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# ECONOMIC BULLETIN

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### **ABBREVIATIONS ATHEX** Athens Stock Exchange **HICP** Harmonised Index of Consumer Prices BoE Bank of England Fed **US Federal Reserve** CBC Central Bank of Cyprus **GDP Gross Domestic Product COLA** Cost of Living Allowance **IMF** International Monetary Fund CPI **Consumer Price Index** JPY Japanese Yen CSE Cyprus Stock Exchange LFS **Labour Force Survey** CTO Cyprus Tourism Organisation MFIs **Monetary Financial Institutions** Cystat Statistical Service of the Republic of Cyprus NACE Nomenclature statistique des Activités économiques dans la **ECB** European Central Bank Communauté Européenne (Statistical **ECOFIN Economic and Financial Affairs** classification of the economic activities in the European Community) **EER** Effective Exchange Rate **NEER** Nominal Effective Exchange Rate **EMTN** Euro Medium-Term Note **NFCs Non-Financial Corporations EONIA** Euro Overnight Index Average OIS **Overnight Index Swaps ESA 95** European System of Accounts 1995 Real Effective Exchange Rate REER ESI **Economic Sentiment Indicator RICS** Royal Institution of Chartered Surveyors EU **European Union SDW** Statistical Data Warehouse **EURIBOR** Euro Interbank Offered Rate

Statistical Office of the European

Community

Eurostat



### Introduction

### **International developments**

In the first quarter of 2010, there were signs of recovery in the economies of a number of countries. Nevertheless, international financial stability remains fragile. The ongoing balance sheet consolidation of banks and non-financial corporations, as well as the increased risk of countries with high levels of public debt, continue to fuel the uncertainty in the short-term prospects for the world economy and obstruct the phasing out of non-conventional monetary policy measures.

In the advanced economies, there are signs of recovery and gradual growth, while in major emerging economies, such as China and India, there has alreadv improvement in economic activity. In particular, global GDP is projected to revert to positive annual growth in 2010, while in the first quarter of 2010 positive growth rates were recorded in the major economies of the world. However, growth has not stabilised, since economic expansion is still being supported by measures adopted by governments and central banks, which aim to reverse the negative developments in the financial sector and the real economy. Another major aspect of the current recovery is the lag with which it has been experienced in the various economies, partly reflecting differences in economic fundamentals prior to the crisis.

The fiscal crisis in Greece was an important development, since it led to a significant

widening in sovereign spreads in April, with spreads against German bunds exceeding 1.000 basis points. The risk of the Greek crisis spreading to other euro area economies is evident. This is reflected in the spreads of Portuguese and Spanish government bonds against German bunds, which exceeded 350 and 170 basis points, respectively, at the beginning of May. Following the downgradings of Greek, Spanish and Portuguese public debt by the international credit rating agencies, uncertainty still remains in the markets. These downgradings resulted in an increase in the cost of borrowing for these countries to historically high levels, while at the same time the euro significantly weakened against the dollar.

As a result of the continuing uncertainty in the economic and financial environment, the central banks and governments of the major economies continued their expansionary policies by maintaining interest rates at very low levels and extending their support measures. The Eurosystem continued to provide liquidity to the euro area banking system at very favourable terms, thus facilitating credit supply in the euro area. At the same time, amid concerns that the Greek crisis might impact on other euro area economies, the European Central Bank (ECB) announced the creation of a special programme for the purchase of euro area government bonds in order to support countries in a fragile fiscal position. It should also be noted that on 9 May 2010, the EU ministers of finance agreed on a €750 billion economic stabilisation package, with the involvement of the International Monetary Fund (IMF). This package aims at supporting EU economies with fiscal problems. In addition, the US Federal Reserve reintroduced its currency swap arrangements with other major central banks. Despite the fact that market tensions receded by May, pressures in individual countries still exist. This is especially the case for countries which need to convince the markets in practical terms of their willingness and ability to correct their major fiscal imbalances and their long-standing structural weaknesses.

Global inflation has been accelerating since the beginning of the year. This is mostly due to base effects, as a result of the relatively low oil prices in 2009 and the slight increase in demand. Improved growth prospects have also contributed to the projections of higher inflation in most economies.

In the financial sector, the rising trend in stock prices internationally since March 2009 continued until mid-April. Since then, and up until 17 May 2010 (the cut-off date for data in this Bulletin), financial markets were characterised by increased volatility, reflecting concerns over the robustness of the world economic recovery. More specifically, the Greek fiscal crisis dominated financial developments in the euro area, amid concerns that the crisis would also affect other euro area countries. As a result, the euro has depreciated against all major currencies since the beginning of the year. At the same time, amid increased uncertainty, the price of gold rose above \$1.240 per ounce in May 2010, while the price of Brent crude fluctuated between \$79 and \$88 per barrel.

The unfavourable spillover effects between the financial sectors and the real economies of many countries have prolonged the crisis. The large-scale implementation of conventional and non-conventional monetary policy combined with abundant liquidity in the global banking system and the exceptionally high fiscal deficits created as a result of the recession, may cause further worldwide economic destabilisation in the medium term.

### **Domestic developments**

The negative impact of the economic crisis on the Cyprus economy was evident in 2009, with most sectors of the economy being adversely affected. This was especially the case for tourism, construction and trade. This is reflected in the 1.7% contraction of GDP in 2009, compared with an increase of 3,6% in 2008. These negative developments also carried through to the first quarter of 2010, with GDP contracting by 2,4% compared with the first quarter of 2009, according to the flash estimate of the Cyprus Statistical Service Despite signs of economic (Cystat). stabilisation in recent months, the confidence indicators for services, industry, retail trade, consumption and construction, remained in negative territory, thus indicating further contraction. Other economic indicators continue to worsen, such as consumption and unemployment.

With respect to prices, the Harmonised Index of Consumer Prices (HICP) increased by

2,5% in the first four months of 2010 compared with an increase of 0,7% in the same period last year. This rise is mainly due to the large increases in the price of energy, stemming from the base effect of very low oil prices in the same period last year, the depreciation of the euro against the dollar and the increase in electricity prices (imposed by the Cyprus Electricity Authority as from January 2010 for three consecutive years). On the other hand, HICP excluding energy experienced a slowdown, reaching 0,5% in the first four months of 2010 compared with a rise of 3,4% in the same period last year, and was lower than the equivalent inflation in the euro area.

During the period November 2009 - March 2010, credit growth began to accelerate, in contrast to the general economic conditions which continue to show signs of a significant slowdown. More specifically, the annual growth of credit to the private sector reached 9,8% in March 2010 compared with 8,4% in December 2009 and 15% in March 2009, mainly as a result of the rise in housing and corporate loans.

With respect to the cost of lending, interest rates in Cyprus decreased further in recent months. Nevertheless, they remained at higher levels than the respective European rates, despite the funding of cheap bank liquidity as a result of ECB operations in December 2009, when banks used special three-year bonds issued by the government as collateral. The competition for deposits from Greek banks contributed to limited

reductions in interest rates. The banks have maintained their profit margins in their operations with non-financial corporations but the respective margins for operations with households remain at lower levels, mainly due to higher deposit rates.

The current account balance improved significantly during 2009, after the historically high deficit of 2008. More analytically, it improved by 9,2 percentage points, reaching 8,5% of GDP compared with 17,7% in 2008. This was mainly due to the improvement in the trade balance as a result of the large reduction in the imports of goods, which stemmed from decreased domestic demand and the reduction in the prices of petroleum products. However, despite the large improvement in the current account balance, the deficit continues to remain at relatively high levels, since the exports of services, such as transportation and tourism, were significantly affected in 2009 by the international crisis. With respect to tourism, revenues in the first guarter of 2010 improved slightly compared with the first quarter of 2009, when revenues were significantly affected by reduced external demand as a result of the world economic crisis. The improvement in tourist revenues was partly due to the base effect arising from the earlier timing of Easter.

As regards the labour market, employment in 2009 was largely affected by the economic crisis, registering a reduction of 0,8% compared with an increase of 2,7% in 2008. According to data from the Labour Force Survey, in 2009 there was an increase in the unemployment rate by 1,6 percentage points

to 5,3%. Recent data for registered unemployment for the first four months of 2010 also reflect the impact of the crisis, with registered unemployment increasing by 1,7 percentage points over the same period last year, thus reaching 5,7%. It is also noted that the number of registered unemployed in the first four months of 2010 increased by 7.121 over the same period of 2008, reaching 23.391.

According to preliminary figures published by Cystat, a budget deficit of 0,5% of GDP was recorded during the first guarter of 2010 compared with a deficit of 0,8% for the corresponding period of 2009. However, this marginal improvement is due to temporary factors, such as the significant profits made by the Central Bank of Cyprus (CBC) in 2009 (partly due to the non-conversion of Cyprus pound coins into euro). Thus, care is needed to avoid complacency. Apart from the income from temporary factors, the increase in total public revenue during the first quarter of 2010 is due to the increase in the tax receipts of the Inland Revenue Department. On the other hand, public expenditure increased in 2010, albeit at a lower rate than the corresponding period last year. This increase in expenditure is primarily due to the increase in social transfers, secondly to the increase in government expenditure on the compensation of employees and, thirdly, to the rise in investment expenditure in line with the European Economic Recovery Plan.

According to Ministry of Finance data, public debt as a percentage of GDP registered a significant increase, from 48,4% in 2008 to 56,2% in 2009. This was

mainly due to the deficit in the primary balance and the increase in short and medium term-borrowing. Furthermore, as interest rates eventually start to rise, the fiscal burden of interest rate repayments will increase as a result of the higher public debt and primary deficits.

Regarding the CBC projections for the main indicators of the domestic economy and according to the baseline scenario, GDP growth in 2010 is expected to contract by 0,5% while a contained increase of 1,3% is expected in 2011, based mainly on the recovery of our trading partners. The current projections are lower than those of December 2009, mainly due to domestic developments and their impact on the island's economy as well as the recent revision of the national accounts data. It should be noted that the projections take into consideration only those fiscal measures which are clearly defined and are likely to be implemented.

The HICP is expected to increase to 2,9% in 2010 and 3,2% in 2011. This is due to the increase in global oil prices, the increase in electricity prices for three consecutive years (includes the imposition of a fine for emissions and a 1,5% increase in electricity prices for three consecutive years), and the increase in consumption tax on fuel. In addition, HICP inflation is expected to be affected by the imposition of VAT on food and pharmaceuticals in 2011. HICP inflation excluding energy is expected to decelerate to 1,1% in 2010, reflecting the anticipated slowdown in the prices of food and

services, and to accelerate to 2,5% in 2011. Domestic inflationary pressures, which are mainly reflected in HICP excluding energy, persist with a likely negative impact on the competitiveness of Cypriot products. In particular, Cypriot products may become more expensive, causing a reduction in exports and an increase in imports, thus leading to a further deterioration in the domestic economy.

### **Financial stability conditions**

Overall, risks to financial stability originating from conditions in the household sector, although contained, remain on the upside. Despite the fall in interest rates on new lending in Cyprus during recent months, the overall debt-servicing burden of households has risen due to the increase in the annual growth rate of housing loans. Moreover, a potential further deterioration of domestic macroeconomic conditions, especially in the labour market, may pose higher risks to household income and have a negative impact on debt repayments.

Both the external as well as the domestic environment in which NFCs operate is expected to remain difficult, at least in the short term. As regards the external operating environment, continuous signs of stabilisation and gradual recovery in the world economy became more pronounced in the first quarter of 2010. However, the stabilisation of positive growth rates is still tentative. Therefore, the uncertainty surrounding the

short-term prospects for the world economy remains high. Furthermore, in the event that domestic macroeconomic conditions deteriorate further, the revenues and profitability of NFCs will be adversely affected. Moreover, higher borrowing costs facing enterprises in Cyprus, compared with other euro area member states, as well as the limited possibility for external financing may negatively impact on company profits. At the same time, the high level of indebtedness makes companies less resilient to any further adverse shocks. Looking forward, weak profits, high leverage as well as firms' dependence on bank finance remain the key vulnerabilities of the corporate sector.

According to the latest available data, in the first four months of 2010 domestic real estate sector activity, although generally subdued, has exhibited signs of stabilisation. At the same time, interest by foreigners as well as residents for the purchase of residential property has remained at low levels. Based on real estate valuations collected by the CBC and other data relating to the residential property sector until April 2010, the CBC estimates that residential real estate prices will record an average annual decrease of 4% in 2010.

### **Conclusions**

Two important negative developments in the Cyprus economy in 2009 and the beginning of 2010 can be noted. Firstly, the reduction in real GDP by 1,7% in 2009 and by 2,4% in the first

quarter of 2010. This reduction is partly due to the repercussions from the international financial turmoil and the consequent economic recession. For the whole of 2010, the reduction in GDP is expected to be contained at around 0,5%. Secondly, in 2009 there was a significant deterioration in the fiscal deficit, which was much larger than could be explained by the economic recession. The fiscal deficit in Cyprus, although not among the highest in the euro area, is characterised by one important distinction: in most euro area economies the recession was more severe than in Cyprus, hence there is a stronger link between the recession and the fiscal deficit in these countries. In many euro area countries, governments had to intervene to rescue or support their financial institutions with direct consequences for public finances. This was not the case for Cyprus.

As regards public finances, despite the government's optimistic forecasts, which are based on the assumption of some fiscal consolidation measures being adopted, the deficit is still not expected to fall below 6% in 2010. In the case where no additional measures are adopted, the deficit is expected to deteriorate further and not meet the government's target, especially if expenditure increases further.

It should be noted that the fiscal deterioration which occurred in 2009 is of a structural nature and is mostly due to the large increase in public expenditure. In recent years, total public expenditure as a percentage of GDP has been in the region of

42%-43%. However, according to the recently published Stability Programme, public expenditure as a percentage of GDP reached the historically high of 46,4% in 2009 while it is expected to increase further to 47,6% in 2010. This trend cannot continue without negative consequences for the Cyprus economy.

Consequently, the priority now is to target fiscal policy in the direction of bringing back public finances to a sustainable level, without undermining the country's growth potential. Unfortunately, the non-adoption fundamental corrective measures has already negatively affected Cyprus's growth path. The urgent design of a feasible and credible fiscal consolidation strategy is considered imperative in order to avoid superficial reforms, which will improve matters only temporarily.

The efforts for fiscal consolidation must also take into consideration the chronic problem of financing pension funds. This is a problem which is further aggrevated by Cyprus's ageing population. This challenge must form part of the long-term planning of fiscal policy.

With regard to inflation in 2009 and in the first four months of 2010, it is of concern that the underlying domestic inflationary pressures are greater compared with the rest of the euro area, with obvious implications for the competitiveness of Cypriot products.

In summary, the acceleration of the adoption of measures to contain public expenditure in a way that will bring the Cyprus

economy back to a path of sustainable growth, is imperative. A significant reduction in public expenditure is necessary so as to restore fiscal sustainability and thus promote real GDP growth and employment in the long term. Therefore, bold and decisive policies are needed to readjust public finances and put them on a sound basis. Unnecessary delays in adopting measures will only result in the accumulation of problems and undermine the island's credibility, thus increasing the risks that the economy is exposed to and reducing the prospects for growth and living standards. Delayed and inappropriate action to reduce the deficit on a sustainable basis because of short-term political considerations, should be avoided due to the associated significant economic and social costs.



SECTION A

**Macroeconomic Developments** and Projections

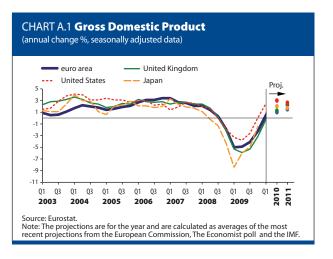
### 1. International Environment

### 1.1 External developments

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

Signs of global economic stabilisation and gradual recovery became more evident in the first quarter of 2010. However, the stabilisation of positive growth rates has yet to be established. Therefore, these developments should not lead to complacency, since uncertainty surrounding the short-term prospects for the world economy remains high.

The available indicators show that economic recovery in the euro area, despite being varied, has begun. According to recently published data for the first quarter of 2010, euro area annual GDP growth stood at 0,5% compared with -5% in the first quarter of 2009 (Chart A.1). Economic recovery was brought about by, among other factors, the extensive fiscal support, the increase in company inventories and the relative restoration of consumer and investor confidence. Nevertheless, the possibility of contagion from the Greek debt crisis is both real and visible. As noted by international analysts, euro area recovery will be gradual and slow, with the rate of GDP growth for 2010 being at around 1%. The main characteristics for economic prospects are likely to be the continuing adjustment of company balance sheets and the limited use of productive resources, which negatively affect investment, while the



GDP projections are estimated as the average of the most recent projections from The Economist poll (13 May 2010), The European Commission (Economic Forecasts, Spring 2010) and the IMF (World Economic Outlook, April 2010).

subdued prospects for the labour market are expected to lead to weak consumption expenditure. Unemployment in the euro area remained stable at 10% in March compared with February, but increased relative to March 2009 when it reached 9.1%.

In the UK, the annual growth rate of GDP stood at -0,2% in the first guarter of 2010 compared with -5,3% in the same quarter last year. This improvement was mainly due to the increase in manufacturing activity. In addition, government efforts to contain the fiscal deficit are expected to reduce public expenditure, thus possibly leading to further reductions in consumer expenditure. This may cause a postponment of investment and a slowdown in the recovery. On the other hand, implementing a serious and credible policy of fiscal consolidation may have a positive impact on the country's investment outlook in the long run. For the current year, an increase of 1,3% in GDP is expected. Unemployment was 8% in March, unaltered from the previous month, but higher than the 7,1% recorded in March 2009.

In the US, the economy expanded by 2,5% in the first quarter of 2010 compared with the 3,3% contraction registered in 2009. At the same time, analysts' forecasts for economic growth in the current year are optimistic, since GDP is projected to grow at an annual rate of around 3%. The acceleration in growth is a reflection of the measures for fiscal and monetary support, the inventory cycle as well as the improvement in credit growth.

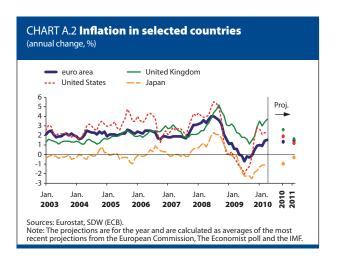
Unemployment stood at 9,9% in April compared with 9,7% in March and 8,9% in April 2009.

In Japan, despite deceleration in economic activity, the decrease has been smaller, with real GDP declining by 1,4% in the fourth quarter of 2009, compared with a decrease of 4,3% in the fourth quarter of 2008 and 4,9% in the third quarter of 2009. Government policy measures supported private consumption, while there was an increase in external demand as well. At the same time, business investment rose for the first time after almost two years. It is noted that until 17 May 2010, (the cut-off date for data in this *Bulletin*), no data have been published for the first quarter of 2010. International analysts forecast that GDP growth will reach 2% in 2010.

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

Global inflation continued to accelerate as from the beginning of the year, mainly due to the base effect originating from the low oil prices recorded in 2009. Inflation is expected to continue rising in most economies, with analysts' recent projections revised slightly upwards compared with previous forecasts (Chart A.2).

More specifically, HIPC inflation in the euro area increased to 1,5% in April 2010 from 1,4% in March 2010, while in April 2009 it increased by 0,6%. Apart from the large increases in oil prices, another factor which significantly affected inflation was the depreciation of the euro against the dollar.



Inflation projections are estimated as the average of the most recent projections from The Economist poll (6 May 2010), the European Commission (Economic Forecasts, Spring 2010) and the IMF (World Economic Outlook, April 2010).

In the subsequent quarters, analysts anticipate that inflation will increase further, but remain below the ECB target of below but close to 2%. The latest inflation projections by international organisations stand at around 1,3% in 2010 and 1,5% in 2011.

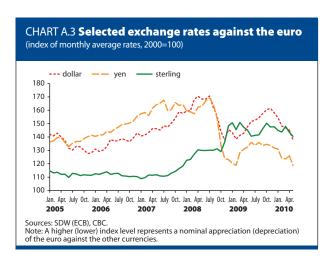
In the UK, inflation accelerated in April, reaching 3,7% compared with 3,4% in March, mainly as a result of increases in oil prices, clothing and footwear, food and alcoholic drinks. Analysts forecast that inflation will be around 2,6% in 2010 and 1,6% in 2011.

In the US, inflation exhibited a marginal deceleration reaching 2,2% in April compared with an increase of 2,3% in March, mainly as a result of the reduction in the prices of gasoline and liquified petroleum gas. According to the latest projections, inflation is expected to be around 1,9% in 2010 and 1,2% in 2011.

In Japan, the latest data refer to March 2010, when inflation stood at -1,1%, unaltered from the preceding month. Analysts' projections place inflation at around -1% for 2010 and -0,3% for 2011.

### **Exchange rates**

The euro continued to lose value against the main currencies for most of the period under review (**Chart A.3**). Although the depreciation of the euro was broadly based, it was particularly strong against the dollar. The euro's losses partly reversed the appreciation noted in 2009. The weakening of the euro was the result of risk aversion and, hence, a rise in



the demand for safer currencies such as the dollar. It was also affected by concerns that the Greek crisis would spread to other euro area countries such as Spain and Portugal. The euro remained generally stable against sterling until the beginning of March, thereafter recording a large depreciation as a result of the tensions caused by the fiscal problems of the euro area. The yen also followed a similar path against the euro, with a relatively large appreciation at the beginning of 2010 and a further appreciation after mid-April.

As a result of the aforementioned developments, from the beginning of the year until 17 May (the cut-off date for data in the current *Bulletin*), the euro fell by 13,5% against the dollar, 3,4% against sterling and 13,9% against the yen (Appendix **Table C.1**, p. 114).

### Oil and gold

From the beginning of the year until 17 May, Brent crude prices fluctuated between \$70 and \$88 per barrel amid concerns over the pace of the world economic recovery (**Chart A.4**). Brent crude prices reached \$74,1 (€60,2) per barrel on 17 May, which was about the same level as at the beginning of the year. Analysts expect oil prices to increase in the medium term, as the futures trading price for December 2011 is currently around \$82. The stabilisation of oil prices has occurred in conditions of improved fundamentals. The demand for oil rebounded from the low levels which were observed in the second quarter of 2009, mainly due to the demand from emerging economies. The

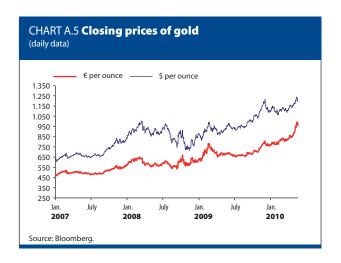


increase in demand also led to a reduction in the reserves accumulated in 2008. With respect to supply, the production of oil in non-OPEC countries remained generally unaltered, while the current production of OPEC is well above its target.

As regards the price of gold (Chart A.5), the increase observed in the fourth quarter of 2009 ended temporarily until February 2010. Thereafter, the price of gold began increasing again as investors remained focused on the precious metal, which is considered a safe haven in times of crisis. Amid continuing uncertainty and inflationary pressures, the price of gold reached \$1.240 per ounce in May 2010. From the beginning of the year until 17 May, the price of gold registered an increase of 7,8%.

# Selected international stock market indices

Since the end of March 2009 and until mid-April 2010, equity values registered increases internationally. In the period thereafter, stock markets experienced increased fluctuations. The main stock exchange indices increased during the first quarter of 2010 but decreased significantly around the end of April. This development was brought about by increased uncertainty in the markets regarding the robustness of the world economic recovery, particularly following the Greek debt crisis, thus causing profits in the first quarter to dissipate. Amid increased uncertainty, the intense volatility continued



during the period under review. A significant increase was registered on 9 May 2010, following the economic stabilisation package announced by the EU ministers of finance as well as the resumption of the Federal Reserve currency swap agreements with other major central banks. These announcements gave a temporary boost to stock markets worldwide. However, volatility continued reflecting uncertainty about the likely success of these measures. As a result, from the beginning of the year the DJ Eurostoxx fell by 11,1%, the S&P 500 increased by 2% and the Nikkei decreased by 2,9% (Chart A.6).

### International official interest rates

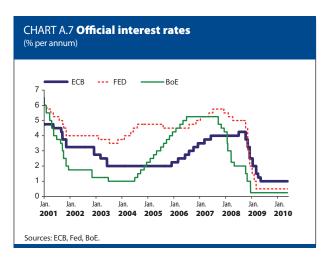
The major central banks continued their expansionary monetary policy and maintained their official interest rates at very low levels. In particular, at the time of preparing the current *Bulletin* the Federal Reserve and the Bank of England maintained their official interest rates at 0%-0,25% and 0,5%, respectively. Moreover, the official interest rate of the ECB remained at 1% as from 13 May 2009 (**Chart A.7**).

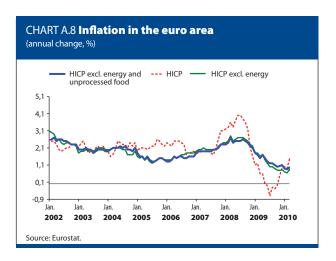
### 1.2 Monetary developments in the euro area

### **Inflation**

According to the latest available data, HICP inflation in the euro area reached 1,5% in April 2010 compared with 1,4% in March 2010 and 0,6% in April 2009 (**Chart A.8**). The increase in







HICP stemmed mainly from the rise in energy prices due to the base effect in 2009 as well as the increase in transport prices.

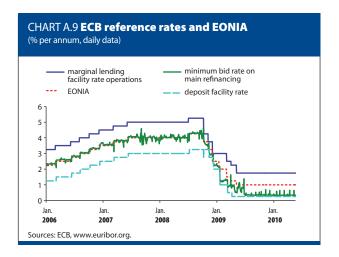
Regarding HICP inflation excluding energy, there was a marginal deceleration to 0,7% in April 2010 compared with 0,8% in March 2010, thus reflecting the general subdued economic conditions in the euro area. In addition, annual HICP inflation excluding energy and unprocessed food decelerated by 0,8% in April 2010 compared with 1% in March 2010.

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

The ECB maintained its three key interest rates unchanged as from 13 May 2009. In particular, the main refinancing rate stood at 1%, the marginal lending facility rate at 1,75% and the deposit facility rate at 0,25% (Chart A.9).

At the same time, the implementation of monetary policy through non-conventional tools continued. In particular, during the period under review the ECB continued purchasing covered bonds. The intention of this scheme, which began on 6 July 2009, was to purchase covered bonds worth €60 billion until the end of June 2010. The total cumulative value of bonds purchased reached €50,9 billion on 5 May.

Moreover, apart from the operations of 12months maturity on 24 June and 30 September 2009, the Eurosystem conducted its last operation with 12-months maturity on 16 December 2009, providing €96,9 billion in



liquidity. This amount was larger than the €75,2 billion in the second operation on 30 September, but much lower than the €442,2 billion channelled through the first operation on 24 June. Cypriot banks also participated in the last operation with 12 months duration, raising almost €3 billion of total liquidity from the Eurosystem. During the period under review, the Eurosystem continued to provide liquidity operations of one week, three months and six months duration as well as minimum reserves of one period.

