |  |  |  |
| iotal revenue (% of GDP)                            |                                |                                |             |  |  |  |
| Total revenue (% of GDP)  Surplus (+) / Deficit (-) | -519,6                         | -540,0                         | -           |  |  |  |

period of the previous year. This was mainly due to the adoption of new tax measures, specifically the new income tax rate of 35% for annual incomes over €60.000, with effect as from the fiscal year 2011, as well as the temporary tiered contribution of the broader public sector as from 1 September 2011. As regards revenues from corporation tax, these recorded an annual increase of 19,6% mainly due to the introduction of the temporary ad hoc tax rate of 0.095% levied on the domestic and foreign deposits of all financial institutions, excluding interbank deposits. If we exclude the aforementioned temporary revenues, the annual growth rate of corporation tax in the first ten months of 2011 would have reached 9.5%. Finally, revenues from the special contribution to the Defence Fund increased by 17,2% on an annual basis, due to the higher tax on interest accrued from deposits and deemed dividend distribution as from 31 August 2011.

For the year as a whole, revenue from direct taxes is expected to record a significant annual increase, mainly due to the aforementioned fiscal measures. However, it should be noted that the significant fiscal impact anticipated in light of the annual levy on all registered companies which must be paid by 31 December 2011 (approximately 0,35% of GDP) does not appear to be achievable, at least to the extent originally estimated by the government.

With respect to revenues from indirect taxes, as reflected in the figures published by Cystat, a marginal annual decrease of 0,8% during the first nine months of 2011 was recorded in the revenue

category "Taxes on production and imports", which includes VAT receipts (Table A.9, p. 64)<sup>17</sup>. In particular, VAT revenues recorded an annual decrease of 1% during the period under consideration, primarily due to the continued sluggish growth in private consumption. It should be noted that, based on the figures published by the Department of Customs and Excise for the first ten months of 2011, total indirect tax receipts recorded an annual increase of 1,3%, while the annual decrease in VAT revenue reached 0,7%, despite the imposition of 5% VAT on food and pharmaceuticals as from January 2011. This development is mainly due to the continuing slowdown in economic activity and its consequent impact on private consumption. Therefore, the annual increase observed in total revenue from indirect taxes was primarily due to the increase in revenues from excise duties. More specifically, based on data from the Department of Customs and Excise, which relate to the first ten months of 2011, total revenue from excise duties increased by 7,9% on an annual basis, mainly due to increased revenue from excise duties on petroleum and tobacco products (annual growth of 14,3% and 12,4%, respectively), following the increase in the relevant tax rates as from June and December 2010, respectively.

For the year as a whole, the robust increase in revenue from excise duties is expected to persist, while a marginal decrease in VAT receipts is also anticipated. The latter decrease is based on the assessment that on the one hand, VAT revenue is expected to increase in the fourth quarter of 2011, due to the buoyant performance of the tourism sector in the summer months. On the other hand,

<sup>17.</sup> It should be noted that, in contrast to the figures published by Cystat, the figures published by the Customs and Excise Department, which also refer to the first nine months of 2011, show that total indirect taxes recorded an annual increase of 1,2%. This is due to methodological differences, including the incorporation of VAT refunds in the Cystat figures.

this increase in VAT revenue will be more than offset by a fall in VAT receipts due to the fiscal consolidation measures, which will constrain household disposable income and, consequently, private consumption.

### **Public expenditure**

As regards developments in public expenditure recorded in the first nine months of 2011, the marked slowdown was due to the annual decrease in expenditure for intermediate consumption and interest payments of 8,3% and 3,9%, respectively (Table A.9, p. 64). On the other hand, there was an annual increase in spending on social transfers by 4,3% (particularly for unemployment benefits resulting from the deterioration in labour market conditions) and other current transfers by 19% (including grants to semigovernmental organisations and local authorities). Moreover, expenditure for compensation of employees increased by 1,3% on an annual basis (partly due to the increase in COLA by 1,4% as from 1 July 2011), while expenditure for gross fixed capital formation (including spending for public investments) increased by 3%, mainly because of the recent and upcoming completion of buildings and roads.

Looking at 2011 as a whole, it should be noted that the supplementary budgets approved by Parliament up until the relevant cut-off date for data in the current *Bulletin*, increase total government spending by around 0,2% of GDP. The usual practice of adopting supplementary budgets during the course of the

year reduces the credibility of the fiscal targets included in the government budgets. However, in 2011 this practice has not been repeated to the extent observed in recent years.

# Fiscal deficit and gross debt

In light of the aforementioned developments, the government's target of a 6,5% deficit-to-GDP ratio, as noted in the EDP notification to Eurostat and published on 26 October 2011, appears attainable. According to the 2012 Budget, as submitted to Parliament on 13 October 2011, the budget deficit is expected to reach 6% of GDP. It should be noted that the Autumn forecasts of the European Commission, which were published on 10 November 2011, point to a budget deficit of 6,7% of GDP. The difference in the forecasts of the European Commission and the Government for 2011 is partly due to the inclusion of different fiscal consolidation measures and / or estimates of their impact.

According to data published by the Ministry of Finance, the general government consolidated gross debt<sup>18</sup> reached 67,3% of GDP in the third quarter of 2011, up from 61,5% of GDP at the end of 2010 (**Chart A.44**). The government's relevant projection, as noted in the EDP notification to Eurostat, points to a gross debt-to-GDP ratio of 64,5% for 2011, while the relevant projection reported in the budget for 2012 is more pessimistic and refers to a gross debt-to-GDP ratio of 66%. The increase in gross debt observed in 2011 compared with 2010 is mainly due to the worsening of the primary balance<sup>19</sup> and the

CHART A.44 General government consolidated gross debt and intragovernmental borrowing and shortterm liabilities of the CBC to the IMF (as a % of GDP) general government consolidated gross debt intragovernmental borrowing & short-term liabilities of the CBC to the IMF 75 70 65 60 55 45 40 35 02 01 02 01 02 03 01 02 03 04 Source: Ministry of Finance

<sup>18.</sup> Gross debt is the sum of the total central government and local authorities' debt, excluding intragovernmental borrowing from the Social Security Fund and the Administered Funds, as well as short-term liabilities of the CBC to the IMF.

<sup>19.</sup> The primary balance is defined as the budget balance excluding interest payments.

increasing deficit-debt adjustment, as a result of the continuing provision of financial assistance to Greece, Ireland and Portugal.

# **5.2 Fiscal prospects**

In contrast to the fiscal consolidation measures included in the first package of measures which aimed at increasing revenues, the second package, which is incorporated in the budget for 2012 (the fiscal implications of which will be in force as from 2012), is based mainly on the containment of expenditure.

The achievement of the government's target of a fiscal deficit of 2,8% of GDP in 2012, as set out in the budget for 2012, appears attainable and relies heavily on the degree of implementation of the measures adopted. More specifically, according to the 2012 budget, central government revenues (excluding revenues from loan proceeds) are projected to grow by 10,1% on an annual basis in 2012 compared with 0,8% in 2011, while public expenditure (excluding expenditure for loan repayments) is expected to decrease by 6% on an annual basis compared with an increase of 15,2% in 2011.

The concerns related to the achievement of the fiscal targets are evident in the Autumn forecasts of the European Commission, which were published in November 2011. According to these projections, the budget deficit will reach 4,9% of GDP in 2012. It should be noted that the budget deficit projected by the European Commission for 2012 is based on the assumption of zero economic growth, which is comparable

with the government's projection of 0,2% growth. Therefore, the difference arising in the forecast of the 2012 budget deficit is mainly due to the non-inclusion of measures concerning the targeting of social benefits and the increase in the standard rate of VAT from 15% to 17%.

As regards 2013, there are no further measures on the basis of the 2012 budget to suggest a substantial improvement in public finances. Therefore, the government's forecast for a budget deficit of 2,1% of GDP (an improvement of 0,7% of GDP compared with the forecast of 2012), is based on the expected economic recovery. Unlike the government, the European Commission does not anticipate a substantial improvement in public finances in 2013, placing the deficit at 4,7% of GDP, despite the projected increase in the GDP growth rate to 1,8%, which is comparable with that of the government's projections.

# 5.3 Fiscal policy issues

The government needs to immediately implement fully the measures passed by Parliament. This is the only way for the government to convince the markets about its commitment to put public finances back on a sustainable path.

Apart from the supplementary measures aimed at increasing revenues, the government and political parties have publicly acknowledged the need to reduce public spending, including the freezing of the state payroll for two years. The revenue raising measures include the temporary

tiered contribution of the private sector and the increase in the tax rate on deemed dividend distribution. The supplementary measures, although not included in the budget for 2012, have been adopted by parliament and should, for the purposes of credibility, be fully implemented. It is hoped that the political consensus will help restore market confidence and end the exclusion of Cyprus from international markets, which has been the case since May 2011. It should be noted that a key factor in restoring confidence is the attitude of social partners.

Furthermore, given the commitments of the Republic of Cyprus to the European Commission, the government needs to quickly implement structural measures, including the reform of COLA, intended to reduce public expenditure over the long run. As regards the significant exposure of Cypriot banks to Greek government bonds, the potential inability of the Cyprus government to offer support if needed, due to the poor state of public finances, is considered very serious.

In conclusion, the government must meet its commitment to a budget deficit of below 3% of GDP in 2012. Even with the implementation of the aforementioned measures, Cyprus may not be able to acquire the necessary medium-term financing to cover the government's financing needs, if markets are not convinced of the long-term sustainability of the measures. Of course, it must be noted that securing the loan from Russia is important, but it should also be emphasised that such solutions are neither structural nor

permanent in nature, and, therefore, do not contribute towards the long-term improvement in public finances. On the other hand, it should be noted that the recognition of the critical fiscal situation by all the relevant stakeholders is a positive development.

#### 6. Macroeconomic Projections for Cyprus

#### **Working assumptions**

The projections for the Cyprus economy are based on the Eurosystem's assumptions about the world economy. More specifically, they cover variables such as interest rates, exchange rates, the price of oil and international trade. These projections are used to analyse and evaluate international developments and the risks to price stability by the ECB's Governing Council, which is responsible for setting monetary policy in the euro area. The projections are based on a common set of assumptions and data available as at 17 November 2011, for all euro area countries.

The working assumptions of the Eurosystem are as follows: the euro is expected to fluctuate at around \$1,40 in 2011, and \$1,36 in 2012 and 2013. The price of oil is expected to be around \$111,5 per barrel in 2011, falling to \$109,4 in 2012 and to \$104 in 2013. The projections concerning the Cyprus economy were prepared by taking into consideration only those fiscal measures which were clearly defined and most likely to be implemented as at 17 November 2011. Thus, fewer measures were taken into consideration than those discussed and proposed for approval. As a

result, public consumption, public investment and private consumption do not reflect the impact of any additional measures that the government may adopt within the framework of fiscal consolidation.

### Eurosystem projections for the euro area

Based on the above working assumptions, euro area inflation is expected to be between 2,6% and 2,8% in 2011 compared with 1,6% in 2010 (**Table A.10**). In 2012 the average rate of HICP inflation is expected to be between 1,5% and 2,5%, while a smaller increase in inflation is expected in 2013 with the rate being between 0,8% and 2,2%. Inflation in 2012 will be affected by the downward base effect from the prices of food and energy, and the contained increase in commodity prices.

HICP inflation excluding energy and food is expected to increase marginally, reflecting subdued domestic demand and contained labour costs.

GDP growth is expected to fluctuate between 1,5% and 1,7% in 2011, between -0,4% and 1% in 2012, and between 0,3% and 2,3% in 2013. The projected contained recovery is due to the restructuring of balance sheets in many sectors and the tight financing conditions prevailing in many countries of the euro area.

#### **Projections for the Cyprus economy**

The growth rate of domestic GDP in 2011 will be affected by a series of negative developments. The gradual recovery recorded in the first two quarters of 2011 was reversed after the

| TABLE A.10 Eurosystem projections for the euro area (annual change, %) |      |           |            |           |  |  |  |  |  |  |
|--|------|-----------|------------|-----------|--|--|--|--|--|--|
|  | 2010 | 2011f     | 2012f      | 2013f     |  |  |  |  |  |  |
| GDP  |      |           |            |           |  |  |  |  |  |  |
| December Projections 2011  | 1,8  | 1,5 - 1,7 | -0,4 - 1,0 | 0,3 - 2,3 |  |  |  |  |  |  |
| June Projections 2011  | 1,7  | 1,5 - 2,3 | 0,6 - 2,8  | -         |  |  |  |  |  |  |
| Inflation  |      |           |            |           |  |  |  |  |  |  |
| December Projections 2011  | 1,6  | 2,6 - 2,8 | 1,5 - 2,5  | 0,8 - 2,2 |  |  |  |  |  |  |
| June Projections 2011  | 1,6  | 2,5 - 2,7 | 1,1 - 2,3  | -         |  |  |  |  |  |  |
| Source: ECB.   |      |           |            |           |  |  |  |  |  |  |

destruction of the Vasilikos power station, which caused a decrease in domestic production. The consequent negative impact on the domestic economy, along with the uncertainty resulting from the debt crisis in Greece and in other countries of the euro area, led to a reduction in domestic economic sentiment and to further moderation in investment activity. The private sector has been significantly affected, with investment and lending to NFCs reaching historically low levels as a result of uncertainty, high interest rates and tighter lending criteria applied by banks. Confidence among of households remains very low, while the government has since last summer been unable to access foreign markets for its borrowing needs. In order to restore market confidence, the implementation of the necessary fiscal consolidation measures is imperative.

Taking into consideration the aforementioned developments, GDP is projected to grow by around 0,3% in 2011, while growth in 2012 is expected to be 0%.

The inflation forecasts partly reflect international developments, with oil prices in dollars recording growth in 2011 and decreasing in 2012 and 2013, and reduced domestic demand due to the expected decrease in disposable income and increase in unemployment. In addition, the adoption of a two percentage point increase in VAT (from 15% to 17%), a measure that is currently under discussion, will cause upward price pressures. It should also be noted that the forecasts for GDP growth in 2011 and 2012 have been significantly revised downwards compared

with the June 2011 forecasts. On the other hand, a contained recovery in economic activity is anticipated for 2013. The projections for prices, the labour market and GDP in Cyprus are analysed below.

#### **Prices: harmonised index of consumer prices**

Cyprus HICP inflation in 2011 is expected to reach 3,4% compared with 2,6% in 2010 (**Table A.11**). This significant increase is mainly due to the increase in the prices of processed food, industrial goods excluding energy, and services. The higher inflation rates in these categories partly reflect the increase in VAT on food and pharmaceutical products in January 2011 and the increase in excise duties on tobacco products in December 2010. Therefore, reflecting the higher inflation in all its sub-categories, the HICP excluding energy is expected to record a significant increase of 1,8% in 2011 compared with an increase of 0,5% in 2010.

