

ECONOMIC BULLETIN

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DEVELOPMENTS IN THE WORLD ECONOMY

Global economic activity is continuing to expand at a robust pace, notwithstanding the recent decline in survey indicators, which suggests some moderation in the growth momentum. Differences with respect to the cyclical position across regions also persist, with buoyant growth in emerging economies and restrained growth in advanced economies. Global inflationary pressures have increased further, mainly on account of rising commodity prices. Price pressures are clearly more pronounced in emerging economies, as abundant liquidity amid low interest rates and capacity constraints add to domestic wage and commodity price pressures.

Europe: Based on its regular economic and monetary analyses, the Governing Council decided at its meeting on 5 May 2011 to keep the key ECB interest rates unchanged following the 25-basis point increase on 7 April 2011. The Governing Council continues to see upward pressure on overall inflation, mainly owing to energy and commodity prices. With regard to the economic analysis, following the 0.30% quarter-on-quarter increase in euro area real GDP in the fourth quarter of 2010, recent statistical releases and survey-based indicators point towards a continued positive underlying momentum of economic activity in the euro area during the first quarter of 2011 and at the beginning of the second quarter. Looking ahead, euro area exports should be supported by the ongoing expansion in the world economy. With regard to price developments, euro area annual HICP inflation was 2.80% in April after 2.70% in March. The increase in inflation rates during the first four months of 2011 largely reflects higher commodity prices. Looking ahead, inflation rates are likely to stay clearly above 2% over the coming months. It is of paramount importance that the rise in inflation does not translate into second-round effects in price and wage-setting behaviour and lead to broad-based inflationary pressures. Inflation expectations in the euro area must remain firmly anchored in line with the aim of maintaining inflation rates below, but close to, 2% over the medium term. Such anchoring is a prerequisite for monetary policy to make an ongoing contribution towards supporting economic growth and job creation in the euro area. Turning to fiscal policies, current information points to uneven developments in countries' adherence to the agreed fiscal consolidation plans. There is a risk that, in some countries, fiscal balances may fall behind the targets agreed by the ECOFIN Council. Where necessary, additional corrective measures must be implemented. The implementation of credible policies is crucial in view of ongoing financial market pressures. At the same time, it is of the utmost importance that substantial and far-reaching structural reforms be implemented urgently in the euro area in order to strengthen its growth potential, competitiveness and flexibility. Finally, the Governing Council welcomes the economic and financial adjustment programme, which was agreed by the Portuguese government following the successful conclusion of the negotiations with the European Commission, in liaison with the ECB and the International Monetary Fund. The programme contains the necessary elements to bring about a sustainable stabilisation of the Portuguese economy.

Greece: After a year of fiscal adjustment and structural reform, Greece is still facing major challenges. Despite the Greek government's initial adjustment efforts, the Greek economy is now at a difficult crossroads with deep recession and tax revenue difficulties, requiring deeper and accelerated structural reforms to achieve the program's medium-term objectives. Accelerated efforts are needed to rationalize the use of a large portfolio of state assets through a strong privatization and real estate development program. Greece is negotiating a new loan package of €60 billion with the European Union and the International Monetary Fund in order to cover Greece's projected need of 27 billion euros in extra funds in 2012 and 32 billion in 2013.

United States: On 27 April 2011 the US Federal Open Market Committee (FOMC) decided to maintain its target range for the federal funds rate at between 0% and 0.25%. The FOMC continues to anticipate that economic conditions, including low rates of resource utilisation, subdued inflation trends and stable inflation expectations, are likely to warrant exceptionally low levels for the federal funds rate for an extended period. The economy is continuing its recovery, and real GDP further expanded in the first quarter of 2011, albeit at a slower pace than in the fourth quarter of 2010. Real GDP increased by 1.80% in annualized terms in the first quarter of 2011, decreasing from 3.10% in the last quarter of 2010. The slowdown compared with the previous quarter largely reflects softer growth in personal consumption expenditure, a decline in investment and a sharper decrease in government spending. The slowdown in real GDP growth is expected to be transitory, and the recovery is expected to proceed, albeit at a less robust pace. As regards price developments, annual CPI inflation picked up from 2.20% in February to 2.70% in March. The increase stemmed from a continued marked annual rise in energy prices (15.50%) and, to a lesser extent, in food prices (2.90%).

