

# ECONOMIC BULLETIN

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## DEVELOPMENTS IN THE WORLD ECONOMY

Global economic conditions have further worsened, aggravated by the financial crisis and the severe strains on banking systems and credit conditions worldwide. This is suggested by recent economic indicators, which point to a further weakening in global economic activity, particularly in the manufacturing sector. At the same time, global inflationary pressures have eased, owing to the sharp decrease in commodity prices. The deepening of the financial crisis has led to increased uncertainty concerning the outlook for global economic growth, and risks lie clearly on the downside.

**Europe:** At its meeting on 4 December 2008, the Governing Council of the ECB decided, on the basis of its regular economic and monetary analyses, to reduce further the interest rate on the main refinancing operations of the Eurosystem by 75 basis points to 2.5%. Additionally, it was decided to lower the interest rates on the marginal lending facility and the deposit facility by 75 basis points, to 3.0% and 2.0% respectively. In the Governing Council's assessment, the outlook for price stability has improved further. Inflation rates are expected to continue to decline in the coming months, reaching a level in line with price stability during the course of 2009. The intensification and broadening of the financial market turmoil is likely to dampen global and euro area demand for a rather protracted period of time. With regard to price developments, annual HICP inflation has remained considerably above the level consistent with price stability since last autumn. However, it has been steadily declining since July, falling - according to Eurostat's flash estimate - to 2.1% in November, from 3.2% in October and 3.6% in September. The continued high level of inflation is largely due to both the direct and indirect effects of past surges in energy and food prices at the global level. Looking forward, recent sharp falls in commodity prices, as well as the ongoing weakening in demand, suggest that the annual HICP inflation rate will continue to decline in the coming months and reach a level in line with price stability during the course of 2009. The latest economic data point to a weakening of real GDP growth in mid-2008, which in part was expected after the exceptionally strong growth in the first quarter.

**United States:** The Federal Open Market Committee (FOMC) decided, at its meeting on 29 October 2008, to lower its target for the federal funds rate by 50 basis points to 1%. The decision followed the half-point reduction the Federal Reserve System coordinated with the European Central Bank and four other central banks on 8 October. As regards price developments, annual CPI inflation declined to 3.7% in October, from 4.9% in September. The annual rate of inflation excluding food and energy also declined to 2.2% in October, compared to the previous month, which was 2.5%. According to advance estimates, real GDP contracted at an annualised rate of 0.3% in the third quarter of 2008, compared with an expansion of 2.8% in the preceding quarter.

**United Kingdom:** The Bank of England's Monetary Policy Committee, at its meeting on 4 December 2008, decided to cut its main policy rate by 100 basis points to 2.0% (the lowest since 1951). This decision was taken against the background of a substantial shift in the prospects for inflation in the United Kingdom and a very marked deterioration in the outlook for domestic and global economic activity. Output declined by 0.5% quarter on quarter in the third quarter of 2008, after stagnating in the second quarter. This is the first time in 16 years that the economy has contracted on a quarter-on-quarter basis. Confidence indicators have also generally trended downwards in recent quarters and have remained below long-term averages. In line with falling house prices, in the third quarter of 2008 output in



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construction contracted by 0.8% quarter on quarter. Annual HICP inflation decline to 4.5% in October, from 5.2% in September, reflecting a broad-based decrease across HICP components.

**Japan:** At its meeting on 31 October 2008, the Bank of Japan decided to lower its target for the uncollateralised overnight call rate by 20 basis points to 0.3%. Economic conditions have continued to worsen, reflecting sluggish domestic demand and a further slowdown in exports, although credit conditions have tightened to a lesser extent than in other advanced economies. In September 2008 annual CPI inflation was unchanged at 2.1%. Inflation peaked in July at 2.3% and moderated thereafter owing to the decrease in global commodity prices and the slowdown in global activity.

**Energy News:** Oil prices extended their decline in November 2008, standing at USD 44 on 4 December (down from its peak USD 147.27 on the 11<sup>th</sup> of July 2008). As the financial turmoil intensified, prices were pulled down by growing fears of a global recession and the need for financial institutions to liquidate their assets.

### **CYPRUS ECONOMY**

GDP in total is forecasted at EUR 3,358.5 million for the third quarter of 2008. Economic growth is forecasted to 3.5% in the third quarter of 2008, compared with the corresponding quarter in 2007. Cyprus's consumer inflation decreased to 3.4% in November 2008 compared to 5.2% in October 2008. For the period January - October 2008 CPI index rose by 5.06% compared to the corresponding period in 2007. Turning to the labour market, unemployment for the second quarter of 2008 was at 3.1% that is lower than the corresponding figure in 2007, which stood at 3.4%. The unemployment rate decreased in the second quarter of 2008 to 3.1% from 4.6% in the first quarter of 2008. For the period January - October 2008 unemployment reaches 2.8%. As regards receipts from tourism for the period January - October 2008 reaches €1,668.8 million compared with €1,739.0 million in the corresponding period of 2007, recording a decrease of 4.0%. For the period January - October 2008 arrivals of tourists totaled 2,233,721 compared to 2,247,596 in the corresponding period of 2007, recording a decrease of 0.6%.

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