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EUROSYSTEM

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## ABBREVIATIONS

ATHEX:	Athens Stock Exchange	IRD:	Inland Revenue Department
BoE:	Bank of England	LFS:	Labour Force Survey
CBC:	Central Bank of Cyprus	MFI:	Monetary Financial Institutions
CPI:	Consumer Price Index	NACE:	Nomenclature statistique des Activités économiques dans la Communauté Européenne (Statistical classification of economic activities in the European Community)
CSE:	Cyprus Stock Exchange	OIS:	Overnight Index Swaps
CTO:	Cyprus Tourism Organisation	REER:	Real Effective Exchange Rate
Cystat:	Statistical Service of the Republic of Cyprus	SDW:	Statistical Data Warehouse
EAC:	Electricity Authority of Cyprus	US:	United States of America
ECB:	European Central Bank	VAT:	Value Added Tax
ECP:	Euro Commercial Paper		
EER:	Effective Exchange Rate		
EMTN:	European Medium-Term Note		
EMU:	Economic and Monetary Union		
EONIA:	Euro Overnight Index Average		
ESI:	Economic Sentiment Indicator		
EU:	European Union		
EURIBOR:	Euro Interbank Offered Rate		
EUROSTAT:	Statistical Office of the European Union		
FED:	US Federal Reserve		
GDP:	Gross Domestic Product		
HICP:	Harmonised Index of Consumer Prices		
IMF:	International Monetary Fund		







## Introduction

### International developments

In view of the weak economic activity and the continued uncertainty in the markets as a result of the sovereign debt crisis in the euro area, the interest rates of the major central banks remained unchanged during the first five months of 2012 compared with the end of 2011. At the same time, central banks continued to provide liquidity to banks through conventional and non-conventional measures, in order to alleviate the pressures on bank liquidity. These pressures arise mainly from the need of the Monetary Financial Institutions (MFIs) to deleverage and secure the necessary capital reserve ratio in accordance with Basel III and the recommendations of the European Banking Authority (EBA), following the private sector “haircut” on Greek debt.

Inflation worldwide has decelerated in recent months, particularly in developed economies, partly reflecting the lower annual increases in energy prices compared with the corresponding period of 2011. In OECD countries, inflation stood at 2,7% in March 2012 compared with 2,8% in February 2012, thus continuing its gradual decline from the 3,3% recorded in September 2011.

After the slowdown in 2011, some positive signs for the global economy began to emerge in 2012, although the downside risks still remain. The uncertainty in Europe intensified amid the crisis of government bonds and the large increase in yields, while the prospects for the current year appear to be more positive for the US and Japan. According to analysts, the risks to the international economy mainly include the political developments in Greece and, in general, the sovereign debt crisis in the euro area as well as the international political instability, which strongly influences the prices of commodities, such as oil and gold.

In the euro area, the European Central Bank’s (ECB’s) support via its long-term main refinancing operations seems to have signalled the correct messages and has partially stabilised the financial markets. The remaining challenges relate to political decisions on economic governance, macro-prudential supervision, the capitalisation of banks and overall fiscal discipline in the euro area, although steps in the right direction have already been taken. Unemployment remains at very high levels in Europe and the tensions at the socio-economic level are not insignificant.

The “haircut” on Greek debt in March, with the voluntary participation of the private sector (Private Sector Involvement), as well as the deterioration in the creditworthiness of Greek sovereign debt, resulted in the intensification of the financial turmoil, while the scenarios for a possible exit of Greece from the euro area intensified.

In the US and Japan, the economic developments had been more positive, although chain reactions are anticipated if the downside risks in the euro area materialise. In the US, no significant fiscal developments are expected, as a result of the forthcoming elections, with analysts forecasting positive growth rates. In Japan positive growth is also anticipated, following last year’s natural disasters.

### Domestic developments

The Cyprus economy recorded a marginally positive growth in 2011, with GDP increasing by 0,5% compared with 1,1% in 2010. Although during the first half of 2011 the economic conditions were very positive, with GDP growth reaching 1,5%, the picture was reversed in the second half of the year, with GDP contracting by 0,5%. Based on the latest preliminary figures for the first quarter of 2012, GDP recorded a further decline

of around 1,5% and the country is still technically in a recession. This picture is confirmed by the negative trend of confidence indicators for services, industry, retail trade, consumption and construction in 2011 as well as during the early months of 2012.

In the first four months of 2012, the Harmonised Index of Consumer Prices (HICP) reached 3,3%, marginally above the 3,2% recorded in the corresponding period of 2011. The categories of energy, processed food and industrial goods excluding energy registered lower annual percentage increases compared with the first four months of 2011, while an increase was recorded in the prices of unprocessed food and services.

With respect to monetary developments, the annual growth rate of loans to the domestic private sector stabilised at low levels in the first 10 months of 2011. However, from late 2011 until the end of the first quarter of 2012, the aforementioned growth rate began to show signs of a continuing slowdown, amid the prolonged uncertainty in the economic and financial environment both domestically and internationally. It should be noted that, since the beginning of the current year a significant slowdown has also been observed in the growth rate of deposits.

According to the latest available data, at the end of March 2012 borrowing costs increased significantly in all loan categories compared with the corresponding period of 2011, and recorded small fluctuations compared with the beginning of the current year, remaining, however, at high levels. Possible reasons which explain these developments and which explain why domestic lending rates remain high, are the uncertainty caused by the political developments in Greece as well as the general developments in the euro area. The recent downgrades of both government bonds and certain domestic financial institutions by the credit ratings agencies have resulted in an increase in Cyprus bond yields. The efforts by banks to increase

their liquidity by offering high deposit rates is an additional factor for the high level of domestic lending rates.

The current account deficit recorded a deterioration, increasing to €1.855,1 million in 2011 from €1.711,9 million in 2010. However, the balance of goods and services recorded a significant improvement, with the deficit decreasing significantly from €1.081,6 million in 2010 to €639,8 million in 2011. The deterioration in the current account deficit was caused by the increase in the deficit recorded in the income account. This was the result of the losses recorded by Cypriot banks operating in Greece. The improvement in the balance of goods and services is also expected to continue during 2012, as a result of the general slowdown in economic activity. This development is supported by data for the trade balance in the first quarter of the current year.

As regards the labour market, employment recorded an annual increase of 0,6% in 2011. Employment during the year under review mostly followed the path of GDP in that year, with employment recording much higher growth rates in the first half of the year compared with the second half. Furthermore, according to the Labour Force Survey (LFS), unemployment continued its upward trend in 2011, reaching 7,7% compared with 6,2% in 2010. More recent data on seasonally adjusted registered unemployment, which cover the period January – April 2012, show that the increase in unemployment continued. More specifically, seasonally adjusted unemployment increased by 7.731 persons compared with the corresponding period last year, thus reaching 33.779 persons.

Regarding the domestic fiscal developments, data from the Statistical Service of Cyprus (Cystat) shows that the fiscal deficit to GDP ratio increased to 6,3% in 2011 from 5,3% in 2010. This deterioration was due to a 5% increase in public expenditure combined with a 2,8% increase in public revenue by 2,8%. More specifically,

the public expenditure to GDP ratio increased by about one percentage point, mainly as a result of the significant annual growth of various social benefits and exceptional transfers. On the other hand, public revenue as a percentage of GDP remained stable, despite the introduction of various tax measures, due to the significant annual decrease in indirect tax and non-tax revenue. The ratio of cross general government debt to GDP increased by about ten percentage points, reaching 71,6%. This increase is largely explained by the increase in the primary deficit, which is close to 4% of GDP, as well as the first instalment of a bilateral loan by the Russian government, of about 3,3% of GDP, covering the financing needs of the government in the current year.

In terms of the current fiscal developments and prospects, preliminary data from Cystat for the first quarter of 2012 show a significant improvement in the fiscal deficit as a percentage of GDP, which decreased to 0,8% compared with a deficit of 1,7% in the corresponding period last year. Public revenue recorded a significant annual increase of 9,5%, while public expenditure decreased marginally by 0,6%. This significant increase in public revenue is mainly due to non-recurring factors, namely the revenue from the special settlement of tax debts accumulated by the end of 2008. In addition, revenues were affected by the timing of the first instalment of the temporary special tax imposed on financial institutions. On the other hand, the marginal reduction in public expenditure is mainly due to expenses which were affected by the timing of their instalment. More specifically, this refers to student grants and child benefits, to be distributed at a later stage. Therefore, adjusting for seasonality, the positive picture shown by the aforementioned developments in public finances during the first quarter of the year is significantly mitigated, and, according to the Ministry of Finance, creates a gap of about 1% of GDP from

the budgetary deficit target of 2,6% of GDP in 2012. According to data from the Public Debt Management Office, in the first quarter of 2012 central government gross debt as a percentage of GDP increased further to 72,4% compared with 69,7% at the end of 2011, mainly due to the payment of the last two instalments of the loan from the Russian government.

According to the Central Bank of Cyprus's (CBC's) forecasts for the domestic economy, and based on the central forecast scenario, GDP is projected to record a contraction of around 1,1% in 2012, as a result of the deterioration in the already negative domestic and international economic conditions. These forecasts were revised significantly downwards compared with the corresponding forecasts in December 2011, mainly as a result of the "haircut" on Greek government bonds. In 2013 the equivalent figure is expected to be more positive, with GDP recording a marginal recovery of 0,4%. It should be emphasised that both the international and domestic economic environment remain fragile, thus making forecasts particularly prone to revisions.

Inflation is expected to slow down to 3,2% in 2012 and to be further reduced to 1,3% in 2013. The lower inflationary pressures expected in 2012 are mainly due to the lower annual growth in oil prices and the expected decline in retail trade prices following the recession, which is expected to continue affecting the Cyprus economy in the current year. Furthermore, the impact from the imposition of 5% VAT on food and pharmaceuticals in January 2011 is expected to dissipate. HICP inflation excluding energy is expected to reach 2,2% in 2012 compared with 1,9% in 2011, reflecting the expected increase mainly in the prices of services and, to a lesser extent, in the prices of unprocessed food. The latter category has been influenced by the implementation of the European Commission Regulation on minimum standards for the

quality of HICP weighting as well as the increase in the standard VAT rate by two percentage points, from 15% to 17%, since March 2012.

## Conclusions

The Cyprus economy as well as the euro area as a whole are facing an extremely difficult time. The adverse international economic developments, particularly the fiscal crisis which hit the Greek economy, inevitably affected the Cyprus economy, which is linked to the Greek economy mainly through the banking sector. The consequences of the “haircut” on Greek debt have created immediate needs for the efficient recapitalisation of the banking sector, which will help bring the economy back to a healthy and sustainable growth path. The actions taken by both the CBC and the Ministry of Finance aim at the successful recapitalisation of the banking sector the soonest possible. This is a necessary condition for the sector to regain its role as an engine of growth for Cyprus businesses and households.

In parallel to the efforts to address the recent challenges faced by the banking sector, the CBC also supports the Ministry of Finance’s efforts for fiscal consolidation. The increase in public debt, excluding intergovernmental debt, from around 48% of GDP at the end of 2008 to almost 72% of GDP at the end of 2011, emphasises the need for fiscal consolidation, especially when taking into account the likelihood of state funding in order to finance a domestic bank which could increase the public debt by up to ten percentage points.

The implementation of the Fiscal Framework agreed by the leaders of the euro area, and for which the relevant law is currently awaiting ratification by Cyprus’s House of Representatives, is an important step towards the recovery of fiscal balances. At the

same time, making the right choice of expenditure cuts and revenues is of particular importance under the current circumstances. For example, the containment of public spending should be achieved mainly by cutting current, non-productive expenditure, which will not undermine growth. Moreover, fiscal consolidation must be accompanied by structural changes which will increase competition in the labour and product markets and assist in restoring our credibility as well as creating a favourable environment for growth. Otherwise, adopting the wrong type of austerity measures will reinforce the vicious circle between the reduction in economic activity and increasing fiscal deficits. This risk is particularly visible in cases like the current one, where other EU countries have been following restrictive policies in an external environment which is not supportive.

During such difficult economic conditions for the country, it is important to have a consensus among all the intended parties so that the current challenges can be successfully faced, thus ensuring that the economy regains its healthy growth path.







SECTION A

**Macroeconomic Developments  
and Projections**

## 1. International Environment

### 1.1 External developments

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

After the slowdown experienced in 2011, some positive signs for the global economy began to emerge, especially in Asia and the US. Nevertheless, the downside risks remain. The uncertainty in Europe intensified amid the crisis associated with government bonds. Furthermore, the decrease in consumer and business confidence, as well as tensions in the financial market were the key factors for the economic slowdown in the euro area. The Japanese economy also registered a similar trend in 2011 as it was adversely affected by the floods in Thailand and the generally weak international demand. In contrast, US economic activity exhibited accelerating growth rates due to the increase in consumption and the changes in stocks. Economic conditions are expected to be slightly more positive in 2012, with Japan and the US recovering and Europe recording a contraction, followed by a modest recovery amid intense downward risks for 2013.

More specifically, the factors which have adversely affected the economy in Europe were the poor assessment of macroeconomic and financial risks, the macroeconomic imbalances and overall fiscal indiscipline. The political developments in Greece and the uncertainty created by the elections as well as the intensification of the problems of Spanish banks amid the general instability, further aggravated the weak economic conditions in the euro area. European leaders sought a new framework of economic governance, aiming to normalise imbalances and tightening up fiscal developments (see **Box A.2**, p. 64). With respect to growth, in the first quarter of 2012 GDP growth in the euro area was zero compared with an increase of 0,7% in the fourth quarter 2011 and an increase of 2,4%

1. GDP projections are estimated as the average of the most recent projections from The Economist poll (5 May 2012), the European Commission (European Economic Forecasts, Spring 2012) and the IMF (World Economic Outlook, April 2012).

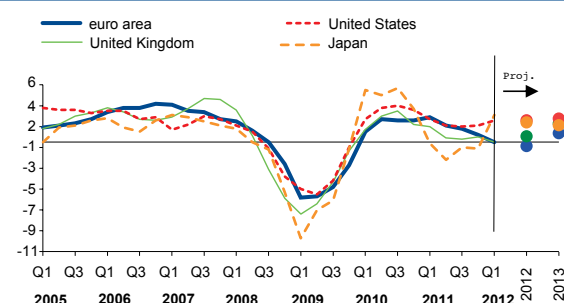
in the first quarter of 2011 (**Chart A.1**). According to the macroeconomic forecasts, analysts anticipate a 0,4% contraction in GDP in 2012 and an increase of 0,9% in 2013, which will mainly come from domestic demand and net exports. Regarding unemployment in the euro area, this reached 10,9% in April 2012 compared with 9,9% in April 2011.

In the UK, economic activity continued to be sluggish. In the first quarter of 2012, a 0,2% decrease in real GDP was recorded on a quarterly basis. This decrease was mainly due to declining production in the construction industry. On the other hand, GDP recorded zero growth on an annual basis. Moreover, in the first quarter of 2012, the survey on industrial confidence gave more optimistic results, while both industrial production and consumer confidence have registered a decrease. Analysts forecast GDP growth of 0,6% in 2012 and 1,8% in 2013. Regarding the labour market, unemployment remains at high levels, reaching 8,2% in April 2012 compared with 7,7% in April 2011.

In the US, real GDP increased by 2,1% on an annual basis in the first quarter of 2012 compared with 1,6% in the previous quarter and 2,2% in the first quarter of 2011. The growth in economic activity stemmed primarily from personal consumption expenditure. Private investment exhibited a slowdown, while government spending remained subdued. Analysts' forecasts for GDP growth this year converge at around 2,1%, while in 2013 growth is anticipated to reach around 2,3%. The unemployment rate, stood at 8,1% in April 2012 compared with 9% in April 2011.

In Japan, economic activity showed signs of a slight improvement in 2012, despite the pause experienced in the fourth quarter of 2011. In the first quarter of 2012, GDP increased by 2,6% on an annual basis compared with a decrease of 0,6% in the fourth quarter of 2011 and a decrease of 0,1% in first quarter of 2011. Growth stemmed from government investments to rebuild the country after last year's devastating

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



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.

earthquake. GDP is forecast to reach 1,9% in 2012 and 1,6% for 2013. Regarding the unemployment rate, it reached 4,5% in April 2012, slightly lower than the 4,7% recorded in April 2011.

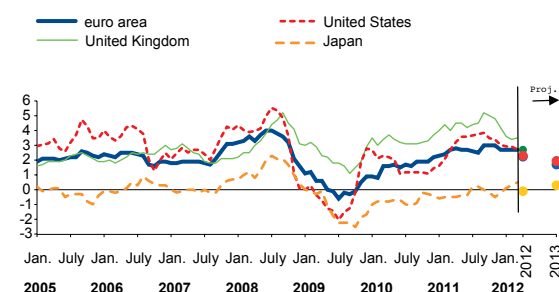
## Inflation<sup>2</sup>

In recent months, inflation internationally shows signs of deceleration, partly due to the lower annual increases in energy prices. It is expected that inflation will continue to decrease in most economies, reaching levels below those recorded in 2011. This partly reflects the base effect of energy and commodity prices, as well as the slow and weak recovery in the global economy (**Chart A.2**).

In particular, euro area HICP inflation decelerated marginally to 2,6% in April 2012, from 2,7% in the previous four months, while in April 2011 it reached 2,8%. The deceleration in inflation in April 2012 stemmed from the favourable base effect in the energy category. In April 2012, HICP inflation excluding energy and food increased by 1,6%, remaining unchanged from the previous month. Analysts expect inflation in 2012 to remain above the ECB target of below, but close to, 2% over the medium term. The latest forecasts for inflation in the euro area by international organisations and financial analysts from the private sector converge to 2,2% for 2012 and 1,7% for 2013 they converge to 1,7%.

In the UK, inflation remained at high levels and increased slightly, reaching 3,5% in March 2012 compared with 3,4% in February 2012, while inflation excluding energy and unprocessed food remained unchanged at 2,7%. It is expected that inflation will decrease in the forthcoming months, while in the longer-term the weak outlook for economic activity and the available production capacity is expected to further contribute to the containment of inflationary pressures. Analysts anticipate that in 2012 inflation will fluctuate at around 2,7%, while in 2013 it will reach around 2%.

**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.

2. Inflation projections are estimated as the average of the most recent projections from The Economist poll (5 May 2012), the European Commission (European Economic Forecasts, Spring 2012) and the IMF (World Economic Outlook, April 2012).

In the US, inflation in March 2012 exhibited a further slowdown to 2,7%, well below the 3,8% recorded in September 2011. The continuing fall in inflation is mainly due to the reduction in the annual increase in energy and food prices. According to the latest forecasts, inflation in 2012 will increase to 2,3% while in 2013 it is expected to reach 1,9%.

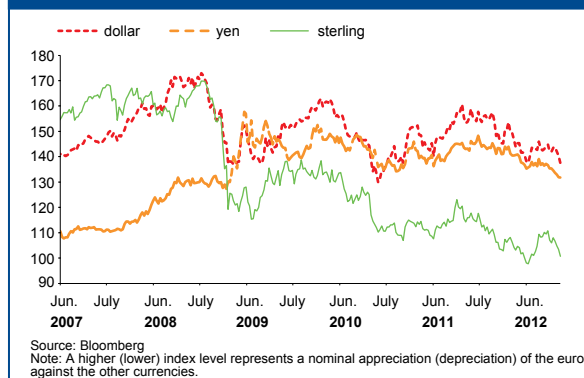
In Japan, inflation increased marginally to 0,5% in March 2012 compared with 0,3% in February, mainly due to increases in energy prices. On the other hand, inflation excluding energy and food remained unchanged at -0,5%. Analysts' forecasts stand at -0,1% for 2012 and 0,3% for 2013.

### Exchange rates

The euro exhibited a declining trend against all major currencies during the second quarter of 2012 (**Chart A.3**), as a result of the continuing uncertainty and the intensification of the crisis in the euro area. The recent reports on the serious consequences for the euro area of a possible Greek exit led to a further depreciation of the euro against all currencies. For example, the value of the euro against the Swiss franc has been very close to 1,2 since January 2012. It should be noted that this is the minimum level imposed by the Swiss National Bank since September 2011 in order to avoid further appreciation of its currency and the harmful consequences for the Swiss economy.

From the beginning of the year and until 17 May 2012 (the cut-off date for data in the current Bulletin), the euro depreciated by 2% against the dollar. It also depreciated by 3,5% against sterling, while it appreciated by 1% against the yen, despite the recent depreciation observed since the end of March (**Table B.1** in the Appendix, p. 72).

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



## Oil and gold

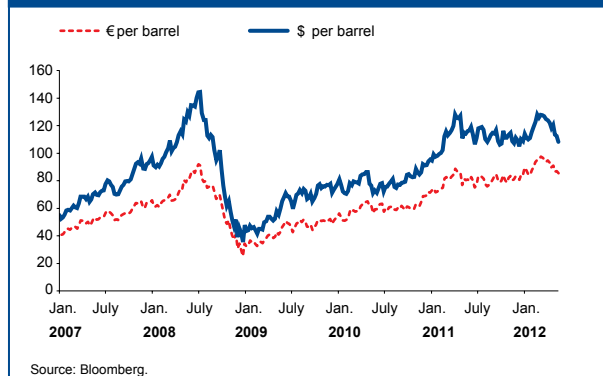
The price of Brent crude recorded a sharp increase in the first quarter of 2012, reaching almost \$130 per barrel (**Chart A.4**). This increase was the result of a combination of factors, such as market concerns about possible interruptions in the supply due to the European embargo against Iran, low oil reserves in OECD countries, and the adverse weather conditions in Northern Europe last winter. Since March of the year, the price of oil has decreased due to the performance of the world economy, the increase in output by OPEC, and relatively weak demand. Furthermore, speculation in the markets for a possible release of strategic reserves, coupled with assurances from Saudi Arabia to maintain a stable oil supply, appear to have positively affected market confidence that any losses arising from future reductions in Iranian oil exports will be covered. As a result, oil prices decreased to \$110 per barrel. Regarding future prospects, markets expect lower prices over the medium-term. More specifically, on 17 May 2012 the trading price of December 2012 futures reached \$105 per barrel.

A The price of gold (**Chart A.5**) continued to rise from the beginning of the year until around the end of February, reaching \$1,785.3 per ounce as a result of the continuing economic uncertainty. From March onwards, the price of gold began to fall, reaching \$1,572 per ounce on 17 May 2012, due to lower demand, particularly from India. Investors seem to have turned to markets the dollar and US Treasuries, fearing the crisis in the euro area and the consequent fall in the value of the euro. This affected the price of gold, which is related to the value of the euro, due to the large stocks of gold held by European national central banks.

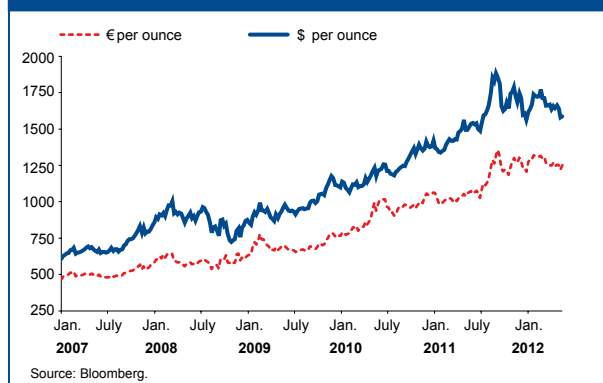
## Selected international stock market indices

From the beginning of the year until mid-March, the major stock market indices increased due to better

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



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



than expected US macroeconomic data, the market expectations that the sovereign debt crisis in Europe would be resolved, and the loose liquidity conditions which arose after the Eurosystem long-term refinancing operations (**Chart A.6**). After the middle of the first quarter of 2012, stock market indices began to fall, as a result of the intensification of the sovereign debt crisis in the euro area and the disappointing US labour market data. In particular, the uncertainty amid elections in several euro area countries, the negative trends in the Purchasing Managers' Index (PMI) and the discussions on the recapitalisation of banks caused deterioration in European stock markets. Stock market volatility has thus been very strong under these uncertain conditions, with the decreases in prices reaching up to 2% on a daily basis. It should be noted that from the beginning of the year until 17 May 2012 the DJ Eurostoxx decreased by 7,3%. On the other hand, despite the sharp decrease recorded in March, both the S&P500 and the Nikkei increased by 3,8% and 5%, respectively.

