CENTRAL BANK OF CYPRUS
EUROSYSTEM

ECONOMIC BULLETIN

JUNE 2011

NICOSIA - CYPRUS

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ABBREVIATIONS

BoE	Bank of England
CBC	Central Bank of Cyprus
COLA	Cost of Living Allowance
CPI	Consumer Price Index
Cystat	Statistical Service of the Republic of Cyprus
ECB	European Central Bank
ECP	Euro Commercial Paper
EER	Effective Exchange Rate
EMTN	Euro Medium - Term Note
EONIA	Euro Overnight Index Average
ESA 95	European System of Accounts 1995
ESI	Economic Sentiment Indicator
EU	European Union
EURIBOR	Euro Interbank Offered Rate
Eurostat	Statistical Office of the European Union
FED	Federal Reserve
GDP	Gross Domestic Product
HICP	Harmonised Index of Consumer Prices
IMF	International Monetary Fund
LFS	Labour Force Survey
MFIs	Monetary Financial Institutions
NACE Rev. 2	Nomenclature statistique des Activité économiques dans la Communauté Europeénne (Statistical classification of economic activities in the European Community)
NEER	Nominal Effective Exchange Rate
NFCs	Non-Financial Corporations
OECD	Organisation for Economic Co-operation and Development
OIS	Overnight Index Swaps
REER	Real Effective Exchange Rate
SDW	Statistical Data Warehouse
UK	United Kingdom
US	United States
VAT	Value Added Tax

Introduction

International developments

The world economic recovery continued in the first quarter of 2011. However, despite the improvement in the main economic indicators, risks to growth remain and international financial stability is still fragile. Risks relate to further increases in energy prices, following the geopolitical tensions in North Africa and the Middle East, protectionist pressures, and the possibility of an anomalous correction of global imbalances. In addition, there is significant uncertainty in international markets due to the fiscal crisis in the euro area. Finally, another possible source of risk is the medium-term economic impact that the earthquake and nuclear disaster in Japan may have on the world economy.

The differences between the major economies in relation to their position in the economic cycle are still evident, with emerging economies experiencing strong growth in contrast to the sluggish recovery of developed countries. In the euro area, data show that the recovery remains unbalanced, with Germany still being the driving force of economic activity. Markets remain uncertain about the sustainability of public debt in some countries of the euro area. In May, Portugal joined the rescue mechanism, following Greece and Ireland, but concerns about meeting the official targets remain.

Since the beginning of the year, global inflation continued to show signs of acceleration, mainly due to increases in energy and commodity prices and the further strengthening of demand. The upward trend in inflation is particularly evident in emerging economies, where the combination of high liquidity, low interest rates and rapid growth exacerbates the upward pressure on domestic wages and the negative effects of high commodity prices. In the OECD countries, inflation reached 2,7% in the first quarter of the year. Excluding food and energy prices, inflation in these countries increased by 0,1 percentage points in March compared with February, thus reaching 1,4%. Various indicators and the recent analysis of the manufacturing sector confirm the strong inflationary pressures, which are evident worldwide.

Amid increasing inflationary pressures and fragile growth prospects, there was divergence in the policy direction of the major central banks. More specifically, the Federal Reserve and the Bank of England maintained their key interest rates unchanged, while in April 2011 the ECB increased its key interest rates by 25 basis points, following a period of about two years with historically low rates. The change in the ECB policy was considered necessary in light of the risks to price stability.

As a result of the different monetary policies followed, the increase in the interest rate differential between the euro area and other countries led the euro to historically high levels against all major currencies in the first five months of 2011. With respect to stock markets, despite the continuing volatility, indices worldwide moved upwards due to better than expected corporate earnings announcements and a slight recovery in the risk appetite of investors during the recent months. At the same time, the continuing uncertainty over the course of the global economy and the increasing concerns over the elevated inflationary pressures led gold prices to historical highs. An increase was also noted in the price of Brent crude following the interruptions in supply from Libya and the general geopolitical instability in the Middle East. At the same time, demand remained strong in both emerging and developed economies, leading to an even higher equilibrium market price.

Domestic developments

After the recession in 2009, Cyprus experienced a slight recovery in 2010, with GDP recording an increase of 1% compared with a decrease of 1,7% in 2009. This improvement was due to the tertiary sector of the economy, while the secondary sector continued to decrease for the second consecutive year. Moreover, according to the flash estimate of the Statistical Service of Cyprus (Cystat), the quarterly growth rate of seasonally adjusted GDP in the first quarter of 2011 was 0%, down from 0,4% in the previous quarter, pointing towards a fragile recovery. The confidence indicators for services, industry, retail trade, consumption and construction showed a mixed picture, which reflects the uncertainty over the course of the economy's recovery.

With respect to prices, the Harmonised Index of Consumer prices (HICP) increased by 3,2% during the first four months of 2011, compared with 2,5% in the corresponding period last year. The rapid growth in prices in the current year is mainly due to the large and continuing increases in energy prices. Furthermore, price increases were recorded in the sub-categories of processed food, mainly due to the imposition of VAT, and industrial goods excluding energy.

In the monetary sector, the annual growth rate of loans to the domestic private sector showed signs of stabilisation until the end of the first half of 2010. However, from late 2010 until the end of the first quarter of 2011, the growth rate of the aforementioned loans began to slow down amid the overall subdued and uncertain climate of economic activity and high borrowing costs. The lower growth rates of loans are mainly due to the slowdown in housing loans to households and corporate loans. It should be noted that the growth rate of residents' deposits has also experienced a slowdown since the beginning of 2011.

According to the latest available data, at the end of March 2011 the cost of borrowing had stabilised or in some cases had shown a slight increase compared with the beginning of the year. A possible reason is the rise in EURIBOR since the beginning of the year and market expectations for a further rise in ECB interest rates after the increase recorded in April. In general, the recent announcements of increases in domestic commercial bank interest rates following the aforementioned developments, coupled with competition between the banks for deposits and the government's shift to domestic borrowing, have maintained the domestic cost of borrowing at high levels.

Following the significant improvement recorded in 2009, the current account balance stabilised at the same level, recording a deficit of 7,8% of GDP in 2010. With the gradual recovery in the world economy, both exports of goods and services and imports recorded a significant increase of 9,6% and 8,7%, respectively. At the same time, the income account deteriorated in 2010 but was largely offset by the improvement registered in the current transfers account. Despite the fact that the current account has recorded large deficits in recent years, this does not seem to be causing immediate funding problems. However, this should be a matter of concern since these deficits may be a reflection of a loss in the domestic economy's competitiveness, which, if continued, could harm the country's long-term economic outlook.

As regards the labour market, employment in 2010 continued to be affected by the sluggish pace of economic growth, recording a marginal increase of 0,2% compared with a decrease of 0,7% in 2009. According to data from the Labour Force Survey (LFS), during the same period unemployment increased by 0,9 percentage points, reaching 6,2%. Recent data for seasonally adjusted registered unemployment for the first months of 2011 indicate signs of further deterioration. It is noted that the number of registered unemployed in the first four months of 2011 increased by 4.771 over the same period of 2010, reaching 26.288.

With respect to domestic public finance developments, and according to preliminary figures published by Cystat, a significant budget deficit of 1,7% of GDP was recorded in the first quarter of 2011 compared with a deficit of 0,6% in the corresponding period of the previous year. It should be noted that although the reduction in government revenues during the first quarter of 2011 was expected in light of the temporary and significant non-tax revenues that materialised in early 2010, the increase in the budget deficit can also be attributed to the continued annual increase in expenditure on interest payments, social transfers, intermediate consumption and compensation of employees. Consequently, the recent fiscal developments are a cause of particular concern and should give impetus to the intensification of the efforts to promote and implement the announced fiscal consolidation measures.

According to data published by the Ministry of Finance, the general government consolidated gross debt as a percentage of GDP increased from 58% in 2009 to 60,8% in 2010, mainly on account of the large primary deficit. Furthermore, in the absence of the necessary correction in the primary balance and in conjunction with the rise in long-term interest rates, the fiscal burden associated with interest repayments is expected to increase, resulting in an even higher level of public debt.

Regarding the CBC projections for the main indicators of the domestic economy and according to the baseline scenario, GDP growth in 2011 is expected to increase by

1,4%. The recovery is expected to continue in 2012, with growth reaching 2,1%. The current projections are lower than those of December 2010 due to the latest economic indicators which show a continuing mixed picture for the state of the economy and indicate that the recovery is still modest and fragile. It should be noted that the projections take into consideration only those fiscal measures which are clearly defined and are likely to be implemented.

Inflation is expected to rise to 3,3% in 2011 and exhibit a lower increase of 2,2% in 2012. The main factors explaining the rise in inflation in 2011 is the increase in international oil prices and domestic electricity prices as well as the imposition of 5% VAT on food and pharmaceutical products. The partial recovery of domestic demand has also exerted an upward pressure on inflation, which is reflected in higher core inflation. HICP inflation excluding energy is expected to increase to 1,9% in 2011 from 0,5% in 2010, reflecting the expected rise in the prices of food and services, while in 2012 it is expected to exhibit a further acceleration to 2,1%. The expected increase in domestic inflationary pressures, which are mainly reflected in the HICP excluding energy, is a negative development, especially given that economic activity is expected to fluctuate at levels below the economy’s productive capacity and will therefore have a negative impact on the competitiveness of Cyprus products, the balance of payments, income and employment.

Financial stability conditions

Overall, risks to financial stability originating from conditions in the household sector remain on the upside. Interest rates on new housing loans have risen further in the first quarter of 2011. Any additional increases in lending rates would result in a rise in debt servicing costs and, therefore, put an extra burden on households. Moreover, a potential further deterioration in the labour market may pose higher risks to household income and have a negative impact on the ability of households to repay their debt.

The environment in which NFCs operate is expected to remain difficult, at least in the near term. The subdued domestic macroeconomic conditions that prevailed in 2010 and in the first three months of the current year have adversely affected the earnings and profitability of NFCs. In addition, the rise in lending rates in the first quarter of 2011, the higher borrowing costs facing enterprises in Cyprus compared with other euro area member states as well as the limited possibility for external financing are all expected to contribute to the uncertainty about the short-term profitability prospects of the corporate sector. At the same time, the high level of NFC indebtedness renders firms less resilient to potential shocks. Looking ahead, weak profits, high leverage as well as firms’ dependence on bank financing are expected to remain the key vulnerabilities of the corporate sector.

According to the latest available data, in the first four months of 2011 construction activity continued its downward trend, exhibiting a contraction. At the same time, interest by Cypriots in the purchase of residential property presents a negative picture. However, during the period from January to April 2011 the number of new real estate sales contracts registered to foreigners rose by 15,7% compared with the same period of 2010. Moreover, the CBC estimates that residential real estate prices will fall by an annual average of 2,5% in 2011.

Conclusions

Based on the economic developments and data presented and analysed in the current *Economic Bulletin*, the Cyprus economy is still at a critical juncture. The growth rate recorded so far is much lower than the average of the pre-crisis years, while public finances have not been substantially improved. Furthermore, no effective structural measures have been adopted yet in order to achieve the necessary fiscal consolidation and improve the competitiveness of the economy. As a result, and given the negative external environment, the country is at a critical point.

More specifically, Cyprus is one of the euro area countries where public finances are a major source of concern. Cyprus's structural problems, although in existence for many years, were circumvented by high growth rates. However, with the international financial crisis and the recession which hit the Cyprus economy, these growth rates came to a halt whereas the excessive growth in public spending continued. More specifically, nominal GDP growth during the period 2008-2010 was about 10% but the corresponding increase in public spending exceeded 20%. This trend is not sustainable and needs to be reversed.

As a result of the large increase in the deficit, Cyprus entered the EU Excessive Deficit Procedure in 2010.This was followed by a spiral of downgradings by the international credit ratings agencies. This is likely to continue if the necessary fiscal consolidation measures are not adopted. The reasons given by the ratings agencies for their downgrades are the high budget deficits and the risks that derive from the exposure of Cypriot banks to Greece, despite the strength and robustness of the domestic banking sector, which the ratings agencies acknowledge.

Although the CBC believes that the risks arising from the exposure of banks to Greece are manageable and therefore the downgrades by the ratings agencies cannot be justified, these fiscal developments merit special attention in a country with such a large financial sector as Cyprus. Thus, the economy will need to be shielded by two interdependent pillars. Firstly, by ensuring the stability of the financial sector and, secondly, by adopting measures to reverse the negative course of fiscal balances in recent years.

With respect to financial stability, the CBC continues to follow strict and effective supervision, which worked well even under the difficult conditions of the recent global crisis, resulting in the financial sector remaining healthy. The confidence in the domestic banking system is reflected by the continuing inflow of foreign deposits. At the same time, following the recommendations of the CBC, large domestic banks have increased their capital.

However, strengthening the financial sector alone is not enough to ensure the smooth functioning of the economy. With the economy subject to the EU's Excessive Deficit Procedure and the consecutive downgradings by the ratings agencies, the obstruction of corrective action continues to pose serious risks for our country. To put an end to this dangerous cycle of downgradings, it is necessary to reverse the negative course of public finances.

It should be noted that the latest European Commission projections for the budget deficit published on 13 May 2011 have been revised upwards compared with the European Commission forecasts in the January 2011. More specifically, while in January 2011 it was projected that the fiscal targets for 2011-2012 would be achieved (i.e. the deficit not exceeding 4,5% of GDP in 2011 and 3% in 2012), in the May 2011 projections, the European Commission expected the budget deficit to reach 5,1% in 2011 and 4,9% in 2012.

Consequently, radical changes need to be made, including reduction in public expenditure and reform of the pension system. Discussions between the Government and its social partners have already begun and should hopefully yield results. Any further delay in implementing corrective measures will cause further deterioration in the economy, which will require greater sacrifices than today.

SECTION A

Macroeconomic Developements and Projections

1. International Environment

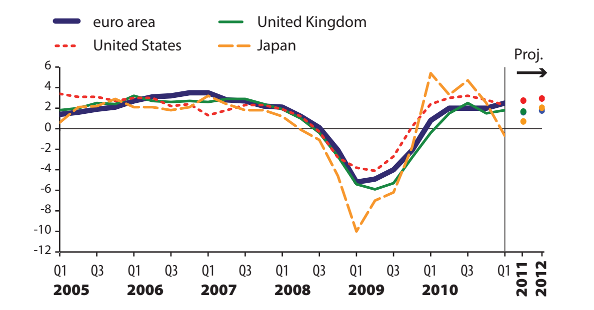
1.1 External developments

GDP growth[1]

Although the recovery of the world economy continued in the first quarter of 2011, growth was not homogeneous across countries. Downside risks relate to further increases in energy prices, following the geopolitical tensions in North Africa and the Middle East, increasing pressure for protectionist measures and the possibility of an anomalous correction of global imbalances. Moreover, the uncertainty about the sustainability of public finances in some euro area countries still remains. Finally, a possible source of risk is the medium-term economic impact that the earthquake and nuclear disaster in Japan may have on the world economy.

With regard to economic activity in the euro area, following the increase in real GDP by 0,3% in the fourth quarter of 2010 compared with the previous quarter, the latest statistics and survey indicators suggest that the underlying momentum in economic activity remained positive during the first and early second quarter of 2011. According to recently published data for the first quarter of 2011, the annual growth rate of GDP in the euro area reached 2,5% compared with 0,8% in the corresponding quarter last year (**Chart A.1**). As regards future developments, euro area exports are expected to be supported by the ongoing recovery in the global economy. At

CHART A.1 **Gross Domestic Product**
(annual change %, seasonally adjusted)



Source: Eurostat.
Note: The projections are for the year and are calculated as averages of the most recent projections from the European Commission, The Economist poll and the IMF.

1. GDP projections are estimated as the average of the most recent projections from The Economist poll (5 May 2011), the IMF (World Economic Outlook, April 2011) and the European Commission (European Economic Forecasts, Spring 2011).

the same time, and in view of the positive business expectations in the euro area, domestic private sector demand is expected to have an increasing contribution to economic growth, benefiting from the loose monetary policy stance and the measures taken to improve the functioning of the financial system. However, economic recovery is expected to be negatively affected by the partial adjustment process of households' and NFCs' balance sheets in various sectors. Regarding unemployment in the euro area, this remained broadly stable at 9,9% in March 2011, from 10% in December 2010.

In the UK, economic activity intensified in the first quarter of 2011 compared with the fourth quarter of 2010. According to preliminary estimates, real GDP grew by 0,5% in the first quarter of 2011 after a decline of 0,5% in the fourth quarter of 2010 and an increase of 0,7% in third quarter of 2010. The economic upturn was mainly driven by the service and manufacturing sectors, while construction continued to decline. House prices continued the downward trend of recent quarters, due to weak demand. Regarding the economic outlook, the adjustment of stocks, low interest rates, foreign demand and the recent depreciation of sterling are expected to support economic activity. On the other hand, domestic demand is expected to remain subdued because of tighter lending conditions, the adjustment of households' balance sheets and the substantial restraint of public finances. Unemployment in the UK stood at 7,7% in March 2011 compared with 7,9% at the end of 2010.

In the US, economic recovery continued in the first quarter of 2011, albeit at a slower pace than in the fourth quarter of 2010. According to preliminary estimates, real GDP grew by 1,8% in the first quarter of 2011 on an annual basis, from 3,1% in the fourth quarter of 2010. This slowdown is due to a decline in federal government spending and the increase in the prices of consumer products, which negatively affected private sector spending. Moreover, the recovery in imports and the slowdown in export growth led to an increase in the trade deficit. The prospects for short-term growth remain favourable amid the increasing confidence of businesses and consumers, the more favourable financing conditions and the continuing monetary and fiscal expansion. However, the high level of unemployment, the need for a further correction in households' balance sheets and the continuing weak conditions in the housing market, are expected to negatively affect economic growth. Analysts expect that the real estate market will remain weak in the forthcoming months, reflecting the increasing delays in mortgage loan repayments and the continuing excess supply of housing. The new fiscal package announced in December 2010 - which included extending unemployment benefits and previous tax exemptions - is expected to support the economy's short-term growth prospects, while simultaneously fuelling market concerns about public finances. US unemployment stood at 8,8% in March 2011, down from 9,4% at the end of 2010.

In Japan, there was strong growth in the first three quarters of 2010, but the country subsequently fell back into recession. Economic activity declined in the fourth quarter of 2010 and in the first quarter of 2011, as the earthquake and tsunami, in conjunction with the nuclear disaster in March, caused major problems in production and led to a reduction in spending by consumers. According to preliminary estimates by the government of Japan, in the first quarter of 2011 GDP declined by 0,7% on an annual basis compared with the fourth quarter of 2010, where a reduction of 2,5% was recorded. More specifically, private consumption expenditure, which constitutes 60% of GDP, declined by 0,6% in the period January – March 2011, while exports decreased by 0,2% compared with the previous quarter. In addition, industrial production declined by 15,5% in March 2011, significantly more than after the Kobe earthquake (-2,6% in January 1995). In addition, corporate and consumer psychology have been influenced very negatively and future developments are difficult to assess. However, most economic analyses agree that there is the possibility of recovery in the third or fourth quarter. Unemployment in Japan increased to 4,6% in March 2011, a slight decline from December 2010 when it stood at 4,9%.

Inflation[2]

Since the beginning of the year, global inflation continued to accelerate, mainly due to increases in energy and commodity prices

2. Inflation projections are estimated as the average of the most recent projections from The Economist poll (5 May 2011), the IMF (World Economic Outlook, April 2011) and the European Commission (European Economic Forecasts, Spring 2011).

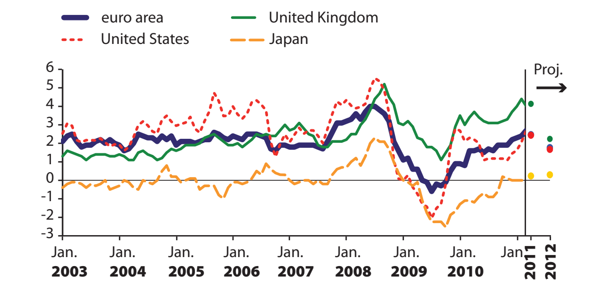
and the further strengthening of economic activity. It is expected that inflation will continue to increase in most countries, with recent analyst projections being revised slightly upwards compared with previous forecasts, reflecting, in part, higher GDP growth rates (**Chart A.2**).

More specifically, HICP inflation in the euro area increased to 2,8% in April 2011, from 2,7% in March, while in April 2010 it stood at 1,6%. The main factors for this increase were the higher oil and commodity prices. During the same period, HICP excluding energy and food increased by 1,3%. In the subsequent quarters, analysts anticipate that inflation will increase further, remaining above the ECB target of below but close to 2% over the medium term. The latest inflation projections by international organisations and private sector analysts for the euro area were revised upwards and stand at 2,5% for 2011 and 1,8% for 2012.

In the UK, inflation exhibited a slowdown to 4% in March 2011, from 4,4% in February, but remains at high levels, mainly due to the continuing impact of the devaluation of sterling, increases in commodity prices and the increase in VAT in January 2011. Analysts anticipate that inflation will increase to around 4,1% in 2011 and 2,2% in 2012.

In the US, inflation accelerated to 2,7% in March 2011 compared with 2,1% in February, mainly as a result of the continuing increases in energy prices and, to a lesser extent, increases in food prices. According to the latest projections, inflation is expected to reach around 2,4% in 2011 and 1,7% in 2012.

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



Sources: Eurostat, SDW(ECB).
Note: The projections are for the year and are calculated as averages of the most recent projections from the European Commission, The Economist poll and the IMF.

In Japan, inflation remained at 0% in March 2011, the fourth consecutive month, as a result of sluggish demand in the domestic economy, especially after the devastating earthquake in March 2011. Analysts project inflation to be 0,2% in 2011 and 0,3% in 2012.

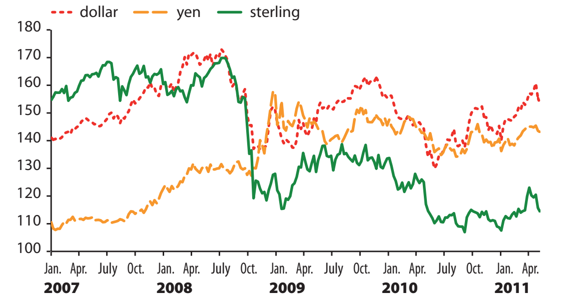
Exchange rates

The euro experienced significant appreciation against all major currencies since the beginning of the year and for most of the period under review (**Chart A.3**). This appreciation was especially evident against the dollar amid the recent announcements by the Federal Reserve, which markets interpreted as a continuation of accommodative monetary policy. Moreover, the new record in gold prices, which exceeded $1.500 per ounce, is a reflection of the weakening dollar.

In addition, the recent ECB decision to increase interest rates by 25 basis points gave a further boost to the euro. More specifically, the euro reached its highest level this year against all major currencies during the period covered in this *Bulletin*. Against the dollar it rose to $1.48 on 2 May 2011. The markets anticipate further interest rate increases, thus maintaining the euro's high value.

As a result of the aforementioned exchange rate developments, from the beginning of the year until 16 May 2011, which is the cut-off date for data in the current *Bulletin*, the euro appreciated by 5,8% against the dollar, 2% against sterling and 5,4% against the yen (**Table C.1** in the Appendix, p. 128).

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



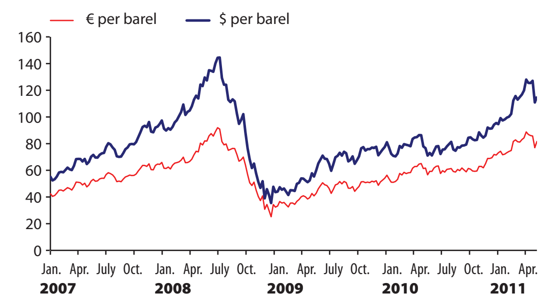
Source: Bloomberg.
Note: A higher (lower) index level represents a nominal appreciation (depreciation) of the euro against the other currencies.

Oil and gold

From the beginning of the year up to 16 May 2011, the price of Brent crude fluctuated between \$94 and \$128 per barrel, mainly due to interruptions in supply from Libya and the general geopolitical instability in North Africa and the Middle East (**Chart A.4**). At the same time, demand remained strong in both emerging and developed economies, which led the market price to very high levels. On 16 May 2011, the price of Brent crude stood at \$112,1 per barrel, an increase of 30% since the beginning of the year. According to estimates by the US Energy Information Administration (EIA), global oil demand is expected to increase by 1,7% or 1,51 million barrels in 2011, reaching 88,2 million barrels. The EIA warned that the sharp increase in uncertainty in the markets could lead to large price movements in either direction. At the same time, analysts expect a marginal drop in oil prices, since the trading prices of futures for December 2011 and 2012 are around \$115 and \$110, respectively.

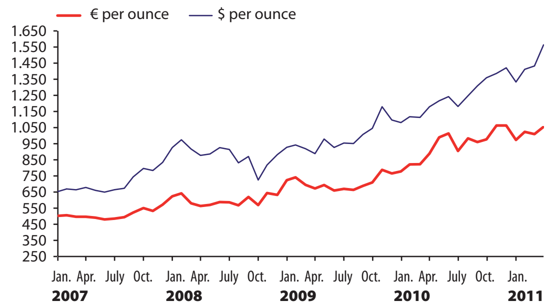
The price of gold (**Chart A.5**) recorded successive historical highs. More specifically, amid the continuing uncertainty in the global environment and the persistent inflationary pressures, the price of gold increased to \$1.563 per ounce on 29 April 2011. In addition, the weakening of the dollar gave an additional boost to the price of gold. However, during the first two weeks of May, the price of gold noted the largest

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



Source: Bloomberg.

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



Source: Bloomberg.

weekly losses since February 2009, as a result of the decision of the Chicago Mercantile Exchange Group to increase margin requirements for trading. Since the beginning of the year and until 16 May 2011, the price of gold increased by 4,8%.

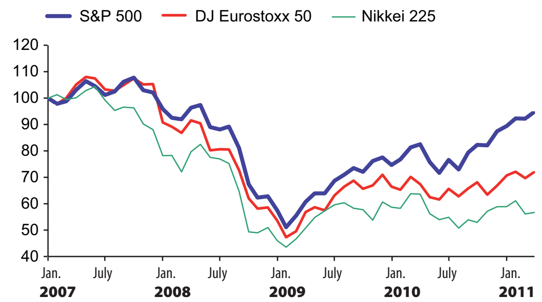
Selected international stock market indices

International stock market indices have generally risen due to improved economic prospects, better than expected corporate earnings' announcements and a shift of investors towards riskier investments in recent months. Share prices have been rising since mid-2010 and the levels reached during the reporting period were the highest since September 2008, i.e. before the collapse of Lehman Brothers.

Political tensions in North Africa and the Middle East in February and the devastating earthquake in Japan in early March have created a counterbalance to the positive performance of stock markets. The uncertainty in equity markets, as measured by implied volatility, decreased during most of the first half of the year, but rose significantly after the outbreak of civil unrest in the Middle East and the earthquake in Japan. The limited volatility in stock market values that began in mid-2010 continued throughout most of the period under review, reflecting the overall improvement of prospects for the major economies.

As a result of the aforementioned developments, from the beginning of the year the DJ Eurostoxx increased by 3,2%, the S&P 500 rose by 5,7% and the Nikkei fell by 6,6% (**Chart A.6**).

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

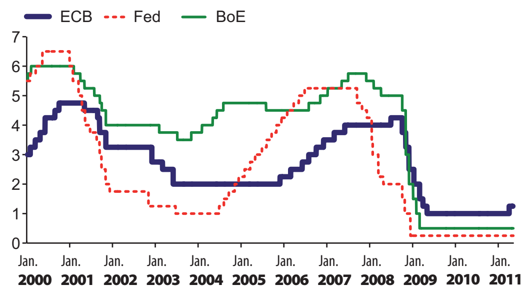


Source: Bloomberg.

International official interest rates

The major central banks generally maintained their official interest rates at very low levels, with some exceptions depending on the monetary policy decisions of the relevant central banks. More specifically, the varying significance given to conflicting data on the fragile growth prospects and the increasing inflationary pressures, have led to divergent decisions. In particular, until the cut-off date for data in the current *Bulletin*, the Federal Reserve and the Bank of England maintained their official interest rates at 0% - 0,25% and 0,5%, respectively, while on 7 April 2011 the ECB increased its official interest rates by 25 basis points for the first time since May 2009 (**Chart A.7**).

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



Sources: ECB, Fed, BoE.

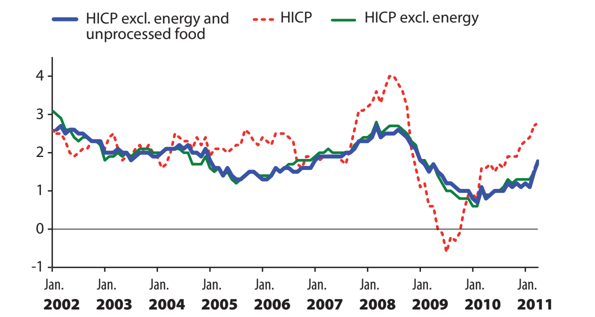
1.2 Monetary developments in the euro area

Inflation

As already mentioned, HICP inflation in the euro area rose to 2,8% in April 2011, from 2,7% in March 2011 and 1,6% in April 2010. The marginal increase in inflation compared with the previous month is due to increases in the prices of industrial goods excluding energy and unprocessed food (**Chart A.8**). The acceleration of inflation in the first four months of the year compared with the corresponding period last year is mainly attributed to energy and commodity prices.

The HICP excluding energy recorded an increase of 1,8% in April 2011 compared with 1,5% in March. The HICP excluding energy and unprocessed food also recorded the same annual increase.

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



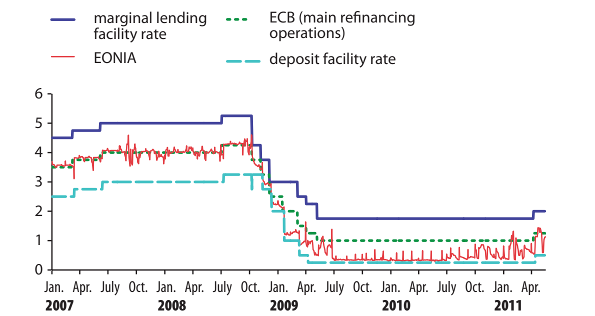
Source: Eurostat.

Reference rates and ECB interventions

At its meeting on 7 April 2011, the Governing Council of the ECB increased its official interest rates by 25 basis points, after maintaining them at historically low levels for a period of around two years. Following this decision, the main refinancing operations (fixed) rate stands at 1,25%, the marginal lending facility rate at 2% and the deposit facility rate at 0,5% (**Chart A.9**). The adjustment of monetary policy was necessary in light of the upward risks to price stability and the creation of further widespread inflationary pressures in the medium term. With the above decision, the ECB aims to stabilise inflation expectations in the euro area at levels consistent with the objective of maintaining inflation below but close to 2% over the medium term. At the same time, interbank rates for all maturities remained at low levels. Therefore, monetary policy remains accommodative and continues to provide significant support to economic activity.

Furthermore, the implementation of monetary policy by the ECB through the use

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



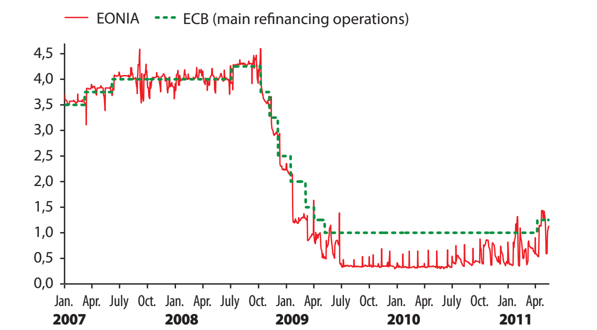
Source: Bloomberg.

of unconventional tools continued. Examples include the purchase of securities and providing liquidity to counterparties at favourable terms. The ECB also continued to conduct main refinancing operations (MROs) and special-term refinancing operations with a maturity of one maintenance period as fixed rate tender procedures with full allotment. The ECB stated that this will continue for as long as necessary, and at least until 12 July 2011, which is the end of the sixth maintenance period of 2011. Moreover, the ECB continued to provide liquidity through its operations of one week, three months and one maintenance period maturities. With these liquidity absorbing programmes, the ECB neutralises the excess liquidity resulting from the Securities Purchase Programme. It should be noted that the unconventional measures which remain in force are compatible with the mandate for their temporary usage ordered by the Governing Council.

Interbank market and interest rate differentials

Money market rates rose during the period under review, reflecting the expectations for an increase in the ECB's official interest rates. The EONIA rate reached 1,13% on 16 May 2011 (**Chart A.10**). The 3-month EURIBOR noted a further increase and remained above the main refinancing operations (fixed) rate of the ECB. On 16 May 2011, the 1, 3 and 12-month EURIBOR rates stood at 1,2%, 1,4% and 2,1%, respectively – an increase of 46, 43 and 65

CHART A.10 **EONIA vs ECB minimum bid rate on main refinancing operations**
(% per annum, daily data)



Source: Bloomberg.

basis points, respectively, from the end of 2010. Overall, the difference between the 12 and 1 month EURIBOR – which is an indicator of the slope of the money market yield curve – increased during this period, from 73 basis points on 31 December 2010 to 91 basis points on 16 May 2011 (**Chart A.11**).

Chart A.12 depicts the spreads between EURIBOR and OIS[3] products, which remained at very low levels. This reflects the smoother conditions in the money markets. Indicatively, the spread between the 3-month EURIBOR and the OIS was around 31 basis points at the end of 2009 and on 16 May 2011 (the cut-off date for data in this *Bulletin*) it reached 26 basis points.