On 31 January 2010, the Eurosystem, in agreement with the Swiss National Bank, decided not to carry out swaps with one-week maturity for the provision of liquidity in Swiss francs while, in coordination with other central banks, the ECB decided to cease swap transactions in US dollars. As a result of pressures in short-term US dollar financing markets in Europe, on 10 May the Federal Reserve reintroduced the swap currency agreements with other major central banks.

Amid concerns about the impact of the Greek crisis on other euro area countries, the ECB announced that it would indefinitely suspend the minimum rating requirements for collateral selection for Greek public debt. The announcement was released one day after the euro area and the IMF reached an agreement on the €110 billion rescue package for Greece. Furthermore, the ECB announced the creation of a special programme for the purchase of government bonds of euro area member states, in order to

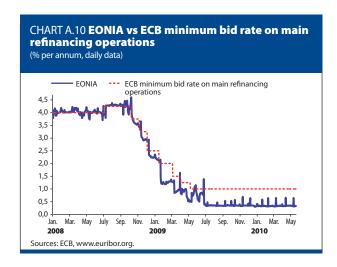
support countries in a fragile financial position. The ECB announced a policy of neutralising the effects of these interventions (sterilisation), that is to absorb an equal amount of money from the economy to remove potential inflationary pressures.

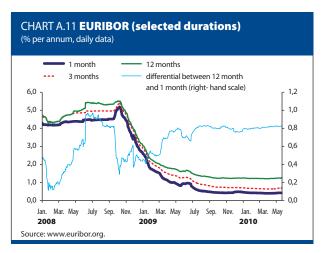
As a result of excess liquidity in the euro area, the EONIA index remained stable during the period under review, close to the deposit facility rate, and reached around 0,33% (Chart A.10).

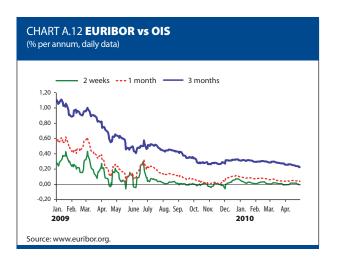
# Interbank market and interest rate differentials

During the period under review, money market interest rates for uncollateralised transactions continued to fall for all durations, despite their already very low levels. These developments reflect the further easing of tensions in money markets as part of the ECB's measures to boost credit. On 17 May 2010, the 1, 3 and 12 month EURIBOR rates were 0,42%, 0,69% and 1,25%, respectively, which represents a decrease of 3, 1,5 and 0,2 basis points, respectively, compared with the rates at the end of December 2009. In total, the difference between the 12 and 1 month EURIBOR – which is an indicator of the slope of the money market yield curve increased by 2,8 basis points during the same period, reaching 82 basis points on 17 May (Chart A.11).

Chart A.12 depicts the spreads between EURIBOR and OIS<sup>3</sup> products, which remained at very low levels. This reflects the smoother conditions in the money market and, at the







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.

same time, confirms market expectations that interest rates will remain at the same levels for most of 2010. Indicatively, the spread between the 3-month EURIBOR and the OIS was around 31 basis points at the end of 2009, while up until 17 May 2010 (the cut-off date for data in this *Bulletin*) it reached 29 basis points.

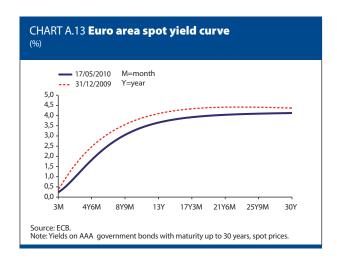
### Euro area yield curve

Chart A.13 shows the yield curve for AAA rated euro area government bonds with a 30 year maturity (spot prices). Compared with the end of 2009, the mid-May curve shifted downwards, particularly for the short and medium-term durations. This was likely due to the downward revision of investor expectations about the future path of euro area short-term interest rates, in the context of market expectations of subdued growth in economic activity and the related downward inflationary pressures.

### M3 and credit expansion

The annual growth of M3 in the euro area continued to be around zero during the early part of 2010, reaching -0,1% in March compared with -0,3% in February and -0,3% in December 2009. The negative growth of M3 is reflected in the large steepness in the yield curve, which encouraged a shift from M3 to longer-term assets.

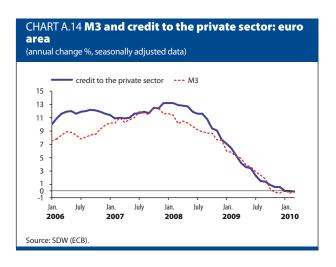
The low annual rate of growth of M3 was also reflected in the negative growth of loans



to the private sector (Chart A.14), which reached -0,2% in March and -0,4% in February 2010. These decreases were mainly due to the contraction of loans to non-financial corporations (NFCs), confirming the fact that the monetary financial institutions (MFIs) of the euro area continued to reduce their leverage. The annual growth of loans to households remained positive and accelerated further. In particular, loans to NFCs decreased year-onyear by 2,4% in March, the same change as in the previous month, while loans to households increased year-on-year by 2,2% in March compared with 1,8% in February. More analytically, housing loans increased by 2,6% in March compared with 2,1% in the previous month, while consumer loans decreased by a further 1,1% compared with the previous decrease of 0,8%. The lag observed in loans to enterprises compared to loans to households, remains compatible with the historical phases of the cycle.

## 2. Domestic Prices, Monetary Aggregates and Labour Costs

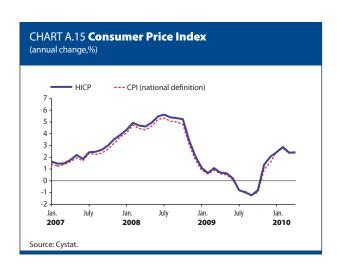
During the first four months of 2010, harmonised inflation in Cyprus recorded positive growth and was the second highest in the euro area after Greece, reaching 2,5%. This raises concerns about the competitiveness of the Cyprus economy. At the same time, the rate of credit expansion accelerated at the beginning of 2010, and was mainly brought about by the increase in housing and corporate loans.

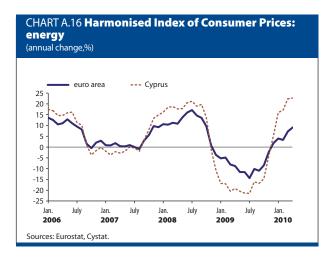


### **Prices**

The Consumer Price Index (CPI) reached 2,4% in April 2010, which was the same rate recorded in March 2010, but noticeably higher than the 0,7% registered in April 2009. In the first four months of 2010, the CPI noted a significant annual growth of 2,5% compared with 0,9% in the same period last year. At the same time, the HICP increased by 2,5% in April 2010 compared with 2,3% in March and 0,6% in April 2009. During the period January - April 2010, the HICP increased by 2,5% compared with 0,7% in the corresponding period of 2009 (Chart A.15). The acceleration in inflation in the first four months of 2010 was mainly driven by a base effect, as a result of low oil prices recorded during the same period in the previous year, the depreciation of the euro against the dollar and the 1,5% increase in electricity prices. At the same time, average annual inflation in the subcategory of food dropped in the first four months of 2010, while a slowdown was also noted in the prices of services and industrial products excluding energy. Inflation excluding energy recorded a significant deceleration during the period under review, reaching 0,5% compared with 3,4% in the corresponding period last year.

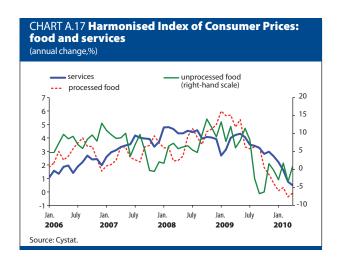
Analytically, in the energy subcategory there were significant increases in the prices of electricity and fuel (**Chart A.16**), as a result of the international rise in oil prices in euro in the first four months of 2010 compared with the same period last year. The 1,5%





additional increase in electricity prices (for three consecutive years as from January 2010) imposed by the Cyprus Electricity Authority as a result of a review of its basic prices, also contributed to this larger increase in energy prices. As a consequence, in the first four months of 2010 energy prices increased by 19,5% compared with a fall of 18,4% in the corresponding period of 2009. According to the latest available data, in April 2010 the increase in energy prices reached 22,7% compared with a decrease of 19,2% in April 2009.

With regard to food prices (Chart A.17), a small decrease of 0,4% was recorded in the first four months of 2010 compared with an increase of 7,2% in the same period of the previous year. This reduction was mainly due to the fall in the prices of fruit and vegetables, which caused a decrease of 0,9% in the prices of non-processed food in the first four months of 2010, compared with increase of 9.7% in the corresponding period of 2009. The prices of non-processed food experienced slowdown of 1,1% in April 2010 compared with an increase of 6% in April 2009. At the same time, the prices of processed food remained stable during the first quarter of 2010 compared with an increase of 5,5% in the same period of the previous year, mainly reflecting the small changes in milk and bread prices. According to the latest available data, a small reduction of 0,1% was recorded in the aforementioned category in April 2010 compared with an increase of

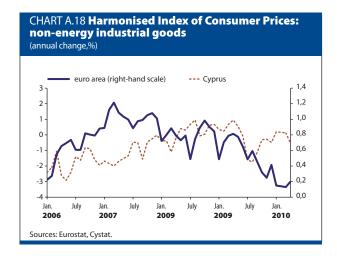


4,8% in April 2009.

Chart A.17 (p. 31) also shows the annual rate of growth in the prices of services, which followed a downward path as from June 2009. In particular, during the first four months of 2010, the prices of services registered a slowdown to 1,3% compared with a deceleration of 3,5% in the same period last year, mainly reflecting subdued demand. In April 2010, the rate of increase in the prices of services registered a further deceleration of 0,5% compared with an increase of 4,2% in April 2009.

The growth in the prices of industrial goods excluding energy was zero in the first four months of 2010 compared with 0,6% growth in the same period of 2009 (Chart A.18). This was mainly due to the significant fall in the prices of motor vehicles and despite the considerable increase in the price of water. According to the latest available data for April 2010, prices in the aforementioned category decreased by 0,5% compared with an increase of 1% in April 2009.

It is also worth mentioning that the differential between Cyprus and euro area HICP inflation, although reversed during the period July – October 2009, returned to positive levels as from November 2009. In particular, during the first four months of 2010 domestic inflation reached 2,5% compared with 1,2% in the euro area. With respect to domestic inflation excluding energy, this is at lower levels compared with the euro area, reaching 0,5% in the first four months of 2010 compared with 0,7% in the euro area.



### Monetary aggregates<sup>4,5</sup>

At the outset, it should be noted that annual growth rates are calculated using the ECB methodology. Specifically, the growth rate of monetary aggregates is calculated from monthly differences in outstanding amounts adjusted for reclassifications and other revaluations, so that it reflects the changes from net transactions<sup>6,7</sup>.

Credit expansion increased at lower rates during the first ten months of 2009, reflecting the general slowdown in the Cyprus economy. From November 2009 until the end of March 2010, credit expansion began to show signs of acceleration, in contrast to the economic conditions which continued to be subdued and/or negative. Part of the increase in the rate of credit expansion is explained by the banks' use of special government bonds as collateral in Eurosystem open market operations. Therefore, the consequent increase in the liquidity of the MFIs also led to an increase in credit expansion.

With respect to the cost of loans, interest rates in Cyprus in recent months have decreased further. However, they have

- 4. All the monetary aggregates are for data excluding the CBC.
- 5. On 1 July 2008, the Definition of the Term "Resident of Cyprus" for Statistical Purposes Directive came into force. As a result, all MFIs proceeded with the reclassification of a large number of their corporate clients with no physical presence in Cyprus (known as "brass plates") from "non-resident" to "resident". The effect of the reclassification has been excluded from the monetary and financial statistics of Section A of this publication in order to ensure comparability of data and thus help draw clear conclusions. Specifically, references to domestic data or domestic residents exclude organisations or enterprises without a physical presence in Cyprus. For purposes of uniformity, monetary time series data have been amended by the Economic Research Department.
- 6. As from the December 2009 Economic Bulletin, the rate of growth of monetary variables is estimated using the new ECB methodology. In the publications prior to December 2009, the rate of change of monetary variables was calculated as the annual percentage change of the closing balances at the end of the period. For details regarding the new methodology, please refer to the CBC's Monetary and Financial Statistics publication which is available on the CBC website (www.centralbank.gov.cy).
- 7. Monetary data do not include exchange rate adjustments.

remained at higher levels than the corresponding rates in the euro area. The access of cheap liquidity from the Eurosystem is not reflected in lower lending rates offered by MFIs. At the same time, intense competition among commercial banks to attract deposits is preventing further reductions in lending rates.

Analysing the monetary aggregates further, at the end of the first guarter of 2010, annual growth of credit to the private sector reached 9,8% compared with 8,4% at the end of the fourth quarter of 2009 and 15% in the first quarter of 2009. The annual rate of growth of loans to domestic NFCs (Chart A.19) reached 11,1% at the end of March 2010 from 9.2% at the end of December 2009 and 17,4% at the end of March 2009. On the other hand, the growth of loans to households was more modest. Specifically, at the end of March 2010 their annual growth reached 9,6% compared with 8,8% at the end of December 2009 and 14,8% at the end of March last year. Part of the increase in credit expansion in March was due to interest rate charges.

It should be mentioned that the largest acceleration in loans to households observed during the first quarter of the year was mainly accounted for by housing loans. **Table A.1** shows that of the total loans channelled by Cyprus MFIs to domestic households at the end of the first quarter of 2010, 16,1% were for consumer credit, 51% for housing loans and 32,9% for other lending. According

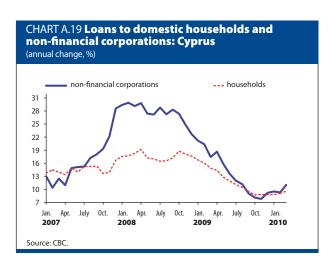


TABLE A.1 Loans to domestic households(1),(2)								
	Outstanding balance as % of total (3)	Annual percentage change						
		balance as	2008	08 2009 2009	2009	09 2009	2009	2010
		Dec.	Mar.	June	Sep.	Dec.	Mar.	
Domestic households	100,0	17,6	14,8	12,0	9,5	8,8	9,6	
1. Consumer credit	16,1	13,9	13,3	12,0	9,9	7,5	5,0	
2. Lending for house pure	thase 51,0	22,2	18,2	14,0	11,1	11,5	13,7	
3. Other lending	32,9	14,4	11,6	9,3	7,0	5,7	6,3	

Source: CBC.

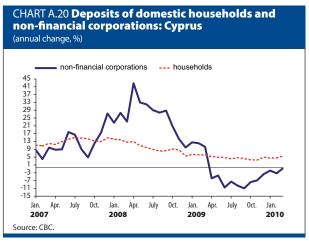
- (1) Sectoral classification is based on ESA 95.
- (2) Including non-profit institutions serving households.
- (3) As at the end of the last month available. Figures may not add up due to rounding.

to the Bank Lending Survey published in April 2010, the participating banks applied looser criteria during the first quarter of 2010 with respect to housing loans and stricter criteria for loans to enterprises. According to the participant banks, no changes are expected in their lending criteria during the second quarter of 2010.

Table A.2 shows loans to residents by economic activity. In the first quarter of 2010 almost all main categories recorded a general slowdown in their rate of growth compared with the same period last year. Despite this, it must be noted that during the first quarter of 2010, all categories recorded an acceleration compared with the fourth quarter of 2009, apart from loans to hotels and restaurants. In particular, loans to the construction and real estate sectors increased by 5,2% in March 2010 compared with 3,4% in December 2009 and 27.6% in March 2009. On the other hand, loans to the hotels and restaurants sector increased by 3,1 % in March 2010 compared with 4,2% in December 2009 and 1,8% in March 2009.

The year-on-year growth of domestic household deposits (**Chart A.20** and **Table A.3**) reached 5,6% in March 2010 compared with 5% in December 2009, and 6,1% at the end of the first quarter of 2009. It is worth noting that the slowdown in the growth rate of household deposits has continued since the end of 2007, with minor exceptions such as in March 2010. Deposits with agreed maturity accounted for about 75% of total deposits at the end of March 2010, while

TABLE A.2 Loans to domestic residents by economic activity of borrower: main categories Outstanding Annual percentage change balance as 2009 2009 2009 2009 2010 % of total (1) Mar June Sep. Dec. Mar. Manufacturing 3,7 19,4 13,9 4,1 8,2 Construction, real estate, renting and business activities 24.5 27.6 15.3 5.2 Wholesale and retail trade 9,0 17,5 10,0 4,3 3,3 1,1 Hotels and restaurants 4,4 1,8 4,2 3,1 3,9 Source: CBC. (1) As at the end of the last month available



	Outstanding		Annu	al perce	ntage c	hange	
	balance as	2008	2009	2009	2009	2009	201
	% of total (3)	Dec.	Mar.	June	Sep.	Dec.	Ma
omestic households	100,0	5,6	6,1	4,8	4,2	5,0	5
Overnight	15,1	-13,6	-15,7	-9,0	-4,9	2,9	8
With agreed maturity	74,7	22,0	22,2	14,8	10,0	7,4	5
up to 2 years	71,0	24,5	24,6	16,3	11,4	8,6	6
over 2 years	3,7	-3,6	-5,5	-5,0	-9,8	-9,8	-7
Redeemable at notice	10,2	-31,2	-32,5	-24,9	-16,0	-6,7	-1
up to 3 months	7,2	-34,7	-37,0	-29,5	-20,5	-10,5	-3
over 3 months	2,9	-18,2	-16,0	-9,0	-1,7	4,5	6

deposits with agreed maturity up to two years made up about 71% of total household deposits. This is partly due to the higher interest rates offered by MFIs in an effort to raise and commit funds from their main source, i.e. customer deposits. In addition, the cautious behaviour of depositors - due to the uncertainty regarding the prospects for the economy - is reflected in lower consumption and increased savings in deposits offering a higher return. It is also noted that, as from January 2010 positive growth rates were recorded for overnight deposits, which accelerated by 8,6% in March 2010 compared with a fall of 15,7% in March 2009. This increase, despite its small share in relation to total deposits, may be due to a base effect and/or the fact that depositors are looking for alternative forms of investment and are placing their money in current accounts for facilitating their transactions. Deposits redeemable at notice registered a further decrease of 1% during the month under review compared with a fall of 32,5% in March 2009.

With regard to the deposits of domestic NFCs, these continued exhibiting negative annual growth rates (**Chart A.20**, p.35). However, it should be noted that, as from March, smaller reductions were recorded in the rate of change of the aforementioned deposits compared with the fourth quarter of 2009. In particular, these deposits decreased by 0,6% at the end of March 2010 compared with a fall of 3,7% at the end of December 2009, and an increase of 10,3% in March 2009. It is possible

that the reduction in the deposits of domestic NFCs is partly due to the decrease in deposit interest rates and, therefore, an increased demand for alternative forms of investment. It should be mentioned that NFC deposits represent around 18% of total private sector deposits in the domestic banking system and exhibited negative growth rates as from April 2009. The deposits of foreign NFCs, including deposits by "brass plates" (both in euro and foreign currency), recorded an annual increase of 14% in March 2010 compared with 11,4% in March 2009. The growth of household deposits by non-residents of Cyprus increased by 27,9% at the end of March 2010 compared with 11,3% in March last year. Part of this increase during the most recent months is due to exchange rate fluctuations and an inflow of deposits from Greece. It is noted that total deposits by nonresidents of Cyprus, including "brass plates", recorded an annual increase of 14,5% during the month under review.

### **Interest rates**

Interest rates in Cyprus were further reduced during recent months. They remained, however, higher than the respective interest rates in the euro area, despite public pronouncements by government and other officials, including the Governor of the CBC, supporting lower rates. The use of special government bonds as collateral by the MFIs for raising liquidity has clearly not had an impact on the pricing of loans. This may be partly explained by the fact that these special

government bonds have a maturity of three years and the MFIs have no obligation to reduce their interest rates from the beginning of this three year period. At the same time, intense competition among banks trying to attract depositors is also preventing further reductions in lending rates.

More analytically, at the end of March 2010 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 (Table A.4), was 6,99% for consumer loans, 4,43% for housing loans and 5,79% for other loans. It is noted that interest rates in all three categories continued the downward trend which began in March 2009. A similar path has been followed by interest rates on new euro-denominated loans to NFCs from Cyprus MFIs (**Table A.5**). Moreover, some banking institutions generated an increase in the demand for house purchase by offering low fixed interest rate mortgages for the first few years, which are not included in the aforementioned interest rates.

As regards the corresponding rates for loans from MFIs in the euro area, these continued to follow a downward path during the first quarter of 2010 (Chart A.21, p. 39). This reflects the normalisation in international financial markets, the lower cost of money as a result of the continuous liquidity injections and the low interest rate policy maintained by the ECB. In particular, the average interest rate on new consumer loans to households reached 6,34% in March 2010 compared with 6,42% in December

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

			Floating rate and up to 1 year initial rate fixation		
		Bank	Consumer	house	<b>Other</b>
		overdrafts <sup>(2)</sup>	Credit	purchase	lending
2009	Jan.	7,63	7,94	6,69	6,98
	Feb.	7,68	7,94	6,89	7,47
	Mar.	7,60	7,90	6,79	7,20
	Apr.	7,55	7,72	6,63	7,27
	May	7,54	7,55	6,43	7,02
	June	7,48	7,65	6,10	7,03
	July	7,44	7,49	6,04	6,56
	Aug.	7,47	7,23	5,88	6,65
	Sep.	7,31	7,15	5,48	6,50
	Oct.	7,30	7,19	5,51	6,49
	Nov.	7,23	7,16	5,19	5,62
	Dec.	7,18	7,00	5,01	6,27
2010	Jan.	7,13	6,87	4,73	5,59
	Feb.	7,12	6,87	4,52	5,94
	Mar.	7,25	6,99	4,43	5,79

Source: CBC.

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

(% per annum, period average)

			Floating rate and up to 1 year initial rate fixation			
		Bank overdrafts <sup>(1)</sup>	Other loans up to €1 million	Other loans over € 1 million		
2009	Jan.	7,18	7,20	5,37		
	Feb.	7,35	7,66	6,97		
	Mar.	7,29	7,56	7,21		
	Apr.	7,22	7,25	7,04		
	May	7,23	7,14	6,35		
	June	7,21	7,13	4,68		
	July	7,16	6,95	3,97		
	Aug.	7,08	6,36	3,99		
	Sep.	7,08	6,76	4,19		
	Oct.	7,03	6,26	4,69		
	Nov.	6,95	6,04	5,72		
	Dec.	6,69	6,00	5,47		
2010	Jan.	6,69	5,39	4,62		
	Feb.	6,67	5,93	4,39		
	Mar.	6,61	5,95	4,61		

Source: CBC.

 $(1) For this instrument category, new business {\it refers} to {\it end-of-period}.$ 

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

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

2009 and 7,47% in March 2009.

With respect to the average interest rate on new housing loans to households in the euro area, this reached 2,63% in March 2010 compared with 2,71% in December 2009 and 3,65% in March 2009. Consequently, the difference between the Cyprus and the euro area interest rates is larger for housing loans rather than for consumer loans.

Regarding the deposit rates offered by MFIs in Cyprus to households and NFCs (**Table A.6**), the downward trend has continued since the beginning of the year. Indicatively, the average rate on new deposits to households with an agreed maturity of up to one year reached 3,95% in March 2010 compared with 4,13% in December 2009 and 4,68% in March 2009. The respective rate for NFCs reached 2,95% in March 2010 compared with 2,86% in December 2009 and 3,09% in March 2009.

In the euro area, deposit rates were much lower than the respective rates in Cyprus (Chart A.22, p.40). In particular the average interest rate on euro-denominated deposits by households with an agreed maturity of up to one year reached 1,89% in March 2010 compared with 1,67% in December 2009 and 2,24% in March 2009. The respective rate for deposits by NFCs reached 0,79% in March 2010 compared with 0,77% in December 2009 and 1,36% in March 2009.

Banks in Cyprus have maintained their margins with NFCs but the respective margins with households remain at lower levels, mostly due to higher deposit rates.

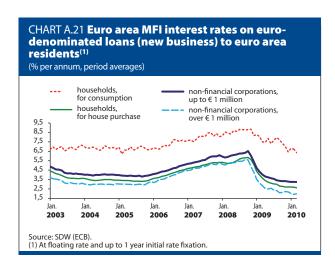
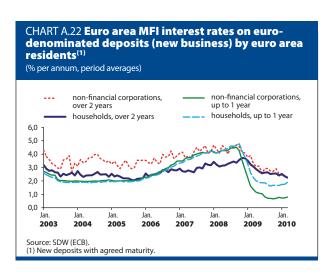


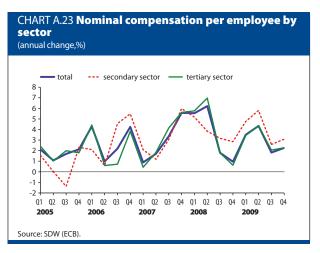
TABLE A.6 Cyprus MFI interest rates on euro-denominated deposits (new business) by euro area residents (% per annum, period average) Non-financial Households (1) corporations With agreed maturity 0ver 1 vear With agreed and up to maturity Up to 1 Overnight (2) Overnight (2) up to 1 year 2 years 6,15 2009 Jan. 1,60 5,87 0.90 5,07 0.88 Feb. 1,56 5.36 4.74 3.86 Mar 1,44 4.68 3,88 0.80 3.09 1.36 4.25 3.69 0.73 Apr. 2.61 1,29 4,08 3,56 0,74 2,48 May 1,29 3,88 0,74 2,71 June 4,06 July 1,25 4.06 3,80 0.69 2.78 Aug. 1,26 4.05 3.96 0,66 2.91 Sep. 1.27 4,11 4.26 0.62 2.51 1,24 4,15 3,97 0,60 2,86 1.24 3.90 2.93 Nov. 4.11 0.62 Dec. 1,21 4,13 4.56 0.53 2.86 2010 Jan. 1,19 4,15 3,97 0,52 3,11 Feb. 1.19 4.00 4.06 0.56 3.09 Mar. 1,16 3,95 3,88 0,49 2,95 (1) Including non-profit institutions serving households. (2) For this instrument category, new business refers to end-of-period.

## **Labour costs**

The negative growth rate of the Cyprus economy in 2009, as a result of the international economic crisis, led to a slowdown in the increase in labour costs. In particular, according to the latest figures from Cystat, the annual growth rate of nominal compensation per employee slowed to 2,9% in 2009 compared with 3,6% in 2008 (Chart A.23). This slowdown was reflected in the compensation employee in the private sector. To some extent, this is also due to the fact that the cost of living allowance (COLA) was lower in 2009. The deceleration in the growth of labour costs in 2009 is also evident in the average monthly earnings of employees per quarter, which rose by 4% in 2009 compared with 7,4% in 2008. As regards the sectoral breakdown, the increase in compensation per employee in the secondary sector exceeded the increase in the tertiary sector by 1,1 percentage points in the aforementioned period. However, it should be noted that the level of compensation per employee in the tertiary sector is larger than that in the secondary sector.