### International official interest rates

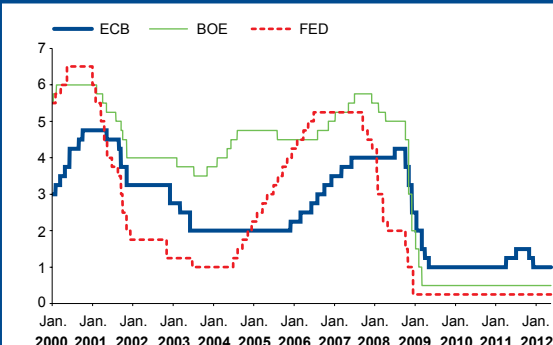
During the first five months of 2012, and amid the uncertainty which has prevailed since early this year, the major central banks maintained their key interest rates unchanged and at very low levels (**Chart A.7**). In December 2011, the ECB reduced its key interest rates by 25 basis points, while both the Federal Reserve and the Bank of England continued to maintain their interest rates at the same low levels as in the last two years. More specifically, the main refinancing rate of the ECB stood at 1%, the Federal Reserve's basic rate at 0 – 0,25% and the Bank of England's official interest rate at 0,5%. In addition, all major monetary authorities continued to make liquidity injections to assist the banking system and stabilise the fluctuating levels of liquidity.

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



Source: Bloomberg.

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



Source: ECB, Fed, BoE.

## 1.2 Monetary developments in the euro area

### Inflation

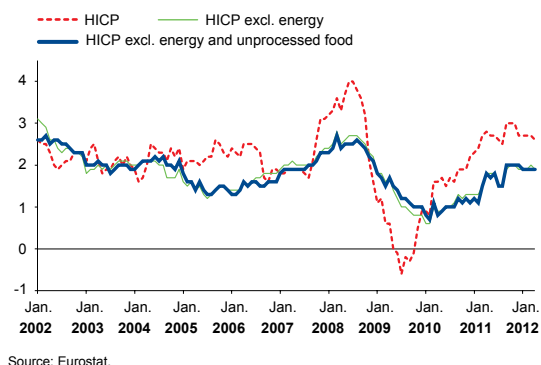
As already mentioned, inflation in the euro area reached 2,6% in April 2012 compared with 2,7% in the previous four months, and 2,8% in April 2011. The small decrease in inflation was due to lower annual percentage increases in all HICP categories (**Chart A.8**). In the period January-April 2012, inflation increased marginally to 2,7% from 2,6% in the corresponding period of the previous year, mainly due to the annual percentage increases in the prices of processed food, services and industrial goods excluding energy, which more than offset the downward effect of the energy category in overall inflation during this period. Excluding energy and food, inflation in the euro area in April 2012 remained stable at 1,6%.

### Reference rates and ECB interventions

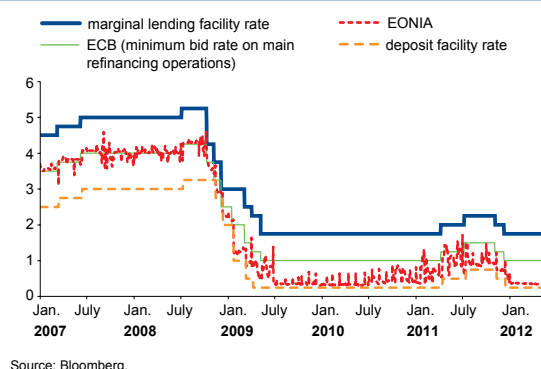
During the first five months of 2012, and as a result of the continued uncertainty in the international markets and the sovereign debt crisis in the euro area, the ECB maintained its interest rates unchanged. More specifically, until May 2012 the main refinancing operations rate stood at 1% (**Chart A.9**), after two successive decreases of 25 basis points in November and December 2011. Although inflation in 2012 is likely to exceed 2%, it is expected in the medium term to remain at levels consistent with price stability, that is below but close to 2%.

During the second half of 2011, the increased tensions in the European government bond markets led the Eurosystem to implement a wider range of additional non-conventional monetary policy measures. These measures, including the two longer-term refinancing operations for three years, were agreed on 8 December 2011 by the ECB's Governing Council, with

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



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





the aim of supporting bank lending and liquidity in the euro area money market. This operation was considered necessary for the continuation of the effective transmission of monetary policy to the real economy and, consequently, for maintaining price stability in the euro area. More analytically, it was decided, *inter alia*, to: (a) conduct two additional very long-term refinancing operations (VLTRO) to provide liquidity for around three years, with the option of early repayment after one year (the allocation of the first operation took place on 21 December 2011 and the second one on 29 February 2012); (b) reduce the minimum reserve rate from 2% to 1% as from the reserve maintenance period starting on 18 January 2012; (c) cease the operations for the normalisation of short-term liquidity fluctuations on the last day of each maintenance period, starting with the maintenance period beginning on 14 December 2011; and (d) adopt measures to increase the amount of available collateral, such as the temporary extension of all securities accepted for acquiring liquidity from the Eurosystem.

The above measures, combined with fiscal consolidation, the acceleration of structural reforms in several euro area countries, and the progress made towards strengthening the economic governance framework in the euro area (see **Box A.2**, p. 64), helped to significantly improve the financial environment during the first months of 2012. This is also evident from the decrease in EONIA and EURIBOR interbank interest rates, and the subsequent decrease in the spreads between the EURIBOR and OIS<sup>3</sup> products. The Governing Council anticipates that the three-year VLTROs will further support the stabilisation of financial markets and euro area lending activity in the long-term.

It should be noted that these non-conventional monetary policy measures are temporary in nature. Thus, the Governing Council will continue to closely monitor developments in the euro area to ensure price stability, having at its disposal all necessary tools to

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.

address any adverse risks.

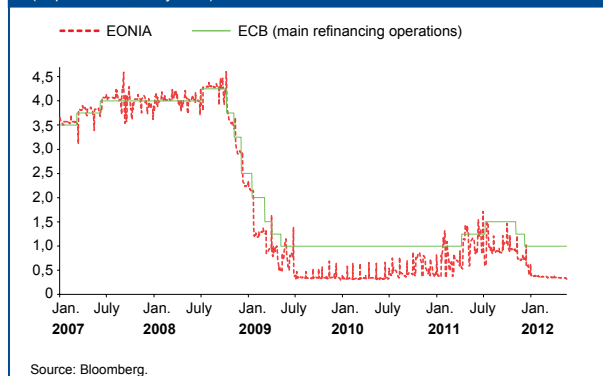
### Interbank market and interest rate differentials

In general, during the period 7 December 2011 to 18 May 2012, money market rates retreated. This retreat reflects the downward revision of expectations for short-term rates and the Governing Council decision on 8 December 2011 to reduce ECB interest rates by 25 basis points. From the beginning of the year, the volatility of money market rates fell and EONIA stabilised at low levels, around 0,36% on average, compared with an average of 0,88% in the second half of 2011. This is approximately 10 basis points higher than the deposit facility rate (**Chart A.10**). This decrease reflects the large excess liquidity prevailing in the interbank money market, especially after the settlement of the second three-year VLTRO on 1 March 2012. On 17 May, the EONIA rate was 0,32%, reaching its lowest level since June 2010.

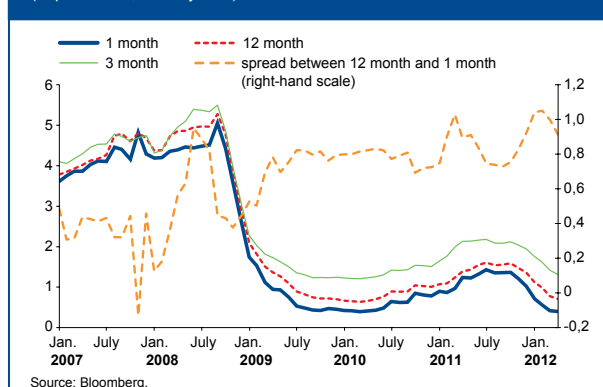
On 30 April 2012, the 1, 3 and 12-month EURIBOR was 0,40%, 0,708% and 1,311%, respectively, i.e. 0,62, 0,65 and 0,64 percentage basis points lower than at the end of 2011. The difference between the 12 and 1-month EURIBOR, which is an indicator of the slope of the money market yield curve, decreased marginally to 91 basis points compared with 92 basis points at the end of 2011 (**Chart A.11**).

**Chart A.12** depicts the spreads between the 3-month EURIBOR and OIS<sup>4</sup> products, which decreased significantly during the first five months of the year compared with the end of 2011, from 0,964% on 31 December 2011 to 0,385% on 17 May 2012. This reflects an improvement in money market conditions in the euro area, after the adoption of the two three-year VLTRO by the ECB and the subsequent creation of sufficient liquidity for MFIs in the euro area.

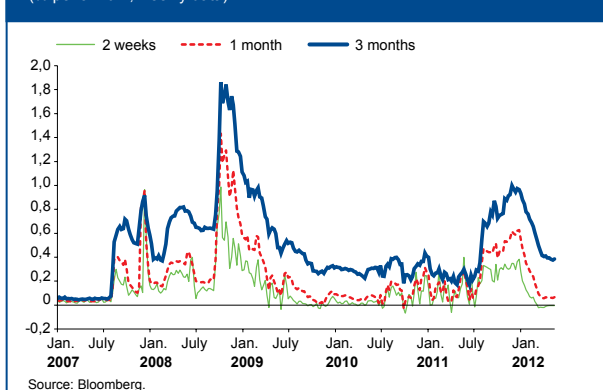
**CHART A.10 EONIA vs ECB minimum bid rate on main refinancing operations**  
(% per annum, daily data)



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



**CHART A.12 EURIBOR - OIS spreads**  
(% per annum, weekly data)



4. See footnote 3, p. 23.

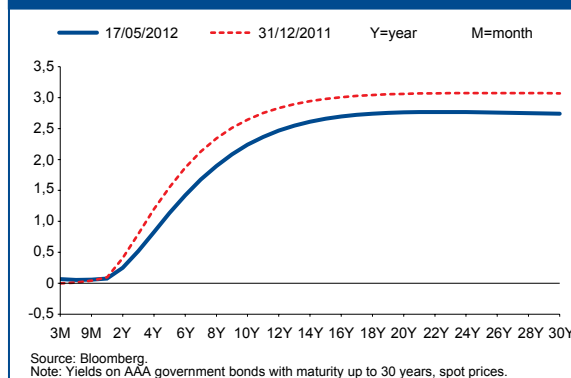
## Euro area yield curve

**Chart A.13** shows the yield curve for AAA rated euro area government bonds with a 30-year maturity (spot prices). This curve illustrates market expectations about the future path of short-term and long-term interest rates, and is also a useful indicator for the future prospects of economic growth. During the current year and up to 17 May 2012 (which is the cut-off date for data in the current Bulletin), this curve shifted downwards compared with 31 December 2011. This was primarily the result of the continuing uncertainty arising from the sovereign debt crisis in the euro area. More specifically, the negative fiscal developments in Spain and Italy as well as the political uncertainty in Greece, France and the Netherlands, led to a reduction in the demand for bonds of the euro area periphery and an increase in the demand for AAA bonds, which are considered as the safest in the market. As a result, the yields of AAA rated bonds continue to record decreases<sup>5</sup>.

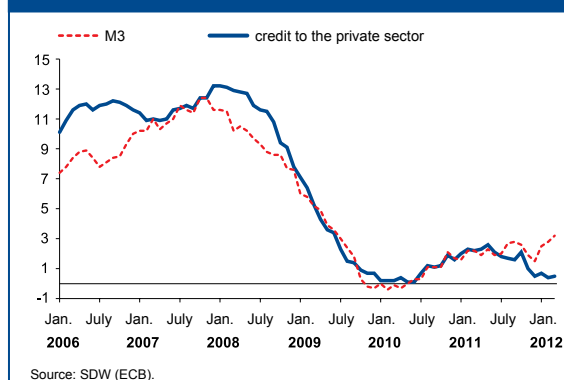
## M3 and credit expansion

In the first quarter of 2012, the annual growth rate of M3 accelerated further, reaching the levels recorded in July 2009. More specifically, in March 2012 the annual growth of M3 reached 3,2% from 1,5% at the end of 2011 and 2,2% in first quarter of 2011 (**Chart A.14**). The increase in M3 growth observed since January 2012 is due to the efforts of euro area MFIs to increase their deposits, especially the short-term ones. In the first quarter of 2012, the capital and reserves of MFIs recorded significant inflows, reflecting the continuing efforts of banks to meet their Core Tier 1 capital adequacy ratio, as required by the EBA. At the same time, it should be noted that the two three-year VLTROs appear to have contributed positively to the recovery of M3 short-term dynamics, thus reducing the risk of a sharp and disorderly deleveraging on the part of banks.

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



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



5. Generally, as the slope of the yield curve gets flatter, it indicates a worsening in market conditions.

Despite the significant increase recorded in the annual growth of M3, the annual growth rate of total MFI loans to euro area residents remained unchanged at 0,5% compared with the fourth quarter 2011 (Chart A.14). More specifically, in the first quarter of 2012<sup>6</sup>, the annual growth of loans to households and non-financial corporations (NFCs) slowed down to 1,2% and 0,7%, respectively, compared with 2,2% and 1,7%, respectively in the fourth quarter of 2011. The continuing sluggish growth of credit to the private sector reflects, in part, weak credit demand due to the current phase of the business cycle and market uncertainty in the markets. On the supply side, the requirements for a higher capital adequacy ratio under Basel III may have reduced the availability of credit to the economy. Furthermore, a positive impact from the issuance of the two three-year VLTROs on the supply of loans to the private sector may be evident in the medium term. This will depend on a number of factors, such as the recovery in the demand for loans and the continuation of the efforts for the necessary adjustments to the balance sheets of households and businesses in the euro area. According to the results of the April 2012 euro area Bank Lending Survey in the euro area, in the second quarter of 2012 banks still expect to tighten their criteria for all categories of loans, although to a lesser extent compared with the previous survey in January 2012. Furthermore, in the same period, the decrease in the demand for housing and consumer loans by households is expected to be smaller compared with the previous quarter, while the demand for loans by businesses is expected to record an increase.

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

Since the fourth quarter of 2011, the domestic economy has entered a phase of technical recession and continues to record negative growth rates. The lack of

6. The quarterly data published by the ECB for the euro area refer to quarterly averages.

consumer and business confidence is reflected in almost all the key economic indicators.

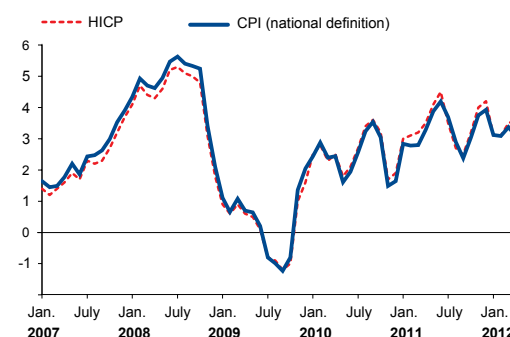
## Prices

Inflation in Cyprus as measured by the Consumer Price Index (CPI) inflation on the stood at 3,1% in April 2012 compared with 3,4% in March 2012 and 3,3% in April 2011. During the first four months of 2012, the CPI registered an average increase of 3,2% compared with 2,9% in the corresponding period of 2011. Furthermore, HICP inflation recorded a marginal increase of 3,6% in April 2012 compared with 3,5% in March 2012 and 3,5% in April 2011. During the period January-April 2012, the HICP recorded an annual increase of 3,3% compared with 3,2% in the corresponding period of 2011 (**Chart A.15**). The increase in inflation during the first four months of was due to higher increases recorded in prices of unprocessed food and services. In contrast, the other categories of HICP inflation recorded reductions. Moreover, HICP excluding energy accelerated during the period under review and reached 9%, from 1,3% in the corresponding period last year.

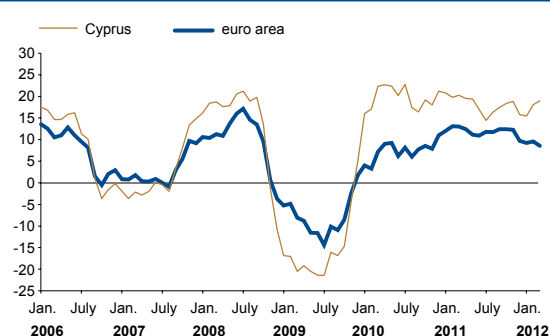
More specifically, energy prices increased on average by 17,8% during the first four months of 2012 compared with an increase of 20,1% in the same period last year (**Chart A.16**). Inflation in this category is due to rising oil prices and the VAT increase from 15% to 17% in March 2012. According to the latest available data, in April 2012 the increase in energy prices stood at 18,6% compared with 19,5% in April 2011.

Food prices increased by 4,8% in the first four months of 2012 compared with an increase of 2,8% in the corresponding period of 2011 (**Chart A.17**). This increase was due to inflation in unprocessed food, which increased by 9,7% compared with a decrease of 0,5% in the first four months of 2011. This was mainly due to the significant annual increases recorded in the prices of vegetables, which were larger than the annual

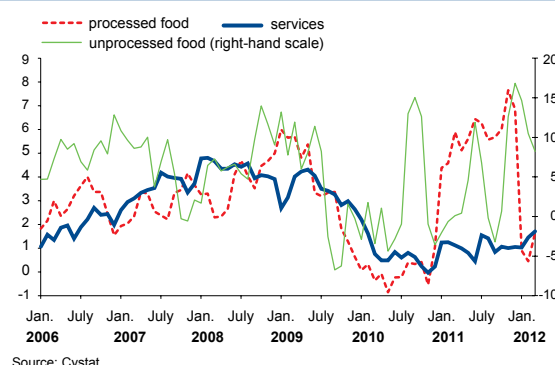
**CHART A.15 Consumer price index**  
(annual change, %)



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



**CHART A.17 Harmonised index of consumer prices: food and services**  
(annual change, %)

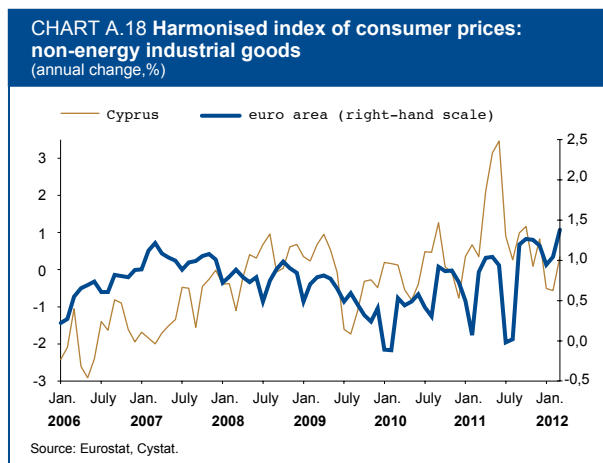


decreases in meat prices. It should be mentioned that this category was affected by the aforementioned VAT increase in March 2012. According to the latest available data, inflation in unprocessed food recorded an increase of 5,8% in April 2012 compared with an increase of 0,4% in April 2011.

Inflation in the category of processed food reached 1,6% in the first four months of 2012, well below the 5% recorded in the corresponding period of 2011, due to the imposition of 5% VAT on these items last year. The slowdown in inflation in processed food is mainly due to the lower or negative percentage change recorded in bread and cereals, dairy products and other food products. The increase in VAT in March 2012 had an upward effect on the index of tobacco products and alcoholic beverages. It should be noted that the most significant items in this category, such as bread and dairy products, were not affected by the VAT increase, since as from January 2011 they remain subject to the reduced VAT rate of 5%. In April 2012 the prices of processed food increased by 3,6% compared with 5,1% in April 2011.

Excluding food and energy items, which together represent about 30% of the HICP, inflation remained unchanged at 1,1% in the first four months of 2012 compared with the corresponding period of 2011. Inflation excluding energy and food is mainly determined by domestic factors, such as developments in wages, profit margins and indirect taxes, and consists of two components, industrial goods excluding energy and services.

The prices of industrial goods excluding energy exhibited a decrease of 0,3% in the first four months of 2012 compared with an increase of 0,9% over the corresponding period of 2011 (**Chart A.18**). This was mainly due to lower inflation or greater annual decreases in the prices of major categories such as clothing, pharmaceutical products, motor vehicles and electrical appliances for personal care. According



to the latest available data, in April 2012 the prices of industrial goods excluding energy recorded a decrease of 0,3% compared with 2,1% in April 2011. It should be noted that this category is affected almost entirely by the increase in the VAT rate from 15% to 17% in March 2012. However, for the subsequent two months after the VAT increase, the price indices of the major items in this category, such as clothing, household appliances and furniture, indicate that at least part of the increase in VAT had been absorbed by businesses.

**Chart A.17** (p. 27) also shows the annual percentage change in the prices of services. In particular, in the first four months of 2012 this category recorded an increase of 1,6% compared with an increase of 1,2% in the corresponding period of 2011. With respect to the major categories of this component of HICP, in the first four months of 2012 the largest annual increases were recorded in the prices of “maintenance and repair of personal transport equipment”, while significantly smaller decreases were recorded in the prices of “accommodation services”. According to Cystat, the latter category was significantly affected by the change in the calculation of the weights after the implementation of Regulation (EC) No. 1114/2010 of the European Commission as regards the minimum standards for the quality of HICP weights. Under this regulation, as from 2012 the adjustment of the weights for the compilation of HICP is based on national accounts data rather than on data from the household budget survey, which was the practice until 2011. More specifically, in the first four months of 2012, the effect of this change in methodology on total inflation ranged from 0,18 to 0,30 percentage points. In April 2012, the percentage increase in the prices of services was 2,3% compared with 1% in April 2011.

Domestic inflation remains higher than in the euro area. More specifically, during the first four months of 2012, the domestic HICP increased by 3,3% compared with 2,7% in the euro area. The picture is different if

we exclude the components of HICP that are highly volatile, i.e. energy and food. In particular, in the first four months of 2012, domestic HICP excluding energy and food, which is one way of measuring core inflation, reached 1,1% in Cyprus compared with 1,6% in the euro area. Therefore, the higher inflation in the categories of food and energy explain the higher overall inflation recorded in Cyprus.

### **Monetary aggregates<sup>7,8,9</sup>**

During 2011 loans to the domestic private sector showed signs of a significant slowdown, growing at an annual rate of 5% at the end of the year, as a result of the general domestic and international recession. During the early part of the current year, the situation deteriorated further and at the end of March 2012 loans to the domestic private sector increased by 4,3% compared with 6,8% in March 2011. It should be noted that at the end of the first quarter of 2012, the annual growth rate of loans was at the lowest level for six years. At the same time, deposits also continued to record low growth rates.

According to the results of the Bank Lending Survey (BLS) conducted in April 2012, banks in the first quarter of 2012 tightened their standards for all loan categories, i.e. housing loans, consumer credit and other lending to households, and corporate loans. According to the banks participating in the BLS, during the second quarter of 2012 credit standards are expected to be tightened further. Moreover, it is expected that there will be a decrease in the demand for housing loans by households, while the demand for consumer credit and other lending by households is expected to remain unchanged. It should also be noted that, based on the expectations of participating banks, the demand for

7. For a detailed explanation of the methodology and technical analysis of monetary aggregates, see the Technical Notes on p. 89.
8. 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 this Bulletin.
9. It should be noted that from December 2011 until March 2012 revisions were made in certain monetary data which are not included in this analysis.



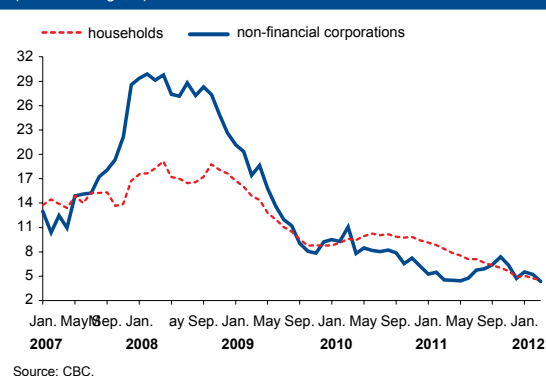
corporate loans is expected to record positive growth in the next quarter, after four consecutive quarters of negative growth.

A further analysis of monetary aggregates shows that the annual growth rate of loans to the private sector recorded a further slowdown to 4,3% at the end of March 2012, compared with 5% at the end of December 2011, and was well below the 6,8% recorded in the first quarter of 2011 (**Chart A.19**). This was primarily due to the continued slowdown registered by housing loans, which in March 2012 recorded the lowest growth rate of the last six years for which data is available.