In 2012 inflation is expected to register a significant slowdown, reaching 2%, due to the smaller annual percentage increases in the prices of the "energy", "food" and "non-energy industrial goods" components of the HICP. The deceleration partly reflects a base effect as a result of the above-mentioned taxes. The HICP excluding energy is expected to record a slowdown, increasing by 1,7% in 2012 compared with an increase of 1,8% in 2011. However, any increase in the VAT rate, which is currently under discussion, would further increase prices.

| TABLE A.11 <b>HICP projections</b> (annual change, %) |      |       |       |       |  |  |  |  |  |
|---|------|-------|-------|-------|--|--|--|--|--|
|   | 2010 | 2011f | 2012f | 2013f |  |  |  |  |  |
| HICP  |      |       |       |       |  |  |  |  |  |
| December Projections 2011                             | 2,6  | 3,4   | 2,0   | 1,7   |  |  |  |  |  |
| June Projections 2011                                 | 2,6  | 3,3   | 2,2   | -     |  |  |  |  |  |
| HICP excluding energy                                 |      |       |       |       |  |  |  |  |  |
| December Projections 2011                             | 0,5  | 1,8   | 1,7   | 1,8   |  |  |  |  |  |
| June Projections 2011                                 | 0,5  | 1,9   | 2,1   | -     |  |  |  |  |  |
| Sources: Cystat, CBC.                                 | 0,5  | .,,,  |       |       |  |  |  |  |  |

## Compensation, productivity and the labour market

Employment in 2011 is expected to register a marginal increase of 0,1%. It should be noted that employment excluding the category "private households with employed persons" registered a decrease of 0,4% in 2010, reflecting the generally subdued climate in the labour market.

The uncertainty prevailing in the economy is expected to continue and thus maintain the level of employment almost constant. More specifically, employment in 2012 is expected to remain unchanged, while a contained recovery of 0,3% is expected in 2013 (**Table A.12**). The new employment forecasts are significantly lower than the previous ones, reflecting the downward revision of GDP forecasts. Regarding the unemployment rate, as defined by the LFS, it is expected to increase to 7,1% in 2011, reaching a new historical high<sup>20</sup>, while in 2012 and 2013 it is anticipated to increase further to 7,7% and 7,8%, respectively.

In 2011 productivity growth is expected to decelerate significantly, increasing marginally by 0,2%, as a result of the worsening of the economic environment and the destruction of the Vasilikos power station. The same conditions are also expected to prevail in 2012, with productivity remaining stagnant, while in 2013 it is expected to increase by 1%. With respect to compensation per employee, this is expected to increase by 1,9% in 2011 and 1,5% in 2012, while in 2013 it is expected to improve considerably, reaching 2,3%, as a result of the expected improvement in the economic environment. The aforementioned projected path for

|                                      | 2010 | 2011f | 2012f | 2013 |
|--------------------------------------|------|-------|-------|------|
| ompensation per employee             |      |       |       |      |
| December Projections 2011            | 2,6  | 1,9   | 1,5   | 2,3  |
| June Projections 2011                | 2,5  | 2,6   | 2,7   | -    |
| nit labour costs                     |      |       |       |      |
| December Projections 2011            | 1,7  | 1,7   | 1,5   | 1,3  |
| June Projections 2011                | 1,6  | 1,8   | 1,7   | -    |
| roductivity                          |      |       |       |      |
| December Projections 2011            | 0,9  | 0,2   | 0,0   | 1,0  |
| June Projections 2011                | 0,8  | 0,8   | 1,0   | -    |
| otal employment                      |      |       |       |      |
| December Projections 2011            | 0,2  | 0,1   | 0,0   | 0,3  |
| June Projections 2011                | 0,2  | 0,6   | 1,1   | -    |
| nemployment rate (% of labour force) |      |       |       |      |
| December Projections 2011            | 6,2  | 7,1   | 7,7   | 7,8  |
| June Projections 2011                | 6,2  | 6,2   | 6,0   | -    |

<sup>20.</sup> The only period in which unemployment was higher was immediately after Turkey's invasion of the island in 1974.

compensation per employee is partly related to the expected changes in COLA. In particular, within the context of fiscal consolidation, during the first half of 2012, civil servants and the broader public sector will not be receiving the COLA, resulting in a slight slowdown in unit labour costs. However, we have assumed small increases in those sectors recording high growth rates. In light of the above, unit labour costs in 2011 are expected to record a similar increase as in 2010, rising by 1,7%, while a slight slowdown is expected in 2012 and 2013, with unit labour costs increasing by 1,5% and 1,3%, respectively.

#### **National accounts**

As far as the national accounts are concerned, real GDP growth in Cyprus is projected to reach 0,3% in 2011 and 0% in 2012, while an increase of 1,3% is anticipated in 2013. The projections for 2011 and 2012 have been revised downwards compared with the previous forecasts, due to, as previously mentioned, the decline registered by various domestic economic indicators, especially after the events in Vasilikos, the fiscal consolidation measures, the developments in the euro area and the inevitable impact on consumer and investor confidence. Moreover, the uncertainty over the adoption of additional fiscal consolidation measures and their effectiveness as well as the reduction in corporate profits, the decrease in personal disposable income and the increase in unemployment, have contributed significantly to the unfavourable economic conditions and to the further increase in consumer and business uncertainty (Table A.13).

| TABLE A.13 National accounts projections in real terms (annual change, %) |      |       |       |       |  |  |  |  |
|---|------|-------|-------|-------|--|--|--|--|
|   | 2010 | 2011f | 2012f | 2013f |  |  |  |  |
| GDP   |      |       |       |       |  |  |  |  |
| December Projections 2011   | 1,1  | 0,3   | 0,0   | 1,3   |  |  |  |  |
| June Projections 2011   | 1,0  | 1,4   | 2,1   | -     |  |  |  |  |
| Private consumption   |      |       |       |       |  |  |  |  |
| December Projections 2011   | 2,4  | 0,8   | -0,5  | 0,8   |  |  |  |  |
| June Projections 2011   | 0,8  | 1,1   | 1,5   | -     |  |  |  |  |
| Public consumption  |      |       |       |       |  |  |  |  |
| December Projections 2011   | 0,6  | -1,8  | -2,1  | 2,4   |  |  |  |  |
| June Projections 2011   | 0,5  | -0,8  | 0,4   | -     |  |  |  |  |
| Gross fixed capital formation   |      |       |       |       |  |  |  |  |
| December Projections 2011   | -6,9 | -9,7  | -0,3  | -1,6  |  |  |  |  |
| June Projections 2011   | -7,9 | 0,5   | 2,2   | -     |  |  |  |  |
| Exports of goods and services   |      |       |       |       |  |  |  |  |
| December Projections 2011   | 6,1  | 3,7   | 1,1   | 1,3   |  |  |  |  |
| June Projections 2011   | 0,6  | 3,4   | 3,4   | -     |  |  |  |  |
| Imports of goods and services   |      |       |       |       |  |  |  |  |
| December Projections 2011   | 5,1  | -0,8  | -0,5  | 0,0   |  |  |  |  |
| June Projections 2011   | 3,1  | 1,3   | 1,8   | -     |  |  |  |  |
| Sources: Cystat, CBC.   |      |       |       |       |  |  |  |  |

Private consumption is expected to register a slowdown, increasing by 0,8% in 2011 compared with an increase of 2,4% in 2010. This is also substantiated by other indicators of the economy such as retail sales, which recorded a marginal increase of 0,2% over the period January - August 2011. At the same time, car registrations have continued to record decreases for more than two years, while consumer loans to residents have slowed down, recording a marginal annual increase of 0,1% in September 2011 compared with an increase of 1,9% in September 2010. Government consumption is also expected to register a decrease, falling by 1,8% in 2011, mainly due to the non-recurring expenses for defence equipment recorded in 2010. Gross fixed capital formation is expected to register a significant decrease of 9,7%, after the significant reductions recorded in the previous two years. This development is mainly reflected by private sector investment. As for the total exports of goods and services, these are expected to increase by 3,7%, since they are mainly driven by increased revenues from tourism and financial services. On the other hand, imports of goods and services are expected to record a decrease of 0,8% in 2011, as a result of the subdued growth in domestic demand.

As for 2012, economic activity is expected to remain subdued and a further reduction in GDP growth to 0% is anticipated. More specifically, private consumption is expected to decrease by 0,5%, while a significant decrease of 2,1% is expected for public consumption in the context of fiscal consolidation. Moreover, gross fixed

capital formation is expected to decrease by 0,3%. The growth rate of exports is expected to reach 1,1%, while imports are expected to record a further decline of 0,5%, as a result of the deterioration in domestic demand.

In 2013 a partial improvement in economic activity is anticipated, driven by the expected improvement in the external economic environment. In particular, GDP is expected to increase by 1,3%, mainly reflecting the increase of 2,4% in public consumption, partly due to increases in the state payroll following the higher COLA<sup>21</sup>. In contrast, a decrease of 1,6% is expected to be recorded in gross fixed capital formation, based on the working assumptions for the reconstruction of the Vasilikos power station in 2012. Exports are expected to continue to register modest increases of 1,3%, while imports are projected to remain stable.

At this point it should be noted that these forecasts are affected by the possible adoption of further fiscal consolidation measures, which were not taken into account in the current projections, since they were not clearly defined. In such a case, public consumption and public investment are expected to be adversely affected. This will also have an indirect impact on other categories, and particular on private consumption. Nevertheless, the impact of fiscal consolidation measures will depend on the type and size of measures adopted. It should be noted, however, that fiscal consolidation is expected to positively affect the economy in the medium term, by reinforcing the economy's growth potential.

<sup>21.</sup> The possible freeze in salaries and COLA for two years was not included in the projections. The announcements for the third package of measures were made after the cut-off date for data used in our forecasts.

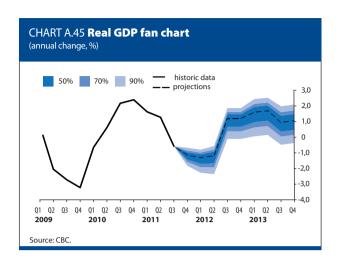
#### Fan charts for the macroeconomic projections

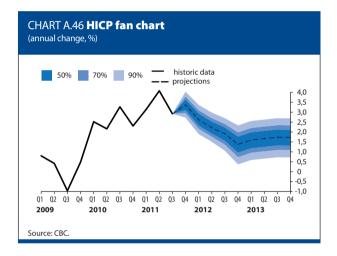
The projections for HICP inflation (**Table A.11**, p. 75) as well as those for GDP growth (**Table A.13**, p. 77) are the modal forecasts and are considered as the most likely outcomes given the working assumptions of the Eurosystem. However, due to the tentative nature of the assumptions, the projections are subject to uncertainty.

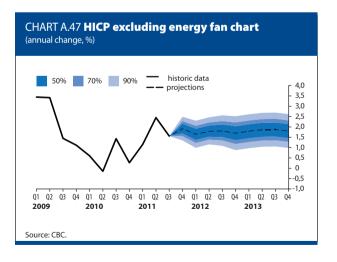
The probability of GDP, HICP inflation and HICP inflation excluding energy forecasts lying around their respective modal projections is depicted in **Charts A.45**, **A.46** and **A.47**, respectively. The three confidence intervals show the bands in which GDP, HICP inflation and HICP inflation excluding 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, which is based both on statistical methodology and on expert judgment, 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<sup>22</sup>. Moreover, the bands of the fan charts widen as the time horizon is extended, indicating the increasing uncertainty of outcomes in the longer term.

With respect to GDP, the adoption of additional fiscal consolidation measures and the possible need for EU / IMF support may negatively affect GDP projections in the medium term. In such a case, public investment and public consumption are expected to be negatively affected, while a







<sup>22.</sup> The estimation of the confidence intervals of the skewed distribution is based on the methodology developed by the Bank of England and the Sveriges Riksbank.

further negative impact on domestic demand is expected mainly through the deterioration in consumption. addition, private In unemployment continues to rise, it may have a negative impact on GDP projections, mainly through the reduction in private consumption. Furthermore, the implementation of a 50% "haircut" on Greek government bonds and the resulting need for a strengthening in the capital adequacy of banks, may affect the Cyprus banking system through the process of deleveraging and the consequent impact on GDP. On the other hand, upward risks to the projections for GDP originate from the larger than expected recovery in the economies of our trading partners as well as an earlier exit from the crisis than is assumed in the baseline scenario of the projections. This will positively affect GDP through the recovery of exports and the inflow of foreign investments. Overall, the risks for a downward revision of the modal forecast of GDP are more likely.

With regard to HICP inflation, the most significant upside risks relate to a possible increase in VAT from 15% to 17%, indirect and secondary effects of the 8% increase in electricity prices since September 2011, the probability of higher oil prices and / or depreciation of the euro against the dollar and the potential indirect and secondary effects of past increases in oil prices. Finally, there may be further increases in indirect taxes and administered prices in order to address the gaps in achieving the required fiscal consolidation.

The most significant downside risks to inflation relate to the possibility of a more severe and prolonged contraction in economic activity, due to

the stronger effects of fiscal consolidation and increased unemployment. In addition, a deterioration in the international environment may hamper external demand for services and thus exert a downward pressure on prices. Moreover, a further reduction in construction activity may impede growth prospects even more, due to a wealth effect. Finally, in the context of tensions in the financial markets and the debt crisis in the euro area, a further deterioration in credit conditions, with potential adverse consequences for the real and financial sectors of the economy, cannot be ruled out. These risks indicate that both downward and upward deviations from the modal forecast of the HICP and the HICP excluding energy have equal statistical probability of being realised.

# A comparison of the projections for the Cyprus economy by other international organisations

The most recent forecasts published by the European Commission and the IMF for GDP and HICP for the years 2011, 2012 and 2013 as well as the respective CBC projections are presented in **Table A.14**.

Both the European Commission and the CBC expect HICP inflation to reach 3,4% in 2011, while the IMF forecast of 4% is more pessimistic. In 2012 the projections of the aforementioned institutions range between 2% and 2,8%, with the CBC being more optimistic, expecting inflation to reach 2%. On the other hand, the European Commission anticipates inflation to be 2,8%. In 2013 both the European Commission and the IMF expect

| econo      | A.14 <b>Compai</b><br><b>my</b><br>:hange, %)      | rison o | f proj      | ection        | s for tl    | ne Cyp    | orus  |
|------------|--|---------|-------------|---------------|-------------|-----------|-------|
|            |  |         | GDP         |               |             | HICP      |       |
|            |  | 2011f   | 2012f       | 2013f         | 2011f       | 2012f     | 2013f |
| European   | Autumn 2011  | 0,3     | 0,0         | 1,8           | 3,4         | 2,8       | 2,3   |
| Commission | Spring 2011  | 1,5     | 2,4         | -             | 3,4         | 2,3       | -     |
|            |  |         |             |               |             |           |       |
| IMF        | Autumn 2011 1                                      | 0,0     | -1,0        | 0,8           | 4,0         | 2,4       | 2,3   |
|            | Spring 2011  | 1,7     | 2,2         | -             | 3,9         | 2,8       | -     |
|            |  |         |             |               |             |           |       |
| CBC        | December 2011                                      | 0,3     | 0,0         | 1,3           | 3,4         | 2,0       | 1,7   |
|            | June 2011  | 1,4     | 2,1         | -             | 3,3         | 2,2       | -     |
|            | ropean Commission, IMI<br>the projections publishe |         | nt report o | f the IMF for | Cyprus (Art | icle IV). |       |

inflation to reach 2,3% while the CBC expects inflation to reach 1,7%. The differences between the projections of the various international organisations are mainly due to the different information available at the time of preparing these projections and the different working assumptions.