As far as real compensation per employee is concerned, its growth rate significantly increased in 2009, despite the slowdown registered in the nominal compensation per employee, due to the large deceleration in domestic prices. Specifically, real compensation per employee increased by 2,6% in 2009 compared with a decrease of



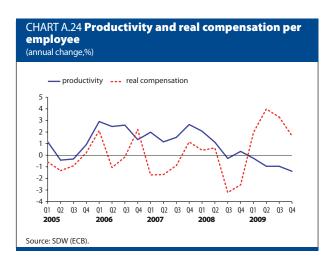


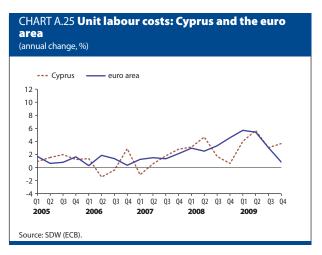
1,1% in 2008. As regards productivity, which is calculated as GDP per employee, it recorded a decrease of 0,9% in 2009 compared with an increase of 0,9% in 2008 (**Chart A.24**). The reduction in productivity in 2009 reflects the decrease in GDP and the fact that employment adjusts with some lag. The reduction in productivity, in combination with the increase in earnings, further weakens the competitiveness of the Cyprus economy.

In 2009 unit labour costs were affected by the reduction in productivity and, despite the deceleration in nominal compensation per employee, registered an increase of 3,8% in 2009 compared with 2,7% in 2008. On average, unit labour costs in Cyprus recorded an increase of 3,8% in 2009, which is similar to the increase in the euro area (Chart A.25).

## 3. Domestic Competitiveness and Balance of Payments

After a period of overheating of the domestic economy, which led to a current account deficit of 17,7% of GDP in 2008, the deficit decreased markedly in 2009. The large improvement was the result of the decrease in imports caused by reduced domestic consumption, the slowdown in construction sector and the decrease in oil prices. However, despite the sharp decline in the deficit, it still remains at high levels. Even though the deficit of the past two years does not appear to have caused any direct financing problems, it is of crucial importance since it





indicates a further loss in competitiveness.

## **Effective exchange rate**

**Chart A.26** shows the effective exchange rate (EER) of the Cyprus currency (the Cyprus pound until the end of 2007 and the euro from 2008 onwards), the real EER (REER) as calculated by the International Monetary Fund (IMF), and the real and nominal EER index, as calculated by the CBC8. The chart shows a weakening (depreciation) in the real EER as from December 2009, which is mostly due to the trend followed by the euro. In addition, from 2008 onwards the REER CBC index has been systematically higher than the nominal index, thus reflecting the fact that the price level in Cyprus was higher than in the countries taken into account for the construction of the index.

The REER and unit labour costs are two important indicators of an economy's competitiveness. 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.

## **Balance of payments**

In 2009 the current account deficit registered a significant improvement reaching 8,5% of GDP, after the historic high of 17,7% of GDP recorded in 2008 (**Chart A.27**). The large improvement in the current account deficit,

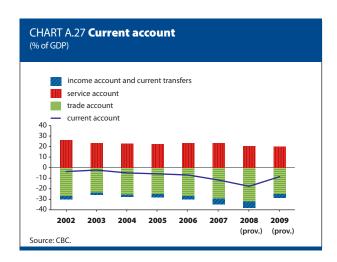


CHART A.26 Real and nominal effective exchange rates of the Cyprus currency (IMF weights)
(Base year 2005=100)

REER (IMF) REER (CBC) NEER (CBC)

NEER (CBC)

NEER (CBC)

NEER (CBC)

NEER (CBC)

Sources: CBC, IMF.

<sup>8.</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").

which is still at high levels, is mainly the result of a reduction in the trade deficit caused by a fall in domestic demand and the decrease in oil prices. The trade balance recorded a deficit of 25,1% of GDP in 2009, which constitutes an improvement of 7,1 percentage points in relation to 2008. The surplus in the services account reached 19,8% of GDP, which was marginally lower than the surplus registered in 2008 and continued to be affected by reduced external demand as a result of the world economic crisis. The income account noted a substantial improvement of 3,5 percentage points in 2009, mainly as a result of decreased payments in the category "income from direct investments". Finally, a deterioration was recorded in current transfers, which registered a deficit of 1,1% of GDP and was therefore 0,9 percentage points higher in relation to 2008.

A breakdown of the data for the first guarter of 2010 reveals a small deterioration in the trade account (Table A.7). More specifically, the trade account deficit registered an increase of 4,5% compared with the first quarter of 2009, since it was affected by the increase in imports as a result of high oil prices and the renewal of the Cyprus Airways fleet. On the other hand, imports of consumer goods, intermediate products and capital goods experienced reductions. At the same time, exports of goods registered higher growth rates than imports of goods in the first quarter of 2010, but since the volume of imports was comparatively much larger the trade balance was affected to a smaller

Imports	Exports	Trade deficit
7.366,7	1.190,4	6.176,3
5.654,4	963,2	4.691,2
-23,2	-19,1	-24,0
1.386,5	224,6	1.162,0
1.475,8	261,5	1.214,6
6,4	16,5	4,5
	7.366,7 5.654,4 -23,2 1.386,5 1.475,8	7.366,7 1.190,4 5.654,4 963,2 -23,2 -19,1 1.386,5 224,6 1.475,8 261,5

extent by the increase in exports.

The financing of the current account deficit in recent years has been mostly met through foreign direct investment. However, with the subsequent increase in the deficit, the category "other investments" has increased in importance in the financing of the deficit (Chart A.28). The proportion of funding from direct investment in 2009 increased to 27,9% from 10,2% in 2008, but still remains significantly lower in relation to the years prior to 2007. The increase experienced in 2009 is mostly due to the substantial reduction in the deficit and the large one-off investments by banks abroad during 2008, which reduced net foreign direct investment substantially that year. Direct investment accounted for 2,4% of GDP in 2009, which is lower than the average of the previous years. This development reflects a decreased demand for housing by nonresidents. If the current account deficit remains at high levels and direct investment as a proportion of GDP continues to decline, then funding problems may be created in the longer term.

### **Tourism**

Revenues from tourism in the first quarter of 2010 increased by 3,4% compared with the corresponding period of 2009 (**Table A.8**). This rise was mainly due to the fact that tourist revenues were significantly lower in 2009 (base effect) in relation to previous years, and that the Easter period was earlier

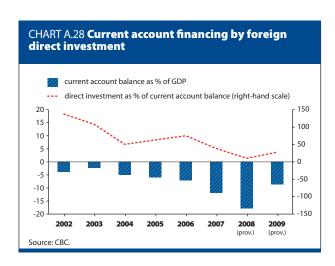


TABLE A.8 <b>Tour</b>	ism		
	Tourist arrivals (thous.)	Tourist receipts (€ million)	Expenditure per person (€)
2008	2.403,8	1.792,8	745,8
2009	2.141,2	1.493,2	697,4
annual % change	-10,9	-16,7	-6,5
2009 JanMar.	194,1	124,9	643,4
2010 JanMar.	205,0	129,2	630,2
annual % change	5,6	3,4	-2,0

than in 2009. Arrivals also increased during the aforementioned period by 5,6%, again as a result of the base effect. Nevertheless, tourist revenues in 2010 continue to be lower than in previous years. Recent data for tourist arrivals show that in April there was a decrease of 23%, mainly due to the volcanic ash from Iceland and the subsequent cancellation of a number of flights.

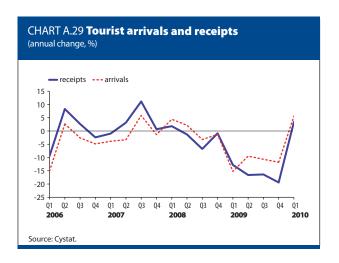
As shown in **Chart A.29**, the rate of increase in revenue from tourism during the first quarter of 2010 is lower than the rate of increase in arrivals, indicating a decrease in per capita spending during this period. The latter, therefore, is continuing its downward path after reductions of 3% and 6,5% in 2008 and 2009, respectively.

Overall, the tourism sector is still being affected by the global financial crisis, particularly in the UK which represents about 50% of tourist arrivals. In addition, tourism in Cyprus is being adversely affected by the reduced competitiveness of the island's tourist product compared to competitive destinations.

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

## **Quarterly national accounts**

Based on the analytical data published by Cystat, GDP declined by 1,7% in 2009 compared with an increase of 3,6% in 2008. The contraction was evident in the second quarter of 2009 and is expected to continue

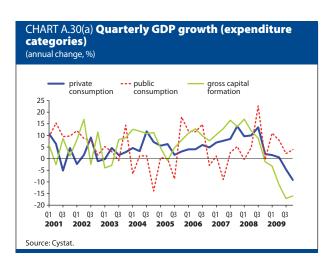


until the second quarter of 2010 (Charts A.30(a) and A.30(b)). Preliminary data by Cystat show that GDP recorded an annual growth of -2,4% in the first quarter of 2010.

The decline in real GDP in 2009 was mainly due to sluggish domestic demand and the reduction in exports. Specifically, the exports of goods and services declined by 11,8% in 2009 compared with a decline of 2,1% in 2008. At the same time, gross fixed capital formation decreased significantly by 12% in 2009 compared with an increase of 8,6% in 2008. Private consumption also fell by 3% in 2009 compared with an increase of 8,4% in the previous year. In addition, total imports dropped by 19,8% in 2009 compared with an increase of 8% in 2008. The significant decrease in imports is also related to the considerable decline in stocks. In particular, previous years' stocks were depleted in 2009 and, as a result, the imports of goods declined. Moreover, public consumption experienced a slight slowdown, increasing by 5,8% in 2009 compared with an increase of 6,2% in 2008.

In the fourth quarter of 2009, GDP recorded a large decline of 3% - mostly as a consequence of international negative developments - compared with an increase of 2,3% in the fourth quarter of 2008.

Recent indicators for domestic demand for the first quarter of 2010 show a declining trend, similar to the one recorded in 2009. According to the confidence indicators for April (**Table A.9**), the contraction of GDP is also expected to continue in 2010. More



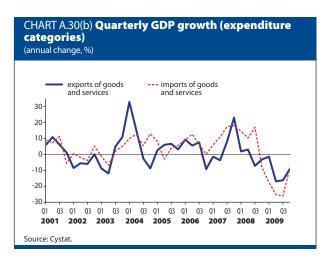


TABLE A.9 Business and indicators	consume	r surv	eys: c	onfide	ence
(for sub-indices: difference bety		iges of p	oositive	answer	s and
percentage of negative answer	5)				
	2009	2010	2010	2010	2010
	Dec.	Jan.	Feb.	Mar.	Apr.
ESI	79,7	80,0	80,8	80,0	85,6
Industry	-13	-13	-12	-9	-5
Services	-10	-8	-8	-17	-6
Consumer	-39	-39	-38	-40	-38
D. 4 . 1 4 l .	-28	-26	-24	-16	-20
Retail trade		-52	-39	-43	-42

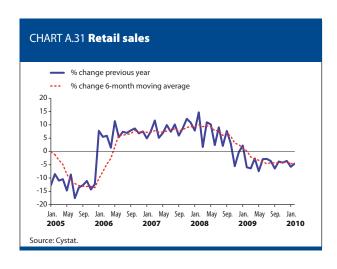
specifically, the sub-categories of consumption, services and construction showed signs of stabilisation at the already low negative levels of 2009. At the same time, the indicators for retail trade and manufacturing showed signs of a small improvement but are still in negative territory.

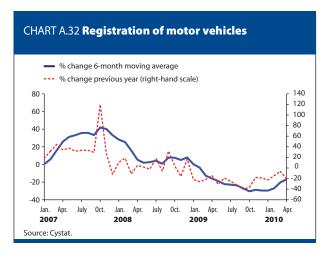
Other indicators such as retail sales and car registrations confirm the adverse impact of the global crisis on domestic economic activity.

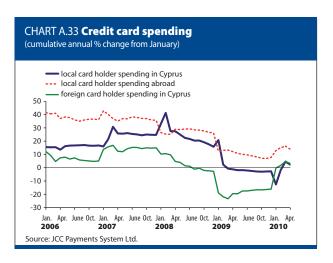
## **Private consumption**

According to analytical national accounts data for 2009, private consumption recorded negative growth in the last two quarters of the year and this is expected to continue in 2010. More specifically, in the fourth quarter of 2009 private consumption decreased by 9,3% compared with an increase of 2% in the corresponding guarter of 2008. More recent data on the retail sales index, excluding the sales of motor vehicles, show signs of further decline, contracting by 5,2% in the first two months of 2010 compared with a contraction of 1,5% in the first two months of 2009 (Chart **A.31**). Moreover, VAT receipts decreased by 7,9% in the first quarter of 2010 compared with a decrease of 3,3% in the first quarter of 2009. Motor vehicle registrations also contracted by 14,5% in the first quarter of 2010 compared with a fall of 23% in the same quarter last year (Chart A.32).

On the other hand, credit card spending by domestic card holders in Cyprus (**Chart A.33**) increased by 2,3% in the first four months of







2010, compared with a decrease of 1,2% in the first four months of 2009. More specifically, the biggest increase in credit card spending was recorded in: petrol stations (possibly due to increased fuel prices); the various payments to the government (probably because of consumer preference for credit cards instead of cash); and supermarkets. Card spending in Cyprus by non-residents also recorded a small increase of 3,2% in the first four months of 2010 compared with a decrease of 19,5% in the same period last year.

Furthermore, total imports registered a small increase in the first quarter of 2010 as a result of increased oil prices and the replacement of the Cyprus Airways fleet. Excluding the above factors, total imports registered a decrease in the first quarter of 2010.

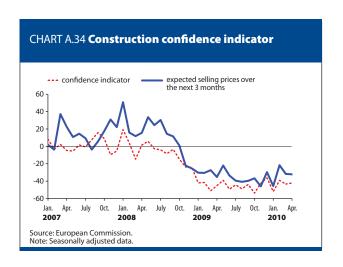
Based on the aforementioned data, private consumption is expected to remain subdued in 2010, registering a further contraction.

## **Secondary sector: construction**

The construction industry in Cyprus exhibited a significant decline in 2009, as confirmed by the relevant economic indicators. This trend also continued in the first quarter of 2010.

In particular, the confidence indicator for the construction industry (**Table A.9**, p.46) followed a generally negative trend and remained at the negative levels of 2009 (**Chart A.34**), indicating a further reduction in construction activity.

The negative picture recorded in the



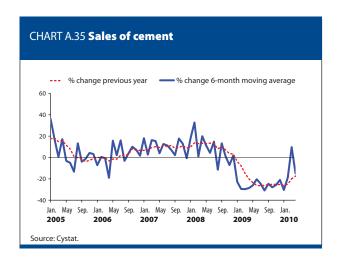
construction sector is also reflected in the continued rise in unemployment. The average number of unemployed people in the first quarter of 2010 was 3.648 compared with 2.060 in the first quarter of 2009, thus recording an increase of 77,1%.

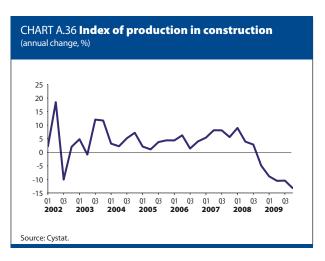
As far as the sales of cement are concerned (Chart A.35), during the period January - March 2010 the volume of sales registered an annual decrease of 13%, compared with a decrease of 27,5% during the period January - March 2009. Moreover, a further decline in domestic cement sales is expected in the following months.

In addition, the total construction production index recorded an annual decrease of 13,3% in the fourth quarter of 2009 compared with the fourth quarter of 2008 (Chart A.36). Looking at the production index, it is evident that construction activity is in negative territory with the rate of decrease in activity displaying signs of stabilisation.

In contrast to the contraction in the construction production index, indicators such as the number of sale contracts and loans for house purchase noted a more positive picture, which may be due to increases in resales and a reduction in the stock of finished homes.

More specifically, data from the Department of Lands and Surveys show that the total number of sales contracts by residents and non-residents registered an annual growth of 24,7% in the first four months of 2010 compared with a decrease of





62,5% in the same period last year (Chart **A.37**). In addition, the number of real estate transfers increased in the period January-April 2010, reaching 165 compared with 118 in the same period of 2009. A small recovery has also occurred in the number of sales contracts and real estate transfers to foreigners. However, as a result of the very low levels of sales contracts in 2009, the increase observed in 2010 is mainly due to base effects. Regarding the increase in real estate transfers, this is possibly the result of the acceleration in the process of issuing titles for the purposes of tax collection by the government. At the same time, it could also indicate an increase in property resales.

In connection with the above, the receipts of the Inland Revenue Department from immovable property tax and stamp duties during the first four months of 2010 increased by 49,3% and 42,2%, respectively, compared with a decrease of 2% and 42%, respectively, in the first four months of 2009. Furthermore, capital gains tax increased by 40% in the above period compared with a decrease of 81,7% in the first four months of 2009.

Regarding housing loans to residents of Cyprus, there was an annual increase of 13,7% in March 2010 compared with 11,5% in December 2009 and 18,2% at the end of the first quarter of 2009. Housing loans to non-residents of Cyprus increased by 10,7% on an annual basis in March 2010 compared with 8,5% in December 2009 and 38,8% in March 2009.

As far as construction costs are concerned, these experienced a small increase in the first



four months of 2010. In particular, the price index of construction materials recorded a marginal increase of 1,9% on an annual basis in the aforementioned period, mainly due to the increase in oil prices which rose by 71,8% on an annual basis in the first four months of 2010.

The number of building permits, which constitutes a leading indicator of construction activity, increased by 1,3% on an annual basis during the first two months of 2010 compared with an annual increase of 0,9% in the corresponding period of 2009. It is worth mentioning that this increase is not due to residential or non-residential permits, since these showed no increase and a decrease of 5,9%, respectively. The rise stems mainly from increased permits for civil engineering projects, separation of land and construction of roads. For the second half of 2009, there was an annual decrease of 3,5% compared with the corresponding period of 2008. At the same time, total value and area of building permits authorised in the first two months of 2010 increased by 1% and 2,1% on an annual basis (Chart A.38). Focusing on the number of building permits in each district, during the first eight months of 2009 the biggest increase was registered in the Limassol district followed by the districts of Larnaca (an increase in the rural areas and a decrease in the urban areas) and Nicosia (an increase in the urban areas and a fall in the rural areas). In contrast, during the same period, the biggest fall in the number of building permits was noted in the districts of Paphos and Famagusta.

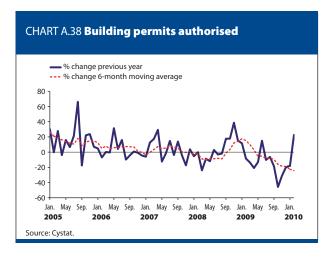


Chart A.34 (p. 48) also depicts the expectations for real estate prices during the next three months, as revealed in a European Commission questionnaire. These expectations continue to be negative, with some stabilisation being evident as from February 2010.

Based on the methodology explained in the June 2009 *Bulletin*, the residential property price index constructed by the CBC shows an average decrease of 8% for 2009, with large variations by district. Based on real estate valuations collected by the CBC and other data relating to the property sector in general until April 2010, the CBC estimates that the index will record an average annual decrease of 4% in 2010. This decline is mainly accounted for by the district of Famagusta as a result of reduced foreign demand.

In conclusion, construction indicators reflect the decline recorded in the construction sector. Given that cement sales have recorded negative growth rates, confidence in the construction sector is at strongly negative levels and the construction production index is also at low levels, a further reduction in the stock of houses is very likely.

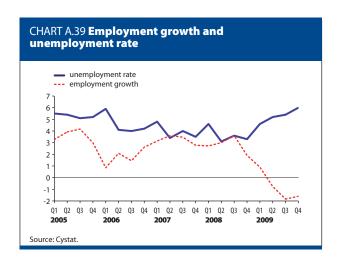
### **Labour market**

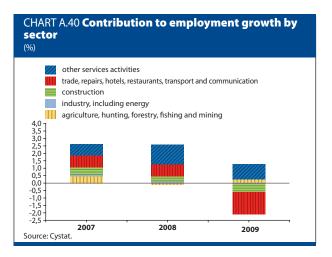
As a result of the downturn experienced in the Cyprus economy in 2009, employment recorded a negative growth rate for that year. In particular, employment decreased by 0,8% compared with an increase of 2,7% in 2008.

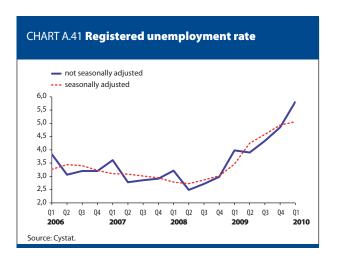
Total hours worked also recorded a decrease of 2,7% in 2009 compared with an increase of 2,4% in 2008. The reduction in total hours worked resulted mainly from the decrease in the hours worked per employee and to a lesser extent from the reduction in the number of employees, especially selfemployed. In particular, the number of self-employed fell by 2,8%, while the hours worked per self-employed decreased by 2,7%. During the period under review, the number of employees fell by 0,4%, while the hours worked per employee decreased by 1,5%. At the same time, according to the Labour Force Survey (LFS), unemployment increased by 1,6 percentage points in 2009, thus reaching 5,3% (Chart A.39). Unemployment shows an increasing trend on a quarterly basis, with unemployment reaching 6% in the fourth quarter compared with 5,4% in the third guarter and 4,6% in the first quarter of 2009.

As regards the sectoral breakdown of employment (**Chart A.40**), the reduction in employment in 2009 was mainly brought about by the sectors mostly hit by the crisis i.e. trade, repairs, hotels, restaurants, transport and construction. The contribution of the manufacturing sector including energy and financial intermediation, real estate, renting and business activities, was marginally negative.

The most recent available data for unemployment (Chart A.41) refer to the registered unemployed which, although at a lower level, reflect the general trend







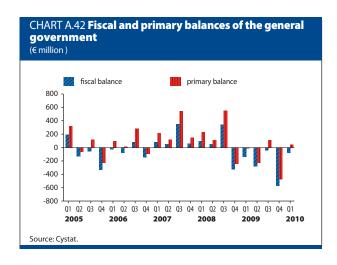
recorded by the LFS in recent years. The data show a downward trend up to the first half of 2008 and an increase afterwards, which is a reflection of the impact of the economic crisis and consequent slowdown of the Cyprus economy. The rate of registered unemployment in the first four months of 2010 increased by 1,7 percentage points compared with the corresponding period of 2009, reaching 5,7%. Moreover, during the period under review, the number of registered unemployed increased by 7.121 compared with the corresponding period of the previous year, reaching 23.391. The upward trend of the registered unemployed is also confirmed by the seasonally adjusted data, which show a slowdown in the increase of unemployment in the first guarter of 2010.

It should be noted that the number of registered unemployed and the respective rate of unemployment are lower than those shown in the LES because of differences in the methodologies used. This emerged from CBC research which also showed that in periods of slowdown / recession, the difference between the registered unem ployed and the number of unemployed based on the LFS is larger. This is because in such periods there is an increase in the number of unemployed new entrants and in the number of people who are unemployed for a period of over six months. These two factors are reflected in the LFS but not fully in the figures for registered unemployed. This is because: 1) unemployed newcomers do

not receive unemployment benefit and hence have no financial incentive to register as unemployed; 2) those unemployed for more than six months do not receive unemployment benefit beyond this period, and hence the incentive factor also applies.

## 5. Domestic Public Finance Developments

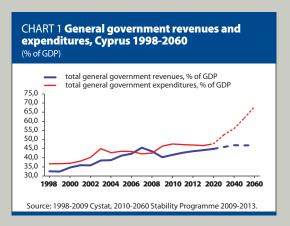
According to preliminary general government figures issued by Cystat, a budget deficit of 6,1% of GDP was recorded in 2009, compared with a surplus of 0,9% of GDP in 2008. At the same time, the primary balance, which does not include the interest payments on public debt, turned into a deficit of 3,6% of GDP in 2009 from a surplus of 3,7% of GDP in 2008. The deterioration in public finances during 2009 was mainly due to the continuous rise in public expenditure coupled with a large reduction government revenue (Chart A.42). More specifically, total government expenditure increased by 7% in 2009, while total general government revenue fell by 8,9%. The reduction in total government revenue during 2009 can mainly be attributed to the slowdown in the economy and the deceleration in the construction and real estate sectors. The increase in total general government expenditure was primarily due to the rise in expenditure on social payments, with the rise in the total sector wage bill and government investment expenditure, also being contributing factors.

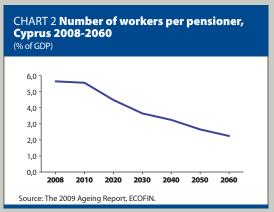


## **Box A.1: Fiscal consolidation issues**

Other countries in the euro area had higher budget deficits than Cyprus in 2009 (6,1% of GDP compared with, for instance, 14,3% in Ireland, 13,6% in Greece, 11,2% in Spain and 9,4% in Portugal). However, the deterioration of the Cyprus deficit is a major concern since the slowdown in economic activity in most countries was more pronounced than in Cyprus. More specifically, according to the latest European Commission (EC) figures, real GDP in 2009 declined by 7,1%, 2%, 3,6% and 2,7%, respectively, during 2009 for the aforementioned countries, whereas Cyprus recorded a decrease of the order of 1,7%. It should also be noted that, compared with other euro area countries, the Cyprus government did not have to provide the banking system with financial support, given that Cypriot banks remained liquid despite negative developments in the real economy. Thus, compared with other euro area economies, public finances were not unduly burdened as a result of the financial crisis.