Regarding the growth rate of loans to domestic NFCs, this slowed down to 4,4% in March 2012 compared with 4,7% in December 2011, and was slightly lower than the 4,5% recorded in March 2011. In line with the above, and in accordance with the results of the latest BLS, in the first quarter of 2012 businesses reduced their demand for loans due to their lower financing needs for fixed investments and, to a lesser extent, to the reduction towards business' need for financing of mergers, acquisitions and restructuring. Furthermore, during the first quarter of 2012, the stricter loan policy of banks to businesses was also influenced by the cost associated with the capital position of banks and the expectations regarding general economic activity.

In the first quarter of 2012, a significant slowdown in the growth rate of loans to domestic households was recorded, which reached 4,5% compared with 4,9% at the end of December 2011 and 8,4% at the end of March 2011. The growth rate of these loans was also the lowest recorded over the previous six years. More specifically, in March 2012 housing loans to residents registered a historically low growth rate of 4,5% compared with 5% at the end of the previous quarter and 11,5% in March 2011. According to the results of the BLS, there was reduced demand by households in the first quarter of 2012 for this type of loan, due to households'

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



expectations of a further deterioration in the housing market and an overall decline in consumer confidence. Of the total loans offered by MFIs in Cyprus to domestic households at the end of the first quarter of 2012, 53,3% were for housing loans, 32,3% for other lending and 14,4% consumer loans (**Table A.1**).

The annual growth rate of deposits by domestic households continued to be at one of the lowest levels recorded over the previous six years, increasing by 2,4% in March 2012 compared with 2,9% in December 2011, and 3,6% in the first quarter of 2011 (**Chart A.20** and **Table A.2**). It should be noted that the continued slowdown in deposits as from the second quarter of 2011 is consistent with the general uncertainty prevailing in the domestic and international macroeconomic environment, both domestically and abroad. Moreover, the slowdown in domestic credit growth, the high unemployment and the fact that many households use their deposits to cover current obligations, are additional factors for the reduced growth in deposits. Deposits with agreed maturity accounted for approximately 77,6% of total domestic household deposits, while long-term deposits of up to two years accounted for approximately 73,5% of deposits with agreed maturity at the end of March 2012.

MFIs continue to offer higher interest rates at a time of strenuous efforts to increase liquidity and capital adequacy, since deposits remain their main source of funding. On the other hand, amid uncertainty about the prospects of domestic economic activity, depositors have significantly reduced their consumer spending, placing their savings in interest bearing investments. It should be noted that during 2011 the growth rates of overnight deposits of domestic households were very low or even negative, and this also continued in early 2012. More specifically, in March 2012 the overnight deposits increased by 1,2% compared with an increase of 2% in December 2011 and a decrease of 0,4% in March 2011. Domestic households continue to prefer

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

	Outstanding balance as % of total <sup>(3)</sup>	Annual percentage change					
		2010 Dec.	2011 Mar.	2011 June	2011 Sep.	2011 Dec.	2012 Mar.
Domestic households	100,0	9,4	8,4	7,1	6,3	4,9	4,5
1. Consumer credit	14,4	0,2	0,5	-0,4	0,1	-0,5	0,9
2. Lending for house purchase	53,3	14,3	11,5	8,8	7,5	5,0	4,5
3. Other lending	32,3	6,7	7,2	7,9	7,3	7,3	6,2

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.

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

	Outstanding balance as % of total <sup>(3)</sup>	Annual percentage change					
		2010 Dec.	2011 Mar.	2011 June	2011 Sep.	2011 Dec.	2012 Mar.
Domestic households	100,0	4,7	3,6	3,5	2,9	2,9	2,4
Overnight	13,8	1,8	-0,4	-0,2	-0,8	2,0	-1,2
With agreed maturity	77,6	6,3	5,2	5,6	4,9	4,2	4,4
up to 2 years	73,5	7,1	5,6	5,2	4,2	3,4	3,7
over 2 years	4,1	-7,7	-3,6	15,1	18,6	20,3	19,7
Redeemable at notice	8,6	-2,4	-2,2	-6,5	-5,7	-5,1	-8,4
up to 3 months	6,2	-2,8	-2,1	-8,8	-8,2	-6,9	-12,0
over 3 months	2,4	-0,9	-1,7	0,7	1,9	0,5	2,4

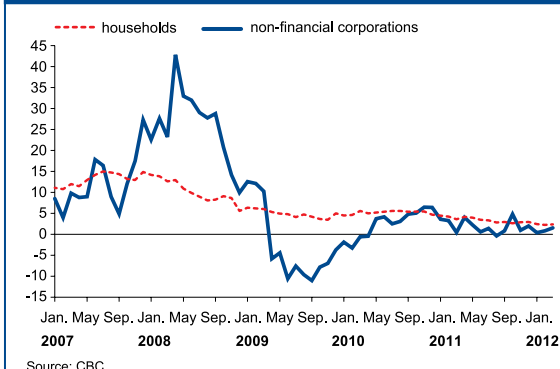
Source: CBC.

(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.

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



Source: CBC.

interest bearing deposits with longer-term maturity, which offer a higher return. In particular, in the first quarter of 2012 an increase was recorded in the growth rates of deposits with agreed maturity up to or over two years. However, the growth rates recorded were lower than in the previous year. More specifically, in the first quarter of 2012 a slowdown was recorded in deposits with agreed maturity up to two years, which increased by 4,4%. This was slightly higher than the growth rate of 4,2% recorded at the end of the fourth quarter of 2011, but well below the 5,2% increase recorded at the end of the first quarter of 2011. With regard to deposits redeemable at notice, these continued to decrease throughout 2011 as well as in early 2012, recording at the end of the first quarter of 2012 one of the highest rates of change of the last two and a half years. More specifically, in March 2012 the decrease reached 8,4% compared with a decrease of 5,1% in December 2011 and a decrease of 2,2% in March 2011.

Deposits of domestic NFCs have also recorded low annual growth rates (**Chart A.20**, p. 32). More specifically, these deposits increased by only 1,5% at the end of March 2012 compared with an increase of 2% at the end of December 2011 and a slight positive growth rate of 0,5% in March 2011. It should be noted that the subdued growth of these deposits recorded in recent months is consistent with the prolonged downturn in economic activity, which has resulted in reduced corporate earnings, as well as a cut down of their expenses. As a result, many companies have been forced, in part, to use their savings to cover both their operational costs for capital and operating expenditures, such as rent and taxes. NFC Deposits represent approximately 16% of total private sector deposits in the banking system.

With regard to the deposits of non-resident NFCs, including deposits by companies without a physical presence in Cyprus (brass plates), these began to record consecutive negative growth rates as from August

2011. More specifically, in the first quarter of 2012, the growth rate of these deposits recorded an annual decrease of 4,4% compared with a significant decrease of 12,1% at the end of the fourth quarter of 2011 and an increase of 20,9% at the end of the first quarter of 2011. These developments were partly due to the sluggish economic environment which has led to the slowdown in entrepreneurial activity and a reduction in the deposits of companies without a physical presence in Cyprus. The corresponding deposits of non-resident households increased by 21,3% at the end of March 2012 compared with an increase of 16,7% at the end of December 2011, and 34,9% at the end of March 2011. It should be noted that the share of these deposits to total non-resident deposits is around 28%. Therefore, total non-resident deposits, which include those of non-resident NFCs (including brass plates), recorded an annual growth rate of 4% in the first quarter of 2012 compared with a decrease of 6,2% at the end of the fourth quarter of 2011 and an increase of 35,4% in March 2011.

### **Interest rates**

At the end of the first quarter of 2012, almost all lending rates in Cyprus recorded a significant increase compared with the first quarter of 2011. These rates exhibited a slight variation in some categories compared with the beginning of this year, but remained at high levels compared with the euro area. This was due to significant developments influencing economic activity both at the international and domestic level. With respect to the international environment, the prevailing development was the ongoing financial and political uncertainty in Greece and the exposure of domestic financial institutions to Greek bonds and loans in Greece. In the domestic environment the successive downgrades of Cyprus government bonds by the main credit ratings agencies, the resulting downgrades of domestic banks

by the aforementioned agencies and the negative outlook for the economy all led to an increase in the government's cost of borrowing from the international markets. Moreover, in 2011 the government continued to turn to domestic credit institutions for borrowing, thus limiting the available liquidity. In addition, the competition between domestic financial institutions to attract deposits by offering high deposit rates as well as the tightening of domestic bank lending, means that a reduction in lending rates in the near future is unlikely. If the above conditions continue to apply, domestic lending rates are expected to remain at high levels. In contrast, it should be noted that since the end of 2011 the ECB has reduced its main refinancing operations rate to 1%, in an effort to overcome the uncertainty created in the sovereign bond markets and stimulate economic activity by offering low cost financing to euro area banks.

More analytically, at the end of March 2012 the average interest rate on new euro denominated loans to euro area households by Cypriot MFIs with an initial rate fixation of up to one year reached 7% for consumer loans, 5,37% for housing loans and 6,39% for other lending (**Table A.3**). It should be noted that since the second half of 2011, all three categories recorded interest rates that are among the highest in recent years. More specifically, at the end of December 2011 these rates stood at 6,93%, 5,73% and 6,8%, respectively, while at the end of March 2011 they stood at 6,76%, 5,07% and 6,28%, respectively. Interest rates on new euro denominated loans by MFIs in Cyprus to NFCs also followed an upward trend. It is worth noting that the average rate on new loans to NFCs of up to €1 million recorded a generally upward trend since early 2010. More specifically, it reached 7,63% in March 2012, which was the highest level in the last three years, compared with 7,39% in December 2011 and 6,73% in March 2011. In contrast to the above, the average interest rate for new loans to NFCs of over €1 million reached

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

(% per annum, three average)

		Floating rate and up to 1 year initial rate fixation			
		Bank overdrafts <sup>(2)</sup>	Consumer Credit	Lending for house purchase	Other lending
2011	Jan.	7,16	6,75	4,97	6,19
	Feb.	7,15	6,78	4,98	6,09
	Mar.	7,11	6,76	5,07	6,28
	Apr.	7,12	6,64	4,91	6,47
	May	7,15	6,62	5,16	6,30
	June	7,42	6,74	5,38	6,88
	July	7,44	6,84	5,47	6,63
	Aug.	7,43	6,99	5,50	6,54
	Sep.	7,45	6,98	5,61	6,48
	Oct.	7,45	7,00	5,54	6,60
	Nov.	7,42	6,97	5,43	6,51
	Dec.	7,46	6,93	5,73	6,80
2012	Jan.	7,44	6,93	5,48	6,22
	Feb.	7,47	6,98	5,23	6,62
	Mar.	7,35	7,00	5,37	6,39

Source: CBC.

(1) Including non-profit institutions serving households.

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

6,46% in March 2012 and continued a downward trend compared with December 2011, but recorded an increase compared with March 2011 (**Table A.4**).

Most interest rates on loans from MFIs in the euro area recorded, on average, an upward trend until the end of 2011, due to the increases in the key ECB interest rates in April and July 2011 by 25 basis points each, and the consequent increase in the EURIBOR (**Chart A.21**). However, from late September 2011 onwards, the expectations of financial markets have changed, due to continued volatility and uncertainty in the international macroeconomic environment. More specifically, since the ECB's decisions in November and December 2011 to reduce interest rates by 25 basis points each time, with the main refinancing operations rate reaching 1%, market analysts expect a stabilisation or a further slight progressive decrease in ECB rates. As a result, and due to the downward trend followed by the EURIBOR from November 2011 onwards, most lending rates in the euro area have recorded a decrease, which started in late 2011 and also continued in early 2012. More specifically, at the end of the first quarter of 2012 the average rate on new loans to households for house purchase reached 3,12% compared with 3,49% at the end of the previous quarter and 3% in the first quarter of 2011. Regarding the average rate for other loans, in March 2012 this reached 3,41% compared with 3,77% in December 2011 and 3,55% in March 2011. In addition, from the latest data which refers to March 2012, it is evident that for new loans to households for consumption purposes, interest rates increased slightly to 5,55% compared with 5,26% in December 2011 and 5,43% in March 2011. The interest rates for loans to NFCs of up to €1 million in the euro area reached 4,21% in March 2012 compared with 4,44% in December 2011 and 3,69% in March 2011.

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

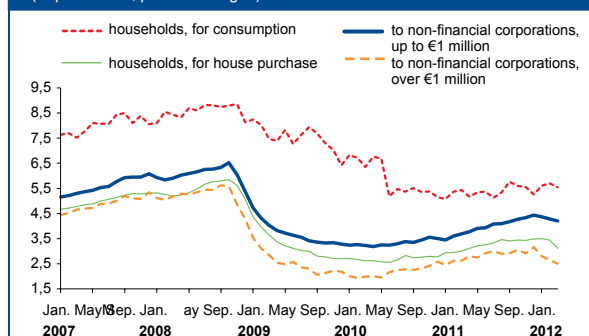
**TABLE A.4 Cyprus MFI interest rates on euro-denominated loans (new business) to euro area non-financial corporations**  
(% per annum, period average)

		Floating rate and up to 1 year initial rate fixation		
		Bank overdrafts <sup>(1)</sup>	Other loans up to €1 million	Other loans over €1 million
2011	Jan.	6,67	6,69	6,38
	Feb.	6,70	6,48	5,76
	Mar.	6,72	6,73	6,19
	Apr.	6,75	6,60	6,62
	May	6,92	6,75	6,57
	June	7,08	7,10	6,97
	July	7,14	7,00	6,00
	Aug.	7,12	7,00	6,83
	Sep.	7,20	7,04	5,54
	Oct.	7,24	7,13	5,99
	Nov.	7,23	7,52	6,08
	Dec.	7,19	7,39	7,55
2012	Jan.	7,17	7,21	7,28
	Feb.	7,12	7,12	6,47
	Mar.	7,12	7,63	6,46

Source: CBC.

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

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



Source: SDW (ECB).

(1) At floating rate and up to 1 year initial rate fixation.

With respect to the deposit rates paid by Cyprus MFIs to households and NFCs (**Table A.5**), there was also an upward trend, which continues from the beginning of the second half of 2011 and it is higher for deposit rates to households. Indicatively, in March 2012 the average rate on new deposits for households with an agreed maturity of up to 1 year increased to its highest level in three years, reaching 4,34% compared with 4,25% in December 2011 and 4% in March 2011. The respective rate for NFCs in March 2012 stood at 3,62% compared with 3,7% in December 2011 and 3,25% in March 2011. Domestic credit institutions have increased their deposit rates in an effort to preserve and increase their liquidity through deposits, in view of the “haircut” on Greek government debt. It should be noted that foreign banks based in Cyprus also compete for deposits by offering higher interest rates.

Although deposit rates in the euro area fluctuated at lower levels than in Cyprus, they recorded an increase in March 2012 compared with both December 2011 and March 2011 (**Chart A.22**). More specifically, the average interest rate on euro denominated deposits by households with an agreed maturity of up to one year reached 2,88% at the end of the first quarter of 2012 compared with 2,78% at the end of December 2011 and 2,34% at the end of the first quarter of 2011. The corresponding rate on NFC deposits recorded a slight decrease, reaching 1,25% in March 2012 compared with 1,5% in December 2011 and 1,37% in March 2011.

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 2012, Cyprus has the highest lending rate on both corporate and housing loans in the euro area. Regarding euro denominated deposit rates, Cyprus’s rate is the second highest after Greece.

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

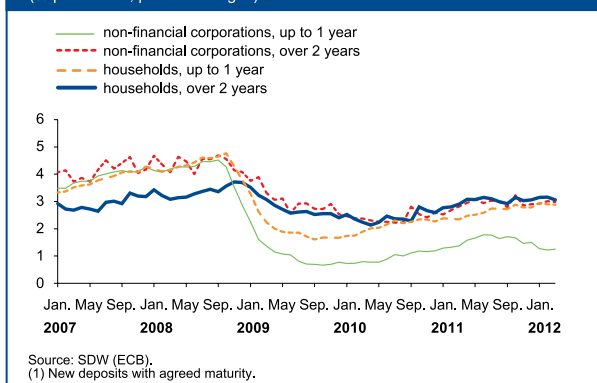
		Households <sup>(1)</sup>			Non-financial corporations	
		With agreed maturity			Overnight <sup>(2)</sup>	With agreed maturity up to 1 year
		Overnight <sup>(2)</sup>	Up to 1 year	Over 1 and up to 2 years		
2011	Jan.	1,08	4,01	4,07	0,48	3,39
	Feb.	1,09	4,02	4,04	0,49	3,41
	Mar.	1,09	4,00	4,05	0,48	3,25
	Apr.	1,08	4,00	4,10	0,47	3,29
	May	1,12	4,01	4,14	0,46	3,38
	June	1,11	4,02	4,14	0,47	3,41
	July	1,12	4,11	4,32	0,48	3,12
	Aug.	1,13	4,13	4,18	0,49	3,66
	Sep.	1,11	4,14	4,31	0,50	3,68
	Oct.	1,10	4,15	4,59	0,48	3,69
	Nov.	1,14	4,17	4,65	0,49	3,61
	Dec.	1,10	4,25	4,54	0,54	3,70
2012	Jan.	1,11	4,28	4,58	0,49	3,87
	Feb.	1,12	4,29	4,71	0,49	3,62
	Mar.	1,12	4,34	4,80	0,52	3,62

Source: CBC.

(1) Including non-profit institutions serving households.

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

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





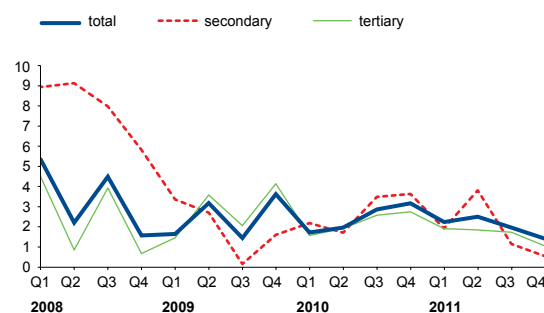
## Labour costs

Labour costs were affected by the sluggish economic conditions in 2011 and continued to record a slowdown for the third consecutive year. More specifically, the annual growth rate of the nominal compensation per employee slowed down to 2% in 2011 compared with 2,4% in 2010 (**Chart A.23**). The deceleration was due to the negative economic conditions and despite the fact that the increase in the cost of living allowance (COLA) was higher in 2011 compared with 2010. A similar slowdown in 2011 was also recorded in the hourly compensation per employee.

As regards the sectoral breakdown, the increase in compensation per employee in the secondary sector (manufacturing) was higher than the respective increase in the tertiary sector (services) for the second consecutive year, reaching 1,9% compared with 1,6% 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. The increase in compensation per employee recorded in the tertiary sector was mitigated by the continued increase in the number of workers working as house maids, who are mainly low paid. Finally, it should be noted that compensation per employee in the tertiary sector was 26% higher than in the secondary sector.

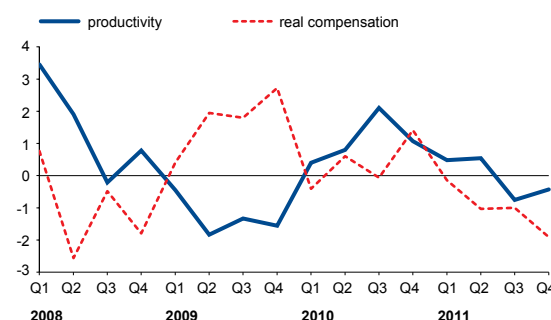
Real compensation per employee in 2011 recorded an annual decrease of 1%, relative to a marginal increase of 0,4% in 2010, mainly due to the increase in the price level in 2011 and, to a lesser extent, the slowdown in nominal compensation per employee. As regards productivity, which is calculated as GDP per employed person, it decreased marginally by 0,1% in 2011 compared with an increase of 1,1% in 2010 (**Chart A.24**). The decrease in productivity was mainly due to the negative developments in the second half of the year, since during this period there was a decrease in productivity decreased by 0,6%, while in

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



Source: SDW (ECB).

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



Source: SDW (ECB).



the first half of 2011 productivity increased by 0,5%.

Unit labour costs were affected by the decrease in productivity. Despite the small deceleration in nominal compensation per employee, they increased by 2,1% in 2011 compared with 1,3% in 2010. In contrast, unit labour costs in the euro area increased by 0,9% in 2011 (**Chart A.25**). Unit labour cost is an important indicator for an economy's competitiveness. Ensuring that unit labour costs are kept low, especially in relation to competitor countries, is important for improving Cyprus's competitiveness.

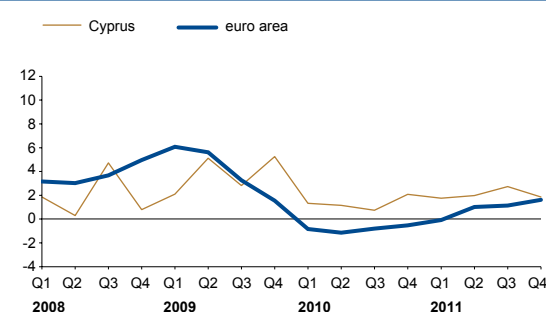
### 3. Domestic Competitiveness and Balance of Payments

The deficit recorded in the current account balance deteriorated in 2011 mainly due to the worsening in the income account. The latter resulted from the reduction in income from direct investments as a result of the losses incurred by local banks operating abroad, particularly in Greece. On the other hand, a significant improvement was recorded in the trade balance, as a result of the significant reduction in the imports of goods, following the general slowdown in economic activity. The improvement in the trade balance is expected to continue throughout 2012, due to the ongoing recession in Cyprus. Although this development is significant, it would be preferable for the current account deficit to improve as a result of structural rather than cyclical factors, so that a low deficit can be sustainable. It should be noted that although there was an improvement in the balance of goods and services, in 2011 the loss in competitiveness in specific sectors of the economy needs to be addressed.

#### Effective exchange rate

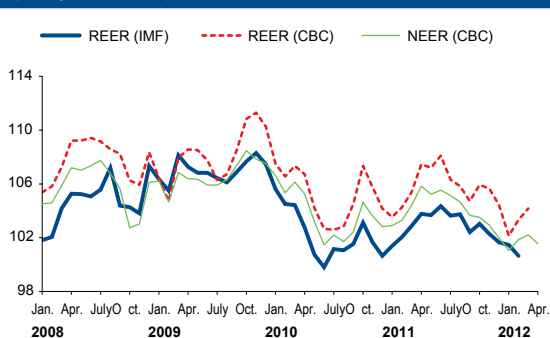
**Chart A.26** presents the effective exchange rate (EER) of the Cyprus currency: the real EER (REER) as calculated by

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



Source: SDW (ECB).

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



Source: CBC, IMF.

the International Monetary Fund (IMF) and the real and nominal EER index as calculated by the CBC<sup>10</sup>. The chart shows a weakening (depreciation) in the REER during the second half of 2011 as well as during the first two months of 2012. In March 2012, a small strengthening compared with the previous month was recorded. In general, the course of the REER reflects the path followed by the euro.

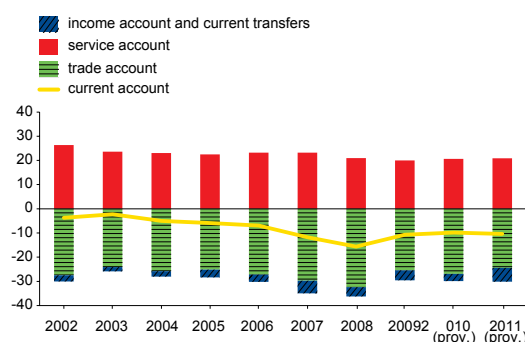
The REER, inflation and unit labour costs are important indicators of the competitiveness of the Cyprus economy, especially when compared with the respective indicators of competing countries. More specifically, the rise in unit labour costs and an appreciating REER indicate that domestic exports are more likely to be less competitive and imports to be cheaper. Higher inflation encompasses, among other things, the two aforementioned indicators and therefore reflects the potential competitiveness problems faced by the Cyprus economy. It should be emphasised that the agreement on the freezing of salaries of civil servants is expected to affect wages in other sectors of the economy as well, resulting in lower unit labour costs which will positively influence Cyprus's competitiveness.

### Balance of payments

The current account deficit deteriorated in 2011, reaching 10,4% of GDP, while in 2010 the deficit stood at 9,9% of GDP (**Chart A.27**). This deterioration was mainly due to the increase in the deficit in the income account and to a lesser extent the increase in the deficit in current transfers. At the same time, there was a significant improvement in the trade balance.

More specifically, the income account balance recorded a significant deterioration from a deficit of 3% of GDP in 2010 to a deficit of 5,7% of GDP in 2011. It should be noted that the deterioration in the income account was mainly due to a reduction in direct

CHART A.27 Current account  
(% GDP)



Source: CBC.