In 2011 both the European Commission and the CBC expect GDP to exhibit a slowdown, increasing by 0,3%, while the IMF forecast is more pessimistic, expecting zero growth. In 2012 the European Commission and the CBC anticipate zero growth in GDP while the IMF expects a further deterioration in the economy, with GDP recording a decrease of 1%. In 2013 growth is expected to range between 0,8% and 1,8%, with the IMF giving the most pessimistic forecast of 0,8%. The CBC's forecast is 1,3% for 2013.



SECTION B
Statistical Annex

#### **Explanatory notes for Statistical Annex**

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

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

Tables B.2-B.7 refer to the Consumer Price Index (CPI), which is published on a monthly basis by Cystat with 2005 as the base year. 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. From January 2006, only part of the imputed rents was included in the national CPI, and since 2011 these have been harmonised with the full exclusion of imputed rents from the CPI.

More specifically, **Tables B.2** and **B.3** show the percentage change in the CPI by economic category and the corresponding weighted contribu-

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

Table B.8 presents the balance of payments of Cyprus which records the transactions between residents and non-residents. The balance of payments is divided into the current account and the capital and financial account which, because of the double entry principle, must be equal with opposite signs. Table B.9 shows the trade balance of Cyprus, which records the trade in goods between residents and non-residents of Cyprus. Tables B.10 and B.11 present the direct investments by nonresidents in Cyprus and Cypriot residents' direct investments abroad, respectively. Table B.12 shows the international investment position of Cyprus, namely the assets and liabilities of residents over non-residents. The data for Tables B.8, **B.10 - B.12** are collected and compiled by the CBC and are based on the IMF's methodology ("BPM5"). **Table B.9** is prepared and published by Cystat.

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

Table B.14 shows GDP by category of ex-

penditure at constant 2005 market prices calculated using the chain linking method, while

Table B.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 B.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 Cystat with 2005 as the base year.

**Table B.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.

Table B.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, steam and air-conditioning supply, water supply, sewerage, waste management and remediation, i.e. sectors B, C, D and E of the EU's

new statistical classification of economic activities, NACE Rev. 2. This index is published by Cystat with 2005 as the base year.

**Table B.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, based on the Regulation 577/98 of the EU Council.

**Table B.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 B.1 Exchange rates of selected currencies against the euro   |         |         |          |
|--|---------|---------|----------|
|  | USD/EUR | GBP/EUR | JPY/EUR  |
| Average for January  | 1,3374  | 0,8471  | 110,4862 |
| Average for February   | 1,3662  | 0,8466  | 112,8050 |
| Average for March  | 1,4019  | 0,8676  | 114,4487 |
| Average for April  | 1,4473  | 0,8832  | 120,3500 |
| Average for May  | 1,4399  | 0,8805  | 116,2170 |
| Average for June   | 1,4401  | 0,8879  | 115,8841 |
| Average for July   | 1,4294  | 0,8848  | 113,3048 |
| Average for August   | 1,4339  | 0,8765  | 110,4661 |
| Average for September  | 1,3752  | 0,8719  | 105,7018 |
| Average for October  | 1,3728  | 0,8703  | 105,2595 |
| Average for November (until 18 Nov.)   | 1,3657  | 0,8571  | 105,9564 |
| Average for Jan-November (until 18 Nov.)   | 1,4019  | 0,8706  | 112,0959 |
| Closing rate on 31/12/2010   | 1,3384  | 0,8574  | 108,4700 |
| Closing rate on 18/11/2011   | 1,3525  | 0,8558  | 104,0000 |
| Highest exchange rate vs. the euro   | 1,4830  | 0,9039  | 122,7600 |
|  | 2 May   | 4 May   | 8 Apr.   |
| Lowest exchange rate vs. the euro  | 1,2907  | 0,8302  | 100,9700 |
|  | 7 Jan.  | 7 Jan.  | 10 Jan.  |
| % appreciation (+)/depreciation (-) of the currency vs, the euro from closing rate on 31/12/2010 to closing rate on 18/11/2011 | 1,1%    | -0,2%   | -4,1%    |
| Source: Bloomberg  |         |         |          |

|            | Table B.2 Percentage    | change in    | the C        | PI by        | economi                    | categor                      | у                          |                             |                             |                            |   |   |
|------------|-------------------------|--------------|--------------|--------------|----------------------------|------------------------------|----------------------------|-----------------------------|-----------------------------|----------------------------|---|---|
| GEN        | VERAL INDEX             | 2008<br>4,67 | 2009<br>0,33 | 2010<br>2,43 | October<br>2010/09<br>3,05 | September<br>2011/10<br>2,38 | October<br>2011/10<br>3,04 | JanOct.<br>20 10/09<br>2,61 | JanSept.<br>2011/10<br>3,20 | JanOct.<br>2011/10<br>3,17 | Wei<br>2005=100<br>(for<br>2008-2010)<br>100,00 | ghts<br>2005=100<br>(for<br>2011)<br>100,00 |
| Α          | DOMESTIC PRODUCTS       | 7,36         | 0,78         | 3,01         | 6,09                       | 9,42                         | 10,36                      | 3,51                        | 10,17                       | 10,19                      | 28,98   | 20,52                                       |
| A.1        | Agricultural            | 10,71        | 3,30         | -0,01        | 12,75                      | -10,76                       | -8,45                      | 1,52                        | -2,66                       | -3,27                      | 6,93  | 5,96  |
| A.2        | Industrial              | 3,64         | 2,56         | 1,36         | 1,54                       | 12,58                        | 10,96                      | 1,31                        | 12,06                       | 11,94                      | 19,29   | 11,37                                       |
| A.3        | Electricity             | 23,16        | -14,84       | 22,23        | 18,25                      | 17,54                        | 23,39                      | 23,88                       | 11,00                       | 12,30                      | 2,76  | 3,19  |
| В          | PETROLEUM PRODUCTS      | 10,54        | -17,19       | 19,39        | 19,83                      | 16,78                        | 15,37                      | 18,85                       | 21,40                       | 20,77                      | 6,63  | 5,50  |
| c          | IMPORTED PRODUCTS       | -0,35        | -0,56        | -0,93        | -0,91                      | 2,45                         | 3,20                       | -0,91                       | 2,76                        | 2,81                       | 24,62   | 31,74                                       |
| C.1        | Motor vehicles          | -1,29        | -3,38        | -4,19        | -3,11                      | -0,69                        | -0,68                      | -4,54                       | -0,53                       | -0,55                      | 5,41  | 6,48  |
| <u>C.2</u> | Other imported products | -0,11        | 0,16         | -0,13        | -0,40                      | 3,20                         | 4,08                       | -0,01                       | 3,55                        | 3,61                       | 19,21   | 25,26                                       |
| D          | SERVICES                | 4,48         | 3,69         | 1,24         | 0,36                       | 1,51                         | 1,93                       | 1,37                        | 1,60                        | 1,63                       | 39,77   | 42,24                                       |
|            | HICP                    | 4,4          | 0,2          | 2,6          | 3,2                        | 2,5                          | 3,2                        | 2,7                         | 3,4                         | 3,4                        | •   |   |
|            | Source: Cystat.         |              |              |              |                            |                              |                            |                             |                             |                            |   |   |

|                             |       |       |       |           |           |           |          |          |         | WE         | IGHTS    |
|-----------------------------|-------|-------|-------|-----------|-----------|-----------|----------|----------|---------|------------|----------|
|                             |       |       |       |           |           |           |          |          |         | 2005=100   | 2005=100 |
|                             |       |       |       | October 0 | September | October 0 | JanOct.  | JanSept. | JanOct. | (for       | (for     |
|                             | 2008  | 2009  | 2010  | 2010/09   | 2011/10   | 2011/10   | 20 10/09 | 2011/10  | 2011/10 | 2008-2010) | 2011)    |
| GENERAL INDEX               | 4,67  | 0,33  | 2,43  | 3,05      | 2,38      | 3,04      | 2,61     | 3,20     | 3,17    | 100,00     | 100,00   |
| A DOMESTIC PRODUCTS         | 2,21  | 0,24  | 0,93  | 1,86      | 2,11      | 2,31      | 1,08     | 2,24     | 2,25    | 28,98      | 20,52    |
| A.1 Agricultural            | 0,81  | 0,26  | 0,00  | 0,98      | -0,81     | -0,61     | 0,13     | -0,19    | -0,23   | 6,93       | 5,96     |
| A.2 Industrial              | 0,71  | 0,49  | 0,27  | 0,30      | 1,43      | 1,25      | 0,26     | 1,48     | 1,46    | 19,29      | 11,37    |
| A.3 Electricity             | 0,69  | -0,52 | 0,66  | 0,57      | 0,73      | 0,98      | 0,70     | 0,45     | 0,50    | 2,76       | 3,19     |
| B PETROLEUM PRODUCTS        | 0,74  | -1,28 | 1,19  | 1,24      | 1,01      | 0,93      | 1,15     | 1,25     | 1,22    | 6,63       | 5,50     |
| C IMPORTED PRODUCTS         | -0,08 | -0,12 | -0,20 | -0,20     | 0,65      | 0,86      | -0,19    | 0,74     | 0,75    | 24,62      | 31,74    |
| C.1 Motor vehicles          | -0,06 | -0,15 | -0,18 | -0,13     | -0,03     | -0,03     | -0,19    | -0,03    | -0,03   | 5,41       | 6,48     |
| C.2 Other imported products | -0,02 | 0,03  | -0,02 | -0,07     | 0,69      | 0,91      | 0,00     | 0,87     | 0,89    | 19,21      | 25,26    |
| D SERVICES                  | 1,80  | 1,48  | 0,51  | 0,15      | 0,66      | 0,83      | 0,57     | 0,70     | 0,71    | 39,77      | 42,24    |

|   | 2008  | 2009  | 2010  | October<br>2010/09 | September<br>2011/10 | October<br>2011/10 | JanOct.<br>20 10/09 | JanSept.<br>2011/10 | JanOct<br>2011/10 |
|---|-------|-------|-------|--------------------|----------------------|--------------------|---------------------|---------------------|-------------------|
| GENERAL INDEX                                 | 4,67  | 0,33  | 2,43  | 3,05               | 2,38                 | 3,04               | 2,61                | 3,20                | 3,17              |
| Food and non-alcoholic beverages              | 7,59  | 3,69  | 0,24  | 5,95               | -0,32                | 1,13               | 0,79                | 3,43                | 3,19              |
| Alcoholic beverages and tobacco               | 0,23  | 3,10  | 1,39  | 0,24               | 12,39                | 12,09              | 1,11                | 11,25               | 11,33             |
| Clothing and footwear                         | -1,32 | -4,06 | -0,64 | -1,35              | -0,45                | 1,50               | -0,64               | -0,10               | 0,08              |
| Housing, water, electricity and gas           | 7,01  | -2,49 | 7,62  | 5,94               | 11,91                | 13,80              | 7,83                | 9,26                | 9,72              |
| Furnishings, household equipment and supplies | 2,15  | 1,47  | 0,21  | -0,46              | 2,61                 | 2,13               | 0,62                | 2,28                | 2,26              |
| Health  | 4,93  | 6,49  | 2,95  | 2,07               | 2,70                 | 2,86               | 3,13                | 2,78                | 2,79              |
| Transport                                     | 4,47  | -6,97 | 3,64  | 4,07               | 1,56                 | 1,72               | 3,52                | 3,75                | 3,54              |
| Communications                                | 0,16  | 0,01  | -0,04 | -0,03              | 0,36                 | 0,34               | -0,04               | 0,52                | 0,49              |
| Recreation and culture                        | 3,65  | 1,92  | -0,01 | -0,67              | 2,12                 | 2,01               | 0,12                | 1,70                | 1,74              |
| Education                                     | 5,05  | 5,29  | 4,69  | 3,95               | 1,94                 | 2,64               | 4,85                | 3,36                | 3,28              |
| Restaurants and hotels                        | 7,65  | 5,60  | 2,04  | 1,66               | 1,12                 | 1,46               | 2,11                | 1,49                | 1,49              |
| Miscellaneous goods and services              | 2,50  | 2,99  | 2,12  | 2,41               | -1,73                | -1,69              | 2,14                | -0,98               | -1,06             |

Table B.5 Weighted contribution to the total percentage change in the CPI by category of goods and services (%)

|   | 2008  | 2009  | 2010  | October<br>2010/09 | September<br>2011/10 | October<br>2011/10 | JanOct.<br>20 10/09 | JanSept.<br>2011/10 | JanOct.<br>2011/10 |
|---|-------|-------|-------|--------------------|----------------------|--------------------|---------------------|---------------------|--------------------|
| GENERAL INDEX                                 | 4,67  | 0,33  | 2,43  | 3,05               | 2,38                 | 3,04               | 2,61                | 3,20                | 3,17               |
| Food and non-alcoholic beverages              | 1,36  | 0,70  | 0,05  | 1,13               | -0,06                | 0,20               | 0,15                | 0,60                | 0,56               |
| Alcoholic beverages and tobacco               | 0,00  | 0,06  | 0,03  | 0,00               | 0,25                 | 0,24               | 0,02                | 0,22                | 0,22               |
| Clothing and footwear                         | -0,11 | -0,32 | -0,05 | -0,11              | -0,03                | 0,11               | -0,05               | -0,01               | 0,01               |
| Housing, water, electricity and gas           | 1,13  | -0,42 | 1,23  | 0,99               | 1,56                 | 1,79               | 1,27                | 1,19                | 1,25               |
| Furnishings, household equipment and supplies | 0,14  | 0,09  | 0,01  | -0,03              | 0,18                 | 0,15               | 0,04                | 0,16                | 0,15               |
| Health  | 0,25  | 0,34  | 0,16  | 0,11               | 0,19                 | 0,20               | 0,17                | 0,20                | 0,20               |
| Transport                                     | 0,65  | -1,04 | 0,49  | 0,56               | 0,22                 | 0,24               | 0,48                | 0,51                | 0,48               |
| Communications                                | 0,01  | 0,00  | 0,00  | 0,00               | 0,01                 | 0,01               | 0,00                | 0,02                | 0,02               |
| Recreation and culture                        | 0,22  | 0,12  | 0,00  | -0,04              | 0,13                 | 0,12               | 0,01                | 0,10                | 0,10               |
| Education                                     | 0,15  | 0,16  | 0,15  | 0,13               | 0,08                 | 0,11               | 0,15                | 0,14                | 0,13               |
| Restaurants and hotels                        | 0,57  | 0,44  | 0,17  | 0,14               | 0,10                 | 0,13               | 0,17                | 0,14                | 0,13               |
| Miscellaneous goods and services              | 0,17  | 0,20  | 0,15  | 0,17               | -0,15                | -0,15              | 0,15                | -0,09               | -0,09              |