United Kingdom: At its meeting on 5 May 2011, the Bank of England's Monetary Policy Committee has maintained the official Bank Rate paid on commercial bank reserves at 0.50%. Economic activity recovered in the first quarter of 2011. Real GDP increased by 0.50% quarter-on-quarter in the first quarter of 2011 after declining by 0.50% in the fourth quarter of 2010. The expansion of output over the first quarter was driven by the services and manufacturing sectors, while construction output continued to decline. House prices have continued on a downward path in recent months against the background of subdued demand in the housing market. Annual CPI inflation has remained elevated in recent months, decreasing to 4.00% in March 2011 from 4.40% in February, mainly reflecting the lagged effects of the depreciation of the pound, higher commodity prices and the increase in the rate of VAT in January 2011. Looking ahead, these factors are likely to continue to exert upward pressure on annual CPI inflation.

Japan: Short-term indicators show a substantial deceleration in the Japanese economy in the immediate aftermath of the Great East Japan Earthquake. Industrial production declined by 15.30% month on month in March, and hence much more than after the Kobe earthquake (-2.60% month on month in January 1995). Moreover, business and consumer sentiment have been deteriorating. At the same time, some progress has been made in rebuilding infrastructure and restoring production. Global repercussions remain difficult to assess, with supply-chain challenges being a concern for some companies. Annual CPI inflation was zero in March for a fourth consecutive month, reflecting weak demand. On 19 May the Bank of Japan decided to leave its target for the uncollateralised overnight rate unchanged at between 0% and 0.10%

Energy News: Oil prices continued to increase in April. Brent crude oil prices stood at USD 114 per barrel on 25 May 2011, which is 30.20% higher than at the beginning of the year. Looking ahead, market participants expect slightly lower oil prices in the medium term, with futures contracts for December 2012 trading at around USD 114.20 per barrel.

CYPRUS ECONOMY

The GDP growth rate in real terms during the first quarter of 2011 is estimated at 1.80% over the corresponding quarter of 2010. Based on seasonally and working day-adjusted data, GDP growth rate in real terms is estimated at 1.70%. The secondary sector of the economy (construction, manufacturing) continues to present negative growth rates, while positive growth rates are recorded in the sectors of Trade, Tourism, Banking and Services. The Consumer Price Index for April 2011 increased by 1.16% compared to March 2011. This is mainly due to increases in the prices of electricity and petroleum products. The rate of increase of the Index, and therefore the rate of inflation, for April 2011 rose to 3.30% compared to 2.80% in March 2011 and 2.40% in April 2010. For the period January-April 2011, the CPI recorded an increase of 2.90% compared to the corresponding period of 2010. The unemployed persons for April 2011 reached 26,911 persons, recording an increase of 4.50% compared to the previous month. In comparison with April 2010, an increase of 5,278 persons or 24.40% was recorded which was mainly observed in the sectors of trade (an increase of 1,053 unemployed persons), construction (an increase of 704), accommodation and food service activities (an increase of 629), education (an increase of 418), manufacturing (an increase of 389), transportation and storage (an increase of 260), as well as to newcomers in the labour market where an increase of 1,273 unemployed persons was recorded.

Main Economic Indicators

Period: First Quarter of 2011					
	<i>Europe</i>	<i>United States</i>	<i>United Kingdom</i>	<i>Japan</i>	<i>Cyprus</i>
<i>Real GDP (year on year %)</i>	1.80	2.90	1.55	3.98	1.00
<i>Real GDP (1st quarter 2011 compared to 1st quarter 2010)</i>	2.50	1.80	1.80	-3.70	1.80
<i>Unemployment (%)</i>	9.93	8.90	7.83	4.70	6.50
<i>CPI (year on year %)</i>	2.47	2.13	4.13	0.00	3.30

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