10. 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").

investments, principally a result of the losses incurred by Cypriot banks operating abroad and particularly in Greece, compared with the relatively smaller losses of Cyprus companies of foreign interests.

The trade balance recorded a significant improvement in 2011, with the deficit decreasing to 24,5% of GDP compared with a deficit of 26,9% of GDP in 2010. This was mainly due to the significant decrease in the imports of goods, following the general slowdown in economic activity and the decrease in demand. More specifically, the largest decreases in imports were recorded in the categories of capital goods and transport equipment. The reduction in imports would have been even greater had oil imports not increased, following the significant oil price increases in 2011. The surplus in the services account, which has historically offset the deficit in the trade balance, has fluctuated at similar levels to 2010, remaining at 20,8% of GDP. As a result, the balance in the goods and services account, which gives an important indication of the funding needs of the current account, especially for a small open economy such as Cyprus, recorded a significant improvement with the deficit decreasing to 3,6% of GDP in 2011 from 6,2% of GDP in 2010.

Additional Cystat data on the foreign trade balance, which refer to the first quarter of 2012, show an improvement with a reduction in the deficit to €1.046,4 million compared with €1.228,8 million in the corresponding period of 2011 (**Table A.6**). This improvement is due to the significant decrease in the imports of goods by 12,9%. A decrease was also recorded in the exports of goods by 6%, which does not significantly affect the overall trade balance as the absolute value of the exports of goods is much lower than that of the value of imports.

The financing of the current account deficits until 2006 as well as for 2009 and 2011 were primarily through foreign direct investment. The only exceptions were the years 2007, 2008 and 2010, where the

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

	Imports	Exports	Trade deficit
2010	6.517,4	1.136,8	5.380,6
2011	6.260,5	1.406,0	4.854,5
annual % change	-3,9	23,7	-9,8
2011 Jan.-Mar.	1.570,1	341,4	1.228,8
2012 Jan. - Mar.*	1.367,3	320,9	1.046,4
annual % change	-12,9	-6,0	-14,8

\* provisional data.  
Source: Cystat.

very large deficits were financed mainly by “other investments” (Chart A.28). In 2010 the current account deficit was financed by “other investments” as a result of the increase in non-resident deposits in Cypriot banks. It is important that the deficits in the current account, and especially in the goods and services account, are contained, so that there are no difficulties in financing them<sup>11</sup>.

## Tourism

In 2011 tourist arrivals increased by 0,1% compared with 2010, while revenues rose by 12,9% resulting in a per capita spending increase of 2,5% (Table A.7). This improvement was the result of various developments. More specifically, the geopolitical unrest in the Middle East and North Africa played an important role in increasing tourist arrivals. Furthermore, the base effect created by the lower than normal arrivals in 2010, as a result of the large number of cancelled flights due to the Icelandic volcanic ash, also played a significant role in the higher numbers recorded in 2011. It also appears that the efforts of the Cyprus Tourism Organisation (CTO) and the private sector to penetrate into the Russian market were quite successful. More specifically, the number of tourists from Russia increased by 49,2% in 2011, reaching 334.100 from 223.900 in 2010. Although the UK remains the most important tourist market for Cyprus, Russia has become the second most important.

During the first two months of 2012, decreases of 3,5% and 6,6% were recorded by tourist arrivals and tourism revenues respectively, compared with the corresponding period of 2011<sup>12</sup>. Consequently, there was a decrease in per capita spending by 3,2%. Although the developments in the first two months of the year were not encouraging, it should be noted that during the summer months this trend is expected to be reversed, due to the expectations of a significant

CHART A.28 Current account financing by foreign direct investment

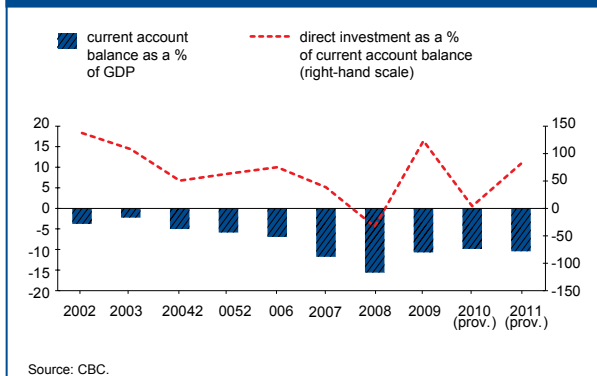


TABLE A.7 Tourism

	Tourist arrivals (thous.)	Tourist receipts (€ million)	Expenditure per person (€)
2010	2.173,0	1.549,8	713,2
2011	2.392,2	1.749,3	731,3
annual % change	10,1	12,9	2,5
2011 lav. - Φεβ.	106,7	66,7	625,1
2012 lav. - Φεβ.	103,0	62,3	604,9
annual % change	-3,5	-6,6	-3,2

Source: Cystat.

11. Generally, it is better to finance the current account deficit mainly from foreign direct investments since this category is considered more stable and beneficial to the economy.

12. Data on tourist arrivals for March 2012 were not published by Cystat. Therefore, the CBC has done some calculations based on historical data.

number of Russian tourists visiting Cyprus. In April 2012, the decreases in the number of tourists continued, reaching 5,1% compared with April 2011.

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

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

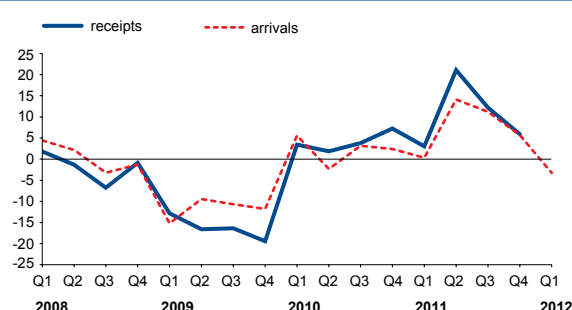
##### Quarterly national accounts

The Cyprus economy experienced a marginal recovery in 2011, with GDP growth reaching 0,5%. This was significantly lower than the GDP growth of 1,1% recorded in 2010. However, it should be noted that during the first half of 2011 the economic conditions were relatively promising, with GDP growth reaching 1,5% compared with a contraction of 0,5% in the second half of 2011. The downward trend in the second half of the year was due to the negative developments in domestic demand. Preliminary data for the first quarter of 2012 indicate a further decrease of 1,5% in GDP, reflecting the impact of the continuing crisis on the Cyprus economy.

Analytical data for 2011 (**Charts A.30 (a)** and **A.30 (b)**) show a significant deterioration in private consumption in the second half of the year, which recorded a decrease of 1,4% compared with an increase of 1,7% in the first half of the year. A similar trend was also followed by gross fixed capital formation, which decreased by 8,4% in first half of 2011 compared with a decrease of 19,4% in the second half of the year. As a result of sluggish domestic demand, imports of goods and services recorded a marginal decrease of 0,9% in first half of the year compared with a decrease of 8,7% in the second half of the year.

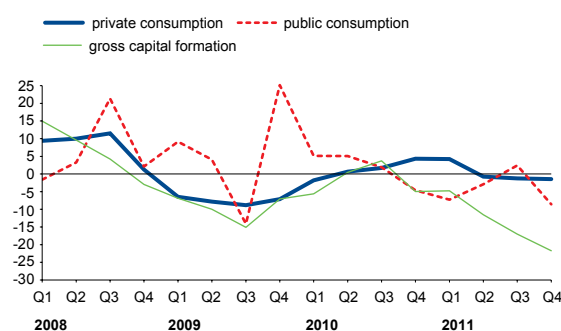
The above analysis is confirmed by the sectoral

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



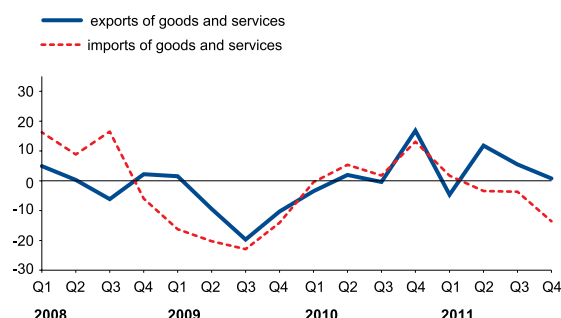
Note: Due to the unavailability of data for March by Cystat the CBC has interpolated March figure based on historical data.  
Source: Cystat.

**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.

breakdown of real GDP. More specifically, in the second half of 2011 the construction industry was significantly affected by the aforementioned developments, registering a decrease of 15,4% on an annual basis compared with a decrease of 5,5% in the first half of the year. During the same period, a smaller decrease was also recorded in wholesale and retail trade, transport and storage, accommodation and food service activities, which recorded an annual decrease of 0,8% compared with an annual increase of 1,9% in the first half of the year.

### Domestic demand

Recent economic indicators point towards a negative trend for domestic demand. According to the latest confidence indicators, GDP growth is expected to remain sluggish and this is also reflected in other domestic economic indicators (**Table A.8**). The increase in the Economic Sentiment Indicator (ESI) to 79,9 in April 2012 from 74,1 in March 2012 is attributed to seasonal factors, as the index stood at 90,3 points in April 2011. More specifically, during the period under review, the turnover index of retail trade (**Chart A.31**), private sector borrowing, motor vehicle registrations (**Chart A.32**) and VAT receipts recorded negative growth. It should be noted that the decline in VAT revenues during the first quarter of 2012 is partly due to the change in the timing of VAT payments in December 2011, from a monthly to a quarterly basis. Consequently, this year's revenues compared with those of previous years are much lower. With respect to the positive trend followed by credit card payments, this is mainly due to the increases in oil prices as well as the greater use of credit cards for repayment of government taxes (**Chart A.33**, p. 45).

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

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

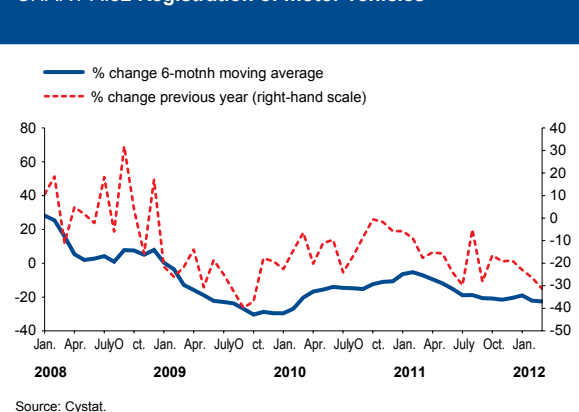
	2011 Dec.	2012 Jan.	2012 Feb.	2012 Mar.	2012 Apr.
ESI	77,0	78,7	76,3	74,1	79,9
Industry	-20	-18	-21	-26	-18
Services	-25	-23	-23	-26	-27
Consumer	-47	-43	-46	-43	-38
Retail trade	-29	-29	-30	-28	-28
Construction	-52	-55	-60	-57	-58

Source: European Commission.  
Note: Seasonally adjusted data.

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



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



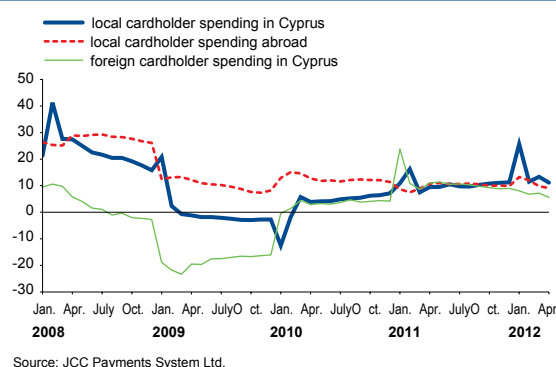
## Construction sector

The construction sector continued on a negative trend in 2011 and during early 2012. In particular, the index of production in construction published by Cystat registered an annual decrease of 14,3% in the second half of 2011 compared with an annual decrease of 9,7% registered in the second half of the previous year (**Chart A.34**). The deterioration in construction activity is also reflected in the volume of domestic sales of cement which, in the first four months of 2012, decreased by 35,8% compared with an annual decrease of 6% in the first four months of 2011 (**Chart A.35**). Moreover, the price index of construction materials continued its increasing trend, thus imposing another limiting factor in the recovery of the sector. In the first quarter of 2012, the aforementioned index increased by 2,3% on an annual basis, while for the corresponding period of 2011 it recorded an annual increase of 4%.

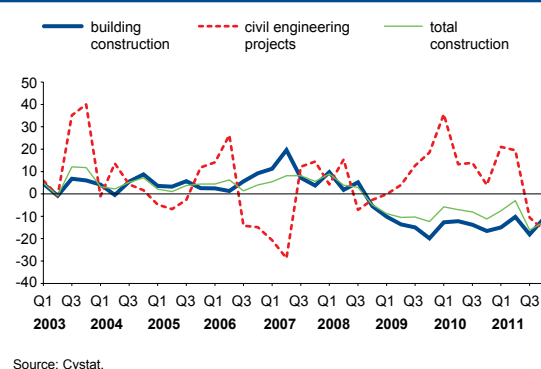
The lack of liquidity in the market is another key factor contributing to the contraction of the sector. Specifically, rising interest rates in connection with stricter lending criteria, significantly restricted access to investment capital. These factors, combined with subdued demand, prompted many land developers to keep development projects on hold. In the first quarter of 2012 the interest rate for housing loans<sup>13</sup> was on average 5,4% compared with 5% over the same period in 2011 (**Chart A.36**, p. 46). With regard to lending criteria for housing purchases, these became more stringent in the first quarter of 2012 compared with the fourth quarter of 2011, as shown by the relevant index published in the CBC's quarterly BLS<sup>14</sup> (**Chart A.36**, p. 46).

As a result of tighter lending criteria and higher interest rates, housing loans to residents in March 2012 recorded the smallest annual increase in the last five years (4,5%), as calculated using the methodology followed by the ECB for calculating annual percentage changes. The corresponding annual increase in March 2011 was 11,5%. It should be noted that these figures include the

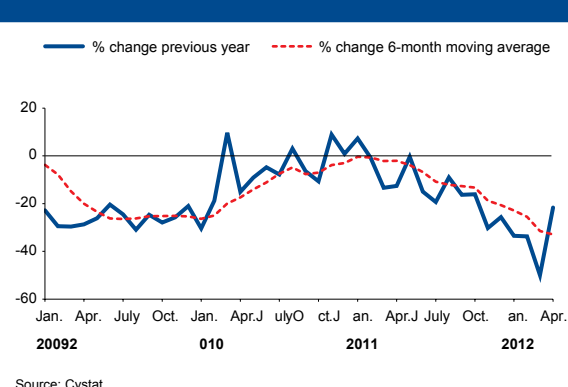
**CHART A.33 Credit card spending**  
(cumulative annual % change from January)



**CHART A.34 Quarterly production index in construction**  
(annual change, %)



**CHART A.35 Sales of cement**



13. Floating rate and up to one year initial rate fixation.

14. Further explanation of the index construction methodology is available on the CBC website: [http://www.centralbank.gov.cy/nqcontent.cfm?a\\_id=10432&lang=en](http://www.centralbank.gov.cy/nqcontent.cfm?a_id=10432&lang=en)



capitalisation of interest.

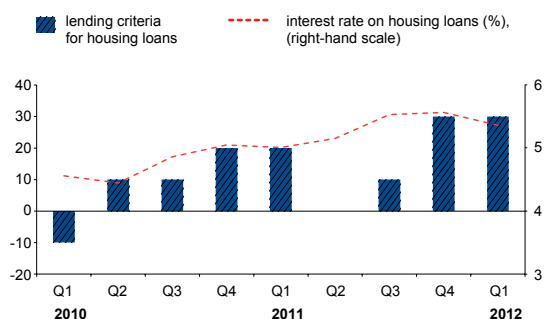
The subdued local and foreign demand, combined with a substantial stock of available for sale residences, contributed significantly to the slowdown in construction activity. Many investors became increasingly cautious in proceeding with large real estate investments amid the uncertainty caused by the current economic crisis, thus hindering any prospects for a quick recovery in the sector. The decline in property-buying interest is further reflected in the number of sales contracts submitted to the Department of Lands and Surveys. Specifically, despite the fact that in January 2012 the number of sales contracts submitted by local residents recorded a significant increase of 96,9%<sup>15</sup>, over the subsequent three months, from February to April 2012, this number continued to decline, recording an annual decrease of 13% (**Chart A.37**). The same picture is presented by the number of sales contracts issued to non-residents, which in January 2012 recorded an annual decrease of 36,9% while a smaller decrease of 19,5% was recorded over the subsequent three months, confirming the continuing withdrawal of foreign investors from the Cyprus property market.

As a consequence of the low demand for properties and reduced construction activity, unemployment in the construction sector rose to record levels. Specifically, for the first four months of 2012, the average monthly number of registered unemployed was 6.186, while the average for 2011 was 4.335, representing an annual increase of 42,7%, the highest since 2002, when such data became available.

The low demand for properties is also reflected in the reduced revenues of the Inland Revenue Department (IRD). In particular, stamp duty receipts recorded an annual decrease of 11,3% in the first quarter of 2012 while capital gains tax receipts recorded an annual decrease of 10,2%.

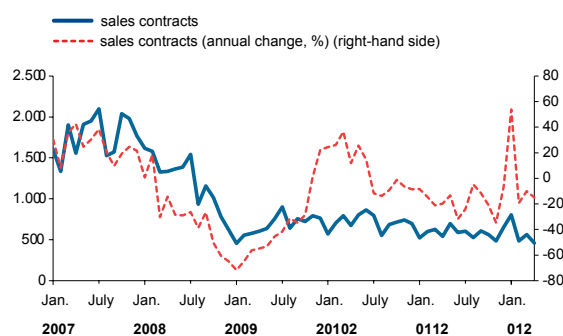
With respect to house prices, the CBC Residential Property Price Index recorded an annual decrease of 5,6% in the second half of 2011, compared with an annual decrease of 4,3% in the second half of 2010. The continuous drop in house prices is still a constraining factor

**CHART A.36 Lending criteria and interest rate on housing loans**



Source: CBC.

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



Source: Department of Lands and Surveys.

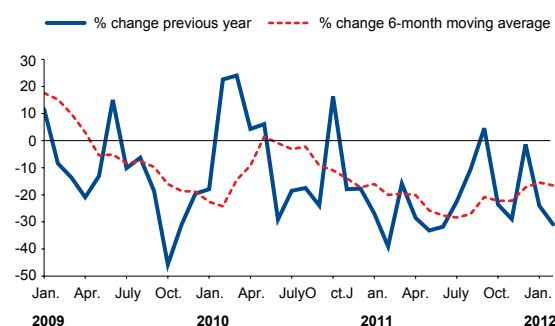
15. This was mainly the result of legal reforms which were targeting the reduction in the cost of buying a residence and aimed at the revitalisation of the housing market through significant reductions in transfer fees and VAT payable on the acquisition of a first residence.



for new land development projects. This is confirmed by the downward trend exhibited by authorised building permits, which constitutes a leading indicator of future construction activity. Specifically, authorised building permits recorded an annual decrease of 11,1% in the first two months of 2012 compared with an annual decrease of 6,6% in the first two months of 2011 (**Chart A.38**). During the aforementioned periods, the total value implied by the authorised building permits recorded annual decreases of 25,7% and 27%, respectively, while the total area implied by the authorised building permits recorded annual decreases of 27,8% and 34,1%, respectively. The number of authorised building permits for residential buildings recorded an annual decrease of 18% during the first two months of 2012, while the number of authorised building permits for non-residential buildings recorded an annual increase for the same period of 13,3%. This was primarily due to the increase recorded in the number of authorised building permits for industrial buildings and warehouses, offices and other non-residential buildings.

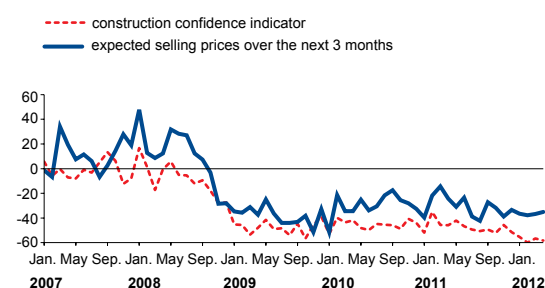
Given the decreases recorded in the number of authorised building permits, construction activity is not expected to recover in the near future. This is also supported by the Economic Sentiment Indicators, which are based on the Business and Consumer Survey Questionnaire of the European Commission. In particular, the indicator on the “expected selling prices over the next three months” was negative in the first four months of 2012 and reached -36,5 compared with -25 in the first four months of 2011 (**Chart A.39**). This indicates that participants in the housing market are more pessimistic about the future of the industry today than a year ago. Moreover, the confidence indicator in construction, obtained from the same survey, was on average -57,6 in the first four months of 2012, compared with an average of -44,6 in the corresponding period in 2011. At the same time, the index of intent to purchase or build a house in the next 12 months remained at highly negative levels in the first quarter of 2012, reaching -85,8 compared with -82,6 in

CHART A.38 Building permits authorised



Source: Cystat.

CHART A.39 Business and consumer surveys

Source: EC: BCS.  
Note: Seasonally adjusted data.

the first quarter of 2011.

In conclusion, despite the small upturn in property transactions in early 2012, due to favourable legislative reforms concerning the reduction of transfer fees and VAT payable on the acquisition of a first residence, construction activity remained confined to very low levels, with negative indications about its future course. The fact that significant factors affecting the property market and, therefore, construction activity, such as foreign demand and bank liquidity are in an unfavourable condition, further constrains the recovery in the property market in the near future.

### Labour market

The small increase in GDP growth in 2011 led to a slight increase of 0,6% in employment during the year under review. Employment, like GDP, followed different trends in the two halves of the year. More specifically, in the first half of 2011 employment increased by 1%, while in the second half it increased by a mere 0,1%. The increase in employment came primarily from employees and to a lesser extent from the self-employed. With respect to total hours worked, these recorded smaller increases than the change in employment in 2011, indicating a reduction in the hours worked per employee. Although there was an increase in employment in 2011, this was not able to absorb the net increase in the labour force, thus resulting in significant increases in unemployment. More specifically, according to data from the LFS, the unemployment rate increased by 1,5 percentage points in 2011 compared with 2010, reaching 7,7% (**Chart A.40**). This was evident in all sub-categories of unemployment, albeit to a different extent (see **Box A.1**).

The most recent available data for unemployment (**Chart A.41**) refer to registered unemployment, which is available up to April 2012. The number of registered unemployed persons has recorded an

CHART A.40 Employment growth and unemployment rate

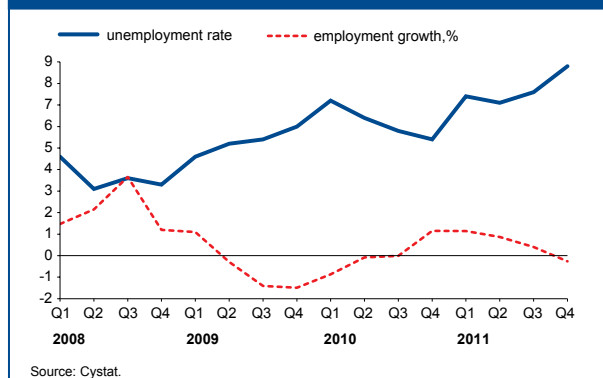
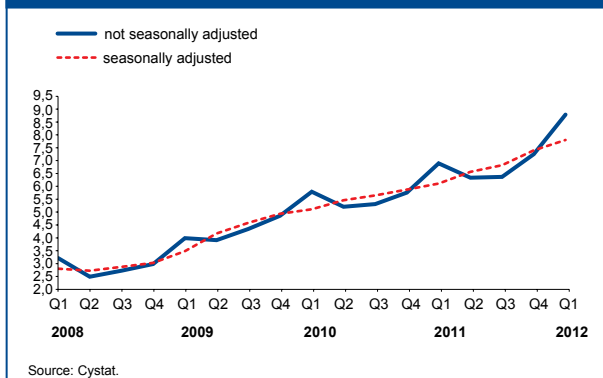


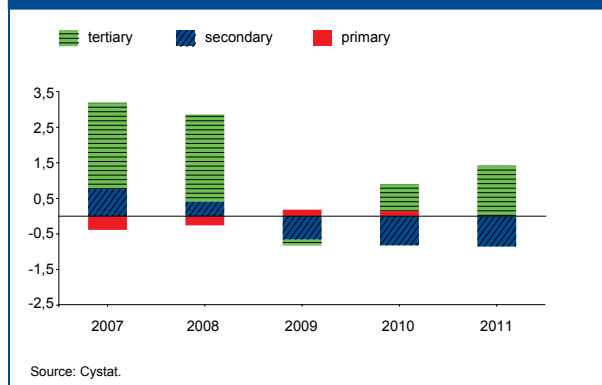
CHART A.41 Registered unemployment rate



upward trend since the second half of 2008, with the registered unemployment rate in the first four months of 2012 reaching 8,7% compared with 6,8% in the corresponding period last year. This deterioration is related to the fact that according to preliminary data for the first quarter of 2012, GDP recorded negative growth of 1,5%. The upward trend in registered unemployment is confirmed by seasonally adjusted data, which also reveal that the increase in unemployment continued at a steady pace as from the second half of 2008, while in April 2012 it reached a historically high level of 35.330. Furthermore, according to the harmonised unemployment rate published by Eurostat, in the first quarter of 2012 the seasonally adjusted unemployment rate increased to 9,8%. This confirms the fact that the economy is unable to absorb job seekers, while this phenomenon worsened from August 2011 with the seasonally adjusted unemployment rate increasing by 2,2 percentage points, reaching 10% by March 2012.