Euro area yield curve

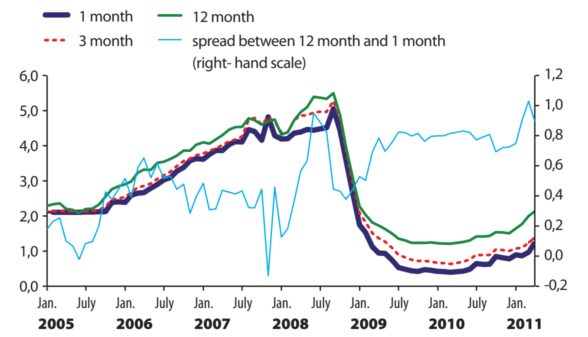
Chart A.13 shows the yield curve for AAA rated euro area government bonds with a 30 year maturity (spot prices). Compared with the end of 2010, the mid-May curve shifted upwards, particularly at the shorter end. This was due to the increase in ECB interest rates and the revised investor expectations relating to the future path of interest rates in the euro area. Overall, the shift of the yield curve reflects expectations about the containment of inflationary pressures by the ECB and the faster than expected recovery by the larger European economies.

M3 and credit expansion

The annual growth of M3 stood at 2,3% in March compared with 2,1% in February 2011

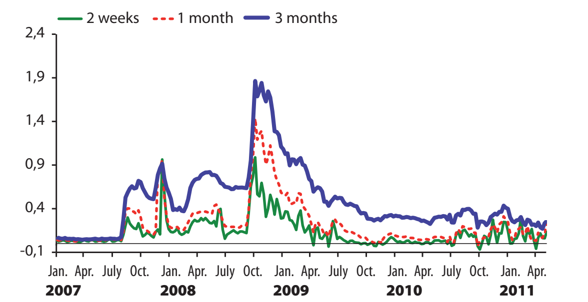
3. OIS (Overnight Index Swaps) are derivative products where EONIA is swapped with a fixed interest rate of selected duration. OIS are used for hedging or speculative moves in the interbank overnight rate or the reference rates of central banks.

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



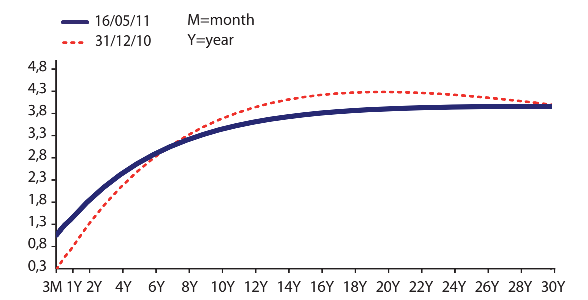
Source: Bloomberg.

CHART A.12 **Spreads between EURIBOR and OIS**
(% per annum, weekly data)



Source: Bloomberg.

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

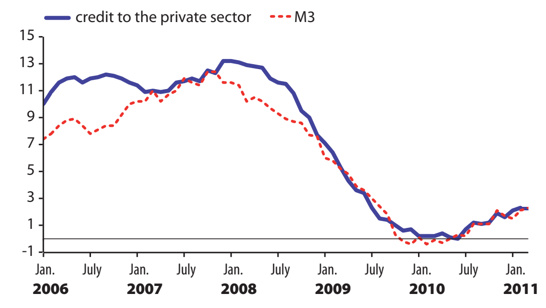


Source: Bloomberg.
Note: Yields on AAA government bonds with maturity up to 30 years, spot prices.

(**Chart A.14**). Developments in M3 in recent months continue to reflect the structure of interest rates. The slope of the yield curve increased gradually from November 2010, reflecting the fact that short-term deposits included in M3 were becoming less attractive compared with longer-term assets which yield higher returns.

Regarding the factors which affect M3, the annual growth rate of loans to the private sector stood at 2,2% in March, virtually unchanged from February. Overall, the pace of monetary expansion, despite remaining relatively low, is gradually accelerating. More specifically, there was a slight strengthening in the growth rate of loans to non-financial corporations, which increased by 0,8% in March from 0,6% in February, while the growth rate of loans to households increased further, reaching 3,4% in March from 3% in February. Overall, lending to the private sector continued to increase in recent quarters, as economic activity recovers.

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



Source: SDW (ECB).

2. Domestic Prices, Monetary Aggregates and Labour Costs

Prices

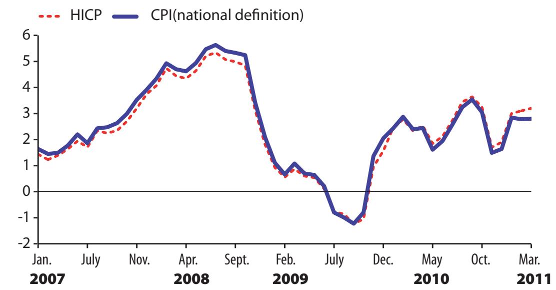
The Consumer Price Index (CPI) for April 2011 stood at 3,3% compared with 2,8% in March 2011 and 2,4% in April 2010. During the first four months of 2011, the CPI recorded a significant annual increase of 2,9% compared with 2,5% in the corresponding period of 2010. Furthermore, the HICP increased by 3,5%

in April 2011 compared with 3,2% in March 2011 and 2,5% in April 2010. During the period January-April 2011, the HICP rose to 3,2% compared with 2,5% in the corresponding period of 2010 (**Chart A.15**). The increase in inflation experienced during the first four months of 2011 was mainly due to increases in the prices of energy, unprocessed food and industrial goods excluding energy. The rising prices in the last two categories of the HICP largely explain the trend in inflation excluding energy, which had accelerated during the period under review. Specifically, it increased to 1,3% compared with 0,5% in the corresponding period last year.

Analytically, in the energy subcategory, there was a significant increase in the prices of fuel and electricity, as a result of the increase in the international price of oil in euro during the first four months of 2011 compared with the same period last year (**Chart A.16**). During the first four months of 2011, energy prices rose by 20,1% compared with an increase of 19,5% in the corresponding period of 2010. According to the latest data available for April 2011, the increase in energy prices stood at 19,5% compared with 22,7% in April 2010.

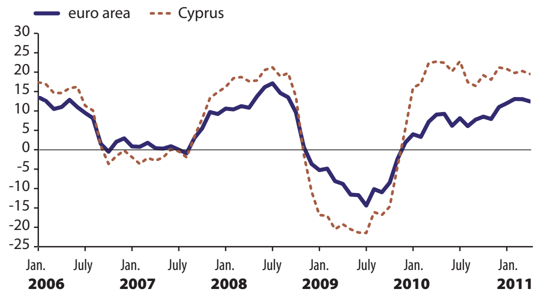
Regarding food prices, an average increase of 2,8% was recorded in the first four months of 2011 compared with an average reduction of 0,4% in the corresponding period of 2010 (**Chart A.17**). This increase is mainly due to inflation in processed food, the prices of which rose by 5% compared with a zero increase in the first four months of 2010. This increase in processed food is primarily due to the increase

CHART A.15 **Consumer Price Index**
(annual change, %)



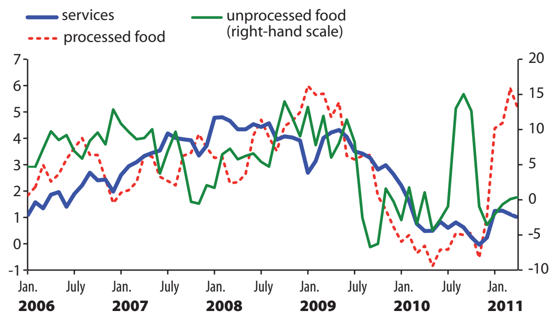
Source: Cystat.

CHART A.16 **Harmonised Index of Consumer Prices: energy**
(annual change, %)



Sources: Eurostat, Cystat.

CHART A.17 **Harmonised Index of Consumer Prices: food and services**
(annual change, %)

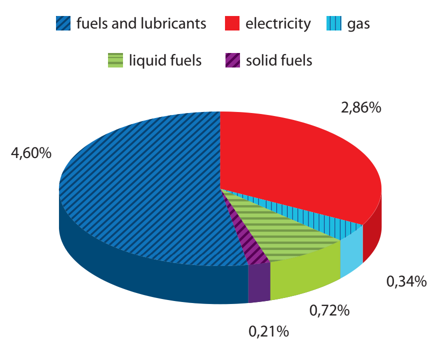


Source: Cystat.

Box A.1: The direct impact of oil prices on inflation in Cyprus

The fluctuations in international oil prices affect inflation in various ways, with references often made to direct first-round, indirect first-round and second-round effects to describe the transmission mechanism from fluctuating oil prices to inflation. The direct first-round effects of oil prices on inflation occur through the impact of oil prices on the 'energy' category, i.e. the prices of fuel, gas, electricity, etc. The indirect first-round effects relate to changes in the prices of goods and services, since their production costs vary with fluctuations in oil prices. Both the direct and indirect effects constitute the first round effects of changes in oil prices on inflation. Second-round effects relate to how the first-round effects are incorporated into wage and price setting. Specifically, wages adjusted to compensate for the loss of purchasing power together with the creation of inflationary expectations result in spiralling increases in wages and prices and further inflationary expectations. The result is that a temporary increase in oil prices due to some turbulence in oil supply and demand may be incorporated for a longer period in the prices prevailing in the economy.

CHART 1 **Composition of the HICP energy basket in Cyprus, 2011**
(%)

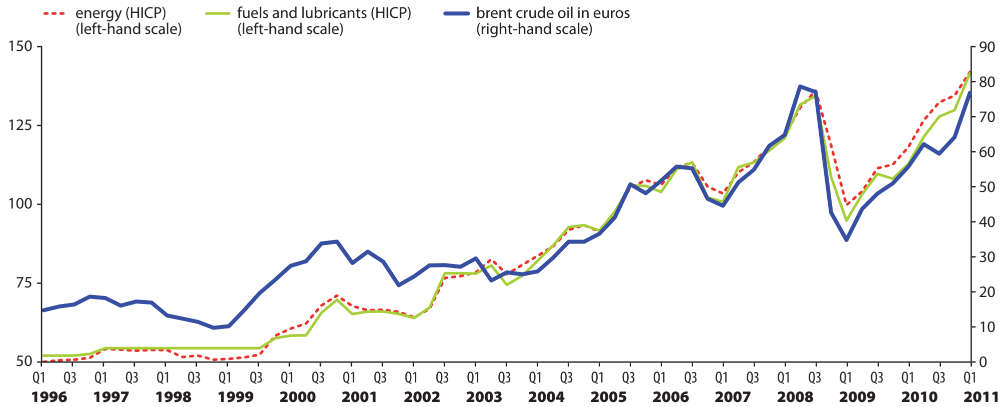


Source: Eurostat.

This Box studies the direct effects of changes in oil prices on inflation in Cyprus. More specifically, it sets out an analysis of the degree and speed with which an increase in the price of oil is incorporated into higher energy prices. The category 'energy' in the HICP in Cyprus consists of electricity, gas, liquid fuels, solid fuels, and fuels and lubricants (**Chart 1**) and has a weight of 8,73% in the HICP. Fuels and lubricants make up about 53% of the 'energy' category.

As shown in **Chart 2,** p.33, fluctuations in the price index of the 'energy' category largely reflect the fluctuations in international oil prices, despite the fact that other factors beyond the price of crude oil affect the

CHART 2 **Brent crude oil prices and 'energy', 'fuels and lubricants' indices of the HICP in Cyprus**



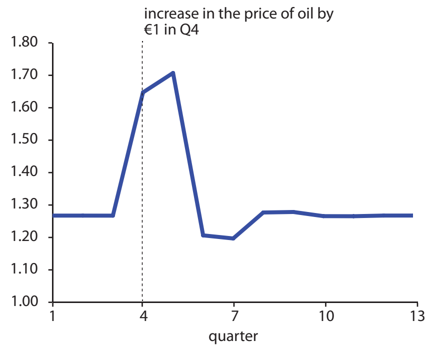
Source: Eurostat.

final price to the consumer. For example, the subcategory of 'fuels and lubricants' is also affected by cost and profit margins at the stage of refining and distribution as well as indirect taxes, which directly affect the final price. It should be noted that in the following analysis we assume constant margins and indirect taxes, and that increases / decreases in oil prices symmetrically affect fuel and, in general, energy prices.

For the calculation of the pass-through of oil prices to energy prices in Cyprus, two simplified models were estimated using the method of ordinary least squares (OLS) for the category of 'energy' and the subcategory 'fuels and lubricants'. The dependent variable in each model is inflation, measured as the quarterly percentage change in the 'energy' and 'fuel and lubricants' indices, while the explanatory variables are the change in Brent crude prices in euro for the current and previous quarters, and lags of the dependent variable. The results are presented in **Table 1**[1] (p.34).

1. The data are quarterly and cover the period 1996Q1 - 2011Q1. Inflation is calculated as the quarterly percentage change of each index. The change (Δ) in oil prices is the change in the average price of Brent crude in euro in the previous quarter. The initial estimation of the model included six lags of the change in the price of oil. The inclusion of lagged dependent variables was considered necessary in order to correct for autocorrelation of the error terms. Non-statistically significant explanatory variables were rejected. Functional form tests, such as the RESET test, did not provide evidence of incorrect identification. The t-statistics are shown in brackets.

CHART 3 **The impact of an increase in the price of oil by €1 on energy inflation**
(%)



Source: CBC.

TABLE 1 **Oil price pass-through to energy inflation in Cyprus**

	Energy	Fuels and lubricants
Constant	1,47 (3,49)	1,43 (2,94)
Δ oil price	0,38 (6,12)	0,51 (7,17)
Δ oil price (-1)	0,44 (6,94)	0,34 (4,60)
Lags of dep. variable	2	2,3
no. of obs.	58	57
adj. R^2	0,67	0,68
RESET test (p-value)	0,79	0,88

Source: CBC.
t-statistics are in parenthesis.

According to our estimations, changes in oil prices have contemporaneous as well as lagged effects on inflation in Cyprus. More specifically, as regards the 'energy' index, a one euro increase in the average price of oil compared with the previous quarter results in an immediate 0,38 percentage points increase in energy inflation. However, the impact of the increase in oil prices is greater in the next quarter, amounting to 0,44 percentage points, while no statistically significant impact on inflation exists in the subsequent quarters. Based on these estimates, the annual inflation in the 'energy' category will increase by about 0,7 percentage points, while the impact of increasing oil prices on inflation disappears completely after 6-7 quarters (**Chart 3**). Given a weight of 8,73% for the 'energy' category in the HICP in 2011, a one euro increase in the average price of oil increases annual inflation by about 0,06 percentage points.

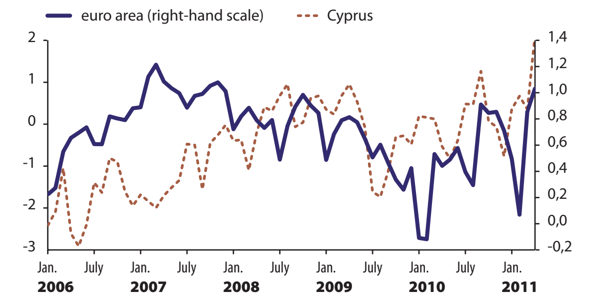
As expected, the results for the impact of rising oil prices on inflation in the category of 'fuels and lubricants' show that there is a more direct impact in this category from rising oil prices than in the entire 'energy' category. More specifically, a one euro increase in oil prices this quarter compared with the previous quarter increases 'fuels and lubricants' inflation in the current quarter by 0,51 percentage points, and in the following quarter by 0,34 percentage points.

The slower - and lower in total - pass-through of an increase in oil prices to inflation in the 'energy' category than in the 'fuels and lubricants' subcategory is due to the influence of other factors, apart from fuel, included in the 'energy' category. For example, it would be reasonable to assume that gas and electricity prices adapt slowly to changes in oil prices, thus making the pass-through of increases in international oil prices to the consumer slower.

in the prices of bread and cereals. The imposition of 5% VAT on food products had an upward effect on the index of most products in this subcategory, apart from dairy products, the prices of which declined by 0,9% in the first four months of 2011. The increase in the price of tobacco products by around 15% reflects the increase in the excise duties on these items as from December 2010. In April 2011, the prices of processed foods increased by 5,1% compared with a marginal decrease of 0,1% in April 2010. The prices of unprocessed food recorded a decrease of 0,5% in the first four months of 2011 compared with a decrease of 0,9% in the corresponding period of 2010, mainly reflecting the increases in the prices of meat and fish on the one hand, and the reduction in the prices of fruit and vegetables on the other. According to the latest available data, prices in the aforementioned category increased by 0,4% in April 2011 compared with an increase of 1,1% in April 2010.

The prices of industrial goods excluding energy (**Chart A.18**) recorded an increase of 0,9% in the first four months of 2011 compared with zero growth in the corresponding period of 2010. This is mainly due the increases in the prices of clothing, the imposition of 5% VAT on pharmaceutical products, and the smaller decreases in the prices of motor vehicles, compared with those recorded in the first four months of 2010. According to the latest available data for April 2011, the annual rate of change in this category reached 2,1% compared with -0,5% in April 2010.

CHART A.18 **Harmonised Index of Consumer Prices: non-energy industrial goods**
(annual change, %)



Sources: Eurostat, Cystat.

Chart A.17 (p. 31) also shows the annual rate of growth in the prices of services, which seem to have recovered from the unusually low levels recorded towards the end of 2010 as a result of the weak total demand in the economy and the reduction in the prices of tourist services in order to attract tourists. More specifically, in the first four months of 2011, the prices of services rose by 1,2% compared with an increase of 1,3% in the same period last year. The main reasons for this are the decreases recorded in the rental prices for housing and accommodation services, while increases occurred in the prices of restaurants, cafes, education and telephone services. The increases in the prices of restaurants can be partly attributed to the imposition of 5% VAT on food products in January 2011. In April 2011, the prices of services increased by 1% compared with 0,5% in April 2010.

The difference between domestic and euro area inflation, although reversed during the period July-October 2009, has returned to positive levels since November 2009. More specifically, domestic HICP inflation increased to 3,2% in the first four months of 2011 compared with 2,6% in the euro area. In contrast, domestic HICP excluding energy was lower than in the euro area in the first four months of 2011, reaching 1,3% compared with 1,5% in the euro area. Therefore, the pass-through of oil price increases to consumer prices and the larger direct impact of oil prices on the Cyprus economy, as reflected by the large weight assigned to energy in the HICP, seem to explain the difference between domestic and euro area inflation. For further analysis of the pass-through of oil and energy prices in Cyprus, see **Box A.1**, p. 32.

Monetary aggregates[4,5]

The annual growth rate of loans to the domestic private sector began to show signs of slowdown at the end of 2010, reaching 8,2% in December 2010. This development is in line with the overall sluggishness and uncertainty in economic activity. The same trend was also recorded in the first quarter of 2011. Specifically, after the end of March 2011 the annual growth rate of loans recorded a further slowdown, rising by 6,8%. Therefore, the annual growth rate of loans in the first quarter of 2011 remained well below the average growth rate of 8,9% registered in 2010.

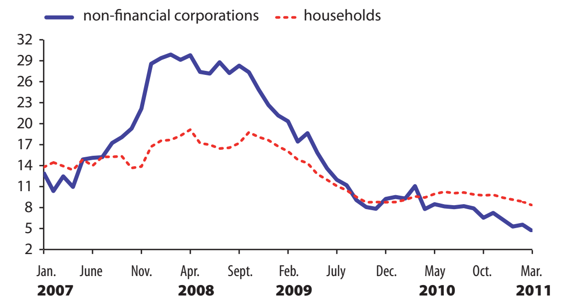
In relation to the above, according to the results of the Bank Lending Survey conducted in April 2011, banks in the first quarter of 2011 applied stricter criteria for all loan categories, i.e. housing loans, consumer credit, other lending to households and corporate loans. According to the banks participating in the survey, the criteria for corporate and housing loans during the second quarter of 2011 are expected to become stricter, while no change is expected in the lending criteria for consumer credit and other lending to households.

4. For a detailed explanation of the methodology and technical analysis of monetary aggregates, see the technical notes on p. 145.
5. With regard to the classification of loans by economic activity, it is noted that as a result of the change in the directive on the monthly balance sheets of banks and the replacement of NACE Rev. 1.1 with NACE Rev. 2, there is a structural change in the statistical series and therefore annual growth rates cannot be calculated. Further checks are required in order to reconcile the differences between the two classifications. In view of the above, the sectoral loan analysis is not presented in Part A of this *Bulletin*.

A further analysis of monetary aggregates shows that the annual growth rate of loans to the private sector declined from 8,2% to 6,8% at the end of the first quarter of 2011. This was due to the continuing slowdown in loans to households for house purchase and loans to non-financial corporations. As is shown by the recent Bank Lending Survey results, during the first quarter of 2011, MFIs imposed stricter criteria for lending to enterprises through higher interest rates. This was part of the general revision in the lending policies of banks as well as their strategy to reduce credit risk. As a result, the annual growth rate of loans to domestic NFCs reached its lowest level since the beginning of the series, increasing by 4,6% at the end of March 2011 compared with an increase of 6,3% at the end of December 2010 and an increase of 11,1% at the end of March 2010 (**Chart A.19**).

During the first quarter of 2011, a slowdown was also recorded in the growth rate of loans to households, but to a lesser extent. More specifically, at the end of March 2011, the annual growth rate stood at 8,3% compared with 9,4% at the end of December 2010 and 9,6% at the end of March 2010. It is noted that for households, the biggest slowdown in the first quarter of 2011 compared with the fourth quarter of 2010 was recorded in the category of housing loans. More specifically, housing loans to resident households experienced a slowdown of 11,5% in March 2011 compared with 14,2% at the end of the previous quarter and 13,7% in March 2010. According to the results of the

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



Source: CBC.

Bank Lending Survey, there was reduced demand by households in the first quarter of 2011 for this type of loan, due to households' expectations of a further deterioration in the housing market and an overall decline in consumer confidence. Of the loans channelled from Cyprus MFIs to domestic households at the end of the first quarter of 2011, 14,8% was used for consumer loans, 53% for housing loans and 32,1% for other lending (**Table A.1**).

With respect to deposits, the annual growth rate of deposits by domestic households also recorded a significant slowdown, increasing by 3,5% in March 2011 compared with an increase of 4,6% in December 2010 and 5,6% in the first quarter of 2010 (**Chart A.20** and **Table A.2**). The general slowdown in the growth of these deposits continued from August 2010 and is consistent with the overall slowdown in credit growth, since the containment of lending affects money supply and deposits.

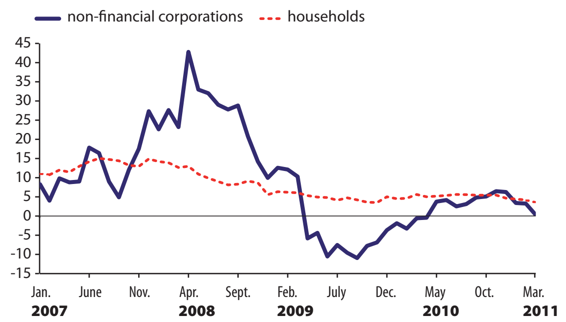
Deposits with agreed maturity of up to one year accounted for approximately 76% of total household deposits, while long-term deposits of up to two years accounted for 72,5% of total deposits at the end of March 2011. The highest interest rates continue to be offered by MFIs, where deposits remain their main source of funding. Since November 2010, the annual growth rates of overnight deposits have remained at very low levels, recording a significant slowdown to 0,6% in March 2011 compared with 8,6% in March 2010. Depositors continue to prefer interest-bearing deposits, which offer a higher return

TABLE A.1 **Loans to domestic households(1),(2)**

	Outstanding balance as % of total(3)	Annual percentage change 2009 Dec.	2010 Mar.	2010 June	2010 Sep.	2010 Dec.	2011 Mar.
Domestic households	100,0	8,8	9,6	10,3	9,9	9,4	8,3
1. Consumer credit	14,8	7,5	5,0	3,9	1,9	0,2	0,4
2. Lending for house purchase	53,0	11,5	13,7	15,9	15,4	14,2	11,5
3. Other lending	32,1	5,7	6,3	5,6	6,0	6,6	7,2

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.

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



Source: CBC.

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

	Outstanding balance as % of total(3)	Annual percentage change 2009 Dec.	2010 Mar.	2010 June	2010 Sep.	2010 Dec.	2011 Mar.
Domestic households	**100,0**	**5,0**	**5,6**	**5,3**	**5,4**	**4,6**	**3,5**
Overnight	**14,4**	**2,9**	**8,6**	**5,6**	**5,4**	**3,3**	**0,6**
With agreed maturity	**76,0**	**7,4**	**5,9**	**5,6**	**6,3**	**6,0**	**4,9**
up to 2 years	72,5	8,6	6,8	6,9	7,2	6,8	5,3
over 2 years	3,5	-9,8	-7,4	-15,9	-10,0	-7,7	-3,3
Redeemable at notice	**9,7**	**6,7**	**-1,0**	**3,0**	**-0,5**	**-3,0**	**-2,5**
up to 3 months	7,2	-10,5	-3,8	2,4	-0,8	-3,0	-2,3
over 3 months	2,4	4,5	6,8	4,5	0,5	-2,5	-2,4

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

and longer-term maturity. However, time deposits also experienced a slowdown, reaching 4,9% in the first quarter of 2011 compared with an increase of 5,9% at the end of the fourth quarter of 2010. Deposits redeemable at notice have continued to decline since September 2010. More specifically, in March 2011 these deposits decreased by 2,5% compared with a decrease of 1% in March 2010.

Deposits of domestic NFCs have also recorded low annual growth rates since the beginning of the year (**Chart A.20,** p.40). More specifically, these deposits increased by a mere 0,3% at the end of March 2011 compared with an increase of 6,2% at the end of December 2010 and a decrease of 0,6% in March 2010. The subdued growth of these deposits recorded over the past three months is consistent with the general level of economic activity. Deposits by NFCs represent approximately 17% of total private sector deposits in the banking system.

With regard to the deposits by non-residents, including deposits by companies without a physical presence in Cyprus ('brass plates'), these recorded an annual increase of 35,5% during the month under review compared with an increase of 52,7% in December 2010. Deposits by non-resident NFCs including 'brass plates' continued to record significant growth rates, despite the slowdown experienced in December 2010. More specifically, the growth rate of these deposits reached 22,8% at the end of the first quarter of 2011 compared with 34,3% at the

Box A.2: Exchange rate movements and the effect on monetary data

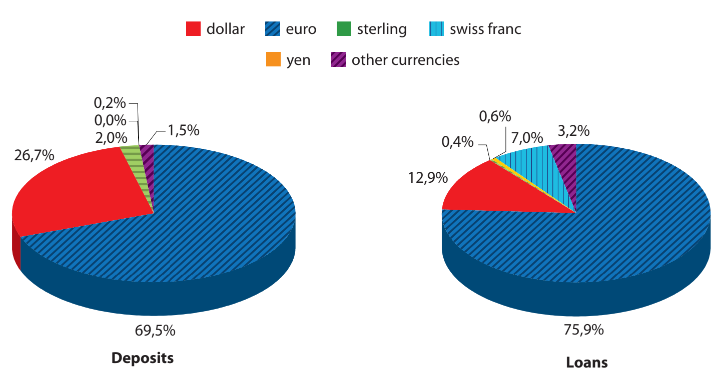
A significant part of deposits and loans of non-MFIs in Cyprus is held in foreign currency. Fluctuations in the exchange rates of these foreign currencies against the euro affect monetary developments and should be considered in the assessment and analysis of monetary data.

An analysis of total deposits and loans of non-MFIs by currency reveals that the dollar is the dominant foreign currency in deposits. The dollar is also the main currency regarding loans, followed by the Swiss franc. More specifically, the most recent data, which refer to the end of March 2011, show that 69,5% of total deposits were denominated in euro, 26,7% in dollars and the remainder in other currencies. With respect to total loans, 75,9% were held in euro, 12,9% in dollars and 7% in Swiss francs (**Chart 1**).

As seen in **Table 1,** p.43, the majority of both deposits and loans in foreign currency belong to non-residents (including organisations or businesses of domestic residents without a physical presence in Cyprus).

The reporting currency of the monthly balance sheet that the MFIs submit to the CBC is the euro. The accounting conversion from foreign currency amounts to the euro is effected using the exchange rates at

CHART 1 **Total deposits / loans of non-MFIs with / from MFIs[1], by currency**
(outstanding balances as at the end of March 2011 as % of total)



Source: CBC.
(1) MFI sector excluding the CBC.

TABLE 1 **Total deposits / loans of non-MFIs with / from MFIs(1), by currency**
(outstanding balances as at the end of March 2011 as % of total)

	Deposits			Loans		
	Domestic residents	Non residents (2)	Total (3)	Domestic residents	Non residents (2)	Total (3)
Euro	49,6	19,9	69,5	67,6	8,4	75,9
Dollar	2,5	24,2	26,7	2,0	10,9	12,9
Sterling	1,1	1,0	2,0	0,1	0,3	0,4
Yen	0,0	0,0	0,0	0,4	0,2	0,6
Swiss franc	0,0	0,2	0,2	3,7	3,3	7,0
Other currencies	0,3	1,2	1,5	0,0	3,2	3,2
Total (3)	**53,6**	**46,4**	**100,0**	**73,8**	**26,2**	**100,0**

Source: CBC.
(1) MFI sector excluding the CBC.
(2) Including organisations and businesses of domestic residents without a physical presence in Cyprus.
(3) Figures may not add up due to rounding.

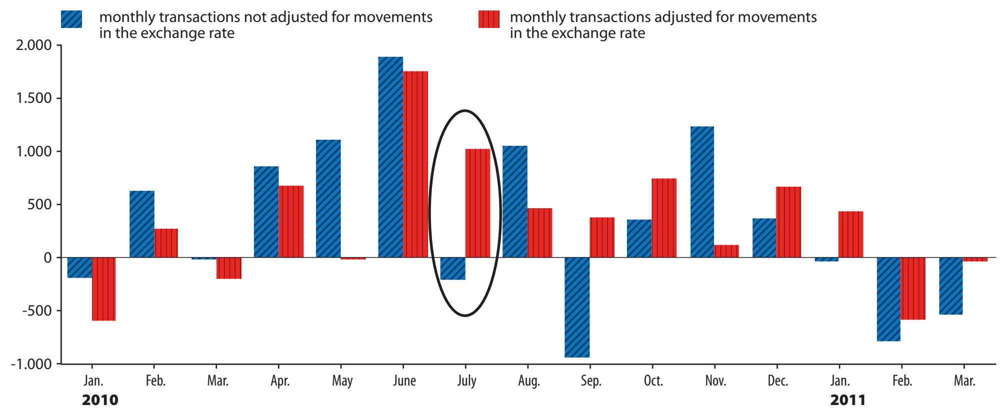
the end of the period. Therefore, possible large fluctuations in exchange rates, particularly between the euro and the dollar, may influence the overall picture presented by monetary data. For example, the dollar deposits of non-MFIs in July 2010 show a decrease of around €212 million compared to the previous month (**Chart 2,** p.44). A more careful analysis, however, shows that this change was due solely to the effect of the movement in the exchange rate rather than withdrawals of deposits. Specifically, between the end of June 2010 and the end of July 2010 the euro appreciated against the dollar, rising from $1,2222 to $1,3075. If deposits are adjusted by assuming a constant exchange rate, then there was a net increase in dollar deposits of about €1 billion.

Taking into account foreign currency fluctuations against the euro, total deposits exhibited a net[1] increase of €10,8 billion in 2010. Despite the general uncertainty prevailing in the markets and the sovereign debt crisis in the euro area, which also affected exchange rates, net inflows in Cyprus were observed, which was confirmation of the confidence of depositors in the domestic banking system.

During the first quarter of 2011, total deposits decreased by €1,2 billion but the decline was almost entirely attributed to exchange rate movements. Specifically, total deposits in the first quarter of 2011 recorded net decrease of only €38 million. **Chart 3** depicts the

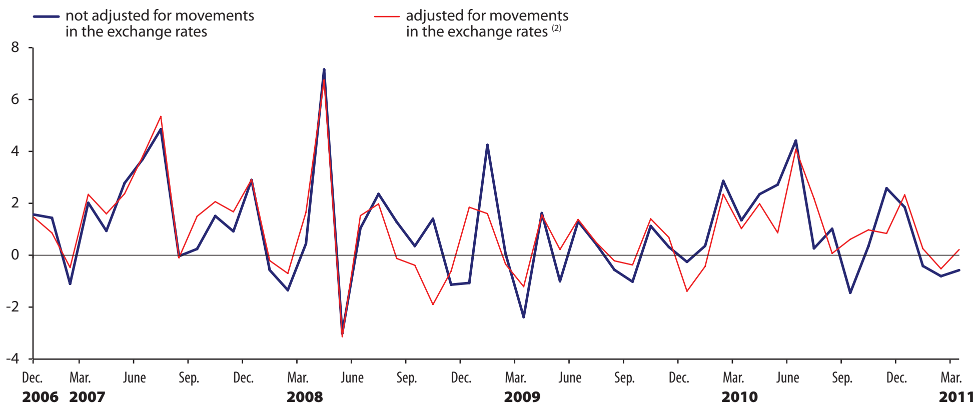
1. The adjustment was carried out with respect to the four major foreign currencies in monetary data - dollar, sterling, yen and Swiss franc.

CHART 2 **Deposits of non-MFIs held with MFIs(1) in dollars**
(€ million)



Source: CBC.
(1) MFI sector excluding the CBC.