Source: Cystat.

| Table B.6 Percentage change in prices of services |                    |                   |                    |                    |                     |                    |
|---|--------------------|-------------------|--------------------|--------------------|---------------------|--------------------|
| CENERAL MARY                                      | October<br>2010/09 | September 2011/10 | October<br>2011/10 | JanOct.<br>2010/09 | JanSept.<br>2011/10 | JanOct.<br>2011/10 |
| GENERAL INDEX Rents                               | 3,05               | <b>2,38</b>       | 3,04               | 2,61               | 3,20                | 3,17               |
| Maintenance of houses                             | -0,25<br>0,61      | 0,12              | 1,53<br>-0,24      | 1,32<br>0,81       | 0,74<br>0,22        | 0,82               |
| Transport   | -13,23             | -2,41             | 1,45               | -8,84              | -0,65               | -0,45              |
| Communications                                    | 0,00               | -0,02             | -0,02              | 0,01               | -0,03               | -0,43              |
| Insurance   | 0,05               | -1,58             | -1,58              | 0,82               | -1,23               | -1,26              |
| Public services                                   | 1,15               | 4,65              | 4,87               | 1,29               | 4,68                | 4,70               |
| Education   | 3,95               | 1,94              | 2,64               | 4,84               | 3,36                | 3,29               |
| Medical care                                      | 2,76               | 1,16              | 1,37               | 4,14               | 1,33                | 1,33               |
| Restaurants and coffee shops                      | 1,51               | 1,13              | 1,12               | 2,15               | 1,22                | 1,21               |
| Personal and household services                   | 1,44               | 1,17              | 1,53               | 1,99               | 0,98                | 1,04               |
| Total services                                    | 0,36               | 1,51              | 1,93               | 1,37               | 1,60                | 1,63               |
|   | •                  | ,                 | •                  | · ·                | ,                   |                    |
| Source: Cystat.                                   |                    |                   |                    |                    |                     |                    |

| (%)                             |                    |                      |                    |                    |                     |                    |
|---------------------------------|--------------------|----------------------|--------------------|--------------------|---------------------|--------------------|
|                                 | October<br>2010/09 | September<br>2011/10 | October<br>2011/10 | JanOct.<br>2010/09 | JanSept.<br>2011/10 | JanOct.<br>2011/10 |
| GENERAL INDEX                   | 3,05               | 2,38                 | 3,04               | 2,61               | 3,20                | 3,17               |
| Rents                           | -0,02              | 0,05                 | 0,05               | 0,09               | 0,02                | 0,03               |
| Maintenance of houses           | 0,01               | 0,00                 | -0,01              | 0,02               | 0,01                | 0,00               |
| Transport                       | -0,34              | -0,06                | 0,04               | -0,23              | -0,02               | -0,01              |
| Communications                  | 0,00               | 0,00                 | 0,00               | 0,00               | 0,00                | 0,00               |
| Insurance                       | 0,00               | -0,03                | -0,03              | 0,01               | -0,03               | -0,03              |
| Public services                 | 0,02               | 0,06                 | 0,06               | 0,02               | 0,06                | 0,06               |
| Education                       | 0,13               | 0,08                 | 0,11               | 0,15               | 0,14                | 0,14               |
| Medical care                    | 0,11               | 0,06                 | 0,08               | 0,17               | 0,08                | 0,08               |
| Restaurants and coffee shops    | 0,12               | 0,10                 | 0,10               | 0,17               | 0,11                | 0,11               |
| Personal and household services | 0,12               | 0,11                 | 0,14               | 0,16               | 0,09                | 0,10               |
| Total services                  | 0,15               | 0,66                 | 0,83               | 0,57               | 0,70                | 0,71               |

|  |          | 2009 (prov.) |           |          | 2010 (prov.) |         |
|--|----------|--------------|-----------|----------|--------------|---------|
|  | Credit   | Debit        | Net       | Credit   | Debit        | Ne      |
| CURRENT ACCOUNT                              | 10.110,0 | 11.918,0     | -1.807,9  | 10.173,6 | 11.885,5     | -1.711, |
| GOODS, SERVICES AND INCOME                   | 9.637,4  | 11.252,6     | -1.615,2  | 9.456,5  | 11.052,3     | -1.595, |
| GOODS AND SERVICES                           | 6.780,1  | 7.709,7      | -929,5    | 7.186,5  | 8.268,1      | -1.081, |
| GOODS  | 1.001,1  | 5.293,5      | -4.292,4  | 1.137,2  | 5.801,3      | -4.664, |
| SERVICES                                     | 5.779,0  | 2.416,2      | 3.362,8   | 6.049,2  | 2.466,8      | 3.582,  |
| Transport                                    | 1.540,5  | 896,4        | 644,2     | 1.446,6  | 1.028,2      | 418,    |
| Travel                                       | 1.561,4  | 930,5        | 630,9     | 1.613,7  | 845,4        | 768,    |
| Communications services                      | 82,9     | 66,5         | 16,5      | 52,8     | 68,5         | -15,    |
| Construction services                        | 38,5     | 9,8          | 28,7      | 36,2     | 12,4         | 23,     |
| Insurance services                           | 70,2     | 33,5         | 36,7      | 35,7     | 32,7         | 3,      |
| Financial services                           | 807,1    | 93,4         | 713,7     | 820,1    | 167,6        | 652,    |
| Computer and information services            | 68,8     | 18,5         | 50,3      | 63,4     | 29,6         | 33,     |
| Royalties and licence fees                   | 8,6      | 43,0         | -34,3     | 6,3      | 23,1         | -16,    |
| Other business services                      | 1.422,5  | 225,6        | 1.196,9   | 1.807,6  | 167,7        | 1.639   |
| Personal, cultural and recreational services | 26,7     | 44,2         | -17,5     | 30,4     | 25,6         | 4       |
| Government services, n.i.e.                  | 151,8    | 54,9         | 96,9      | 136,3    | 66,0         | 70      |
| Services not allocated                       | 0,0      | 0,0          | 0,0       | 0,0      | 0,0          | 0       |
| NCOME  | 2.857,3  | 3.542,9      | -685,7    | 2.270,0  | 2.784,2      | -514    |
| Compensation of employees                    | 29,0     | 162,2        | -133,3    | 30,4     | 157,6        | -127    |
| Investment income                            | 2.828,3  | 3.380,7      | -552,4    | 2.239,6  | 2.626,6      | -387    |
| Direct investment income                     | 780,6    | 1,807,2      | -1,026,5  | 237,0    | 918,7        | -681    |
| Portfolio investment income                  | 851,5    | 584,7        | 266,9     | 930,6    | 671,1        | 259     |
| Other investment income                      | 1.196,1  | 988,9        | 207,2     | 1.072,1  | 1.036,8      | 35      |
| CURRENT TRANSFERS                            | 472,7    | 665,4        | -192,7    | 717,1    | 833,3        | -116    |
| General government                           | 129,6    | 216,0        | -86,4     | 143,9    | 204,4        | -60     |
| <u>Other sectors</u>                         | 343,1    | 449,4        | -106,3    | 573,2    | 628,9        | -55,    |
| APITAL AND FINANCIAL ACCOUNT                 |          |              | 1.885,4   |          |              | 1.681   |
| Capital account                              | 92,9     | 41,8         | 51,1      | 66,3     | 31,3         | 35      |
| inancial account                             |          |              | 1.834,3   |          |              | 1.646   |
| Direct investment                            |          |              | 2.223,8   |          |              | 65      |
| Abroad                                       |          |              | -275,6    |          |              | -512    |
| In Cyprus                                    |          |              | 2.499,4   |          |              | 578     |
| Portfolio investment                         |          |              | -17.039,3 |          |              | -1.933  |
| Assets                                       |          |              | -17.683,1 |          |              | -2.567  |
| Liabilities                                  |          |              | 643,8     |          |              | 633     |
| inancial derivatives                         |          |              | 527,6     |          |              | -58     |
| Other investment                             |          |              | 16.029,9  |          |              | 3.373   |
| Assets                                       |          |              | -1,905,9  |          |              | 13.499  |
| Liabilities                                  |          |              | 17.935,8  |          |              | -10.126 |
| Official reserve assets                      |          |              | 92,3      |          |              | 200     |
| NET ERRORS AND OMISSIONS                     |          |              | -77,5     |          |              | 30,     |

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|                      |         |         |          | 2010    | 2011    |          |
|----------------------|---------|---------|----------|---------|---------|----------|
|                      | 2009    | 2010    | % change | JanAug. | JanAug. | % change |
| Imports              | 5.691,8 | 6.517,4 | 14,5     | 4.190,8 | 4.265,0 | 1,8      |
| Consumer goods       | 1.914,4 | 1.948,2 | 1,8      | 1.257,2 | 1.261,9 | 0,4      |
| Intermediate inputs  | 1.555,3 | 1.710,1 | 10,0     | 1.117,5 | 1.128,8 | 1,0      |
| Capital goods        | 654,9   | 555,8   | -15,1    | 379,6   | 330,3   | -13,0    |
| Transport equipment  | 561,9   | 816,9   | 45,4     | 615,9   | 426,9   | -30,7    |
| Fuels and lubricants | 996,2   | 1.311,3 | 31,6     | 809,3   | 1.080,0 | 33,4     |
| Exports              | 970,4   | 1.136,8 | 17,1     | 707,4   | 921,7   | 30,3     |
| Trade deficit        | 4.721,3 | 5.380,6 | 14,0     | 3.483,4 | 3.343,3 | -4,0     |

| NACE   |                                     |       |           |         |       | Net capi | tal flows | i       |         |       |         |        |
|--------|-------------------------------------|-------|-----------|---------|-------|----------|-----------|---------|---------|-------|---------|--------|
| Code   | Economic activity                   | 2000  | 2001      | 2002    | 2003  | 2004     | 2005      | 2006    | 2007    | 2008  | 2009    | 2010   |
| 595    | AGRICULTURE AND FISHING             | 0,2   | 0,2       | 0,0     | 0,0   | 0.0      | 0.0       | -0,1    | -0,1    | 0.0   | 0.0     | 0,0    |
| 1495   | MINING AND OUARRYING                | 2,8   | 2,1       | 2,1     | 4,7   | 50,3     | 19,9      | 0,4     | 2,1     | *     | *       | 0,0    |
| 3995   | MANUFACTURING                       | 14,3  | 5,6       | 37.8    | -9,2  | 53,2     | 30,4      | 79,6    | 15,4    | 1.0   | 9.0     | 87,0   |
| 4195   | ELECTRICITY, GAS AND WATER          | 0,0   | 0,0       | 0.0     | 0,0   | 0,0      | 0,0       | 0,0     | 0,0     | *     | *       | 94,0   |
| 4500   | CONSTRUCTION                        | 6,6   | -6,3      | 13,6    | 29,8  | 58,9     | 68,3      | 47,9    | 52,2    | 41,0  | 10,0    | 3,0    |
| 5295   | TRADE AND REPAIRS                   | 210,7 | 256,1     | 217,8   | 101,1 | 277,3    | 177,2     | 262,5   | 371,3   | 55,0  | 685,0   | 15,0   |
| 5500   | HOTELS AND RESTAURANTS              | 2,3   | 21,3      | 8,3     | 1,9   | *        | *         | 5,7     | 10,6    | 2,0   | 6,0     | -1,0   |
| 6495   | TRANSPORT AND COMMUNICATION         | 9,6   | -0,2      | 44,6    | 119,1 | *        | *         | -21,6   | 55,6    | 11,0  | -2,0    | 6,0    |
| 6895   | FINANCIAL INTERMEDIATION            | 431,8 | 444,3     | 173,6   | 140,0 | 122,1    | 0,8       | 279,8   | 316,5   | 397,0 | 1.407,0 | 197,0  |
| 7395   | REAL ESTATE AND BUSINESS ACTIVITIES | 218,3 | 278,9     | 523,3   | 338,1 | 205,8    | 356,0     | 485,2   | 801,6   | 454,0 | 365,0   | 187,0  |
| 9995   | OTHER SERVICES                      | 12,6  | 35,8      | 67,8    | 40,0  | 75,8     | 269,6     | 322,4   | 1,1     | 3,0   | 19,0    | -11,0  |
| 9996   | NOT ALLOCATED                       | 0,0   | 0,0       | 14,7    | 24,4  | 15,3     | 0,0       | 0,0     | 0,0     | *     | *       | 0,0    |
| 9999   | TOTAL                               | 909,1 | 1.037,8 1 | 1.103,6 | 789,8 | 873,0    | 940,5     | 1.461,9 | 1.626,4 | 965,0 | 2.499,0 | 578,0  |
|        |                                     |       |           |         |       | Net capi | tal flow  |         |         |       |         |        |
| Geogra | phical / economic zone              | 2000  | 2001      | 2002    | 2003  | 2004     | 2005      | 2006    | 2007    | 2008  | 2009    | 2010   |
| E1     | EUROPEAN COUNTRIES                  | 771.4 | 873,3     | 955.1   | 667,5 | 764.5    | 909,4     | 861.0   | 1.553.1 | 734.0 | 1.977.0 | -139.0 |
| D3     | EU-27                               | 458,4 | 455,2     | 444,1   | 588,4 | 604,3    | 534,0     | 492,2   | 972,1   | 298,0 | 1.400,0 | 117,0  |
| E4     | AFRICA                              | 16,2  | 20,8      | 25,3    | 25,9  | *        | *         | *       | -0,9    | 13,0  | 22,0    | 351,0  |
| E7     | AMERICA                             | 82,6  | 82,3      | *       | 30,3  | *        | -9,4      | 192,4   | 5,0     | 165,0 | 432,0   | 345,0  |
| F2     | ASIA                                | 39,7  | 63,0      | 86,6    | *     | 14,8     | 34,2      | 413,3   | 69,2    | 49,0  | 66,0    | 20,0   |
| F7     | OCEANIA                             | -0,8  | -1,7      | *       | *     | -1,2     | *         | *       | 0,0     | 4,0   | 3,0     | 2,0    |
| Z8     | Extra EU-27 not allocated           | 0,0   | 0,0       | 0,0     | 0,0   | 0,0      | 0,0       | 0,0     | 0,0     | 0,0   | 0,0     | 0,0    |
| A1     | WORLD (ALL ENTITIES)                | 909,1 | 1.037,8 1 | .103.6  | 789,8 | 873,0    | 940.5     | 1.461,9 | 1.626,4 | 965.0 | 2.499,0 | 578,0  |