The above suggest that the deterioration in public finances during 2009 was largely structural in nature and could be attributed mainly to the large increase in total government expenditure. According to historical data published by Cystat (Chart 1), a persistent expansion of total government expenditure has been





observed over time. More specifically, government expenditure increased from 37% of GDP in the late 1990s to the historically high 46,4% in 2009. This can be attributed primarily to the increase in non-productive expenditure. For example, in 2009 the rise in the compensation of employees and in social payments increased significantly, by 8,8% and 12,3%, respectively. Furthermore, according to data presented in the 2009-2013 Stability Programme (SP), government expenditure is projected to increase to 47,6% of GDP in 2010 and, in the absence of additional measures, will reach 68,1%

TARIF 1	Fiscal impact of	measures envisad	ad in tha Stahility	Programme as a % of GDP
IADLEI	FISCAI IIIIDACLO	measures envisau	ea in the Stability	Programme as a % or GDF

	2010	2011	2012	2013
I. Containment of public sector personnel expenditure	0.05	0.05	0.05	0.05
II. Improve targeting of social schemes <sup>1</sup>	0.05	0.25	-	-
III. Reduction of operational and other expenditures	0.30	0.40	0.20	0.20
IV. Prioritisation of infrastructure projects	0.10	0.10	-	-
V. Measures to combat tax evasion and tax avoidance	0.10	0.10	0.20	0.20
VI. Town planning amnesty	0.10	0.10	0.10	-
VII. Additional measures <sup>2</sup>	0.70	0.85	0.30	0.20
Total impact of measures envisaged in the Stability Programme	1.40	1.85	0.85	0.65
Expenditure measures	0.50	0.80	0.25	0.25
Revenue measures	0.90	1.05	0.65	0.40
Measures to be agreed with political parties and social partners	0.10	0.65	0.65	0.85
Total fiscal impact	1.50	2.50	1.50	1.50

Source: Stability Programme of the Republic of Cyprus 2009-2013, 1 April 2010, Chart XI, pages 50-52.

- 1. These include child benefit allowance, student grants for university education and housing schemes.
- Measures include excise duties on petroleum products, a rise in VAT on foodstuffs and pharmaceuticals, reform of pricing for water usage and dividend income from various semi-governmental organisations.

of GDP in 2060. These projections reflect the increase in ageing-related expenditure, given that the number of workers per pensioner<sup>1</sup> is projected to decline from 5,6 in 2008 to 2,2 in 2060 (**Chart 2**, p. 56).

The above suggests that the design and implementation of a specific fiscal consolidation strategy which is feasible, credible and largely expenditure-based, is necessary. Furthermore, such a strategy needs to secure the sustainability of public finances without undermining the long-term productive capacity of the domestic economy.

The 2009-2013 SP incorporates certain optimistic assumptions, which result in deviations between the government and EC fiscal projections. More specifically, the EC considers that the annual fiscal deficit

reduction targets as they appear in the SP are based on optimistic assumptions regarding the economy's growth rate. Hence, in the case that macroeconomic outcomes prove less favourable than those assumed by the SP, the implementation of additional measures might be considered necessary. According to the recent EC forecasts published on 5 May 2010, the budget deficit for 2010 and 2011 is projected to increase to 7,1% and 7,7% of GDP, respectively, as opposed to 6% and 4,5%, respectively, projected by the 2009-2013 SP. Additionally, the EC projections suggest that public debt will rise from 48,4% of GDP in 2008 to 67,6% of GDP in 2011, significantly above the figure of 63,2% of GDP suggested by the 2009-2013 SP. With the increase in public debt due to the large primary deficits and

<sup>1.</sup> The number of workers per pensioner is the inverse of the old age dependency ratio, defined as the percentage of the population aged 65 and over relative to the population aged 15-64.

the rise in the proportion of public debt held at variable rates, the risk of a rising fiscal burden as a result of increasing interest payments should be noted. The EC considers that it is imperative to implement fiscal consolidation measures without delay and these should be based on reducing expenditure.

A significant part of the necessary fiscal consolidation effort outlined in the SP for the period 2009-2013, especially for the later years, is yet to be defined (**Table 1**, p. 57). Moreover, the largest component of the fiscal consolidation effort envisaged in the 2009-2013 SP is based on measures aimed at increasing government revenues. It should be noted that any increase in taxation, especially during the current economic slowdown, could adversely affect economic growth. Such revenue-enhancing measures would not help to secure the long-term sustainability of public finances.

To restore public finances to a sustainable level, a large proportion of the necessary fiscal consolidation needs to come from the expenditure side. This could be achieved, for instance, by the adoption of income criteria for social payments and the reduction in public sector expenditure, including the reduction of the total public sector wage bill. Despite the fact that the measures announced by the Ministry of Finance on 14 May 2010 are a step in the right direction, they are not sufficient to achieve the

annual deficit reduction targets set out in the 2009-2013 SP. Therefore, it is considered of utmost importance to intensify efforts for the design and adoption of further fiscal consolidation measures. Furthermore, fiscal consolidation efforts need to take into account the long-standing issue of financing pensions due to the ageing population. The importance of measures to control pension expenditure has been identified in the EC assessment of the updated SP published on 12 May 2010.

In addition to the points made above, the EC assessment of the updated SP welcomes the introduction of the envisaged three-year Medium Term Budgetary Framework (MTBF), which will institutionalise spending rules. Despite the fact that the implementation of a MTBF has been mentioned repeatedly in the past, including in the SPs of previous years, government expenditures have not been contained, since the government often adopts supplementary budgets.

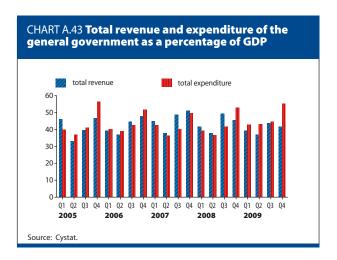
Therefore, the urgent design and implementation of a feasible and credible fiscal consolidation strategy, which lies mostly on the expenditure side and which ensures the sustainability of public finances, without compromising the long-term growth potential of the economy, is considered imperative.

According to data published by the Ministry of Finance, public debt as a percentage of GDP increased substantially from 48,4% in 2008 to 56,2% in 2009. This increase can be mainly attributed to the large primary deficits and the rise in short and medium-term borrowing.

As regards public finance developments in 2010, according to preliminary general government figures published by Cystat (Table A.10), the budget deficit fell to 0,5% of GDP in the first guarter of 2010 from 0,8% of GDP in the corresponding period of 2009 (Chart A.43). It should be noted that this marginal improvement is due to temporary factors, largely due to the significant profits of the CBC in 2009 (partly because of the non-conversion of Cyprus pound coins into euro). Thus, given the temporary nature of recent developments in public finances, there room for complacency. More specifically, total government revenue rose by 9,7% in the first quarter of 2010 relative to the corresponding period of 2009, while total government expenditure rose by 5,4% in the aforementioned period. It should be noted that the growth rate of government expenditure during the first quarter of 2010 relative to the first quarter of 2009 was lower than in the previous corresponding period.

As regards government revenue, besides the large increase in revenue due to CBC profits (included in the category "property income receivable"), revenue recorded in the category "current taxes on income, wealth, etc" rose by 12,9% in the first quarter of 2010

	JanMar. 2009	JanMar. 2010	Change
EXPENDITURE			
Intermediate consumption	201,9	197,0	-4,9
Capital formation	97,3	113,4	16,1
Compensation of employees	590,7	633,2	42,5
Other taxes on production	0,1	0,1	0,0
Subsidies	0,3	0,3	0,0
Interest paid	125,7	116,5	-9,2
Social transfers	509,5	584,5	75,0
Other current transfers	181,6	151,5	-30,1
Capital transfers	8,5	10,9	2,4
Total expenditure	1.715,6	1.807,4	91,8
REVENUE			
Market output & output for own final use	109,6	102,1	-7,5
Taxes on production and imports	651,7	623,6	-28,1
of which VAT	469,7	417,9	-51,8
Property income	13,0	96,5	83,5
Current taxes on income, wealth, etc	400,7	452,2	51,5
,	383,5	421,1	37,6
Social contributions		32,3	14,7
	17,6	32,3	
Social contributions	17,6 1,8	3,1	1,3
Social contributions Other current transfers	, ,		1,3 <b>153,0</b>



relative to the corresponding period of 2009. This revenue category includes receipts from the special contribution to the defence fund, which increased by 14% in the first quarter of 2010 relative to the corresponding period of 2009. At the same time, revenue classified under "taxes on production and imports" fell by 4,3% in the first quarter of 2010 relative to the corresponding period of 2009. It should be noted that this category includes VAT receipts. The decline in this revenue category is attributed to the slowdown in private consumption.

More recent data by the Inland Revenue Department and the Department of Customs and Excise, covering the period January-April 2010, confirm the negative outlook as regards anticipated government revenue. Specifically, the Inland Revenue Department figures show that receipts from corporation tax declined by 12,7% in the first four months of 2010 relative to the corresponding period of 2009, while revenues from capital gains tax and stamp duties increased by 40% and 42,1% over the period January - April 2010, respectively, compared with the first four months of 2009. As regards data from the Department of Customs and Excise, receipts from import duties over the first four months of 2010 fell by 17,9% relative to the corresponding period of 2009, and revenues from VAT fell by 6,8% over the period January - April 2010 compared with the corresponding period of 2009.

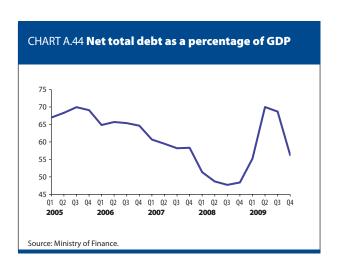
As previously noted, government expenditure continued to rise in 2010, albeit at a lower rate than in 2009. As was the case in

2009, the rise in government expenditure was primarily due to the rise in expenditure on social payments (reflecting the government's emphasis on social cohesion). The rise in the total public sector wage bill and the rise in government investment expenditure in line with the European Economic Recovery Plan, were also contributing factors. More specifically, government expenditure on social benefits, compensation of employees and investment goods increased by 14,7%, 7,2% and 16,5%, respectively, during the first quarter of 2010 compared with the corresponding period of 2009.

Without the adoption of effective measures to contain and reduce government expenditure, the deterioration in public finances will continue. In light of the aforementioned fiscal developments, the government's projection of a 6% deficit for 2010, as presented in the 2009-2013 Stability Programme update, appears optimistic, especially given the few measures that have been implemented so far.

Thus, it is important that the government adopts measures which will reduce expenditure on a long-term basis, such as the introduction of income criteria for various social payments and the reduction of the total public sector wage bill. Such measures would allow the government to support the poorer members of society with no overall increase in government expenditure.

As shown in **Chart A.44**, public debt as a percentage of GDP recorded a significant increase from 48,4% in 2008 to 56,2% in 2009.



This increase is mainly due to the large primary deficit and the increase in short and medium-term borrowing (**Table C.20**, p.128). More specifically, and according to the 2009-2013 Stability Programme, the main financing instrument in 2009 was the issue of a €1,5 billion four-year euro bond (EMTN), which covered more than 50% of total borrowing requirements. The remaining borrowing needs were met through the issue of a five-year domestic bond (€315 million) and short-term debt both in the domestic and foreign markets (€300 million and €628 million, respectively).

In February 2010, the Government issued a ten-year EMTN worth €1 billion. It should be noted that with the possible rise in interest rates in the long-term, interest payments will increase due to higher public debt and higher primary deficits. According to the 2009-2013 Stability Programme, the options for covering the remaining financing requirements for 2010 include the issue of a new five or seven year EMTN during the second half of 2010.

## **6. Macroeconomic Projections for Cyprus**

The Eurosystem prepares and publishes its projections for the euro area on a biannual basis. These projections are used by the ECB's Governing Council for the evaluation of economic developments and inherent risks to price stability. The preparation of euro area projections is undertaken in cooperation with national central bank and ECB staff, based on common working assumptions. It is within

this framework that the CBC prepares its projections for the Cyprus economy.

## **Working assumptions**

The projections for the Cyprus economy are based on the Eurosystem's assumptions about the world economy, e.g. commodity prices and financial sector developments. These projections have been used to analyse and evaluate the international developments and risks to price stability by the ECB's Governing Council, which is responsible for setting monetary policy in the euro area. These assumptions are the same as those used by the Eurosystem for their own macroeconomic projections of the euro area and mainly cover variables such as interest rates, exchange rates, the price of oil and international trade. The projections are based on the assumptions and data available as at 27 May 2010.

The working assumptions of the Eurosystem are as follows: the euro is expected to fluctuate at around \$1,30 in 2010 and \$1,26 in 2011. The price of oil is expected to be around \$79,5 per barrel in 2010 and \$83,7 per barrel in 2011. The projections concerning the Cyprus economy were prepared by taking into consideration only those fiscal measures which are clearly defined and are likely to be implemented. Thus, very few measures were taken into consideration and, as a result, public consumption, public investment and private consumption do not reflect the potential impact of Cyprus's entry into the EU's

Excessive Deficit Procedure in 2010, or any other measures that the government will adopt to correct it. This approach contains downside risks, that is risks from adverse developments in relation to the prevailing scenario of the projections presented below.

## Eurosystem projections for the euro area

Based on the above working assumptions, euro area inflation is expected to increase and fluctuate between 1,4% and 1,6% in 2010 (Table A.11), compared with 0,3% in 2009. In 2011 the average increase in HICP inflation is expected to stabilise between 1% and 2,2%, while on the other hand HICP inflation excluding energy and food is anticipated to increase gradually. GDP growth is expected to be subdued in 2010, increasing between 0,7% and 1,3%, while in 2011 euro area GDP is expected to increase between 0,2% and 2,2%. The anticipated recovery in GDP reflects the expected gradual increase in domestic demand, while the results of the looser monetary policy and the efforts for a smooth market recovery will continue to contribute positively to economic expansion.

## **Projections for the Cyprus economy**

## Prices: harmonised index of consumer prices

Cyprus HICP inflation in 2010 is expected to reach 2,9% compared with 0,2% in 2009

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

(Table A.12). The significant increase in HICP inflation is mainly due to the increase in oil prices and the depreciation of the euro against the dollar, as well as the additional increase of 1,5% in electricity prices imposed by the Cyprus Electricity Authority. The latter is due to a reformulation of costs as from January 2010 and will last for three consecutive years. Furthermore, another increase of 1,9% was imposed on electricity prices in May 2010, due to the imposition of a fine for emissions. Moreover, as from mid-2010 a 9% increase in the consumption tax for fuels is expected to further add to inflationary pressures. On the other hand, food and services prices are expected to slow down as a result of the impact of the world economic crisis on the Cyprus economy and reduced domestic demand. As a consequence, HICP inflation excluding energy is expected to increase by 1,1% in 2010 compared with 2,3% in 2009.

In 2011 HICP inflation is expected to reach 3,2%, mainly due to the energy component which is affected by the working assumptions about oil prices and the eurodollar exchange rate, as well as the aforementioned increases which will be imposed in 2010 and will have an effect until 2011. At the same time prices will rise further as a result of the imposition of 5% VAT on food and pharmaceutical products as from 1 January 2011. HICP inflation excluding energy is expected to increase by 2,5% in 2011 compared with 1,1% in 2010.

TABLE A.12 <b>HICP projections</b> (annual change, %)			
	2009	2010f	2011f
HICP			
June projections 2010	0,2	2,9	3,2
December projections 2009	0,2	2,6	2,3
HICP excluding energy			
June projections 2010	2,3	1,1	2,5
December projections 2009	2,3	1,4	2,1
Sources: Cystat, CBC.			

## Compensation, productivity and the labour market

Employment is expected to still be affected by the consequences of the crisis and it is anticipated that it will contract by 0,4% in 2010 (**Table A.13**). With the improvement in economic conditions in 2011, employment is expected to increase albeit at a much lower level than the average of 2,6% recorded in the period 2006-2008. In conjunction with the above, unemployment, as defined in the LFS, is expected to increase significantly in 2010, reaching 7%, and remain at the same level in 2011.

The growth of compensation per employee is expected to slow down significantly in 2010 because of the deceleration in the public sector, thus reflecting the government fiscal consolidation measures. It is noted that the increase in compensation per employee in the private sector is projected to remain at the same low levels as in 2009. With the improvement in economic conditions as well as the expected increase in COLA, compensation per employee is projected to increase in 2011 but remain lower relative to previous years.

Unit labour costs are expected to decelerate significantly as a result of the developments in compensation per employee in 2010. Despite the expected increase in compensation per employee, the downward trend in unit labour costs is expected to continue in 2011 as a result of the expected increase in productivity.

	2009	2010f	2011f
Compensation per employee			
June projections 2010	2,9	1,6	2,1
December projections 2009	2,4	2,2	2,4
Unit labour costs			
June projections 2010	3,8	1,7	1,5
December projections 2009	2,6	1,9	1,9
Productivity			
June projections 2010	-0,9	-0,1	0,6
December projections 2009	-0,2	0,3	0,5
Total employment			
June projections 2010	-0,8	-0,4	0,7
December projections 2009	-1,1	0,0	1,3
Unemployment (% of labour force)			
June projections 2010	5,3	7,0	7,0
December projections 2009	5,9	7,0	6,6

## **National accounts**

As far as the national accounts are concerned, real GDP growth in Cyprus is projected to contract by 0,5% in 2010, while a small rebound is expected in 2011, with GDP reaching 1,3%. The new projections for 2010 and 2011 have been revised downwards, mainly due to the anticipated decrease in domestic demand, which, based on new data for the first quarter of 2010, is expected to be affected more negatively than was anticipated in December 2009 (Table A.14). Specifically, the worsening of the Cyprus economy reflects the uncertainty surrounding economic developments in the euro area as well as the bigger than expected deceleration in the construction industry, tourism and financial services in 2010 and 2011.

This downward path is already evident from existing data, which reflect the further contraction in the Cyprus economy. In particular, Cystat's flash estimate for GDP growth in the first quarter of 2010 is -2,4% while, based on the still negative confidence indicators in May 2010, GDP is expected to continue to contract in the second quarter of 2010. This conclusion is also supported by recent data on car registrations and the turnover value index for services. Private consumption is anticipated to decrease by 2,9% in 2010 as a result of the negative international environment. reduced consumer confidence, lower increases in wages and higher unemployment, while a small increase of 0,4% is expected in 2011.

TABLE A.14 National accounts projections in real terms (annual change, %)			
	2009	2010f	20111
GDP			
June projections 2010	-1,7	-0,5	1,3
December projections 2009	-1,3	0,3	1,8
Private consumption			
June projections 2010	-3,0	-2,9	0,4
December projections 2009	-4,6	-0,5	0,6
Public consumption			
June projections 2010	5,8	-0,5	0,3
December projections 2009	6,7	6,1	1,0
Gross fixed capital formation			
June projections 2010	-12,0	-9,9	0,8
December projections 2009	-8,5	0,5	1,9
Exports of goods and services			
June projections 2010	-11,8	1,8	3,9
December projections 2009	-13,1	4,4	5,9
Imports of goods and services			
June projections 2010	-19,8	-1,1	3,7
December projections 2009	-18,5	7,2	3,6
Sources: Cystat, CBC.			

Gross fixed capital formation is expected to further decrease by 9,9% in 2010, mainly due to the slowdown in the construction industry, while a mild recovery of 0,8% is projected for 2011. This negative path is expected to be partly reversed at the end of 2010 as a result of the momentum in the economies of our trading partners.

Total exports of goods and services are anticipated to register a modest recovery of 1,8% in 2010, after the significant reduction recorded in 2009. Exports are expected to be affected by increased transportation revenues, resulting from the expected upturn in world economic activity, while the rest of the sectors are anticipated to register marginally positive growth rates compared with 2009. On the other hand, imports of goods and services are expected to be reduced by 1,1% in 2010, mainly due to the continuing reduction in domestic demand.

It should be noted that the aforementioned projections are expected to be negatively affected by Cyprus's entry into the Excessive Deficit Procedure and the anticipated adoption of further fiscal consolidation measures. These measures have, however, not been taken into account in the current projections since they were not clearly laid out at the time when the projections were being prepared. Thus public consumption and public investments are expected to be affected. This will have a negative indirect impact on the rest of the categories, especially private consumption, mainly in 2011. Nevertheless, the impact of the fiscal consolidation measures will depend on

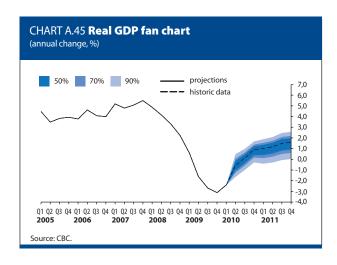
the type and size of measures adopted.

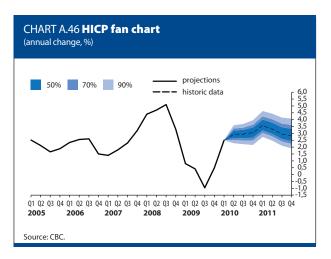
# Fan charts for the macroeconomic projections

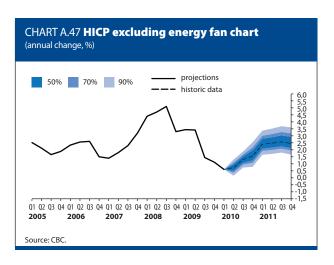
The projections for HICP inflation (**Table A.12**, p. 65) as well as those for GDP growth (**Table A.14**, p. 67) are the modal forecasts and are considered as the most likely outcomes given the working assumptions of the Eurosystem. However, due to the tentative nature of the assumptions, the projections 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 judgement, can either be normal or two piece normal with a degree of asymmetry around the modal projections. In particular, the skewed distribution is separated into two unequal parts, above and below the modal forecast<sup>9</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, there is a significant







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

downward risk. The adoption of additional and stricter fiscal consolidation measures will negatively affect GDP projections, especially in 2011. In particular, it is expected that public investments and public consumption will be affected, thus having a negative impact on domestic demand. This will be mainly through the negative impact on the labour market and, therefore, private consumption. At the same time, the current uncertainty in the markets and the possible deterioration in the prospects of the euro area economy as a result of the adoption of even stricter fiscal consolidation measures in countries such as Greece, Italy, Portugal and Spain impose further negative risks. For 2011 the modal forecast is considered optimistic with slightly downside risks, which will potentially cause a lower growth rate when compared with the central scenario.

In contrast, the possible higher than expected recovery in the economies of our trading partners is anticipated to have a higher impact on GDP, through the recovery in exports and the inflow of foreign investments. At the same time, the historically low interest rates and the consequent increase in lending will potentially support investments more than anticipated, thus causing upside risks.

With regards to HICP inflation, the adoption of indirect and direct taxation measures is expected to cause an increase in inflation. For example, further inflationary pressures may stem from the possible larger increases in oil prices and agricultural goods,

as well as the possibility of further credit expansion as a result of lower interest rates. Moreover, the prospect of new taxes, as part of the possible further fiscal consolidation measures, and the probable increase in water prices may increase inflationary pressures. In contrast, further deterioration in consumer confidence and, consequently, retail sales, as well as the possible further deterioration in unemployment and the decrease in wages, are likely to have a dampening impact on inflation. The risks indicate that possible upward deviations in the dominant HICP and HICP inflation excluding energy projections have a higher probability of being realised than possible downside deviations.

# Comparison of projections for the Cyprus economy

The European Commission and IMF spring 2010 projections for 2010 and 2011 GDP and HICP inflation are very similar to the CBC projections (**Table A.15**). The only exceptions are the IMF projection for GDP growth in 2011 and the CBC projection for HICP inflation in 2011, which are both higher than the projections of other organisations. The differences between the projections of international organisations are mainly due to the different information available at the time of preparing these projections and the different working assumptions.

During 2010 GDP is expected to continue registering negative growth rates, with the IMF projection being the most pessimistic of

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

the three, since it anticipates a growth of around -0,7%. On the other hand, the European Commission gives the most optimistic projection for GDP growth of around -0,4%. In 2011 the Cyprus economy is expected to recover, with the IMF being the most optimistic, anticipating a growth of around 1,9%. On the other hand, the CBC and the European Commission give lower forecasts of around 1,3%. As far as inflation is concerned, the CBC projections are higher in 2010 and 2011 compared with the European Commission and the IMF. It should be noted that the significant revision in the CBC's June 2010 projection, when compared with its December 2009 projection for HICP inflation in 2011, is due to new information. In particular, as previously mentioned, the imposition of VAT food on pharmaceutical products, the increase in electricity prices and the imposition of consumption tax on fuels were not announced when the December 2009 forecasts were prepared and, therefore, were not taken into account. This is the reason for the significant deviation in the projections for HICP in 2011 between the CBC and the other two organisations.

Finally, it appears that the CBC projections, with the exception of the forecast for HICP inflation in 2011, are close to those of the European Commission and the IMF, which are more optimistic regarding GDP in 2011 compared with the aforementioned organisations.

It must be noted that, while the euro area GDP projections prepared by the European

Commission and the IMF for 2010 are similar to their previous forecasts, the projections for the Cyprus economy were revised downwards. This indicates that, in contrast to the euro area, the end of the crisis in Cyprus is even further away than was initially anticipated. In conclusion, although the crisis in Cyprus lagged behind that of the worldwide recession, and the decrease in GDP was lower than in the euro area, the upturn in the economy will also lag behind. Furthermore, according to the CBC projections, the recession in the Cyprus economy is expected to last longer than in the euro area. In particular, based on the data available up to 27 May 2010, the recession in the euro area lasted four quarters, while Cyprus has been in recession for the last five quarters.



SECTION B
Financial Stability
Conditions

#### **Introduction**

According to the ECB, financial stability can be defined as "a condition in which the financial system - comprising of financial intermediaries<sup>1</sup>, financial markets<sup>2</sup> and financial infrastructures<sup>3</sup> - is capable of withstanding shocks and the unravelling of financial imbalances, thereby mitigating the likelihood of disruptions in the financial intermediation process which are severe enough to significantly impair the allocation of savings to profitable investment opportunities"<sup>4</sup>.

This section of the *Bulletin* provides an analysis of the potential risks for the stability of the financial system emanating from the macro-financial environment, by focusing on the household, non-financial corporate and real estate sectors. As regards the domestic financial system, the key developments in the financial markets are briefly described. An analysis of banks' financial condition as well as an assessment of the most significant risks facing the banking sector will be provided in the December 2010 edition of the *Bulletin*.

## 1. The Domestic Macro-Financial Environment

This section includes an analysis of the leverage and financial condition of households and non-financial corporations (NFCs) as well as an assessment of the potential risks facing these two sectors.

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

Moreover, the key developments regarding domestic real estate sector activity are described, while information on the financing of real estate by banks is also provided.

#### 1.1 Macroeconomic conditions

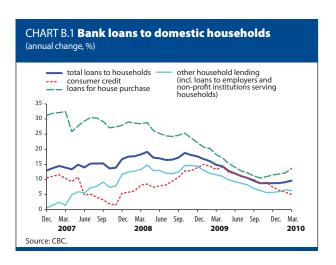
The domestic macroeconomic conditions, which may have an impact on the stability of the financial system, are analysed in Section A.

