

# ECONOMIC BULLETIN

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## DEVELOPMENTS IN THE WORLD ECONOMY

The global economic recovery remains subdued and diverse across economic regions, with growth dynamics gradually shifting in favour of advanced economies. The latest survey indicators point to further expansion of global business activity supported by the stabilisation of global financial conditions. In the medium term prospects are expected to improve in advanced economies, but remain muted in emerging markets relative to historical trends, while overall risks to the outlook for economic activity remain tilted to the downside. World trade is gradually strengthening, but rates of growth remain much lower than before the global financial crisis. Inflationary pressures are expected to remain contained in the light of continued abundant spare capacity at the global level.

**Europe:** The Governing Council decided at its meeting on 5 December to keep the key ECB interest rates unchanged, following a 0.25% rate cut in November. With regard to the economic analysis, following a rise of 0.30% in the second quarter of 2013, real GDP in the euro area increased by 0.10%, quarter on quarter, in the third quarter. Macroeconomic projections foresee annual real GDP declining by 0.40% in 2013 before increasing by 1.10% in 2014 and 1.50% in 2015. The risks surrounding the economic outlook for the euro area are assessed to be on the downside. Developments in global financial market conditions and related uncertainties may have the potential to negatively affect economic conditions. Other downside risks include higher commodity prices, weaker than expected domestic demand and export growth, and slow or insufficient implementation of structural reforms in euro area countries. Euro area annual Harmonised Index of Consumer Prices (HICP) inflation increased in November 2013 to 0.90%, from 0.70% in October. Over the medium term, underlying price pressures in the euro area are expected to remain subdued. Macroeconomic projections for the euro area foresee annual HICP inflation at 1.40% in 2013, at 1.10% in 2014 and at 1.30% in 2015. As regards fiscal policies, the Governing Council welcomes the European Commission's assessment of the 2014 draft budgetary plans. In order to put high public debt ratios on a downward path, governments should continue their efforts to reduce deficits and sustain fiscal adjustment over the medium term. In particular, consolidation measures should be growth-friendly and have a medium-term perspective. At the same time, there is a need to push ahead with product and labour market reforms, in order to improve competitiveness, raise potential growth, generate employment opportunities and foster the adaptability of the euro area economies.

**United States:** On 18 December 2013 the Federal Open Market Committee (FOMC) decided for the first time to reduce monthly bond purchases from the current rate of USD 85 billion per month to USD 75 billion month starting from January 2014. It also decided to keep the target range for the federal funds rate at 0% to 0.25% and anticipated that exceptionally low levels will be appropriate for at least as long as: (i) the unemployment rate remains above 6.50% and (ii) inflation between one and two years ahead is not projected to be above 2.50%. Real GDP increased at an annualized quarterly rate of 3.60% in the third quarter, up from 2.50% in the second quarter. Growth was sustained by gains in personal consumption expenditure, private fixed investment and exports, although these gains were slower than in the previous quarter. Annual Consumer Price Index (CPI) inflation declined further by 0.20 percentage point to 1.00% in October, largely reflecting a downward trend in energy price inflation. Looking ahead, considerable slack in the economy, as well as subdued wage and input cost dynamics, suggest that inflation will remain contained.

**United Kingdom:** The United Kingdom has experienced robust growth in recent quarters. Real GDP increased by 0.80% quarter on quarter in the third quarter of 2013, owing mainly to household consumption. The strength of the main survey indicators in October and November suggests that robust growth will continue in the fourth quarter. In the medium term, however, the pace of growth is likely to moderate. The unemployment rate fell by 0.10 percentage point to 7.60% in the three months to September. In October the CPI inflation rate declined by 0.50 percentage point from September to 2.20%, owing mainly to lower energy prices. It is expected that the recent moderation of inflationary pressures will be sustained, as inflation continues to be dampened by existing spare capacity in labour and capital utilisation. At its meeting on 5 December 2013 the Bank of England's Monetary Policy Committee kept the policy rate at 0.50% and the size of its asset purchase programme at GBP 375 billion.

**Japan:** In Japan economic activity continued to expand at a robust pace, driven by monetary and fiscal policy action. Government actions through large monetary and fiscal stimulus and structural reforms have boosted confidence, while stock prices have increased sharply, with the NIKKEI stock market higher by over 60% on average in November 2013 compared with one year ago. The yen has depreciated by around 20% over the same period, which has provided some support for exports in the third quarter. GDP grew by 0.50% quarter on quarter, contributing to a rise in inflation since the start of the year which stood at 1.10% in October.

**Energy News:** Brent crude oil traded at USD 112 per barrel on 27 December 2013 at around the same price levels as one year ago. Brent oil prices throughout 2013 traded in the range of USD 98-118 per barrel. Looking ahead, market participants expect lower oil prices over the medium term, with December 2014 futures prices trading at 105 USD per barrel.

## CYPRUS ECONOMY AND MAJOR DEVELOPMENTS

Following Cyprus' loan agreement /programme with the EU/IMF securing EUR 10 billion over the next 3 years (2013-2016), the Cypriot authorities have established a record of strong policy implementation, meeting fiscal targets with comfortable margins, making strides in restructuring and recapitalizing the financial system, and advancing structural fiscal reforms. While macroeconomic outcomes have been somewhat better than expected, the economic situation and outlook remain difficult and subject to significant risks. Full and timely implementation of the adjustment program, as well as broad public support, is therefore crucial to restore confidence and growth. Considerable progress has been made in stabilizing the financial sector. Cyprus's largest bank, Bank of Cyprus, put in place a restructuring plan, the second largest bank, Hellenic Bank, was fully recapitalized with private, including foreign funds, and initial steps were taken to consolidate the cooperative credit sector. Building on these efforts, banks will need to implement their restructuring plans, and the recapitalization and consolidation of cooperative credit institutions should be completed rapidly. These will help pave the way for a further gradual relaxation of payment restrictions in line with the authorities' roadmap, while safeguarding financial stability. The GDP growth rate in real terms during the third quarter of 2013 is negative and estimated at -5.30% over the corresponding quarter of 2012. Negative growth rates were recorded by the secondary sector of the economy (Construction, Manufacturing), as well as in the sectors of Banking, Trade, Transport and other Services. The rate of inflation for November 2013 decreased by -2.10% compared to -1.60% in October 2013 and 1.20% in November 2012. Unemployment reached the level of 17% in October 2013.

## Main Economic Indicators

Period: Third Quarter of 2013					
	<i>Europe</i>	<i>United States</i>	<i>United Kingdom</i>	<i>Japan</i>	<i>Cyprus</i>
<i>Real GDP (year-on-year 2012-2011 %)</i>	-0.70	2.80	0.10	1.45	-2.40
<i>Forecasted Real GDP (year-on-year 2013-2012 %)</i>	-0.40	1.70	1.40	1.80	-7.70
<i>Real GDP (3<sup>rd</sup> quarter 2013 compared to 3<sup>rd</sup> quarter 2012 %)</i>	0.10	3.60	1.90	0.50	-5.30
<i>Unemployment (%)</i>	12.13	7.30	7.60	3.97	17.00 (*)
<i>Inflation (3<sup>rd</sup> quarter 2013 compared to 3<sup>rd</sup> quarter 2012 %)</i>	1.33	1.00	2.73	0.90	-2.47

\* Data for October 2013

### Sources:

- 1) *European Central Bank*
- 2) *Statistical Service of Cyprus (CYSTAT)*
- 3) *Bloomberg Statistics*

### USB BANK PLC

**Treasury & Correspondent Banking**  
**P.O. Box 28510, 2080 Nicosia, Cyprus**  
**Telephone 22883344**

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