|        |                                     |        |        |        | Net    | capital flo | ws     |        |        |          |        |        |
|--------|-------------------------------------|--------|--------|--------|--------|-------------|--------|--------|--------|----------|--------|--------|
| NACE   |                                     |        |        |        |        |             |        |        |        |          |        |        |
| Code   | <b>Economic activity</b>            | 2000   | 2001   | 2002   | 2003   | 2004        | 2005   | 2006   | 2007   | 2008     | 2009   | 2010   |
| 595    | AGRICULTURE AND FISHING             | -2,6   | *      | -0,3   | 0,0    | 0,0         | 0,0    | 0,0    | 0,0    | 0,0      | 0,0    | 0,0    |
| 1495   | MINING AND QUARRYING                | 0,0    | -0,9   | 0,0    | 0,0    | 0,0         | 0,1    | 0,0    | 0,0    | 0,0      | 0,0    | 0,0    |
| 3995   | MANUFACTURING                       | -7,1   | -7,1   | -4,6   | -15,5  | -58,9       | -39,5  | 41,3   | -2,1   | 0,0      | -1,0   | -12,0  |
| 4195   | ELECTRICITY, GAS AND WATER          | *      | *      | -1,4   | 0,0    | -0,1        | 0,0    | 0,0    | 0,0    | *        | *      | 1,0    |
| 4500   | CONSTRUCTION                        | -4,2   | *      | -69,5  | -75,0  | *           | -196,8 | *      | -49,4  | -100,0   | -28,0  | -3,0   |
| 5295   | TRADE AND REPAIRS                   | -9,1   | -7,9   | -5,3   | -32,6  | -37,3       | 176,9  | -30,2  | -22,9  | -135,0   | -38,0  | -522,0 |
| 5500   | HOTELS AND RESTAURANTS              | -18,2  | -62,9  | -16,3  | -88,1  | *           | *      | *      | -22,4  | -19,0    | -69,0  | -17,0  |
| 6495   | TRANSPORT AND COMMUNICATION         | -22,2  | -13,5  | -21,3  | -18,4  | -12,0       | 3,8    | -10,0  | -54,5  | -1,0     | -4,0   | -27,0  |
| 6895   | FINANCIAL INTERMEDIATION            | -98,4  | -160,9 | -112,1 | -94,6  | -122,4      | 42,5   | -430,9 | -348,1 | -1.334,0 | 43,0   | 60,0   |
| 7395   | REAL ESTATE AND BUSINESS ACTIVITIES | -18,1  | -12,7  | -299,6 | -132,4 | -137,4      | -415,8 | -180,3 | -406,8 | -267,0   | -177,0 | 5,0    |
| 9995   | OTHER SERVICES                      | *      | -3,9   | -0,8   | -10,7  | -0,7        | *      | 114,2  | -0,1   | *        | *      | 1,0    |
| 9996   | NOT ALLOCATED                       | 0,0    | 0,0    | -9,3   | -39,5  | -8,9        | 0,0    | 0,0    | 0,0    | 0,0      | 0,0    | 0,0    |
| 9999   | TOTAL                               | -183,0 | -274,3 | -540,6 | -506,8 | -555,4      | -442,4 | -707,2 | -906,3 | -1.855,0 | -276,0 | -513,0 |
|        |                                     |        |        |        | Net    | capital flo | ws     |        |        |          |        |        |
| Geogra | phical / economic zone              | 2000   | 2001   | 2002   | 2003   | 2004        | 2005   | 2006   | 2007   | 2008     | 2009   | 2010   |
| E1     | EUROPEAN COUNTRIES                  | -139,2 | -234,8 | -441,4 | -412,0 | -475,6      | -301,9 | -375,8 | -842,1 | -1.323,0 | -566,0 | -277,0 |
| D3     | EU-27                               | -116,1 | -223,6 | -429,0 | -339,0 | -359,2      | -138,7 | -34,7  | -516,3 | -63,0    | -518,0 | 178,0  |
| E4     | AFRICA                              | -7,6   | *      | -26,4  | -35,4  | *           | *      | -213,4 | -0,8   | -8,0     | -43,0  | -55,0  |
| E7     | AMERICA                             | -2,4   | *      | *      | -16,9  | -6,5        | *      | *      | -5,4   | -317,0   | 398,0  | -156,0 |
| F2     | ASIA                                | -0,6   | -3,9   | *      | -41,1  | *           | *      | *      | -51,8  | -172,0   | -31,0  | -8,0   |
| F7     | OCEANIA                             | -33,2  | -32,9  | -3,4   | -1,4   | -11,2       | -4,8   | -8,6   | -5,8   | -35,0    | -33,0  | -16,0  |
| Z8     | Extra EU-27 not allocated           | 0,0    | 0,0    | 0,0    | 0,0    | 0,0         | 0,0    | 0,0    | -0,4   | 0,0      | 0,0    | 0,0    |
| A1     | WORLD (ALL ENTITIES)                | -183,0 | -274,3 | -540.6 | -506.8 | -555,4      | -442,4 | -707,2 | -906 3 | -1.855,0 | -276.0 | -513,0 |

|  | ASSETS   | LIABILITIES | BALANC  |
|--|----------|-------------|---------|
| INANCIAL ACCOUNT                       | ADDETO   | LIABILITIES | -7.523, |
| DIRECT INVESTMENT                      |          |             | -4.103, |
| Abroad                                 |          |             | 8.980,  |
| Equity capital and reinvested earnings |          |             | 7.015,  |
| MFIs (excluding central banks)         |          |             | 1.312,  |
| Other sectors                          |          |             | 5.702   |
| Other Capital                          |          |             | 1.964   |
| MFIs (excluding central banks)         |          |             | 2       |
| Other sectors                          |          |             | 1.962   |
| In the reporting country               |          |             | 13.083  |
| Equity capital and reinvested earnings |          |             | 12.406  |
| MFIs (excluding central banks)         |          |             | 2.190   |
| Other sectors                          |          |             | 10.215  |
| Other capital                          |          |             | 677     |
| MFIs (excluding central banks)         |          |             | 14      |
| Other sectors                          |          |             | 663     |
| ORTFOLIO INVESTMENT                    | 36.821,0 | 7.920,5     | 28.900  |
| Equity securities                      | 1.936,7  | 1.749,1     |         |
| Monetary authorities                   | 0,0      |             |         |
| General government                     | 0,0      |             |         |
| MFIs (excluding central banks)         | 2,0      | 1.517,7     |         |
| Other sectors                          | 1.934,6  | 231,3       |         |
| Debt securities                        | 34.884,7 | 6.171,5     |         |
| Bonds and notes                        | 33.813,0 | 6.019,1     |         |
| Monetary authorities                   | 3.264,0  | 0,0         |         |
| General government                     | 0,0      | 3.872,0     |         |
| MFIs (excluding central banks)         | 28.136,0 | 1.986,2     |         |
| Other sectors Other sectors            | 2.413,0  | 160,9       |         |
| Money market instruments               | 1.071,7  | 152,4       |         |
| Monetary authorities                   | 0,0      | 0,0         |         |
| General government                     | 0,0      | 0,0         |         |
| MFIs (excluding central banks)         | 1.047,9  | 131,4       |         |
| Other sectors                          | 23,8     | 21,0        |         |
| INANCIAL DERIVATIVES                   | 690,1    | 432,6       | 257     |
| Monetary authorities                   | 0,0      | 0,0         | 0       |
| General government                     | 0,0      | 0,0         | C       |
| MFIs (excluding central banks)         | 121,9    | 431,7       | -309    |
| Other sectors                          | 568,2    | 0,9         | 567     |
| THER INVESTMENT                        | 45.397,7 | 78.833,7    | -33.436 |
| Monetary authorities                   | 436,3    | 6.544,4     |         |
| Loans/currency and deposits            | 407,3    | 6.530,2     |         |
| Other assets/liabilities               | 29,0     | 14,2        |         |
| General government                     | 227,9    | 822,4       |         |
| Trade credits                          | 9,7      | 0,0         |         |
| Loans/currency and deposits            | 42,8     | 822,4       |         |
| Other assets/liabilities               | 175,4    | 0,0         |         |
| MFIs (excluding the Central Bank)      | 40.150,3 | 68.993,5    |         |
| Loans/currency and deposits            | 40.042,3 | 68.959,5    |         |
| Other assets/liabilities               | 108,0    | 34,0        |         |
| Other sectors                          | 4.583,2  | 2.473,4     |         |
| Trade credits                          | 146,2    | 769,5       |         |
| Loans/currency and deposits            | 4.437,0  | 1.703,9     |         |
| Other assets/liabilities               | 0,0      | 0,0         |         |
| ESERVE ASSETS                          | 858,0    |             |         |

|     |           |             | Tourist arrivals |                 |           | Receipts from tourism |                 |
|-----|-----------|-------------|------------------|-----------------|-----------|-----------------------|-----------------|
|     |           | Number      | % change         |                 |           | % change              |                 |
| ear | Month     | of tourists |                  | nulative period | € million | Previous year Cum     | nulative period |
| 007 | January   | 51.848      | -5,5             | -5,5            | 33,6      | -7,1                  | -7,1            |
|     | February  | 63.098      | -4,6             | -5,0            | 38,5      | -2,2                  | -4,6            |
|     | March     | 104.316     | -2,6             | -3,9            | 68,5      | 3,1                   | -1,0            |
|     | April     | 189.310     | -8,3             | -6,0            | 123,7     | -2,8                  | -1,8            |
|     | May       | 273.058     | -3,7             | -5,1            | 204,6     | 7,1                   | 1,9             |
|     | June      | 282.465     | 0,8              | -3,4            | 207,4     | 3,2                   | 2,3             |
|     | July      | 352.423     | 3,2              | -1,7            | 287,3     | 8,5                   | 4,0             |
|     | August    | 340.534     | 8,1              | 0,1             | 306,0     | 15,5                  | 6,0             |
|     | September | 315.437     | 6,4              | 1,1             | 263,0     | 9,3                   | 7,0             |
|     | October   | 275.103     | -2,8             | 0,6             | 206,3     | -1,7                  | 5,9             |
|     | November  | 94.741      | -1,0             | 0,5             | 67,8      | 5,5                   | 5,9             |
|     | December  | 73.742      | 3,8              | 0,6             | 51,4      | 4,5                   | 5,9             |
| 800 | January   | 50.658      | -2,3             | -2,3            | 35,3      | 4,9                   | 4,9             |
|     | February  | 70.140      | 11,2             | 5,1             | 40,6      | 5,5                   | 5,2             |
|     | March     | 108.164     | 3,7              | 4,4             | 67,3      | -1,7                  | 1,8             |
|     | April     | 182.091     | -3,8             | 0,6             | 107,8     | -12,8                 | -5,0            |
|     | May       | 271.599     | -0,5             | 0,1             | 191,3     | -6,5                  | -5,3            |
|     | June      | 307.237     | 8,8              | 2,7             | 229,6     | 10,7                  | -0,7            |
|     | July      | 342.554     | -2,8             | 1,2             | 272,9     | -5,0                  | -2,0            |
|     | 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                  | -4,0            |
|     | 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                 | -11,0           |
|     | 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                  | -7,5            |
|     | May       | 246.546     | -9,2             | -8,9            | 158,1     | -17,4                 | -11,            |
|     | June      | 260.931     | -15,1            | -10,8           | 175,4     | -23,6                 | -15,8           |
|     | July      | 304.126     | -11,2            | -10,9           | 232,5     | -14,8                 | -15,            |
|     | August    | 291.583     | -11,1            | -11,0           | 234,8     | -15,5                 | -15,            |
|     | September | 276.178     | -9,6             | -10,7           | 200,2     | -19,1                 | -16,            |
|     | October   | 230.431     | -14,0            | -11,1           | 156,3     | -21,3                 | -16,            |
|     | November  | 89.670      | -8,4             | -11,0           | 61,0      | -15,7                 | -16,            |
|     | December  | 66.201      | -8,2             | -10,9           | 42,7      | -17,2                 | -16,7           |
| 010 | January   | 45.952      | -2,4             | -2,4            | 29,7      | -4,8                  | -4,8            |
|     | February  | 55.250      | -2,4             | -2,4            | 33,9      | -6,6                  | -5,8            |
|     | March     | 103.803     | 14,8             | 5,6             | 65,6      | 14,3                  | 3,4             |
|     | April     | 139.658     | -23,0            | -8,2            | 89,0      | -17,1                 | -6,             |
|     | May       | 258.014     | 4,7              | -3,1            | 164,8     | 4,2                   | -1,             |
|     | June      | 275.280     | 5,5              | -0,6            | 195,3     | 11,3                  | 2,2             |
|     | July      | 306.106     | 0,7              | -0,3            | 231,1     | -0,6                  | 1,4             |
|     | August    | 304.264     | 4,3              | 0,7             | 241,1     | 2,7                   | 1,              |
|     | September | 289.126     | 4,7              | 1,3             | 220,5     | 10,1                  | 3,              |
|     | October   | 241.698     | 4,9              | 1,7             | 175,5     | 12,3                  | 4,              |
|     | November  | 92.643      | 3,3              | 1,8             | 62,4      | 2,3                   | 4,              |
|     | December  | 61.199      | -7,6             | 1,5             | 40,9      | -4,2                  | 3,              |
| 011 | January   | 44.442      | -3,3             | -3,3            | 29,8      | 0,3                   | 0,              |
|     | February  | 62.294      | 12,7             | 5,5             | 36,9      | 8,8                   | 4,              |
|     | March     | 98.964      | -4,7             | 0,3             | 66,4      | 1,2                   | 3,              |
|     | April     | 199.762     | 43,0             | 17,6            | 136,7     | 53,6                  | 23,             |
|     | May       | 267.487     | 3,7              | 11,7            | 187,1     | 13,5                  | 19,             |
|     | June      | 300.817     | 9,3              | 10,9            | 220,0     | 12,6                  | 17,             |
|     | July      | 359.104     | 17,3             | 12,6            | 274,4     | 18,7                  | 17,             |
|     | August    | 337.013     | 10,8             | 12,2            | 267,0     | 10,7                  | 16,             |
|     | September | 304.260     | 5,2              | 11,1            | 235,8     | 6,9                   | 14,             |
|     | October   | 259.863     | 7,5              | 10,6            | n/a       | n/a                   | n/              |