CHART 3 **Total deposits of non-MFIs held with MFIs(1)**
(monthly change, %)



Source: CBC.
(1) MFI sector excluding the CBC.
(2) The adjustment was carried out with respect to the four major foreign currencies of the monetary data - dollar, sterling, yen and Swiss franc.

monthly growth rate of deposits compared with the corresponding growth rate adjusted for movements in exchange rates. On average over time, the effect of exchange rate fluctuations tends to be counter-balanced to a large extent. However, during specific periods the effect can be significant. This underlines the importance of exchange rate effects in the short-term analysis of monetary developments.

As regards loans, they are also affected by changes in exchange rates but to a lesser extent than deposits. In this case, the smaller percentage of foreign currency loans and the different composition of foreign currencies should be considered.

In conclusion, the analysis of monetary data is affected by movements in exchange rates. Therefore, in periods of great uncertainty and intense volatility in currency values, caution should be exercised in the analysis and interpretation of both loans and deposits data.

end of the fourth quarter of 2010. Household deposits by non-residents of Cyprus increased by 35% at the end of March 2011 compared with 53,1% in December 2010. Changes in the above growth rates can be mainly attributed to changes in exchange rates, vis-à-vis the appreciation of the euro in December 2010 (for further analysis see **Box A.2**, p. 42).

Interest rates

During the first quarter of 2011, lending rates in Cyprus generally recorded a slight increase compared with the first quarter of 2010. In addition, at the end of March 2011, these rates showed signs of stabilisation or a slight increase in some cases compared with the beginning of the year. This was at least partly caused by the rise in interbank interest rates since the beginning of the year and market expectations for a further rise in ECB interest rates during the year, after the increase announced in April. Moreover, recent announcements of increases in the interest rates of domestic commercial banks resulted from an increase in the EURIBOR, competition between domestic banks for deposits, and the absorption of liquidity following the government's domestic borrowing. Consequently, lending rates remained at relatively high levels.

More analytically, at the end of March 2011 the average interest rate on new euro denominated loans to euro area households from Cyprus MFIs with an initial fixation of up to one year increased to 6,76% for consumer loans, 5,07% for housing loans and 6,28% for other lending (**Table A.3**). It is noted that interest rates in the aforementioned categories followed an upward trend compared with March 2010, with the exception of consumer loans, which recorded a slight decrease. Compared with the end of 2010, these rates exhibited small decreases. Interest rates on new loans by MFIs in Cyprus to NFCs also followed an upward trend. It should be noted that the average interest rate for other loans of over €1 million to enterprises has followed an upward trend since July 2009, reaching 6,19% in March 2011 from 4,61% in March 2010 (**Table A.4**).

As regards the corresponding rates for loans from MFIs in the euro area these stabilised, on average, during 2010, with a small decline towards the end of the year (**Chart A.21**, p. 48). However, from the beginning of 2011 these rates recorded an upward trend and were particularly affected by the developments in EURIBOR. More specifically, the interest rate on new consumer loans to households reached 5,44% in March 2011 compared with 5,16% in December 2010 and 6,35% in March 2010. In addition, the average interest rate on new housing loans to households rose to 3,01% in March 2011 compared with 2,78% in December 2010 and 2,63% in March 2010. Consequently, the differential between Cyprus and euro area interest rates is especially significant for housing loans.

With respect to the deposit rates paid by

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

			Floating rate and up to 1 year initial rate fixation		
		Bank overdrafts (2)	Consumer credit	Lending for house purchase	Other lending
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
	Apr.	7,25	6,70	4,33	5,93
	May	7,21	6,82	4,38	6,05
	June	7,01	6,84	4,63	6,22
	July	6,99	6,81	4,82	6,23
	Aug.	7,02	6,96	4,80	6,33
	Sep.	7,01	6,82	4,96	6,08
	Oct.	7,18	6,54	4,88	5,99
	Nov.	7,18	6,77	5,11	6,43
	Dec.	7,23	6,80	5,16	6,31
2011	Jan.	7,16	6,75	4,97	6,19
	Feb.	7,15	6,78	4,98	6,09
	Mar.	7,11	6,76	5,07	6,28

Source: CBC.
(1) Including non-profit institutions serving households.
(2) For this instrument category, new business refers to end-of-period.

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

			Floating rate and up to 1 year initial rate fixation	
		Bank overdrafts (1)	Other loans up to € 1 million	Other loans over € 1 million
2010	Jan.	6,69	5,39	4,62
	Feb.	6,67	5,93	4,39
	Mar.	6,61	5,95	4,61
	Apr.	6,55	5,79	4,96
	May	6,53	5,98	5,27
	June	6,52	6,19	4,97
	July	6,54	6,24	6,01
	Aug.	6,57	6,44	6,27
	Sep.	6,57	6,43	5,77
	Oct.	6,66	6,34	5,68
	Nov.	6,73	6,56	6,54
	Dec.	6,67	6,64	6,18
2011	Jan.	6,67	6,69	6,38
	Feb.	6,70	6,48	5,76
	Mar.	6,72	6,73	6,19

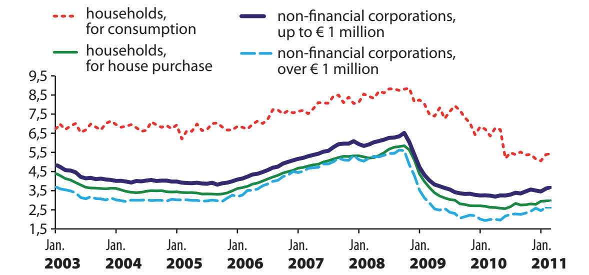
Source: CBC.
(1) For this instrument category, new business refers to end-of-period.

Cyprus MFIs to households and NFCs, there was generally a stabilising trend, which continued from the beginning of the year (**Table A.5**). Indicatively, the average rate on new deposits for households with an agreed maturity of up to one year increased to 4% in March 2011 compared with 3,98% in December 2010 and 3,95% in March 2010. The respective rate for NFCs in March 2011 reached 3,25% compared with 3,22% in December 2010 and 2,95% in March 2010.

Although deposit rates in the euro area fluctuated at lower levels than the corresponding rates in Cyprus, they increased in March 2011 compared with both the corresponding month of 2010 and December 2010 (**Chart A.22**, p. 49). The average interest rate on euro-denominated deposits by households with an agreed maturity of up to one year reached 2,34% in March 2011 compared with 2,27% in December 2010 and 1,9% in March 2010. The respective rate for deposits by NFCs reached 1,37% in March 2011 compared with 1,19% in December 2010 and 0,79% in March 2010.

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

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



Source: SDW (ECB).
(1) At floating rate and up to 1 year initial rate fixation.

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

		Households [(1)]			Non-financial corporations	
			With agreed maturity			
		Overnight [(2)]	Up to 1 year	Over 1 and up to 2 years	Overnight [(2)]	With agreed maturity up to 1 year
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
	Apr.	1,13	3,87	3,82	0,53	3,22
	May	1,13	3,88	3,96	0,50	3,13
	June	1,12	3,87	4,02	0,51	3,17
	July	1,13	3,92	4,01	0,55	3,33
	Aug.	1,13	3,94	4,16	0,51	3,26
	Sep.	1,14	3,96	4,00	0,52	3,08
	Oct.	1,11	3,96	4,08	0,52	3,14
	Nov.	1,13	3,97	4,12	0,52	3,05
	Dec.	1,12	3,98	4,20	0,50	3,22
2011	Jan.	1,09	4,01	4,07	0,48	3,39
	Feb.	1,09	4,02	4,04	0,49	3,41
	Mar.	1,09	4,00	4,05	0,48	3,25

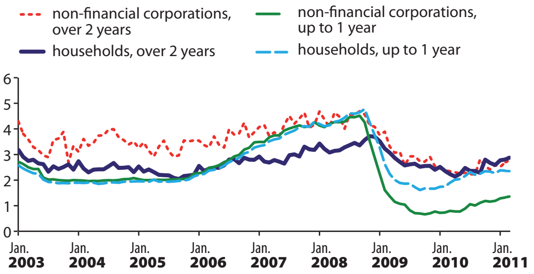
Source: CBC.
(1) Including non-profit institutions serving households.
(2) For this instrument category, new business refers to end-of-period.

Labour costs

Labour costs were affected by the sluggish economic conditions in 2010 and recorded a slowdown compared with the growth in 2009. More specifically, according to the latest figures from Cystat, the annual growth rate of nominal compensation per employee slowed to 2,5% in 2010 compared with 3,3% in 2009 (**Chart A.23**). The deceleration was due to the negative economic conditions and the fact that the increase in the cost of living allowance (COLA) was lower in 2010 compared with 2009. Compensation per employee in 2010 was affected by the increase in the hours worked per employee, since the hourly compensation per employee is much lower than compensation per employee. The slowdown in labour costs in 2010 is especially evident in the average monthly earnings of employees by quarter, which decelerated to 2,4% in 2010 compared with 4,2% in 2009.

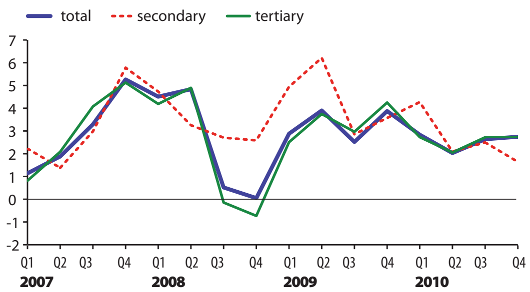
As regards the sectoral breakdown, the increase in compensation per employee in the secondary sector (manufacturing) was marginally higher than the respective increase in the tertiary sector (services), reaching 2,7% compared with 2,6% in the tertiary sector. The continuing increase in compensation per employee in the secondary sector, despite the sector's negative trend, is possibly due to the fact that a number of low wage employees left the sector as indicated by a decrease in both employment and total compensation of employees in the sector. It should be noted, however, that compensation per employee in

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



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

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



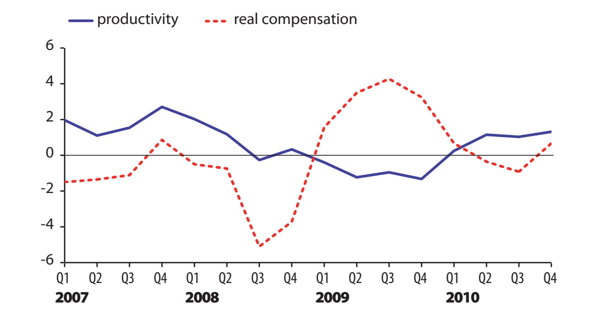
Source : SDW (ECB).

the tertiary sector is higher than in the secondary sector.

Real compensation per employee decreased significantly in 2010 compared with 2009, mainly due to the increase in the price level in 2010 and, to a lesser extent, the slowdown recorded in the nominal compensation per employee. Specifically, real compensation per employee fell by 0,1% in 2010 compared with an increase of 3,1% in 2009. As regards productivity, which is calculated as GDP per employed person, it increased by 0,8% in 2010 compared with a reduction of 0,9% in 2009 (**Chart A.24**). The growth in productivity seems to be the result of increased working hours per employee.

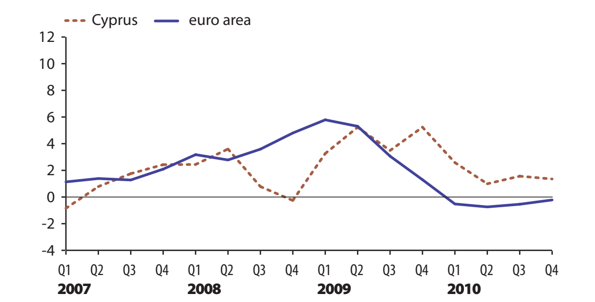
Unit labour costs were affected by both the increase in productivity and the slowdown in nominal compensation per employee, thus decelerating to 1,6% in 2010 compared with an increase of 4,3% in 2009. In contrast, unit labour costs in the euro area fell by 0,5% in 2010 (**Chart A.25**). Unit labour costs are an important indicator for a country since they are a measure of an economy's competitiveness. Ensuring that unit labour costs are kept low, especially in relation to other countries, is important for improving Cyprus's competitiveness.

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



Source: SDW (ECB).

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



Source: SDW (ECB).

3. Domestic Competitiveness and Balance of Payments

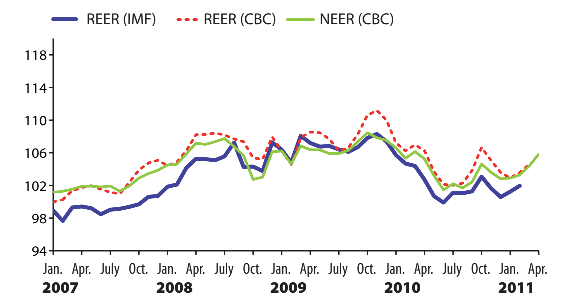
Following a significant improvement in 2009, the current account balance remained at the level reached in 2010, recording a deficit of 7,8% of GDP. With the gradual recovery in the global economy, Cyprus's exports recorded an increase of 9,6% while imports increased by 8,7%. In addition, the income account recorded a larger deficit, which was offset by the significant improvement in the current transfers account. 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 in specific sectors.

Effective exchange rate

Chart A.26 presents 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 IMF, and the real and nominal EER index, as calculated by the CBC[6]. The chart shows a strengthening (appreciation) in the real EER from January 2011, which is mainly due to the path followed by the euro.

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

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



Sources: CBC, IMF.

6. 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").

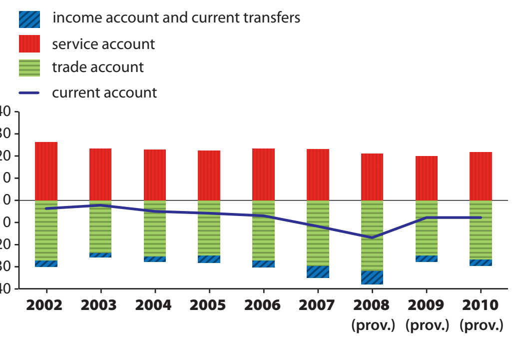
competitiveness problems faced by the Cyprus economy.

Balance of payments[7]

Following its significant improvement in 2009, the current account balance stabilised at the same level in 2010, registering a deficit of 7,8% of GDP (**Chart A.27**). The trade deficit reached 26,8% of GDP in 2010 compared with a deficit of 25% in 2009. This deterioration is mainly due to the increased prices of petroleum products since the value of imports in this category increased by 31,4% compared with 2009. In addition, a large increase of 20,7%[8] was registered in the category of transport equipment. This is mainly due to the import of buses, in an effort to upgrade the public transport system. The services account, recorded a surplus of 21,7% of GDP in 2010 compared with 19,8% in 2009, mainly due to improved revenue from other business services (e.g. legal and accounting) and financial services.

The income account deficit recorded a significant increase of 1,1 percentage points, reaching 2,7% of GDP in 2010. The deterioration was entirely due to income from investments, where payments increased by 10,9% while revenues rose by a mere 2,7% during the year under review. The reasons for the deterioration in the income account in 2010 are mainly non-recurring and, therefore, are not expected to continue to adversely affect this account. The deterioration experienced in the aforementioned account was largely offset by the

CHART A.27 **Current account**
(% GDP)



Source: CBC.

7. It should be noted that the current account data described are not yet included in the national accounts published by Cystat.
8. The increase does not include the leasing of aeroplanes from Cyprus Airways valued at €126 million, which is included in the imports of services in equal monthly instalments.

improvement in current transfers, which recorded a balance in 2010, in contrast to a deficit of 1,1% of GDP in 2009.

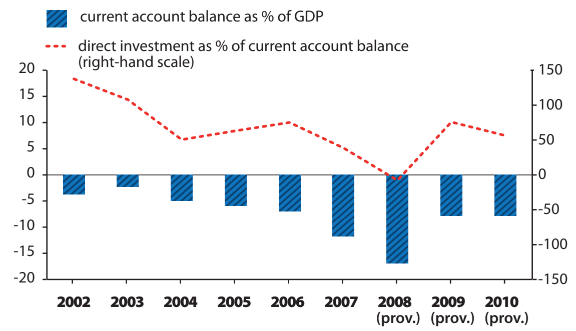
The financing of the current account deficit in 2010 and 2009 as well as for the years up to 2006 has been mostly met through foreign direct investment. The exceptions were the years 2007 and 2008, when the very large current account deficits were primarily financed through "other investments" (**Chart A.28**). The proportion of current account funding from direct investments in 2010 stood at 56,3%, while as a percentage of GDP it reached 4,4%.

Additional data on foreign trade show that the external trade in goods recorded a deficit of €1.213,7 million in the first quarter of 2011 compared with a deficit of €1.243,5 million in the corresponding quarter of 2010 (**Table A.6**). This development is mainly due to the continued improvement in exports of goods, which improved by about 24,8%. On the other hand, the imports of goods increased by 2,4% in the first quarter of 2011, thus leading to an improvement in the trade deficit by 2,4%. It should be noted that although the exports of goods recorded higher growth rates than the imports of goods, the impact of exports on the trade balance is smaller than that of imports, since the volume of imports is comparatively much larger.

Tourism

Revenues from tourism in the first quarter of 2011 increased by 3% compared with the

CHART A.28 **Current account financing by foreign direct investment**



Source: CBC.

TABLE A.6 **Trade account**
(€ million)

	Imports	Exports	Trade deficit
2009	5.691,8	970,4	4.721,3
2010	6.460,9	1.144,3	5.316,6
annual % change	13,5	17,9	12,6
2010 Jan.-Mar.	1.510,5	267,0	1.243,5
2011 Jan.-Mar.*	1.546,8	333,0	1.213,7
annual % change	2,4	24,8	-2,4

Source: Cystat.
* provisional data.

corresponding period of 2010 (**Table A.7**). Arrivals have also shown a slight improvement in the first quarter of 2011, increasing by 0,3%, while a large improvement of 43% was recorded in the arrivals of April. This is partly attributed to the fact that several flights to and from Cyprus last year were postponed in April because of the volcanic ash, which is affected flights throughout Europe. At the same time, there was a slight recovery in the number of tourists visiting Cyprus, particularly from the UK, while the number of tourists from Russia continues its increasing trend. This recovery is possibly due to the negative political developments in Cyprus's neighbouring countries which compete with the island for tourism. As a result, there is cautious optimism about the state of Cyprus tourism in 2011, despite the reduced competitiveness of the country's tourist product in relation to destinations that offer a similar product.

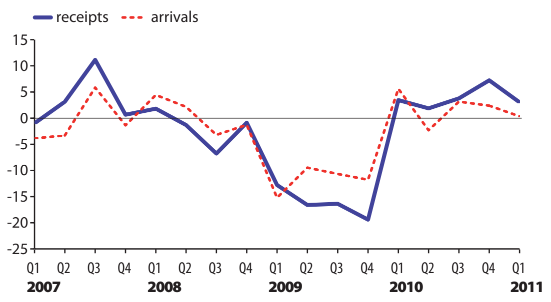
As shown in **Chart A.29**, the rate of increase in revenue growth was on average higher in the first quarter of 2011 than the growth rate of arrivals, indicating that per capita spending increased during this period.

TABLE A.7 **Tourism**

	Tourist arrivals (thous.)	Tourist receipts (€ million)	Expenditure per person (€)
2009	2.141,2	1.493,2	697,4
2010	2.173,0	1.549,8	713,2
annual % change	1,5	3,8	2,3
2010 Jan. - Mar.	205,0	129,2	630,2
2010 Jan. - Mar.	205,7	133,1	647,1
annual % change	0,3	3,0	2,7

Source: Cystat.

CHART A.29 **Tourist arrivals and receipts**
(annual change, %)



Source: Cystat.

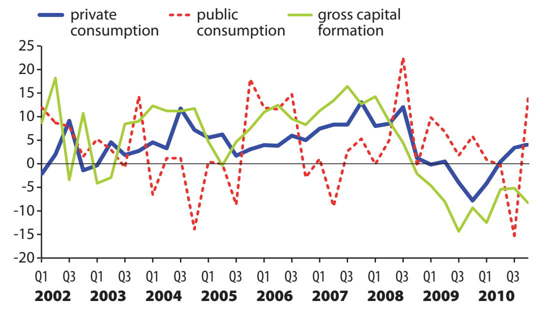
4. Domestic Demand, Production and the Labour Market

Quarterly national accounts

The Cyprus economy experienced a marginal recovery in 2010, after the contraction recorded in 2009. More specifically, based on data published by Cystat, the economy recorded growth of 1% in 2010 compared with a contraction of 1,7% in 2009. According to Cystat's flash estimate, GDP in the first quarter of 2011 grew by 1,8% on an annual basis. However, this is largely due to base effect, since GDP in the first quarter of 2010 contracted by 0,9% (**Charts A.30 (a)** and **A.30 (b)**). The increase in real GDP recorded in 2010 is mainly due to gross capital formation and, in particular, "changes in inventories". The latter experienced a small increase of €3,6 million in 2010 compared with a large decrease of €490,5 million in 2009, thus making a significant positive contribution to GDP due to a base effect.

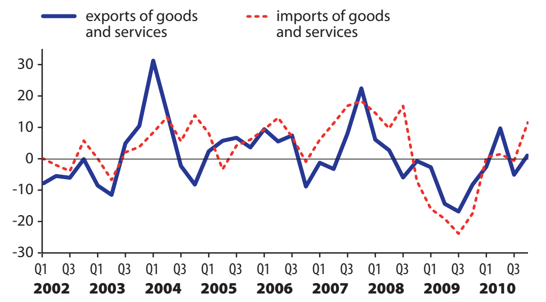
The other subcategory of gross capital formation, namely gross fixed capital formation continued to register negative growth rates, decreasing by 7,9% in 2010 compared with a decrease of 9,1% in 2009. Regarding the other two categories of domestic demand, i.e. public and private consumption, both recorded small but positive growth rates. In particular, government consumption increased by a mere 0,5% in 2010 compared with an increase of 5,8% in 2009, while private consumption grew by 0,8% in 2010 compared with a decrease of 2,9% in 2009. Finally, the contribution of net exports to GDP was negative in real terms in 2010, with exports recording an increase of 0,6% in 2010 compared with a decline of 11,3% in 2009, while imports recorded an increase of 3,1% in 2010 compared with a decrease of 19,3% in 2009.

CHART A.30(a) **Quarterly GDP growth (expenditure categories)**
(annual change, %)



Source: Cystat.

CHART A.30(b) **Quarterly GDP growth (expenditure categories)**
(annual change, %)



Source: Cystat.

As regards the sectoral breakdown of real GDP, the growth in 2010 originated from the tertiary sector, the contribution of which reached 1,5 percentage points, while the contribution of the primary sector was only 0,1 percentage points. On the other hand, the secondary sector made a negative contribution of 0,5 percentage points to GDP growth, mainly as a result of the slowdown in construction and, to a lesser extent, manufacturing.

It should also be noted that the path followed by GDP in 2010 varied from quarter to quarter. While GDP growth in the first quarter of 2010 was negative, in the following three quarters it was positive with an upward trend, due to a base effect which, as previously noted, continued in the first quarter of 2011. Regarding the first quarter of 2011, it should be noted that the quarterly growth of the seasonally and working day adjusted GDP (a figure which shows the trend in GDP), fell to 0% compared with 0,4% in the previous quarter.

Recent indicators of domestic demand also point to a mixed picture of the economy, which confirms that the recovery remains fragile. According to the confidence indicators for April 2011, the recovery in GDP is expected to continue at subdued rates as the economic sentiment indicator was lower in the first four months of 2011 compared with the second half of 2010, although it was improved compared with the first quarter of 2010 (**Table A.8**). Moreover, lending to the private sector remains subdued. In contrast, the turnover

TABLE A.8 **Business and consumer surveys: confidence indicators(1)**

	2010 Dec.	2011 Jan.	2011 Feb.	2011 Mar.	2011 Apr.
ESI	89,1	85,8	88,4	85,3	86,8
Industry	-6	-9	-10	-16	-9
Services	4	-2	0	1	-7
Consumer	-41	-40	-34	-33	-33
Retail trade	-23	-30	-29	-22	-26
Construction	-44	-52	-35	-46	-46

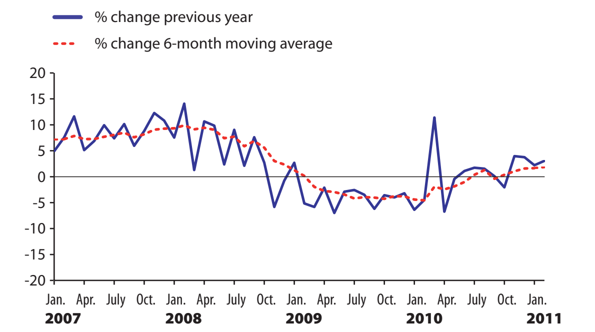
Source: European Commission.
(1) Seasonally adjusted data (for sub-indices: difference between percentages of positive answers and percentage of negative answers).

index of retail trade improved in the first two months of 2011. Revenue from indirect taxes also improved during the first quarter of 2011, although this is partly due to increases in the rates of indirect taxation in 2010. On the other hand, motor vehicle registrations continued to decrease in April 2011.

Private consumption

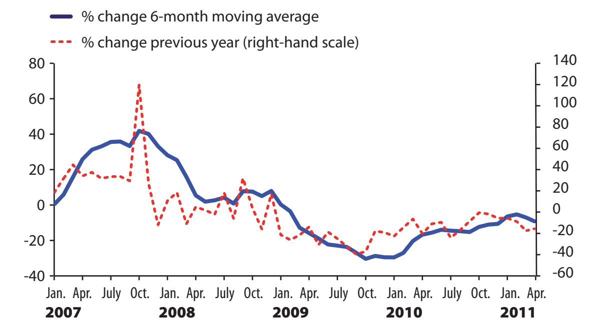
Based on the national accounts data for 2010, private consumption recorded a growth of 0,8% in 2010 compared with a decrease of 2,9% in 2009. Data for the turnover index of retail trade, excluding the sales of motor vehicles, recorded small increases during recent months. In particular, during the first two months of 2011, the index was 2,6% higher compared with the same period last year (**Chart A.31**). In addition, VAT receipts registered a small increase of 1,1% in the first four months of 2011 compared with a decrease of 6,4% in the corresponding period of last year. The small increase in 2011 was partly due to the introduction of a 5% VAT on food and pharmaceutical products in January 2011. On the other hand, motor vehicle registrations continued to decline, registering negative annual growth for a period of more than two years. The decrease recorded in April reached 15,2%, while the average decline for the first quarter of 2011 reached 12,2% compared with a decline of 16% in the corresponding period of 2010 (**Chart A.32**). Finally, although the confidence indicator for consumption improved in the first quarter of

CHART A.31 **Retail sales (excluding motor vehicles)**



Source: Cystat.

CHART A.32 **Registration of motor vehicles**



Source: Cystat.

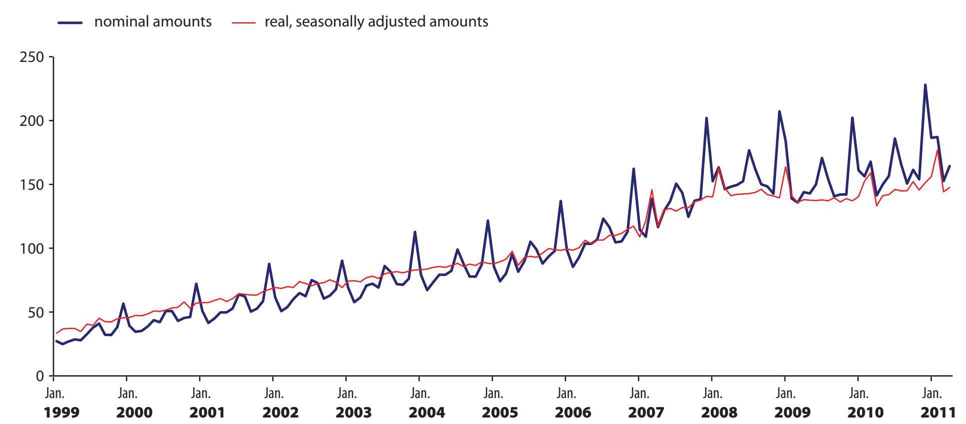
Box A.3: Local cardholder expenditure in Cyprus: an increase in consumption or a change in payment habits?

Introduction

The use of credit and debit cards in Cyprus[1] followed an upward trend over the last twelve years[2]. Strong seasonal fluctuations are evident in this series, with higher amounts spent mainly in periods of sales, Christmas and Easter (**Chart 1**). This is confirmed by data on the number of card transactions, which also followed an upward trend during the period under review, and the increasing number of automatic teller machines.

The analysis of monthly data from JCC Payments System Ltd aims to establish the actual path followed by cardholder expenditure, correcting for seasonality and inflation. The trend followed by alternative payment methods, such as cheques, is also examined. The results show that seasonally adjusted and deflated cardholder expenditure increased for most categories of expenditure, but at a slower pace than the nominal amounts. Moreover, part of this increase appears to be a shift from

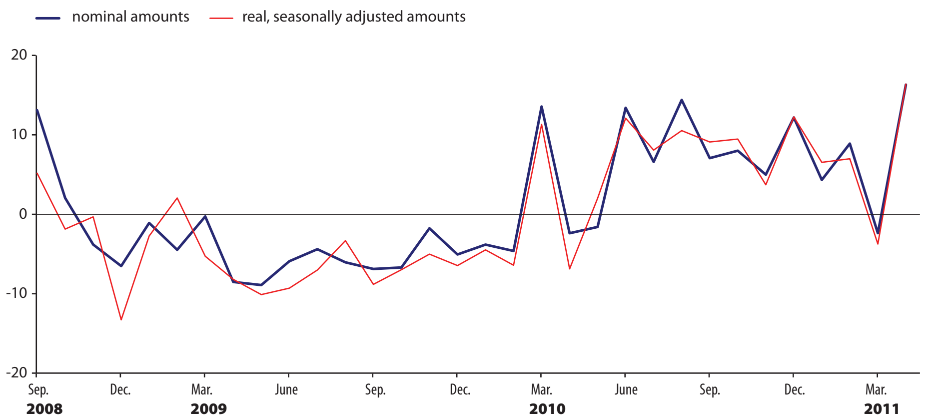
CHART 1 **Total cardholder expenditure in Cyprus**
(€ million)



Sources: JCC Payments System Ltd, CBC.

1. The analysis focuses exclusively on local credit and debit card purchases in Cyprus, excluding the use of cards for cash withdrawals.
2. The main exception was in 2009, when, as a result of the crisis, the annual growth rate of cardholder expenditure turned negative.

CHART 2 **Local cardholder expenditure in DIY and household stores in Cyprus**
(annual change, %)



Sources: JCC Payments System Ltd, CBC.

alternative forms of payment, due to the wide acceptance of cards for purchases, and the increased use of cards in times of crisis as a further means of borrowing to finance consumption.

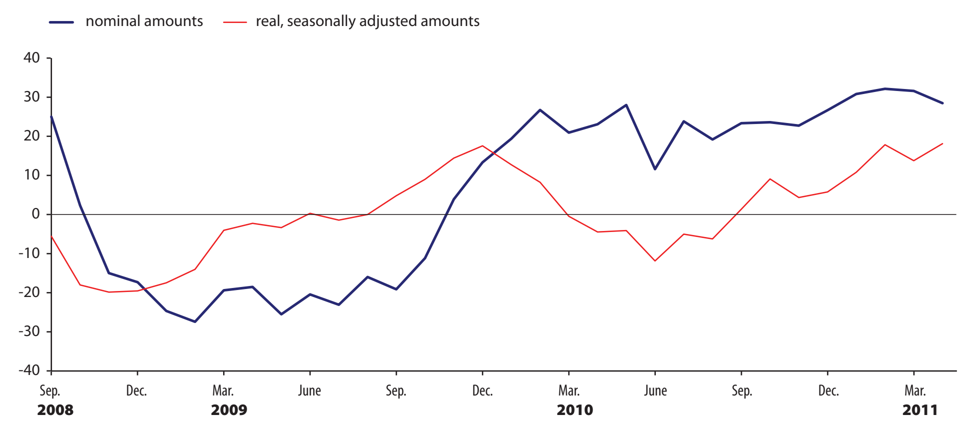
Deflated and seasonally adjusted data

A new data series was created for each of the main categories of expenditure[3] correcting for inflation[4] and seasonality using specialised statistical methods[5]. **Chart 1** (p. 58) shows total spending by local cards in Cyprus, both in nominal and deflated / seasonally adjusted amounts. The results suggest an increase in total cardholder expenditure, but the increase in the seasonally adjusted and deflated amounts is less than the increase observed in nominal spending. In 2010, the average growth rate of total nominal cardholder expenditure reached 9,5%, compared with 5,8% in the deflated and seasonally adjusted amounts.

By examining the annual growth rates of the various categories of expenditure[6], it appears that the

3. The main categories of local cardholder expenditure in Cyprus are: supermarkets, with an average share of 22,1% during the period under review, clothing (15%), other retailers (11,5%), DIY and household stores (8,8%), government (7,7%), petrol (7,4%), entertainment (5,3%) and airlines (5,2%).
4. The correction for inflation was undertaken for each category of expenditure using the respective indices of the CPI.
5. The data were also 'trading day' adjusted.
6. The available data on cardholder expenditure by category refer to the period from September 2007 to April 2011.