As regards the sectoral breakdown of employment in 2011, an increase was recorded in employment in the tertiary sector, while the negative developments in the secondary sector have caused a reduction in employment in this sector (**Chart A.42**). More specifically, the contribution of the tertiary sector in total employment growth was 1,4%. This was also supported by the increase recorded in the subcategory “activities of households as employers”, whose contribution to total employment stood at 0,4%, as well as the significant contribution of the subcategory “accommodation and food service activities.” With respect to the secondary sector, its contribution was negative, reaching -0,8%, primarily due to construction and, to a lesser degree, manufacturing. Finally, the contribution of the primary sector to total employment was nil.

CHART A.42 Contribution to employment growth by sector (%)



## 5. Domestic Public Finance Developments

### 5.1 Fiscal developments in 2011

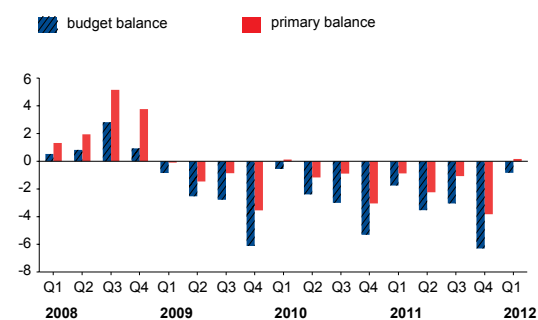
The budget deficit of the general government as a percentage of GDP increased from 5,3% in 2010 to 6,3% in 2011 (**Chart A.43**). This deterioration was due to an increase in public spending by 5%, combined with an annual increase in government revenue by 2,8% (**Chart A.44**).

More specifically, total expenditure as a percentage of GDP increased by about one percentage point, mainly due to the significant annual growth of various social benefits and one-off transfers. The aforementioned factors offset the significant annual decreases in intermediate consumption and capital goods by 3,1% and 5,4%, respectively. The total revenue to GDP ratio remained constant. Although the introduction of various tax measures has brought significant additional revenues, these were offset by the significant annual decrease in the revenues from indirect taxes and non-tax revenue by 2,2% and 5,7%, respectively. The strong annual decrease of non-tax revenue is mainly due to the significant and non-recurring revenue recorded during 2010, particularly the large dividend from the CBC and the revenue from the interest rate swap agreement.

The general government debt-to-GDP ratio<sup>16</sup> increased by about ten percentage points, reaching 71,6% (**Chart A.45**). This increase was mainly due to the primary deficit<sup>17</sup> (**Chart A.43**) of around 4% of GDP, and the first installment of the loan from the Russian government equivalent to about 3,3% of GDP.

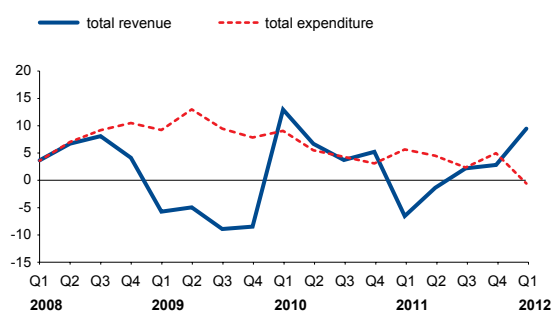
In 2011 the budget deficit as a percentage of GDP was higher than the target of 4% set in the Stability Programme (SP) of the Republic of Cyprus for the years 2010-2014, published in April 2011. This is attributed to the larger increase in public spending and the negative impact on tax revenues, following lower than expected

**CHART A.43 Budget and primary balances of the general government**  
(cumulative for the period as from Q1 as a percentage of GDP)



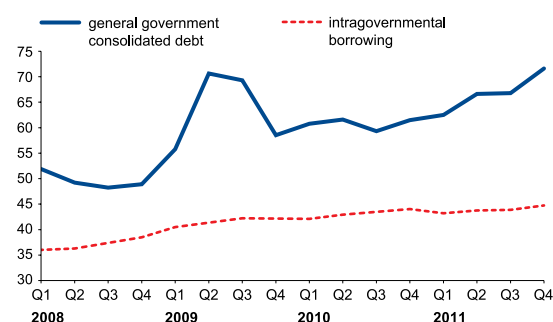
Source: Cystat.

**CHART A.44 Total revenue and expenditure of the general government**  
(cumulative for the period as from 1st quarter, annual change, %)



Source: Cystat.

**CHART A.45 General government gross debt and intragovernmental borrowing<sup>(1)</sup>**  
(as a percentage of GDP)



Source: Ministry of Finance.  
(1) Includes the short term liabilities of the CBC to the IMF.

16. The general government gross debt is the sum of the total central government (including the debt of some semi-governmental organisations which are included in the category of central government), and local authorities' debt excluding intragovernmental borrowing from the Social Security Fund and the Administered Funds, as well as short-term liabilities of the CBC to the IMF.
17. The primary deficit is defined as the budget deficit excluding interest payments.

domestic demand, particularly in the second half of the year.

## 5.2 Fiscal prospects

With regard to fiscal developments during the first quarter of 2012, preliminary data from Cystat show an improvement in the budget deficit as a percentage of GDP, which recorded a significant decrease of 0,8% compared with a deficit of 1,7% in the corresponding period last year (**Table A.9**).

Regarding revenue from direct taxes, the Cystat category "current taxes on income, wealth, etc." recorded a significant annual increase of 26,6% during the first quarter of 2012 (**Table A.9**). More specifically, as evident from the IRD data, corporate tax revenues recorded an annual increase of 44,2% due in part to the first instalment of the temporary ad hoc tax rate levied on financial institutions, which was paid earlier than last year. Furthermore, a significant annual increase of around €26 million was recorded in the revenues from the income tax of the self-employed, which is mainly due to the revenue generated from the special settlement of tax debts accumulated by the end of 2008. IRD data for the first four months of 2012 confirm that the strong growth in total direct taxes recorded in the first quarter of the year resulted mainly from temporary and seasonal factors, since the relative annual increase recorded a slowdown to 14,5%<sup>18</sup>.

With respect to revenue from indirect taxes, in the first quarter of 2012 an annual increase of 2,4% was recorded in the revenue category "taxes on production and imports", which includes VAT receipts (**Table A.9**). In particular, VAT receipts recorded an annual decrease of 4,5% during the period under consideration, primarily due to the continued sluggish growth in private consumption and the fact that, since October 2011, there was a return to the obligation for companies with a turnover of more than €1 million having to pay VAT on

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

	Jan.-Mar. 2011 (€ million)	Jan.-Mar. 2012 (€ million)	Change %
<b>EXPENDITURE</b>			
Intermediate consumption	202,9	199,5	-1,7
Gross fixed capital formation	109,1	98,9	-9,3
Compensation of employees	647,3	672,6	3,9
Other taxes on production	0,1	0,1	0,0
Subsidies payable	2,1	36,5	1.638,1
Interest paid	155,2	176,8	13,9
Social benefits	623,8	583,6	-6,4
Other current transfers	137,6	106,8	-22,4
Capital transfers payable	36,9	29,2	-20,9
<b>Total expenditure</b>	<b>1.915,0</b>	<b>1.904,0</b>	<b>-0,6</b>
<b>Total expenditure as a % of GDP</b>	<b>10,8</b>	<b>10,7</b>	
<b>REVENUE</b>			
Market output & output for own final use	110,8	109,5	-1,2
Taxes on production and imports	588,3	602,7	2,4
<i>of which VAT</i>	358,3	342,2	-4,5
Property income receivable	20,5	31,6	54,1
Current taxes on income, wealth, etc	426,8	540,3	26,6
Social contributions receivable	428,0	426,3	-0,4
Other current transfers receivable	28,7	43,9	53,0
Capital transfers receivable	1,2	1,7	41,7
<b>Total revenue</b>	<b>1.604,3</b>	<b>1.756,0</b>	<b>9,5</b>
<b>Total revenue as a % of GDP</b>	<b>9,0</b>	<b>9,9</b>	
<b>Surplus (+) / Deficit (-)</b>	<b>-310,7</b>	<b>-148,0</b>	
<b>Surplus (+) / Deficit (-) % of GDP</b>	<b>-1,7</b>	<b>-0,8</b>	

Source: Cystat.

18. In contrast to Cystat data, IRD figures for the first quarter of 2012 show an annual increase of 18,7% in total revenue from direct taxes. Overall, the differences in the figures from these two sources are due to the inclusion of additional revenue from direct taxes in the Cystat data. It should be noted that in March 2012 there was a significant annual increase in motor vehicle fees due to seasonal factors.

a quarterly basis. It is expected that, as from the second quarter of 2012, VAT revenues will increase due to the normalisation in the timing of VAT revenues, as well as the increase in the standard VAT rate from 15% to 17% since 1 March 2012<sup>19</sup>.

As regards developments in public expenditure (Table A.9, p. 51) marginal annual decrease of 0,6% was recorded) in the first quarter of 2012, which was primarily due to the significant decreases in social benefits and other current transfers by 6,4% and 22,4%, respectively. These decreases were partly due to the delays noted in the payments of educational grants and child benefits, which are expected to burden public finances in the following quarters. Moreover, a significant increase of around €34 million was recorded in subsidies, primarily due to the earlier payment this year of the grants for public transport and farming purposes. It should be noted that total expenditure on the compensation of employees increased by 3,9% on an annual basis despite the freeze on the state payroll for two years<sup>20</sup>.

Finally, in the first quarter of 2012 the Public Debt Management Office places the gross debt of the central government at 72,4% of GDP compared with 69,7% at the end of 2011, mainly due to the payment of the last two installments of the loan from the Russian government<sup>21</sup>.

19. According to Ministry of Finance monthly data on central government revenue, in the first four months of 2012 VAT receipts recorded a marginal annual increase of 0,6%. On the other hand, the data for the first quarter of 2012 show a significant annual decrease of 5,8%. It should be noted that the data from Cystat and the Ministry of Finance are comparable, since VAT refunds are also included.

20. According to monthly data from the Ministry of Finance, in the first quarter of 2012 central government expenditure on wages and salaries decreased by 1,1% on an annual basis, while expenditure on pensions and gratuities recorded an annual increase of 24,2%. The aforementioned categories of expenditure are a significant part of total expenditure on the compensation of employees and reflect primarily the continued increase in retirements.

21. It should be noted that the data of the Public Debt Management Office differ from the data of the Ministry of Finance since they concern the debt of the central government, excluding the debt of some semi-governmental organisations which are included in the category of central government. According to recent data from the Ministry of Finance, in the first quarter of 2012 the gross debt of the central government reached 74,3% of GDP compared with 71,6% at the end of 2011.

## 6. Macroeconomic Projections for Cyprus

### Working assumptions

The projections for the Cyprus economy are based on the Eurosystem's assumptions about the world economy. They cover variables such as interest rates, exchange rates, the price of oil and international trade. These projections are used to analyse and evaluate international developments and the risks to price stability by the ECB's Governing Council, which is responsible for setting monetary policy in the euro area. The projections are based on a common set of assumptions and data available as at 24 May 2012, for all euro area countries.

The working assumptions of the Eurosystem are as follows: the euro is expected to fluctuate at around \$1,30 both in 2012 and 2013. The price of oil is expected to average \$114,6 per barrel in 2012, falling to \$107,9 in 2013. As far as the working assumptions for the domestic economy are concerned, these were prepared by taking into consideration only those fiscal measures which were clearly defined and most likely to be implemented as at 15 May 2012.

### Eurosystem projections for the euro area

Based on the above working assumptions, euro area inflation is expected to be between 2,3% and 2,5% in 2012 compared with 2,7% in 2011 (**Table A.10**). A smaller increase in inflation is expected in 2013, with the rate being between 1% and 2,2%. Inflation in 2012 is mainly affected by the increase in oil prices, the depreciation of the euro against the dollar and by the increases in indirect taxes. The deceleration in inflation in 2013 is expected to be largely affected by lower oil prices.

HICP inflation excluding energy and food is expected to remain stable in 2012 and 2013, reflecting

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

	2011	2012f	2013f
<b>GDP</b>			
June projections 2012	1,5	-0,5 - 0,3	0,0 - 2,0
December projections 2011	1,5 - 1,7	-0,4 - 1,0	0,3 - 2,3
<b>Inflation</b>			
June projections 2012	2,7	2,3 - 2,5	1,0 - 2,2
December projections 2011	2,6 - 2,8	1,5 - 2,5	0,8 - 2,2

Source: ECB.

subdued domestic demand and contained labour costs as well as the increases in indirect taxes and administered prices.

GDP growth is expected to fluctuate between -0,5% and 0,3% in 2012, and between 0% and 2% in 2013. The projected recovery is expected to be significantly affected by subdued domestic demand, high oil prices, unfavourable financing conditions, fiscal consolidation measures and the impact of the sovereign debt crisis on consumer and investor confidence.

### Projections for the Cyprus economy

The projections have been revised significantly downwards compared with December 2011, reflecting the protracted recession affecting the Cyprus economy. Consumer and business confidence remain at very low levels, while political and economic developments in Greece, which have serious implications for the domestic banking system, are expected to further aggravate the negative economic sentiment in 2012. Moreover, the uncertainty surrounding the public finances and the prolonged exclusion of Cyprus from international markets, exacerbate the negative impacts on consumer and investor confidence. At the same time, inflation is expected to increase compared with the previous CBC forecasts, due to the increase in VAT.

### Prices: harmonised index of consumer prices

Cyprus HICP inflation is expected to reach 3,2% in 2012 compared with 3,5% in 2011 (**Table A.11**). This deceleration is mainly due to a base effect in the energy category. The slowdown in industrial goods excluding energy and to a great extent in services inflation reflects the adverse conditions under the central forecast scenario. Nevertheless, HICP excluding energy inflation is expected to increase to 2,2% in 2012 compared with

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

	2011	2012f	2013f
<b>HICP</b>			
June projections 2012	3,5	3,2	1,3
December projections 2011	3,4	2,0	1,7
<b>HICP excluding energy</b>			
June projections 2012	1,9	2,2	1,6
December projections 2011	1,8	1,7	1,8

Sources: Cystat, CBC.



1,9% in 2011, due to the impact of the implementation of the European Commission Regulation on minimum standards for the quality of HICP weighting and the increase in the standard VAT rate by two percentage points from 15% to 17% since March 2012.

HICP inflation is expected to register a significant slowdown in 2013, reaching 1,3%, mainly due to the expected reduction in energy prices, resulting from the assumptions for lower oil prices and the euro dollar exchange rate as well as from the dissipation of the impact of the aforementioned methodological change in 2012. Similarly, the HICP excluding energy is expected to record a deceleration to 1,6% in 2013.

### Compensation, productivity and the labour market

The negative economic conditions which are anticipated in 2012 are expected to significantly affect employment. More specifically, employment in 2012 is expected to register a decrease of 0,9%, while in 2013 employment is expected to increase marginally by 0,1%, as a result of the anticipated slow recovery (**Table A.12**). Regarding the unemployment rate, as defined by the Labour Force Survey (LFS), it is expected to reach 10,1% in 2012, which is, with the exception of the period after the Turkish invasion, a new historical high, while in 2013 a further increase to 10,8% is anticipated. The new forecasts for employment and unemployment are significantly more negative compared with the previous forecasts, following the downward revision of GDP forecasts.

In 2012 productivity growth is expected to decline marginally by 0,2%, registering negative rates similar to last year, as a result of weak economic activity. The reductions in 2011 and 2012 are expected to be compensated for by the 0,3% increase in productivity in 2013. The growth rate of compensation per employee is expected to decline by 0,7% in 2012 and by 1,2% in 2013.

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

	2011	2012f	2013f
<b>Compensation per employee</b>			
June projections 2012	1,9	-0,7	-1,2
December projections 2011	1,9	1,5	2,3
<b>Unit labour costs</b>			
June projections 2012	2,0	-0,5	-1,5
December projections 2011	1,7	1,5	1,3
<b>Productivity</b>			
June projections 2012	-0,1	-0,2	0,3
December projections 2011	0,2	0,0	1,0
<b>Total employment</b>			
June projections 2012	0,6	-0,9	0,1
December projections 2011	0,1	0,0	0,3
<b>Unemployment (% of labour force)</b>			
June projections 2012	7,7	10,1	10,8
December projections 2011	7,1	7,7	7,8

Sources: Cystat, CBC.

Compensation per employee is associated with the expected worsening of the economic environment and mainly reflects the negative trend of the compensation per employee in the private sector. Compensation per employee in the public sector is also expected to be significantly affected by the decision of the House of Parliament, in the context of fiscal consolidation, to freeze COLA and wage increases for civil servants and the broader public sector until the end of 2013. In connection with the above, unit labour cost reductions of 0,5% and 1,5% are expected in 2012 and 2013, respectively.

### National accounts

As far as the national accounts are concerned, real GDP growth in Cyprus is projected to decrease by 1,1% in 2012, while a marginal recovery of 0,4% is anticipated in 2013.

The projections for 2012 and 2013 have been revised downwards compared with the previous forecasts, due to the deterioration in the economic environment, which is reflected in the various economic indicators, especially after the events at the Vasilikos power station, the “haircut” of Greek government bonds and its impact on the domestic banking system, the economic developments in the euro area and the resulting impact on consumer and investor confidence. Furthermore, the uncertainty in relation to the adoption of further fiscal consolidation measures, the possibility of Cyprus’s inclusion in the EU Support Mechanism, the reduction in the profitability of private companies and in real disposable income as well as the increase in unemployment, have also significantly contributed to the deterioration in the economic environment and to an increase in consumer and investor uncertainty (**Table A.13**).

Private consumption is expected to decrease by

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

	2011	2012f	2013f
<b>GDP</b>			
June projections 2012	0,5	-1,1	0,4
December projections 2011	0,3	0,0	1,3
<b>Private consumption</b>			
June projections 2012	0,2	-2,9	-0,3
December projections 2011	0,8	-0,5	0,8
<b>Public consumption</b>			
June projections 2012	-4,7	-1,6	-0,4
December projections 2011	-1,8	-2,1	2,4
<b>Gross fixed capital formation</b>			
June projections 2012	-13,8	-6,9	-5,6
December projections 2011	-9,7	-0,3	-1,6
<b>Exports of goods and services</b>			
June projections 2012	3,6	0,5	1,2
December projections 2011	3,7	1,1	1,3
<b>Imports of goods and services</b>			
June projections 2012	-5,0	-4,7	-2,1
December projections 2011	-0,8	-0,5	0,0

Sources: Cystat, CBC.

2,9% in 2012 compared with a marginal increase of 0,2% in 2011. This development is confirmed by various economic indicators, such as retail sales, which in January 2012 recorded a decrease of 1,6%, following their negative trend in the fourth quarter of 2011, whereby a decrease of 3,6% was recorded. At the same time, car registrations continued to record reductions for more than two years, while in early 2012 consumer loans, including credit cards, were at very low levels. In addition, government consumption is expected to decrease by 1,6% in 2012 due to the fiscal consolidation measures adopted in December 2011. Gross fixed capital formation is expected to record a significant decrease of 6,9%, despite the investments for the reconstruction of the power station in Vasilikos and the investment of “Vittol” for the construction of a natural gas terminal in Cyprus. With respect to the total exports of goods and services, these are expected to increase by 0,5%, mainly due to the higher revenues from tourism and other business services. In relation to the imports of goods and services, these are expected to record a decrease of 4,7% in 2012 as a result of the sluggish domestic demand.

Subdued economic activity is expected to persist in 2013, with GDP recording a marginal recovery of 0,4%. In particular, private consumption is expected to decrease by 0,3%, while public consumption is expected to decrease by 0,4%, as a result of fiscal consolidation. Moreover, gross fixed capital formation is expected to record a significant decrease of 5,6%. The growth rate of exports is expected to reach 1,2%, while imports are expected to decline further by 2,1%, following the deterioration in domestic demand.

### **Fan charts for the macroeconomic projections**

The projections for HICP inflation (**Table A.11**, p. 54) as well as those for GDP growth (**Table A.13**, p. 56) are

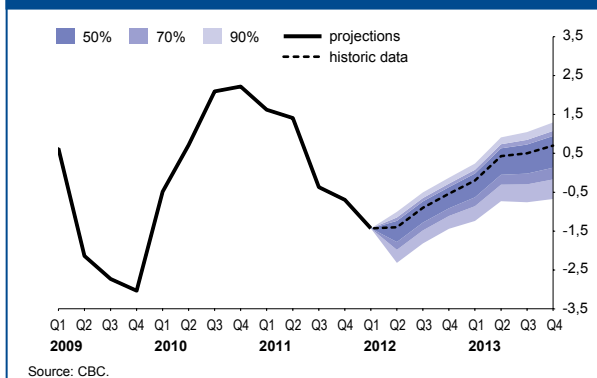
the modal forecasts and are considered as the most likely outcomes given the working assumptions of the Eurosystem. However, due to the tentative nature of the assumptions, the projections are subject to uncertainty.

The probability of GDP, HICP inflation and HICP inflation excluding energy forecasts lying around their respective modal projections is depicted in **Charts A.46, A.47 and A.48** respectively. The three confidence intervals show the bands in which GDP, HICP inflation and HICP inflation excluding energy are expected to be with a probability of 50%, 70% and 90%. For example, the darkest band includes the modal projection and covers 50% of the probability.

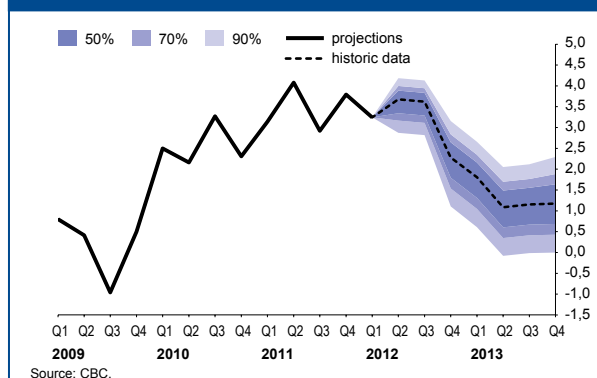
The probability distribution, which is based both on statistical methodology and on expert judgment, can either be normal or two piece normal with a degree of asymmetry around the modal projections. In particular, the skewed distribution is separated into two unequal parts, above and below the modal forecast. Moreover, the bands of the fan charts widen as the time horizon is extended, indicating the increasing uncertainty of outcomes in the longer-term<sup>22</sup>.

With respect to the risks inherent in GDP forecasts, the likelihood of a more intense political and economic turmoil in Greece after the elections on 17 June is expected to have a negative impact on the Cyprus economy. Moreover, if unemployment increases more than projected in the central scenario, there may be a further negative impact on GDP forecasts, mainly through the reduction in private consumption. Possible adoption of additional fiscal consolidation measures and the possible inclusion of Cyprus in the EU Support Mechanism may negatively affect GDP projections in the near future. If the fiscal consolidation measures are effective and reliable and / or a possible inclusion of Cyprus in the EU Support Mechanism with the right content, will increase the country's reliability and possibly reverse the negative economic sentiment, at

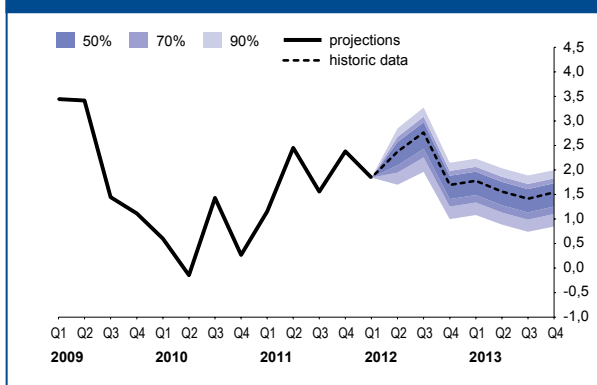
**CHART A.46 Real GDP fan chart**  
(annual change,%)



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



**CHART A.48 HICP excluding energy fan chart**  
(annual change,%)



22. 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.

least in the medium-term, with a positive outlook for GDP. On the other hand, upward risks to the projections for GDP originate from the larger than expected recovery in the economies of our trading partners and the potential inward investment in the energy sector. This will positively affect GDP through the recovery of exports and the inflow of foreign investment. Overall, the risks for a downward revision of the modal forecast of GDP are more likely.