Table B.14 Gross domestic product by category of expenditure at constant 2005 prices, chain linking method (€ million)

|        |            | Gross<br>domestic  | General<br>government | Private            | Gross<br>capital | Exports of goods   | Imports of goods   |
|--------|------------|--------------------|-----------------------|--------------------|------------------|--------------------|--------------------|
| Year/0 | -          | product            | consumption           | consumption        | formation        | and services       | and services       |
| 1997   | Q1         | 2.340,6            | 373,4                 | 1.642,9            | 559,5            | 851,7              | 1.086,8            |
|        | <u>Q2</u>  | 2.520,8            | 423,1                 | 1.511,7            | 652,3            | 1.218,5            | 1.284,8            |
|        | <u>Q</u> 3 | 2.563,9            | 435,1                 | 1.401,9            | 455,9            | 1.530,9            | 1.259,9            |
|        | Q4         | 2.506,9            | 610,1                 | 1.700,0            | 213,4            | 1.175,4            | 1.192,0            |
| 1998   | <u>Q1</u>  | 2.421,1            | 436,1                 | 1.761,5            | 492,7            | 902,0              | 1.171,3            |
|        | <u>Q2</u>  | 2.684,5            | 423,3                 | 1.550,7            | 652,6            | 1.264,6            | 1.206,8            |
|        | Q3         | 2.698,4            | 463,0                 | 1.478,3            | 487,9            | 1.530,6            | 1.261,4            |
| 1000   | Q4<br>01   | 2.625,4<br>2.529,7 | 593,3                 | 1.823,0<br>1.840,3 | 318,1            | 1.167,5            | 1.276,4            |
| 1999   | Q1<br>Q2   | 2.815,5            | 461,1<br>476,3        | 1.640,3            | 429,0<br>686,7   | 905,6<br>1.357,5   | 1.106,3<br>1.306,6 |
|        | Q2<br>Q3   | 2.818,3            | 480,7                 | 1.497,0            | 397,2            | 1.727,0            | 1.283,7            |
|        | Q4         | 2.770,1            | 664,8                 | 1.868,1            | 309,8            | 1.727,0            | 1.381,9            |
| 2000   | Q1         | 2.678,6            | 421,6                 | 1.950,7            | 505,4            | 1.043,2            | 1.242,3            |
| 2000   | Q2         | 2.977,7            | 429,2                 | 1.704,4            | 797,7            | 1.515,7            | 1.469,3            |
|        | Q3         | 2.954,6            | 482,0                 | 1.596,6            | 442,6            | 1.875,9            | 1.442,5            |
|        | Q4         | 2.871,8            | 645,0                 | 2.005,0            | 364,6            | 1.418,5            | 1.561,3            |
| 2001   | Q1         | 2.773,9            | 460,8                 | 2.154,5            | 421,4            | 1.104,9            | 1.367,6            |
|        | Q2         | 3.083,9            | 494,9                 | 1.813,7            | 702,6            | 1.679,8            | 1.607,1            |
|        | Q3         | 3.109,1            | 528,0                 | 1.512,6            | 678,7            | 1.990,4            | 1.600,5            |
|        | Q4         | 2.977,6            | 707,7                 | 2.101,4            | 173,5            | 1.436,8            | 1.441,8            |
| 2002   | Q1         | 2.839,8            | 516,2                 | 2.106,1            | 569,4            | 1.015,8            | 1.367,6            |
|        | Q2         | 3.163,3            | 537,7                 | 1.849,5            | 759,7            | 1.587,4            | 1.571,0            |
|        | Q3         | 3.126,2            | 569,8                 | 1.650,3            | 576,5            | 1.870,2            | 1.540,6            |
|        | Q4         | 3.065,6            | 718,8                 | 2.072,2            | 368,2            | 1.434,8            | 1.528,3            |
| 2003   | Q1         | 2.886,8            | 543,2                 | 2.099,1            | 686,6            | 929,1              | 1.371,3            |
|        | <u>Q2</u>  | 3.204,1            | 554,0                 | 1.933,5            | 780,4            | 1.404,6            | 1.468,3            |
|        | Q3         | 3.190,3            | 565,3                 | 1.680,8            | 550,2            | 1.962,2            | 1.568,2            |
|        | Q4         | 3.148,9            | 821,7                 | 2.128,9            | 197,7            | 1.584,8            | 1.584,1            |
| 2004   | <u>Q1</u>  | 2.995,5            | 507,5                 | 2.194,6            | 561,6            | 1.219,5            | 1.487,8            |
|        | 02         | 3.347,5            | 560,4                 | 1.996,7            | 842,0            | 1.612,1            | 1.663,6            |
|        | <u>Q3</u>  | 3.325,2            | 572,1                 | 1.877,7            | 614,0            | 1.916,8            | 1.655,4            |
| 2005   | Q4         | 3.287,0            | 707,8                 | 2.282,0            | 642,9            | 1.454,4            | 1.800,0            |
| 2005   | Q1         | 3.128,7            | 509,6                 | 2.316,5            | 663,0            | 1.248,5            | 1.608,8            |
|        | Q2         | 3.464,9            | 560,2                 | 2.120,8            | 686,2            | 1.704,5            | 1.606,7            |
|        | Q3<br>Q4   | 3.452,3<br>3.416,2 | 522,5<br>834,9        | 1.909,9<br>2.351,8 | 702,5<br>630,2   | 2.044,9<br>1.506,8 | 1.727,6<br>1.907,4 |
| 2006   | Q1         | 3.246,8            | 570,0                 | 2.408,0            | 658,5            | 1.366,1            | 1.755,8            |
| 2000   | Q2         | 3.624,9            | 625,0                 | 2.406,0            | 814,4            | 1.798,1            | 1.733,6            |
|        | Q3         | 3.594,7            | 599,5                 | 2.023,9            | 621,4            | 2.196,8            | 1.846,9            |
|        | Q4         | 3.550,8            | 810,8                 | 2.469,6            | 792,0            | 1.373,5            | 1.895,0            |
| 2007   | Q1         | 3.414,5            | 575,8                 | 2.586,9            | 769,4            | 1.348,5            | 1.866,1            |
| 2007   | Q2         | 3.798,0            | 568,7                 | 2.384,5            | 1.125,9          | 1.739,5            | 2.020,5            |
|        | Q3         | 3.775,0            | 615,4                 | 2.191,9            | 753,0            | 2.375,0            | 2.160,2            |
|        | Q4         | 3.749,2            | 854,0                 | 2.792,6            | 658,1            | 1.681,6            | 2.237,1            |
| 2008   | Q1         | 3.578,9            | 574,7                 | 2.795,1            | 915,6            | 1.430,7            | 2.137,1            |
|        | Q2         | 3.958,5            | 596,7                 | 2.588,0            | 1.202,4          | 1.786,0            | 2.214,6            |
|        | Q3         | 3.901,4            | 754,1                 | 2.455,2            | 976,7            | 2.233,8            | 2.518,5            |
|        | Q4         | 3.832,2            | 849,8                 | 2.823,9            | 572,7            | 1.669,4            | 2.083,6            |
| 2009   | Q1         | 3.602,5            | 631,9                 | 2.787,0            | 589,6            | 1.392,2            | 1.798,2            |
|        | Q2         | 3.891,5            | 637,8                 | 2.595,9            | 919,7            | 1.529,6            | 1.791,5            |
|        | Q3         | 3.796,7            | 767,3                 | 2.359,2            | 733,3            | 1.858,8            | 1.921,9            |
|        | Q4         | 3.726,6            | 898,1                 | 2.609,9            | 399,7            | 1.531,2            | 1.712,3            |
| 2010   | <u>Q1</u>  | 3.574,6            | 636,2                 | 2.675,2            | 696,9            | 1.357,1            | 1.790,8            |
|        | 02         | 3.916,0            | 632,4                 | 2.612,5            | 812,8            | 1.677,7            | 1.819,4            |
|        | 03         | 3.868,2            | 646,1                 | 2.439,4            | 935,7            | 1.763,9            | 1.916,9            |
|        | Q4         | 3.814,6            | 1.034,5               | 2.706,1            | 444,3            | 1.551,0            | 1.921,3            |
| 2011   | <u>Q1</u>  | 3.635,8            | 625,4                 | 2.731,3            | 687,3            | 1.399,7            | 1.808,0            |
|        | 02         | 3.969,4            | 637,0                 | 2.676,3            | 729,1            | 1.756,3            | 1.829,3            |

|       |           | Gross<br>domestic  | General<br>government | Private            | Gross<br>capital | Exports of goods   | Impor<br>of goo |
|-------|-----------|--------------------|-----------------------|--------------------|------------------|--------------------|-----------------|
| /ear/ | )         | product            | consumption           | consumption        | formation        | and services       | and service     |
| 997   | <u>Q1</u> | 1.779,0            | 262,5                 | 1.284,1            | 451,0            | 715,6              | 934             |
|       | <u>Q2</u> | 1.991,2            | 299,5                 | 1.256,8            | 518,7            | 1.027,3            | 1.11            |
|       | Q3        | 2.033,4            | 313,1                 | 1.190,7            | 327,7            | 1.300,2            | 1.098           |
|       | Q4        | 2.006,9            | 440,3                 | 1.386,5            | 215,1            | 1.005,1            | 1.04            |
| 998   | 01        | 1.893,8            | 317,0                 | 1.402,4            | 408,7            | 780,7              | 1.015           |
|       | <u>Q2</u> | 2.182,2            | 308,8                 | 1.316,1            | 523,1            | 1.090,4            | 1.050           |
|       | Q3<br>Q4  | 2.212,0<br>2.157,2 | 338,6<br>435,0        | 1.278,5<br>1.508,7 | 372,7<br>315,7   | 1.322,4<br>1.011,4 | 1.10            |
| 999   | Q1        | 2.137,2            | 343,6                 | 1.497,0            | 375,3            | 789,6              | 96              |
| ,,,   | Q2        | 2.338,8            | 358,7                 | 1.377,2            | 565,7            | 1.193,9            | 1.15            |
|       | 03        | 2.353,3            | 362,2                 | 1.311,3            | 299,5            | 1.531,2            | 1.15            |
|       | Q4        | 2.333,3            | 510,0                 | 1.601,3            | 302,7            | 1.175,3            | 1.25            |
| 000   | Q1        | 2.234,2            | 329,1                 | 1.648,7            | 448,9            | 957,3              | 1.14            |
|       | Q2        | 2.568,7            | 338,8                 | 1.533,4            | 665,9            | 1.412,1            | 1.38            |
|       | Q3        | 2.556,7            | 389,9                 | 1.452,4            | 325,5            | 1.756,7            | 1.36            |
|       | Q4        | 2.523,6            | 525,4                 | 1.770,7            | 371,1            | 1.345,0            | 1.48            |
| 001   | Q1        | 2.393,6            | 382,6                 | 1.863,2            | 383,4            | 1.060,7            | 1.29            |
|       | Q2        | 2.773,1            | 411,8                 | 1.659,9            | 617,4            | 1.615,2            | 1.53            |
|       | <u>Q3</u> | 2.777,7            | 438,2                 | 1.408,9            | 554,2            | 1.900,6            | 1.52            |
|       | Q4        | 2.683,5            | 586,2                 | 1.910,8            | 191,4            | 1.373,6            | 1.37            |
| 002   | <u>Q1</u> | 2.495,7            | 434,1                 | 1.861,9            | 536,0            | 970,3              | 1.30            |
|       | <u>Q2</u> | 2.828,6            | 452,7                 | 1.717,0            | 666,8            | 1.501,9            | 1.50            |
|       | Q3        | 2.824,5            | 486,6                 | 1.574,8            | 476,0            | 1.759,6            | 1.47            |
| 003   | Q4<br>Q1  | 2.830,8<br>2.660,3 | 623,5<br>494,0        | 1.940,6<br>1.956,4 | 381,0<br>637,8   | 1.340,5<br>869,3   | 1.45<br>1.29    |
| 003   | Q2        | 3.048,2            | 511,6                 | 1.872,5            | 741,5            | 1.309,6            | 1.38            |
|       | Q3        | 3.032,3            | 534,1                 | 1.638,8            | 498,2            | 1.843,1            | 1.48            |
|       | Q4        | 3.020,3            | 782,8                 | 2.070,7            | 168,5            | 1.502,1            | 1.50            |
| 004   | Q1        | 2.862,3            | 483,5                 | 2.087,2            | 532,0            | 1.167,2            | 1.40            |
|       | Q2        | 3.254,5            | 535,5                 | 1.952,5            | 792,5            | 1.563,0            | 1.58            |
|       | Q3        | 3.265,4            | 549,5                 | 1.845,9            | 589,1            | 1.880,1            | 1.59            |
|       | Q4        | 3.271,4            | 686,8                 | 2.271,0            | 638,9            | 1.435,9            | 1.76            |
| 005   | Q1        | 3.077,6            | 507,1                 | 2.262,5            | 645,0            | 1.239,7            | 1.57            |
|       | Q2        | 3.448,4            | 559,7                 | 2.125,2            | 667,3            | 1.699,9            | 1.60            |
|       | Q3        | 3.462,1            | 522,3                 | 1.924,0            | 701,2            | 2.044,6            | 1.73            |
|       | Q4        | 3.474,1            | 838,0                 | 2.387,0            | 668,5            | 1.520,6            | 1.94            |
| 006   | <u>Q1</u> | 3.278,0            | 586,4                 | 2.403,9            | 674,8            | 1.392,2            | 1.77            |
|       | <u>Q2</u> | 3.718,2            | 641,3                 | 2.251,5            | 842,5            | 1.842,4            | 1.85            |
|       | Q3        | 3.717,6            | 618,6                 | 2.084,5            | 639,8            | 2.262,0            | 1.88            |
| 007   | Q4        | 3.721,2            | 836,3                 | 2.557,7            | 839,1            | 1.433,0            | 1.94            |
| 007   | <u>Q1</u> | 3.577,1            | 606,2                 | 2.651,7            | 803,1            | 1.420,1            | 1.90            |
|       | Q2<br>Q3  | 4.067,0<br>4.115,3 | 600,7<br>652,4        | 2.518,1            | 1.194,7<br>808,8 | 1.844,8<br>2.535,7 | 2.09            |
|       | Q4        | 4.119,8            | 905,4                 | 3.018,2            | 754,9            | 1.811,9            | 2.23            |
| 800   | Q1        | 3.976,4            | 635,5                 | 3.009,3            | 1.036,5          | 1.577,7            | 2.28            |
| 000   | Q2        | 4.486,5            | 659,4                 | 2.886,6            | 1.374,2          | 1.981,4            | 2.41            |
|       | Q3        | 4.452,7            | 845,5                 | 2.797,7            | 1.082,4          | 2.474,3            | 2.74            |
|       | Q4        | 4.370,9            | 951,6                 | 3.171,7            | 694,4            | 1.821,6            | 2.26            |
| 009   | Q1        | 4.003,5            | 731,4                 | 3.039,5            | 659,1            | 1.498,1            | 1.92            |
|       | Q2        | 4.395,5            | 742,4                 | 2.906,7            | 1.007,2          | 1.667,7            | 1.92            |
|       | Q3        | 4.272,9            | 877,2                 | 2.643,1            | 777,7            | 2.017,8            | 2.04            |
|       | Q4        | 4.273,6            | 1.013,4               | 2.949,0            | 495,0            | 1.640,6            | 1.82            |
| 010   | <u>Q1</u> | 4.061,1            | 737,4                 | 2.980,6            | 791,6            | 1.478,1            | 1.92            |
|       | Q2        | 4.502,0            | 737,2                 | 2.995,2            | 917,7            | 1.860,0            | 2.00            |
|       | Q3        | 4.461,7            | 761,1                 | 2.831,0            | 1.002,6          | 1.961,2            | 2.09            |
|       | Q4        | 4.440,3            | 1.205,1               | 3.121,3            | 509,3            | 1.707,0            | 2.10            |
| 011   | <u>Q1</u> | 4.176,4            | 745,9                 | 3.135,5            | 760,5            | 1.554,5            | 2.02            |
|       | Q2        | 4.656,4            | 773,0                 | 3.191,1            | 771,4            | 1.958,9            | 2.03            |

