

ECONOMIC BULLETIN

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DEVELOPMENTS IN THE WORLD ECONOMY

Growth in the global economy has slowed in recent months, partly on account of temporary factors. Renewed stresses in financial markets particularly in advanced economies continue to restrain the medium-term global growth outlook. Growth in emerging economies has been moderating modestly, which should assist in alleviating overheating pressures in certain economies. Annual inflation rates have stabilized in advanced economies, while inflationary pressures continued to be more pronounced in emerging economies.

Europe: At its meeting on 8 December 2011 the Governing Council of the ECB decided to reduce the key ECB interest rates by 25 basis points. As a result the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will be at 1%, 1.75% and 0.25% respectively. Euro area real GDP growth, which slowed in the second quarter of 2011 to 0.20% quarter-on-quarter, is expected to be very moderate in the second half of this year. A number of factors seem to be dampening the underlying growth momentum in the euro area, including a moderation in the pace of global demand and unfavorable effects on overall financing conditions and on confidence resulting from ongoing tensions in a number of euro area sovereign debt markets. Downside risks notably relate to a further intensification of the tensions in some segments of the financial markets in the euro area and at the global level, as well as to the potential for these pressures to further spill over into the euro area real economy. With regard to price developments, euro area annual Harmonised Index of Consumer Prices (HICP) inflation was 3% in October according to Eurostat's flash estimate, unchanged from September. Looking ahead, inflation is likely to stay above 2% for some months to come, before falling below 2% in the course of 2012. Inflation rates are expected to remain in line with price stability over the policy-relevant horizon. This pattern reflects the expectation that, in an environment of weaker euro area and global growth, price, cost and wage pressures in the euro area should also moderate. Turning to fiscal policies, all euro area governments need to show their inflexible determination to ensure financial stability in the euro area as a whole. The Governing Council takes note of the fiscal commitments expressed in the Euro Summit statement of 26 October 2011 and urges all governments to implement fully and as quickly as possible the measures necessary to achieve fiscal consolidation and sustainable pension systems, as well as to improve governance. Fiscal consolidation and structural reforms must go hand in hand to strengthen confidence, growth prospects and job creation. In this respect, labour market reforms are essential and should focus on measures to remove rigidities and to enhance wage flexibility, so that wages and working conditions can be tailored to the specific needs of firms.

United States: On 13 December 2011 the US Federal Open Market Committee (FOMC) decided to maintain its target range for the federal funds rate at 0% to 0.25% and continued to anticipate that economic conditions are likely to warrant exceptionally low levels for the federal funds rate at least until mid-2013. At the same time, the FOMC announced new measures to stimulate the slow economic recovery and to help support conditions in mortgage markets, including an extension of the average maturity of its securities holdings. US real GDP increased at an annual rate of 2.50% in the third quarter of 2011 (0.60% on a quarter-on-quarter basis), up from 1.30% in the previous quarter. The expansion in the third quarter was supported by growth in consumer spending and business investment. Net exports contributed positively to GDP growth as export growth outpaced import growth, while inventories posted a strong negative contribution. As regards price developments, annual CPI inflation increased to 3.90% in September 2011, its highest level in three years, from 3.80% in the previous month. The increase in headline inflation in the course of 2011 continues to reflect a marked annual rise in energy and food prices, which increased at a rate of 19.30% and 4.70% respectively in the year up to September 2011.

United Kingdom: On 8 December 2011 the Bank of England's Monetary Policy Committee has maintained the official Bank Rate paid on commercial bank reserves at 0.50%, but in October decided on a further GBP 75 billion of asset purchases financed by the issuance of central bank reserves, in addition to the stock of GBP 200 billion remaining from previous purchases. Real GDP increased by 0.50% quarter-on-quarter, largely reflecting the waning of some temporary factors in the second quarter of the year. Growth in domestic demand is still expected to remain constrained by tight credit conditions, household balance sheet adjustment and substantial fiscal tightening, while the weakening of the outlook for external demand is likely to hinder export growth. Annual CPI inflation has remained elevated in recent months. Inflation increased to 5.20% in September from 4.50% in August. The inflation of both energy and non-energy goods continued to accelerate, and the jump in inflation was driven mainly by substantial increases in utilities prices. In the short term, inflation is likely to remain high, but in the longer term the inflation rate is expected to slow down.