#### 1.2 Household sector

## 1.2.1 Leverage

#### MFI loans to domestic households

MFI loans to domestic households<sup>5</sup> increased by 9,6%<sup>6</sup> year-on-year in March 2010. As regards the three components of household lending, loans for house purchase, consumer credit and other household lending<sup>7</sup> grew by 13,7%, 5% and 6,3%, respectively, year-on-year in March 2010 (**Chart B.1**). Following the deceleration exhibited in the annual rate of growth of total MFI loans to domestic households in 2009, credit expansion has begun to show signs of acceleration since January 2010. The expansion in MFI lending to

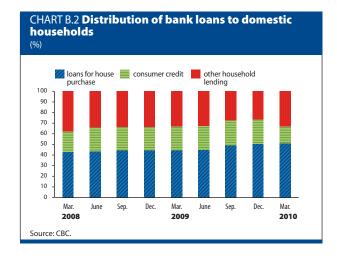


- Based on monthly balance sheet data submitted by MFIs to the CBC, which cover the aggregate non-consolidated data of all credit institutions operating in Cyprus, including the cooperative credit institutions.
- 6. In September 2009, a major change was effected regarding the calculation of the annual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

households is attributable to the growth in loans for house purchase. The strengthening of the liquidity of MFIs due to the use of special government bonds as collateral in the Eurosystem open market operations, has contributed to the reduction in costs for banks and the consequent rise in the offer of new housing loans. At the same time, there has been an increase in demand for housing loans as a result of the fall in interest rates. As shown by the results of the latest Bank Lending Survey<sup>8</sup> of April 2010, in the first quarter of the current year banks loosened their lending criteria with respect to housing loans compared with the period between September-December 2009.

At the end of March 2010, loans to the domestic household sector as a percentage of total outstanding loans to resident non-MFIs rose to 44,7%, compared with 44,6% at-end September 2009 and 44% at the end of March 2009. Loans for house purchase, consumer credit and other household lending stood at 51%, 16,1% and 32,9% of total loans to the household sector, respectively, at end-March 2010, compared with 49,4%, 23,3% and 27,2% at the end of September 2009 and 44,7%, 22,6% and 32,7% at end-March 2009, respectively (Chart B.2). Consequently, housing loans continue to constitute the largest exposure of the household sector.

Foreign currency loans to households as a percentage of total outstanding loans to the household sector reached 4,1% at end-March 2010, compared with 4,2% at the end of September 2009 and 4,2% at end-March 2009.



<sup>8.</sup> The results of the survey, which is carried out by the CBC, are based on the opinions of participating banks. The results do not represent the assessment of the CBC. The survey covers about 85% of the loans extended to euro area NFCs and households in Cyprus.

At the end of March 2010, 83,6% of foreign currency loans to households was accounted for by Swiss francs, 6,9% by Japanese yen and 6,7% by US dollars, compared with 84,8%, 6,9%, and 6,5% at end-September 2009 and 84,2%, 7,2% and 6,9% at the end of March 2009, respectively (**Chart B.3**).

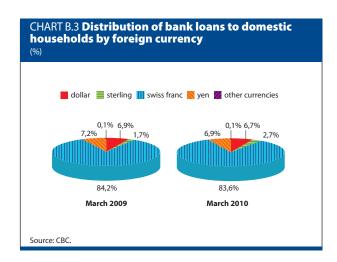
### Non-performing loans<sup>9</sup>

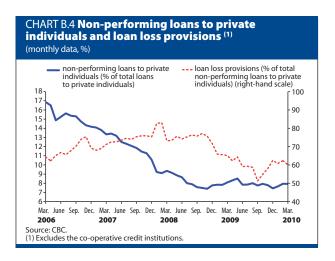
Non-performing loans<sup>10</sup> to private individuals<sup>11</sup> as a percentage of total outstanding loans to private individuals amounted to 7,9% at end-March 2010, compared with 7,8% at the end of September 2009 and 8,1% at end-March 2009 (**Chart B.4**). Loan loss provisions as a percentage of total non-performing loans to private individuals (coverage ratio) rose to 60,1% at the end of March 2010, from 51,3% at end-September 2009 but fell compared with 65,1% at the end of March 2009.

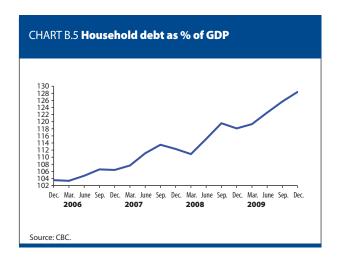
#### **Household debt**

Household debt<sup>12</sup> as a percentage of GDP increased to 128,4% at the end of December 2009 from 122,6% at end-June 2009 (compared with 118,1% at the end of December 2009). **Chart B.5** exhibits the household debt-to-GDP ratio for the years 2005 to 2009.

- 9. Excluding the co-operative credit institutions.
- 10. As defined in the relevant CBC directive, non-performing loans include credit facilities, which are in excess of their approved limit or whose repayment of principal or interest or other income is in arrears for more than three months. Funded credit facilities and credit substitutes extended to customers, which are fully secured, are not classified as non-performing.
- 11.Loans to households excluding loans to employers and non-profit institutions serving households.
- 12.Based on quarterly financial accounts data (provisional). Includes loans and other financial liabilities of households and non-profit institutions serving households.







## **Financing conditions**

Cyprus MFI interest rates<sup>13</sup> on eurodenominated loans for house purchase and consumer loans (new business) to euro area households, dropped from 5,01% and 7% in December 2009 to 4,43% and 6,99% in March 2010, respectively (**Chart B.6**). In comparison, euro area MFI interest rates on eurodenominated loans for house purchase and consumer loans (new business) to euro area households stood at 2,63% and 6,34% in March 2010, respectively.

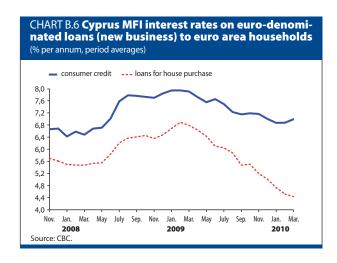
#### 1.2.2 Financial condition<sup>14</sup>

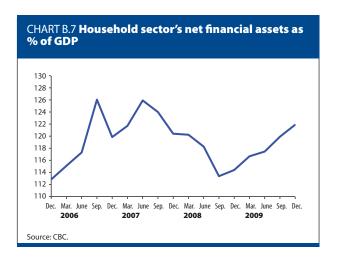
#### **Net financial assets**

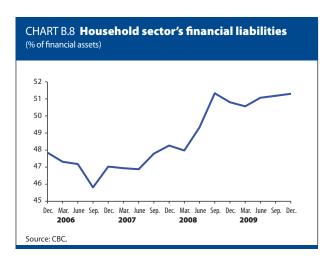
The household sector's net financial assets (net worth) as a percentage of GDP rose to 121,9% at the end of December 2009 from 117,4% at end-June 2009 and 114,4% at the end of December 2008. **Chart B.7** indicates the household sector's net financial assets as a percentage of GDP for the years 2005 to 2009.

The household sector's financial liabilities expanded by 6,8% year-on-year in December 2009, mainly due to an increase in the value of loans granted, which accounted for 97,2% of the household sector's total financial liabilities at the end of June 2009. As indicated in **Chart B.8**, the ratio of financial liabilities to financial assets reached 51,3% at the end of December 2009 compared with 51,1% at end-June 2009 and 50,8% at the end of December 2008.

At end-December 2009, cash and bank







<sup>13.</sup> Floating rate and up to 1 year initial rate of fixation.

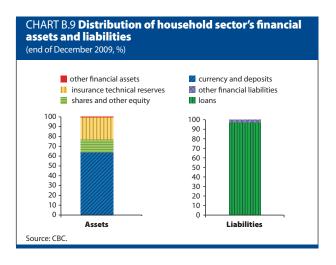
<sup>14.</sup> Based on quarterly financial accounts data (provisional).

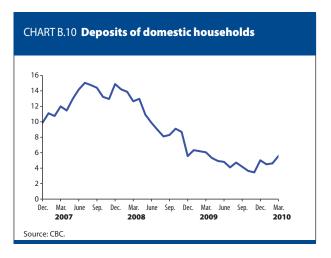
deposits represented the largest part of the household sector's financial assets, while bank loans constituted the biggest share of the household sector's financial liabilities. **Chart B.9** exhibits the breakdown of the household sector's financial assets and liabilities at the end of December 2009.

## **Deposits**

The annual growth of domestic household deposits reached 5,6%<sup>15</sup> at end- March 2010 compared with 6,1% at the end of the first quarter of 2009 (Chart B.10). It is worth noting that the slowdown in the growth rate of household deposits has continued since the end of 2007, with minor exceptions such as in March 2010. Deposits with agreed maturity accounted for about 75% of total deposits at the end of March 2010, while deposits with agreed maturity up to two years made up about 71% of total household deposits. This is partly due to the higher interest rates offered by MFIs in an effort to attract customer deposits, their main source of funding.

In addition, the generally conservative behaviour of depositors, due to the uncertainty regarding the prospects for the Cyprus economy, is reflected in lower consumption and the placement of part of their savings in interest-bearing deposits. It must also be noted that, as from January 2010, positive growth rates were recorded in overnight deposits, which accelerated by 8,6% in March 2010 compared with a reduction of 15,7%





<sup>15.</sup>Based on monthly balance sheet data submitted by MFIs to the CBC, which cover the aggregate non-consolidated data of all credit institutions operating in Cyprus, including the cooperative credit institutions.

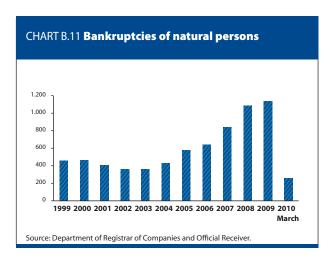
in March 2009. This increase, despite its small share in relation to total deposits, may be due to a base effect and the fact that depositors opt to maintain instant liquidity by placing their money in current accounts for facilitating their transactions.

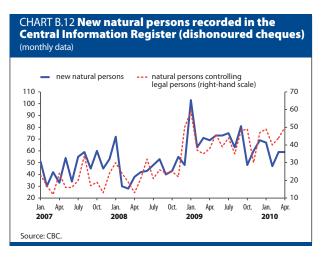
#### **Bankruptcies of natural persons**

The number of bankruptcies of natural persons has exhibited a continuous upward trend since 2003, which may indicate that the financial condition of households is deteriorating over time. In 2009 1.139 receiving orders regarding natural persons were issued by the appropriate courts of justice, while in the first three months of 2010 the number of bankruptcies of natural persons reached 256, which indicates that the total for the year could eventually be near the 2009 figure. **Chart B.11** shows the number of bankruptcies of natural persons for the years 1999 to 2010.

# Natural persons who issued dishonoured cheques

In the first four months of 2010, the total number of natural persons who issued dishonoured cheques and were recorded in the CBC's Central Information Register reached 232, compared with 306 in the corresponding period of 2009 (**Chart B.12**). In the period from January to April 2010, the total number of natural persons controlling legal persons who issued dishonoured cheques and were





recorded in the Central Information Register increased to 183, compared with 169 in the corresponding period of 2009.

## Confidence indicators from surveys of economic sentiment

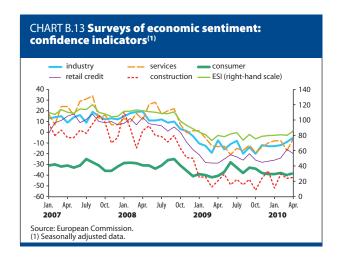
Since the publication of the June 2009 *Bulletin*, aggregate confidence indicators for Cyprus compiled monthly by the European Commission from surveys of economic sentiment carried out in EU member states, show that the Economic Sentiment Indicator (ESI)<sup>16</sup> remained roughly at the same levels until March 2010, but improved significantly in April 2010 (**Chart B.13**). As regards household expectations, the consumer confidence indicator has fluctuated at low levels since December 2009.

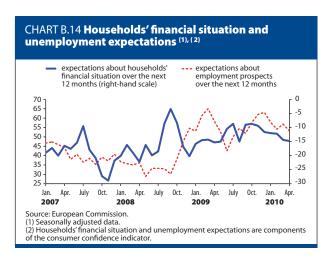
In addition, a further analysis of the data regarding consumers shows that household expectations about their financial situation and future unemployment prospects in the next 12 months have deteriorated (**Chart B.14**).

### 1.2.3 Risks facing the household sector

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

Overall, risks to financial stability originating from conditions in the household sector, although contained, remain on the





<sup>16.</sup> The ESI is composed of the industry confidence indicator (40%), the services confidence indicator (30%), the consumer confidence indicator (20%), the construction confidence indicator (5%) and the retail trade confidence indicator (5%).

upside. Despite the fall in interest rates on new lending in Cyprus during recent months, the overall debt-servicing burden of households has risen due to the increase in the annual growth rate of housing loans. Moreover, a potential further deterioration of domestic macroeconomic conditions, especially in the labour market, may pose higher risks to household income and have a negative impact on household debt repayments.

#### Interest rate risks of households

During the period under review, the ECB has maintained key interest rates at a very low level, with a cumulative decline since July 2008 of 325 basis points (**Chart A.9**, p. 25). As shown in Chart B.6 (p. 80), Cyprus MFI interest rates on euro-denominated loans (new business) to euro area households have been on a continuous downward path since the spring of 2009, with the exception of a small increase in new consumer loans in March 2010. However, these still remain at a higher level compared with the respective euro area MFI interest rates. This can be attributed mainly to the strong competition in the domestic banking sector for retail deposits as well as to banks' efforts to maintain the levels of their net interest margins. Any further decline in interest rates could support a reduction in the overall debt-servicing burden of households.

As regards mortgage housing loans<sup>17</sup>, the

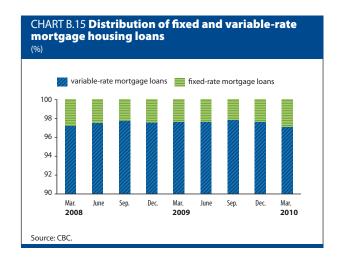
<sup>17.</sup> Loans which are fully and completely secured by mortgage on residential property, which is or will be occupied by the borrower or which the borrower will let for residential purposes, as well as lending to households in the form of topup mortgages or equity release mortgages, whereby a mortgage is increased to allow funds to be used for home improvements or renovation.

impact of rising interest rates on debtservicing costs depends on the terms and conditions of individual mortgage contracts. In the case where a mortgage contract provides for a variable rate of interest, households are exposed fully to interest rate risk. The trend of interest rate risk inherent in loan mortgage contracts being undertaken almost in its entirety by the borrower has not changed. Specifically, the share of variablerate mortgage housing loans to total outstanding mortgage housing loans stood at 97,1% at the end of March 2010, compared with 97,8% at end-September 2009 and 97,6% at the end of March 2009 (Chart B.15). Hence, given the predominance of mortgage housing loans which carry an adjustable rate of interest, households remain vulnerable to interest rate shocks.

In order to be able to assess fully the interest rate risks facing households, it must be borne in mind that not all households hold debt, while the characteristics of individual borrowers play a role in determining debt sustainability. In particular, the risks affecting the most financially vulnerable segments of the population cannot be properly addressed by looking at aggregate data. In general, indebted low income households tend to face higher risks.

### Risks to household income

Fluctuations in household income, which are directly linked to developments in the labour



market, constitute one of the most important indicators of households' ability to meet their debt-servicing obligations.

The negative repercussions of the recent global financial crisis for the Cyprus economy were most evident in 2009, with most sectors of the economy, especially the tourism, construction and trade sectors, being adversely affected. This is reflected in the 1,7% contraction of GDP in 2009, compared with an increase of 3,6% in 2008. These negative developments also carried through to the first quarter of 2010, with GDP contracting by 2,4% compared with the first quarter of 2009, according to Cystat's flash estimate.

As regards the labour market, employment in 2009 was significantly affected by the economic crisis, registering a reduction of 0,8%, compared with a rise of 2,7% in 2008. At the same time, according to data from the Labour Force Survey (LFS), unemployment in 2009 increased by 1,6 percentage points, reaching 5,3% (Chart A.39, p. 53). Recent data for registered unemployment (Chart A.41, p. 53) for the first four months of 2010 also reflect the impact of the crisis, with registered unemployment increasing by 1,7 percentage points compared with the corresponding period of 2009, thus reaching 5,7%. These developments indicate an increase in incomerelated risks for households.

A further negative development has been the increase in domestic inflationary pressures in the first four months of 2009, compared with the same period of 2008. In particular, the Harmonised Index of Consumer Prices (HICP) increased by 2,5% in the first quarter of 2010 compared with an increase of 0,7% in the same period last year. This rise is mainly due to the large increases in the price of energy, stemming from the base effects of very low oil prices in the same period of 2009 as well as the fall of the euro against the dollar (**Chart A.4**, p. 22). The increase in domestic inflationary pressures may negatively impact on household real disposable income.

Regarding the latest CBC projections for the main indicators of the domestic economy as analysed in Section A, and according to the baseline scenario, real GDP is expected to contract by 0,5% in 2010, while a modest increase of 1,3% in GDP is expected in 2010 (Chart A.45, p. 69). The HICP is expected to rise to 2,9% in 2010 and 3,2% in 2011, compared with 0,2% in 2009. HICP inflation excluding energy is expected to increase by 1,1% in 2010 and 2,5% in 2011 compared with 2,3% in 2009. At the same time, the unemployment rate, as defined in the LFS, is expected to rise significantly in 2010, reaching 7%, and remain at the same level in 2001. As a result, risks related to households' real disposable income are expected to remain on the upside.

# Risks emanating from residential property prices

The rise in the annual growth rate of housing loans exhibited in the first quarter of 2010 is expected to contribute, at least to some

extent, to the reversal of the downward trend in demand for residential property. Although construction activity remains subdued, this has shown signs of stabilisation in the first four months of 2010. In general, these developments are expected to contribute to limiting the negative impact of the economic crisis on residential property prices in 2010.

Risks to financial stability stem from the impact of a potentially higher than expected correction in house prices as well as from the effects of a further weakening of domestic economic activity tied to the residential real estate sector. However, although any rapid decrease in residential property prices, which could reduce household sector net worth, may increase financial stability risks, the probability of a sharp downturn in house prices in the short term still remains low.

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

### 1.3 Non-financial corporate sector

### 1.3.1 Leverage

# MFI loans to domestic non-financial corporations

MFI loans to domestic NFCs<sup>18</sup> increased by

<sup>18.</sup> Based on monthly balance sheet data submitted by MFIs to the CBC. Since July 2008, MFI loans to domestic NFCs include MFI loans to organisations or companies without a physical presence in Cyprus (i.e. "brass plates").

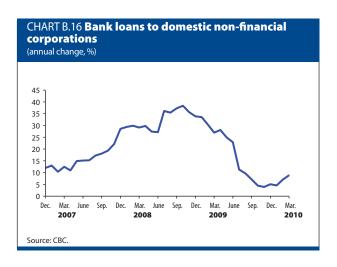
8,9% year-on-year in March 2010 (**Chart B.16**). Following the deceleration exhibited in the annual rate of growth of total MFI loans to domestic NFCs in 2009, credit expansion has begun to show signs of acceleration since January 2010, in contrast to the wider economic conditions which continue to be subdued and/or negative. Part of the rise in the rate of credit expansion is due to the increase in the liquidity of MFIs, which has resulted from the use of special government bonds since December 2009 as collateral in the open market operations of the Eurosystem intended to raise cheaper funding.

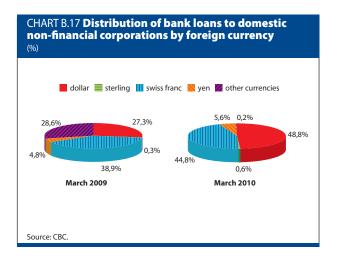
At the end of March 2010, loans to NFCs as a percentage of total outstanding loans to non-MFIs reached 47,7%, down from 48,3% at end-September 2009 and up from 48,5% at the end of March 2009.

Foreign currency loans to NFCs as a percentage of total outstanding loans to NFCs fell to 15,8% at end-March 2010, down from 18,8% at the end of September 2009 and 19,4% at end-March 2009. At the end of March 2010, 48,8% of foreign currency loans to NFCs were accounted for by dollars, 44,8% by Swiss francs, 5,6% by yen and 0,6% by sterling, compared with 40,2%, 38,9%, 4,8% and 0,4% at end-September 2009 and 38,9%, 27,3%, 4,8% and 0,3% at the end of March 2009, respectively (**Chart B.17**).

#### Non-performing loans<sup>19</sup>

Non-performing loans to NFCs as a percentage of total loans to NFCs amounted to 7,4% at the





<sup>19.</sup> Excluding the co-operative credit institutions.

end of March 2010, compared with 7,3% at end-September 2009 and 7,5% at the end of March 2009 (**Chart B.18**). Loan loss provisions as a percentage of total non-performing loans to NFCs (coverage ratio) stood at 52,6% at the end of March 2010, compared with 53,1% at end-September 2009 and 54,4% at the end of March 2009.

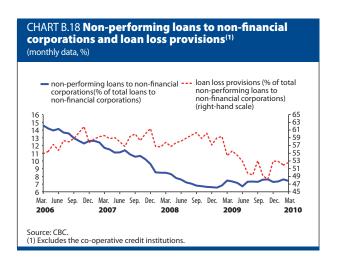
## Non-financial corporate debt

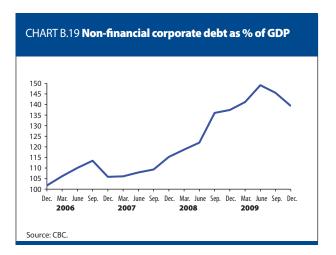
Non-financial corporate debt<sup>20</sup> as a percentage of GDP rose to 139,3% at the end of December 2009, from 149,2% at end-June 2009 and 137,4% at the end of December 2008. **Chart B.19** exhibits the non-financial corporate debt-to-GDP ratio for the years 2005 to 2009.

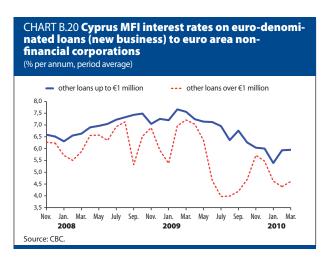
### **Financing conditions**

Cyprus MFI average interest rates<sup>21</sup> on eurodenominated loans (new business)<sup>22</sup> up to €1 million to euro area NFCs dropped from 6% in December 2009 to 5,95% in March 2010 (**Chart B.20**). In comparison, euro area MFI average interest rates on euro-denominated loans (new business) up to €1 million to euro area NFCs stood at 3,24% in March 2010.

In parallel, Cyprus MFI average interest rates on euro-denominated loans (new business) over €1 million to euro area NFCs declined from 5,47% in December 2009 to 4,61% in March 2010. In comparison, euro area MFI average interest rates on euro-denominated loans (new business) over €1 million to euro area NFCs stood at 1,98% in March 2010.







<sup>20.</sup>Based on quarterly financial accounts data (provisional). Includes net loans and long-term debt securities.

<sup>21.</sup> Floating rate and up to 1 year initial rate of fixation.

<sup>22.</sup> Loans other than bank overdrafts.

#### 1.3.2 Financial condition<sup>23</sup>

#### **Net financial assets**

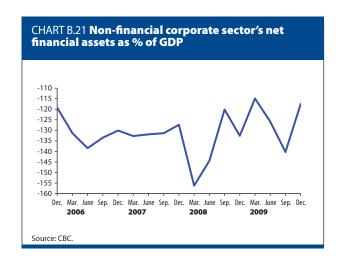
As shown in **Chart B.21**, the non-financial corporate sector's net financial assets (net worth) as a percentage of GDP reached 117,5% at the end of December 2009 (from 125,9% at end-June 2009 and 132,6% at the end of December 2008).

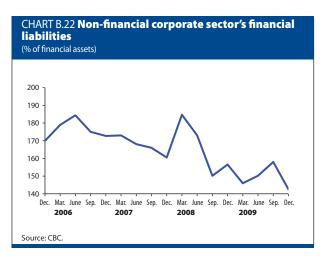
The ratio of financial liabilities to financial assets decreased to 142,5% at end-December 2009 from 150,2% at the end of June 2009 and 156,5% at end-December 2008, as the growth in financial assets outpaced the increase in financial liabilities (**Chart B.22**).

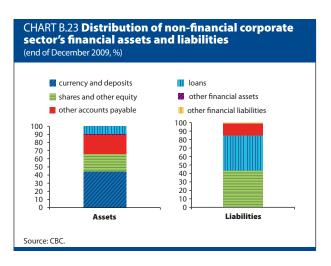
At the end of June 2009, cash and deposits represented the largest part of the non-financial corporate sector's financial assets, while loans constituted the biggest component of the sector's financial liabilities. **Chart B.23** exhibits the breakdown of the non-financial corporate sector's financial assets and liabilities at the end of June 2009.

### **Deposits**

As regards the deposits of domestic NFCs (**Chart B.24**, p. 92), these continued exhibiting negative annual growth rates. In particular, these deposits decreased by 4,1%<sup>24</sup> at the end of March 2010, compared with a rise of 17% at the end of March 2009. The reduction in the deposits of domestic NFCs may be partly explained by the use of funds by enterprises to repay existing debts, as a result of the slowdown







<sup>23.</sup> Based on quarterly financial accounts data (provisional).

<sup>24.</sup> Based on monthly balance sheet data submitted by MFIs to the CBC, which cover the aggregate non-consolidated data of all credit institutions operating in Cyprus, including the cooperative credit institutions.

in economic activity, thus limiting borrowing for investment purposes. Another contributing factor could be that the fall in deposits may be partly due to the decline in deposit interest rates and, therefore, the increased demand for alternative forms of investment. It should be noted that NFC deposits represent around 18% of total private sector deposits in the domestic banking system and have exhibited negative growth rates since April 2009.

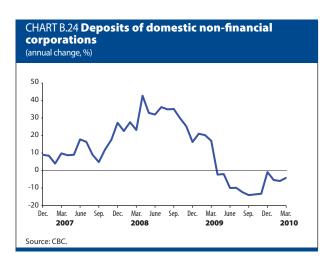
## **Company liquidations**

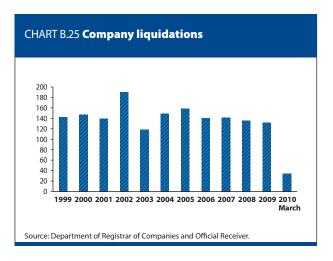
The number of company liquidations reached 132 in 2009 compared with 135 in 2008 (**Chart B.25**). In the first three months of 2010, 34 winding-up orders were issued by the appropriate courts of justice, which indicates that the total for the year will eventually exceed the 2009 figure.

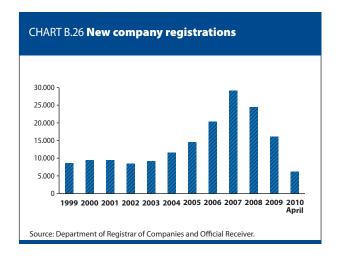
The number of new company registrations reached 16.101 in 2009, compared with 24.453 in 2008 (**Chart B.26**). In the period January-April 2010, 6.168 new companies were registered, which indicates that the total for the year will eventually be significantly higher than the 2009 figure and may reflect the increase in the activities of legal and accounting firms following the decline exhibited in 2009 as a result of the global financial crisis.

# Legal persons who issued dishonoured cheques

In the first four months of 2010, the total







number of legal persons who issued dishonoured cheques and were recorded in the CBC's Central Information Register reached 147, compared with 151 in the corresponding period of 2009 (Chart B.27).