|  |   |                                    | % cha                               | ange                                |
|--|---|------------------------------------|-------------------------------------|-------------------------------------|
|  |   | 6-month moving                     | Previous                            | 6-month moving                      |
| Year / Month   | Volume                                    | average                            | year                                | average                             |
| 2008 January<br>February   | 108,3<br>108,5                            | 122,4<br>120,9                     | 7,8<br>14,7                         | 9,4                                 |
| March  | 109,8                                     | 120,9                              | 1,7                                 | 9,3                                 |
| April  | 118,3                                     | 120,2                              | 10,9                                | 9,7                                 |
| May  | 122,8                                     | 120,8                              | 10,2                                | 9,3                                 |
| June   | 121,2                                     | 115,2                              | 2,4                                 | 7,7                                 |
| July   | 136,2                                     | 119,8                              | 9,0                                 | 8,0                                 |
| August   | 120,8                                     | 121,7                              | 1,9                                 | 6,0                                 |
| September  | 124,4                                     | 124,1                              | 7,7                                 | 7,0                                 |
| October  | 120,7                                     | 124,5                              | 3,0                                 | 5,7                                 |
| November<br>December   | 112,8<br>153,6                            | 122,8<br>128,3                     | -5,5<br>-0,3                        | 3,1<br>2,5                          |
| 2009 January   | 111,2                                     | 123,9                              | 2,7                                 | 1,3                                 |
| February   | 102,9                                     | 120,9                              | -5,2                                | 0,2                                 |
| March  | 103,4                                     | 117,4                              | -5,8                                | -2,0                                |
| April  | 115,8                                     | 116,6                              | -2,1                                | -2,8                                |
| May  | 114,2                                     | 116,9                              | -7,0                                | -3,0                                |
| June   | 117,7                                     | 110,9                              | -2,9                                | -3,4                                |
| July   | 132,7                                     | 114,5                              | -2,6                                | -4,2                                |
| August   | 116,6                                     | 116,7                              | -3,5                                | -3,9                                |
| September  | 116,7                                     | 119,0                              | -6,2                                | -4,0                                |
| October<br>November  | 116,4<br>108,3                            | 119,1<br>118,1                     | -3,6<br>-4,0                        | -4,3<br>-3,8                        |
| December   | 148,7                                     | 123,2                              | -4,0<br>-3,2                        | -3,8<br>-3,8                        |
| 2010 January   | 104,2                                     | 118,5                              | -6,3                                | -3,8                                |
| February   | 98,4                                      | 115,5                              | -4,4                                | -4,5                                |
| March  | 115,7                                     | 115,3                              | 11,9                                | -1,8                                |
| April  | 107,8                                     | 113,9                              | -6,9                                | -2,4                                |
| May  | 113,4                                     | 114,7                              | -0,7                                | -1,8                                |
| June   | 118,6                                     | 109,7                              | 0,8                                 | -1,1                                |
| July   | 134,8                                     | 114,8                              | 1,6                                 | 0,3                                 |
| August   | 118,3                                     | 118,1                              | 1,5                                 | 1,2                                 |
| September<br>October **  | 116,7                                     | 118,3                              | 0,0                                 | -0,6                                |
| November **  | 114,0<br>112,6                            | 119,3<br>119,2                     | -2,1<br>4,0                         | 0,2<br>0,9                          |
| December **  | 154,2                                     | 125,1                              | 3,7                                 | 1,5                                 |
| 2011 January   | 106,3                                     | 120,4                              | 2,0                                 | 1,6                                 |
| February   | 100,7                                     | 117,4                              | 2,3                                 | 1,7                                 |
| March**  | 108,9                                     | 116,1                              | -5,9                                | 0,7                                 |
| April**  | 113,9                                     | 116,1                              | 5,7                                 | 2,0                                 |
| May**  | 113,1                                     | 116,2                              | -0,3                                | 1,3                                 |
| June**   | 119,7                                     | 110,4                              | 0,9                                 | 0,7                                 |
| July**   | 129,1                                     | 114,2                              | -4,2                                | -0,5                                |
| August*  | 121,2                                     | 117,7                              | 2,5                                 | -0,4                                |
|  | August                                    | August*                            | JanAug.                             | JanAug.*                            |
| Percentage change by category  | 2010/2009                                 | 2011/2010                          | 2010/2009                           | 2011/2010                           |
| General index  | 1,5                                       | 2,5                                | -0,4                                | 0,2                                 |
| General index excluding automotive fuel  | 1,4                                       | 2,7                                | -0,3                                | 0,5                                 |
| Non-specialised stores with food, beverages or tobacco predominating   | 2,5                                       | 12,5                               | 6,1                                 | 8,3                                 |
| ovin-specialised stores with lood, beverages or tobacco predominating  | -7,6                                      | -6,3                               | -3,2                                | -6,7                                |
| Other retail sale in non-specialised stores  |   | 1.5                                |                                     | 27                                  |
| Other retail sale in non-specialised stores<br>Food, beverages and tobacco in specialised stores   | -11,5                                     | 4,5                                | 1,7                                 | -3,/                                |
| Other retail sale in non-specialised stores ood, beverages and tobacco in specialised stores ood products  | -11,5<br>0,2                              | 11,4                               | 5,4                                 | 6,5                                 |
| Other retail sale in non-specialised stores Food, beverages and tobacco in specialised stores Food products Non food products (except automotive fuel)   | -11,5<br>0,2<br>1,9                       | 11,4<br>-2,0                       | 5,4<br>-3,2                         | 6,5<br>-2,8                         |
| Other retail sale in non-specialised stores  rood, beverages and tobacco in specialised stores  rood products  loof food products (except automotive fuel)  rextiles, clothing and footwear  rectrical goods and furniture   | -11,5<br>0,2<br>1,9<br>-4,0               | 11,4<br>-2,0<br>3,5                | 5,4<br>-3,2<br>-0,7                 | 6,5<br>-2,8<br>-1,5                 |
| Other retail sale in non-specialised stores Food, beverages and tobacco in specialised stores Food products Non food products (except automotive fuel) Textiles, clothing and footwear Electrical goods and furniture  | -11,5<br>0,2<br>1,9                       | 11,4<br>-2,0<br>3,5<br>-6,1        | 5,4<br>-3,2<br>-0,7<br>-4,6         | -3,7<br>6,5<br>-2,8<br>-1,5<br>-3,5 |
| Other retail sale in non-specialised stores Food, beverages and tobacco in specialised stores Food products Non food products (except automotive fuel) Textiles, clothing and footwear   | -11,5<br>0,2<br>1,9<br>-4,0<br>7,5        | 11,4<br>-2,0<br>3,5                | 5,4<br>-3,2<br>-0,7                 | 6,5<br>-2,8<br>-1,5                 |
| Other retail sale in non-specialised stores  ood, beverages and tobacco in specialised stores  ood products  Non food products (except automotive fuel)  fextiles, clothing and footwear  Electrical goods and furniture  Computer equipment, books and other  Automotive fuel in specialised stores | -11,5<br>0,2<br>1,9<br>-4,0<br>7,5<br>9,2 | 11,4<br>-2,0<br>3,5<br>-6,1<br>5,7 | 5,4<br>-3,2<br>-0,7<br>-4,6<br>-3,5 | 6,5<br>-2,8<br>-1,5<br>-3,5<br>1,2  |
| Ither retail sale in non-specialised stores ood, beverages and tobacco in specialised stores ood products oon food products (except automotive fuel) extiles, clothing and footwear lectrical goods and furniture omputer equipment, books and other   | -11,5<br>0,2<br>1,9<br>-4,0<br>7,5<br>9,2 | 11,4<br>-2,0<br>3,5<br>-6,1<br>5,7 | 5,4<br>-3,2<br>-0,7<br>-4,6<br>-3,5 | 6,-<br>-2,(<br>-1,!<br>-3,!         |

|        |                      |                             | Sales of cement (vo  |                 | Buildi                       | ng permits authoris  |                              |
|--------|----------------------|-----------------------------|----------------------|-----------------|------------------------------|----------------------|------------------------------|
|        |                      | *                           |                      | ange            |                              |                      | hange                        |
| laar / | Month                | Total<br>(m ton)            | Previous             | 6-month moving  | Area                         | Previous             | 6-month moving               |
| 2008   | January              | ( <b>m.ton</b> )<br>156.587 | <b>year</b><br>18,12 | average<br>9,90 | ( <b>sq. m.</b> )<br>249.822 | <b>year</b><br>-5,34 | <b>average</b><br>-2,89      |
| .000   | February             | 173.499                     | 32,81                | 13,66           | 299.159                      | -0,10                | -2,31                        |
|        | March                | 175.963                     | 0,96                 | 13,04           | 295.942                      | -23,92               | -8,92                        |
|        | April                | 164.519                     | 19,91                | 13,30           | 296.211                      | -8,72                | -9,74                        |
|        | May                  | 179.007                     | 11,23                | 13,00           | 293.231                      | -11,94               | -8,77                        |
|        | June                 | 172.650                     | 4,36                 | 13,45           | 312.757                      | 2,84                 | -8,72                        |
|        | July                 | 200.922                     | 14,82                | 13,04           | 329.337                      | -3,06                | -8,20                        |
|        | August               | 69.945                      | -11,42               | 7,98            | 188.451                      | -1,85                | -8,84                        |
|        | September            | 168.055                     | 13,25                | 10,30           | 339.160                      | 17,55                | -1,28                        |
|        | October              | 178.855                     | 1,21                 | 7,07            | 374.647                      | 17,78                | 3,50                         |
|        | November             | 164.606                     | -7,09                | 3,62            | 382.457                      | 38,68                | 12,14                        |
|        | December             | 135.678                     | 1,90                 | 3,22            | 327.935                      | 15,18                | 14,31                        |
| 2009   | January              | 120.871                     | -22,81               | -3,79           | 278.876                      | 11,63                | 17,57                        |
|        | February             | 122.367                     | -29,47               | -7,78           | 273.892                      | -8,45                | 15,20                        |
|        | March                | 123.823                     | -29,63               | -14,79          | 255.578                      | -13,64               | 9,86                         |
|        | April                | 117.392                     | -28,65               | -20,00          | 234.397                      | -20,87               | 3,03                         |
|        | May                  | 132.204                     | -26,15               | -23,44          | 254.844                      | -13,09               | -5,44                        |
|        | June                 | 137.449                     | -20,39               | -26,23          | 359.744                      | 15,02                | -5,14                        |
|        | July                 | 151.742                     | -24,48               | -26,40          | 295.814                      | -10,18               | -8,35                        |
|        | August               | 48.329                      | -30,90               | -26,18          | 176.594                      | -6,29                | -7,55                        |
|        | September            | 126.657                     | -24,63               | -25,27          | 276.027                      | -18,61               | -9,71                        |
|        | October              | 128.881                     | -27,94               | -25,19          | 203.278                      | -45,74               | -16,01                       |
|        | November             | 122.260                     | -25,73               | -25,10          | 263.849                      | -31,01               | -18,59                       |
|        | December             | 107.190                     | -21,00               | -25,38          | 263.566                      | -19,63               | -18,84                       |
| 2010   | January              | 84.111                      | -30,41               | -26,32          | 228.827                      | -17,95               | -22,60                       |
|        | February             | 99.354                      | -18,81               | -24,93          | 335.783                      | 22,60                | -24,22                       |
|        | March                | 135.848                     | 9,71                 | -19,92          | 317.003                      | 24,03                | -14,5                        |
|        | April                | 99.749                      | -15,03               | -17,36          | 244.383                      | 4,26                 | -9,22                        |
|        | May                  | 120.199                     | -9,08                | -14,07          | 270.480                      | 6,14                 | 1,45                         |
|        | June                 | 130.944                     | -4,73                | -11,13          | 254.982                      | -29,12               | -0,96                        |
|        | July                 | 139.952                     | -7,77                | -7,51           | 241.035                      | -18,52               | -3,1                         |
|        | August               | 49.809                      | 3,06                 | -4,84           | 145.686                      | -17,50               | -2,24                        |
|        | September<br>October | 118.607<br>115.198          | -6,36<br>-10,62      | -7,64<br>-6,97  | 209.911<br>236.479           | -23,95<br>16,33      | -9,15<br>-10,98              |
|        | November             | 133.159                     | 8,91                 | <u>-</u>        | 216.510                      | -17,94               |                              |
|        | December             | 108.128                     | 0,88                 | -3,87<br>-2,95  | 216.826                      | -17,73               | -13,9 <sup>4</sup><br>-17,26 |
| 2011   | January              | 90.251                      | 7,30                 | -2,95<br>-0,37  | 167.251                      | -26,91               | -17,20                       |
| 2011   | February             | 98.610                      | -0,75                | -0,67           | 204.698                      | -39,04               | -20,06                       |
|        | March                | 117.715                     | -13,35               | -2,15           | 266.707                      | -15,87               | -19,59                       |
|        | April                | 87.190                      | -12,59               | -2,08           | 174.749                      | -28,49               | -20,1                        |
|        | May                  | 119.817                     | -0,32                | -3,83           | 180.822                      | -33,15               | -25,80                       |
|        | June                 | 111.297                     | -15,00               | -6,76           | 173.957                      | -31,78               | -27,68                       |
|        | July                 | 112.965                     | -19,28               | -10,81          | 186.807                      | -22,50               | -28,40                       |
|        | August               | 45.313                      | -9,03                | -12,15          | 130.118                      | -10,69               | -27,16                       |
|        | September            | 99.251                      | -16,32               | -12,65          | n/a                          | n/a                  | n/a                          |
|        | October              | 96.675                      | -16,08               | -13,25          | n/a                          | n/a                  | n/a                          |