CHART 3 **Local cardholder expenditure on petrol in Cyprus**
(annual change, %)



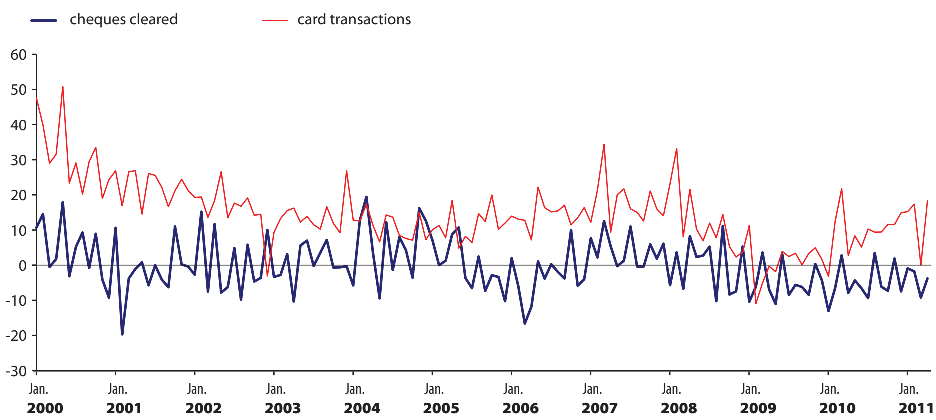
Sources: JCC Payments System Ltd, CBC.

deflated and seasonally adjusted expenditures differ significantly in some categories, while in others the difference is smaller. More specifically, as regards expenditure in DIY and household stores (**Chart 2**, p. 59), the increase in nominal expenditure is similar to the deflated and seasonally adjusted expenditure. For example, in 2010 the average growth rate of nominal cardholder expenditure in DIY and household stores reached 5,7% compared with 5,1% in the deflated and seasonally adjusted expenditure, which was due to the relatively small price increases in this category during the period under review.

On the other hand, real and seasonally adjusted carholder spending on petrol increased at different rates compared with nominal spending (**Chart 3**). More specifically, in 2010, with oil prices at relatively high levels, the average growth rate of nominal cardholder expenditure on petrol reached 22,4%, compared with 0,8% in the real and seasonally adjusted amounts. However, in 2009, when the price of oil was lower, the average growth rate of nominal cardholder spending on petrol reached -15,7%, compared with 0,3% in real and seasonally adjusted terms.

The aforementioned statistical adjustments help to provide more accurate conclusions regarding consumption trends in different sectors. The results reveal that seasonally

CHART 4 **Number of cheques cleared and number of card transactions**
(annual change, %)



Sources: JCC Payments System Ltd, CBC.

adjusted and deflated cardholder expenditure increased in most categories, but this was primarily less than the increase in nominal amounts.

Alternative methods of payment

Examining the trend followed by alternative methods of payment, such as the number of cleared cheques, it can be seen that in 2010, €29,2 billion was spent using 15,6 million cheques and €2 billion was spent through cards in 27 million transactions, compared with 2000, when €29,8 billion was spent via 16,6 million cheques and €541,7 million through 8,2 million card transactions.

More specifically, **Chart 4** depicts higher growth rates in card transactions, while the use of cheques in recent years has experienced a downward trend. Additionally, although the total value of cleared cheques remains at significantly higher levels than the total value of purchases with cards, the growth in the amount spent through cards is growing at a faster pace than that of cheques, with a decrease registered in the last two and a half years. During the period 2000 - 2008, the average annual increase in the amounts paid by cards reached 17,1% compared with 3,2% for cheques, while during the period 2009 -2010 the average annual growth was 2,2% and -8,2%, respectively. This partly suggests the gradual replacement of cheques by cards. Therefore, part of the increase occurring in cardholder expenditure is due to the change in payment habits rather than an increase in consumption.

A further interesting aspect is that it appears from the balance sheets of banks that there has been an increase in extended credit card credit amid the economic crisis, and this has remained at relatively high levels. This indicates that, despite the high interest rates prevailing in this category of loans (12,50% in April 2011), in times of economic difficulty some consumers choose to transfer their credit card balance in order to finance consumption. This is an additional factor explaining the increases experienced in cardholder expenditure.

The higher growth rates experienced in local cardholders' expenditure, when examined together with the retail sales index, show increased card use compared with the actual path followed by private consumption. For example, for the period 2009-2010, nominal spending by cards registered an average annual increase of 2,4%, while the turnover value index of retail trade registered negative growth of -3,2%.

Conclusions

Real seasonally adjusted cardholder expenditure in recent years has increased in most categories of expenditure. Furthermore, there has been a change in payment habits, with increased use of cards as a means of payment. Moreover, there are consumers who choose to transfer their credit card balance in order to finance their consumption, particularly in economically difficult times. Therefore, the increase in cardholder expenditure not only reflects an increase in consumption but also a change in payment habits, thus weakening the forecasting ability of cardholder expenditure as a leading indicator of consumption.

2011 compared with the corresponding quarter of 2010, it is lower than in the last four months of 2010.

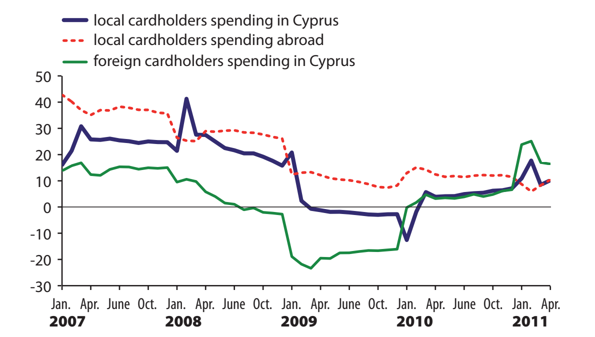
In contrast, credit card spending by domestic cardholders in Cyprus recorded an increase of 10,7% in the first four months of 2011 compared with an increase of 3,1% in the corresponding months of 2010 (**Chart A.33**). More specifically, the biggest increase in cardholder spending was recorded in supermarkets, partly due to the imposition of a 5% VAT on food and pharmaceutical products and in petrol stations, possibly due to the increase in fuel prices (see **Box A.3**, p. 58). The increase in fuel prices also affected the imports of goods. More specifically, nominal imports of goods and services in the first quarter of 2011 recorded an increase of 2,4%, while imports excluding the category of fuel and lubricants recorded a slight decrease. Based on the aforementioned data, private consumption in 2011 is expected to remain subdued.

Construction sector

The construction sector in Cyprus continued its negative path, recording a contraction in the first quarter of 2011. The sales of cement in the period January-March 2011 registered an annual decrease of 4% compared with a decrease of 13% in the same period last year (**Chart A.34**). Moreover, according to market signals, a further decline is expected in local sales of cement in the coming months.

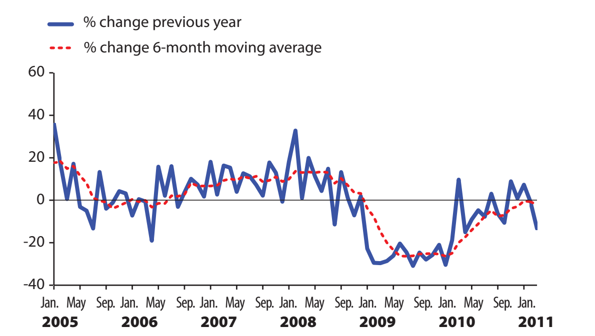
In addition the index of production in

CHART A.33 **Credit card spending**
(cumulative annual % change from January)



Source: JCC Payments System Ltd.

CHART A.34 **Sales of cement**



Source: Cystat.

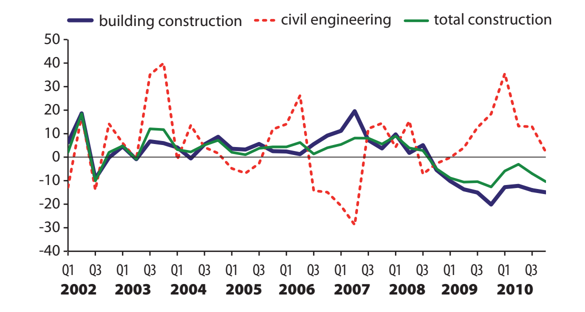
construction (**Chart A.35**) recorded an annual decrease of 10,6% in the fourth quarter of 2010 compared with a decrease of 12,6% in the fourth quarter of 2009. The production index reveals that growth in construction activity is stabilising at negative levels.

The negative picture recorded by the construction sector is also reflected in the continued rise in unemployment in the sector. The average number of unemployed in the first four months of 2011 was 4.335 compared with 3.652 in the corresponding period of 2010. This represents an increase in the annual growth of unemployment by 18,7% in the first four months of 2011.

As regards the expectations of Cypriot residents for property prices in Cyprus in the next three months, as revealed in the relevant questionnaire of the European Commission, these continue to be negative, although there is a slight improvement compared with 2010 (**Chart A.36**). More specifically, the average value of this index during the first four months of 2011 stood at -25 compared with -35,4 in the corresponding period of 2010. In parallel, the construction component of the business and consumer surveys confidence indicators remained at the negative levels of 2010, indicating a further decline in construction activity.

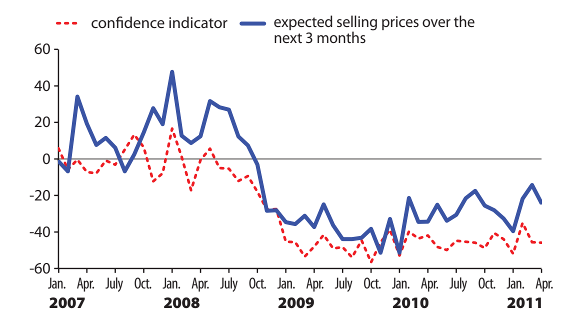
The decline in the construction sector is also evident in the data of the Department of Lands and Surveys. More specifically, the total number of sales contracts (residents and non-residents) recorded an annual decrease of 16,4% during the first four months of 2011

CHART A.35 **Quarterly Index of production in construction**
(annual change, %)



Source: Cystat.

CHART A.36 **Construction confidence indicator**



Source: European Commission.
Note: Seasonally adjusted data.

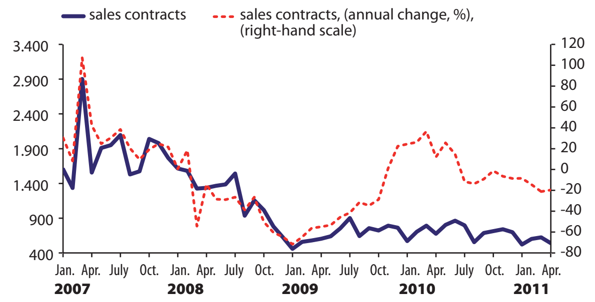
compared with an increase of 24,6% in the corresponding period of 2010 (**Chart A.37**). In addition, the number of issued title deeds decreased by 4,9% on an annual basis in the first four months of 2011, while in the same period last year it increased by 31,1%. In contrast to the above, a small recovery was recorded in the number of sales contracts to foreigners, which recorded an annual increase of 15,7% (84 sales contracts) in the first four months of 2011. It should be noted that sales contracts to foreigners stabilised at very low levels in 2009 and early 2010, while a marginal increase was recorded in late 2010 and early 2011.

In connection with the above, the receipts of the Inland Revenue Department from capital gains tax and stamp duty during the first quarter of 2011 decreased by 17,9% and 22%, respectively, on an annual basis, compared with an increase of 63,5% and 41,1%, respectively, in the first quarter of 2010. On the other hand, immovable property tax increased by 6,8% on an annual basis in the first quarter of 2011 compared with an increase of 55,3% in the corresponding period last year.

Regarding housing loans to residents, an annual increase of 11,5% was recorded in March 2011 compared with an annual increase of 13,7% in March 2010. Housing loans to non-residents increased by 7,6% on an annual basis in March 2011 compared with an increase of 10,7% in March 2010.

The number of building permits, which constitutes a leading indicator of future

CHART A.37 **Sales contracts (total of locals and foreigners)**



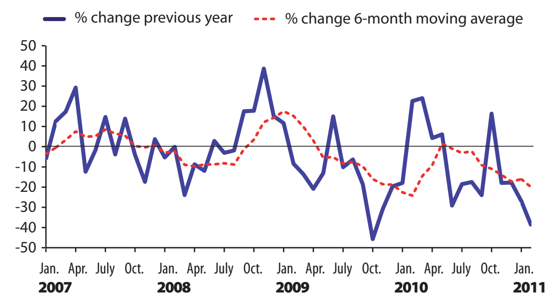
Source: Department of Lands and Surveys.

activity in the construction sector, recorded an annual decrease of 6,6% during the first two months of 2011 compared with an annual increase of 1,3% during the first two months of 2010. In addition, the number of approved permits for non-residential buildings declined by 10% on an annual basis in the first two months of 2011. In connection with the total number of building permits, the total value and area for the first two months of 2011 decreased by 27% and 34,1%, respectively, on an annual basis (**Chart A.38**). With respect to building permits by district, during the first two months of 2011 Famagusta recorded the biggest percentage decrease in the number of building permits. Limassol and Nicosia districts experienced an increase in their rural areas but a decrease in their urban areas, while Larnaca district recorded an increase in its urban and a decrease in its rural areas. Furthermore, in the Paphos district the number of building permits recorded an increase.

As far as construction costs are concerned, these recorded a small increase in the first quarter of 2011. Specifically, the price index of construction materials recorded an annual increase of 4% in the aforementioned period, mainly due to the increase in oil prices.

Based on the methodology presented in the December 2010 *Economic Bulletin*, the residential property price index of the CBC recorded a further annual decrease of 2,5% in 2010. On the basis of real estate valuations collected by the CBC for early 2011, it is evident that the aforementioned index will continue its downward path in the current year.

CHART A.38 **Building permits authorised**



Source: Cystat.

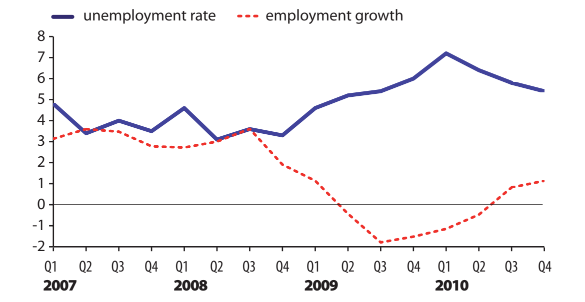
In conclusion, the construction indicators point to a decline in construction activity, despite the slight recovery experienced in 2010. Given that cement sales have recorded negative growth rates, confidence in the construction sector is at strong negative levels and the index of production in construction is also at low levels, a further reduction in the stock of houses is likely.

Labour market

As a result of the subdued climate in the Cyprus economy in 2010, employment recorded a marginal increase of 0,2% in 2010 compared with a decline of 0,7% in 2009. In connection with the above, total hours worked increased by 0,5% in 2010 compared with a decrease of 1,6% in 2009. This increase resulted primarily from the increase in hours worked per employee and to a lesser extent from the increase in employment. This is possibly due to the fact that some employees were underemployed in 2009, while in 2010 there was a reversal to a more normal pace. Furthermore, in 2010 there was, according to Labour Force Survey (LFS) data, an increase in the unemployment rate by 0,9 percentage points, reaching 6,2% (**Chart A.39**). It should be noted that the increase in unemployment in 2010, as measured by the LFS on a quarterly basis, was less than expected on the basis of registered unemployed figures, published on a monthly basis, and with a shorter time lag.

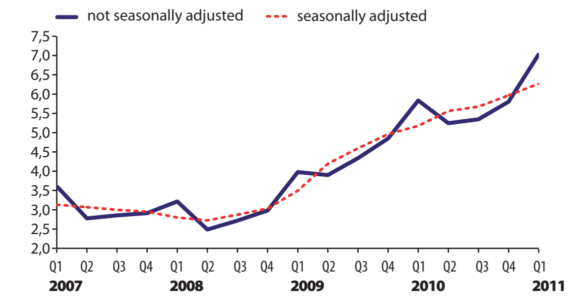
The most recent available data for unemployment (**Chart A.40**) refer to the

CHART A.39 **Employment growth and unemployment rate**
(%)



Source: Cystat.

CHART A.40 **Registered unemployment rate**
(%)

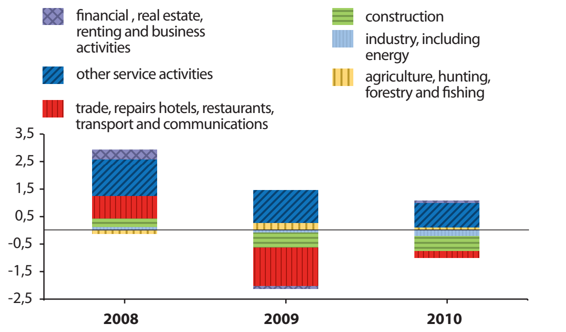


Source: Cystat.

registered unemployed. The data record a downward trend up to the first half of 2008 and an increase afterwards, reflecting the effect of the economic crisis and the consequent slowdown of the Cyprus economy. The registered unemployment rate in the first four months of 2011 increased by 1,2 percentage points compared with the corresponding period of the previous year, reaching 6,9%. Moreover, during the period under review, the number of registered unemployed increased by 5.117 compared with the corresponding period of the previous year, reaching 28.508. The upward trend of the registered unemployed is confirmed by the seasonally adjusted data, which also reveal that the increase in unemployment continued at a steady pace as from the second half of 2008.

As regards the sectoral breakdown of employment, the performance of other service activities and construction is noteworthy (**Chart A.41**). In particular, the contribution of other service activities amounted to 0,9%, while the contribution of construction was negative, reaching – 0,5%. With respect to other service activities, it should be noted that a very large increase was recorded in the subcategory "private households with employed persons". Excluding this subcategory, total employment registered a decrease of 0,4% in 2010 compared with 2009. Furthermore, other service activities include a large proportion of employees in the general government sector, which rose by 2% in 2010. Regarding the contribution of the other

CHART A.41 **Contribution to employment growth by sector**
(%)



Source: Cystat.

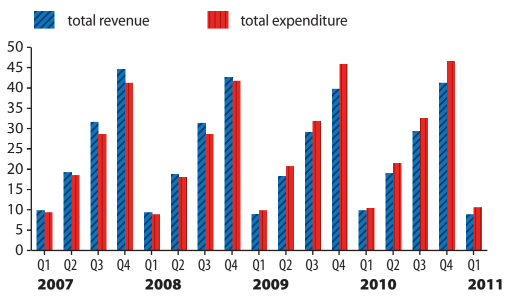
sectors, namely trade, repairs, hotels, restaurants, transport and communications as well as industry including energy, all had a small negative contribution. On the other hand, financial intermediation, real estate, renting and business activities and agriculture had a small positive contribution.

5. Domestic Public Finance Developments

According to the preliminary general government figures published by Cystat, a budget deficit of 5,3% of GDP was recorded in 2010 compared with a deficit of 6% of GDP in 2009. This improvement arose due to the annual increase in total revenue of 7% in 2010 compared with an increase in total general government expenditure of 5% over the same period (**Chart A.42**).

More specifically, total general government revenue as a percent of GDP recorded an increase of 1,5 percentage points, mainly on account of the increase in social contributions (given the increase in social security contribution rates as from April 2009) and also due to some significant but temporary non-tax revenues. These revenues include, mainly, the historically high CBC dividend income in light of the significant profits made over 2009 (partly because of the non-conversion of Cyprus pound coins into euro) and revenues from an interest rate swap deal that was terminated at the beginning of the year. The increase in total general government revenue as a percent of GDP was partly offset by an

CHART A.42 **Total revenue and expenditure of the general government**
(cumulative for the period as from Q1 as a percentage of GDP)



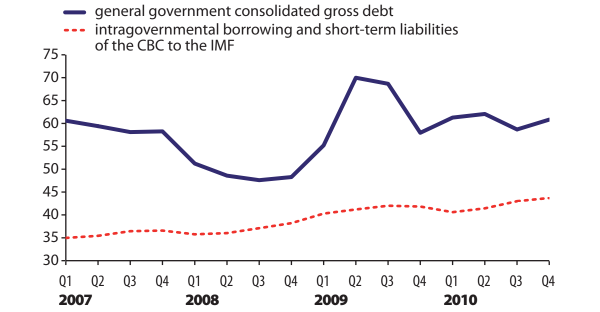
Source: Cystat.

increase in total general government expenditure of about 0,8 percentage points, despite the significant slowdown in the growth rate of compensation of employees and the reduction in expenditures for interest payments and gross fixed capital formation (the latter category includes development expenditures), and was mainly brought about by the increase in expenditures for social transfers, particularly in the area of pensions.

According to data published by the Ministry of Finance (**Chart A.43**), the general government consolidated gross debt[9] as a percentage of GDP recorded a further increase from 58% in 2009 to 60,8% in 2010, mainly on account of the deficit in the primary balance[10]. More specifically, the primary deficit declined marginally to 3,1% of GDP in 2010 from 3,4% in 2009 (**Chart A.44**). With regard to interest payments for the servicing of public debt in 2010, these reached the historically very low rate of 2,2% of GDP (only in 1995 was expenditure on interest payments lower than in 2010, amounting to 2% of GDP). Regarding intragovernmental borrowing from the Social Security Fund, which includes relevant investments by the Administered Funds, there was a further increase in 2010 of about 2 percentage points (**Chart A.44**).

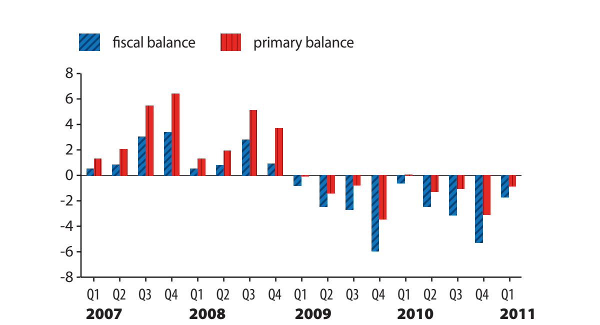
Cystat's preliminary estimate of a budget deficit of 5,3% of GDP in 2010 is more optimistic than the government's forecast of a 6% deficit of GDP as per the 2009-2013 Stability Programme (SP) update published in April 2010. This reflects the higher-than-expected containment of public expenditure

CHART A.43 **General government consolidated gross debt and intragovernmental borrowing and short-term liabilities of the CBC to the IMF**
(as a percentage of GDP)



Source: Ministry of Finance.

CHART A.44 **Fiscal and primary balances of the general government**
(cumulative for the period as from the Q1 as a percentage of GDP)



Source: Cystat.

9. The general government consolidated gross debt is the sum of the central government and local authorities' debt, excluding intragovernmental borrowing from the Social Security Fund (includes relevant investments by the Administered Funds), and the short-term obligations of the CBC to the IMF.
10. The primary balance is defined as the budget balance excluding interest payments.

(by about 1% of GDP) despite the lower revenue shortfall (by about 0,3% of GDP).

With regard to fiscal developments in early 2011, preliminary data published by Cystat covering revenues and expenditures of the general government exhibit a significant deterioration (**Table A.9**). More specifically, there was a widening of the budget deficit to 1,7% of GDP in the first quarter of 2011 compared with a deficit of 0,6% in the corresponding period of the previous year (**Chart A.44**, p. 70). In particular, total general government revenue registered a significant annual decrease of 6,6%, while total general government expenditure increased by 5,2% during the first quarter of 2011 compared with the first quarter of 2010. It should be noted that although the reduction in total general government revenues during the first quarter of 2011 was anticipated (due to the significant but temporary non-tax revenues that materialised in early 2010), this reduction alone cannot explain the significant widening of the budget deficit. The latter is also the result of the continued annual increase in interest payments, social transfers, intermediate consumption and compensation of employees. Therefore, the recent fiscal developments are a cause of particular concern and should act as an impetus for the intensification of the efforts to promote and implement the announced fiscal consolidation measures.

Regarding revenues from direct taxes, the category "current taxes on income, wealth, etc." recorded an annual decrease of 7,2%

TABLE A.9 **Accounts of general government**

	Jan.- Mar. 2010 (€ milion)	Jan.- Mar. 2011 (€ milion)	Change %
EXPENDITURE			
Intermediate consumption	174,5	185,7	6,4
Gross fixed capital formation	113,4	105,0	-7,4
Compensation of employees	613,2	628,6	2,5
Other taxes on production	0,1	0,1	0,0
Subsidies payable	0,3	2,1	600,0
Interest paid	116,5	155,2	33,2
Social benefits	584,5	623,8	6,7
Other current transfers	179,8	166,3	-7,5
Capital transfers payable	33,4	42,5	27,2
Total expenditure	**1.815,7**	**1.909,3**	**5,2**
Total expenditure as a % of GDP	**10,4**	**10,5**	-
REVENUE			
Market output and output for own final use	102,1	105,9	3,7
Taxes on production and imports	615,9	588,3	-4,5
of which VAT	374,3	358,3	-4,3
Property income receivable	96,5	20,6	-78,7
Current taxes on income, wealth, etc	459,9	426,8	-7,2
Social contributions receivable	421,1	428,0	1,6
Other current transfers receivable	12,3	27,8	126,0
Capital transfers receivable	3,1	1,2	-61,3
Total revenue	**1.710,9**	**1.598,6**	**-6,6**
Total revenue as a % of GDP	**9,8**	**8,8**	-
Surplus (+) / Deficit (-)	**-104,8**	**-310,7**	-
Surplus (+) / Deficit (-) % of GDP	**-0,6**	**-1,7**	-

Source: Cystat.

during the first quarter of 2011 (**Table A.9**, p. 71). More specifically, and as demonstrated by more recent data published by the Inland Revenue Department, revenues from the special contribution to defence fund fell by 11,6% over the first four months of 2011 compared with the corresponding period of the previous year. It is also noteworthy that the annual decrease in total direct taxes collected by the Inland Revenue Department during the first four months of 2011 reached 1,7%, mainly on account of the aforementioned annual decrease in revenues from the special contribution to defence fund, and despite the fact that income tax paid by individuals and corporations recorded an annual increase of 8,4% and 7,8%, respectively.

At the same time, revenues from indirect taxes (including VAT) recorded an annual decrease of 4,5% in the category "taxes on production and imports" in the first quarter of 2011 (**Table A.9**, p. 71). In particular, VAT receipts recorded an annual decrease of 4,3% during the period under consideration, primarily due to the continued sluggish growth in private consumption as well as on account of the fact that in 2010 the Easter holiday period was in March, while in 2011 it was in April (base effect). It should be noted that, based on preliminary data published by the VAT Service, VAT receipts over the first four months of 2011 recorded a marginal annual increase of 1,1%, partly due to the imposition of a 5% VAT rate on foods and pharmaceuticals as from January 2011.

As regards developments on the expenditure side, the continued annual increase in public expenditure in the first quarter of 2011 is attributed to the annual increase in expenditure on interest payments (33,2%), social transfers (6,7%), intermediate consumption (6,4%) and compensation of employees (2,5%). It should be noted that expenditure for gross fixed capital formation (which includes development expenditures) decreased by 7,4% on an annual basis in the first quarter of 2011, following the reductions recorded in 2010. These annual trends are confirmed by the monthly consolidated accounts of the central government published by the Ministry of Finance covering expenditures on a cash basis[11] for the first four months of 2011.

The aforementioned developments are a cause of particular concern, since they demonstrate that without the adoption of effective measures to contain and reduce public expenditure, the deterioration in public finances cannot be reversed. Consequently, the government's forecast of a budget deficit of 4% of GDP for 2011, as per the 2010-2014 Stability Programme update published in May 2011, appears optimistic. Moreover, failure to achieve the 2011 deficit target of 4% of GDP (or at least less than 4,5% of GDP as per Cyprus' obligation to the European Commission) will have a significant impact regarding the achievement of the 2012 target for a budget deficit of 2,6% of GDP (or at least less than 3% of GDP as per Cyprus' obligation to the European Commission).

The above concerns are noted in the European Commission's Spring 2011 European Economic Forecast published in May 2011,

11. The Ministry of Finance data are not strictly comparable with the data from Cystat because of differences in methodology, the relative coverage of the public sector, and the classification of government revenue and expenditure items.

which projects no substantial improvement in public finances. More specifically, the European Commission forecasts a marginal reduction in the budget deficit to 5,1% of GDP in 2011 and to 4,9% of GDP in 2012. Despite the significant projected pick-up in real GDP growth (2,4%), the European Commission expects public finances to increase only marginally.

Although the 2011 budget is relatively modest in the sense that public expenditure is projected to grow at a rate lower than that of GDP, two supplementary budgets have already been approved by Parliament in 2011. If the current practice of adopting supplementary budgets during the course of the year continues, then the credibility of the fiscal targets presented in the government budget will be reduced. This underlines the need for structural reforms within the framework associated with the design and implementation of fiscal policy.

As regards 2012 and beyond, a number of fiscal consolidation measures presented in the 2010-2014 Stability Programme update are not clearly defined. This is especially so for measures aimed at containing current expenditures, with some of them still at a very preliminary stage of discussion. This is particularly worrying in view of the short time-frame within which Cyprus is required to achieve the necessary fiscal consolidation mentioned above. In general, there is a lot of uncertainty over the achievement of the fiscal target for 2012, since an additional fiscal consolidation effort, amounting to 0,8% of GDP, has not yet been agreed by the political parties and social partners. In fact, the dialogue is in its early stages. With regard to the outlook for public debt, it should be noted that because of possible further tightening of the ECB's monetary policy associated with the expected economic recovery in the euro area countries and the recent downgrades of Cyprus's sovereign ratings by Standard & Poor's, Moody's and Fitch, it is expected that a rise in long-term interest rates will occur. Therefore, the general government consolidated gross debt may increase further due to the fiscal burden associated with higher interest payments.

Consequently, it is of crucial importance that the Government adopts, as soon as possible, measures that will reduce public expenditure on a long-term basis, such as the introduction of income criteria for all social payments and the reduction of the public sector wage bill (the latter constitutes about a third of total general government expenditure). It should also be noted that the expected economic recovery is not sufficient to reverse the current negative fiscal developments without the immediate adoption of measures to reduce government spending on a permanent basis. In the absence of effective measures to reduce government expenditure, public spending will have to be financed through increased taxation, thus increasing the distortions in the economy. At the same time, the fiscal consolidation efforts should take into account the medium and long-term challenge associated with securing adequate resources for the funding of pension funds, in light of the ageing population. As such, the evaluation of the current pension system by an independent actuary is a positive development. Finally, with respect to the existing framework for designing and implementing fiscal policy, it should be noted that serious delays have been observed in relation to the full adoption of the three-year Medium-Term Budgetary Framework, which is intended to contribute to cost containment. Although the basis of the framework was agreed by the Council of Ministers in May 2006, and has been presented in consecutive Stability Programme updates as an important structural measure, it hasn't been implemented yet.

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 are 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 for the Eurosystem's macroeconomic projections for 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 24 May 2011. The working assumptions of the Eurosystem are as follows: the euro is expected to fluctuate at around \$1,42 in 2011 and \$1,43 in 2012. The price of oil is expected to be around \$111,1 per barrel in 2011, while in 2012 it is expected to fall to \$108. The projections concerning the Cyprus economy were prepared by taking into consideration only those fiscal measures which are clearly defined and most likely to be implemented. Thus, fewer measures were taken into consideration in relation to those included in the Stability Programme and, as a result, public consumption, public investment and private consumption do not reflect the impact of any additional fiscal consolidation measures that the government may possibly adopt within the framework of fiscal consolidation.

Eurosystem projections for the euro area

Based on the above working assumptions,

euro area inflation is expected to increase and fluctuate between 2,5% and 2,7% in 2011 compared with 1,6% in 2010 (**Table A.10**). In 2012 the average increase in HICP inflation is expected to fluctuate between 1,1% and 2,3%, while HICP inflation excluding energy and food is expected to increase gradually. GDP growth is expected to increase further in 2011, rising between 1,5% and 2,3%, while in 2012 euro area GDP is expected to increase between 0,6% and 2,8%. The anticipated recovery in GDP reflects the expected gradual increase in external demand and investment.

TABLE A.10 **Eurosystem projections for the euro area**
(annual change, %)

	2010	2011f	2012f
GDP			
June Projections 2011	1,7	1,5 - 2,3	0,6 - 2,8
December Projections 2010	1,6 - 1,8	0,7 - 2,1	0,6 - 2,8
Inflation			
June Projections 2011	1,6	2,5 - 2,7	1,1 - 2,3
December Projections 2010	1,5 - 1,7	1,3 - 2,3	0,7 - 2,3

Source: ECB.

Projections for the Cyprus economy

The domestic economy is recovering, although growth remains subdued. The private sector is adopting a wait-and-see stance with respect to investment, while lending to NFCs is at historically low levels. The confidence indicator for households remains in negative territory, while the government, by turning to domestic borrowing, is intensifying competition for bank lending. With interest rates remaining relatively high and domestic confidence at very low levels, growth in 2011 is expected to be driven mainly by external demand. The projections for inflation mainly reflect international developments, with oil prices defining the high levels of 2011 as well as the gradual recovery of the domestic economy. Taking into consideration the aforementioned developments, GDP projections for 2011 and 2012 have been revised slightly downwards, compared with those of December 2010.

Prices: harmonised index of consumer prices

Cyprus HICP inflation in 2011 is expected to reach 3,3% compared with 2,6% in 2010 (**Table A.11**). The significant increase in HICP inflation is mainly due to the increase in oil prices, the increase in electricity prices (1,5% for three consecutive years) and the imposition of 5% VAT on food and pharmaceutical products. In addition, the gradual recovery of domestic demand has exerted an upward pressure on inflation in 2011, which is reflected in higher prices in the subcategories of industrial goods excluding energy and services. Therefore, as a result of the expected rise in the prices of food and services, HICP inflation excluding energy is expected to increase by 1,9% in 2011 from 0,5% in 2010.

In 2012 HICP inflation is expected to decelerate to 2,2%, mainly due to the working assumptions for oil prices and the euro/dollar exchange rate. HICP inflation excluding energy is expected to increase by 2,1% in 2012 compared with 1,9% in 2011, reflecting the expected gradual recovery in economic activity.