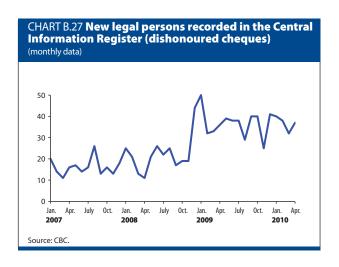
## Confidence indicators from surveys of economic sentiment

As depicted in **Chart B.13** (p. 83), since the publication of the December 2009 *Bulletin*, the industry confidence indicator has generally fluctuated at low levels. In contrast, the construction confidence indicator has deteriorated significantly but showed a slight improvement in November 2009. Moreover, the services confidence indicator has exhibited no signs of improvement and has remained subdued since June 2009, while the retail trade confidence indicator has remained in negative territory during the same period.

# 1.3.3 Risks facing the non-financial corporate sector

Both the external as well as the domestic environment in which NFCs operate is expected to remain difficult, at least in the short term.

As regards the external operating environment, continuous signs of stabilisation and gradual recovery of the world economy became more pronounced in the first quarter of 2010. However, the stabilisation of positive growth rates is still tentative. Therefore, the



uncertainty surrounding the short-term prospects for the world economy remains high.

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

## **Earnings and profitability risks**

Available indicators show that economic recovery in the euro area, despite not being homogeneous, has begun. According to recently published data for the first quarter of 2010, euro area annual GDP growth stood at 0,5% compared with -5% in the first quarter of 2009 (Chart A.1, p. 18). Economic recovery was brought about by, inter alia, extensive fiscal support, the increase in company inventories and the relative recovery of consumer and investor confidence. Nevertheless, the possibility of the Greek debt crisis spreading to the vulnerable economies of the euro area, such as Portugal and Spain, is real. As noted by international analysts, the euro area recovery will be gradual and slow, with the rate of GDP growth for 2010 being at around 1%. The main factors influencing economic prospects are likely to be the continuing adjustment of nonfinancial corporation balances, the limited use of capacity which may negatively affect investments, while the subdued prospects for the labour market are expected to lead to limited consumption expenditures. Unemployment in the euro are reached 10% in March 2010 compared with 9,1% in March 2009.

In the UK, which is also an important trading partner of Cyprus, the annual growth rate of GDP stood at -0,2% in the first quarter of 2010, compared with -5,3% in the same quarter of 2009. For the current year, an increase of 1,3% in GDP is expected. Unemployment stood at 8% in March 2010, higher than the 7,1% recorded in March 2009.

Based on the analytical data published by Cystat, GDP in Cyprus declined by 1,7% in 2009 compared with an increase of 3,6% in 2008 (Charts A.30(a) and A.30(b), p.46). Preliminary data by Cystat show that GDP recorded an annual growth of -2,4% in the first quarter of 2010. The decline in real GDP in 2009 is mainly due to sluggish domestic demand and the reduction in exports. Recent indicators of domestic demand for the first guarter of 2010 show a declining trend, similar to the one recorded in 2009. Furthermore, other indicators such as retail sales and car registrations confirm the adverse impact of the global crisis on the Cyprus economy.

The further slowdown in domestic economic activity exhibited in 2010 coupled

with the difficult external operating environment, contribute to the uncertainty as regards the future earnings and profitability of the corporate sector. Moreover, the latest CBC macroeconomic projections indicate a GDP contraction of 0,5% in the current year and a modest increase of 1,3% in 2011 (Chart A.45, p. 69). These developments may hamper the ability of companies to generate internal funding and force them to maintain high leverage ratios and/or to further increase their debt burden. Enterprises in the construction, tourism and trade sectors are deemed particularly vulnerable. The mixed first quarter financial results for 2010 that have already been published by a number of companies listed on the Cyprus Stock Exchange, confirm that risks to corporate profitability remain on the upside.

# Risks facing leveraged non-financial corporations

The annual rate of growth of bank lending to the non-financial corporate sector has accelerated in the first three months of 2010, while firms' leverage remains at a high level, rendering them vulnerable to potential adverse shocks.

Despite the increase in bank lending, bank financing conditions for NFCs remain difficult. In response to the weak domestic macroeconomic environment, as shown by the results of the latest Bank Lending Survey of April 2010, in the first quarter of the current year banks tightened credit standards for new loans to enterprises compared to the period

September-December 2009.

A further tightening of credit supply could amplify the effects on firms' solvency and lead to an increase in default rates. Moreover, the cost of bank financing of enterprises remains at a higher level compared with other euro area member states, which is expected to continue to have an adverse impact on company profits. Overall, funding conditions for the non-financial corporate sector are not expected to improve significantly in 2010.

#### 1.4 Real estate sector

## 1.4.1 Key developments in the real estate sector

### **Domestic real estate sector activity**

According to the latest available data, in the first four months of 2010, domestic real estate sector activity, although remaining generally subdued, has exhibited signs of stabilisation. At the same time, interest by foreigners as well as residents for the purchase of residential property remains at low levels.

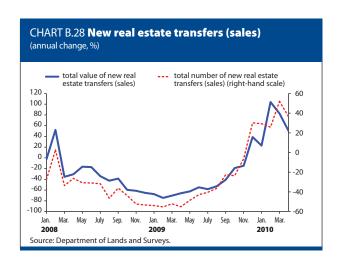
In particular, the volume index of authorised building permits registered an increase of 10% during the period January-March 2010, compared with the corresponding period of 2009 (**Chart A.38**, p.51). In the first quarter of 2010, the total value of building permits rose by 11,1% and the total area of building units rose by 9,1%, while the number of dwellings recorded an increase of 4,1%, compared with the same period of 2009.

In addition, cement sales in the domestic market expanded by 36,6% in the first three months of 2010, compared with the corresponding period of 2009. **Chart A.35** (p. 49) shows the sales of cement in the domestic market.

Furthermore, the total number of new real estate transfers (sales) rose by 36,6% during the period from January to April 2010, compared with the same period of 2009. Similarly, in the first four months of 2010 the total value of new real estate transfers (sales) increased by 67,2%, compared with the corresponding period of 2009 (Chart B.28). Moreover, the volume of new real estate sales contracts registered at the Department of Lands and Surveys expanded by 24,7% in the period January-April 2010, compared with the same period of 2009 (Chart B.29).

As regards the purchase of residential property by foreigners, the number of new real estate transfers (sales) to foreigners increased by 39,8% during the first four months of 2010, compared with the corresponding period of 2009. In parallel, in the period from January to May 2010 the volume of new real estate sales contracts registered to foreigners at the Department of Lands and Surveys increased by 3,5%, compared with the same period of 2009 (Chart B.30).

According to the latest available data, the production index in construction for 2009 recorded a yearly average decrease of 10,8%. For the component indices, a yearly average fall of 14,9% was registered in 2009 for buildings, while a yearly average increase of







9,3% was recorded for civil engineering projects. Also, as shown in **Chart B.31**, the output prices index in construction for the first quarter of 2010 reached 116,2 units, recording a decrease of 3,8% compared with the same period of 2009.

The price index of construction materials for April 2010 reached 121,1 units, registering a fall of 3,9% compared with the corresponding month of 2009 (**Chart B.32**). For the period from January to April 2010, the index recorded a decrease of 1,9% compared with the same period of 2009.

## **Real estate prices**

Residential property prices, as indicated by the latest available trends in the CBC's residential property price index<sup>25</sup>, registered an average annual decrease of 8% in 2009, compared with an average annual increase of 13% in 2008. Based on real estate valuations collected by the CBC and other data relating to the residential property sector in general until April 2010, the CBC estimates that residential real estate prices will record an average annual decrease of 4% in 2010 (Chart B.33).

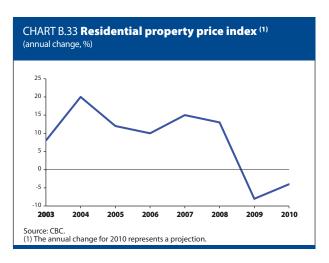
At the same time, according to the RICS Cyprus Property Price Index<sup>26</sup>, in the first quarter of 2010, house and apartment prices in Cyprus declined on average by 1,6% and 4,5%, respectively, compared with the fourth quarter of 2009. The biggest drop in house prices was recorded in Larnaca (-6,8%) and in apartment prices in the area of Famagusta-

CHART B.31 Production and output prices indices in construction
(base 2005=100)

— production index —— output prices index

130
125
120
115
110
105
95
June Dec. June Dec. June Dec. June Dec. June Dec. June Dec. Source: Cystat.





<sup>25.</sup>Based on the methodology for compiling the index, which is analysed in the June 2009 *Economic Bulletin*, pp. 53-54.

<sup>26.</sup> The index monitors the market price and rent across the four main property sectors: offices (central business district), retail (high street), industrial (warehouses) and residential (houses and apartments).

Paralimni (-14,8%) (**Chart B.34**). Commercial property prices generally fell across all cities by an average of 1,4% for retail and 2,9% for warehouses. An exception was the prices for office space, which rose by an average of 1,4%. This was mainly due to the increase of prices for office space in Nicosia by 6,1%.

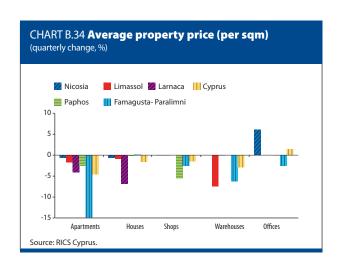
Rental values for apartments, houses and retail stores in Cyprus fell on average by 1,9%, 2,7% and 1,5%, respectively, in the first quarter of 2010, compared with the fourth quarter of 2009 (**Chart B.35**). In contrast, rents for warehouse and office space increased on average by 1% and 2,7%, respectively, in the first three months of 2010.

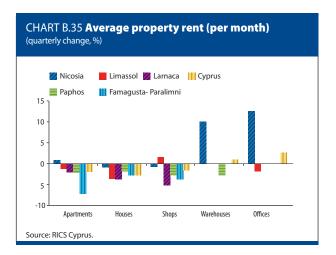
## 1.4.2 Real estate financing by banks

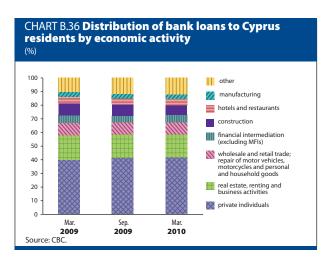
## MFI loans to the domestic broad real estate sector

MFI loans to the domestic broad real estate sector<sup>27</sup> rose by 1,9% year-on-year in March 2010 and represented 20,3% of the total outstanding loans to non-MFIs at end-March 2010, down from 21,6% at the end of September 2009 and up from 22,9% at end-March 2009 (**Table C.21**, p. 128 and **Chart B.36**).

As regards the three component categories of this sector, loans to the construction sector remained almost at the same level year-on-year in March 2010 and represented 7,1% of the total outstanding loans to non-MFIs at end-March 2010, compared with 8,4% at the end of September 2009 and 8,9% at end-







<sup>27.</sup> Based on monthly balance sheet data submitted by MFIs to the CBC. Excludes loans to households for house purchase.

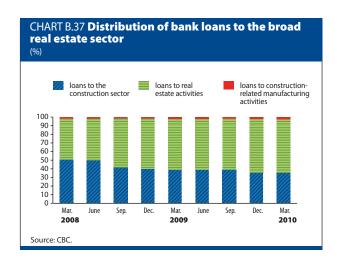
March 2009. At the same time, loans to real estate activities exhibited an increase of 2% year-on-year in March 2010, constituting 12,6% of the total outstanding loans to non-MFIs at the end of March 2010, compared with 12,8% at end-September 2009 and 13,6% at the end of March 2009. Moreover, loans to construction-related manufacturing activities rose by 37,9% year-on-year in March 2010 and represented 0,5% of the total outstanding loans to non-MFIs at the end of March 2010, compared with 0,4% at end-September 2009, the same as at the end of March 2009. The distribution of MFI loans to the domestic broad real estate sector is shown in **Chart B.37**.

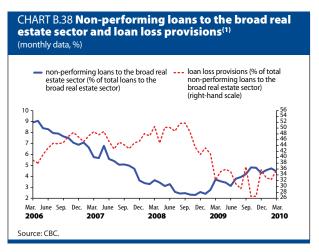


Non-performing loans to the domestic broad real estate sector as a percentage of total loans to the domestic broad real estate sector amounted to 4,4% at the end of March 2010, up from 4,2% at end-September 2009 and 3,7% at the end of March 2009 (**Chart B.38**). Loan loss provisions as a percentage of total non-performing loans to the domestic broad real estate sector (coverage ratio) stood at 35,6% at the end of March 2010, compared with 36,8% at end-September 2009 and 32,3% at the end of March 2009.

#### 2. The Domestic Financial System

This section provides a description of the key developments in the domestic financial markets.





<sup>28.</sup> Excluding the co-operative credit institutions.

#### 2.1 Financial markets

## 2.1.1 Key developments in the money market

During the period under review, the euro money market exhibited fragile signs of normalisation with intervals of considerable tension especially in the months April and May 2010. In particular, the adverse fiscal developments in Greece and the increased concerns about the sovereign debt crisis and perceived spill-over effects to other vulnerable euro area economies, contributed to the deterioration in recovery prospects for Europe and to the abrupt escalation of sovereign and counterparty credit risks, leading to protracted tensions in the markets.

The marginal de-escalation of tensions observed in the euro money markets in the first quarter of 2010 was abetted by the ample levels of liquidity maintained in the system, largely due to the unconventional liquidity support measures in effect at the Eurosystem level, and to banks' increased risk appetite for participation in all segments of the money market. As in the largest part of the previous period under review, the spread between the one-month and 12-month Euribor rates remained broadly stable (Chart A.11, p. 27), thus effecting no material change in the slope of the money market yield curve.

As regards the cost of borrowing in the euro area interbank market, unsecure money market interest rates essentially across all maturities increased slightly in the period April-May 2010,

rendering the shape of the unsecure money market yield curve almost unchanged. At the same time, secure money market interest rates rose at a slightly higher rate than the corresponding unsecure money market rates. It is noted that the three-month EURIBOR/EONIA overnight index swap (OIS)<sup>29</sup> spread (**Chart A.12**, p. 27) followed a marginally narrowing course until April 2010, whereby the negative developments in Greece led to its small widening. As a result, in mid-May 2010 the EURIBOR/OIS spread was oscillating at slightly lower levels, compared with the levels observed at end-December 2009.

The tensions in the euro money markets in the interval April-May 2010 underline the presence of considerable sources of risk, which hinder the complete normalisation of the markets. In particular, the heightened concerns regarding the potential spill-over effects of the sovereign debt crisis and its broader ramifications for the euro area are expected to generate further tensions in the euro money markets. Due to the sharp deterioration of sovereign credit risk and the ensuing upsurge in the credit risk premia as well as perceived levels of counterparty risk, the adverse market pressures are likely to persist, fuelling market uncertainty even further.

Moreover, the broadly anticipated increase in risk aversion and the ensuing reluctance of some banks to actively participate in the domestic interbank markets, in conjunction with the mounting demand for funding via the ECB's open market operations, are likely to increase funding pressures. These develop-

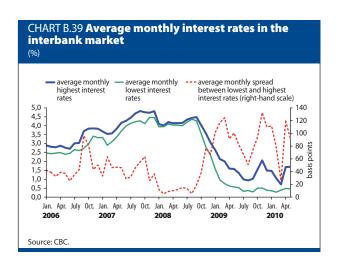
<sup>29.</sup>Derivative products where EONIA is swapped with a fixed interest rate of selected duration. OIS are used for hedging or speculative moves in the interbank overnight rate or the reference rates of central banks.

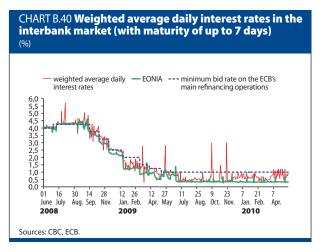
ments could lead to a progressive increase in the cost of borrowing in the interbank market, at least in the short run. It must be noted that a considerable number of banks, including some Greek banks, are still dependant on securing low-cost refinancing from the ECB's liquidity operations.

In Cyprus, with November 2009 as the reference month, the average monthly highest and lowest interbank rates<sup>30</sup> for the period December 2009–May 2010 exhibited an upward trend and slightly higher dispersion, particularly in April and May 2010, while the average monthly spread between the highest and the lowest interbank rates<sup>31</sup> has also widened (**Chart B.39**). The upward trend observed during the period under review was somewhat in line with the movement of the corresponding euro money market rates during the same period.

In comparison to the interbank EONIA swap rate and the minimum bid rate for the ECB main refinancing operations, fluctuations of the daily weighted average rate in the domestic interbank market intensified, with a number of banks paying, at times, a significant premium above the referenced euro rates (**Chart B.40**). Moreover, the increase in the funding cost during the period under review was accompanied by a notable rise in the monthly average volume *vis-à-vis* the respective volumes recorded in 2009, signifying the growing reliance of the domestic banks for funding in the interbank market.

The aforesaid developments suggest that considerable tensions remain in the domestic





<sup>30.</sup> Cost of short-term funding in euro (with a maturity of up to 7 days) of banks in Cyprus when borrowing from other domestic or foreign banks.

<sup>31.</sup> With a maturity of up to 7 days.

interbank market even though ample liquidity continues to be provided by the ECB. This is primarily on account of the non-standard liquidity support measures currently in effect, and the ECOFIN Council's announcement of 9 May 2010 regarding the implementation of a comprehensive package of measures to preserve financial stability in Europe, including the establishment of a European Financial Stabilisation Mechanism. The potential escalation of the risks, which emanate from the fragile fiscal condition and deteriorating prospects of the domestic economy, in conjunction with the slowdown in the growth rate of deposits in the banking sector, may exert further adverse pressures on the market, at least in the short run.

## 2.1.2 Key developments in the capital markets

#### **Government bond market**

In the first four months of 2010, the macrofinancial developments in Greece and deepening contagion fears associated with the Greek sovereign debt crisis exerted significant adverse pressures on the prices of most EU government bonds, counteracting any positive effects potentially of some encouraging macroeconomic data. Conditions in the bond markets normalised, to some extent, following the aforementioned ECOFIN Council's announcement to implement a comprehensive package of measures aiming to preserve financial stability in Europe as well

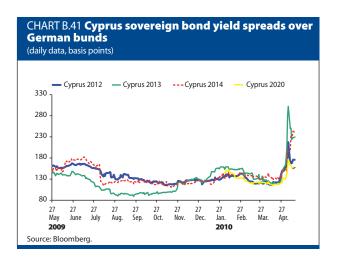
CENTRAL BANK OF CYPRUS

as the ECB's decision to conduct coordinated interventions in order to ensure liquidity in those market segments that are dysfunctional.

Since the publication of the December 2009 *Bulletin*, issuing activity in the primary government debt market by the Republic of Cyprus for the purpose of fulfilling its funding needs remained rather low. It must also be noted that trading activity in the domestic secondary government bond market, i.e. the Cyprus Stock Exchange (CSE), remains extremely low.

During the period December 2009-May 2010, the government proceeded with the issuance of two new bond securities. Specifically, on 15 January 2010 an auction was conducted for the issue of a 2-year Government Registered Development Stock at which the total amount of bids submitted amounted to €666,1 million, while the total nominal amount allotted to investors was €116 million. The weighted average yield-tomaturity of the bids accepted was 2,07%. Also, on 27 January 2010 the government tapped the international market via the Euro Medium-Term Note (EMTN) Programme<sup>32</sup>, with the issue of a new Eurobond of €1 billion nominal value at a yield of 4,68%. The new issue has a 10-year duration and bears an annual coupon of 4.625%.

As clearly depicted in **Chart B.41**, at the end of 2009 investor fears concerning the large fiscal imbalances of a number of peripheral economies in the euro area and the ensuing appraisal of sovereign credit risk, reversed the narrowing trend of the spreads between the



<sup>32.</sup> Euro-denominated bonds issued by the Cyprus government under the Euro Medium-Term Note (EMTN) Programme established in 1997.

four Cypriot eurobonds and the corresponding German bunds that was observed during the second half of 2009. During the period April-May 2010, the spread of all four eurobonds widened considerably with the 2012 and 2020 (Cypriot benchmark bond) issues exhibiting the best performance for the entire period under review.

Investors shifted towards the highest-rated and most liquid bonds, particularly German bunds. The flows into "safe-haven" bonds coupled with deepening concerns about the prospects for the domestic and other European economies, is expected to augment adverse pressures on the spread between Cypriot eurobond prices and the respective German bunds widening. Moreover, the likely increase in government borrowing needs, which may stem from the higher projected public sector deficit, is expected to exert added upward pressure on the Cypriot eurobond yields.

## **Equity market**

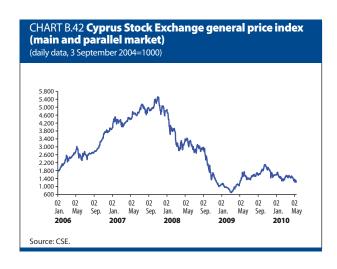
The particularly strong rebound of the CSE that begun in March 2009, largely due to the strong gains of the banking sector, came to an end in November 2009. This can be attributed to investor concerns about Greece's fiscal sustainability and the subsequent progressive escalation of contagion fears to other vulnerable euro area economies, in conjunction with the ominous macro-financial developments at the domestic level, triggered widespread market fears that adversely

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affected the CSE's performance. On account of the direct linkage of the CSE with the Athens Exchange (ATHEX), due to the dual listing of Cyprus's two biggest banks, the CSE's performance during the review period was significantly lower than that of the major European stock markets.

Between November 2009 and 17 May 2010, the CSE's general price index (main and parallel market) fell by 21,3%, declining to 1.227,69 points (Chart B.42) whereas the FTSE/CySE 20 index dropped by 21,4% to 417,29 points. In early May 2010, the stock market endured severe adverse pressures, whereby on 7 May 2010 the lowest level of the review period was recorded. Furthermore, between the end of November 2009 and the end of April 2010, the total stock market capitalisation<sup>33</sup> shrunk by 12,2% to €6,16 billion while the daily average value of transactions continued its downward trend. At the end of December 2009, the ratio of total stock market capitalisation to GDP stood at 42,3%, compared with 39,1% at the end of June 2009.

The abrupt shift of investor sentiment observed in the last few months in the domestic stock market was broadly in line with the heightened risk aversion of investors at the international level, particularly in the European markets. Sentiment was also driven by the ensuing increase in stock market volatility as reflected in the upward path of implied market volatility<sup>34</sup> in May 2010, which still remains at significantly higher levels than before the onset of the crisis.

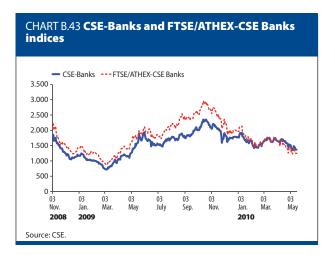


<sup>33.</sup> Excluding the investment companies market.

<sup>34.</sup> Expected standard deviation of percentage changes in stock prices over a period of three months, as implied in the prices of options on stock price indices.

The significant stock market losses recorded during the period under review are attributed to the banking sector's performance where the bulk of transactions is concentrated and which is directly affected by the prevailing conditions in the Greek economy and the aggregate investor sentiment in the ATHEX. It must be noted that between November 2009 and 17 May 2010, the FTSE/ATHEX-CSE banks index declined by 41,8% whereas the CSE bank index demonstrated higher resilience recording losses of 21,4% (Chart B.43). At the same time, the cumulative market share of the three largest banks listed on the CSE at the end of April 2010, was 71,2%, compared with 70,7% at end-December 2009.

Over the medium-term, the key factors for the performance of the stock market and the suppression of excessive market volatility are expected to be the recovery prospects for both the domestic and the world economy as well as the performance of major stock markets and the consequent investor sentiment. Owing to the considerably large market weight of the banking sector and the limited dispersion and weight of other CSE sectors, the performance of the banking sector will strongly determine the overall direction of the CSE's general price index.





SECTION C
Statistical Annex

## **Explanatory notes for Statistical Annex**

The statistical annex contains data on, mostly, the domestic economy and, where possible, longer time series than in the main body of the *Bulletin*. In the notes below, there is aggregate information on the aforementioned data, including explanations for both the 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 C.1** shows the bilateral exchange rates of selected currencies against the euro. The source of the data is the ECB's Statistical Data Warehouse (SDW).

Tables C.2-C.7 refer to the Consumer Price Index (CPI), which is published on a monthly basis by Cystat with 2005 as the base year. Table C.2 shows both the national CPI and the HICP. Even though the two indices exhibit similar fluctuations, they differ in two respects. First, the expenditures of charitable institutions (i.e. nursing homes, religious organisations, etc.) and foreign tourists are included in the HICP but not in the national CPI. The second difference concerns imputed rents, which were included in the national CPI until 2005 but not in the HICP. Since January 2006, only part of the imputed rents is included in the national CPI. Tables C.2 and C.3 show the percentage change in CPI by economic category and the corresponding weighted contribution to the total change in CPI by economic category, respectively. Tables C.4 and C.5 present the percentage change in the CPI by category of goods and services and the corresponding weighted contribution to the total change in the CPI by category of goods and services, respectively.

**Tables C.6** and **C.7** show the percentage change in the CPI for prices of services and the corresponding weighted contribution to the percentage change in prices of services, respectively.

**Table C.8** presents the balance of payments of Cyprus which records the transactions between residents and non-residents. The balance of payments is divided into the current account and the capital and financial account which, because of the double entry principle, must be equal with opposite signs.

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

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

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

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

**Table C.14** shows GDP by category of expenditure at constant 2005 market prices calculated using the chain linking method while **Table C.15** shows GDP by category of

expenditure at current market prices. The data for GDP are prepared by Cystat and are based on the concepts and methodology of the European System of Accounts (ESA 95). Provisional data are based on the last available indicators, until the results of various economic surveys are finalised.

**Table C.16** shows the turnover volume index of retail trade which uses the EU's new version of the statistical classification of economic activities, NACE Rev. 2, as published by Cystat with 2005 as the base year.

Table C.17 shows construction indicators as published by Cystat. Specifically, it shows the total area of building permits authorised by the municipal authorities and the district administration offices as well as the sales of cement in metric tons.

Table C.18 presents the index of industrial production, which shows the monthly change in volume production in the sectors of mining and quarrying, manufacturing industries, electricity, gas and water supply, i.e. sectors B, C, D and E of the EU's new statistical classification of economic activities, NACE Rev. 2. This index is published by Cystat with 2005 as the base year.

**Table C.19** shows key indicators of the labour market in Cyprus based on the Labour Force Survey (LFS), which is published by Cystat. The LFS is conducted in all EU member states.