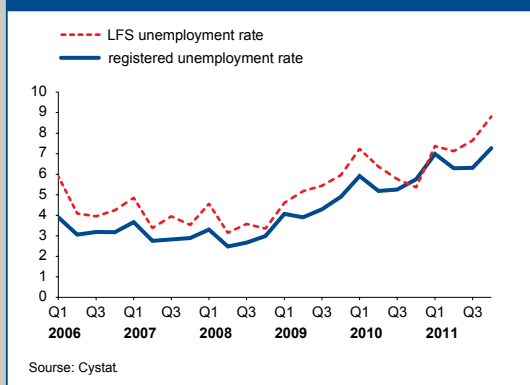
With regard to HICP inflation, the most significant upside risks relate to the possibility of higher oil prices and / or a depreciation of the euro against the dollar, as well as the possibility of indirect and secondary effects of past increases in oil prices affecting inflation with a lag. In addition, further increases in indirect taxes and administered prices in order to meet the fiscal target are also possible. On the other hand, the most significant downside risks to inflation relate to the possibility of a more severe and more prolonged contraction in economic activity, stronger effects of fiscal consolidation and increased unemployment. Furthermore, the deterioration in the international economic environment may reduce the external demand for services and thus put a downward pressure on prices. An additional reduction in construction activity may also limit the country's growth potential due to the wealth effect. Finally, as a result of financial market tensions and the sovereign debt crisis in the euro area, particularly in light of the uncertainty surrounding the developments in Greece, a further deterioration in the credit conditions may be experienced, with possible negative effects on the real economy as well as on monetary and financial conditions. These risks indicate that a downward deviation from the modal forecast of the HICP and the HICP excluding energy has a greater statistical probability of being realised.

## Box A.1: Unemployment in Cyprus: The problem of long-term unemployed

### Introduction

Unemployment in Cyprus has continued its upward trend, reaching unprecedented levels. As shown in **Chart 1**, until 2008 the unemployment rate followed a downward trend, while from 2009 onwards it has followed a strongly upward trend. This is compatible with the downward path followed by the Cyprus economy. More specifically, in the fourth quarter of 2011 the unemployment rate based on the Labour Force Survey (LFS) reached 8,8% compared with only 3,3% in the corresponding quarter of 2008. A similar trend was also followed by the registered

CHART 1 Unemployment rate, 2006-2011



unemployment<sup>1</sup> which, during the first four months of 2012, continued its upward trend.

The sharp rise in unemployment has also brought changes in the structure of some

categories of unemployment, since not all groups were equally affected. For example, unemployment among non-Cypriots recorded a larger increase than that of Cypriots, with their share in total unemployment in 2011 increasing to 30% compared with 14% in 2006. With regards to the age structure of the unemployed, the largest increases were recorded among those aged 15-24 and 25-54, while the unemployed aged 55-64 recorded smaller increases. However, the category of the older unemployed needs attention, since it is more difficult for older people to be reintegrated into the labour market and hence, they are more likely to withdraw from the workforce. With respect to sectoral comparisons, the largest increases in unemployment were recorded in sectors which were significantly affected by the economic crisis, such as construction. This may be associated with increased competition from non-Cypriots since, according to LFS data, the number of non-Cypriots in construction continues its upward trend, while the opposite is the case with Cypriot workers. The decrease in the number of Cypriot workers began in 2008 but it has been accentuated in the last two years. This indicates the substitution Cypriot workers by non-Cypriots. Finally, the duration of unemployment is of particular interest. Below is an analysis of unemployment by duration, which indicates a worrying upward trend in the long-term unemployed. The focus on this group is because of the serious economic and social implications that will emerge from the permanent removal

1. The unemployment rate based on the LFS is different from the registered unemployment rate, especially at their levels and to a lesser extent their trends, due to the differences in the two methods of measuring unemployment. See "Kyriacou et al. (2009)".

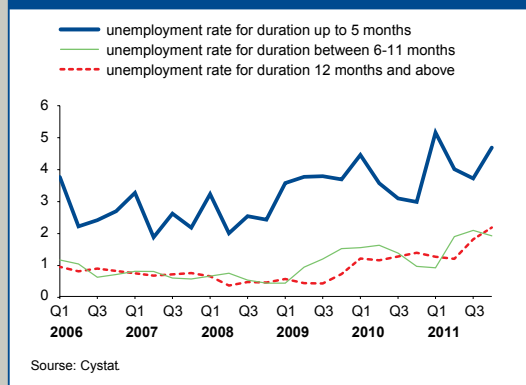
of the long-term unemployed from the labour market.

### Categorisation by duration of unemployment

Monitoring unemployment by duration becomes even more important in times of rising unemployment, due to the lag which may be present in unemployment. As shown in **Chart 2**, all categories of unemployment by duration recorded significant increases in recent years. More specifically, in the fourth quarter of 2011 those unemployed for 6 months and longer reached 4,1% from just 0,9% in the corresponding quarter of 2008. Similar increases were recorded for those unemployed between 6-11 months and 12 months and longer. Smaller increases were recorded in the unemployed of up to 5 months, which increased to 4,7% in the fourth quarter of 2011 from 3,7% in the fourth quarter of 2008. Moreover, as illustrated in the same chart, it appears that initially the short-term unemployed increased, while the increases in the longer-term unemployed were evident after a time-lag.

With regard to the prospects for the longer-term unemployed, these are not expected to be favourable. This is due to the continuing increase in the short-term unemployed, which over several months will be added to the long-term unemployed, since their reintegration into the labour market is not easy, as a result of the weak economic activity. In addition, the long-term unemployed have a relatively lower probability of being reintegrated into the labour market in relation to the short-term unemployed. Consequently, the long-term unemployed are likely to continue increasing at high rates, at least in the near future.

**CHART 2 Unemployment rate by duration, 2006-2011**



### Consequences of the increase in long-term unemployment

The consequences of long-term unemployment are particularly serious. Firstly, the human capital of the long-term unemployed may become obsolete, thus making it difficult for them to find work. In addition, the long abstention from work may discourage people from seeking employment. Therefore, it is more difficult to reintegrate the long-term unemployed into the labour market, even in times of economic growth. This has also been suggested by Pissarides (2010), who argues that governments in general have realised the negative consequences of long-term unemployment and are trying to combat it through various measures, such as retraining and incentives for the hiring of long-term unemployed, which are stated in the literature.

Apart from the effects of long-term unemployment on the individuals themselves, there are also negative consequences for economic growth and public finances. In particular, those who are unemployed for over 6 months and who are not entitled to

unemployment benefit can, under certain conditions, receive public benefits. According to Ministry of Labour data, in December 2008 the number of people receiving public benefits due to unemployment were 979, while in December 2010 this number more than doubled, reaching 2,368. This indicates that the evaluation of the cost of any measures which may be introduced for the long-term unemployed should take into account the potential benefit that will arise for the government from the reduction in the number of public benefit recipients.

### **Concluding remarks**

Unemployment in Cyprus recorded significant increases over the last three years due to weak and/or negative economic activity, thus reaching unprecedented levels for Cyprus. Although this increase is evident in all groups, some specific categories of unemployed were particularly affected. For example, the data show increased numbers of long-term unemployed compared with previous years. This trend suggests increased challenges for Cyprus, both socially and economically.

### **References**

- Kyriacou, G., M. Louca and M. Ktoris (2009) "Unemployment in Cyprus: comparison between two alternative measurement methods," *Cyprus Economic Policy Review*, 3 (2): 23-29.
- Pissarides, C. (2010) "Equilibrium in the labour market with search frictions", speech at the University of Cyprus, 8 December.



### A comparison of the CBC projections for the Cyprus economy with other international organisations<sup>23</sup>

The most recent forecasts published by the European Commission and the IMF for GDP and HICP for the years 2012 and 2013 as well as the respective CBC projections are presented in **Table A.14**. More specifically, in 2012 HICP inflation is expected to range between 3,4% and 2,8%, with the European Commission being the most pessimistic and the IMF the most optimistic, while the CBC expects inflation to reach 3,2 %. The projections of the three aforementioned institutions range between 2,5% and 1,3% in 2013, with the CBC being the most optimistic, expecting inflation to reach 1,3%, while the European Commission and the IMF expect inflation to reach 2,5% and 2,2%, respectively.

All three organisations expect GDP to record a contraction of around 1% in 2012, with the European Commission being relatively more optimistic, projecting a contraction of 0,8%, while the IMF is more pessimistic, expecting a contraction of 1,2%. The CBC anticipates a contraction of 1,1%. In 2013 GDP growth is expected to range between 0,3% and 0,8%, with the IMF being the most optimistic and the European Commission the most pessimistic. The CBC expects GDP growth to reach 0,4%.

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

		GDP		HICP	
		2012f	2013f	2012f	2013f
European Commission	Spring 2012	-0,8	0,3	3,4	2,5
	Autumn 2011	0,0	1,8	2,8	2,3
IMF	Spring 2012	-1,2	0,8	2,8	2,2
	Autumn 2011 <sup>1</sup>	-1,0	0,8	2,4	2,3
CBC	June 2012	-1,1	0,4	3,2	1,3
	December 2011	0,0	1,3	2,0	1,7

Sources: European Commission, IMF, CBC.

<sup>1</sup> Refer to the projections published in the IMF report for Cyprus (Article IV), October 2011.

23. It should be noted that these forecasts may differ because of timing differences in their preparation and publication by the various organisations.

## **Box A.2: Economic governance in the EU - overview of recent legislation**

### **Introduction**

The accumulation of serious macroeconomic imbalances and the subsequent sovereign debt crisis in the euro area has led to the gradual adoption of major changes in the economic governance of the EU. The objective of these major and complex reforms is to ensure the stability of the Economic and Monetary Union (EMU).

This analysis focuses on two aspects of the recent reforms: firstly, on the main provisions contained in the package of six acts (five regulations and one directive) for fiscal discipline and macroeconomic stability (the so-called “six-pack”) and secondly on the provisions of the new Fiscal Compact (the so-called “Fiscal Compact”). The former package of six measures was put into effect on 13 December 2011. The Fiscal Compact, which was agreed by all Heads of State and Government, apart from the UK and the Czech Republic, on 2 March 2012, provides further regulations for the strengthening of fiscal discipline, especially in the euro area and is embodied in the “Treaty on Stability, Coordination and Governance in the Economic and Monetary Union”. The Treaty will enter into force once ratified by at least 12 countries of the euro area. It should be noted that when the new Fiscal Compact enters into force, it will work alongside the aforementioned six-pack. Regarding Cyprus’s fiscal framework, the main reforms which are expected to be incorporated are recorded in the Stability Program (SP) for the

years 2012-2015, which was published by the Ministry of Finance last May.

### **Changes in EU economic governance in relation to the set of six acts**

This set of six acts aims at strengthening the fiscal and macroeconomic governance in the EU especially in the euro area. Three regulations and one directive concern the reform of both the preventive and corrective arm of the Stability and Growth Pact, the imposition of economic sanctions and minimum standards in terms of national fiscal frameworks. The other two regulations concern the introduction of a new macroeconomic framework of governance for the prevention and correction of excessive macroeconomic imbalances and the enforcement of measures to correct them in the member countries of the euro area.

The main provisions of the new economic governance framework which are included in the three regulations and directive in relation to public finances are:

- i) Comparative evaluation of public expenditure in structural terms in the preventive arm of the Stability and Growth Pact, as part of an overall assessment of the progress made towards the Medium-Term Objective (MTO);
- ii) A numerical criterion for assessing the compliance of the member country with the reference value of the gross public debt, as defined in the corrective arm of the Stability and Growth Pact;
- iii) Economic and non-economic sanctions for euro area member countries which do not

comply with the relevant provisions. The penalties are more stringent than those set by the Excessive Deficit Procedure (EDP);

- iv) Use of qualified majority voting against a proposal by the European Commission (the so-called “reverse qualified majority voting”). That is, the recommendations of the European Commission for imposing economic sanctions are considered as adopted unless the Council rejects them by qualified majority;
- v) Minimum requirements in terms of the national fiscal frameworks of member states; and
- vi) Minimum requirements regarding the independence of the national statistics authorities and the possibility of imposing economic sanctions (0,2% of GDP) in case of counterfeiting fiscal statistics.

The new economic governance framework also aims at identifying and addressing the macroeconomic imbalances at an early stage and includes the following elements:

- i) A warning mechanism through the evaluation of ten economic indicators (the so-called “scoreboard”) and an annual quality assessment of economic and financial issues by the European Commission;
- ii) Evaluation of the economic developments in member countries where the European Commission has identified significant macroeconomic imbalances and associated risks;
- iii) Recommendations to member countries to implement specific macroeconomic

policies in order to prevent or correct macroeconomic imbalances;

- iv) Member countries which have serious macroeconomic imbalances that might jeopardise the smooth functioning of the EMU may be subject to a process of excessive imbalances. This implies stronger and more detailed policy recommendations and the obligation of the member country to submit a corrective action plan which addresses the recommendations and deadlines set by the European Council;
- v) Penalties for euro area member countries in the form of freezing interest-bearing deposits (0,1% of GDP), if the Council deems that the country under surveillance has failed twice to meet the Council’s recommendation. In case of continued non-compliance, such a deposit would be converted into an annual fine.

The new framework of economic governance is a positive step towards fiscal discipline and minimising macroeconomic imbalances. However, challenges may be faced in its implementation. For example, there is considerable room for discretion from both the Commission and the Council with regards to surveillance and compliance, particularly in light of the exceptions which may be considered with respect to the supervision of fiscal policies. More analysis of these challenges is made in European Central Bank (2011).

### **Changes in EU economic governance in view of the new Fiscal Compact**

The new Fiscal Compact aims at strengthening fiscal discipline, especially in the euro area, in addition to the provisions of the revised Stability and Growth Pact. It consists of two main sections: (i) targeting for a balanced national budget or a budget in surplus, with automatic correction mechanisms, based on the principles proposed by the Commission, and (ii) strengthening of the EDP, by adopting more automatic mechanisms.

More specifically, a balanced national budget or a budget in surplus is achieved if the annual structural budget deficit based on the national MTO does not exceed 0,5% of GDP. In the event of derogation, an automatic corrective mechanism will be triggered at the national level. It should be noted that the national MTO may be increased to a deficit of around 1% of GDP in exceptional economic circumstances, provided that the debt to GDP ratio is significantly lower than 60%, as defined in the Stability and Growth Pact, and the risks associated with long-term sustainability are low. These exceptional circumstances refer to unusual events outside the control of the member state or in times of a severe economic recession in the euro area or the EU as a whole.

Member countries should incorporate the balanced budget rule in their national legislation, and preferably at the constitutional level. To that end, there is a deadline of one year after the Treaty enters into force. If a member state has not passed the legislation of a balanced budget within the specified period, the EU court will have jurisdiction to decide for its case. The ruling

will be binding and, if it is not implemented, there could be a fine of up to 0,1% of GDP of that country.

In addition, the EDP will take a more automatic form, with euro area member countries committing to support its proposals, unless a qualified majority is formed against the proposal. There is also a requirement for member countries in EDP to submit for approval by the Commission and Council an economic partnership agreement, with details of the necessary structural reforms to ensure a sustainable correction of the excessive deficits.

The main benefit arising from the new Fiscal Compact is the fact that it includes key elements of the Stability and Growth Pact (secondary legislation) into a Treaty (primary law), which requires adoption from the national legal systems of member countries at a constitutional or equivalent level. This should reinforce the national commitment of member countries for sustainable public finances.

Furthermore, the Fiscal Compact improves the preventive arm of the revised Stability and Growth Pact, provided that the relevant provisions are strictly applied. For example, a faster convergence towards the MTO of the member country requires that the Commission proposes an ambitious and binding timetable for convergence, which will exceed the requirements of the revised Stability and Growth Pact. As regards the corrective arm of the revised Stability and Growth Pact, the Fiscal Compact leads to increased automation of the procedures for breaches of the deficit criterion, since the parties adopting the relevant provisions are bound to support the recommendations of the

Commission, unless a specific majority in the Council is opposed to such a decision. More analysis may be found in European Central Bank (2012).

### **Conclusions**

The implementation of the package of measures to strengthen economic governance in the EU is a positive step in the efforts of member states for tidying up public finances - especially in terms of government spending - and to minimise macroeconomic imbalances. It should be noted that there may be challenges in terms of implementing the relevant provisions, but their implementation through proper handling is expected to have a positive impact on the EU, and particularly the euro area economy.

### **References**

- European Central Bank (2011) *Monthly Bulletin*, December, 98-100.  
European Central Bank (2012) *Monthly Bulletin*, May, 79-94.  
Ministry of Finance (2012) *Stability Programme of the Republic of Cyprus 2012-2015*.



**SECTION B**

**Statistical Annex**

## Explanatory notes for Statistical Annex

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

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

**Tables B.2-B.7** refer to the Consumer Price Index (CPI), which is published on a monthly basis by Cystat with 2005 as the base year. The tables show both the national CPI and the HICP. Even though the two indices exhibit similar fluctuations, they differ in two respects. First, the expenditures of charitable institutions (i.e. nursing homes, religious organisations, etc.) and foreign tourists are included in the HICP but not in the national CPI. The second difference concerns imputed rents, which were included in the national CPI until 2005 but not in the HICP. From January 2006, only part of the imputed rents was included in the national CPI, and since 2011 these have been harmonised with the full exclusion of imputed rents from the CPI.

More specifically, **Tables B.2** and **B.3** show the percentage change in the CPI by economic category and the corresponding weighted contribution to the total change in the CPI by economic category, respectively. **Tables B.4** and **B.5** present the percentage change in the CPI by category of goods and services and the corresponding weighted contribution to the total change in the CPI by category of goods and services, respectively. **Tables B.6** and **B.7** show the percentage change in the CPI for prices of services and the corresponding weighted contribution to the

percentage change in prices of services, respectively.

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

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

**Table B.14** shows GDP by category of expenditure at constant 2005 market prices calculated using the chain linking method, while **Table B.15** shows GDP by category of expenditure at current market prices. The data for GDP are prepared by Cystat and are based on the concepts and methodology of the European System of Accounts (ESA 95). Provisional data are based on the last available indicators, until the results of various economic surveys are finalised.

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

**Table B.17** shows construction indicators as published by Cystat. Specifically, it shows the total area of building permits authorised by the municipal authorities and the district administration offices as well



as the sales of cement.

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

**Table B.19** shows key indicators of the labour market in Cyprus based on the Labour Force Survey (LFS), which is published by Cystat. The LFS is conducted in all EU member states, based on the Regulation 577/98 of the EU Council.

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

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

	USD/EUR	GBP/EUR	JPY/EUR
Average for January	1,2912	0,8317	99,3332
Average for February	1,3237	0,8375	104,0605
Average for March	1,3213	0,8346	109,0709
Average for April	1,3164	0,8224	106,9900
Average for May (until 17 May)	1,2957	0,8050	103,5769
Average for Jan - May (until 17 May)	1,3106	0,8282	104,6311
Closing rate on 31/12/2011	1,2961	0,8334	99,6600
Closing rate on 17/05/2012	1,2698	0,8039	100,6800
Highest exchange rate vs the euro	1,3458	0,8494	110,7500
	(28 Feb)	(23 Feb)	(27 Mar)
Lowest exchange rate vs the euro	1,2667	0,7959	97,2600
	(16 Jan)	(15 May)	(16 Jan)
% appreciation (+)/depreciation (-) of the currency vs the euro from closing rate on 31/12/2011 to closing rate on 17/05/2012	-2,0%	-3,5%	1,0%

Source: Bloomberg.

TABLE B.2 Percentage change in CPI by economic category (%)

	2009	2010	2011	April 2011/10	March 2012/11	April 2012/11	Jan.-Apr. 2011/10	Jan.-Apr. 2012/11	Jan.-Apr. 2012/11	Weights	
										2005=100 (for 2008-2010)	2005=100 (for 2011&2012)
<b>GENERAL INDEX</b>	<b>0,32</b>	<b>2,43</b>	<b>3,29</b>	<b>3,28</b>	<b>3,37</b>	<b>3,08</b>	<b>2,92</b>	<b>3,20</b>	<b>3,17</b>	<b>100,00</b>	<b>100,00</b>
<b>A DOMESTIC PRODUCTS</b>	<b>0,78</b>	<b>3,01</b>	<b>11,04</b>	<b>9,16</b>	<b>9,07</b>	<b>8,41</b>	<b>8,56</b>	<b>9,39</b>	<b>9,14</b>	<b>28,98</b>	<b>20,52</b>
A.1 Agricultural	3,30	-0,01	-1,57	-2,75	1,92	-1,47	-4,80	4,57	3,05	6,93	5,96
A.2 Industrial	2,56	1,36	12,54	11,39	3,41	4,09	12,66	3,05	3,31	19,29	11,37
A.3 Electricity	-14,84	22,23	14,86	11,36	38,46	36,31	7,52	36,87	36,72	2,76	3,19
<b>B PETROLEUM PRODUCTS</b>	<b>-17,19</b>	<b>19,39</b>	<b>19,25</b>	<b>23,01</b>	<b>10,95</b>	<b>11,25</b>	<b>25,95</b>	<b>9,15</b>	<b>9,70</b>	<b>6,63</b>	<b>5,50</b>
<b>C IMPORTED PRODUCTS</b>	<b>-0,56</b>	<b>-0,93</b>	<b>2,77</b>	<b>3,26</b>	<b>0,19</b>	<b>-0,47</b>	<b>2,30</b>	<b>-0,18</b>	<b>-0,26</b>	<b>24,62</b>	<b>31,74</b>
C1 Motor vehicles	-3,38	-4,19	-0,63	-0,01	-0,99	-1,08	-0,66	-1,66	-1,52	5,41	6,48
C2 Other imported products	0,16	-0,13	3,16	3,60	0,44	-0,35	2,66	0,14	0,01	19,21	25,26
<b>D SERVICES</b>	<b>3,69</b>	<b>1,24</b>	<b>1,61</b>	<b>1,56</b>	<b>1,06</b>	<b>1,13</b>	<b>1,48</b>	<b>1,01</b>	<b>1,04</b>	<b>39,77</b>	<b>42,24</b>
<b>HICP</b>	<b>4,4</b>	<b>0,2</b>	<b>3,5</b>	<b>3,5</b>	<b>3,5</b>	<b>3,6</b>	<b>3,2</b>	<b>3,3</b>	<b>3,3</b>	<b>-</b>	<b>-</b>

Source: Cystat.

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

	2009	2010	2011	April 2011/10	March 2012/11	April 2012/11	Jan.-Apr. 2011/10	Jan.-Apr. 2012/11	Jan.-Apr. 2012/11	Weights	
										2005=100 (for 2008-2010)	2005=100 (for 2011&2012)
<b>GENERAL INDEX</b>	<b>0,32</b>	<b>2,43</b>	<b>3,29</b>	<b>3,28</b>	<b>3,37</b>	<b>3,08</b>	<b>2,92</b>	<b>3,20</b>	<b>3,17</b>	<b>100,00</b>	<b>100,00</b>
<b>A DOMESTIC PRODUCTS</b>	<b>0,24</b>	<b>0,93</b>	<b>2,43</b>	<b>2,01</b>	<b>2,11</b>	<b>1,95</b>	<b>1,89</b>	<b>2,19</b>	<b>2,13</b>	<b>28,98</b>	<b>20,52</b>
A.1 Agricultural	0,26	0,00	-0,11	-0,19	0,13	-0,10	-0,34	0,30	0,20	6,93	5,96
A.2 Industrial	0,49	0,27	1,44	1,31	0,43	0,51	1,45	0,38	0,41	19,29	11,37
A.3 Electricity	-0,52	0,66	0,61	0,45	1,56	1,54	0,30	1,50	1,51	2,76	3,19
<b>B PETROLEUM PRODUCTS</b>	<b>-1,28</b>	<b>1,19</b>	<b>1,14</b>	<b>1,34</b>	<b>0,75</b>	<b>0,78</b>	<b>1,45</b>	<b>0,62</b>	<b>0,66</b>	<b>6,63</b>	<b>5,50</b>
<b>C IMPORTED PRODUCTS</b>	<b>-0,12</b>	<b>-0,20</b>	<b>0,74</b>	<b>0,88</b>	<b>0,05</b>	<b>-0,13</b>	<b>0,61</b>	<b>-0,05</b>	<b>-0,07</b>	<b>24,62</b>	<b>31,74</b>
C1 Motor vehicles	-0,15	-0,18	-0,03	0,00	-0,05	-0,05	-0,03	-0,08	-0,07	5,41	6,48
C2 Other imported products	0,03	-0,02	0,88	0,81	0,10	-0,08	0,74	0,04	0,00	19,21	25,26
<b>D SERVICES</b>	<b>1,48</b>	<b>0,51</b>	<b>0,70</b>	<b>0,68</b>	<b>0,46</b>	<b>0,48</b>	<b>0,65</b>	<b>0,44</b>	<b>0,45</b>	<b>39,77</b>	<b>42,24</b>

Source: Cystat.