|           |   |                | ndex              |                      | % change             |            |
|-----------|---|----------------|-------------------|----------------------|----------------------|------------|
|           |   |                |                   | Previous             | 6-month moving       | Cumulativ  |
| Year/     | Month   | Monthly        | Cumulative        | year                 | average              | perio      |
| 2009      | January   | 88,30          | 88,30             | -9,06                | -0,15                | -9,(       |
|           | February  | 91,80          | 90,05             | -9,02                | -1,05                | -9,0       |
|           | March   | 95,30          | 91,80             | -10,68               | -3,86                | -9,0       |
|           | April   | 94,20          | 92,40             | -12,62               | -6,47                | -10,4      |
|           | May   | 101,60         | 94,24             | -14,48               | -8,92                | -11,       |
|           | June  | 105,50         | 96,12             | -9,98                | -11,07               | -11,0      |
|           | July  | 115,40         | 98,87             | -9,70                | -11,10               | -10,       |
|           | August  | 63,20          | 94,41             | -11,24               | -11,44               | -10,       |
|           | September   | 102,40         | 95,30             | -10,80               | -11,45               | -10,       |
|           | October   | 99,10          | 95,68             | -13,53               | -11,62               | -11,       |
|           | November  | 100,30         | 96,10             | -10,21               | -10,86               | -11,       |
| 010       | December  | 98,90          | 96,33             | -12,56<br>-8,49      | -11,31<br>-11,24     | -11,       |
| 2010      | January<br>February   | 80,80<br>84,00 | 80,80<br>82,40    | -8,49<br>-8,50       | -11,24               | -8,<br>-8, |
|           | March   | 100,90         | 88,57             | 5,88                 | -8,26                | -0,        |
|           | April   | 87,90          | 88,40             | -6,69                | -7,00                | -4         |
|           | May   | 99,40          | 90,60             | -2,17                | -5,55                | -3         |
|           | June  | 104,40         | 92,90             | -1,04                | -3,35                | -3         |
|           | July  | 108,30         | 95,10             | -6,15                | -3,13                | -3         |
|           | August  | 63,50          | 91,15             | 0,47                 | -1,88                | -3         |
|           | September   | 100,40         | 92,18             | -1,95                | -3,16                | -3         |
|           | October   | 93,40          | 92,30             | -5,75                | -3,03                | -3         |
|           | November  | 98,40          | 92,85             | -1,89                | -2,99                | -3         |
|           | December  | 97,70          | 93,26             | -1,21                | -3,04                | -3         |
| 2011      | January*  | 74,60          | 74,60             | -7,67                | -3,07                | -7         |
|           | February*   | 82,90          | 78,75             | -1,31                | -3,20                | -4         |
|           | March*  | 91,60          | 83,03             | -9,22                | -4,50                | -6         |
|           | April*  | 82,40          | 82,88             | -6,26                | -4,56                | -6         |
|           | May*  | 97,50          | 85,80             | -1,91                | -4,57                | -5         |
|           | June*   | 96,20          | 87,53             | -7,85                | -5,78                | -5         |
|           | July*   | 93,40          | 88,37             | -13,76               | -6,99                | -7         |
|           | August  | 60,10          | 84,84             | -5,35                | -7,65                | -6         |
|           |   |                | August            | August               | JanAug.              | JanAu      |
|           | ntage change by category<br>al index  |                | 2010/2009         | 2011/2010            | 2010/2009            | 2011/20    |
|           | acture of food products, beverages and tobacco products   |                | <b>0,2</b><br>0,8 | - <b>5,1</b><br>-5,2 | - <b>3,7</b><br>-0,4 | -(         |
|           | acture of food products, beverages and tobacco products  acture of textiles, wearing apparel and leather products                                       |                | 9,4               | -13,2                | -16,2                |            |
|           | acture of textness, wearing apparer and reactier products  acture of wood and products of wood and cork, except furniture                               |                | -27,8             | -15,7                | -18,1                | -2         |
|           | acture of paper products and printing   |                | 23,9              | 10,6                 | 18,1                 |            |
| /lanuf    | acture of paper produces and printing<br>acture of refined petroleum products, chemicals and chemical product<br>armaceutical products and preparations | cts            | 23,8              | -5,8                 | 9,9                  |            |
|           | acture of rubber and plastic products   |                | 2,8               | -7,4                 | -6,0                 | -1         |
|           | acture of other non-metallic mineral products   |                | -7,5              | -29,9                | -12,8                | -1         |
|           | acture of basic metals and facricated metal products  |                | -18,0             | 2,2                  | -7,8                 | -          |
|           | acture of electronic and optical products and electrical equipment  |                | 34,1              | 62,4                 | 34,7                 | -          |
|           | acture of machinery   |                | -30,7             | -20,4                | -23,8                | -          |
|           | acture of motor vehicle and other transport equipment   |                | -45,2             | 43,6                 | -12,3                | -1         |
|           | acture of furniture, other manufacturing and repair and installation  |                | ,                 | ,0                   | ,-                   |            |
| viai iu i |   |                | -6,7              | -2,8                 | -13,5                | -1         |

| Table B.19 Labour market indicators based | on the Labour Force Sur | vey (LFS | )       |         |         |         |
|---|-------------------------|----------|---------|---------|---------|---------|
|   |                         | 20       | 010     |         | 20      | 011     |
|   | Q1                      | Q2       | Q3      | Q4      | Q1      | Q2      |
| Labour force                              | 409.499                 | 414.288  | 409.584 | 408.490 | 409.883 | 409.674 |
| Employed                                  | 379.881                 | 387.909  | 385.993 | 386.591 | 379.703 | 380.485 |
| By type of employment:                    |                         |          |         |         |         |         |
| Full time                                 | 344.315                 | 352.515  | 351.791 | 348.571 | 339.421 | 342.874 |
| Part time                                 | 35.566                  | 35.394   | 34.202  | 38.020  | 40.283  | 37.611  |
| By sector of employment:                  |                         |          |         |         |         |         |
| Primary sector                            | 13.773                  | 14.858   | 14.856  | 15.231  | 16.363  | 15.408  |
| Secondary sector                          | 78.787                  | 79.043   | 79.945  | 83.124  | 81.623  | 80.973  |
| Tertiary sector                           | 287.321                 | 294.008  | 291.192 | 288.236 | 281.717 | 284.134 |
| Employees                                 | 306.192                 | 314.416  | 314.047 | 316.296 | 308.098 | 310.236 |
| Unemployed                                | 29.618                  | 26.379   | 23.590  | 21.899  | 30.180  | 29.189  |
| By unemployment duration:                 |                         |          |         |         |         |         |
| Less than 12 months                       | 24.629                  | 21.557   | 18.379  | 16.187  | 24.960  | 24.237  |
| 12 months and above                       | 4.989                   | 4.823    | 5.212   | 5.713   | 5.221   | 4.952   |
| Activity rate (%)                         | 64,8                    | 65,0     | 64,8    | 64,4    | 64,6    | 64,4    |
| Male                                      | 72,2                    | 72,7     | 73,4    | 72,2    | 72,3    | 72,0    |
| Female                                    | 57,7                    | 57,8     | 56,8    | 56,9    | 57,3    | 57,0    |
| Employment rate (%)                       | 60,1                    | 60,9     | 61,1    | 61,0    | 59,9    | 59,8    |
| Male                                      | 67,0                    | 68,3     | 69,2    | 68,6    | 67,1    | 66,8    |
| Female                                    | 53,5                    | 53,9     | 53,4    | 53,7    | 52,9    | 53,0    |
| Unemployment rate (%)                     | 7,2                     | 6,4      | 5,8     | 5,4     | 7,4     | 7,1     |
| Male                                      | 7,2                     | 6,1      | 5,7     | 5,1     | 7,2     | 7,2     |
| <u>Female</u>                             | 7,3                     | 6,7      | 5,9     | 5,7     | 7,6     | 7,0     |
| Source: Cystat.                           |                         |          |         |         |         |         |

|   | 2009     |          |          |          | 2010     |          |          |          | 2011     |          |          |
|---|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
|   | Q1       | Q2       | Q3       | Q4       | Q1       | Q2       | Q3       | Q4       | Q1       | Q2       | Q3       |
| (1) DOMESTIC DEBT (2+4+7)   | 14.234,1 | 15.097,0 |          | 12.961,1 |          | 13.252,8 | 12.984,4 | 12.670,2 | 12.875,9 | 13.338,8 | 13.313,5 |
| (2) Long-term debt, of which:   | 5.971,4  | 5.679,8  | 5.611,5  | 5.549,2  | 5.298,2  | 5.190,0  | 5.105,9  | 5.106,2  | 4.529,0  | 4.604,8  | 5.291,1  |
| (3) Government Registered Development   |          |          |          |          |          |          |          |          |          |          |          |
| Stocks (SSF)  | 0,8      | 0,8      | 0,8      | 0,8      | 0,8      | 0,8      | 0,8      | 0,8      | 0,8      | 10,8     | 10,8     |
| (4) Short-term debt, of which:  | 8.262,7  | 9.417,3  | 9.554,3  | 7.411,9  | 7.913,9  | 8.062,8  | 2.146,0  | 429,2    | 1.166,2  | 1.463,8  | 728,4    |
| (5) Treasury Bills (Administered Funds)   | 143,4    | 150,4    | 185,8    | 147,4    | 158,3    | 155,6    | 198,8    | 155,8    | 152,4    | 151,3    | 150,3    |
| (6) Treasury Bills (SSF)  | 6.683,7  | 6.831,2  | 6.932,8  | 6.932,8  | 6.933,5  | 7.082,4  | 1.376,2  | 0,0      | 0,0      | 0,0      | 0,0      |
| (7) Investments in the form of deposits (SSF) <sup>(1)</sup>  |          |          |          |          |          |          | 5.732,5  | 7.134,8  | 7.180,7  | 7.270,2  | 7.294,0  |
| (8) Total Gross Domestic Debt   |          |          |          |          |          |          |          |          |          |          |          |
| (1-3-5-6-7)   | 7.406,2  | 8.114,6  | 8.046,4  | 5.880,1  | 6.119,5  | 6.014,0  | 5.676,1  | 5.378,8  | 5.541,9  | 5.906,5  | 5.858,3  |
| (9) FOREIGN DEBT (10+11+12+14)  | 1.992,1  | 3.785,4  | 3.633,5  | 3.984,5  | 4.619,7  | 4.864,0  | 4.811,2  | 5.615,1  | 5.902,8  | 6.268,9  | 6.345,2  |
| (10) Short-term liabilities   |          |          |          |          |          |          |          |          |          |          |          |
| of the CBC to the IMF   | 0,0      | 0,0      | 0,0      | 0,0      | 0,0      | 0,0      | 0,0      | 0,0      | 0,0      | 0,0      | 0,0      |
| (11) Long-term loans  | 827,3    | 803,3    | 800,5    | 808,9    | 808,5    | 782,7    | 794,6    | 822,4    | 820,2    | 962,5    | 998,8    |
| (12) Medium-term  |          |          |          |          |          |          |          |          |          |          |          |
| securities (EMTN)   | 1.050,0  | 2.550,0  | 2.550,0  | 2.550,0  | 3.550,0  | 3.550,0  | 3.550,0  | 4.550,0  | 4.720,0  | 4.765,0  | 4.765,0  |
| (13) SSF  | -        | -        |          |          | 204,0    | 204,0    | 204,0    | 341,3    | 341,3    | 341,3    | 341,3    |
| (14) Short-term securities  |          |          |          |          |          |          |          |          |          |          |          |
| (ECP)   | 114,8    | 432,1    | 282,9    | 625,6    | 261,2    | 531,2    | 466,5    | 242,7    | 362,6    | 541,3    | 581,4    |
| (15) Total Gross Foreign Debt (9-10-13)   | 1.992,1  | 3.785,4  | 3.633,5  | 3.984,5  | 4.415,7  | 4.660,0  | 4.607,2  | 5.273,8  | 5.561,5  | 5.927,6  | 6.003,9  |
| (16) TOTAL PUBLIC DEBT (1+9)  | 16.226,2 | 18.882,5 | 18.799,3 | 16.945,6 | 17.831,9 | 18.116,8 | 17.795,6 | 18.285,3 | 18.778,7 | 19.607,7 | 19.658,7 |
| (17) Total intragovernmental borrowing  |          |          |          |          |          | -        | -        |          |          |          |          |
| and short-term liabilities of the CBC to the IMF  |          |          |          |          |          |          |          |          |          |          |          |
| (3+5+6+7+10+13)   | 6.827,9  | 6.982,4  | 7.119,4  | 7.081,0  | 7.296,6  | 7.442,8  | 7.512,3  | 7.632,8  | 7.675,2  | 7.773,6  | 7.796,5  |
| (18) CONSOLIDATED GROSS DEBT (excl. total intragovermental borrowing and short-term liabilities of the CBC to the IMF) (1+9-17) | 0 208 3  | 11.900.0 | 11 670 0 | 9,864.6  | 10 535 2 | 10.673.9 | 10,283,3 | 10 652 6 | 11.103.4 | 11.834.1 | 11.862.  |

Source: Ministry of Finance.
(1) As from 1 August 2010 (and following the transfer of debt management responsibilities to the Ministry of Finance (MoF)), the SSF investments held as 13-week Government Treasury Bills that reached maturity were deposited directly in the account with the central government.







#### **Section A**

#### (A) Domestic Monetary Aggregates

All monetary aggregates' data exclude the CBC.

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

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

The above methodology has been adopted since the December 2009 edition of the *Economic Bulletin*. In previous editions of the *Bulletin*, the growth rate of monetary variables

was calculated as the annual percentage change of outstanding balances at the end of the period. Details of the methodology can be found in *Monetary and Financial Statistics*, published by the CBC's Statistics Department, which is available on the CBC website.

Monetary data are not adjusted for exchange rate fluctuations.

#### (B) Balance of Payments

The current statistical data collection and compilation system is based on the IMF methodology ("BPM5"), which has been adopted by the EU and complies with additional requirements and level of detail specified by both Eurostat and the ECB.

As in the case of monetary data, the new residency definition was adopted on 1 July 2008 (definition of the term "resident of Cyprus" used in the Statistical Purposes Directive, 2008). As a result, a number of organisations and enterprises of any legal form incorporated or registered in Cyprus without maintaining a physical presence, are now considered as "residents of Cyprus".

The Statistics Department of the CBC also publishes data adjusted for transactions of entities without a physical presence in Cyprus (i.e. these entities are not considered "residents of Cyprus" in these figures). These data are used in the *Economic Bulletin* for the analysis of balance of payments.

More details on the collection and compilation of balance of payments data are available on the CBC website.