TABLE A.11 **HICP projections**
(annual change, %)

	2010	2011f	2012f
HICP			
June Projections 2011	2,6	3,3	2,2
December Projections 2010	2,7	3,4	2,4
HICP excluding energy			
June Projections 2011	0,5	1,9	2,1
December Projections 2010	0,7	2,5	2,0

Sources: Cystat, CBC.

Compensation, productivity and the labour market

Employment in 2010 registered a marginal increase of 0,2%. It should be noted that employment excluding the category of "private households with employed persons" registered a decrease of 0,4%, reflecting the generally subdued climate in the labour market.

With the gradual improvement in economic conditions in 2011 and 2012, employment is expected to register a partial recovery (**Table A.12**). In particular, employment is expected to increase by 0,6% and 1,1% in 2011 and 2012, respectively. However, these rates are much lower than those registered before the crisis. Moreover, the new projections for employment are lower than the previous ones, as a result of the downward revision of GDP projections. The LFS unemployment rate in 2011 is expected to reach 6,2%, remaining at the same level as in 2010, while in 2012 it is projected to fall to 6%. Unemployment for 2011 was revised downwards in the latest projection round due to lower than expected unemployment in 2010. It should be noted that the scenario for unemployment in the latest forecasts is more pessimistic than in the previous forecast round.

In 2011 productivity growth is expected to reach 0,8%, thus remaining at the same level as in 2010, while in 2012 productivity is expected to increase by 1% as a result of further improvement in economic conditions. Compensation per employee is expected to increase by 2,6% in 2011, while a further increase of 2,7% is expected in 2012. The aforementioned developments in the compensation per employee are partly related to the expected changes in COLA.

TABLE A.12 **Labour market projections**
(annual change, %, unless otherwise indicated)

	2010	2011f	2012f
Compensation per employee			
June Projections 2011	2,5	2,6	2,7
December Projections 2010	1,7	2,3	2,6
Unit labour costs			
June Projections 2011	1,6	1,8	1,7
December Projections 2010	0,8	1,3	1,5
Productivity			
June Projections 2011	0,8	0,8	1,0
December Projections 2010	0,9	1,0	1,1
Total employement			
June Projections 2011	0,2	0,6	1,1
December Projections 2010	-0,2	0,8	1,3
Unemployment rate (% of labour force)			
June Projections 2011	6,2	6,2	6,0
December Projections 2010	6,9	6,6	6,0

Sources: Cystat, CBC.

As regards unit labour costs, these are expected to remain at similar levels in 2011 and 2012, reaching 1,8% and 1,7%, respectively.

National accounts

As far as the national accounts are concerned, real GDP growth in Cyprus is projected to reach 1,4% in 2011, while further recovery is expected in 2012, with GDP increasing by 2,1%. The projections for 2011 and 2012 have been revised downwards, mainly due to the latest figures for the first-quarter GDP flash estimate and other published indicators for the Cyprus economy, which point towards a more moderate picture for the economy's growth path. More specifically, the flash estimate of the seasonally adjusted quarterly GDP growth in the first quarter of 2011 was 0%, which was lower than expected. The continuing recovery of the economy in 2011 reflects developments in the tourism sector and positive growth registered in the financial services sector, both of which are directly related to the recovery of our trading partners. Based on economic indicators and current data, the Cyprus economy is expected to register growth of 1,4% in 2011 (**Table A.13**).

Private consumption is expected to register a 0,3 percentage points increase compared with 2010, thus reaching a growth rate of 1,1%, with available data pointing towards very subdued growth in this category. More specifically, consumer loans to households registered smaller growth rates, increasing by 0,4% in March 2011. At the same time, car

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

	2010	2011f	2012f
GDP			
June Projections 2011	1,0	1,4	2,1
December Projections 2010	0,7	1,8	2,4
Private consumption			
June Projections 2011	0,8	1,1	1,5
December Projections 2010	-0,8	0,6	0,9
Public consumption			
June Projections 2011	0,5	-0,8	0,4
December Projections 2010	1,0	0,7	3,3
Gross fixed capital formation			
June Projections 2011	-7,9	0,5	2,2
December Projections 2010	-6,4	4,3	4,4
Exports of goods and services			
June Projections 2011	0,6	3,4	3,4
December Projections 2010	3,0	3,1	3,3
Imports of goods and services			
June Projections 2011	3,1	1,3	1,8
December Projections 2010	2,7	3,5	2,4

Sources: Cystat, CBC.

registrations have been registering negative growth for a period of more than two consecutive years, while retail sales registered a small increase. On the other hand, public consumption is expected to register a decrease of 0,8% in 2011, mainly due to one-off expenditure on defence equipment in 2010. Gross fixed capital formation is expected to register a marginal increase of 0,5%, following the significant decreases in the last two years. This is mainly due to public investments, which are expected to increase in 2011 as a result of Cyprus taking over the Presidency of the EU in 2012. As far as total exports of goods and services are concerned, an increase of 3,4% is expected due to increased revenue from tourism and financial services, following the further improvement in the external environment. Exports of goods have also been improving since the second half of 2010. At the same time, imports of goods and services are expected to increase by 1,3% in 2011, following the slow growth in domestic demand.

In 2012 GDP is expected to recover further, increasing by 2,1%. Specifically, private consumption is anticipated to increase by 1,5%, while a marginal increase of 0,4% is expected in public consumption. In addition, gross fixed capital formation is expected to increase by 2,2%. The rate of growth of exports is expected to remain at 3,4%, while imports are expected to increase by 1,8%, following the partial recovery in domestic demand.

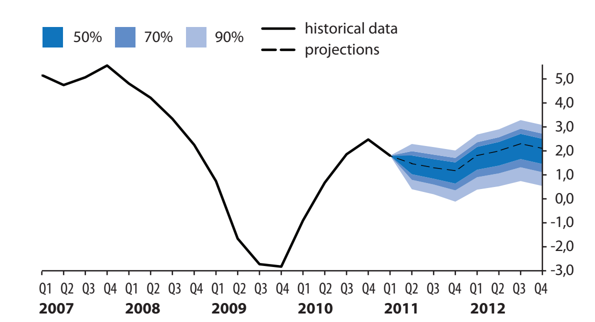
It should be noted that the aforementioned projections may be affected by the possible adoption of further fiscal consolidation measures which have not been taken into consideration in the current projections, since they were not clearly defined at the time when the projections were being prepared. In such a case, public consumption and public investment are expected to be negatively affected. This, in turn, will have a negative indirect impact on other components of GDP, especially private consumption. The impact of fiscal consolidation measures will depend on the type and size of measures adopted. It must, however, be emphasised that in the longer term fiscal consolidation is expected to have positive effects by reinforcing the economy's growth potential.

Fan charts for the macroeconomic projections

The projections for HICP inflation (**Table A.11**, p. 79) as well as those for GDP growth (**Table A.13**, p. 81) 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.

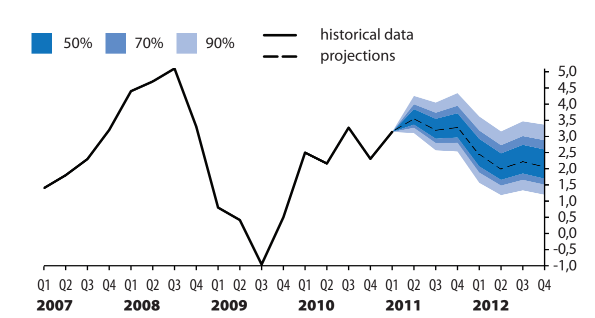
The probability of GDP, HICP inflation and HICP inflation excluding energy forecasts lying around their respective modal projections is depicted in **Charts A.45**, **A.46** and **A.47**, respectively. The three confidence intervals show the bands in which GDP, HICP inflation and HICP inflation excluding energy are expected to be with a probability of 50%, 70%

CHART A.45 **Real GPD fan chart**
(annual change, %)



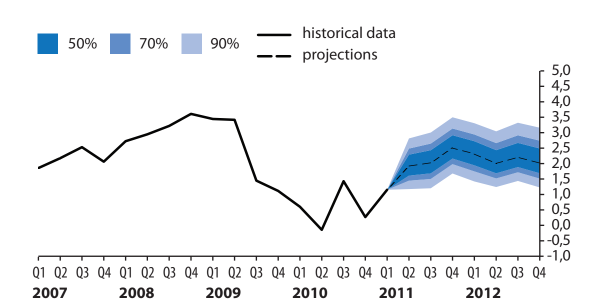
Source: CBC.

CHART A.46 **HICP fan chart**
(annual change, %)



Source: CBC.

CHART A.47 **HICP excluding energy fan chart**
(annual change, %)



Source: CBC.

and 90%. For example, the darkest band includes the modal projection and covers 50% of the probability. The probability distribution, which is based both on statistical methodology and on expert judgment, can either be normal or two piece normal with a degree of asymmetry around the modal projections. In particular, the skewed distribution is separated into two unequal parts, above and below the modal forecast[12]. Moreover, the bands of the fan charts widen as the time horizon is extended, indicating the increasing uncertainty of outcomes in the longer term.

With respect to GDP, the adoption of additional fiscal consolidation measures will put downward pressure on GDP. In such a case, public investment and public consumption are expected to be negatively affected, while a further negative impact on domestic demand is expected mainly through the deterioration of private consumption. In addition, if unemployment continues to rise, this may further contain GDP, mainly through the reduction in private consumption. On the other hand, upward risks to GDP originate from the larger than expected recovery in the economies of our trading partners. This will positively affect GDP through the recovery of exports and the inflow of foreign investments. In addition, the developments in the Greek economy may also have an impact on the Cyprus economy. Overall, the risks for a downward revision of the modal forecast of GDP are more likely.

With regard to HICP inflation, upside risks

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

may stem from the possible larger increases in energy prices, mainly due to the political tensions in North Africa and the Middle East, and the adoption of further indirect taxes as part of any additional fiscal consolidation measures. In contrast, a slower than expected recovery in consumer confidence and, consequently, retail sales, as well as a possible further deterioration in unemployment and a decrease in wages, are likely to have a dampening effect on inflation. The risks indicate that possible upward deviations in the modal 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

Both the European Commission and IMF spring 2011 projections for 2011 and 2012 GDP and HICP inflation are not far off the CBC projections (**Table A.14**). The only exceptions are the IMF projections for HICP inflation in 2011 and 2012, which are higher than the projections of the other organisations. The differences between the projections of the various international organisations are mainly due to the different information available at the time of preparing these projections and the different working assumptions.

During 2011 GDP is expected to continue growing, with the IMF projection being the most optimistic of the three, at around 1,7%. On the other hand, the CBC projection of 1,4%

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

		GDP		HICP	
		2011f	**2012f**	**2011f**	**2012f**
European Commission	Spring 2011	1,5	2,4	3,4	2,3
	Autumn 2010	1,5	2,2	3,3	2,5
IMF	Spring 2011	1,7	2,2	3,9	2,8
	Autumn 2010	1,8	2,5	2,3	2,5
CBC	Spring 2011	1,4	2,1	3,3	2,2
	Autumn 2010	1,8	2,4	3,4	2,4

Sources: European Commission, IMF, CBC.

GDP growth in 2011 is the most pessimistic. In 2012 the Cyprus economy is expected to recover further, with the European Commission being the most optimistic, anticipating a growth of around 2,4%. On the other hand, the CBC gives a projection of 2,1% for the same year.

As far as inflation in 2011 is concerned, the IMF is the most pessimistic, while the CBC and European Commission forecasts are much lower and at very similar levels. More specifically, IMF projections for inflation in 2011 and 2012 are 3,9% and 2,8%, respectively, while the CBC projections of 3,3% and 2,2%, respectively, are the most optimistic.

In conclusion, the CBC forecasts are not far off the projections of the European Commission and the IMF. It must be noted that the CBC and IMF forecasts for GDP have been revised downwards, while those of the European Commission have been revised marginally upwards. Finally, the CBC projections for HICP inflation have been revised downwards, while those of the IMF have been revised significantly upwards.

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[1], markets[2] and market infrastructures[3] - is capable of withstanding shocks and the unravelling of financial imbalances, thereby mitigating the likelihood of disruptions in the financial intermediation process that are severe enough to significantly impair the allocation of savings to profitable investment opportunities"[4].

This section of the *Bulletin* provides an analysis of the potential risks for the stability of the financial system emanating from the macro-financial environment, by focusing on the household, non-financial corporate and real estate sectors. As regards the domestic financial system, the key developments in the financial markets are reviewed.

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

1. 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. ECB (2010) *Financial Stability Review*, December.

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 of the *Bulletin*.

1.2 Household sector

1.2.1 Leverage

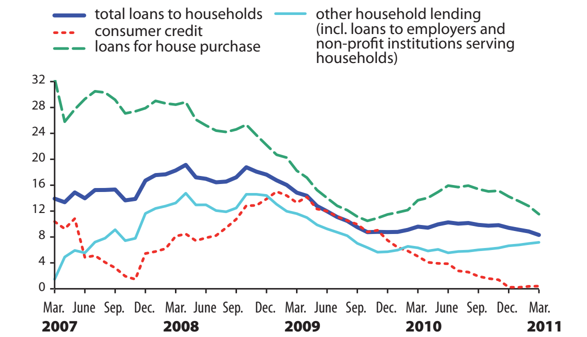
MFI loans to domestic households

MFI loans to domestic households[5] increased by 8,3% year-on-year in March 2011. As regards the three components of household lending, loans for house purchase, consumer credit and other household lending[6] grew by 11,5%, 0,4% and 7,2%, respectively, year-on-year in March 2011 (**Chart B.1**). It should be noted that the annual rate of growth of total MFI loans to domestic households decelerated in the first three months of 2011. Loans to households for house purchase exhibited the biggest deceleration.

The uncertainty surrounding the domestic macroeconomic conditions and prospects contributed to the fall in demand for lending. At the same time, developments in the domestic and external environment have led banks to be more prudent as regards the risks undertaken in lending. As a result, credit standards for loans to households have tightened.

In particular, as shown by the results of the

CHART B.1 **Bank loans to domestic households**
(annual change, %)



Source: CBC.

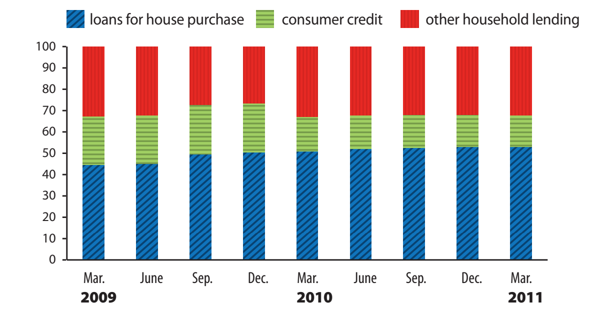
5. Based on monthly balance sheet data submitted by MFIs to the CBC.
6. Includes, *inter alia*, MFI loans granted to individuals, other than those included in "loans for house purchase" and "consumer credit", such as loans for medical treatment, education and debt consolidation, as well as loans to employers (including own-account workers) and non-profit institutions serving households.

latest Bank Lending Survey[7] of April 2011, in the first quarter of the current year, banks tightened their lending criteria with respect to housing, consumer and other loans to households. Moreover, the participants in the survey expect that credit standards for loans for house purchase will be tightened further in the second quarter of 2011, whereas those for loans to households for consumer credit and other lending are expected to remain unchanged. At the same time, in the first three months of 2011, net demand for loans by households for house purchase recorded a decrease due to household expectations for a deterioration in housing market prospects as well as reduced consumer confidence.

At the end of March 2011, loans to the domestic household sector as a percentage of total outstanding loans to resident non-MFIs rose marginally to 45% compared with 44,8% at end-September 2010 and 44,7% at the end of March 2010. Loans for house purchase, consumer credit and other household lending stood at 53%, 14,9% and 32,1% of total loans to the household sector, respectively, at end-March 2011 compared with 52,5%, 15,5% and 32% at the end of September 2010 and 51%, 16,1% and 32,9% at end-March 2010, respectively (**Chart B.2**). Consequently, housing loans continue to constitute the largest exposure of the household sector.

Loans to domestic households in foreign currency, which carry foreign exchange risk, represent only a small fraction of total loans to households. Foreign currency loans to households as a percentage of total

CHART B.2 **Distribution of bank loans to domestic households**
(%)

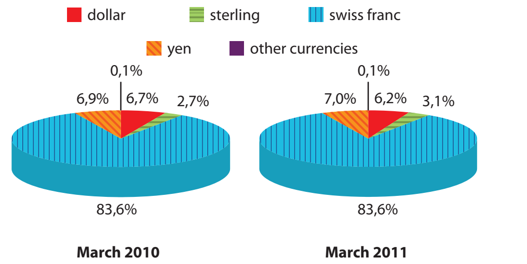


Source: CBC.

7. 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 views of the CBC. The survey covers about 85% of the loans extended to euro area NFCs and households in Cyprus.

outstanding loans to the household sector fell to 3,9% at end-March 2011 compared with 4,1% at the end of September 2010, the same at end-March 2010. At the end of March 2011, 83,6% of foreign currency loans to households was accounted for by Swiss francs, 7% by Japanese yen and 6,2% by US dollars compared with 83,3%, 7,1% and 6,5% at end-September 2010 and 83,6%, 6,9% and 6,7% at the end of March 2010, respectively (**Chart B.3**).

CHART B.3 **Distribution of bank loans to domestic households by foreign currency**
(%)

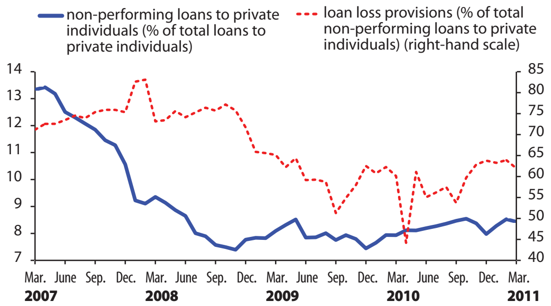


Source: CBC.

Non-performing loans[8, 9]

Non-performing loans to private individuals[10] as a percentage of total outstanding loans to private individuals amounted to 8,4% at end-March 2011 compared with 8,5% at the end of September 2010 and 7,9% at end-March 2010 (**Chart B.4**). Loan loss provisions as a percentage of total non-performing loans to private individuals (coverage ratio) rose significantly to 62% at the end of March 2011 from 53,7% at end-September 2010 and 60,1% at the end of March 2010.

CHART B.4 **Non-performing loans to private individuals and loan loss provisions**(1)
(%)

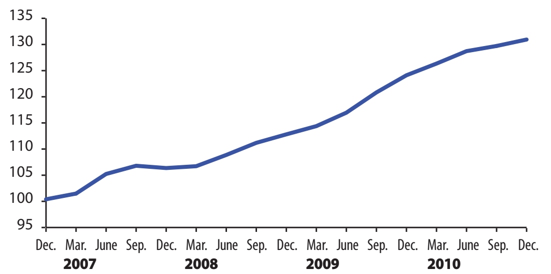


Source: CBC.
(1) Excludes the co-operative credit institutions.

Household debt

Household debt[11] as a percentage of GDP increased to 130,9% at the end of December 2010 from 128,7% at end-June 2010 and 124,1% at the end of December 2009. **Chart B.5** exhibits the household debt-to-GDP ratio for the years 2007 to 2010.

CHART B.5 **Household debt as a % of GDP**



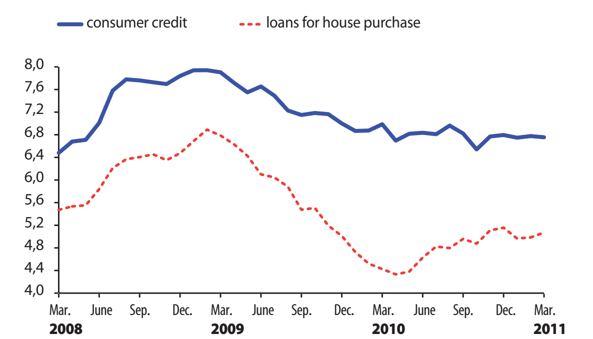
Source: CBC.

8. Excludes the co-operative credit institutions.
9. 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.
10. Loans to households excluding loans to employers and non-profit institutions serving households.
11. Based on quarterly financial accounts data (provisional). Includes loans of households and non-profit institutions serving households.

Financing conditions

The Cyprus MFI average interest rates[12] on euro-denominated loans for house purchase and consumer loans (new business) to euro area households amounted to 5,07% and 6,76% in March 2011 compared with 4,96% and 6,82% in September 2010, respectively (**Chart B.6**). In comparison, the respective euro area MFI average interest rates stood at 3,01% and 5,44% in March 2011.

CHART B.6 **Cyprus MFI interest rates on euro-denominated loans (new business) to euro area households**
(% per annum, period average)



Source: CBC.

1.2.2 Financial condition[13]

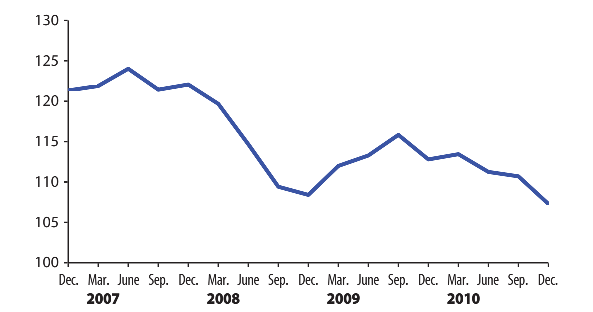
Net financial assets

The household sector's net financial assets (net worth) as a percentage of GDP dropped to 107,3% at the end of December 2010 from 111,2% at end-June 2010 and 112,8% at the end of December 2009. **Chart B.7** indicates the household sector's net financial assets as a percentage of GDP for the years 2007 to 2010.

The household sector's financial liabilities expanded by 14,8% year-on-year in December 2010, mainly due to an increase in the value of loans granted to households by banks, which accounted for 88,4% of the household sector's total financial liabilities at end-December 2010. As shown in **Chart B.8**, the ratio of financial liabilities to financial assets reached 58% at the end of December 2010 compared with 56,1% at end-June 2010 and 54,1% at the end of December 2009.

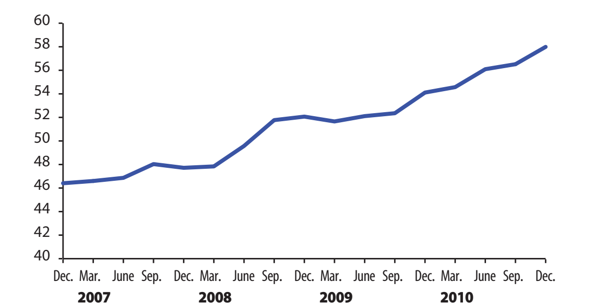
At end-December 2010, cash and bank deposits represented the largest part of the

CHART B.7 **Household sector's net financial assets as a % of GDP**



Source: CBC.

CHART B.8 **Household sector's financial liabilities**
(% of financial assets)

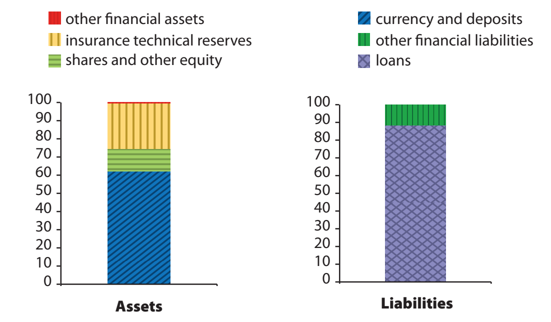


Source: CBC.

12. Floating rate and up to 1 year initial rate of fixation.
13. Based on quarterly financial accounts data (provisional).

household sector's financial assets, while bank loans constituted the biggest share of the household sector's financial liabilities. **Chart B.9** shows the breakdown of the household sector's financial assets and liabilities at the end of December 2010.

CHART B.9 **Distribution of household sector's financial assets and liabilities**
(end of December 2010, %)



Source: CBC.

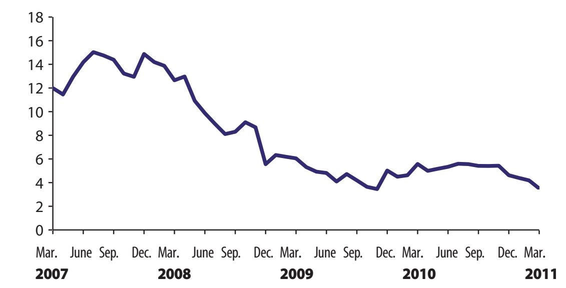
Deposits

The annual growth of deposits by domestic households[14] recorded a slowdown, dropping to 3,5% in March 2011 compared with 4,6% in December 2010 and 5,6% in March 2010 (**Chart B.10**). It should be noted that the deceleration in the growth rate of these deposits has continued since August 2010 and is consistent with the overall slowdown in credit expansion since the containment of lending affects money supply and deposits.

Deposits with agreed maturity accounted for approximately 76% of total household deposits, while the category of long-term deposits up to two years accounted for 72,5% of total deposits at the end of March 2011 (**Table A.2**, p. 40). The highest interest rates continue to be offered by the MFIs for which deposits remain the main source of funding. It must be noted that as from November 2010, the annual growth rates of overnight deposits have remained at very low levels, recording a significant slowdown to 0,6% in March 2011 compared with 8,6% in March 2010. Depositors continue to prefer interest-bearing deposits, which offer a higher return and a longer-term maturity.

However, time deposits also experienced a

CHART B.10 **Deposits of domestic households**
(annual change, %)



Source: CBC.

14. Based on monthly balance sheet data submitted by MFIs to the CBC. Includes deposits of non-profit institutions serving households.

slowdown, reaching 4,9% in the first quarter of 2011 compared with an increase of 5,9% at the end of the fourth quarter of 2010. Deposits redeemable at notice have continued to decline since September 2010. More specifically, in March 2011 these deposits decreased by 2,5% compared with a fall of 1% in March 2010.

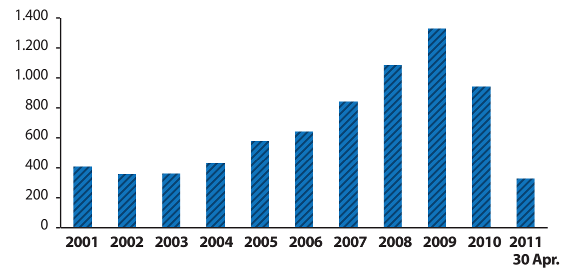
Bankruptcies of natural persons

In the first four months of 2011, 327 receiving orders regarding natural persons were issued by the appropriate courts of justice, while in the whole of the previous year the number of bankruptcies of natural persons reached 941. This suggests that the total for the current year could eventually be close to the 2010 figure. **Chart B.11** shows the number of bankruptcies of natural persons for the years 2001 to 2011.

Natural persons who issued dishonoured cheques

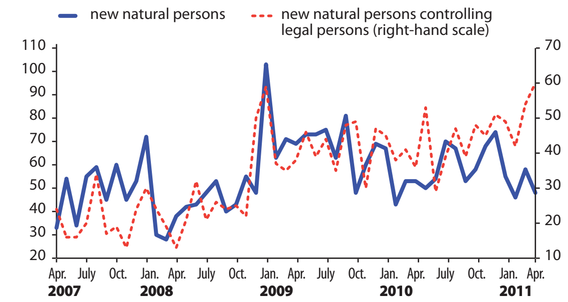
In the first four months of 2011, the total number of new natural persons who issued dishonoured cheques and were recorded in the CBC's Central Information Register declined to 207 compared with 216 in the corresponding period of 2010 (**Chart B.12**). Furthermore, in the period from January to April 2011, the total number of new natural persons who control legal persons and have issued dishonoured cheques, as recorded in the Central Information Register, increased to

CHART B.11 **Bankruptcies of natural persons**



Source: Department of Registrar of Companies and Official Receiver.

CHART B.12 **New natural persons recorded in the Central Information Register (dishonoured cheques)**



Source: CBC.

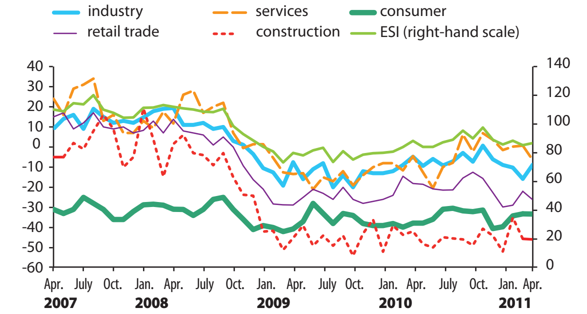
205 compared with 160 in the corresponding period of 2010.

Confidence indicators from surveys of economic sentiment

Since the publication of the December 2010 *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)[15] exhibited a slight improvement since January 2011 (**Chart B.13**). As regards household expectations, the consumer confidence indicator has also improved since January 2011.

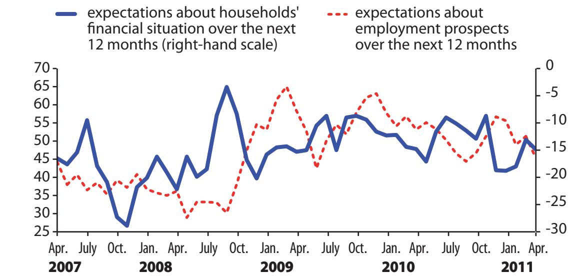
In addition, a further analysis of the data concerning consumers shows that during the period February-March 2011 household expectations about their financial situation recovered from the low levels exhibited in January 2011, albeit a slight deterioration in April 2011 (**Chart B.14**). As regards household expectations about future employment prospects in the next 12 months, these have worsened since January 2011.

CHART B.13 **Surveys of economic sentiment: confidence indicators**(1)



Source: European Commission.
(1) Seasonally adjusted data.

CHART B.14 **Households' financial situation and unemployment expectations**(1), (2)



Source: European Commission.
(1) Seasonally adjusted data.
(2) Households' financial situation and unemployment expectations are components of the consumer confidence indicator.

1.2.3 Risks facing the household sector

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

15. 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%).

Overall, risks to financial stability originating from conditions in the household sector remain on the upside. Interest rates on new housing loans have risen further in the first quarter of 2011. Any additional increases in lending rates would result in a rise in debt servicing costs and, therefore, put an extra burden on households. Moreover, a potential further deterioration in the labour market may pose higher risks to household income and have a negative impact on the ability of households to repay their debt.

Interest rate risks of households

Since the publication of the December 2010 *Bulletin*, in April 2011 the ECB increased its key interest rates by 25 basis points from the historically low levels of May 2009 (**Chart A.9**, p. 27). As shown in **Chart B.6** (p. 94), the average Cyprus MFI interest rates on euro-denominated loans (new business) to euro area households have been on an upward path since January 2011, remaining at a higher level compared with the respective euro area MFI rates. This may partly be attributed to efforts by banks to increase their net interest margins amid strong competition for deposits in the domestic banking sector, which has led to a rise in deposit rates.

As regards mortgage loans[16] to domestic households, the impact of potential interest-rate fluctuations on debt-servicing costs depends on the terms and conditions of individual mortgage contracts. In the case where a mortgage contract provides for a

16. Loans which are fully secured by mortgage on residential real estate property, which is or will be occupied or let by the owner, or the beneficial owner in the case of personal investment companies.

variable rate of interest, households are fully exposed to interest rate risk. The share of variable-rate mortgage loans to total outstanding mortgage loans stood at 94,5% at the end of March 2011 compared with 95% at end-September 2010 (**Chart B.15**). Hence, given the predominance of mortgage loans which carry an adjustable rate of interest, households remain vulnerable to potential shocks arising from an increase in lending rates.

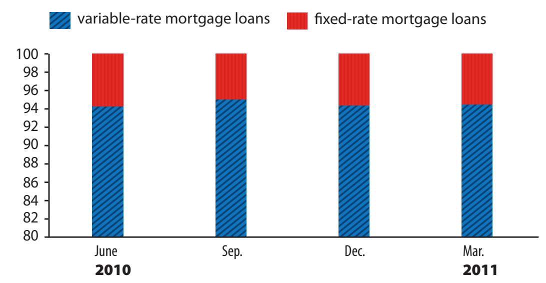
It should be noted that it is difficult to assess fully the interest rate risks facing households since not all households hold debt, while the characteristics of individual borrowers play a role in determining debt sustainability. In particular, the risks affecting the most financially vulnerable segments of the population cannot be properly addressed by looking at aggregate data. In general, however, indebted low income households tend to face the highest risks.

Risks to household income

Income conditions represent the most important factor affecting the financial condition of households. Fluctuations in household income, which are directly linked to developments in the labour market, constitute one of the most significant indicators of the ability of households to meet their debt-servicing obligations.

As regards the domestic macroeconomic conditions, based on analytical data published by Cystat, the annual growth rate of the

CHART B.15 **Distribution of fixed- and variable-rate mortgage loans to households**
(%)



Source: CBC.

economy reached 1% in 2010 compared with a contraction of 1,7% in 2009. Furthermore, according to Cystat's flash estimate, the annual rate of GDP growth in the first quarter of 2011 was 1,8%, which, however, is largely due to a base effect since in the first quarter of 2010 GDP contracted by 0,9% (**Charts A.30 (a)** and **A.30 (b),** p. 55). It should be noted that, as regards the first three months of the current year, the quarterly growth of the seasonally and working day adjusted GDP, which shows the trend in GDP, fell to 0% compared with 0,4% in the last quarter of 2010. This development indicates that economic recovery remains fragile.

According to the latest CBC projections for the Cyprus economy, real GDP growth is expected to reach 1,4% in 2011, while further recovery is projected in 2012 with GDP increasing by 2,1% (**Table A.13**, p. 81). It must be noted that these projections may be affected by the possible adoption of further fiscal consolidation measures, which have not been taken into consideration in the current projections since they were not clearly defined at the time. The impact of fiscal consolidation measures will depend on the type and size of the measures to be adopted. However, it should be emphasised that in the longer term fiscal consolidation is expected to have a positive effect by reinforcing the economy's growth potential.