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

	2009	2010	2011	April 2011/10	March 2012/11	April 2012/11	Jan.-Apr. 2011/10	Jan.-Apr. 2012/11	Jan.-Mar. 2012/11
<b>GENERAL INDEX</b>	<b>0,32</b>	<b>2,43</b>	<b>3,29</b>	<b>3,28</b>	<b>3,37</b>	<b>3,08</b>	<b>2,92</b>	<b>3,20</b>	<b>3,17</b>
Food and non-alcoholic beverages	3,69	0,24	4,07	3,19	2,03	1,33	2,20	3,41	2,89
Alcoholic beverages and tobacco	3,10	1,39	11,13	10,29	4,51	4,85	10,45	2,64	3,19
Clothing and footwear	-4,06	-0,64	-0,49	0,74	0,46	-2,39	-1,26	-0,88	-1,30
Housing, water, electricity and gas	-2,49	7,62	10,43	9,11	14,15	13,68	8,01	13,12	13,26
Furnishings, household equipment and supplies	1,46	0,21	2,46	1,53	0,91	1,28	1,70	-0,10	1,14
Health	6,49	2,95	2,75	2,64	0,93	0,92	2,79	1,10	1,06
Transport	-6,97	3,64	2,95	5,28	2,86	3,54	5,05	1,96	2,36
Communications	0,01	-0,04	0,45	0,56	1,25	1,26	0,57	0,22	0,48
Recreation and culture	1,92	-0,01	1,79	1,55	0,54	0,61	1,58	0,32	0,39
Education	5,29	4,69	3,18	3,54	3,05	3,05	3,54	3,05	3,05
Restaurants and hotels	5,60	2,04	1,48	1,22	1,90	1,75	1,39	1,84	1,82
Miscellaneous goods and services	2,99	2,12	-1,13	-0,61	0,53	0,24	-0,36	0,46	0,40

Source: Cystat.

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

	2009	2010	2011	April 2011/10	March 2012/11	April 2012/11	Jan.-Apr. 2011/10	Jan.-Mar. 2012/11	Jan.-Apr. 2012/11
<b>GENERAL INDEX</b>	<b>0,32</b>	<b>2,43</b>	<b>3,29</b>	<b>3,28</b>	<b>3,37</b>	<b>3,08</b>	<b>2,92</b>	<b>3,20</b>	<b>3,17</b>
Food and non-alcoholic beverages	0,70	0,05	0,71	0,56	0,36	0,23	0,39	0,61	0,51
Alcoholic beverages and tobacco	0,06	0,03	0,22	0,21	0,10	0,10	0,21	0,06	0,07
Clothing and footwear	-0,32	-0,05	-0,03	0,05	0,03	-0,17	-0,08	-0,05	-0,08
Housing, water, electricity and gas	-0,42	1,23	1,35	1,19	1,93	1,88	1,03	1,78	1,79
Furnishings, household equipment and supplies	0,09	0,01	0,17	0,11	0,06	0,09	0,12	0,08	0,08
Health	0,34	0,16	0,20	0,19	0,07	0,07	0,20	0,08	0,08
Transport	-1,04	0,49	0,40	0,72	0,40	0,50	0,69	0,27	0,33
Communications	0,00	0,00	0,02	0,02	0,05	0,05	0,02	0,01	0,02
Recreation and culture	0,12	0,00	0,11	0,09	0,03	0,04	0,10	0,02	0,02
Education	0,16	0,15	0,13	0,15	0,13	0,13	0,15	0,13	0,13
Restaurants and hotels	0,44	0,17	0,13	0,11	0,17	0,16	0,13	0,17	0,16
Miscellaneous goods and services	0,20	0,15	-0,10	-0,05	0,04	0,02	-0,03	0,04	0,03

Source: Cystat.

**TABLE B.6 Percentage change in prices of services (%)**

	April 2011/10	March 2012/11	April 2012/11	Jan.-Apr. 2011/10	Jan.-Mar. 2012/11	Jan.-Apr. 2012/11
<b>GENERAL INDEX</b>	<b>3,28</b>	<b>3,37</b>	<b>3,08</b>	<b>2,92</b>	<b>3,20</b>	<b>3,17</b>
Rents	0,49	0,09	0,37	0,67	0,22	0,26
Maintenance of houses	0,00	-0,72	-0,72	0,20	-0,68	-0,69
Transport	2,09	-5,20	-3,91	-1,70	-4,24	-4,16
Communications	-0,02	1,70	1,69	-0,03	0,57	0,85
Insurance	-1,17	-0,12	-0,12	-1,18	-0,12	-0,12
Public services	4,89	1,56	1,56	4,49	1,69	1,66
Education	3,54	3,05	3,05	3,54	3,04	3,05
Medical care	1,17	1,07	1,05	1,40	1,28	1,22
Restaurants and coffee shops	0,89	1,77	1,78	0,93	1,73	1,74
Personal and household services	0,63	2,14	0,31	1,07	1,87	1,90
<b>Total Services</b>	<b>1,56</b>	<b>1,06</b>	<b>1,13</b>	<b>1,48</b>	<b>1,01</b>	<b>1,04</b>

Source: Cystat.

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

	April 2011/10	March 2012/11	April 2012/11	Jan.-Apr. 2011/10	Jan.-Mar. 2012/11	Jan.-Apr. 2012/11
<b>GENERAL INDEX</b>	<b>3,28</b>	<b>3,37</b>	<b>3,08</b>	<b>2,92</b>	<b>3,20</b>	<b>3,17</b>
Rents	0,02	0,00	0,01	0,02	0,01	0,01
Maintenance of houses	0,00	-0,02	-0,02	0,01	-0,02	-0,02
Transport	0,06	-0,14	-0,11	-0,05	-0,12	-0,11
Communications	0,00	0,06	0,06	0,00	0,02	0,03
Insurance	-0,03	0,00	0,00	-0,02	0,00	0,00
Public services	0,06	0,02	0,02	0,06	0,02	0,02
Education	0,15	0,13	0,13	0,15	0,13	0,13
Medical care	0,07	0,06	0,06	0,08	0,07	0,07
Restaurants and coffee shops	0,08	0,16	0,16	0,10	0,15	0,16
Personal and household services	0,06	0,19	0,03	0,07	0,17	0,13
<b>Total Services</b>	<b>0,68</b>	<b>0,46</b>	<b>0,48</b>	<b>0,64</b>	<b>0,44</b>	<b>0,45</b>

Source: Cystat.

**TABLE B.8 Balance of payments**  
(€ million)

	2010 (prov.)			2011 (prov.)		
	Credit	Debit	NET	Credit	Debit	NET
<b>CURRENT ACCOUNT</b>	<b>10.173,6</b>	<b>11.885,5</b>	<b>-1.711,9</b>	<b>8.190,3</b>	<b>10.045,4</b>	<b>-1.855,1</b>
<b>GOODS, SERVICES AND INCOME</b>	<b>9.456,5</b>	<b>11.052,3</b>	<b>-1.595,8</b>	<b>7.611,3</b>	<b>9.258,3</b>	<b>-1.647,0</b>
<b>GOODS AND SERVICES</b>	<b>7.186,5</b>	<b>8.268,1</b>	<b>-1.081,6</b>	<b>7.577,3</b>	<b>8.217,1</b>	<b>-639,8</b>
<b>GOODS</b>	<b>1.137,2</b>	<b>5.801,3</b>	<b>-4.664,1</b>	<b>1.405,9</b>	<b>5.748,8</b>	<b>-4.342,9</b>
<b>SERVICES</b>	<b>6.049,3</b>	<b>2.466,8</b>	<b>3.582,5</b>	<b>6.171,4</b>	<b>2.468,3</b>	<b>3.703,2</b>
Transport	1.446,6	1.028,2	418,4	1.510,4	1.034,5	475,9
Travel	1.613,7	845,4	768,3	1.810,0	868,0	942,0
Communications services	52,8	68,5	-15,7	42,2	77,5	-35,3
Construction services	36,2	12,4	23,8	28,9	12,4	16,6
Insurance services	35,7	32,7	3,0	27,0	33,6	-6,6
Financial services	820,1	167,6	652,6	650,4	102,9	547,5
Computer and information services	63,4	29,6	33,8	42,3	21,6	20,7
Royalties and licence fees	6,3	23,1	-16,8	1,6	29,7	-28,0
Other business services	1.807,6	167,7	1.639,9	1.900,2	197,8	1.702,4
Personal, cultural and recreational services	30,4	25,6	4,9	28,8	26,8	2,0
Government services, n.i.e.	136,3	66,0	70,4	129,7	63,7	66,0
Services not allocated	0,0	0,0	0,0	0,0	0,0	0,0
<b>INCOME</b>	<b>2.270,0</b>	<b>2.784,2</b>	<b>-514,2</b>	<b>34,0</b>	<b>1.041,3</b>	<b>-1.007,3</b>
Compensation of employees	30,4	157,6	-127,2	24,1	172,9	-148,8
Investment income	2.239,6	2.626,6	-387,0	9,8	868,3	-858,5
Direct investment income	237,0	918,7	-681,7	-1.888,0	-513,5	-1.374,6
Portfolio investment income	930,6	671,1	259,5	826,3	410,0	416,3
Other investment income	1.072,0	1.036,8	35,3	1.071,6	971,8	99,8
<b>CURRENT TRANSFERS</b>	<b>717,1</b>	<b>833,2</b>	<b>-116,1</b>	<b>579,0</b>	<b>787,0</b>	<b>-208,0</b>
General government	143,9	204,4	-60,5	122,8	246,3	-123,5
Other sectors	573,2	628,9	-55,6	456,2	540,7	-84,5
<b>CAPITAL AND FINANCIAL ACCOUNT</b>			<b>1.681,6</b>			<b>1.738,2</b>
Capital account	66,3	31,3	35,0	79,1	32,7	46,4
Financial account			1.646,6			1.691,8
Direct investment			65,4			1.513,4
Abroad			-512,6			1.314,6
In Cyprus			578,0			198,8
Portfolio investment			-1.933,8			4.780,1
Assets			-2.567,3			4.405,2
Liabilities			633,5			374,9
Financial derivatives			-58,2			-1.145,4
Other investment			3.373,1			-3.516,4
Assets			13.499,7			-1.645,1
Liabilities			-10.126,6			-1.871,3
Official reserve assets			200,0			60,1
<b>NET ERRORS AND OMISSIONS</b>			<b>30,3</b>			<b>116,9</b>

Source: CBC.

**TABLE B.9 Trade account**  
(€ million unless otherwise indicated)

	2010	2011	% change	2011 Jan.-Feb.	2012 Jan.-Feb.	% change
Imports	6.517,4	6.260,5	-3,9	982,2	880,5	-10,4
Consumer goods	1.959,1	1.934,9	-1,2	277,3	271,2	-2,2
Intermediate inputs	1.702,9	1.651,0	-3,0	288,2	219,7	-23,8
Capital goods	554,9	476,8	-14,1	74,6	54,5	-27,0
Transport equipment	873,7	548,7	-37,2	92,0	69,6	-24,3
Fuels and lubricants	1.309,8	1.579,6	20,6	221,3	260,4	17,7
Exports	1.136,8	1.406,0	23,7	207,7	200,6	-3,4
Trade deficit	5.380,6	-4.854,5	-190,2	-774,5	-679,9	-12,2

Source: Cystat.

**TABLE B.10 Direct investment in Cyprus by non-residents**  
(€ million)

Net capital flows												
NACE CODE	Economic activity	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
595	AGRICULTURE AND FISHING	0,2	0,2	0,0	0,0	0,0	0,0	-0,1	-0,1	0,0	0,0	0,0
1495	MINING AND QUARRYING	2,8	2,1	2,1	4,7	50,3	19,9	0,4	2,1	*	*	0,0
3995	MANUFACTURING	14,3	5,6	37,8	-9,2	53,2	30,4	79,6	15,4	1,0	9,0	87,0
4195	ELECTRICITY, GAS AND WATER	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	*	*	94,0
4500	CONSTRUCTION	6,6	-6,3	13,6	29,8	58,9	68,3	47,9	52,2	41,0	10,0	3,0
5295	TRADE AND REPAIRS	210,7	256,1	217,8	101,1	277,3	177,2	262,5	371,3	55,0	685,0	15,0
5500	HOTELS AND RESTAURANTS	2,3	21,3	8,3	1,9	*	*	5,7	10,6	2,0	6,0	-1,0
6495	TRANSPORT AND COMMUNICATION	9,6	-0,2	44,6	119,1	*	*	-21,6	55,6	11,0	-2,0	6,0
6895	FINANCIAL INTERMEDIATION	431,8	444,3	173,6	140,0	122,1	0,8	279,8	316,5	397,0	1.407,0	197,0
7395	REAL ESTATE AND BUSINESS ACTIVITIES	218,3	278,9	523,3	338,1	205,8	356,0	485,2	801,6	454,0	365,0	187,0
9995	OTHER SERVICES	12,6	35,8	67,8	40,0	75,8	269,6	322,4	1,1	3,0	19,0	-11,0
9996	NOT ALLOCATED	0,0	0,0	14,7	24,4	15,3	0,0	0,0	0,0	*	*	0,0
9999	TOTAL	909,1	1.037,8	1.103,6	789,8	873,0	940,5	1.461,9	1.626,4	965,0	2.499,0	578,0

Net capital flows												
Geographical / economic zone	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	
E1 EUROPEAN COUNTRIES	771,4	873,3	955,1	667,5	764,5	909,4	861,0	1.553,1	734,0	1.977,0	-139,0	
D3 EE-25	458,4	455,2	444,1	588,4	604,3	534,0	492,2	972,1	307,0	1.389,0	117,0	
V1 EE-27	-	-	-	-	-	-	-	-	298,0	1.400,0	117,0	
E4 AFRICA	16,2	20,8	25,3	25,9	*	*	*	-0,9	13,0	22,0	351,0	
E7 AMERICA	82,6	82,3	*	30,3	*	-9,4	192,4	5,0	165,0	432,0	345,0	
F2 ASIA	39,7	63,0	86,6	*	14,8	34,2	413,3	69,2	49,0	66,0	20,0	
F7 OCEANIA	-0,8	-1,7	*	*	-1,2	*	*	0,0	4,0	3,0	2,0	
Z8 Extra EU-27 not allocated	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	
A1 WORLD (ALL ENTITIES)	909,1	1.037,8	1.103,6	789,8	873,0	940,5	1.461,9	1.626,4	965,0	2.499,0	578,0	

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.

**TABLE B.11 Direct investment abroad**  
(€ million)

		Net capital flows										
NACE CODE	Economic activity	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
595	AGRICULTURE AND FISHING	-2,6	*	-0,3	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
1495	MINING AND QUARRYING	0,0	-0,9	0,0	0,0	0,0	0,1	0,0	0,0	0,0	0,0	0,0
3995	MANUFACTURING	-7,1	-7,1	-4,6	-15,5	-58,9	-39,5	41,3	-2,1	0,0	-1,0	-12,0
4195	ELECTRICITY, GAS AND WATER	*	*	-1,4	0,0	-0,1	0,0	0,0	0,0	*	*	1,0
4500	CONSTRUCTION	-4,2	*	-69,5	-75,0	*	-196,8	*	-49,4	-100,0	-28,0	-3,0
5295	TRADE AND REPAIRS	-9,1	-7,9	-5,3	-32,6	-37,3	176,9	-30,2	-22,9	-135,0	-38,0	-522,0
5500	HOTELS AND RESTAURANTS	-18,2	-62,9	-16,3	-88,1	*	*	*	-22,4	-19,0	-69,0	-17,0
6495	TRANSPORT AND COMMUNICATION	-22,2	-13,5	-21,3	-18,4	-12,0	3,8	-10,0	-54,5	-1,0	-4,0	-27,0
6895	FINANCIAL INTERMEDIATION	-98,4	-160,9	-112,1	-94,6	-122,4	42,5	-430,9	-348,1	-1.334,0	43,0	60,0
7395	REAL ESTATE AND BUSINESS ACTIVITIES	-18,1	-12,7	-299,6	-132,4	-137,4	-415,8	-180,3	-406,8	-267,0	-177,0	5,0
9995	OTHER SERVICES	*	-3,9	-0,8	-10,7	-0,7	*	114,2	-0,1	0,0	0,0	1,0
9996	NOT ALLOCATED	0,0	0,0	-9,3	-39,5	-8,9	0,0	0,0	0,0	*	*	0,0
<b>9999</b>	<b>TOTAL</b>	<b>-183,0</b>	<b>-274,3</b>	<b>-540,6</b>	<b>-506,8</b>	<b>-555,4</b>	<b>-442,4</b>	<b>-707,2</b>	<b>-906,3</b>	<b>-1.855,0</b>	<b>-276,0</b>	<b>-513,0</b>

		Net capital flows										
Geographical / economic zone		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
E1	EUROPEAN COUNTRIES	-139,2	-234,8	-441,4	-412,0	-475,6	-301,9	-375,8	-842,1	-1.323,0	-566,0	-277,0
D3	EE-25	-116,1	-223,6	-429,0	-339,0	-359,2	-138,7	-34,7	-516,3	-14,0	-447,0	171,0
V1	EE-27	-	-	-	-	-	-	-	-	-63,0	-518,0	178,0
E4	AFRICA	-7,6	*	-26,4	-35,4	*	*	-213,4	-0,8	-8,0	-43,0	-55,0
E7	AMERICA	-2,4	*	*	-16,9	-6,5	*	*	-5,4	-317,0	398,0	-156,0
F2	ASIA	-0,6	-3,9	*	-41,1	*	*	*	-51,8	-172,0	-31,0	-8,0
F7	OCEANIA	-33,2	-32,9	-3,4	-1,4	-11,2	-4,8	-8,6	-5,8	-35,0	-33,0	-16,0
Z8	Extra EU-27 not allocated	0,0	0,0	0,0	0,0	0,0	0,0	0,0	-0,4	0,0	0,0	0,0
<b>A1</b>	<b>WORLD (ALL ENTITIES)</b>	<b>-183,0</b>	<b>-274,3</b>	<b>-540,6</b>	<b>-506,8</b>	<b>-555,4</b>	<b>-442,4</b>	<b>-707,2</b>	<b>-906,3</b>	<b>-1.855,0</b>	<b>-276,0</b>	<b>-513,0</b>

Source: CBC.

\* In order to ensure confidentiality of the data, amounts which relate to a smaller number of transactions are not presented on their own but are included at a higher level of aggregation.

**TABLE B.12 Annual international investment position: 2012 (provisional)**  
(€ million)

	ASSETS	LIABILITIES	BALANCE
<b>FINANCIAL ACCOUNT</b>			<b>-14.329,4</b>
<b>Direct Investment</b>			<b>-6.606,4</b>
<b>Abroad</b>			<b>6.066,9</b>
Equity capital and reinvested earnings			3.501,5
MFIs (excluding central banks)			-911,6
Other sectors			4.413,2
Other Capital			2.565,3
MFIs (excluding central banks)			2,3
Other sectors			2.563,0
<b>In the reporting country</b>			<b>12.673,2</b>
Equity capital and reinvested earnings			11.506,0
MFIs (excluding central banks)			1.938,1
Other sectors			9.567,8
Other Capital			1.167,3
MFIs (excluding central banks)			24,8
Other sectors			1.142,5
<b>Portfolio Investment</b>	<b>25.648,3</b>	<b>7.345,8</b>	<b>18.302,5</b>
<b>Equity securities</b>	<b>1.792,2</b>	<b>738,5</b>	
Monetary authorities	0,0		
General government	0,0		
MFIs (excluding central banks)	3,7	428,8	
Other sectors	1.788,5	309,7	
<b>Debt securities</b>	<b>23.856,1</b>	<b>6.607,3</b>	
<b>Bonds and notes</b>	<b>23.812,7</b>	<b>6.252,3</b>	
Monetary authorities	2.792,4	0,0	
General government	0,0	3.872,0	
MFIs (excluding central banks)	18.807,5	2.240,3	
Other sectors	2.212,9	140,0	
Money market instruments	43,3	355,0	
Monetary authorities	0,0	0,0	
General government	0,0	297,6	
MFIs (excluding central banks)	32,4	37,4	
Other sectors	10,9	20,0	
<b>Financial Derivatives</b>	<b>852,8</b>	<b>665,5</b>	<b>187,3</b>
Monetary authorities	0,0	0,0	0,0
General government	0,0	0,0	0,0
MFIs (excluding central banks)	284,6	663,7	-379,1
Other sectors	568,2	1,8	566,4
<b>Other Investment</b>	<b>48.583,6</b>	<b>75.728,4</b>	<b>-27.144,8</b>
<b>Monetary authorities</b>	<b>662,1</b>	<b>7.991,6</b>	
Loans/currency and deposits	630,8	7.986,4	
Other assets/liabilities	31,2	5,2	
<b>General government</b>	<b>422,8</b>	<b>1.611,0</b>	
Trade credits	7,5	0,0	
Loans/currency and deposits	236,2	1.607,9	
Other assets/liabilities	179,1	3,0	
<b>MFIs (excluding central banks)</b>	<b>43.588,8</b>	<b>62.663,6</b>	
Loans/currency and deposits	43.467,0	62.621,1	
Other assets/liabilities	121,8	42,5	
<b>Other sectors</b>	<b>3.909,9</b>	<b>3.462,2</b>	
Trade credits	152,9	662,2	
Loans/currency and deposits	3.757,0	2.800,0	
Other assets/liabilities	0,0	0,0	
<b>Reserve assets</b>	<b>931,9</b>		

Source: CBC.  
MFIs = Monetary Financial Institutions



TABLE B.13 Tourist arrivals and receipts from tourism

Year	Month	Tourist arrivals			Receipts from tourism		
		Number of tourists	% change		€ million	% change	
			Previous year	Cumulative period		Previous year	Cumulative period
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	136,7	53,6	23,6
	May	267.487	3,7	11,7	187,1	13,5	19,3
	June	300.817	9,3	10,9	220,0	12,6	17,0
	July	359.104	17,3	12,6	274,4	18,7	17,5
	August	337.013	10,8	12,2	267,0	10,7	16,0
	September	304.260	5,2	11,1	235,8	6,9	14,4
	October	259.863	7,5	10,6	188,8	7,6	13,6
	November	92.878	0,3	10,2	64,8	3,8	13,2
	December	65.339	6,8	10,1	41,6	1,7	12,9
2012	January	47.610	7,1	7,1	30,0	0,7	0,7
	February	55.420	-11,0	-3,5	32,3	-12,5	-6,6
	March*	96.000	-3,0	-3,2	n/a	n/a	n/a
	April	189.648	-5,1	-4,1	n/a	n/a	n/a

Source: Cystat.

\* Note: Due to the unavailability of data for March by Cystat the CBC has interpolated March figure based on historical data.

