

ECONOMIC BULLETIN

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DEVELOPMENTS IN THE WORLD ECONOMY

The global economy is undergoing a severe downturn. The markedly adverse impact of the financial turmoil on real economic activity has been aggravated by a strong contraction in international trade. At the same time, global inflationary pressures continue to ease, owing mainly to lower commodity prices but also to weak labour market conditions and sluggish global demand. The outlook for global economic growth remains highly uncertain, and risks are clearly on the downside.

Europe: At its meeting on 5 March 2009, the Governing Council of the ECB decided, on the basis of its regular economic and monetary analyses, to reduce the interest rate on the main refinancing operations of the Eurosystem by 50 basis points to 1.50%. Additionally, it was decided to lower the interest rates on the marginal lending facility and the deposit facility by 50 basis points, to 2.50% and 0.50% respectively. The latest economic data and survey information confirm that the euro area and its major trading partners are undergoing an extended period of significant economic downturn, and that accordingly both external and domestic inflationary pressures are diminishing. The Governing Council continues to expect inflation rates in the euro area to be in line with price stability over the policy-relevant medium-term horizon, thereby supporting the purchasing power of euro area households. As regards the economic analysis, reflecting the impact of the intensified and broadened financial market turmoil, economic activity throughout the world, including in the euro area, has weakened substantially. Taken together with other available economic data for the euro area, this points to very negative quarter-on-quarter real GDP growth in the last quarter of 2008, which was -1.30%. With regard to price developments, annual HICP inflation continued to decline in January 2009, falling to 1.1%, according to Eurostat's flash estimate, from 1.6% in December 2008. While no detailed breakdown of HICP developments in January is available as yet, the decline in headline inflation observed since the middle of 2008 primarily reflects the sharp fall in global commodity prices over this period, owing mainly to weak global demand. Turning to the labour market, unemployment for the fourth quarter of 2008 was at 7.87% that is higher than the previous quarter which stood at 7.50%. Looking ahead, lower commodity prices and the prospect of weak demand confirm the Governing Council's assessment of mid-January that inflationary pressures in the euro area are diminishing.

United States: The Federal Open Market Committee (FOMC) decided, at its meeting on 28 January 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 declined to just 0.1% in December 2008, which compares with an average of 3.8% for the year. The deceleration reflects the rapid reduction in energy costs, which was particularly marked in the final quarter of 2008, as well as growing slack in the economy and base effects. The annual rate of inflation excluding food and energy fell further to 1.8% in December, compared with an average of 2.3% for the year. According to advance estimates, real GDP contracted by 3.8% in annualised terms for the fourth quarter of 2008, compared with a contraction of 0.5% in the third quarter. As regards the labour market, unemployment for the fourth quarter of 2008 was at 6.87% that is higher than the previous quarter which stood at 6.07%.

United Kingdom: The Bank of England's Monetary Policy Committee, at its meeting on 5 March 2009, decided to cut its main policy rate by 50 basis points to 0.50%. Real GDP declined, according to the Office for National Statistics' preliminary estimate, by 1.5% quarter on quarter in the fourth quarter of 2008. The decline was broad-based across demand components, but reflected, in particular, a contraction in domestic demand. Confidence indicators suggest that output is likely to fall further in the coming

quarters. The correction in the housing market continued, with house prices, as indicated by the Halifax House Price Index, down by 16.2% year on year in December. As regards the situation in credit markets, the Bank of England Credit Conditions Survey (issued on 2 January 2009) suggested that there has been a further tightening of credit supply and a decrease in credit demand. Annual HICP inflation declined further to 3.1% in December (from 4.1% in November), reflecting the impact of a temporary reduction in the standard VAT rate and the decrease in commodity prices. Turning to the labour market, unemployment for the fourth quarter of 2008 was at 6.13% that is higher than the previous quarter, which stood at 5.67%.

Japan: At its meeting on 22 January 2009, the Bank of Japan decided to leave its target for the uncollateralised overnight call rate unchanged at 0.1%. Economic activity has declined sharply recently, while inflation remains on a downward trend. Consumer price inflation continued to fall in December. Driven by the moderation in energy prices and a widening output gap, annual CPI inflation declined to 0.4% from 1.0% in November. Excluding food and energy, annual CPI inflation remained at 0.0% in December.

Energy News: Oil prices recovered in January 2009. On 5 March, they stood at USD 44.9, about 12% higher than at the beginning of 2009 (in euro terms, the increase is around 22%). Over the medium term, market participants expect higher prices, with futures for December 2009 trading at around USD 54.0.

CYPRUS ECONOMY

GDP in total is forecasted at EUR 3,285.4 million for the fourth quarter of 2008. Economic growth is forecasted to 3.0% in the fourth quarter of 2008, compared with the corresponding quarter in 2007. Economic growth for the year 2008 is forecasted to 3.7%. Cyprus's consumer inflation decreased to 0.66% in February 2009 compared to 1.1% in January 2009 and 4.93% in February 2008. For the period January - December 2008 CPI, index rose by 4.67% compared to the corresponding period in 2007. For the period January - February 2009, CPI index increased by 0.9% compared to the corresponding period in 2008. Month on month CPI index decreased by 2.34% to 107,76 points in January 2009 compared to 110,34 points in December 2008. Turning to the labour market, unemployment for the third quarter of 2008 was at 3.6% that is lower than the corresponding figure in 2007, which stood at 4.0%. The unemployment rate increased in the third quarter of 2008 to 3.6% from 3.1% in the second quarter of 2008. For the period January - December 2008 unemployment reached 2.9%. As regards receipts from tourism for the period January - December 2008 reached €1,792.8 million compared with €1,858.1 million in the corresponding period of 2007, recording a decrease of 3.6%. For the period January - December 2008 arrivals of tourists totaled 2,403.7 million compared to 2,416.1 million in the corresponding period of 2007, recording a decrease of 0.5%.

Main Economic Indicators

Period: 2008					
	<i>Europe</i>	<i>United Kingdom</i>	<i>United States</i>	<i>Japan</i>	<i>Cyprus</i>
<i>Real GDP (year on year %)</i>	0.70	1.10	0.70	-0.65	3.7*
<i>Real GDP (quarter on quarter %)</i>	-1.30	-6.20	-1.90	-12.70	3.0*
<i>Unemployment (%)</i>	7.55	5.80	5.58	3.98	2.9
<i>CPI (year on year %)</i>	3.28	3.85	3.61	1.38	4.67

* expected (not actual)

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