As regards the labour market, according to data from the Labour Force Survey (LFS), in the first six months of 2011 unemployment increased by 0,9 percentage points, reaching

6,2% (**Chart A.39,** p. 67). The most recent available data for unemployment refer to the registered unemployed. The rate of registered unemployment in the first four months of 2011 increased by one percentage point compared with the corresponding period of the previous year, reaching 6,7% (**Chart A.40**, p. 67). The upward trend of the registered unemployed is confirmed by the seasonally adjusted data, which also reveal that the increase in unemployment continued at a steady pace as from the second half of 2008. According to the latest CBC macroeconomic projections, in 2011 the unemployment rate, as defined in the LFS, is expected to reach 6,2%, thus remaining at the same level as in 2010, while in 2012 it is projected to fall to 6% (**Table A.12**, p. 80).

At the same time, domestic inflationary pressures increased in the first four months of 2011 compared with the same period of 2010. In particular, HICP inflation rose by 3,2% in the period January-April 2011 compared with a growth of 2,5% in the corresponding period of 2010 (**Chart A.15**, p. 31). Based on the latest CBC projections for the Cyprus economy, in 2011 HICP inflation excluding energy is expected to increase by 1,9% compared with 0,5% in 2010, while in 2012 HICP inflation is projected to rise by 2,1% (**Table A.11**, p. 79).

The above domestic macroeconomic developments, especially those regarding the labour market, suggest that the risks related to household disposable income remain on the upside.

Risks emanating from residential property prices

Residential property prices, as indicated by the latest trends in the CBC's residential property price index[17], registered an average annual decrease of 2,5% in 2010. The CBC estimates that residential real estate prices will fall by an annual average of 2,5% in 2011. According to the latest available data, construction activity recorded a significant decline in the first four months of 2011, while interest by Cypriots in the purchase of residential property presents a negative picture.

Risks to financial stability stem from the impact of a potential further weakening of that part of domestic economic activity tied to the residential real estate sector, which would result in a significant decline in house prices. Although such an event could reduce household sector net worth, thus increasing financial stability risks, the probability of a sharp downturn in residential property prices remains low but slightly elevated compared with 2010.

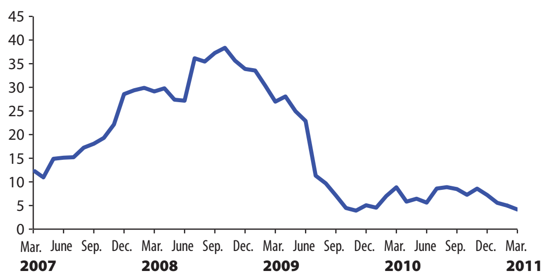
1.3 Non-financial corporate sector

1.3.1 Leverage

MFI loans to domestic non-financial corporations

MFI loans to domestic NFCs[18] increased by 4,2% year-on-year in March 2011 (**Chart B.16**). The annual growth rate of total MFI loans to

CHART B.16 **Bank loans to domestic non-financial corporations**
(annual change, %)



Source: CBC.

17. Based on the methodology for compiling the index, which is analysed in the December 2010 edition of the *Economic Bulletin*, Box A.2 (p.p. 64-67).
18. Based on monthly balance sheet data submitted by MFIs to the CBC.

domestic NFCs showed signs of deceleration in the first three months of 2011.

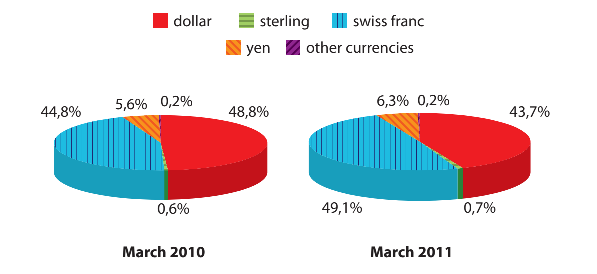
The uncertainty surrounding the domestic and external macroeconomic environment has led banks to a readjustment of their loan policy and to credit risk mitigation, which has resulted in more careful risk taking with regard to the provision of loans.

In particular, as shown by the results of the Bank Lending Survey of April 2011, in the first quarter of the current year, banks' lending criteria with respect to loans to NFCs have become stricter, while they are expected to tighten further in the second quarter of 2011. In contrast, net demand for loans by NFCs registered an increase in the first three months of 2011, to which refinancing needs for fixed investments, inventories and working capital as well as debt restructuring have contributed.

At the end of March 2011, loans to NFCs as a percentage of total outstanding loans to non-MFIs reached 46,1%, down from 46,5% at end-September 2010 and 47,7% at the end of March 2010.

As a percentage of total outstanding loans to NFCs, foreign currency loans to NFCs, which carry foreign exchange risk, fell to 14,4% at end-March 2011 from 15% at the end of September 2010 and 15,8% at end-March 2010. At the end of March 2011, 43,7% of foreign currency loans to NFCs were accounted for by dollars, 49,1% by Swiss francs, 6,3% by yen and 0,7% by sterling compared with 43,4%, 48,8%, 6,4% and 0,7% at end-September 2010 and 48,8%, 44,8%, 5,6% and 0,6% at the end of March 2010, respectively (**Chart B.17**).

CHART B.17 **Distribution of bank loans to domestic non-financial corporations by foreign currency**
(%)

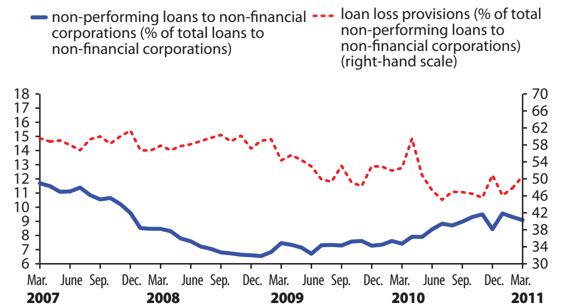


Source: CBC.

Non-performing loans[19]

Non-performing loans to NFCs as a percentage of total loans to NFCs increased marginally to 9,1% at the end of March 2011 compared with 9% at end-September 2010 and 7,4% at the end of March 2010 (**Chart B.18**). Loan loss provisions as a percentage of total non-performing loans to NFCs (coverage ratio) stood at 50,6% at the end of March 2011 compared with 46,9% at end-September 2010 and 52,6% at the end of March 2010.

CHART B.18 **Non-performing loans to non-financial corporations and loan loss provisions(1)**
(%)

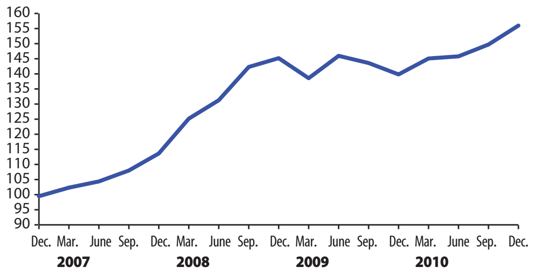


Source: CBC.
(1) Excludes the co-operative credit institutions.

Non-financial corporate debt

Non-financial corporate debt[20] as a percentage of GDP rose to 156% at the end of December 2010, from 145,8% at end-June 2010 and 139,8% at the end of December 2009. **Chart B.19** exhibits the non-financial corporate debt-to-GDP ratio for the years 2007 to 2010.

CHART B.19 **Non-financial corporate debt as a % of GDP**



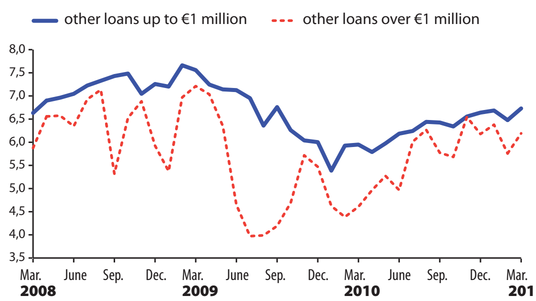
Source: CBC.

Financing conditions

The Cyprus MFI average interest rates[21] on euro-denominated loans[22] (new business) up to €1 million to euro area NFCs rose from 6,43% in September 2010 to 6,73% in March 2011 (**Chart B.20**). In comparison, the respective euro area average MFI interest rates stood at 3,70% in March 2011.

At the same time, the Cyprus MFI average interest rates on euro-denominated loans (new business) over €1 million to euro area NFCs increased from 5,77% in September 2010

CHART B.20 **Cyprus MFI interest rates on euro-denominated loans (new business) to euro area non-financial corporations**
(% per annum, period average)



Source: CBC.

19. Excludes the co-operative credit institutions.
20. Based on quarterly financial accounts data (provisional). Includes loans and debt securities of non-financial corporations.
21. Floating rate and up to 1 year initial rate of fixation.
22. Loans excluding bank overdrafts.

to 6,19% in March 2011. In comparison, the respective euro area average MFI interest rates stood at 2,62% in March 2011.

1.3.2 Financial condition[23]

Net financial assets

As shown in **Chart B.21**, the NFC sector's net financial assets (net worth) as a percentage of GDP reached -166,6% at the end of December 2010 compared with -161,6% at end-June 2010 and -154,3% at the end of December 2009.

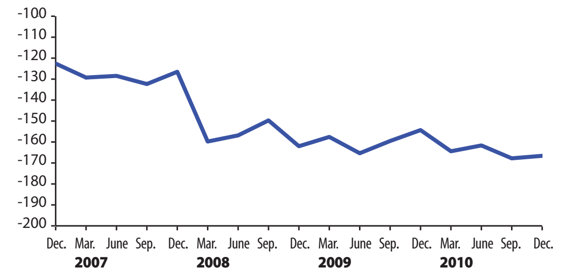
The ratio of financial liabilities to financial assets for the NFC sector fell marginally to 174,3% at end-December 2010 compared with 174,4% at the end of June 2010, but exhibited an increase compared with 172,1% at end-December 2009 (**Chart B.22**).

At the end of December 2010, cash and deposits represented the largest part of the non-financial corporate sector's financial assets, while shares and other equity 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 December 2010.

Deposits

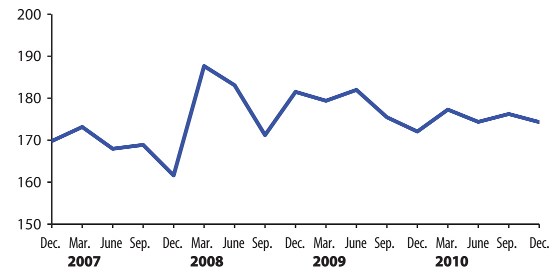
The annual growth rate of deposits by domestic NFCs recorded a slowdown, increasing annually by 5,5%[24] in March 2011 compared with a yearly rise of 7,4% in

CHART B.21 **Non-financial corporate sector's net financial assets as a % of GDP**



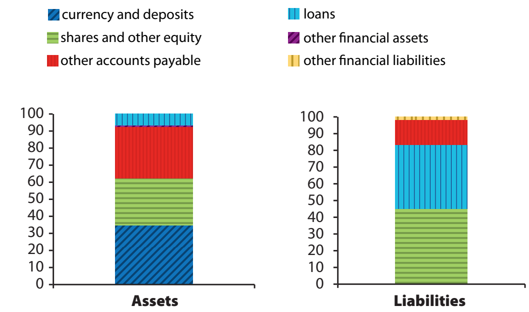
Source: CBC.

CHART B.22 **Non-financial corporate sector's financial liabilities**
(% of financial assets)



Source: CBC.

CHART B.23 **Distribution of non-financial corporate sector's financial assets and liabilities**
(end of December 2010, %)



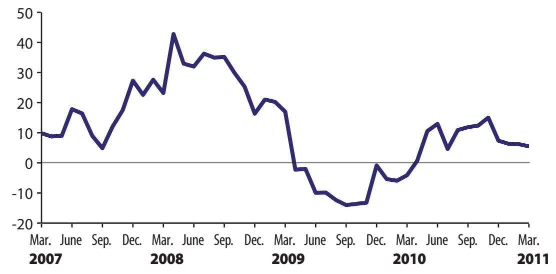
Source: CBC.

23. Based on quarterly financial accounts data (provisional).
24. Based on monthly balance sheet data submitted by MFIs to the CBC.

December 2010 and an annual decrease of 4,1% in March 2010 (**Chart B.24**).

It should be noted that NFC deposits represented around 26% of total private sector deposits in the domestic banking system at the end of March 2011.

CHART B.24 **Deposits of domestic non-financial corporations**
(annual change, %)



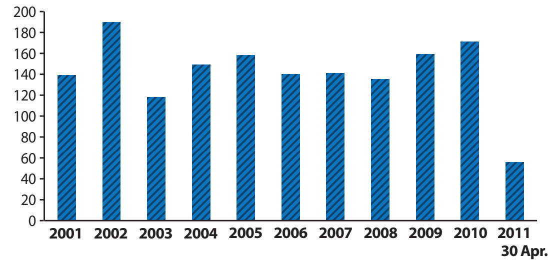
Source: CBC.

Company liquidations

In the first four months of 2011, 56 winding-up orders were issued by the appropriate courts of justice compared with 171 company liquidations during the whole of 2010 (**Chart B.25**), which indicates that the total for the current year may eventually be close to the 2010 figure.

During the period January-April 2011, 6.096 new companies were registered compared with 19.278 new company registrations in the whole of 2010 (**Chart B.26**), which suggests that the total for the year could probably be smaller than the 2010 figure. The above development may reflect a deceleration in corporate sector activity as well as in the activities of legal and accounting firms.

CHART B.25 **Company liquidations**

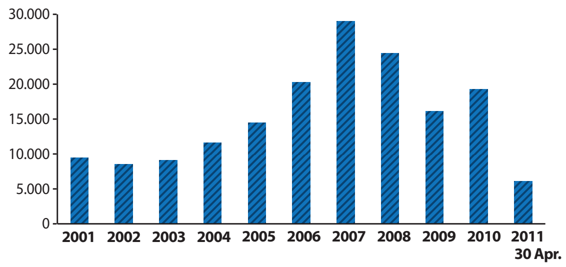


Source: Department of Registrar of Companies and Official Receiver.

Legal persons who issued dishonoured cheques

In the first four months of 2011, the total number of legal persons who issued dishonoured cheques and were recorded in the CBC's Central Information Register rose to 171 compared with 131 in the corresponding period of 2010 (**Chart B.27**, (p. 107).

CHART B.26 **New company registrations**



Source: Department of Registrar of Companies and Official Receiver.

Confidence indicators from surveys of economic sentiment

As shown in **Chart B.13** (p. 97), since the publication of the December 2010 *Bulletin*, the industry and services confidence indicators have generally exhibited small fluctuations at low levels. Moreover, in the same period, the construction and retail trade confidence indicators showed a muted recovery but have remained in negative territory.

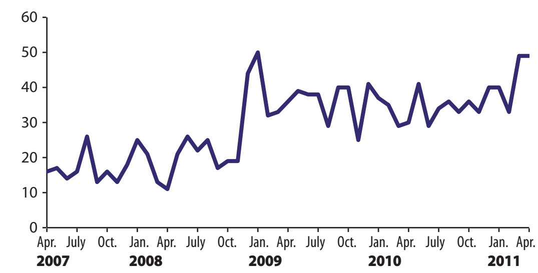
1.3.3 Risks facing the non-financial corporate sector

The environment in which NFCs operate is expected to remain difficult, at least in the near term.

The subdued domestic macroeconomic conditions that prevailed in 2010 and in the first three months of the current year have adversely affected the earnings and profitability of NFCs. In addition, the rise in lending rates in the first quarter of 2011, the higher borrowing costs facing enterprises in Cyprus compared with other euro area member states as well as the limited possibility for external financing are all expected to contribute to the uncertainty about the short-term profitability prospects of the non-financial corporate sector. At the same time, the high level of NFC indebtedness renders firms less resilient to potential shocks.

Looking ahead, weak profits, high leverage

CHART B.27 **New legal persons recorded in the Central Information Register (dishonoured cheques)**



Source: CBC.

as well as firms' dependence on bank financing are expected to remain the key vulnerabilities of the corporate sector.

Earnings and profitability risks

The overall macroeconomic environment can have an impact on the earnings and profitability of NFCs. As mentioned above, the economy registered an annual growth rate of 1% in 2010 compared with a contraction of 1,7% in 2009. According to the latest CBC projections for the Cyprus economy, real GDP growth is expected to reach 1,4% in 2011, while further recovery is projected in 2012 with GDP increasing by 2,1%. (**Table A.13**, p. 81). The continuing recovery of the economy in 2011 reflects developments in the tourism sector and positive growth registered in the financial services sector.

However, the uncertainty surrounding the domectic macroeconomic prospects remains and, in conjunction with the difficult external operating environment, is expected to continue having a negative impact on the earnings and profitability of NFCs.

The reduced net profits of several companies listed on the Cyprus Stock Exchange (CSE) for the first quarter of 2011 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 domestic NFC sector decelerated in the first three months of 2011. Moreover, as shown by the results of the latest Bank Lending Survey of April 2011 credit standards for new bank loans to enterprises tightened in the first quarter of the current year, while they are expected to become even stricter in the second quarter of 2011.

Moreover, as depicted in **Chart B.20** (p. 104), interest rates on new bank loans to NFCs rose in the first quarter of 2011. Any potential new increases in lending rates could result in a rise in debt servicing costs. This would have a negative impact on corporate profitability and on the ability of leveraged enterprises to meet their obligations. It should be noted that the cost of bank financing facing NFCs remains at a higher level compared with other euro area member states. In light of the above, funding conditions for the NFC sector are not expected to improve significantly in the second half of 2011.

At the same time, the leverage of firms remains at a high level, rendering them vulnerable to potential shocks. It must be noted that the ability of NFCs to generate internal funding is expected to remain constrained, thus contributing to maintaining high leverage ratios and/or further increasing corporate debt burden. This could amplify the effects on the solvency position of some firms and lead to an increase in default rates.

1.4 Real estate sector

1.4.1 Key developments in the real estate sector

Domestic real estate sector activity

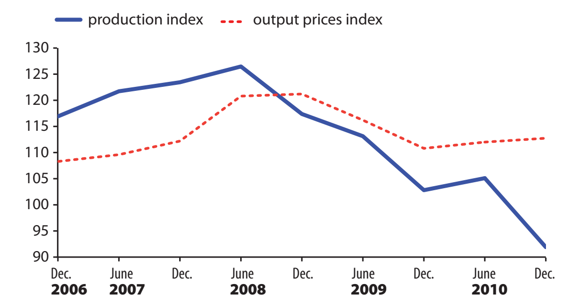
According to the latest available data, in the first four months of 2011 construction activity continued its downward trend, exhibiting a contraction.

In particular, total cement sales in the domestic market declined annually by 4% in the first quarter of the current year compared with a yearly fall of 13% in the corresponding period of 2010. **Chart A.34** (p. 63) shows the sales of cement in the domestic market.

In addition, as shown in **Chart B.28**, in the fourth quarter of 2010, the production index in construction recorded a yearly decrease of 10,6% compared with an annual drop of 12,4% in the same period of 2009. At the same time, with regard to the component indices, a yearly fall of 15,3% was registered for buildings in the last quarter of 2010 compared with an annual decrease of 19,9% in the corresponding period of 2009, while an annual increase of 2,2% was recorded for civil engineering projects compared with a yearly rise of 18,5% in the same period of 2009. Furthermore, the output prices index in construction for the fourth quarter of 2010 reached 112,7 units, registering a rise of 1,8% compared with a drop of 8,6% in the corresponding period of 2009.

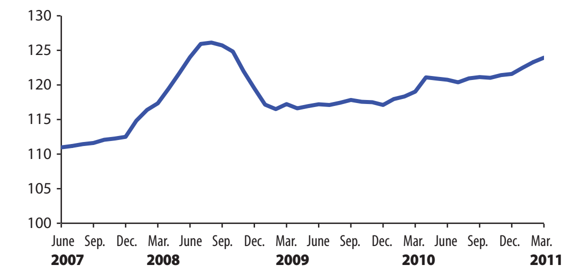
As regards construction costs, the price

CHART B.28 **Production and output prices indices in construction**
(base 2005=100)



Source: Cystat.

CHART B.29 **Price index of construction materials**
(base 2005=100)



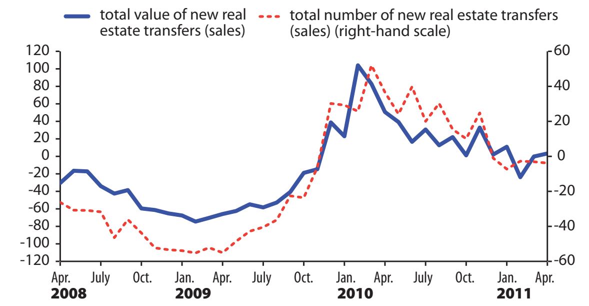
Source: Cystat.

index of construction materials for March 2011 reached 124 units, exhibiting a growth of 4,1% compared with the same month of 2010 (**Chart B.29,** p.110). For the period from January to March 2011, the index recorded a rise of 4,1% compared with the same period of 2010.

Interest by Cypriots in the purchase of residential property presents a negative picture. Specifically, the total number of new real estate transfers (sales) fell by 3,9% year-on-year in April 2011 (**Chart B.30**), while a decrease of 4% was registered during the period from January to April 2011 compared with the corresponding period of 2010. Similarly, the total value of new real estate transfers (sales) grew by 3,3% year-on-year in April 2011, while a fall of 5% was recorded in the first four months of 2011 compared with the corresponding period of 2010. Moreover, the volume of new real estate sales contracts registered at the Department of Lands and Surveys decreased by 19,7% year-on-year in April 2011 (**Chart B.31**), while a drop of 0,2% was recorded in the period January-April 2011 compared with the same period of 2010.

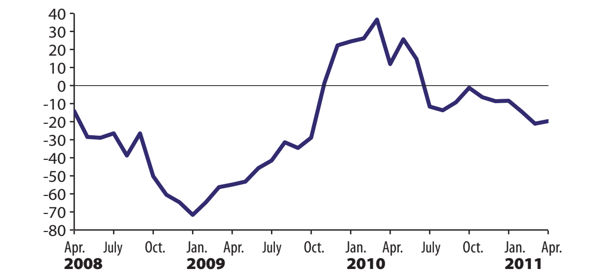
As regards the purchase of residential property by foreigners, the number of new real estate transfers (sales) to foreigners fell marginally by 0,6% in the first four months of 2011 compared with the corresponding period of 2010. In contrast, during the period from January to April 2011 the number of new real estate sales contracts registered to foreigners at the Department of Lands and Surveys rose by 15,7% compared with the same period of 2010 (**Chart B.32**).

CHART B.30 **New real estate transfers (sales)**
(annual change, %)



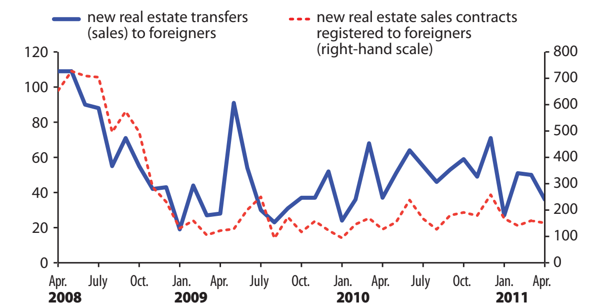
Source: Department of Lands and Surveys.

CHART B.31 **New real estate sales contracts registered**
(annual change, %)



Source: Department of Lands and Surveys.

CHART B.32 **New real estate transfers (sales) and new real estate sales contracts registered to foreigners**



Source: Department of Lands and Surveys.

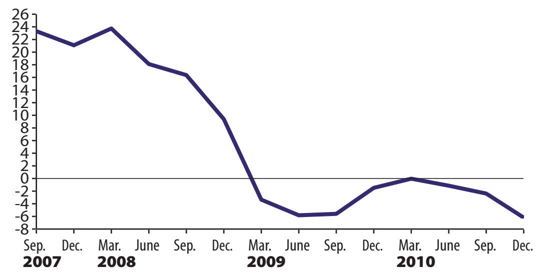
In conjunction with the above, in the first quarter of 2011, receipts of the Inland Revenue Department from capital gains tax and stamp duties decreased by 17,9% and 22%, respectively, on an annual basis, compared with an increase of 63,5% and 41,1%, respectively, in the corresponding period of 2010. On the other hand, immovable property tax grew by 6,8% on an annual basis in the first quarter of 2011 compared with a rise of 55,3% in the same period of 2010.

The volume index of authorised building permits, which constitutes a good indicator of future activity in the construction sector, registered an annual decrease of 6,6% in the first two months of 2011 compared with an increase of 1,3% in the corresponding period of 2010 (**Chart A.38**, p. 66). In the first two months of the current year, the total value of building permits and the total area of building units fell yearly by 27% and 34,1%, respectively, compared with the same period of 2010.

Real estate prices

Residential property prices, as indicated by the latest trends in the CBC's residential property price index, registered an average annual decrease of 2,5% in 2010 (**Chart B.33**). Based on real estate valuations collected by the CBC as well as other data relating to the residential property sector up until March 2011, the CBC estimates that residential real estate prices will fall by a yearly average of

CHART B.33 **Residential property price index**
(annual change, %)

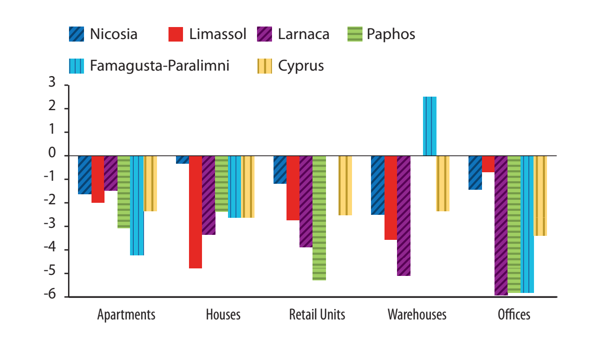


Source: CBC.

2,5% in 2011.

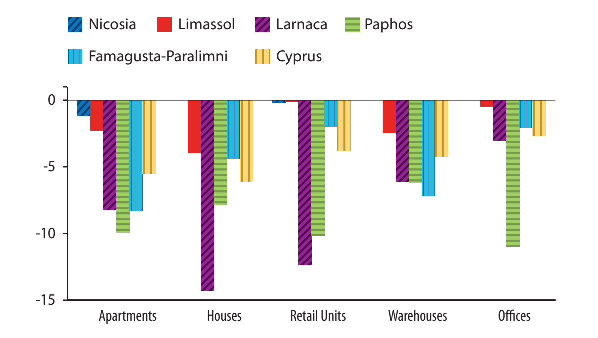
At the same time, according to the RICS Cyprus Property Price Index[25], house and apartment prices in Cyprus declined on average by 2,6% and 2,4%, respectively, in the fourth quarter of 2010. The biggest drop in house and apartment prices was recorded in Limassol (-4,8%) and the area of Famagusta - Paralimni (-4,2%), respectively (**Chart B.34**). Commercial property prices fell across all cities by an average of 2,5% for retail units and 2,4% for warehouses in the last quarter of 2010. A reduction was also registered in the prices for office space, which dropped by an average of 3,4%. Rental values for apartments, houses, retail units, warehouses and office space in Cyprus declined on average by 5,5%, 6,1%, 3,8%, 4,2% and 2,7%, respectively, in the fourth quarter of 2010 (**Chart B.35**).

CHART B.34 **Average property price**
(quarterly change September-December 2010, %)



Source: RICS Cyprus.

CHART B.35 **Average property rent**
(quarterly change September-December 2010, %)



Source: RICS Cyprus.

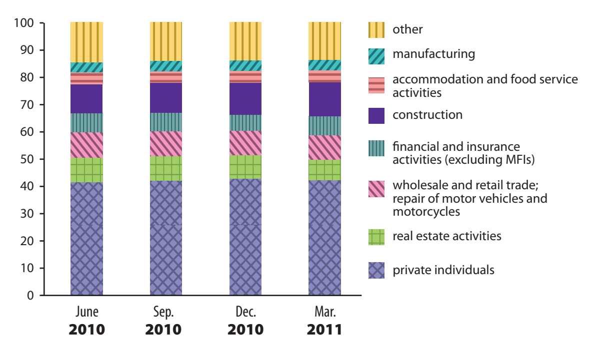
1.4.2 Real estate financing by banks

MFI loans to the domestic broad real estate sector

MFI loans to the domestic broad real estate sector[26] represented 20,6% of the total outstanding loans to domestic non-MFIs (excluding loans to MFIs) at end-March 2011, the same percentage as at the end of September 2010 (**Chart B.36** and **Table C.21**, p. 142).

As regards the three component categories of this sector, loans to the construction sector constituted 12,4% of the total outstanding

CHART B.36 **Distribution of bank loans to Cyprus residents by economic activity**
(%)

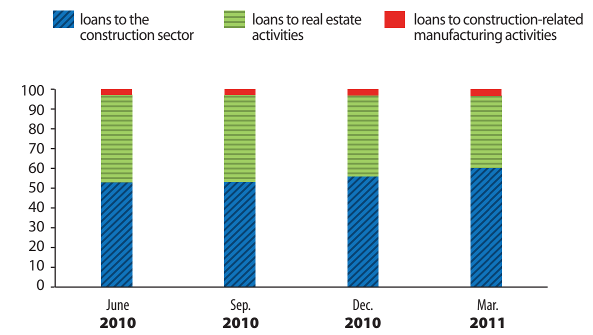


Source: CBC.

25. 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).
26. Based on monthly balance sheet data submitted by MFIs to the CBC. Excludes loans to households for house purchase.

loans to domestic non-MFIs (excluding loans to MFIs) at end-March 2011 compared with 11% at the end of September 2010. At the same time, loans to real estate activities represented 7,5% of the total outstanding loans to domestic non-MFIs (excluding loans to MFIs) at end-March 2011 compared with 9% at the end of September 2010. Moreover, loans to construction-related manufacturing activities amounted to 0,7% of the total outstanding loans to domestic non-MFIs (excluding loans to MFIs) at end- March 2011 compared with 0,6% at the end of September 2010. The distribution of MFI loans to the domestic broad real estate sector is shown in **Chart B.37**.

CHART B.37 **Distribution of bank loans to the broad real estate sector**
(%)

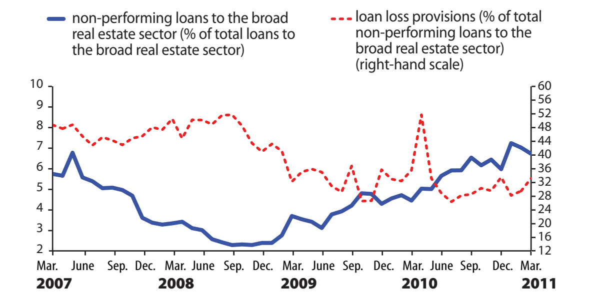


Source: CBC.

Non-performing loans[27]

Non-performing loans to the domestic broad real estate sector as a percentage of total loans to the domestic broad real estate sector rose to 6,7% at end-March 2011 (up from 6,5% at the end of September 2010) (**Chart B.38**). Loan loss provisions as a percentage of total non-performing loans to the domestic broad real estate sector (coverage ratio) increased to 33,2% at end-March 2011 compared with 28,6% at the end of September 2010.

CHART B.38 **Non-performing loans to the broad real estate sector and loan loss provisions**(1)
(%)



Source: CBC.
(1) Excludes the co-operative credit institutions.

2. The Domestic Financial System

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

27. Excludes the co-operative credit institutions.

2.1 Financial markets

2.1.1 Key developments in the money market

The upward trend observed in euro money market rates since May 2010 continued in the first five months of 2011. At the same time, volatility has remained relatively high, broadly unchanged vis-à-vis the preceding period under review, reflecting the persistence of considerable market concerns and fragile market sentiment. As expected, the ECB's decision on 7 April 2011 to raise its key interest rates by 25 basis points had a sizeable effect on the level of money market interest rates. The rise in these rates signals broad market expectations of higher policy rates.

On the whole, conditions in large parts of the euro money market have continued to normalise despite tighter liquidity conditions as a result of the gradual phasing out of the ECB's unconventional liquidity-providing measures. Nonetheless, contrasting developments hinder the return to normal conditions and thus the efficient redistribution of liquidity. For instance, the release of positive economic news has been frequently overshadowed by recurrent episodes of intense concerns about contagion emanating from the sovereign debt crisis. Furthermore, a considerable number of banks still rely heavily on the ECB's supportive liquidity-providing operations, signalling the persistence of sizeable levels of counterparty risk as well as the cross-country segmentation of banks by sovereign risk level. In contrast, banks that are not exposed to considerable levels of sovereign risk and do not encounter any financial strains continue to have easy access to wholesale funding.

As regards the cost of borrowing in the euro interbank markets, unsecured benchmark money market rates across all maturities increased significantly over the current period under review, reinforcing the general upward trend recorded in the second half of 2010. During the same period, the corresponding secured money market interest rates increased at a slightly higher rate. In this context, the 3-month EURIBOR-OIS spread[28] narrowed, particularly in the period February–early May 2011 (**Chart A.12**, p. 29). The former indicates a gradual return of euro money market conditions to normality as well as the increasing willingness of banks to participate in interbank lending after a period of protracted tensions. Nevertheless, a sharp re-intensification of the already heightened concerns about sovereign risk and counterparty risk could easily reverse any positive momentum.