Japan: In Japan, economic activity has recovered significantly from the plunge triggered by the Great East Japan Earthquake. Industrial production declined by about 4% month-on-month. Real exports of goods increased by 3.40% in monthly terms in September, following moderate increases in the two previous months, while real imports fell for the first time since March by 1.80% month-on-month. Annual CPI inflation declined in September to 0%, from 0.20% in the previous month. At its meeting on 15 November, the Bank of Japan decided to maintain its target for the uncollateralised overnight call rate at around 0% to 0.10%

Greece: At the European Summit held on 26 October 2011, the European Council adopted a series of measures with the purpose of dealing with the current financial crisis within the Eurozone and the restoration of the stability and confidence in the markets. In addition to other matters, the heads of the members of the European Union agreed to a rescue plan for Greece with the voluntary participation of the private sector with a nominal discount of 50% on the Greek government bonds held. It has been agreed that affected EU banks by the agreed haircut should initially find new capital from their own sources and if they cannot, they should then ask for national capital. If this is not possible either, as last resort they should ask for capital from the European Financial Stability Facility (EFSF).

Energy News: Brent crude oil prices stood at USD 109 per barrel on 12 December, which is 13.30% higher than at the beginning of the year and 0.40% higher than at the beginning of November. Looking ahead, however, market participants expect lower oil prices in the medium term, with futures contracts for December 2012 trading at around USD 103 per barrel.

CYPRUS ECONOMY

The Cypriot economy faces strong headwinds and downside risks due to financial turbulence in the euro area, the large exposure of Cypriot banks to Greece, and the need for substantial fiscal consolidation to stabilize public finances. Reflecting these developments, the government has lost access to international capital markets and confronts the challenge of accessing financing to meet its fiscal needs in 2012 and beyond. The GDP growth rate in real terms during the third quarter of 2011 is negative and estimated at 0.60% over the corresponding quarter of 2010. Cyprus' growth outlook is estimated to be zero for 2011 and slightly negative for 2012. Negative growth rates were recorded by the secondary sector of the economy (Construction, Manufacturing, Electricity), as well as in the sectors of Trade and Transport. Positive growth rates were presented by the sectors of Tourism, Banking and Services. The Consumer Price Index for November 2011 increased 0.32% compared to October 2011. The rate of increase of the Index, and therefore the rate of inflation for November 2011 increased by 3.80% compared to 3% in October 2011 and 1.50% in November 2010. For the period January-November 2011, the CPI recorded an increase of 3.20% compared to the corresponding period of 2010. The number of registered unemployed for November 2011 increased to 31,253 persons in comparison to 30,969 in the previous month. In comparison with November 2010, an increase of 6,805 persons or 27.20% was recorded which was mainly observed in the sectors of trade (an increase of 1,644 unemployed persons), construction (an increase of 1,363), accommodation and food service activities (an increase of 1,261), manufacturing (an increase of 809), transportation and storage (an increase of 420), education (an increase of 365), as well as to newcomers in the labour market where an increase of 462 unemployed persons was recorded.

Main Economic Indicators

Period: Third 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 2010-2009 %)</i>	1.80	3.00	1.30	3.98	1.00
<i>Real GDP (3rd quarter 2011 compared to 3rd quarter 2010)</i>	1.40	2.50	0.50	6.00	-0.60
<i>Unemployment (%)</i>	10.13	9.10	8.10	4.37	7.90
<i>CPI (year on year %)</i>	2.67	3.77	4.70	0.13	3.80

USB BANK PLC
Treasury and Correspondent Banking
P.O. Box 28510, 2080 Nicosia, Cyprus
Telephone 22883344

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