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

**Table C.21** presents the distribution of bank

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

TABLE C.1 Exchange rates of selected currencies against the euro			
	GBP/EUR	JPY/EUR	USD/EUR
Average for January	0,8831	130,3400	1,4272
Average for February	0,8760	123,4600	1,3686
Average for March	0,9016	123,0300	1,3569
Average for April	0,8746	125,3300	1,3406
Average for May (until 17 May)	0,8552	118,0464	1,2702
Average for Jan - May (until 17 May)	0,8781	124,0413	1,3527
Closing rate on 04/01/2010	0,8865	133,2600	1,4324
Closing rate on 17/05/2010	0,8563	114,7700	1,2395
Highest exchange rate vs the euro	0,9118	133,64	1,4513
	(10 Mar)	( 11 Jan)	(14 May)
Lowest exchange rate vs the euro	0,84657	114,32	1,2358
	( 11 May)	(6 May)	( 14 May)
% appreciation (+)/depreciation (-) of the currency vs the euro from closing rate on 04/01/2010 to closing rate on 17/05/2010	3,4	13,9	13,5

											Wei	ghts
		2007	2008	2009	Apr. 2009/08	Mar. 2010/09	Apr. 2010/09	JanApr. 20 09/08	JanMar. 2010/09	JanApr. 2010/09	2005=100 (for 2006)	2005=100 (for 2007 - 2010) <sup>(1)</sup>
	GENERAL INDEX	2,38	4,70	0,33	0,70	2,40	2,44	0,88	2,57	2,54	100,00	100,00
A	Domestic products	3,94	7,36	0,78	1,83	1,70	2,87	3,68	1,79	2,06	28,60	28,98
A.1	Agricultural	7,83	10,71	3,30	4,99	-4,03	-0,96	8,06	-2,06	-1,79	6,92	6,93
A.2	Industrial	3,02	3,64	2,56	3,63	1,05	1,00	4,25	1,37	1,28	19,24	19,29
A.3	Electricity	-0,33	23,16	-14,84	-16,42	24,78	28,14	-10,35	15,65	18,57	2,44	2,76
В	Petroleum products	2,81	10,54	-17,19	-21,43	22,38	22,04	-22,42	20,15	20,65	6,44	6,63
c	Imported products	-1,92	-0,35	-0,56	0,56	-0,86	-1,49	0,32	-0,92	-1,07	25,31	24,62
(1	Motor vehicles	-8,50	-1,29	-3,38	-1,25	-5,97	-5,88	-0,82	-5,62	-5,69	6,15	5,41
C2	Other imported products	-0,08	-0,11	0,16	1,01	0,44	-0,40	0,62	0,30	0,12	19,16	19,21
D	Services	3,58	4,48	3,69	4,11	1,89	1,40	3,38	2,54	2,25	39,65	39,77
	HICP	2,2	4,4	0,2	0,6	2,3	2,5	0,7	2,5	2,5		

										We	ights
	2007	2008	2009	Apr. 2009/08	Mar. 2010/09	Apr. 2010/09	JanApr. 20 09/08	Jan-Mar. 2010/09	JanApr. 2010/09	2005=100 (for 2006)	2005=100 (for 2007 - 2010)
GENERAL INDEX	2,38	4,7	0,33	0,70	2,40	2,44	0,88	2,57	2,54	100,00	100,00
Domestic products	1,16	2,21	0,24	0,56	0,54	0,89	1,12	0,56	0,64	28,60	28,9
.1 Agricultural	0,56	0,81	0,26	0,40	-0,36	-0,08	0,65	-0,18	-0,16	6,92	6,9
.2 Industrial	0,58	0,71	0,49	0,70	0,21	0,20	0,81	0,27	0,25	19,24	19,2
.3 Electricity	-0,01	0,69	-0,52	-0,54	0,69	0,77	-0,34	0,47	0,55	2,44	2,7
Petroleum products	0,20	0,74	-1,28	-1,62	1,26	1,30	-1,66	1,16	1,18	6,44	6,6
Imported products	-0,46	-0,08	-0,12	0,12	-0,18	-0,32	0,07	-0,20	-0,23	25,31	24,6
1 Motor vehicles	-0,44	-0,06	-0,15	-0,05	-0,26	-0,25	-0,04	-0,25	-0,25	6,15	5,4
2 Other imported products	-0,01	-0,02	0,03	0,18	0,08	-0,07	0,11	0,05	0,02	19,16	19,2
) Services	1,43	1,80	1,48	1,64	0,78	0,58	1,37	1,06	0,94	39,65	39,7

(1)	The weights	were updated	l as a result	of the c	hange in the	e taxes on	motor vehicles.
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	2007	2008	2009	Apr. 2009/08	Mar. 2010/09	Apr. 2010/09	JanApr. 2009/08	JanMar. 2010/09	JanApr. 2010/09
GENERAL INDEX	2,38	4,67	0,33	0,70	2,40	2,44	0,88	2,57	2,54
Food and non-alcoholic beverages	5,56	7,59	3,69	5,61	-2,07	-0,35	7,68	-1,04	-0,87
Alcoholic beverages and tobacco	1,34	0,23	3,10	2,40	1,79	1,49	2,18	1,90	1,80
Clothing and footwear	0,29	-1,32	-4,06	-2,72	0,96	-1,97	-4,23	0,12	-0,47
Housing, water, electricity and gas	2,07	7,01	-2,49	-3,04	8,40	9,07	-1,87	7,10	7,60
Furnishings, household equipment and supplies	0,27	2,15	1,47	1,75	0,87	0,88	1,32	1,39	1,26
Health	6,22	4,93	6,49	6,98	2,93	2,72	4,91	5,18	4,56
Transport	-0,48	4,47	-6,97	-7,91	4,17	3,73	-8,27	3,69	3,70
Communications	1,30	0,16	0,01	0,02	-0,08	-0,05	-0,02	-0,04	-0,04
Recreation and culture	0,59	3,65	1,92	1,86	0,37	0,42	2,27	0,75	0,67
Education	4,88	5,05	5,29	5,12	5,07	5,07	5,12	5,07	5,07
Restaurants and hotels	4,20	7,65	5,60	7,19	2,77	1,86	6,09	3,55	3,12
Miscellaneous goods and services	2,48	2,50	2,99	3,30	2,21	1,68	2,47	2,53	2,32

				Apr.	Mar.	Apr.	JanApr.	JanMar.	JanApr.
	2007	2008	2009	2009/08	2010/09	2010/09	2009/08	2010/09	2010/09
GENERAL INDEX	2,38	4,67	0,33	0,70	2,40	2,44	0,88	2,57	2,54
Food and non-alcoholic beverages	0,98	1,36	0,70	1,06	-0,43	-0,07	1,44	-0,21	-0,17
Alcoholic beverages and tobacco	0,03	0,00	0,06	0,05	0,04	0,03	0,04	0,04	0,04
Clothing and footwear	0,03	-0,11	-0,32	-0,23	0,07	-0,16	-0,32	0,01	-0,03
Housing, water, electricity and gas	0,34	1,13	-0,42	-0,51	1,36	1,47	-0,31	1,16	1,23
Furnishings, household equipment and supplies	0,02	0,14	0,09	0,11	0,06	0,06	0,08	0,09	0,08
Health	0,31	0,25	0,34	0,36	0,16	0,15	0,25	0,28	0,25
Transport	-0,07	0,65	-1,04	-1,19	0,57	0,51	-1,23	0,50	0,50
Communications	0,05	0,01	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Recreation and culture	0,04	0,22	0,12	0,11	0,02	0,03	0,14	0,05	0,04
Education	0,14	0,15	0,16	0,15	0,16	0,16	0,15	0,16	0,16
Restaurants and hotels	0,31	0,57	0,44	0,56	0,23	0,15	0,47	0,29	0,25
Miscellaneous goods and services	0,17	0,17	0,20	0,23	0,15	0,12	0,17	0,18	0,16

	Mar. 2010/09	Apr. 2009/08	Apr. 2010/09	JanMar. 2010/09	JanApr. 2009/08	JanApr. 2010/09
GENERAL INDEX	2,40	0,70	2,44	2,57	0,88	2,54
Rents	2,20	3,01	2,00	2,49	2,92	2,37
Maintenance of houses	1,05	0,92	1,08	0,99	1,04	1,01
Transport	-7,29	2,16	-9,81	-6,48	1,92	-7,32
Communications	0,00	0,06	0,00	0,04	0,03	0,03
Insurance	2,87	4,15	-0,51	3,44	1,17	2,42
Public services	1,49	1,97	1,49	1,49	1,97	1,49
Education	5,07	5,12	5,07	5,07	5,12	5,07
Medical care	3,89	9,28	3,63	6,79	6,58	5,98
Restaurants	3,06	7,22	2,01	3,94	5,94	3,45
Personal and household services	2,03	2,86	2,37	2,54	2,41	2,50
Total services	1,89	4,11	1,40	2,54	3,38	2,25

	Mar. 2010/09	Apr. 2009/08	Apr. 2010/09	JanMar. 2010/09	JanApr. 2009/08	JanApr. 2010/09
GENERAL INDEX	2,40	0,70	2,44	2,57	0,88	2,54
Rents	0,15	0,20	0,14	0,17	0,20	0,16
Maintenance of houses	0,02	0,02	0,02	0,02	0,02	0,02
Transport	-0,19	0,05	-0,25	-0,17	0,04	-0,19
Communications	0,00	0,00	0,00	0,00	0,00	0,00
Insurance	0,05	0,07	-0,01	0,06	0,02	0,04
Public services	0,02	0,03	0,02	0,02	0,03	0,02
Education	0,16	0,15	0,16	0,16	0,15	0,16
Medical care	0,16	0,35	0,15	0,27	0,25	0,24
Restaurants	0,24	0,54	0,16	0,31	0,45	0,27
Personal and household services	0,16	0,23	0,19	0,21	0,19	0,20
Total services	0,78	1,64	0,58	1,06	1,34	0,94

(€ million)						
		2008 (prov.)			2009 (prov.)	
	Credit	Debit	Net	Credit	Debit	Net
CURRENT ACCOUNT	10.828,8	13.875,9	-3.047,0	9.555,3	11.002,8	-1.447,5
GOODS, SERVICES AND INCOME	10.169,3	13.180,1	-3.010,8	9.079,5	10.346,8	-1.267,3
GOODS AND SERVICES	7.585,8	9.612,4	-2.026,6	6.684,5	7.582,3	-897,8
GOODS	1.149,2	6.695,6	-5.546,3	968,3	5.223,7	-4.255,4
SERVICES	6.436,6	2.916,8	3.519,8	5.716,1	2.358,6	3.357,5
Transport	1.770,9	1.106,2	664,7	1.544,9	900,0	644,9
Travel	1.861,1	1.052,6	808,5	1.550,4	906,1	644,3
Communications services	76,0	100,7	-24,6	68,4	69,1	-0,8
Construction services	103,6	15,0	88,6	39,1	9,3	29,8
Insurance services	122,8	45,4	77,4	71,4	33,5	37,9
Financial services	745,2	148,9	596,3	800,2	77,8	722,4
Computer and information services	144,6	19,5	125,0	70,7	17,7	53,0
Royalties and licence fees	8,2	31,9	-23,7	8,6	27,2	-18,5
Other business services	1.395,6	268,2	1.127,4	1.388,0	231,1	1.156,9
Personal, cultural and recreational services	35,7	51,0	-15,3	26,1	31,9	-5,8
Government services, n.i.e.	173,0	77,4	95,6	148,4	54,9	93,4
Services not allocated	0,0	0,0	0,0	0,0	0,0	0,0
INCOME	2.583,5	3.567,7	-984,2	2.395,1	2.764,5	-369,4
Compensation of employees	59,7	260,9	-201,2	28,7	163,0	-134,3
Investment income	2.523,9	3.306,8	-782,9	2.366,4	2.601,5	-235,1
Direct investment income	530,5	1.649,5	-1.119,0	409,2	1.318,1	-908,8
Portfolio investment income	881,2	741,2	140,0	836,2	593,5	242,7
Other investment income	1.112,1	916,1	196,1	1.121,0	690,0	431,0
CURRENT TRANSFERS	659,5	695,8	-36,3	475,8	656,0	-180,2
General government	131,5	208,3	-76,8	135,1	224,2	-89,1
Other sectors	528,1	487,5	40,6	340,7	431,8	-91,1
CAPITAL AND FINANCIAL ACCOUNT			2.957,4			1.425,5
Capital account	54,4	45,4	9,0	102,6	41,8	60,8
Financial account			2.948,4			1.364,7
Direct investment			311,9			403,5
Abroad			-889,6			-3.216,2
In Cyprus			1.201,5			3.619,8
Portfolio investment			-12.779,5			-11.367,4
Assets			-12.132,9			-11.374,0
Liabilities			-646,6			6,6
Financial derivatives	· · · · · · · · · · · · · · · · · · ·		-186,9			23,5
Other investment			15.334,3			12.213,6
Assets			-7.469,9			-2.916,6
Liabilities			22.804,1			15.130,2
Official reserve assets			268,7			91,5
Net errors and omissions			89,7			22,0

CENTRAL BANK OF CYPRUS

				2009	2010	
	2008	2009	% change	JanFeb.	JanFeb.	% change
Imports	7.366,7	5.654,4	-23,2	866,7	917,0	5,8
Consumer goods	2.047,5	1.927,6	-5,9	278,2	260,9	-6,2
Intermediate inputs	2.129,9	1.563,5	-26,6	243,1	235,7	-3,1
Capital goods	664,6	597,7	-10,1	103,8	78,9	-24,0
Transport equipment	1.047,8	0,561	-99,9	111,7	153,7	37,6
Fuels and lubricants	1.450,0	0,996	-99,9	129,4	185,5	43,4
Exports	1.190,4	963,2	-19,1	145,8	155,7	6,8
Trade deficit	6.176,3	4.691,2	-24,0	720,9	760,4	5,5

т/	ARIF C 10 Diverting	waa a ba		ر مانام،	4.								
	ABLE C.10 <b>Direct investment in C</b> y million)	prus by	/ non-i	esiaer	its								
(5													
							Ne	et capital fl	ows				
NACE CODE	<b>Economic activity</b>	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008**
595	AGRICULTURE AND FISHING	-0,3	0,3	*	0,2	0,2	0,0	0,0	0,0	0,0	-0,1	-0,1	0,0
1495	MINING AND QUARRYING	0,1	4,1	8,9	2,8	2,1	2,1	4,7	50,3	19,9	0,4	2,1	-12,7
3995	MANUFACTURING	7,5	-5,2	6,0	14,3	5,6	37,8	-9,2	53,2	30,4	79,6	15,4	4,2
4195	ELECTRICITY, GAS AND WATER	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	2,0
4500	CONSTRUCTION	3,2	3,7	*	6,6	-6,3	13,6	29,8	58,9	68,3	47,9	52,2	38,6
5295	TRADE AND REPAIRS	125,1	130,2	132,4	210,7	256,1	217,8	101,1	277,3	177,2	262,5	371,3	415,9
5500	HOTELS AND RESTAURANTS	1,3	-0,6	0,4	2,3	21,3	8,3	1,9	*	*	5,7	10,6	9,0
6495	TRANSPORT AND COMMUNICATION	0,7	2,4	7,2	9,6	-0,2	44,6	119,1	*	*	-21,6	55,6	152,0
6895	FINANCIAL INTERMEDIATION	184,5	42,0	394,5	431,8	444,3	173,6	140,0	122,1	0,8	279,8	316,5	1.315,2
7395	REAL ESTATE AND BUSINESS ACTIVITIES	140,0	108,6	172,6	218,3	278,9	523,3	338,1	205,8	356,0	485,2	801,6	817,9
9995	OTHER SERVICES	17,9	20,1	30,9	12,6	35,8	67,8	40,0	75,8	269,6	322,4	1,1	-0,9
9996	NOT ALLOCATED	0,0	0,0	0,0	0,0	0,0	14,7	24,4	15,3	0,0	0,0	0,0	0,0
9999	TOTAL	479,9	305,6	754,3	909,1	1.037,8	1.103,6	789,8	873,0	940,5	1.461,9	1.626,4	2.741,1
							M	et capital fl					
Geogra	phical / economic zone	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008**
E1	EUROPEAN COUNTRIES	397.2	252,5	637.0	771,4	873,3	955.1	667,5	764,5	909,4	861.0	1.553.1	2.357,3
D2	EU-15	195,4	*	209.1	392,9	414,0	418.1	511.7	477,4	501,3	443,1	945.0	923,8
D3	EU-25	231,6	223.2	219,1	458,4	455,2	444,1	588,4	604,3	534,0	492.2	972,1	992,1
E4	AFRICA	15,3	19,0	19,1	16,2	20,8	25,3	25,9	*	*	*	-0.9	59,3
E7	AMERICA	33,1	*	75,2	82,6	82,3	*	30,3	*	-9,4	192,4	5,0	187,8
F2	ASIA	34,7	31,1	24,7	39.7	63,0	86,6	*	14,8	34,2	413,3	69.2	138,3
F7	OCEANIA	-0,4	*	-1,7	-0,8	-1,7	*	*	-1,2	*	*	0,0	-1,5
Z8	Extra EU-15 not allocated	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	-0,1	0,0	0,0
A1	WORLD (ALL ENTITIES)	479,9	305,6	754,3	909,1	1.037,8	1.103,6	789,8	873,0	940,5	1.461,9	1.626,4	2.741,1

Source: CBC.

<sup>\*\*</sup>In order that the confidentiality of the data is ensured, amounts which relate to a small number of transactions are not presented on their own but are included at a higher level of aggregation.

\*\* 2008 data include brass plates (any legal form which has been incorporated or registered in Cyprus, but without a physical presence on the island).

For the conversion of Cyprus pounds into euro, the irrevocable exchange rate of €1 = £0,585274 was used.

T/	ABLE C.11 Direct investment a	broad											
(€	million)												
							Net capi	tal flows					
NACE CODE	Economic activity	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008**
595	AGRICULTURE AND FISHING	0,0	*	*	-2,6	*	-0,3	0,0	0,0	0,0	0,0	0,0	0,0
1495	MINING AND QUARRYING	0,0	0,0	0,0	0,0	-0,9	0,0	0,0	0,0	0,1	0,0	0,0	0,0
3995	MANUFACTURING	0,6	-2,6	-3,8	-7,1	-7,1	-4,6	-15,5	-58,9	-39,5	41,3	-2,1	-0,1
4195	ELECTRICITY, GAS AND WATER	*	0,0	0,0	*	*	-1,4	0,0	-0,1	0,0	0,0	0,0	0,5
4500	CONSTRUCTION	-1,0	-1,2	-1,2	-4,2	*	-69,5	-75,0	*	-196,8	*	-49,4	-99,5
5295	TRADE AND REPAIRS	-1,8	-0,6	-2,7	-9,1	-7,9	-5,3	-32,6	-37,3	176,9	-30,2	-22,9	-15,5
5500	HOTELS AND RESTAURANTS	*	*	-2,3	-18,2	-62,9	-16,3	-88,1	*	*	*	-22,4	-18,4
6495	TRANSPORT AND COMMUNICATION	0,0	-8,7	-39,6	-22,2	-13,5	-21,3	-18,4	-12,0	3,8	-10,0	-54,5	-13,0
6895	FINANCIAL INTERMEDIATION	-18,8	-47,5	-116,2	-98,4	-160,9	-112,1	-94,6	-122,4	42,5	-430,9	-348,1	-2.232,7
7395	REAL ESTATE AND BUSINESS ACTIVITIES	-4,3	-1,5	-2,5	-18,1	-12,7	-299,6	-132,4	-137,4	-415,8	-180,3	-406,8	-277,5
9995	OTHER SERVICES	*	*	*	*	-3,9	-0,8	-10,7	-0,7	*	114,2	-0,1	-1,1
9996	NOT ALLOCATED	0,0	0,0	0,0	0,0	0,0	-9,3	-39,5	-8,9	0,0	0,0	0,0	0,0
9999	TOTAL	-24,5	-62,6	-169,4	-183,0	-274,3	-540,6	-506,8	-555,4	-442,4	-707,2	-906,3	-2.657,4
								tal flows					
Geogra	phical / economic zone	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008**
E1	EUROPEAN COUNTRIES	-20,6	-44,6	-115,0	-139,2	-234,8	-441,4	-412,0	-475,6	-301,9	-375,8	-842,1	-1.781,5
D2	EU-15	-19,8	-36,2	-104,4	-114,4	-221,9	-188,0	-319,4	-319,7	-127,1	-68,8	-494,5	72,0
D3	EU-25	-20,0	-36,0	-104,6	-116,1	-223,6	-429,0	-339,0	-359,2	-138,7	-34,7	-516,3	-8,9
E4	AFRICA	*	-0,6	-30,0	-7,6	*	-26,4	-35,4	*	*	-213,4	-0,8	-77,8
E7	AMERICA	-1,1	*	*	-2,4	*	*	-16,9	-6,5	*	*	-5,4	-563,0
F2	ASIA	-1,2	-16,0	-21,4	-0,6	-3,9	*	-41,1	*	*	*	-51,8	-193,8
F7	OCEANIA	*	*	*	-33,2	-32,9	-3,4	-1,4	-11,2	-4,8	-8,6	-5,8	-41,1
Z8	Extra EU-15 not allocated	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	-0,4	-0,1
A1	WORLD (ALL ENTITIES)	-24,5	-62,6	-169,4	-183,0	-274,3	-540,6	-506,8	-555,4	-442,4	-707,2	-906,3	-2.657,4

Source: CBC.

<sup>\*\*</sup>No order to ensure confidentiality of the data, amounts which relate to a small number of transactions are not presented on their own but are included at a higher level of aggregation.

\*\* 2008 data include brass plates (any legal form which has been incorporated or registered in Cyprus, but without a physical presence on the island).

For the conversion of Cyprus pounds into euro, the irrevocable exchange rate of £1 = £0,585274 was used.

	ASSETS	LIABILITIES	BALAN
IANCIAL ACCOUNT			1.64
a et luvra et un a unt			-6.02
ect Investment Noroad			9.11 6.74
quity capital and reinvested earnings			1.68
MFIs (excluding central banks)			5.05
Other sectors			2.36
Other Capital			2.5
MFIs (excluding central banks)			2.30
Other sectors			15.1
n the reporting country			11.61
quity capital and reinvested earnings			2.82
MFIs (excluding central banks)			8.7
Other sectors			3.5
ther capital			2
AFIs (excluding central banks)			3.2
ther sectors	26.291,2	7.967,0	18.3
Afalia luuraatuu aut	1.052,5	872,1	
tfolio Investment			
quity securities  Monetary authorities	2.0	615.0	
General government	2,0 1.050,5	257,1	
MFIs (excluding central banks)	25.238,7	7.094,9	
Other sectors	24.834,0	5.726,9	
ebt securities	2.455,4	3.720,7	
Bonds and notes	2.155/.	1.050,0	
Monetary authorities	21.902,4	4.676,9	
General government	476,2		
MFIs (excluding central banks)	404,7	1.368,0	
Other sectors .			
Money market instruments		480,0	
Monetary authorities	342,0	813,0	
General government	62,8	75,0	
MFIs (excluding central banks)	503,7	875,8	-3
Other sectors			
ancial Derivatives	498,6	872,9	-37
Annetary authorities	5,1	2.9	-8
eneral government	44.215,3	55.218,6	-11.0
AFIs (excluding central banks)	104,1	467,3	-11.0
Other sectors	104,1	467,3	
Action Sections	10 17.	10.75	
ner Investment	98,0	835,0	
Monetary authorities	90,0		
Loans/currency and deposits		835,0	
Other assets/liabilities	8,0		
General government	38.265,5	52.000,3	
Trade credits	38.265,5	52.000,3	
Loans/currency and deposits			
Other assets/liabilities	5.747,7	1.916,0	
MFIs (excluding central banks)	112,7	760,0	
Loans/currency and deposits	5.635,0	1.156,0	
Other assets/liabilities			
Other sectors Trade credite	04.5	£13 £	7
Trade credits	94,5	613,6	
Loans/currency and deposits  Other assets/liabilities	4.864,2	987,9	
Other assets/labilities  Reserve assets			1.2
HESELVE GOSECO			1.2

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			Tourist arriva	ıls		Receipts from to	ıırism
		Number of	% cha				ange
ear	Month	tourists	Previous year	Cumulative period	€ million	Previous year	Cumulative period
2006	January	54.875	-6,8	-6,8	36,2	2,4	2,4
	February	66.151	-8,9	-8,0	39,4	-1,7	0,2
	March	107.071	-21,9	-15,1	66,5	-18,3	-9,4
	April	206.548	12,5	-3,9	127,2	20,2	2,.
	May	283.513	-0,2	-2,5	191,1	6,1	4,1
	June	280.164	-0,9	-2,0	201,1	3,8	3,
	July	341.443	0,7	-1,3	264,9	10,6	5,
	August	314.872	-6,5	-2,4	264,8	-3,9	3,
	September	296.532	-2,1	-2,3	240,8	2,2	3,7
	October	283.046	-3,2	-2,4	209,9	2,0	3,
	November	95.682	-8,7	-2,7	64,3	-12,7	2,
007	December	71.022	-6,1	-2,8	49,1	-5,2	2,
007	January February	51.848 63.098	-5,5 -4,6	-5,5 -5,0	33,6 38,5	-7,1 -2,2	-7, -4
	March	104.316	-4,6 -2,6	-5,0 -3,9	68,5	3,1	-4, -1,
	April	189.310	-2,6 -8,3	-5,9 -6,0	123,7	-2,8	-1,1 -1,1
	May	273.058	-3,7	-5,1	204,6	7,1	1,
	June	282.465	0,8	-3,4	207,4	3,2	2,
	July	352.423	3,2	-1,7	287,3	8,5	4,1
	August	340.534	8,1	0,1	306,0	15,5	6,1
	September	315.437	6,4	1,1	263,0	9,3	7,
	October	275.103	-2,8	0,6	206,3	-1,7	5,
	November	94.741	-1,0	0,5	67,8	5,5	5,
	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,
	February	70.140	11,2	5,1	40,6	5,5	5,
	March	108.164	3,7	4,4	67,3	-1,7	1,
	April	182.091	-3,8	0,6	107,8	-12,8	-5,1
	May	271.599	-0,5	0,1	191,3	-6,5	-5,
	June	307.237	8,8	2,7	229,6	10,7	-0,
	July	342.554	-2,8	1,2	272,9	-5,0	-2,1
	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	-4,1
	November	97.900	3,3	-0,5	72,4	6,8	-3,
	December	72.127	-2,2	-0,5	51,6	0,5	-3,
009	January	47.066	-7,1	-7,1	31,2	-11,6	-11,
	February	56.626	-19,3	-14,2	36,3	-10,7	-11,
	March	90.434	-16,4	-15,2	57,4	-14,7	-12,
	April	181.395	-0,4	-8,6	107,4	-0,3	-7,
	May June	246.546 260.931	-9,2 -15,1	-8,9 -10,8	158,1	-17,4 -23,6	-11,i -15,i
	July	304.126	-11,2	-10,8	175,4 232,5	-14,8	-15,
	August	291.583	-11,1	-11,0	234,8	-15,5	-15, -15,
	September	276.178	-9,6	-10,7	200,2	-19,1	-15, -16,
	October	230.431	-14,0	-10,7	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	-10, -16,
010	January	45.952	-2,4	-2,4	29,7	-4,8	-4,
-10	February	55.250	-2,4	-2,4	33,9	-6,6	-5,
	March	103.803	14,8	5,6	65,6	14,3	3,
	April	139.658	-23,0	-8,2	n/a	n/a	n/a