As regards the domestic money market, the upward trend and higher volatility observed in the previous period became more pronounced in the period under review. This reflects the persistent concerns about counterparty risk primarily due to the adverse macroeconomic developments in Cyprus and Greece as well as the negative feedback loops between the economy and the banking sector. It also mirrors market

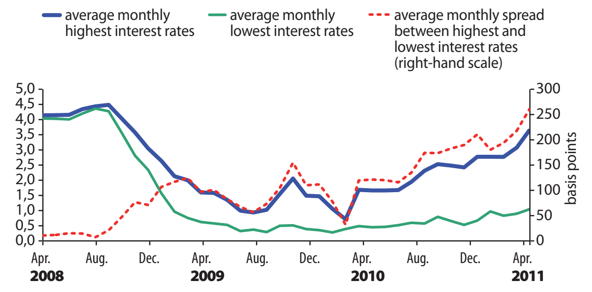
28. Derivative products where EONIA is swapped with a fixed interest rate of selected duration. OIS are used for hedging or speculative moves in the interbank overnight rate or the reference rates of central banks.

expectations of higher interest rates in the near future. All in all, the risk premia observed in the domestic interbank rates were substantially higher compared with the premia observed in the euro interbank market as a whole over the same period.

During the period December 2010–May 2011, the average monthly highest and lowest interbank rates[29] remained volatile, exhibiting slightly higher dispersion and a distinctly upward trend compared with the previous period under review. Similarly, the average monthly spread between the highest and the lowest interbank rates[30] has widened further, especially in April and May 2011 (**Chart B.39**). At the same time, during the period under review, the weighted average rate in the domestic interbank market vis-à-vis the interbank EONIA swap rate and the minimum bid rate for the ECB main refinancing operations has fluctuated at much higher levels (**Chart B.40**). The higher borrowing tiering indicates that a number of banks, albeit a small proportion of the total, still finance themselves by paying a sizeable premium over the benchmark euro money market rates.

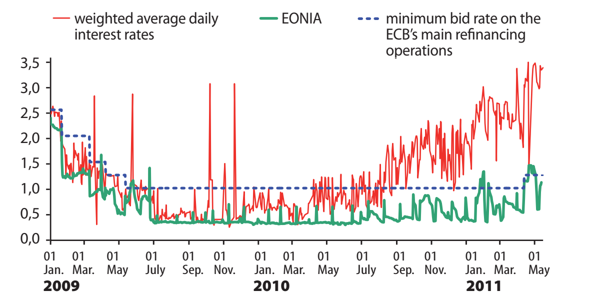
The above developments mirror the lingering and, at times, sharp intensification of adverse pressures that have been exerted on money markets since the beginning of 2010. In particular, protracted tensions are likely to persist, at least in the short-term, as mounting concerns about the fragile domestic conditions and the concomitant fears about the potential spill-over effects from the domestic economic conditions on the banking

CHART B.39 **Average monthly interest rates in the interbank market**
(%)



Source: CBC.

CHART B.40 **Weighted average daily interest rates in the interbank market (with maturity of up to 7 days)**
(%)



Sources: CBC, ECB.

29. 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.
30. With a maturity of up to 7 days.

sector and vice-versa, remain strong. Conditions in the domestic interbank market are likely to stabilise when the domestic economy enters into a solid growth path and the adverse feedback loops between the domestic economy and the banking sector subside. However, a key factor for the re-establishment of normal conditions and the efficient reallocation of liquidity remains the suppression of the sovereign debt crisis contagion fears.

2.1.2 Key developments in the capital markets

Government bond market

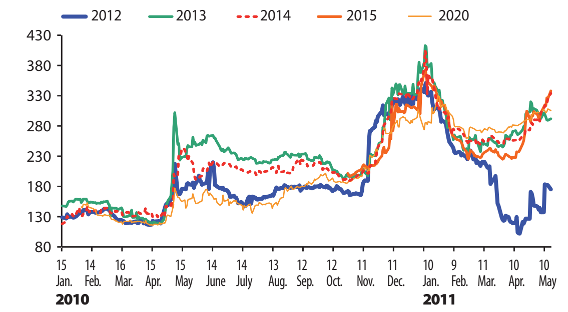
As regards the performance of the Cyprus Euro Medium-Term Note (EMTN) bonds over the period under review, the main characteristic was the persistence of high yield spreads, whilst volatility also remained at historically high levels. These developments were triggered anew by the acute escalation of spill-over fears emanating from the Greek sovereign debt crisis to the rest of the member states, particularly from April 2011 onwards. The successive credit rating downgrades of the Republic of Cyprus also contributed to the significant widening of spreads.

At the European level, investors' cross-country segmentation of sovereign bond issuers remained widespread as perceived issuer credit risk and, to a lesser extent, liquidity factors defined the direction of individual markets' performance. The concerns regarding the fiscal viability of debt-laden member states in tandem with the interplay between banking and sovereign credit risks fuelled investor sensitivity to even mildly negative news. The ongoing re-assessment of risk has kept bond price volatility and yields of these countries at historically high levels.

On account of the unfavourable issuing conditions prevailing in the euro bond market for member states such as Cyprus during the period under review, the government opted to fulfil its financing needs through short-term borrowing, namely Treasury Bills and Euro Commercial Paper (ECP)[31]. An exception to this was the issue, by private placement, of a new 5-year Eurobond through the EMTN Programme[32]. The new EMTN bond has a nominal value of €170 million and was issued at par value.

As depicted in **Chart B.41**, the persistence of acute concerns about the domestic macroeconomic developments and the successive rating downgrades of the Republic of Cyprus, a consequence, in part, of the fairly close ties of the domestic economy with the Greek economy, contributed to the maintaining of the yield spread[33] between Cyprus EMTN bonds and the corresponding German bunds at historically high levels. The short-lived narrowing of the aforesaid spread observed during the middle of the period under review was due to the increase in the bond yields of the highest rated sovereign issuers in Europe, including Germany.

CHART B.41 **Cyprus sovereign bond yield spreads over German bunds**
(basis points)



Source: Bloomberg.

31. Short-term commercial paper of up to €3 billion and up to 12 months duration, not listed on any exchange, which is issued under the ECP Programme of the Republic of Cyprus launched in November 1989. The ECP is issued mainly in euro, US dollars and Swiss francs.
32. Euro-denominated bonds of up to €6 billion issued under the EMTN Programme of the Republic of Cyprus launched in 1997.
33. Based on mid-yield quotes provided by primary dealers of Cyprus Eurobonds.

The "flight-to-quality" flows resulting from the re-intensification of tensions in euro area sovereign debt markets and the ensuing reappraisal of sovereign credit risk brought downward pressures on the Cyprus EMTN bonds. A contrasting exception to this was the relatively better performance of the 2012 EMTN bond due to its favourable risk-return profile. It should be noted that trading activity in these bonds remained limited.

The increased ambiguity regarding the government's efforts for fiscal adjustment and the needed structural reforms coupled with investors' broadening concerns about sovereign risk, are likely to continue feeding the perceived riskiness of Cyprus EMTN bonds. Moreover, the suppression of extensive contagion fears from the Greek sovereign debt crisis and concerns over its potential magnitude remain a key driver to counter the current retrenchment in investor risk appetite, which could lead to the narrowing of the yield spread.

Lastly, as funding conditions in the sovereign bond markets become progressively more intricate, borrowing through bond markets will remain highly vulnerable to fluctuations in market sentiment. The projected fiscal deficits and sizeable debt refinancing needs, will also weigh on government efforts to bring yields down to their normal levels. It should be noted that by February 2012, the government will need to refinance about €2,5 billion of maturing debt securities.

Equity market

The distinguishing characteristic as regards the performance of the local stock market during the period from 20 November 2010 to 16 May 2011 was the sharp decline of market prices, which was generally accompanied by notably high levels of volatility. These developments were sparked by the steady deepening of contagion fears from the Greek sovereign debt crisis and the perceived spillover effects to the domestic economy and banking system. The downward pressures were reinforced by the lower rating given by the major credit rating agencies to the Republic of Cyprus and to the two largest domestic banks.

The positive investor sentiment and resulting rise of stock prices observed at the beginning of the year proved short-lived. The above developments as well as the mounting speculation over the likelihood of Greek sovereign debt restructuring and the need of a new aid package, exacerbated already heightened investor concerns and the negative disposition of the local market. As a result, on the last day of the period under review, the CSE's indices recorded their lowest values since March 2009. It must also be noted that the CSE's performance during the period 19 November 2010-16 May 2011 was in sharp contrast to the performance of major European indices, which exhibited an upward trend propelled, to a large extent, by positive corporate earnings and news of positive macroeconomic developments in the major European countries.

Between 19 November 2010 and 16 May 2011, the CSE's general price index (main and parallel market) dropped by 25,4% to 853,07 points (**Chart B.42**), whereas the FTSE/CySE 20 index decreased by 25%, closing at 290,40 points. As a result, between end-November 2010 and end-April 2011, the CSE's capitalisation[34] shrunk by 16,9% to €5,09 billion, while the daily average value of transactions continued its downward trend. At end-December 2010, the ratio of total market capitalisation to GDP dropped further to 29,2% compared with 29,9% at end-June 2010.

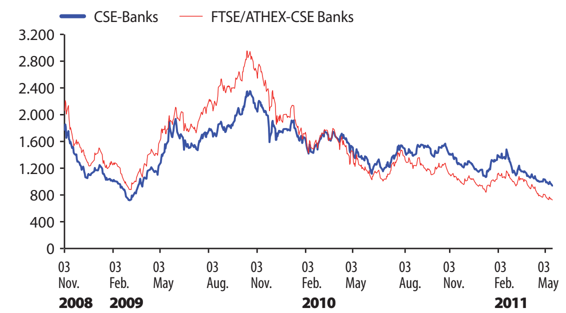
The adverse pressures exerted on the banking sector's financial condition as a result of the unfavourable macroeconomic conditions and prospects in Cyprus and Greece had greatly affected the market value of the listed banks, which possess the highest weight in CSE. In particular, during the period under review, the FTSE/ATHEX-CSE banks index fell by 30,2%, whereas the CSE bank index demonstrated higher resilience, recording losses of 26,6% (**Chart B.43**). The cumulative market share of the three largest banks listed on the CSE at the end of April 2011, as a percentage of total CSE market capitalisation, was 70,5% compared with 73,8% at end-October 2010.

Over the short term, the strains on bank loan portfolios and profitability risks are expected to remain strong. This is due to the lingering uncertainty regarding the prospects for the domestic economy and the

CHART B.42 **Cyprus Stock Exchange general price index (main and parallel market)**
(3 September 2004=1.000)

Source: CSE.

CHART B.43 **CSE-Banks and FTSE/ATHEX-CSE Banks indices**
(3 September 2004=1.000 and 31 October 2008=2.000)



Source: CSE.

34. Excluding the investment companies market.

perceived interlinkages with banks' exposure to the Greek economy. It is expected that the sector's financial condition and its market value are likely to be negatively affected, also dragging down the CSE's market capitalisation due to the sector's considerably large weight in the index. Over the medium term, the likely catalysts for the stock market's performance continue to be the prospects for recovery of the domestic economy, fiscal sustainability in Greece and, to a considerable extent, the interplay between sovereign and banking risks.

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 Bloomberg.

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 the CPI by economic category and the corresponding weighted contribution to the total change in the 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, based on the Regulation 577/98 of the EU Council.

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 by economic activity based on the EU's NACE Rev. 2. The data concerns loans to Cypriot residents including organisations or companies with no physical presence in Cyprus (i.e. 'brass plates'). The data is collected by the CBC.

Table C.1 **Exchange rates of selected currencies against the euro**

	USD/EUR	GBP/EUR	JPY/EUR
Average for January	1,3374	0,8471	110,4862
Average for February	1,3662	0,8466	112,8050
Average for March	1,4019	0,8676	114,4487
Average for April	1,4473	0,8832	120,3500
Average for May (until 16 May)	1,4399	0,8805	116,2170
Average for Jan-May (until 16 May)	1,3951	0,8637	114,7771
Closing rate on 31/12/2010	1,3384	0,8574	108,4700
Closing rate on 16/05/2011	1,4156	0,8743	114,3700
Highest exchange rate vs. the euro	1,4830	0,8993	122,7600
	(2 May)	(4 May)	(8 Apr.)
Lowest exchange rate vs. the euro	1,2907	0,8302	107,1200
	(7 Jan.)	(7 Jan.)	(10 Jan.)
% appreciation (+)/depreciation (-) of the currency vs. the euro from closing rate on 31/12/2010 to closing rate on 16/05/2011	5,8%	2,0%	5,4%

Source: Bloomberg.

Table C.2 **Percentage change in CPI by economic category**

	2008	2009	2010	April 2010/09	March 2011/10	April 2011/10	Jan.-Apr. 2010/09	Jan.-Mar. 2011/10	Jan.-Apr. 2011/10	Weights 2005=100 (for 2008-2010)[1]	Weights 2005=100 (for 2011)
GENERAL INDEX	**4,67**	**0,33**	**2,43**	**2,44**	**2,80**	**3,28**	**2,54**	**2,81**	**2,92**	**100,00**	**100,00**
A DOMESTIC PRODUCTS	**7,36**	**0,78**	**3,01**	**2,87**	**8,33**	**9,16**	**2,06**	**8,35**	**8,56**	**28,98**	**20,52**
A.1 Agricultural	10,71	3,30	-0,01	-0,96	-5,68	-2,75	-1,79	-5,48	-4,80	6,93	5,96
A.2 Industrial	3,64	2,56	1,36	1,00	12,28	10,46	1,28	12,35	11,87	19,29	11,37
A.3 Electricity	23,16	-14,84	22,23	28,14	6,14	11,36	18,57	6,23	7,52	2,76	3,19
B PETROLEUM PRODUCTS	**10,54**	**-17,19**	**19,39**	**22,04**	**26,98**	**23,01**	**20,65**	**27,01**	**25,95**	**6,63**	**5,50**
C IMPORTED PRODUCTS	**-0,35**	**-0,56**	**-0,93**	**-1,49**	**1,74**	**3,26**	**-1,07**	**1,97**	**2,30**	**24,62**	**31,74**
C1 Motor vehicles	-1,29	-3,38	-4,19	-5,88	-0,31	-0,01	-5,69	-0,87	-0,66	5,41	6,48
C2 Other imported products	-0,11	0,16	-0,13	-0,40	2,23	4,02	0,12	2,67	3,01	19,21	25,26
D SERVICES	**4,48**	**3,69**	**1,24**	**1,40**	**1,53**	**1,56**	**2,25**	**1,44**	**1,48**	**39,77**	**42,24**
HICP	**4,4**	**0,2**	**2,6**	**2,5**	**3,2**	**3,5**	**2,5**	**3,1**	**3,2**	**-**	**-**

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

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

	2008	2009	2010	April 2010/09	March 2011/10	April 2011/10	Jan.-Apr. 2010/09	Jan.-Mar. 2011/10	Jan.-Apr. 2011/10	Weights 2005=100 (for 2008-2010)(1)	Weights 2005=100 (for 2011)
GENERAL INDEX	**4,67**	**0,33**	**2,43**	**2,44**	**2,80**	**3,28**	**2,54**	**2,81**	**2,92**	**100,00**	**100,00**
A DOMESTIC PRODUCTS	**2,21**	**0,24**	**0,93**	**0,89**	**1,84**	**2,01**	**0,64**	**1,85**	**1,89**	**28,98**	**20,52**
A.1 Agricultural	0,81	0,26	0,00	-0,08	-0,41	-0,19	-0,16	-0,40	-0,34	6,93	5,96
A.2 Industrial	0,71	0,49	0,27	0,20	1,40	1,20	0,25	1,41	1,36	19,29	11,37
A.3 Electricity	0,69	-0,52	0,66	0,77	0,24	0,45	0,55	0,25	0,30	2,76	3,19
B PETROLEUM PRODUCTS	**0,74**	**-1,28**	**1,19**	**1,30**	**1,50**	**1,34**	**1,18**	**1,48**	**1,45**	**6,63**	**5,50**
C IMPORTED PRODUCTS	**-0,08**	**-0,12**	**-0,20**	**-0,32**	**0,47**	**0,88**	**-0,23**	**0,52**	**0,61**	**24,62**	**31,74**
C1 Motor vehicles	-0,06	-0,15	-0,18	-0,25	-0,02	0,00	-0,25	0,00	0,00	5,41	6,48
C2 Other imported products	-0,02	0,03	-0,02	-0,07	0,49	0,90	0,02	0,73	0,83	19,21	25,26
D SERVICES	**1,80**	**1,48**	**0,51**	**0,58**	**0,67**	**0,68**	**0,94**	**0,64**	**0,65**	**39,77**	**42,24**

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

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

	2008	2009	2010	April 2010/09	March 2011/10	April 2011/10	Jan.-Apr. 2010/09	Jan.-Mar. 2011/10	Jan.-Apr. 2011/10
GENERAL INDEX	**4,67**	**0,33**	**2,43**	**2,44**	**2,80**	**3,28**	**2,54**	**2,81**	**2,92**
Food and non-alcoholic beverages	7,59	3,69	0,24	-0,35	2,40	3,19	-0,87	1,88	2,20
Alcoholic beverages and tobacco	0,23	3,10	1,39	1,49	10,12	10,29	1,80	10,50	10,45
Clothing and footwear	-1,32	-4,06	-0,64	-1,97	-4,17	0,74	-0,47	-2,01	-1,26
Housing, water, electricity and gas	7,01	-2,49	7,62	9,07	8,22	9,11	7,60	7,65	8,01
Furnishings, household equipment and supplies	2,15	1,47	0,21	0,88	1,82	1,53	1,26	1,76	1,70
Health	4,93	6,49	2,95	2,72	2,62	2,64	4,56	2,85	2,79
Transport	4,47	-6,97	3,64	3,73	5,46	5,28	3,70	4,98	5,05
Communications	0,16	0,01	-0,04	-0,05	0,58	0,56	-0,04	0,58	0,57
Recreation and culture	3,65	1,92	-0,01	0,42	1,61	1,55	0,67	1,60	1,58
Education	5,05	5,29	4,69	5,07	3,54	3,54	5,07	3,54	3,54
Restaurants and hotels	7,65	5,60	2,04	1,86	1,34	1,22	3,12	1,44	1,38
Miscellaneous goods and services	2,50	2,99	2,12	1,68	-0,47	-0,61	2,32	-0,27	-0,36

Source: Cystat.

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

	2008	2009	2010	April 2010/09	March 2011/10	April 2011/10	Jan.-Apr. 2010/09	Jan.-Mar. 2011/10	Jan.-Apr. 2011/10
GENERAL INDEX	**4,67**	**0,33**	**2,43**	**2,44**	**2,80**	**3,28**	**2,54**	**2,81**	**2,92**
Food and non-alcoholic beverages	1,36	0,70	0,05	-0,07	0,43	0,56	-0,17	0,34	0,39
Alcoholic beverages and tobacco	0,00	0,06	0,03	0,03	0,20	0,21	0,04	0,21	0,21
Clothing and footwear	-0,11	-0,32	-0,05	-0,16	-0,29	0,05	-0,03	-0,13	-0,08
Housing, water, electricity and gas	1,13	-0,42	1,23	1,47	1,06	1,19	1,23	0,99	1,03
Furnishings, household equipment and supplies	0,14	0,09	0,01	0,06	0,13	0,11	0,08	0,12	0,12
Health	0,25	0,34	0,16	0,15	0,19	0,19	0,25	0,21	0,20
Transport	0,65	-1,04	0,49	0,51	0,75	0,72	0,50	0,68	0,69
Communications	0,01	0,00	0,00	0,00	0,02	0,02	0,00	0,02	0,02
Recreation and culture	0,22	0,12	0,00	0,03	0,10	0,09	0,04	0,10	0,10
Education	0,15	0,16	0,15	0,16	0,15	0,15	0,16	0,15	0,15
Restaurants and hotels	0,57	0,44	0,17	0,15	0,12	0,11	0,25	0,13	0,13
Miscellaneous goods and services	0,17	0,20	0,15	0,12	-0,04	-0,05	0,16	-0,02	-0,03

Source: Cystat.

Table C.6 **Percentage change in prices of services**

	April 2010/09	March 2011/10	April 2011/10	Jan.-Apr. 2010/09	Jan.-Mar. 2011/10	Jan.-Apr. 2011/10
GENERAL INDEX	**2,44**	**2,80**	**3,28**	**2,54**	**2,81**	**2,92**
Rents	2,00	0,72	0,49	2,37	0,73	0,67
Maintenance of houses	1,08	0,33	0,00	1,01	0,26	0,20
Transport	-9,81	-0,86	2,09	-7,32	-2,92	-1,70
Communications	0,00	-0,03	-0,02	0,03	-0,03	-0,03
Insurance	-0,51	-1,17	-1,17	2,42	-1,18	-1,18
Public services	1,49	4,89	4,89	1,49	4,35	4,49
Education	5,07	3,54	3,54	5,07	3,54	3,54
Medical care	3,63	1,15	1,17	5,98	1,48	1,40
Restaurants	2,01	0,98	0,89	3,45	0,94	0,93
Personal and household services	2,37	1,04	0,63	2,50	1,22	1,07
Total services	**1,40**	**1,53**	**1,56**	**2,25**	**1,44**	**1,48**

Source: Cystat.

Table C.7 **Weighted contribution to the percentage change in prices of services**
(%)

	April 2010/09	March 2011/10	April 2011/10	Jan.-Apr. 2010/09	Jan.-Mar. 2011/10	Jan.-Apr. 2011/10
GENERAL INDEX	**2,44**	**2,80**	**3,28**	**2,54**	**2,81**	**2,92**
Rents	0,14	0,02	0,02	0,16	0,02	0,02
Maintenance of houses	0,02	0,01	0,00	0,02	0,01	0,01
Transport	-0,25	-0,02	0,06	-0,19	-0,09	-0,05
Communications	0,00	0,00	0,00	0,00	0,00	0,00
Insurance	-0,01	-0,03	-0,03	0,04	-0,03	-0,03
Public services	0,02	0,06	0,06	0,02	0,06	0,06
Education	0,16	0,15	0,15	0,16	0,15	0,15
Medical care	0,15	0,06	0,07	0,24	0,08	0,08
Restaurants	0,16	0,09	0,08	0,27	0,09	0,08
Personal and household services	0,19	0,10	0,06	0,20	0,11	0,10
Total services	**0,58**	**0,67**	**0,68**	**0,94**	**0,64**	**0,65**

Source: Cystat.

Table C.8 **Balance of payments**
(€ million)

	2009 (prov.)			2010 (prov.)		
	Credit	Debit	Net	Credit	Debit	Net
CURRENT ACCOUNT	**9.639,2**	**10.958,0**	**-1.318,8**	**10.767,3**	**12.122,1**	**-1.354,8**
GOODS, SERVICES AND INCOME	**9.167,4**	**10.302,0**	**-1.134,6**	**9.880,4**	**11.237,7**	**-1.357,3**
GOODS AND SERVICES	**6.721,3**	**7.591,3**	**-870,0**	**7.366,9**	**8.250,5**	**-883,5**
GOODS	**995,2**	**5.226,7**	**-4.231,5**	**1.151,4**	**5.832,8**	**-4.681,4**
SERVICES	**5.726,1**	**2.364,6**	**3.361,5**	**6.215,5**	**2.417,6**	**3.797,9**
Transport	1.544,9	900,0	644,9	1.453,3	970,1	483,1
Travel	1.550,4	906,1	644,3	1.646,9	866,4	780,4
Communications services	78,4	69,1	9,2	69,4	56,2	13,2
Construction services	39,1	9,3	29,8	38,5	11,0	27,5
Insurance services	71,4	33,5	37,9	35,1	31,1	3,9
Financial services	800,2	77,8	722,4	873,6	160,8	712,7
Computer and information services	70,7	17,7	53,0	73,6	29,6	44,0
Royalties and licence fees	8,6	29,2	-20,5	6,4	23,1	-16,6
Other business services	1.388,0	235,1	1.152,9	1.849,3	168,3	1.681,0
Personal, cultural and recreational services	26,1	31,9	-5,8	31,6	34,9	-3,4
Government services, n.i.e.	148,4	54,9	93,4	137,9	66,0	71,9
Services not allocated	0,0	0,0	0,0	0,0	0,0	0,0
INCOME	**2.446,1**	**2.710,7**	**-264,7**	**2.513,5**	**2.987,2**	**-473,8**
Compensation of employees	28,7	163,0	-134,3	30,9	161,4	-130,5
Investment income	2.417,4	2.547,8	-130,3	2.482,5	2.825,8	-343,3
Direct investment income	460,2	1.264,3	-804,1	353,6	1.303,6	-950,0
Portfolio investment income	836,2	593,5	242,7	935,6	711,4	224,2
Other investment income	1.121,0	690,0	431,0	1.193,4	810,8	382,6
CURRENT TRANSFERS	**471,8**	**656,0**	**-184,2**	**886,9**	**884,4**	**2,5**
General government	131,1	224,2	-93,1	158,8	235,1	-76,2
Other sectors	340,7	431,8	-91,1	728,1	649,3	78,7
CAPITAL AND FINANCIAL ACCOUNT			**1,413,8**			**1,430,6**
Capital account	102,6	41,8	60,8	58,8	31,3	27,5
Financial account			1.353,0			1.403,0
Direct investment			998,1			762,9
Abroad			-1.874,7			-593,6
In Cyprus			2.872,8			1.356,5
Portfolio investment			-11.393,2			-1.429,7
Assets			-11.348,7			-2.445,3
Liabilities			-44,5			1.015,6
Financial derivatives			302,2			-125,3
Other investment			11.353,5			1.995,0
Assets			-6.177,7			1.368,8
Liabilities			17.531,2			626,2
Official reserve assets			92,3			200,1
NET ERRORS AND OMISSIONS			**-94,9**			**-75,7**

Source: CBC.

Table C.9 **Trade account**
(€ million unless otherwise indicated)

	2009	2010	% change	2010 Jan.-Feb.	2011 Jan.-Feb.	% change
Imports	5.691,8	6.460,9	13,5	929,3	978,6	5,3
Consumer goods	1.914,4	1.948,2	1,8	257,3	275,0	6,9
Intermediate inputs	1.555,3	1.710,1	10,0	239,0	286,1	19,7
Capital goods	654,9	555,8	-15,1	80,0	74,7	-6,6
Transport equipment	561,9	816,9	45,4	153,5	92,9	-39,5
Fuels and lubricants	996,2	1.311,3	31,6	197,2	221,2	12,2
Exports	970,4	1.144,3	17,9	156,7	207,5	32,4
Trade deficit	4.721,3	5.316,6	12,6	772,6	771,1	-0,2

Source: Cystat.

Table C.10 **Direct investment in Cyprus by non-residents**
(€ million)

NACE CODE	Economic activity	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008**	2009**
		Net capital flows												
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	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	1,0	0,0
3995	MANUFACTURING	7,5	-5,2	6,0	14,3	5,6	37,8	-9,2	53,2	30,4	79,6	15,4	9,9	3,1
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	0,5
4500	CONSTRUCTION	3,2	3,7	*	6,6	-6,3	13,6	29,8	58,9	68,3	47,9	52,2	40,6	14,5
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	401,1	976,1
5500	HOTELS AND RESTAURANTS	1,3	-0,6	0,4	2,3	21,3	8,3	1,9	*	*	5,7	10,6	9,1	5,8
6495	TRANSPORT AND COMMUNICATION	0,7	2,4	7,2	9,6	-0,2	44,6	119,1	*	*	-21,6	55,6	164,5	53,6
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	1.331,2	2.395,7
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	802,6	648,3
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	3,1	24,8
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	-0,6	-0,8
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**	**2.764,8**	**4,121,5**

Geographical / economic zone		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008**	2009**
		Net capital flows												
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	2.354,1	3.743,7
D2	EU-16	195,4	*	209,1	392,9	414,0	418,1	511,7	477,4	501,3	443,1	945,0	541,2	1.607,9
D3	EU-27	231,6	223,2	219,1	458,4	455,2	444,1	588,4	604,3	534,0	492,2	972,1	1.185,4	1,970,7
E4	AFRICA	15,3	19,0	19,1	16,2	20,8	25,3	25,9	*	*	*	-0,9	59,3	19,6
E7	AMERICA	33,1	*	75,2	82,6	82,3	*	30,3	*	-9,4	192,4	5,0	199,0	219,4
F2	ASIA	34,7	31,1	24,7	39,7	63,0	86,6	*	14,8	34,2	413,3	69,2	152,4	138,1
F7	OCEANIA	-0,4	*	-1,7	-0,8	-1,7	*	*	-1,2	*	*	0,0	0,1	0,8
Z8	EXTRA EU-16 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	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**	**2.764,8**	**4.121,5**

Source: CBC.
* In order that the confidentiality of the data is ensured, amounts which relate to a small number of transactions are not presented on their own but are included at a higher level of aggregation.
** 2008 data include brass plates (any legal form which has been incorporated or registered in Cyprus 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.

Table C.11 **Direct investment abroad**
(€ million)

NACE CODE	Economic activity	Net capital flows 1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008**	2009**
595	AGRICULTURE AND FISHING	0,0	*	*	-2,6	*	-0,3	0,0	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	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	-0,6	-2,5
4195	ELECTRICITY, GAS AND WATER	*	0,0	0,0	*	*	-1,4	0,0	-0,1	0,0	0,0	0,0	0,4	-1,2
4500	CONSTRUCTION	-1,0	-1,2	-1,2	-4,2	*	-69,5	-75,0	*	-196,8	*	-49,4	-100,0	-31,2
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	-88,0	-271,8
5500	HOTELS AND RESTAURANTS	*	*	-2,3	-18,2	-62,9	-16,3	-88,1	*	*	*	-22,4	-18,7	-9,0
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	-0,4	-46,9
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	-2.239,1	-2.980,8
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	-379.6	-285.2
9995	OTHER SERVICES	*	*	*	*	-3,9	-0,8	-10,7	-0,7	*	114,2	-0,1	-1,8	-7,8
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	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**	**-2.827,7**	**-3.636,4**

Geographical / economic zone		Net capital flows 1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008**	2009**
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	-2.231,4
D2	EU-16	-19,8	-36,2	-104,4	-114,4	-221,9	-188,0	-319,4	-319,7	-127,1	-68,8	-494,5	72,0	-363,2
D3	EU-27	-20,0	-36,0	-104,6	-116,1	-223,6	-429,0	-339,0	-359,2	-138,7	-34,7	-516,3	-8,9	-1.771,7
E4	AFRICA	*	-0,6	-30,0	-7,6	*	-26,4	-35,4	*	*	-213,4	-0,8	-77,8	-148,3
E7	AMERICA	-1,1	*	*	-2,4	*	*	-16,9	-6,5	*	*	-5,4	-563,0	-949,1
F2	ASIA	-1,2	-16,0	-21,4	-0,6	-3,9	*	-41,1	*	*	*	-51,8	-193,8	-273,7
F7	OCEANIA	*	*	*	-33,2	-32,9	-3,4	-1,4	-11,2	-4,8	-8,6	-5,8	-41,1	-33,9
Z8	EXTRA EU-16 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	0,0
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**	**-3.636,4**

Source: CBC.
* In order to ensure confidentiality of the data, amounts which relate to a small number of transactions are not presented on their own but are included at a higher level of aggregation.
** 2008 data include brass plates (any legal form which has been incorporated or registered in Cyprus 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.

Table C.12 **Annual international investment position including brass plates: 2010 (provisional)**
(€ million)

	ASSETS	LIABILITIES	BALANCE
FINANCIAL ACCOUNT			**- 1.760,9**
DIRECT INVESTMENT			**- 6.683,3**
Abroad			**15.416,9**
Equity capital and reinvested earnings			10.141,1
MFIs (excluding central banks)			780,0
Other sectors			9.361,1
Other Capital			5.275,8
MFIs (excluding central banks)			0,0
Other sectors			5.275,8
In the reporting country			**22.100,2**
Equity capital and reinvested earnings			15.429,4
MFIs (excluding central banks)			2.028,5
Other sectors			13.400,9
Other capital			6.670,8
MFIs (excluding central banks)			11,0
Other sectors			6.659,8
PORTFOLIO INVESTMENT	**33.914,8**	**10.804,4**	**23.110,5**
Equity securities	**2.252,7**	**1.230,0**	
Monetary authorities	0,0	-	
General government	0,0	-	
MFIs (excluding central banks)	2,0	511,6	
Other sectors	2.250,6	718,4	
Debt securities	**31.662,2**	**9.574,4**	
Bonds and notes	**30.589,2**	**9.373,0**	
Monetary authorities	3.264,0	0,0	
General government	0,0	3.202,0	
MFIs (excluding central banks)	24.856,6	1.986,2	
Other sectors	2.468,5	4.184,8	
Money market instruments	**1.073,0**	**201,4**	
Monetary authorities	0,0	0,0	
General government	0,0	0,0	
MFIs (excluding central banks)	1.047,9	131,4	
Other sectors	25,1	70,0	
FINANCIAL DERIVATIVES	**121,7**	**429,8**	**-308,1**
Monetary authorities	0,0	0,0	0,0
General government	0,0	0,0	0,0
MFIs (excluding central banks)	119,5	428,9	-309,4
Other sectors	2,2	0,9	1,3
OTHER INVESTMENT	**42.888,5**	**61.626,5**	**-18.738,0**
Monetary authorities	**296,3**	**1,1**	
Loans/currency and deposits	296,3	0,0	
Other assets/liabilities	0,0	1,1	
General government	**184,5**	**846,0**	
Trade credits	180,0	0,0	
Loans/currency and deposits	0,0	846,0	
Other assets/liabilities	4,5	0,0	
MFIs (excluding central banks)	**36.932,3**	**57.409,4**	
Loans/currency and deposits	36.932,3	57.409,4	
Other assets/liabilities	0,0	0,0	
Other sectors	**5.475,4**	**3.370,0**	
Trade credits	52,1	159,7	
Loans/currency and deposits	5.423,3	3.210,3	
Other assets/liabilities	0,0	0,0	
Reserve Assets	**858,0**	**-**	

Source: CBC.
MFIs= Monetary Financial Institutions.
Data from 2008 onwards 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.