TABLE B.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	2.300,9	357,4	1.541,9	719,4	838,9	1.156,7
	Q2	2.489,2	351,7	1.488,0	662,2	1.209,9	1.222,5
	Q3	2.464,5	352,9	1.516,6	351,1	1.400,5	1.156,5
	Q4	2.419,5	635,4	1.582,3	282,7	1.164,9	1.245,7
1997	Q1	2.336,8	388,1	1.565,8	618,2	851,2	1.086,5
	Q2	2.514,7	382,4	1.539,9	659,0	1.218,6	1.285,2
	Q3	2.556,3	383,2	1.538,2	364,2	1.531,3	1.260,6
	Q4	2.491,3	692,8	1.632,2	182,2	1.175,4	1.191,3
1998	Q1	2.417,3	434,7	1.682,2	569,4	901,8	1.170,8
	Q2	2.655,6	422,4	1.590,9	583,9	1.264,8	1.206,5
	Q3	2.706,5	461,9	1.619,4	356,5	1.530,9	1.262,2
	Q4	2.612,5	592,6	1.735,7	393,2	1.167,3	1.276,3
1999	Q1	2.531,4	459,4	1.739,8	533,2	905,1	1.106,1
	Q2	2.798,9	474,6	1.634,8	638,6	1.357,4	1.306,5
	Q3	2.814,5	479,0	1.631,7	261,0	1.727,3	1.284,5
	Q4	2.748,4	663,3	1.790,9	365,9	1.309,6	1.381,3
2000	Q1	2.686,6	419,8	1.857,6	608,1	1.043,4	1.242,3
	Q2	2.952,0	427,5	1.782,7	694,6	1.516,6	1.469,4
	Q3	2.956,2	480,5	1.739,3	302,7	1.877,4	1.443,7
	Q4	2.844,7	643,7	1.919,2	422,8	1.419,7	1.560,7
2001	Q1	2.787,7	459,4	2.038,1	552,6	1.105,5	1.367,9
	Q2	3.049,5	493,4	1.849,1	633,5	1.680,8	1.607,3
	Q3	3.115,7	526,3	1.678,5	520,8	1.992,1	1.602,1
	Q4	2.946,6	705,8	1.998,4	245,6	1.437,7	1.440,8
2002	Q1	2.851,3	513,0	1.994,6	694,3	1.016,5	1.367,0
	Q2	3.161,8	534,1	1.863,0	745,8	1.588,8	1.569,9
	Q3	3.118,3	566,0	1.802,0	422,2	1.871,5	1.543,3
	Q4	3.021,7	715,2	2.032,7	365,9	1.436,4	1.528,5
2003	Q1	2.908,2	538,9	2.015,5	795,7	929,9	1.371,8
	Q2	3.173,3	549,9	1.935,0	749,9	1.406,3	1.467,8
	Q3	3.172,9	561,3	1.833,9	382,4	1.964,4	1.569,1
	Q4	3.125,7	817,8	2.093,3	212,7	1.586,6	1.584,7
2004	Q1	3.020,9	503,5	2.126,1	659,5	1.221,3	1.489,5
	Q2	3.294,2	556,4	2.015,1	771,7	1.614,3	1.663,3
	Q3	3.309,3	568,1	2.022,0	457,2	1.919,1	1.657,1
	Q4	3.279,5	703,8	2.228,5	691,0	1.456,1	1.800,0
2005	Q1	3.163,5	505,3	2.219,0	799,9	1.250,6	1.611,3
	Q2	3.394,8	556,0	2.124,0	614,5	1.707,3	1.607,0
	Q3	3.438,9	518,3	2.049,6	552,6	2.048,6	1.730,2
	Q4	3.404,9	830,8	2.291,2	680,4	1.509,4	1.906,9
2006	Q1	3.297,4	563,4	2.308,0	815,6	1.368,5	1.758,0
	Q2	3.552,3	618,5	2.222,0	724,9	1.801,2	1.814,4
	Q3	3.564,7	593,2	2.154,8	465,2	2.200,9	1.849,4
	Q4	3.540,9	805,2	2.402,2	854,3	1.377,6	1.898,3
2007	Q1	3.446,8	577,4	2.482,4	904,4	1.354,0	1.871,3
	Q2	3.716,6	569,6	2.401,4	1.021,7	1.745,6	2.021,7
	Q3	3.759,4	614,9	2.378,3	551,8	2.380,3	2.165,9
	Q4	3.743,2	850,7	2.754,3	694,9	1.683,7	2.240,4
2008	Q1	3.618,4	568,0	2.715,9	1.089,0	1.420,8	2.175,3
	Q2	3.868,5	588,1	2.641,4	1.088,0	1.751,0	2.200,1
	Q3	3.888,2	746,0	2.651,4	780,3	2.234,5	2.524,0
	Q4	3.817,2	868,7	2.789,7	545,7	1.720,7	2.107,6
2009	Q1	3.641,0	620,0	2.539,9	861,3	1.442,5	1.822,7
	Q2	3.785,7	612,1	2.435,0	907,5	1.585,6	1.754,5
	Q3	3.782,1	640,8	2.417,9	874,6	1.793,7	1.944,9
	Q4	3.701,5	1.087,1	2.591,0	290,9	1.544,2	1.811,7
2010	Q1	3.623,4	651,8	2.494,2	900,4	1.392,1	1.815,1
	Q2	3.812,7	643,1	2.451,5	950,2	1.617,1	1.849,1
	Q3	3.861,2	653,0	2.459,9	941,3	1.786,6	1.979,6
	Q4	3.783,6	1.037,2	2.703,6	287,5	1.804,4	2.049,1
2011	Q1	3.682,1	604,4	2.599,1	997,6	1.327,3	1.846,3
	Q2	3.866,5	624,5	2.433,2	787,1	1.808,0	1.786,4
	Q3	3.847,0	668,7	2.429,1	770,7	1.885,1	1.906,5
	Q4	3.757,3	948,4	2.663,9	97,8	1.818,8	1.771,6

Source: Cystat.

**TABLE B.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	1.717,9	237,6	1.194,8	547,6	687,7	949,8
	Q2	1.903,5	235,3	1.194,9	501,2	988,6	1.016,6
	Q3	1.889,8	239,9	1.225,4	256,4	1.141,5	973,4
	Q4	1.874,5	435,1	1.266,3	267,0	964,3	1.058,2
1997	Q1	1.780,5	273,0	1.236,5	488,9	715,9	933,9
	Q2	1.963,3	270,4	1.252,5	524,2	1.027,2	1.111,1
	Q3	2.005,5	275,7	1.261,8	267,0	1.299,9	1.098,8
	Q4	1.984,5	499,9	1.332,5	187,0	1.005,1	1.040,0
1998	Q1	1.892,0	316,2	1.349,1	460,4	781,1	1.014,7
	Q2	2.132,8	308,0	1.319,9	470,7	1.090,4	1.056,1
	Q3	2.199,2	337,9	1.356,7	283,3	1.322,0	1.100,7
	Q4	2.143,2	434,3	1.444,4	366,6	1.011,4	1.113,5
1999	Q1	2.052,7	342,5	1.434,4	454,1	789,8	968,0
	Q2	2.311,8	357,5	1.387,6	529,7	1.193,7	1.156,7
	Q3	2.336,0	360,8	1.399,8	196,0	1.530,8	1.151,4
	Q4	2.306,9	508,8	1.535,1	343,2	1.175,6	1.255,8
2000	Q1	2.242,6	327,6	1.585,5	520,7	958,3	1.149,5
	Q2	2.509,6	337,4	1.561,4	579,5	1.412,9	1.381,6
	Q3	2.525,7	388,7	1.511,7	236,7	1.757,2	1.368,6
	Q4	2.478,3	524,5	1.692,3	404,0	1.346,1	1.488,6
2001	Q1	2.408,7	381,5	1.786,5	474,5	1.062,2	1.296,0
	Q2	2.723,2	410,6	1.666,6	561,6	1.616,0	1.531,6
	Q3	2.766,7	436,8	1.510,3	443,6	1.901,1	1.525,1
	Q4	2.649,2	584,6	1.822,5	245,8	1.374,8	1.378,5
2002	Q1	2.516,6	431,5	1.786,8	632,5	972,0	1.306,2
	Q2	2.803,4	449,6	1.707,4	653,5	1.503,0	1.510,2
	Q3	2.797,0	483,3	1.663,2	363,7	1.760,5	1.473,7
	Q4	2.775,2	620,3	1.897,8	370,1	1.341,9	1.454,9
2003	Q1	2.679,9	490,1	1.898,4	717,1	871,3	1.297,0
	Q2	2.989,1	507,8	1.841,3	715,7	1.311,1	1.386,8
	Q3	2.983,1	530,2	1.720,5	371,1	1.844,0	1.482,6
	Q4	2.978,5	779,3	2.023,4	176,8	1.503,6	1.504,6
2004	Q1	2.881,2	479,6	2.023,6	616,6	1.169,3	1.407,9
	Q2	3.169,5	531,7	1.934,3	727,7	1.564,8	1.588,9
	Q3	3.219,7	545,7	1.943,4	449,7	1.881,7	1.600,8
	Q4	3.251,9	683,1	2.210,9	682,1	1.438,3	1.762,5
2005	Q1	3.117,8	503,0	2.175,7	774,0	1.242,7	1.577,6
	Q2	3.373,9	555,6	2.117,4	602,9	1.702,5	1.604,5
	Q3	3.441,3	517,9	2.047,4	560,8	2.047,0	1.731,8
	Q4	3.469,1	833,9	2.340,9	712,1	1.523,7	1.941,5
2006	Q1	3.350,2	579,5	2.322,1	833,9	1.395,4	1.780,7
	Q2	3.659,4	634,5	2.288,2	751,9	1.845,4	1.860,6
	Q3	3.696,3	612,0	2.231,0	477,6	2.265,1	1.889,4
	Q4	3.726,5	830,7	2.501,4	904,9	1.437,9	1.948,4
2007	Q1	3.633,0	607,5	2.552,2	954,5	1.426,2	1.907,4
	Q2	3.995,1	601,6	2.550,9	1.085,9	1.850,7	2.094,0
	Q3	4.089,5	651,8	2.556,6	585,4	2.540,2	2.244,5
	Q4	4.112,1	902,3	2.977,4	792,2	1.815,8	2.375,6
2008	Q1	4.019,7	627,2	2.919,9	1.224,1	1.568,7	2.320,2
	Q2	4.373,1	649,4	2.943,5	1.243,5	1.936,9	2.400,2
	Q3	4.411,8	836,4	2.993,0	861,0	2.475,1	2.753,8
	Q4	4.352,1	973,8	3.119,4	673,7	1.882,2	2.297,0
2009	Q1	4.065,2	717,6	2.764,5	975,0	1.557,4	1.949,3
	Q2	4.288,3	713,2	2.746,6	1.001,2	1.722,1	1.894,7
	Q3	4.257,1	733,4	2.720,0	933,6	1.937,7	2.067,6
	Q4	4.242,4	1.228,7	2.922,7	352,3	1.665,8	1.927,1
2010	Q1	4.121,4	754,4	2.773,3	1.005,7	1.529,7	1.941,6
	Q2	4.369,3	748,4	2.802,6	1.067,1	1.789,6	2.038,5
	Q3	4.437,6	768,4	2.848,6	1.027,0	1.952,1	2.158,5
	Q4	4.405,3	1.211,1	3.102,9	307,8	2.031,9	2.248,4
2011	Q1	4.242,9	727,6	2.959,0	1.102,8	1.510,3	2.056,8
	Q2	4.545,8	754,9	2.881,4	902,0	2.036,4	2.028,9
	Q3	4.526,3	819,5	2.897,4	867,6	2.086,5	2.144,7
	Q4	4.446,6	1.150,0	3.161,4	90,7	2.065,8	2.021,3

Source: Cystat.

TABLE B.16 Turnover volume index of retail trade

Year / Month	Volume	6-month moving average	% change		
			previous year	6-month moving average	
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	104,2	118,5	-6,3	-4,4
	February	98,4	115,5	-4,4	-4,5
	March	115,7	115,3	11,9	-1,8
	April	107,8	113,9	-6,9	-2,4
	May	113,4	114,7	-0,7	-1,8
	June	118,6	109,7	0,8	-1,1
	July	134,8	114,8	1,6	0,3
	August	118,3	118,1	1,5	1,2
	September	116,7	118,3	0,0	-0,6
	October	114,0	119,3	-2,1	0,2
	November	112,6	119,2	4,0	0,9
	December	154,2	125,1	3,7	1,5
2011	January	106,3	120,4	2,0	1,6
	February	100,6	117,4	2,2	1,7
	March **	107,9	115,9	-6,7	0,6
	April **	114,4	116,0	6,1	1,9
	May**	113,5	116,2	0,1	1,3
	June**	119,7	110,4	0,9	0,7
	July**	130,5	114,4	-3,2	-0,3
	August**	119,4	117,6	0,9	-0,5
	September**	118,0	119,3	1,1	0,8
	October**	113,5	119,1	-0,4	-0,2
	November **	109,7	118,5	-2,6	-0,6
	December**	144,0	122,5	-6,6	-2,1
2012	January*	104,6	118,2	-1,6	-1,8

Percentage change by category	January 2011/2010	January 2012/2011
General index	2,0	-1,6
General index excluding automotive fuel	2,6	-2,4
Non-specialised stores with food, beverages or tobacco predominating	9,6	3,9
Other retail sale in non-specialised stores	-2,7	-10,4
Food, beverages and tobacco in specialised stores	-3,3	-7,5
Food products	7,8	2,3
Non food products (except automotive fuel)	0,0	-5,2
Textiles, clothing and footwear	5,0	-5,9
Electrical goods and furniture	-2,8	-2,2
Computer equipment, books and other	-1,3	-0,1
Automotive fuel in specialised stores	-2,7	5,2

Source: Cystat.

\* Provisional.

\*\* Revised data.

TABLE B.17 Construction indicators

Year /	Month	Sales of cement (volume)			Building permits authorised (volume)		
		Total (m.ton)	% change		Area (sq.met)	% change	
			Previous year	6-month moving average		Previous year	6-month moving average
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	266.707	-15,87	-19,59
	April	87.190	-12,59	-2,08	174.749	-28,49	-20,11
	May	119.817	-0,32	-3,83	180.822	-33,15	-25,80
	June	111.297	-15,00	-6,76	173.957	-31,78	-27,68
	July	112.965	-19,28	-10,81	186.807	-22,50	-28,40
	August	45.313	-9,03	-12,15	130.118	-10,69	-27,16
	September	99.251	-16,32	-12,65	219.492	4,56	-20,84
	October	96.675	-16,08	-13,25	180.757	-23,56	-22,22
	November	92.959	-30,19	-18,79	153.763	-28,98	-22,18
	December	80.395	-25,65	-20,65	213.916	-1,34	-17,26
2012	January	60.071	-33,44	-22,84	127.078	-24,02	-15,47
	February	65.372	-33,71	-25,49	141.435	-30,91	-16,52
	March	58.865	-49,99	-31,48	n/a	n/a	n/a
	April	68.304	-21,66	-32,92	n/a	n/a	n/a

Source: Cypstat.

TABLE B.18 Volume index of manufacturing production

Year /	Month	Index		% change		
		Monthly	Cumulative	Previous year	6 - month moving average	Cumulative period
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	80,50	80,50	-8,83	-11,29	-8,83
	February	83,80	82,15	-8,71	-10,93	-8,77
	March	100,50	88,27	5,46	-8,41	-3,85
	April	87,60	88,10	-7,01	-7,20	-4,65
	May	99,40	90,36	-2,17	-5,75	-4,12
	June	104,40	92,70	-1,04	-3,55	-3,55
	July	108,30	94,93	-6,15	-3,28	-3,99
	August	63,30	90,98	0,16	-2,03	-3,64
	September	100,30	92,01	-2,05	-3,26	-3,45
	October	93,30	92,14	-5,85	-3,10	-3,70
	November	98,30	92,70	-1,99	-3,07	-3,54
	December	98,40	93,18	-0,51	-3,00	-3,28
2011	January*	74,80	74,80	-7,08	-2,94	-6,83
	February*	82,90	78,85	-1,07	-3,01	-4,02
	March *	91,80	83,17	-8,66	-4,19	-5,78
	April *	82,50	83,00	-5,82	-4,15	-5,79
	May*	97,70	85,94	-1,71	-4,10	-4,89
	June*	96,60	87,72	-7,47	-5,38	-5,38
	July*	93,90	88,60	-13,30	-6,61	-6,67
	August*	60,40	85,08	-4,58	-7,20	-6,49
	September*	91,00	85,73	-9,27	-7,31	-6,82
	October*	85,50	85,71	-8,36	-7,72	-6,98
	November *	86,40	85,77	-12,11	-9,53	-7,47
	December*	84,80	85,69	-13,82	-10,66	-8,03
2012	January*	67,40	67,30	-9,89	-10,01	-10,27
	February*	76,30	71,85	-7,96	-10,33	-8,88

Percentage change by category	February 2011/2010	Jan.-Feb. 2011/2010	February 2012/2011	Jan.-Feb. 2011/2010
<b>General index</b>	<b>-1,1</b>	<b>-8,0</b>	<b>-4,0</b>	<b>-8,9</b>
Manufacture of food products, beverages and tobacco products	-5,4	-4,5	-6,6	-4,3
Manufacture of textiles, wearing apparel and leather products	8,3	-9,1	18,0	-19,4
Manufacture of wood and products of wood and cork, except furniture	-23,9	4,3	-28,7	-2,0
Manufacture of paper products and printing	25,7	-10,3	16,7	-8,9
Manufacture of refined petroleum products, chemicals and chemical products and pharmaceutical products and preparations	19,8	4,3	17,0	4,1
Manufacture of rubber and plastic products	-2,5	-18,1	-4,9	-18,1
Manufacture of other non-metallic mineral products	-1,3	-29,5	-2,4	-27,6
Manufacture of basic metals and fabricated metal products	3,1	-4,1	-2,4	-8,0
Manufacture of electronic and optical products and electrical equipment	-1,8	-42,4	-3,3	-42,9
Manufacture of machinery	8,5	-6,7	-3,3	-5,9
Manufacture of motor vehicle and other transport equipment	-34,3	14,6	-28,0	0,2
Manufacture of furniture, other manufacturing and repair and installation of machinery and equipment	-18,9	4,7	-22,1	-1,4

\* Revised data  
Source: Cystat.

TABLE B.19 Labour market indicators based on the Labour Force Survey (LFS)

	2010				2011			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Labour force</b>	<b>409.499</b>	<b>414.288</b>	<b>409.584</b>	<b>408.490</b>	<b>409.883</b>	<b>409.674</b>	<b>403.284</b>	<b>405.250</b>
<b>Employed</b>	<b>379.881</b>	<b>387.909</b>	<b>385.993</b>	<b>386.591</b>	<b>379.703</b>	<b>380.485</b>	<b>372.455</b>	<b>369.567</b>
By type of employment:								
Full time	344.315	352.515	351.791	348.571	339.421	342.874	337.380	332.175
Part time	35.566	35.394	34.202	38.020	40.283	37.611	35.075	37.392
By sector of employment:								
Primary sector	13.773	14.858	14.856	15.231	16.363	15.408	14.216	12.505
Secondary sector	78.787	79.043	79.945	83.124	81.623	80.973	80.505	78.821
Tertiary sector	287.321	294.008	291.192	288.236	281.717	284.134	277.734	278.241
Employees	306.192	314.416	314.047	316.296	308.098	310.236	304.804	303.721
<b>Unemployed</b>	<b>29.618</b>	<b>26.379</b>	<b>23.590</b>	<b>21.899</b>	<b>30.180</b>	<b>29.189</b>	<b>30.829</b>	<b>35.683</b>
By unemployment duration:								
Less than 12 months	24.629	21.557	18.379	16.187	24.960	24.237	23.499	26.820
12 months and above	4.989	4.823	5.212	5.713	5.221	4.952	7.330	8.862
<b>Activity rate (%)</b>	<b>64,8</b>	<b>65,0</b>	<b>64,8</b>	<b>64,4</b>	<b>64,6</b>	<b>64,4</b>	<b>63,4</b>	<b>63,5</b>
Male	72,2	72,7	73,4	72,2	72,3	72,0	71,4	71,0
Female	57,7	57,8	56,8	56,9	57,3	57,0	55,9	56,3
<b>Employment rate (%)</b>	<b>60,1</b>	<b>60,9</b>	<b>61,1</b>	<b>61,0</b>	<b>59,9</b>	<b>59,8</b>	<b>58,6</b>	<b>57,9</b>
Male	67,0	68,3	69,2	68,6	67,1	66,8	66,1	64,2
Female	53,5	53,9	53,4	53,7	52,9	53,0	51,4	51,8
<b>Unemployment rate (%)</b>	<b>7,2</b>	<b>6,4</b>	<b>5,8</b>	<b>5,4</b>	<b>7,4</b>	<b>7,1</b>	<b>7,6</b>	<b>8,8</b>
Male	7,2	6,1	5,7	5,1	7,2	7,2	7,4	9,5
Female	7,3	6,7	5,9	5,7	7,6	7,0	7,9	8,0

Source: Cystat.

**TABLE B.20 Public debt by debt instrument and lender**  
(€ million)

	2010				2011			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>(1) DOMESTIC DEBT (2+4+7)</b>	<b>13.212,2</b>	<b>13.252,8</b>	<b>12.984,4</b>	<b>12.670,2</b>	<b>12.875,9</b>	<b>13.338,8</b>	<b>13.313,5</b>	<b>13.584,5</b>
(2) Long-term debt, of which:	5.327,6	5.219,4	5.135,3	5.131,5	4.554,2	4.630,1	5.316,3	5.301,4
(3) Government Registered Development Stocks (SSF)	0,8	0,8	0,8	0,8	0,8	10,8	10,8	10,8
(4) Short-term debt, of which:	7.884,6	8.033,4	2.116,7	404,0	1.140,9	1.438,6	703,2	835,7
(5) Treasury Bills (Administered Funds)	158,3	155,6	198,8	155,8	152,4	151,3	150,3	146,2
(6) Treasury Bills (SSF)	6.933,5	7.082,4	1.376,2	0,0	0,0	0,0	0,0	0,0
(7) Investments in the form of deposits (SSF) <sup>(1)</sup>			5.732,5	7.134,8	7.180,7	7.270,2	7.294,0	7.447,5
<b>(8) Total Gross Domestic Debt (1-3-5-6-7)</b>	<b>6.119,6</b>	<b>6.014,0</b>	<b>5.676,1</b>	<b>5.378,8</b>	<b>5.542,0</b>	<b>5.906,5</b>	<b>5.858,3</b>	<b>5.980,0</b>
<b>(9) FOREIGN DEBT (10+11+12+14)</b>	<b>4.619,7</b>	<b>4.864,0</b>	<b>4.811,2</b>	<b>5.615,1</b>	<b>5.902,8</b>	<b>6.268,9</b>	<b>6.345,2</b>	<b>7.081,3</b>
(10) Short-term liabilities of the CBC to the IMF	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,00
(11) Long-term loans	808,5	782,7	794,6	822,4	820,2	962,5	998,8	1.572,9
(12) Medium-term securities (EMTN)	3.550,0	3.550,0	3.550,0	4.550,0	4.720,0	4.765,0	4.765,0	4.765,0
(13) SSF	204,0	204,0	204,0	341,3	341,3	341,3	341,3	341,3
(14) Short-term securities (ECP)	261,2	531,2	466,5	242,7	362,6	541,3	581,4	743,4
<b>(15) Total Gross Foreign Debt (9-10-13)</b>	<b>4.415,7</b>	<b>4.660,0</b>	<b>4.607,2</b>	<b>5.273,8</b>	<b>5.561,5</b>	<b>5.927,6</b>	<b>6.003,9</b>	<b>6.740,1</b>
<b>(16) TOTAL PUBLIC DEBT (1+9)</b>	<b>17.831,9</b>	<b>18.116,8</b>	<b>17.795,6</b>	<b>18.285,3</b>	<b>18.778,7</b>	<b>19.607,7</b>	<b>19.658,7</b>	<b>20.665,8</b>
(17) Total intragovernmental borrowing and short-term liabilities of the CBC to the IMF (3+5+6+7+10+13)	7.296,6	7.442,8	7.512,3	7.632,7	7.675,2	7.773,6	7.796,5	7.945,8
<b>(18) CONSOLIDATED GROSS DEBT (excl. total intragovernmental borrowing and short-term liabilities of the CBC to the IMF)(1+9-17)</b>	<b>10.535,3</b>	<b>10.673,9</b>	<b>10.283,3</b>	<b>10.652,6</b>	<b>11.103,5</b>	<b>11.834,1</b>	<b>11.862,2</b>	<b>12.720,0</b>

Source: Ministry of Finance.

(1) As from 01 August 2010 (and following the transfer of debt management responsibilities to the Ministry of Finance (MoF)), the SSF investments held as 13-week Government Treasury Bills that reached maturity were deposited directly in the account with the central government.







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

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

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

Monetary data are not adjusted for exchange rate fluctuations.

### (B) Balance of Payments

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

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

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

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