TABLE C.14 Gross domestic product by category of expenditure at constant 2005 prices, chain linking method (€ million) Gross General Gross **Exports of** Imports of domestic government Private capital goods and goods and Year /Quarter product consumption consumption formation services services 1995 01 2.034.6 422.6 1.388.3 632.8 736.0 1.046,2 1.980,5 251,9 1.437,6 758,2 1.173,3 1.141,9 03 2.171.1 299.1 1.414.0 1.281.0 455.8 1.124.0 04 2.122.5 321,7 1.211,5 242.9 1.154,0 1.120,3 1996 Q1 2.072,9 482,2 1.459,9 718,3 825,1 1.148,6 Q2 2.017,2 298,8 1.473,9 708,3 1.210,2 1.221,8 Q3 2.158,6 339,6 1.321,8 387,6 1.413,5 1.164,9 04 1.205.0 250.8 1.165.4 1.246.1 2.217.5 349 5 1997 Q1 2.149,7 487,1 1.505,4 581,0 838,7 1.083,1 1.220.0 349,9 1.601.6 649.0 1.285,1 02 2.089.5 Q3 2.300,3 340,7 1.366,6 434,9 1.543,5 1.265,9 Q4 2.333,4 372,6 1.255,5 216,2 1.174,3 1.189,5 1998 Q1 2.250,8 470,9 1.607,4 511,9 886,4 1.164,2 Q2 2.181,2 368,0 1.666,1 646,9 1.265,4 1.205,6 03 1.409.3 1.545,4 2.414.1 381.6 467.0 1.267.9 385,7 2.438,1 1.280,2 325,5 1.167,6 1.278,1 04 1999 Q1 2.375,3 532,6 1.645,4 451,1 891,0 1.102,2 Q2 2.306,8 336,7 1.763,6 680.9 1.358,5 1.305,5 Q3 2.551,8 344,7 1.506,9 373,4 1.743,2 1.289,4 04 2.552,1 387.4 1.377.2 317.4 1.306.6 1.381.3 2000 Q1 514,4 1.757,7 541,7 1.026,6 1.247,5 2.472,5 1.877.0 816.6 1,494,9 02 2.383.5 368.7 1.517.4 Q3 2.655,6 397,6 1.542,1 409,1 1.894,1 1.440,5 Q4 1.428,0 342,9 1.415,2 1.532,6 2.677.9 424.8 2001 01 2.560,1 563.3 1.838.2 443.5 1.086.6 1.361,3 Q2 2.442,4 411,6 1.820,2 692,9 1.682,9 1.605,5 1.593,6 2.010.0 03 2.698.4 429,8 648.1 1.603.0 Q4 2.713,0 457,2 1.531,1 191,7 1.432,4 1.447,2 2002 Q1 994,0 2.639.6 576.9 1.818.5 603.5 1.368.7 02 2.485,5 433,3 1.789,1 762,2 1.590,2 1.573,7 Q3 2.747,5 442,1 1.673,4 543,0 1.890,3 1.543,2 Λ4 2.760,0 453,0 1.572.9 365.0 1.433,7 1.522.0 2003 Q1 2.699,8 1.873,3 697,8 906,5 1.351,7 660,5 403,5 1.877,6 783,4 1.400,3 02 2 588 4 1 465 7 Q3 2.869,3 448,2 1.742,3 525.2 1.984,1 1.575,9 Q4 2.870,0 456,7 1.725,7 208,5 1.589,8 1.598,5 2004 Q1 2.814,7 570,4 1.999,6 582,2 1.205,2 1.486,6 Q2 2.698,8 405,0 1.975,2 831,2 1.612,6 1.651,3 03 2.968,6 447,8 1.835.5 590,7 1.934,3 1.662,2 2.984,1 414,8 1.762,4 656,4 1.450,6 1.806,7 2005 2.067,1 684,5 1.235,4 01 2.930.8 674.6 1.609.3 Q2 2.805,8 454,9 2.049,3 678,5 1.709,8 1.604,3 Q3 3.102,0 500,7 1.904,9 673,1 2.063,2 1.727,5 04 3.100,7 478,1 1.863,8 645,9 1.496,4 1.909,4 2006 3.053,9 2.167,2 680,0 1.350,6 1.754,9 Q1 652,1 02 2.929,4 459.6 2.196,2 796,4 1.805.6 1.808.7 3.228,7 452,8 2.044,9 577,4 2.219,8 1.837,6 Q3 489,8 1.984,3 04 3.245.8 832.6 1.358.5 1.911.0 2007 Q1 3.194,0 686,1 2.412,9 797.9 1.332,5 1.859,3 Q2 3.055,3 452,7 2.383,7 1.122,3 1.739,5 2.008,3 03 3.351.7 470,3 2.234,7 712.8 2.400.5 2.160,1 673,4 1.672,2 2.256,3 Q4 3.357,4 600,7 2.220,3 2008 01 2.484.7 964.2 2.130.3 3.283.3 676.5 1.358.1 Q2 3.082,6 484,4 2.423,9 1.168,8 1.792,7 2.214,6 480,0 2.227,4 03 3.313.7 2.267.0 943.6 2.529.1 04 3.834,4 850,5 2.863,9 569,4 1.619,9 2.069,3 2009 Q1 3.603,6 637,4 2.857,7 527,6 1.339,3 1.758,5 02 3.887,6 642.9 2.626.5 784.2 1.490.1 1.656.2 Q3 3.792,0 771,0 2.386,5 1.867,2 1.868,0 635.3 883.8 2.597.9 1.473,2 1.892.5 04 3.721,0 658.6 Source: Cystat

ear/Quarter	Gross domestic product	General government consumption	Private consumption	Gross capital formation	Exports of goods and services	Imports of goods and services
195 Q1	1.613,0	187,8	1.188,5	484,3	589,9	837,5
Q2	1.902,5	211,4	1.114,6	562,1	935,4	920,9
Q3	1.827,2	217,3	1.091,7	309,6	1.118,7	910,0
Q4	1.807,5	349,4	1.228,3	211,1	932,1	913,4
96 01	1.710,5	208,4	1.221,9	548,8	677,6	946,1
<u>Q2</u> Q3	1.955,0 1.899,2	248,8 271,7	1.194,6 1.177,3	538,7 277,6	989,4 1.151,5	1.016,5 978,9
Q4	1.884,5	414,7	1.318,6	244,3	963,6	1.056,6
97 Q1	1.780,0	262,3	1.278,6	463,7	705,5	930,0
Q2	1.990,7	299,4	1.254,8	519,0	1.028,1	1.110,5
Q3	2.033,3	313,1	1.199,9	314,1	1.310,4	1.104,2
Q4	2.006,2	440,6	1.384,8	215,7	1.004,1	1.039,0
98 <u>Q1</u> Q2	1.897,2 2.184,4	317,0 308,6	1.399,3 1.315,0	421,3 525,2	769,5 1.091,5	1.009,9 1.056,0
Q3	2.211,4	338,6	1.284,4	361,4	1.333,8	1.106,8
Q4	2.152,3	435,2	1.506,9	312,3	1.010,1	1.112,3
99 Q1	2.037,9	343,5	1.492,9	388,0	777,7	964,3
Q2	2.341,0	358,6	1.376,6	567,1	1.195,4	1.156,8
Q3	2.354,6	362,1	1.319,4	287,4	1.543,9	1.158,1
Q4	2.328,9	510,3	1.597,7	300,7	1.172,9	1.252,7
000 01	2.232,1	328,9 338,7	1.638,6	466,7	943,0	1.145,0
Q2 Q3	2.564,3 2.559,7	338,7	1.533,6 1.463,7	659,3 310,4	1.413,7 1.771,8	1.381,0 1.376,0
Q4	2.539,7	525,8	1.769,5	375,0	1.771,6	1.485,8
001 Q1	2.395,9	382,4	1.858,7	400,0	1.044,4	1.289,7
Q2	2.777,0	411,7	1.659,9	621,0	1.618,3	1.533,9
Q3	2.783,0	438,1	1.420,5	539,8	1.918,0	1.533,4
Q4	2.672,0	586,6	1.903,7	185,5	1.369,4	1.373,1
002 <u>Q1</u>	2.490,8	434,0	1.857,5	544,2	952,1	1.297,0
Q2	2.828,5	452,5	1.713,1	668,1	1.504,9	1.510,2
<u>Q3</u>	2.829,9	486,5	1.585,6	466,7	1.775,5	1.484,5
Q4 003 Q1	2.830,2 2.661,1	623,8 493,8	1.937,9 1.953,8	380,7 656,0	1.339,9 849,4	1.452,1 1.291,9
Q2	3.045,3	511,4	1.867,2	741,7	1.306,1	1.381,1
03	3.036,8	533,9	1.646,4	482,5	1.861,9	1.487,9
Q4	3.018,0	783,4	2.071,0	165,6	1.506,7	1.508,8
004 Q1	2.858,5	483,2	2.081,8	541,4	1.155,9	1.403,7
Q2	3.255,7	535,4	1.948,7	786,9	1.564,5	1.579,7
<u>Q3</u>	3.271,6	549,4	1.856,6	579,1	1.895,5	1.609,0
Q4	3.267,8	687,2	2.269,5	645,3	1.430,5	1.764,6
005 <u>Q1</u> Q2	3.074,4 3.448,7	506,9 559,6	2.257,1 2.121,5	657,7 661,6	1.226,8 1.704,0	1.574,0 1.598,0
Q3	3.446,7	522,0	1.936,7	683,0	2.061,8	1.736,3
Q4	3.471,7	838,7	2.383,5	679,7	1.512,1	1.942,2
006 Q1	3.278,1	586,2	2.397,4	693,5	1.379,6	1.778,6
Q2	3.717,3	641,2	2.253,1	827,7	1.848,4	1.853,1
Q3	3.720,9	618,4	2.099,0	606,5	2.284,3	1.887,2
Q4	3.718,6	836,9	2.548,2	868,5	1.417,2	1.952,1
007 01	3.578,7	606,1	2.631,1	840,7	1.400,2	1.899,4
<u>Q2</u> Q3	4.068,8 4.119,2	600,6 652,3	2.509,6 2.374,6	1.190,0 776,8	1.840,4 2.562,6	2.071,7
Q3 Q4	4.119,2	905,6	3.030,9	776,8	1.809,3	2.247,1 2.387,4
008 Q1	3.968,0	634,4	3.030,8	1.094,5	1.494,8	2.286,5
Q2	4.455,5	658,4	2.913,5	1.313,4	1.979,9	2.409,7
Q3	4.459,6	845,7	2.833,7	1.086,3	2.461,1	2.767,2
Q4	4.364,6	953,4	3.203,3	661,5	1.784,6	2.238,2
009 Q1	4.011,8	734,3	3.124,2	554,9	1.459,7	1.861,3
02	4.391,2	744,8	2.939,8	851,7	1.616,3	1.761,4
Q3	4.284,3	877,0	2.662,7	731,5	2.009,1	1.996,0
Q4	4.259,1	1.008,3	2.923,1	778,5	1.584,9	2.035,8

				%	change
			6-month	previous	6-month movi
ear /	Month	Volume	moving average	year	avera
007	January	100,7	111,9	4,9	
	February	95,1	109,9	7,6	
	March	108,4	109,8	11,6	
	April	106,9	109,6	5,1	
	May	111,8	110,4	6,9	
	June	118,4	106,9	9,9	
	July	124,9	110,9	7,4	
	August	118,3	114,8	10,1	
	September	115,6	116,0	6,0	
	October	117,5	117,8	8,8	
	November	119,8	119,1	12,3	
	December	154,8	125,2	10,8	
08	January	108,6	122,4	7,8	
	February	109,1	120,9	14,7	
	March	110,2	120,0	1,7	
	April	118,6	120,2	10,9	
	May	123,2	120,8	10,2	
	June	121,2	115,2	2,4	
	July	136,2	119,8	9,0	
	August	120,6	121,7	1,9	
	September	124,5	124,1	7,7	
	October	121,0	124,5	3,0	
	November	113,2	122,8	-5,5	
	December	154,3	128,3	-0,3	
)9	January	111,0	124,1	2,2	
	February	102,6	121,1	-6,0	
	March	103,2	117,5	-6,4	
	April	115,5	116,6	-2,6	
	May	114,0	116,8	-7,4	
	June	117,7	110,7	-2,9	
	July	132,4	114,2	-2,8	
	August	116,4	116,5	-3,6	
	September	116,5	118,8	-6,4	
	October	116,4	118,9	-3,8	
	November	108,4	118,0	-4,2	
_	December	148,8	123,2	-3,6	
0	January**	104,6	118,5	-5,8	
	February*	97,9	115,4	-4,6	
		February	February*	JanFeb.	JanFe
rcen	ntage change by category	2009/2008	2010/2009	2009/2008	2010/2
	al index	-6,0	-4,6	-1,9	
	al index excluding automotive fuel	-6,4	-6,1	-2,2	
	ecialised stores with food, beverages or tobacco predominating	-4,8	4,6	0,0	
	etail sale in non-specialised stores	-1,9	-9,6	2,2	
	everages and tobacco in specialised stores	-16,8	0,9	-12,3	
	roducts	-6,9	4,1	-2,0	
	od products (except automotive fuel)	-4,6	-11,1	-1,1	
	, clothing and footwear	4,9	2,4	6,7	
	al goods and furniture	-15,1	-8,4	-8,9	-
nput	ter equipment, books and other otive fuel in specialised stores	-1,7	-22,1	-0,3	
		-9,9	6,3	-5,5	

			Sales of cement (v		Buildi	Building permits authorised (volume) % change				
		Total	Previous	hange 6-month	Area	99 C	nange 6-mont			
ear/	Month	(m. tons)	year	moving average	(sq.m.)	year	moving average			
006	January	112.257	-7,20	0,40	280.754	4,75	12,2			
000	February	127.234	0,52	-0,67	265.808	-6,97	4,7			
	March	149.825	-0,58	-0,06	331.444	0,19	8,0			
	April	118.938	-19,04	-3,30	251.063	-0,38	4,5			
	May	154.815	15,80	-1,44	380.135	31,46	6,0			
	June	146.826	2,13	-1,55	309.252	4,11	5,5			
	July	157.298	16,03	2,12	296.102	15,97	7,2			
	August	73.669	-3,15	1,87	199.623	-9,79	7,4			
	September	145.224	3,67	2,67	253.311	-4,23	6,9			
	October	150.045	10,09	8,16	331.638	0,79	6,8			
	November	156.958	7,34	6,69	333.853	-0,85	1,1			
	December	134.066	1,69	6,68	274.504	-4,46	-0,3			
007	January	132.561	18,09	6,70	263.912	-6,00	-3,6			
	February	130.638	2,68	7,00	299.455	12,66	-0,4			
	March	174.292	16,33	9,32	388.979	17,36	3,3			
	April	137.205	15,36	10,10	324.503	29,25	7,5			
	May	160.929	3,95	9,41	333.002	-12,40	4,8			
	June	165.444	12,68	11,26	304.133	-1,66	5,2			
	July	174.989	11,25	10,36	339.730	14,73	8,5			
	August	78.961	7,18	11,29	192.004	-3,82	6,4			
	September	148.393	2,18	8,68	288.517	13,90	5,4			
	October	176.722	17,78	9,37	318.083	-4,09	0,3			
	November	177.170	12,88	11,04	275.785	-17,39	-0,3			
	December	133.152	-0,68	8,83	284.703	3,72	0,5			
800	January	156.587	18,12	9,90	249.822	-5,34	-2,89			
	February	173.499	32,81	13,66	299.159	-0,10	-2,3			
	March	175.963	0,96	13,04	295.942	-23,92	-8,9			
	April	164.519	19,91	13,30	296.211	-8,72	-9,7			
	May	179.007	11,23	13,00	293.231	-11,94	-8,7			
	June	172.650	4,36	13,45	312.757	2,84	-8,7			
	July	200.922	14,82	13,04	329.337	-3,06	-8,2			
	August	69.945	-11,42	7,98	188.451	-1,85	-8,8			
	September	168.055	13,25	10,30	339.160	17,55	-1,28			
	October	178.855	1,21	7,07	374.647	17,78	3,5			
	November	164.606	-7,09	3,62	382.457	38,68	12,1			
200	December	135.678	1,90	3,22	327.935	15,18	14,3			
009	January	120.871	-22,81	-3,79	278.876	11,63	17,5			
	February	122.367	-29,47	-7,78 14.70	273.892	-8,45	15,2			
	March	123.823	-29,63	-14,79	255.578	-13,64	9,8			
	April	117.392	-28,65	-20,00	234.397	-20,87	3,0			
	May	132.204 137.449	-26,15 -20,39	-23,44 -26,23	254.844 359.744	-13,09 15,02	-5,4 -5,1			
	June	137.449	-20,39 -24,48	<u> </u>	295.814					
	July	48.329	-24,48	-26,40 -26,18	295.814 176.594	-10,18 -6,29	-8,3 -7.5			
	August September	126.657	-30,90 -24,63	-26,18 -25,27	276.027	-0,29 -18,61	-7,5 -0.7			
	October	128.881	-24,63 -27,94	-25,27	203.278	-18,61	-9,7 -16,0			
	November	122.260	-27,94	-25,19	263.849	-45,74	-18,5			
	December	107.190	-23,73	-25,38	263.566	-19,63	-18,8			
010	January	84.111	-30,41	-25,38	228.827	-17,95	-10,0			
10	February	99.354	-18,81	-20,32 -24,93	335.783	22,60	-22,0 -24,2			
	March	135.848	9,71	-19,92			-24,2 n/			
	April	99.749	-15,03	-19,92 -17,36	n/a n/a	n/a	n/			

CENTRAL BANK OF CYPRUS

					0/ 1	
			ndex	Previous	% change 6-month	Cumulati
ear/	Month	Monthly	Cumulative	Year	moving average	peri
007	January	90,50	90,50	2,61	2,26	2,
	February	90,50	90,50	1,23	1,65	1,
	March	106,70	95,90	4,92	2,17	3,
	April	96,00	95,93	3,67	1,97	3,
	May	112,60	99,26	4,26	2,69	3,
	June	113,60	101,65	3,84	3,50	3
	July	119,50	104,20	9,83	4,75	4
	August	74,50	100,49	-2,99	4,29	3
	September October	108,20 111,80	101,34 102,39	1,69 6,17	3,72 4,15	3
	November	111,80	102,39	9,83	5,09	3
	December	110,20	103,91	7,72	5,76	4
008	January	97,10	97,10	7,72	5,24	7
.00	February	100,90	99,00	11,49	7,24	9
	March	106,70	101,57	0,00	6,94	5
	April	107,80	103,13	12,29	7,95	7
	May	118,80	106,26	5,51	7,17	7
	June	117,20	108,08	3,17	6,33	6
	July	127,80	110,90	6,95	6,31	6
	August	71,20	105,94	-4,43	4,27	5
	September	114,80	106,92	6,10	5,32	5
	October	114,60	107,69	2,50	3,78	5
	November	111,70	108,05	-0,98	2,64	4
	December	113,10	108,48	2,63	2,54	
009	January	88,10	87,60	-9,27	-0,18	-9
	February	91,70	89,90	-9,12	-1,09	-9
	March	94,90	91,57	-11,06	-3,97	-9
	April	93,90	92,15	-12,89	-6,62	-10
	May	101,30	93,98	-14,73	-9,12	-11
	June	105,20 115,20	95,85 98,61	-10,24 -9,86	-11,32 -11,34	-11
	July August	62,90	94,15	-9,66 -11,66	-11,72	-11 -11
	September	102,10	95,03	-11,06	-11,71	-1 -1
	October October	99,20	95,45	-13,44	-11,82	-1 -1
	November	100,20	95,88	-10,30	-11,03	-1
	December	98,80	96,13	-12,64	-11,45	-11
)10	January	82,00	82,00	-6,92	-11,13	-(
	February	86,20	84,10	-6,00	-10,33	-6
ercer	tage change by category		February 2009/2008	February 2010/2009	JanFeb. 2009/2008	JanF 2010/20
	al index		-9,1	-6,0	-9,2	-
	cture of food products, beverages and tobacco products		-3,4	-3,2	-5,1	-
lanufa	cture of textiles, wearing apparel and leather products		-11,6	-23,7	-3,0	-2
anufa	cture of wood and products of wood and cork, except furniture		-0,3	-8,3	-1,9	-
lanufa	cture of paper products and printing		-12,1	13,4	-13,8	
and	cture of refined petroleum products, chemicals and chemical pro bharmaceutical products and preparations	oducts	2,9	0,3	1,1	
	cture of rubber and plastic products		3,3	-15,1	-1,3	-1
	cture of other non-metallic mineral products		-24,8	-19,2	-22,0	-2
	cture of basic metals and facricated metal products		-15,8	-8,9	-15,2	-
	cture of electronic and optical products and electrical equipmen	t	-3,4	77,2	-1,2	
	cture of machinery		-2,9	-27,8	-11,3	-1
anufa	cture of motor vehicle and other transport equipment cture of furniture, other manufacturing and repair and installation		-3,2 quipment -8,4	2,9 -11,9	-9,3 -5,3	<u>-'</u>
-						

	ators based on tl				-,						
		20	008			2009					
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Labour force	397.937	396.476	396.049	399.036	394.996	403.780	404.040	407.542			
Employed	379.790	384.028	381.903	385.686	376.807	382.899	382.085	383.268			
By type of employment:											
Full time	350.076	354.295	353.119	355.173	345.388	350.613	350.202	350.240			
Part time	29.714	29.733	28.783	30.513	31.420	32.287	31.883	33.028			
By sector of employment:											
Primary sector	15.871	16.081	16.662	16.182	14.805	14.719	15.368	15.186			
Secondary sector	86.206	86.933	89.639	90.144	86.660	82.963	84.446	83.661			
Tertiary sector	277.714	281.014	275.602	279.360	276.342	285.217	282.271	284.421			
Employees	304.067	307.878	304.046	309.961	301.420	306.243	305.369	306.834			
Unemployed	18.146	12.448	14.146	13.351	18.189	20.881	21.956	24.273			
By unemployment duration:											
Less than 12 months	15.514	10.975	12.227	11.478	15.916	19.067	20.185	21.285			
12 months and above	2.632	1.473	1.919	1.872	2.274	1.814	1.769	2.987			
Activity rate (%)	64,3	64,2	64,1	64,2	63,6	64,4	64,5	64,9			
Male	73,3	72,8	73,5	72,8	71,7	72,8	73,1	73,1			
Female	56,0	56,0	55,4	56,0	55,8	56,4	56,4	57,			
Employment rate (%)	61,4	62,1	61,8	62,0	60,6	61,1	61,0	61,			
Male	70,2	71,0	71,3	70,7	68,7	69,2	69,2	68,7			
Female	53,2	53,8	53,0	53,8	53,0	53,4	53,3	53,8			
Unemployment rate (%)	4,6	3,1	3,6	3,3	4,6	5,2	5,4	6,0			
Male	4,2	2,6	3,0	3,0	4,1	4,9	5,4	6,1			
Female	5.0	3,9	4,2	3,8	5,2	5,5	5,5	5,7			

		2	007			2008				20	09	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
A. Domestic debt	13.153,97	13.032,27	12.993,33	12.944,89	12.905,66	12.508,01	12.434,67	12.595,84	14.191,93	15.054,87	15.123,64	12,922,91
Long-term debt	6.951,27	7.075,94	6.997,94	6.928,11	6.723,41	6.280,79	6.020,29	5.993,39	5.964,87	5.673,27	5.605,03	5.542,69
Short-term debt	6.202,69	5.956,34	5.995,40	6.016,78	6.182,25	6.227,21	6.414,38	6.602,45	8.227,06	9.381,60	9.518,61	7.380,22
B. Foreign debt	2.040,57	2.043,35	2.040,59	2.132,33	2.131,90	2.117,67	2.209,10	2.354,17	1.992,07	3.785,41	3.633,46	3.984,47
Short-term liabilities of the Central Bank to the IMF	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Long-term loans	656,30	659,07	656,32	732,33	731,90	717,67	714,95	827,74	827,29	803,28	800,54	808,88
Medium-term loans (EMTN)	1.384,27	1.384,27	1.384,27	1.400,00	1.400,00	1.400,00	1.050,00	1.050,00	1.050,00	2.550,00	2.550,00	2.550,00
Short-term loans (ECP)	0,00	0,00	0,00	0,00	0,00	0,00	444,15	476,43	114,79	432,13	282,92	625,59
C. Total public debt	15.194,54	15.075,62	15.033,92	15.077,22	15.037,56	14.625,68	14.643,77	14.950,01	16.184,01	18.840,27	18.757,10	16.907,38
D. Net total debt (excl. intragovermental & short-term liabilities of the CBC to the IMF)	9.634,41	9.443,47	9.239,15	9.261,29	8.854,49	8.397,65	8.228,57	8.346,74	9.356,12	11.857,86	11.637,67	9.526,34

classification (monthly data, %)				
		Outstanding amount as a % of total		
	Mar. 2009	Sep. 2009	Mar. 2010	Mar. 2009-Mar. 2010
Agriculture, hunting and forestry	0,84	0,78	0,77	3,06
Fishing	0,04	0,02	0,02	-30,14
Mining and quarrying	0,33	1,91	2,00	548,21
Manufacturing	3,67	3,51	3,53	7,60
of which: construction-related activities (20.1 to 20.3 and 26.3 to 26.7)	0,41	0,43	0,51	37,90
Electricity, gas and water supply	0,10	0,35	0,61	341,38
Construction	8,91	8,43	7,13	-0,04
Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	9,35	9,00	8,77	3,29
Hotels and restaurants	4,58	4,42	4,54	7,18
Transport, storage and communication	2,19	2,31	2,39	17,21
Financial intermediation (excluding other MFls)	5,30	4,58	5,29	8,86
Real estate, renting and business activities	17,99	17,01	16,88	3,16
of which: real estate activities (70)	13,62	12,75	12,62	1,95
Public administration and defence; compulsory social security	2,46	2,45	2,31	1,88
Education	0,39	0,31	0,31	6,23
Health and social work	0,56	0,49	0,54	29,82
Other community, social and personal service activity	3,37	2,87	2,95	9,72
Private individuals	39,92	41,54	41,94	9,48
Extra-territorial organisations and bodies	0,00	0,00	0,00	0,00
tal	100,00	100,00	100,00	8,96

## **DESIGN**