Table C.13 **Tourist arrivals and receipts from tourism**

		Tourist arrivals			Receipts from tourism		
		Number	% change			% change	
Year	Month	of tourists	Previous year	Cumulative period	€ million	Previous year	Cumulative period
2007	January	51.848	-5,5	-5,5	33,6	-7,1	-7,1
	February	63.098	-4,6	-5,0	38,5	-2,2	-4,6
	March	104.316	-2,6	-3,9	68,5	3,1	-1,0
	April	189.310	-8,3	-6,0	123,7	-2,8	-1,8
	May	273.058	-3,7	-5,1	204,6	7,1	1,9
	June	282.465	0,8	-3,4	207,4	3,2	2,3
	July	352.423	3,2	-1,7	287,3	8,5	4,0
	August	340.534	8,1	0,1	306,0	15,5	6,6
	September	315.437	6,4	1,1	263,0	9,3	7,0
	October	275.103	-2,8	0,6	206,3	-1,7	5,9
	November	94.741	-1,0	0,5	67,8	5,5	5,9
	December	73.742	3,8	0,6	51,4	4,5	5,9
2008	January	50.658	-2,3	-2,3	35,3	4,9	4,9
	February	70.140	11,2	5,1	40,6	5,5	5,2
	March	108.164	3,7	4,4	67,3	-1,7	1,8
	April	182.091	-3,8	0,6	107,8	-12,8	-5,0
	May	271.599	-0,5	0,1	191,3	-6,5	-5,7
	June	307.237	8,8	2,7	229,6	10,7	-0,7
	July	342.554	-2,8	1,2	272,9	-5,0	-2,0
	August	328.100	-3,7	0,2	278,0	-9,1	-3,7
	September	305.348	-3,2	-0,3	247,4	-5,9	-4,1
	October	267.866	-2,6	-0,6	198,6	-3,7	-4,0
	November	97.900	3,3	-0,5	72,4	6,8	-3,6
	December	72.127	-2,2	-0,5	51,6	0,5	-3,5
2009	January	47.066	-7,1	-7,1	31,2	-11,6	-11,6
	February	56.626	-19,3	-14,2	36,3	-10,7	-11,1
	March	90.434	-16,4	-15,2	57,4	-14,7	-12,8
	April	181.395	-0,4	-8,6	107,4	-0,3	-7,5
	May	246.546	-9,2	-8,9	158,1	-17,4	-11,7
	June	260.931	-15,1	-10,8	175,4	-23,6	-15,8
	July	304.126	-11,2	-10,9	232,5	-14,8	-15,5
	August	291.583	-11,1	-11,0	234,8	-15,5	-15,5
	September	276.178	-9,6	-10,7	200,2	-19,1	-16,1
	October	230.431	-14,0	-11,1	156,3	-21,3	-16,7
	November	89.670	-8,4	-11,0	61,0	-15,7	-16,7
	December	66.201	-8,2	-10,9	42,7	-17,2	-16,7
2010	January	45.952	-2,4	-2,4	29,7	-4,8	-4,8
	February	55.250	-2,4	-2,4	33,9	-6,6	-5,8
	March	103.803	14,8	5,6	65,6	14,3	3,4
	April	139.658	-23,0	-8,2	89,0	-17,1	-6,1
	May	258.014	4,7	-3,1	164,8	4,2	-1,9
	June	275.280	5,5	-0,6	195,3	11,3	2,2
	July	306.106	0,7	-0,3	231,1	-0,6	1,4
	August	304.264	4,3	0,7	241,1	2,7	1,7
	September	289.126	4,7	1,3	220,5	10,1	3,1
	October	241.698	4,9	1,7	175,5	12,3	4,1
	November	92.643	3,3	1,8	62,4	2,3	4,0
	December	61.199	-7,6	1,5	40,9	-4,2	3,8
2011	January	44.442	-3,3	-3,3	29,8	0,3	0,3
	February	62.294	12,7	5,5	36,9	8,8	4,9
	March	98.964	-4,7	0,3	66,4	1,2	3,0
	April	199.762	43,0	17,6	n/a	n/a	n/a

Source: Cystat.

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

Year /Quarter		Gross domestic product	General government consumption	Private consumption	Gross capital formation	Exports of goods and services	Imports of goods and services
1996	Q1	2.298,1	314,0	1.599,6	700,9	839,3	1.155,7
	Q2	2.532,0	371,8	1.460,4	712,6	1.209,8	1.222,6
	Q3	2.454,6	399,9	1.405,7	405,2	1.400,0	1.156,1
	Q4	2.424,1	605,2	1.654,6	246,3	1.165,0	1.246,9
1997	Q1	2.340,3	373,3	1.643,3	558,9	851,7	1.086,8
	Q2	2.521,5	423,0	1.511,7	651,1	1.218,5	1.282,8
	Q3	2.562,7	435,1	1.401,9	454,5	1.530,9	1.259,7
	Q4	2.507,5	610,3	1.699,6	216,5	1.175,4	1.194,3
1998	Q1	2.420,6	436,1	1.762,0	492,0	902,0	1.171,6
	Q2	2.685,1	423,3	1.550,8	653,8	1.264,6	1.207,4
	Q3	2.697,5	463,0	1.478,2	486,4	1.530,6	1.260,7
	Q4	2.626,4	593,3	1.822,5	319,2	1.167,5	1.276,0
1999	Q1	2.529,2	461,1	1.840,7	427,8	905,6	1.106,0
	Q2	2.816,4	476,2	1.601,6	687,7	1.357,5	1.306,6
	Q3	2.816,8	480,6	1.496,8	395,8	1.727,0	1.283,4
	Q4	2.771,2	664,9	1.868,0	311,6	1.309,3	1.382,5
2000	Q1	2.678,3	421,5	1.951,3	503,9	1.043,2	1.241,6
	Q2	2.979,0	429,1	1.704,6	798,8	1.515,7	1.469,2
	Q3	2.953,3	482,0	1.596,2	441,0	1.875,9	1.441,8
	Q4	2.871,8	645,1	2.004,6	366,5	1.418,5	1.562,9
2001	Q1	2.774,0	460,7	2.155,1	419,0	1.104,9	1.365,7
	Q2	3.083,9	494,8	1.813,7	703,5	1.679,8	1.607,9
	Q3	3.108,4	527,9	1.512,1	677,0	1.990,4	1.599,0
	Q4	2.978,1	707,9	2.101,1	176,7	1.436,8	1.444,4
2002	Q1	2.839,5	516,1	2.106,7	569,3	1.015,8	1.368,4
	Q2	3.165,5	537,7	1.849,4	766,2	1.587,4	1.575,2
	Q3	3.124,4	569,8	1.649,9	570,9	1.870,2	1.536,4
	Q4	3.065,6	718,9	2.072,0	367,4	1.434,8	1.527,5
2003	Q1	2.886,1	543,1	2.099,7	683,5	929,1	1.369,2
	Q2	3.205,3	553,9	1.933,5	782,6	1.404,6	1.469,3
	Q3	3.188,9	565,2	1.680,4	549,3	1.962,2	1.568,3
	Q4	3.149,9	821,9	2.128,7	199,6	1.584,8	1.585,1
2004	Q1	2.994,3	507,5	2.195,1	555,6	1.219,5	1.483,4
	Q2	3.348,6	560,3	1.997,0	842,9	1.612,1	1.663,7
	Q3	3.323,9	572,1	1.877,4	613,4	1.916,8	1.655,8
	Q4	3.288,4	707,8	2.281,6	648,6	1.454,4	1.803,9
2005	Q1	3.127,9	509,7	2.316,8	656,7	1.248,5	1.603,8
	Q2	3.465,5	560,2	2.120,9	688,0	1.704,5	1.608,0
	Q3	3.450,9	522,5	1.909,7	698,9	2.044,9	1.725,1
	Q4	3.417,8	834,8	2.351,4	638,4	1.506,8	1.913,6
2006	Q1	3.246,1	570,2	2.408,4	654,5	1.366,1	1.753,1
	Q2	3.625,2	625,0	2.201,9	818,3	1.798,1	1.818,1
	Q3	3.592,4	599,5	2.023,7	618,2	2.196,8	1.845,8
	Q4	3.553,7	810,6	2.469,5	795,3	1.373,5	1.895,2
2007	Q1	3.413,6	576,2	2.587,6	760,9	1.348,5	1.859,6
	Q2	3.797,2	568,7	2.384,9	1.127,8	1.739,5	2.023,7
	Q3	3.774,6	615,5	2.191,8	749,5	2.375,0	2.157,2
	Q4	3.751,3	853,5	2.791,5	668,1	1.681,6	2.243,5
2008	Q1	3.577,7	575,6	2.794,6	907,3	1.430,7	2.130,5
	Q2	3.957,2	597,0	2.587,4	1.206,2	1.786,0	2.219,4
	Q3	3.900,6	754,1	2.455,1	977,7	2.233,8	2.520,1
	Q4	3.835,7	848,7	2.825,2	576,2	1.669,4	2.083,8
2009	Q1	3.604,2	632,0	2.789,9	580,6	1.392,2	1.790,6
	Q2	3.891,5	637,5	2.599,9	919,6	1.529,6	1.795,0
	Q3	3.794,3	767,5	2.357,1	729,3	1.858,8	1.918,5
	Q4	3.727,3	898,1	2.605,0	412,8	1.531,2	1.719,8
2010	Q1	3.571,6	637,6	2.673,3	703,2	1.357,1	1.799,6
	Q2	3.917,8	635,4	2.611,1	814,3	1.677,7	1.820,7
	Q3	3.864,7	650,1	2.436,7	921,1	1.763,9	1.907,0
	Q4	3.819,5	1,026,2	2.712,2	451,1	1.551,0	1.921,0

Source: Cystat.

Table C.15 **Gross domestic product by category of expenditure at current prices**
(€ million)

Year /Quarter		Gross domestic product	General government consumption	Private consumption	Gross capital formation	Exports of goods and services	Imports of goods and services
1996	Q1	1.708,7	208,5	1.224,8	538,1	687,4	950,2
	Q2	1.956,3	248,9	1.197,4	538,0	988,7	1.016,7
	Q3	1.898,2	271,8	1.168,0	289,6	1.141,7	972,9
	Q4	1.886,0	414,4	1.322,3	243,5	964,3	1.058,4
1997	Q1	1.778,7	262,5	1.284,3	450,5	715,6	934,2
	Q2	1.991,7	299,5	1.256,8	519,3	1.027,3	1.111,1
	Q3	2.032,5	313,1	1.190,7	326,9	1.300,2	1.098,3
	Q4	2.007,5	440,3	1.386,3	215,9	1.005,1	1.040,1
1998	Q1	1.893,3	317,0	1.402,7	407,9	780,7	1.015,1
	Q2	2.182,8	308,8	1.316,1	523,6	1.090,4	1.056,1
	Q3	2.211,2	338,6	1.278,4	372,0	1.322,4	1.100,2
	Q4	2.157,9	435,0	1.508,4	316,7	1.011,4	1.113,6
1999	Q1	2.036,7	343,6	1.497,3	374,5	789,6	968,3
	Q2	2.339,6	358,7	1.377,2	566,5	1.193,9	1.156,7
	Q3	2.352,1	362,2	1.311,1	298,5	1.531,2	1.150,9
	Q4	2.334,0	510,0	1.601,1	303,7	1.175,3	1.256,0
2000	Q1	2.234,0	329,1	1.649,3	448,2	957,3	1.149,8
	Q2	2.569,7	338,8	1.533,5	666,8	1.412,1	1.381,6
	Q3	2.555,7	389,9	1.452,1	324,8	1.756,7	1.367,8
	Q4	2.523,8	525,4	1.770,4	371,6	1.345,0	1.488,6
2001	Q1	2.393,5	382,6	1.863,7	382,8	1.060,7	1.296,3
	Q2	2.773,4	411,8	1.659,8	617,6	1.615,2	1.531,1
	Q3	2.777,2	438,2	1.408,5	553,9	1.900,6	1.524,1
	Q4	2.684,0	586,2	1.910,8	192,0	1.373,6	1.378,6
2002	Q1	2.495,4	434,1	1.862,4	535,2	970,3	1.306,7
	Q2	2.830,3	452,7	1.717,0	668,6	1.501,9	1.509,8
	Q3	2.822,9	486,6	1.574,5	474,6	1.759,6	1.472,4
	Q4	2.830,9	623,5	1.940,4	381,4	1.340,5	1.454,8
2003	Q1	2.659,6	494,0	1.956,9	636,6	869,3	1.297,2
	Q2	3.049,2	511,6	1.872,5	742,5	1.309,6	1.387,0
	Q3	3.030,9	534,1	1.638,4	497,2	1.843,1	1.481,8
	Q4	3.021,3	782,8	2.070,6	169,7	1.502,1	1.503,8
2004	Q1	2.861,2	483,5	2.087,7	530,4	1.167,2	1.407,6
	Q2	3.255,5	535,5	1.952,7	793,4	1.563,0	1.589,0
	Q3	3.264,1	549,5	1.845,5	588,1	1.880,1	1.599,1
	Q4	3.272,7	686,8	2.270,5	640,8	1.435,9	1.761,2
2005	Q1	3.076,8	507,1	2.262,9	643,7	1.239,7	1.576,7
	Q2	3.449,2	559,7	2.125,4	667,9	1.699,9	1.603,7
	Q3	3.460,7	522,3	1.923,9	700,0	2.044,6	1.730,0
	Q4	3.475,7	838,0	2.386,6	670,5	1.520,6	1.940,0
2006	Q1	3.277,2	586,4	2.404,3	673,6	1.392,2	1.779,3
	Q2	3.718,8	641,3	2.251,5	843,1	1.842,4	1.859,5
	Q3	3.715,3	618,6	2.084,3	637,7	2.262,0	1.887,3
	Q4	3.723,8	836,3	2.557,5	841,9	1.433,0	1.944,9
2007	Q1	3.576,1	606,2	2.652,5	801,3	1.420,1	1.903,9
	Q2	4.066,7	600,7	2.518,5	1.194,0	1.844,8	2.091,3
	Q3	4.114,4	652,4	2.357,9	808,2	2.535,7	2.239,7
	Q4	4.122,0	905,4	3.017,3	758,1	1.811,9	2.370,6
2008	Q1	3.974,9	635,5	3.008,8	1.035,4	1.577,7	2.282,5
	Q2	4.485,8	659,4	2.886,0	1.374,1	1.981,4	2.415,0
	Q3	4.450,8	845,5	2.797,6	1.080,5	2.474,3	2.747,1
	Q4	4.375,4	951,6	3.173,1	697,5	1.821,6	2.268,4
2009	Q1	4.005,4	731,4	3.042,7	657,8	1.498,1	1.924,6
	Q2	4.396,2	742,4	2.911,1	1.003,5	1.667,7	1.928,6
	Q3	4.270,1	877,2	2.640,8	777,2	2.017,8	2.042,8
	Q4	4.273,7	1.013,4	2.943,6	500,5	1.640,6	1.824,4
2010	Q1	4.055,9	737,4	2.978,4	788,7	1.478,1	1.926,6
	Q2	4.504,6	737,2	2.993,7	921,8	1.860,0	2.008,1
	Q3	4.456,8	761,1	2.828,0	1.000,8	1.961,2	2.094,2
	Q4	4.447,8	1.205,1	3.128,1	510,0	1.707,0	2.102,4

Source: Cystat.

Table C.16 **Turnover volume index of retail trade**

Year /	Month	Volume	6-month moving average	% change Previous year	% change 6-month moving average
2007	January	100,7	111,9	4,9	7,2
	February	95,1	109,9	7,6	7,3
	March	108,4	109,8	11,6	7,8
	April	106,9	109,6	5,1	7,3
	May	111,8	110,4	6,9	7,3
	June	118,4	106,9	9,9	7,7
	July	124,9	110,9	7,4	8,1
	August	118,3	114,8	10,1	8,5
	September	115,6	116,0	6,0	7,6
	October	117,5	117,8	8,8	8,2
	November	119,8	119,1	12,3	9,1
	December	154,8	125,2	10,8	9,3
2008	January	108,3	122,4	7,8	9,4
	February	108,5	120,9	14,7	10,0
	March	109,8	120,0	1,7	9,3
	April	118,3	120,2	10,9	9,7
	May	122,8	120,8	10,2	9,3
	June	121,2	115,2	2,4	7,7
	July	136,2	119,8	9,0	8,0
	August	120,8	121,7	1,9	6,0
	September	124,4	124,1	7,7	7,0
	October	120,7	124,5	3,0	5,7
	November	112,8	122,8	-5,5	3,1
	December	153,6	128,3	-0,3	2,5
2009	January	111,2	123,9	2,7	1,3
	February	102,9	120,9	-5,2	0,2
	March	103,4	117,4	-5,8	-2,0
	April	115,8	116,6	-2,1	-2,8
	May	114,2	116,9	-7,0	-3,0
	June	117,7	110,9	-2,9	-3,4
	July	132,7	114,5	-2,6	-4,2
	August	116,6	116,7	-3,5	-3,9
	September	116,7	119,0	-6,2	-4,0
	October	116,4	119,1	-3,6	-4,3
	November	108,3	118,1	-4,0	-3,8
	December	148,7	123,2	-3,2	-3,8
2010	January	104,1	118,5	-6,4	-4,4
	February	98,3	115,4	-4,5	-4,6
	March	115,2	115,2	11,4	-1,9
	April	108,0	113,8	-6,7	-2,4
	May	113,7	114,7	-0,4	-1,9
	June	119,0	109,7	1,1	-1,0
	July	135,0	114,9	1,7	0,4
	August	118,4	118,2	1,5	1,3
	September	116,8	118,5	0,1	-0,4
	October**	114,0	119,5	-2,1	0,4
	November**	112,6	119,3	4,0	1,0
	December**	154,3	125,2	3,8	1,6
2011	January**	106,4	120,4	2,2	1,6
	February *	101,3	117,6	3,1	1,9

Percentage change by category	February 2010/2009	February* 2011/2010	Jan.-Feb. 2010/2009	Jan.-Feb.* 2011/2010
General index	**-4,5**	**3,1**	**-5,5**	**2,6**
General index excluding automotive fuel	**-5,9**	**4,2**	**-6,2**	**3,5**
Non-specialised stores with food, beverages or tobacco predominating	3,2	9,6	0,8	10,0
Other retail sale in non-specialised stores	-7,7	-2,3	-7,7	-2,5
Food, beverages and tobacco in specialised stores	1,0	-3,3	0,2	-3,1
Food products	2,9	7,7	0,6	8,1
Non food products (except automotive fuel)	-10,3	2,2	-9,6	1,1
Textiles, clothing and footwear	0,2	2,3	-0,9	3,3
Electrical goods and furniture	-8,2	-1,0	-11,3	-1,9
Computer equipment, books and other	-19,6	9,9	-15,6	4,8
Automotive fuel in specialised stores	6,3	-4,5	-0,1	-3,6

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

Table C.17 **Construction indicators**

		Sales of cement (volume)			Building permits authorised (volume)		
			% change			% change	
		Total	Previous	6-month	Area	Previous	6-month
Year /	Month	(m.ton)	year	moving average	(sq.m.)	year	moving average
2007	January	132.561	18,09	6,70	263.912	-6,00	-3,65
	February	130.638	2,68	7,00	299.455	12,66	-0,42
	March	174.292	16,33	9,32	388.979	17,36	3,35
	April	137.205	15,36	10,10	324.503	29,25	7,54
	May	160.929	3,95	9,41	333.002	-12,40	4,89
	June	165.444	12,68	11,26	304.133	-1,66	5,25
	July	174.989	11,25	10,36	339.730	14,73	8,51
	August	78.961	7,18	11,29	192.004	-3,82	6,49
	September	148.393	2,18	8,68	288.517	13,90	5,47
	October	176.722	17,78	9,37	318.083	-4,09	0,31
	November	177.170	12,88	11,04	275.785	-17,39	-0,32
	December	133.152	-0,68	8,83	284.703	3,72	0,58
2008	January	156.587	18,12	9,90	249.822	-5,34	-2,89
	February	173.499	32,81	13,66	299.159	-0,10	-2,31
	March	175.963	0,96	13,04	295.942	-23,92	-8,92
	April	164.519	19,91	13,30	296.211	-8,72	-9,74
	May	179.007	11,23	13,00	293.231	-11,94	-8,77
	June	172.650	4,36	13,45	312.757	2,84	-8,72
	July	200.922	14,82	13,04	329.337	-3,06	-8,20
	August	69.945	-11,42	7,98	188.451	-1,85	-8,84
	September	168.055	13,25	10,30	339.160	17,55	-1,28
	October	178.855	1,21	7,07	374.647	17,78	3,50
	November	164.606	-7,09	3,62	382.457	38,68	12,14
	December	135.678	1,90	3,22	327.935	15,18	14,31
2009	January	120.871	-22,81	-3,79	278.876	11,63	17,57
	February	122.367	-29,47	-7,78	273.892	-8,45	15,20
	March	123.823	-29,63	-14,79	255.578	-13,64	9,86
	April	117.392	-28,65	-20,00	234.397	-20,87	3,03
	May	132.204	-26,15	-23,44	254.844	-13,09	-5,44
	June	137.449	-20,39	-26,23	359.744	15,02	-5,14
	July	151.742	-24,48	-26,40	295.814	-10,18	-8,35
	August	48.329	-30,90	-26,18	176.594	-6,29	-7,55
	September	126.657	-24,63	-25,27	276.027	-18,61	-9,71
	October	128.881	-27,94	-25,19	203.278	-45,74	-16,01
	November	122.260	-25,73	-25,10	263.849	-31,01	-18,59
	December	107.190	-21,00	-25,38	263.566	-19,63	-18,84
2010	January	84.111	-30,41	-26,32	228.827	-17,95	-22,60
	February	99.354	-18,81	-24,93	335.783	22,60	-24,22
	March	135.848	9,71	-19,92	317.003	24,03	-14,51
	April	99.749	-15,03	-17,36	244.383	4,26	-9,22
	May	120.199	-9,08	-14,07	270.480	6,14	1,45
	June	130.944	-4,73	-11,13	254.982	-29,12	-0,96
	July	139.952	-7,77	-7,51	241.035	-18,52	-3,11
	August	49.809	3,06	-4,84	145.686	-17,50	-2,24
	September	118.607	-6,36	-7,64	209.911	-23,95	-9,15
	October	115.198	-10,62	-6,97	236.479	16,33	-10,98
	November	133.159	8,91	-3,87	216.510	-17,94	-13,94
	December	108.128	0,88	-2,95	216.826	-17,73	-17,26
2011	January	90.251	7,30	-0,37	167.251	-26,91	-16,06
	February	98.610	-0,75	-0,67	204.698	-39,04	-20,06
	March	117.715	-13,35	-2,15	n/a	n/a	n/a

Source: Cystat.

Table C.18 **Volume index of manufacturing production**

Year /	Month	Index: Monthly	Index: Cumulative	% change: Previous year	% change: 6-month moving average	% change: Cumulative period
2008	January	97,10	97,10	7,29	5,24	7,29
	February	100,90	99,00	11,49	7,24	9,39
	March	106,70	101,57	0,00	6,94	5,91
	April	107,80	103,13	12,29	7,95	7,51
	May	118,80	106,26	5,51	7,17	7,05
	June	117,20	108,08	3,17	6,33	6,33
	July	127,80	110,90	6,95	6,31	6,43
	August	71,20	105,94	-4,43	4,27	5,42
	September	114,80	106,92	6,10	5,32	5,50
	October	114,60	107,69	2,50	3,78	5,18
	November	111,70	108,05	-0,98	2,64	4,57
	December	113,10	108,48	2,63	2,54	4,39
2009	January	88,30	88,30	-9,06	-0,15	-9,06
	February	91,80	90,05	-9,02	-1,05	-9,04
	March	95,30	91,80	-10,68	-3,86	-9,62
	April	94,20	92,40	-12,62	-6,47	-10,40
	May	101,60	94,24	-14,48	-8,92	-11,31
	June	105,50	96,12	-9,98	-11,07	-11,07
	July	115,40	98,87	-9,70	-11,10	-10,85
	August	63,20	94,41	-11,24	-11,44	-10,88
	September	102,40	95,30	-10,80	-11,45	-10,87
	October	99,10	95,68	-13,53	-11,62	-11,15
	November	100,30	96,10	-10,21	-10,86	-11,06
	December	98,90	96,33	-12,56	-11,31	-11,19
2010	January	80,80	80,80	-8,29	-11,33	-8,29
	February	84,00	82,40	-8,40	-10,87	-8,34
	March	100,90	88,57	6,32	-8,17	-3,28
	April	87,90	88,40	-6,39	-6,88	-4,07
	May	99,40	90,60	-1,88	-5,35	-3,60
	June	104,40	92,90	-0,76	-3,08	-3,08
	July	108,30	95,10	-5,99	-2,87	-3,56
	August	63,50	91,15	0,95	-1,57	-3,19
	September	100,40	92,18	-1,67	-2,88	-3,00
	October	93,50	92,31	-5,75	-2,80	-3,29
	November	98,30	92,85	-1,90	-2,80	-3,16
	December	97,40	93,23	-1,42	-2,94	-3,01
2011	January	74,70	74,70	-7,55	-2,98	-7,55
	February	82,40	78,55	-1,90	-3,32	-4,67

Percentage change by category	February 2010/2009	February 2011/2010	Jan.-Feb. 2010/2009	Jan.-Feb. 2011/2010
General index	**-8,5**	**-1,9**	**-8,5**	**-4,7**
Manufacture of food products, beverages and tobacco products	-3,5	-6,9	-2,3	-7,3
Manufacture of textiles, wearing apparel and leather products	-34,5	2,1	-38,4	4,5
Manufacture of wood and products of wood and cork, except furniture	-17,7	-13,2	-12,7	-21,2
Manufacture of paper products and printing	9,1	25,0	4,8	18,3
Manufacture of refined petroleum products, chemicals and chemical products and pharmaceutical products and preparations	1,8	18,8	6,1	15,3
Manufacture of rubber and plastic products	-14,1	-2,4	-14,6	-4,7
Manufacture of other non-metallic mineral products	-19,0	-1,6	-23,3	-2,3
Manufacture of basic metals and facricated metal products	-6,6	-5,2	-5,1	-8,7
Manufacture of electronic and optical products and electrical equipment	46,1	4,8	28,4	0,5
Manufacture of machinery	-36,8	-7,3	-28,3	-18,1
Manufacture of motor vehicle and other transport equipment	2,6	-23,9	-11,4	-22,5
Manufacture of furniture, other manufacturing and repair and installation of machinery and equipment	-24,4	-18,7	-23,8	-21,7

Source: Cystat.
•Revised data.

Table C.19 **Labour market indicators based on the Labour Force Survey (LFS)**

	2009		2010			
	Q3	Q4	Q1	Q2	Q3	Q4
Labour force	**404.040**	**407.542**	**409.499**	**414.288**	**409.584**	**408.490**
Employed	**382.085**	**383.268**	**379.881**	**387.909**	**385.993**	**386.591**
By type of employment:						
Full time	350.202	350.240	344.315	352.515	351.791	348.571
Part time	31.883	33.028	35.566	35.394	34.202	38.020
By sector of employment:						
Primary sector	15.368	15.186	13.773	14.858	14.856	15.231
Secondary sector	84.446	83.661	78.787	79.043	79.945	83.124
Tertiary sector	282.271	284.421	287.321	294.008	291.192	288.236
Employees	305.369	306.834	306.192	314.416	314.047	316.296
Unemployed	**21.956**	**24.273**	**29.618**	**26.379**	**23.590**	**21.899**
By unemployment duration:						
Less than 12 months	20.185	21.285	24.629	21.557	18.379	16.187
12 months and above	1.769	2.987	4.989	4.823	5.212	5.713
Activity rate (%)	**64,5**	**64,9**	**64,8**	**65,0**	**64,8**	**64,4**
Male	73,1	73,1	72,2	72,7	73,4	72,2
Female	56,4	57,1	57,7	57,8	56,8	56,9
Employment rate (%)	**61,0**	**61,1**	**60,1**	**60,9**	**61,1**	**61,0**
Male	69,2	68,7	67,0	68,3	69,2	68,6
Female	53,3	53,8	53,5	53,9	53,4	53,7
Unemployment rate (%)	**5,4**	**6,0**	**7,2**	**6,4**	**5,8**	**5,4**
Male	5,4	6,1	7,2	6,1	5,7	5,1
Female	5,5	5,7	7,3	6,7	5,9	5,7

Source: Cystat.

Table C.20 **Public debt by debt instrument and lender**
(€ million)

	2008				2009				2010			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
A. Domestic debt	**12.905,7**	**12.508,0**	**12.434,7**	**12.595,1**	**14.191,9**	**15.054,9**	**15.123,6**	**12.922,9**	**13.173,9**	**13.214,6**	**13.146,2**	**12.643,6**
Long-term debt	6.723,4	6.280,8	6.020,3	5.992,6	5.964,9	5.673,3	5.605,0	5.542,7	5.291,8	5.183,6	11.031,9	12.242,0
Short-term debt	6.182,3	6.227,2	6.414,4	6.602,5	8.227,1	9.381,6	9.518,6	7.380,2	7.882,2	8.031,1	2.114,3	401,6
B. Foreign debt	**2.131,9**	**2.117,7**	**2.209,1**	**2.354,2**	**1.992,1**	**3.785,4**	**3.633,5**	**3.984,5**	**4.619,7**	**4.864,0**	**4.611,2**	**5.615,1**
Short-term liabilities of the CBC to the IMF	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Long-term loans	731,9	717,7	715,0	827,7	827,3	803,3	800,5	808,9	808,5	782,7	794,6	822,4
Medium-term loans (EMTN)	1.400,0	1.400,0	1.050,0	1.050,0	1.050,0	2.550,0	2.550,0	2.550,0	3.550,0	3.550,0	3.350,0	4.550,0
Short-term loans (ECP)	0,0	0,0	444,2	476,4	114,8	432,1	282,9	625,6	261,2	531,2	466,5	242,7
C. Total public debt	**15.037,6**	**14.625,7**	**14.643,8**	**14.949,2**	**16.184,0**	**18.840,3**	**18.757,1**	**16.907,4**	**17.793,7**	**18.078,6**	**17.757,4**	**18.258,6**
Intragovernmental borrowing and short-term liabilities of the CBC to the IMF	6.183,1	6.228,0	6.415,2	6.603,3	6.827,9	6.982,4	7.119,4	7.087,5	7.092,6	7.238,8	7.508,3	7.632,7
D. Consolidated gross debt (excl. intragovermental borrowing and short-term liabilities of the CBC to the IMF)	**8.854,5**	**8.397,7**	**8.228,6**	**8.346,0**	**9.356,1**	**11.857,9**	**11.637,7**	**9.819,9**	**10.701,0**	**10.839,7**	**10.249,1**	**10.625,9**

Source: Ministry of Finance.

Table C.21 **Distribution of bank loans to Cyprus residents by economic activity based on the EU's NACE Rev. 2 classification**

(%)

		Outstanding amount as % of total	
		Sep. 2010	**Mar. 2011**
A	Agriculture, forestry and fishing	0,84	0,85
B	Mining and quarrying	1,53	1,39
C	Manufacturing	3,69	3,77
	of which: construction-related activities (16.1 to 16.2 and 23.3 to 23.7)	0,60	0,68
D	Electricity, gas, steam and air conditioning supply	0,50	0,48
E	Water supply, sewerage, waste management and remediation activities	0,38	0,40
F	Construction	10,99	12,43
G	Wholesale and retail trade; repair of motor vehicles and motorcycles	9,09	8,91
H	Transportation and storage	1,75	1,63
I	Accommodation and food service activities	4,33	4,46
J	Information and communication	0,69	0,71
K	Financial and insurance activities (excluding monetary intermediation)	6,73	6,97
L	Real estate activities	9,00	7,46
M	Professional, scientific and technical activities	3,20	2,97
N	Administrative and support service activities	0,65	0,87
O	Public administration and defence; compulsory social security	1,93	1,97
P	Education	0,31	0,31
Q	Human health and social work activities	0,55	0,54
R	Arts, entertainment and recreation	0,32	0,33
S	Other service activities	1,52	1,37
T	Private individuals	42,00	42,18
Total		**100,00**	**100,00**

Source: CBC.

Technical Notes

Section A

(A) Domestic Monetary Aggregates

All monetary aggregates' data exclude the CBC.

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

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

The above methodology has been adopted since the December 2009 edition of the *Economic Bulletin*. In previous editions of the *Bulletin*, the growth rate of monetary variables was calculated as the annual percentage change of outstanding balances at the end of the period. Details of the methodology can be found in the *Monetary and Financial Statistics*, published by the Statistics Department of the CBC, which is available on the CBC website.

Monetary data are not adjusted for exchange rate fluctuations.

(B) Balance of Payments

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

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

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

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

Section B

The monthly balance sheet submitted by the MFIs to the CBC covers the aggregated, non-consolidated figures of all credit institutions operating in Cyprus, including the co-operative credit institutions.

With respect to data derived from the monthly balance sheets submitted by the MFIs to the CBC, the calculation of annual percentage changes is based on the ECB methodology. Specifically, the growth of monetary aggregates is calculated based on monthly changes adjusted for reclassifications and revaluations to reflect changes due to net transactions. The above methodology has been adopted since the December 2009 *Bulletin*.

As a result of the change in the residency definition for statistical purposes in July 2008, MFI loans to NFCs without a physical presence Cyprus (known as 'brass plates') are included in MFI loans to domestic NFCs.

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