ECONOMIC BULLETIN

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DEVELOPMENTS IN THE WORLD ECONOMY

While uncertainty is still high, global indicators are increasingly suggesting that the current recession is bottoming out, supported by the strong global stimulus measures and improving financing conditions in key market segments. At the same time, the prevailing weakness of the global economy and negative base effects from last year's increases in commodity prices have continued to exert downward pressure on global headline inflation rates. Looking ahead, there is an increasing likelihood of a return to positive global economic growth rates later this year.

Europe: At its meeting on 3 September 2009, the Governing Council of the ECB decided, on the basis of its regular economic and monetary analyses, to leave the key ECB interest rates unchanged, that is the minimum bid rate on the main refinancing operations of the Eurosystem at 1.00%. The interest rates on the marginal lending facility and the deposit facility were also left unchanged at 1.75% and 0.25% respectively. Recent data releases and survey information suggest that economic activity over the remainder of this year is likely to remain weak, although the pace of contraction is clearly slowing down. Looking ahead into next year, after a phase of stabilisation, a gradual recovery with positive quarterly growth rates is expected. With regard to price developments, annual HICP inflation was, according to Eurostat's flash estimate, -0.6 % in July, compared with -0.1% in June. This further decline in annual rates of inflation was anticipated by the Governing Council and reflects primarily base effects resulting from the peaks observed in global commodity prices a year ago. Looking ahead, owing to these base effects, annual inflation rates are projected to remain temporarily in negative territory, before turning positive again later this year. In this respect, indicators of inflation expectations over the medium to longer term remain firmly anchored in line with the Governing Council's aim of keeping inflation rates below, but close to, 2% over the medium term. Turning to the labour market, unemployment for the second quarter of 2009 was at 9.3% that is higher than the first quarter, which stood at 8.8%.

United States: The Federal Open Market Committee (FOMC) decided, at its meeting on 12 August 2009, to keep its target for the federal funds rate unchanged at a range of 0% to 0.25%. As regards price developments, annual CPI inflation moved further into negative territory, to -1.4% in June 2009, from -1.3% in May. The decline was driven largely by the drop in energy prices. Meanwhile, the annual rate of inflation excluding food and energy fell to 1.7% in June, from 1.8% in May. Real GDP contracted by a relatively modest 1% in annualised terms in the second quarter of 2009, following a substantial decrease of 6.4% in the first quarter. As regards the labour market, unemployment for the second quarter of 2009 was at 9.3% that is higher than the previous quarter which stood at 8.1%.

United Kingdom: The Bank of England's Monetary Policy Committee, at its meeting on 6 August 2009, decided to keep the official Bank Rate unchanged at 0.50%. In the second quarter of 2009, according to preliminary estimates, real GDP declined by 0.7% quarter on quarter. Looking ahead, real GDP is expected to shrink further, albeit at a slower pace, as falling employment, lower housing and financial wealth, and tight credit conditions are likely to continue to weigh on consumer spending in the near term. In June 2009 the annual change in the Halifax House Price Index was -15.0%, after -16.3% in May. Looking ahead, inflation is expected to decline further and remain below the 2% target in the near term. Following a slight increase at the beginning of 2009, annual HICP inflation has started to decline again, standing at 1.8% in June 2009, down from 2.2% in May. Turning to the labour market, unemployment for the second quarter of 2009 was at 7.5% that is higher than the previous quarter, which stood at 6.8%.

Japan: On 5 August the Bank of Japan decided to keep its target for the uncollateralised overnight call rate at around 0.1%. Overall annual CPI inflation moved significantly further into negative territory, to -1.8% in June 2009, compared with -1.1% in May. Following the severe contraction in economic activity in previous quarters, there are now some signs of stabilisation. After a record contraction in real GDP of 3.8% quarter on quarter in the first quarter of 2009, business conditions appear to have improved somewhat.

Energy News: In June-August oil prices fluctuated between USD 67 and USD 74 per barrel. Brent crude oil prices stood at USD 68.2 on 3 September. Looking ahead, market participants expect higher prices in the medium term, with futures contracts for December 2011 trading at around USD 84.

CYPRUS ECONOMY

GDP in total is forecasted at EUR 3,179.9 million for the second quarter of 2009. Economic growth is forecasted to –1.0 % in the second quarter of 2009, compared with the corresponding quarter in 2008. Cyprus's consumer inflation decreased to –0.8% in July 2009 compared to 0.2% in June 2009 and 5.6% in July 2008. For the period January - July 2009, the CPI index rose by 0.5% compared to the corresponding period in 2008. Month on month CPI index decreased by 1.6% to 109,0 points in July 2009 compared to 110,7 points in June 2009. Turning to the labour market, unemployment for the period January-June 2009 was at 3.9%, that is higher than the corresponding figure in 2008, which stood at 2.9%. The unemployment rate in June 2009 increased to 4.1% from 2.6% in June 2008. As regards receipts from tourism for the period January - July 2009 reached €798.3 million compared with €944.8 million in the corresponding period of 2008, recording a decrease of 15.5%**.** For the period January – July 2009 arrivals of tourists totaled 1,187,128 compared to 1,332,406 in the corresponding period of 2008, recording a decrease of 10.9%.

Main Economic Indicators

Period: Second Quarter of 2009					
	Europe	***United States***	***United Kingdom***	***Japan***	***Cyprus***
Real GDP (year on year %)	-4.70	1.10*	-5.50	-0.65*	-1.0
Real GDP (quarter on quarter %)	-0.20	-1.00	-0.70	3.70	-0.5
Unemployment (%)	9.30	9.27	7.53	5.20	5.4*
CPI (year on year %)	0.17	-1.13	2.10	-1.00	0.51

** Year 2008*

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