

ECONOMIC BULLETIN

Publication June 2015

DEVELOPMENTS IN THE WORLD ECONOMY

The world economy continues to expand along an uneven recovery path. The significant fall in oil prices since last year (the recent rebound notwithstanding) is expected to boost global activity. Financing conditions also remain supportive for the global economy. In advanced economies, prospects are improving, as the headwinds of deleveraging and fiscal consolidation diminish. By contrast, conditions in some emerging markets have deteriorated, while global trade has slowed. Global inflation has declined owing to the fall in oil prices, and ample spare capacity worldwide is expected to restrain inflationary pressures.

Europe: Based on its regular economic and monetary analyses, the Governing Council decided at its meeting on 3 June 2015 to keep the key ECB interest rates unchanged. In the Governing Council's assessment there is a need to maintain a steady monetary policy course. The full implementation of all monetary policy measures will provide the necessary support to the euro area economy and lead to a sustained return of inflation rates towards levels below, but close to, 2% in the medium term. Purchases under the expanded asset purchase programme (APP) – of €60 billion per month – are intended to run until the end of September 2016 and, in any case, until the Governing Council sees a sustained adjustment in the path of inflation. A number of factors are supporting the gradual recovery in euro area economic activity and the labour market. Real GDP increased by 0.40%, quarter-on-quarter, in the first quarter of 2015, after growing by 0.30% in the fourth quarter of 2014. The data indicate that the economic recovery has broadened, which can be attributed to several factors. ECB monetary policy measures are contributing to a substantial easing of broad financial conditions and facilitating access to credit, for SMEs as well as for larger firms. The progress made with fiscal consolidation and structural reforms has had a favourable effect on economic growth. Moreover, low oil prices are bolstering real disposable income and corporate profitability, supporting private consumption and investment, while the weakening of the euro's exchange rate has helped exports. In line with the broadening of the recovery, the euro area labour market has continued to improve somewhat, as reflected in gradually declining unemployment. However, unemployment is still high in the euro area as a whole as well as in many individual countries. The June 2015 Eurosystem staff macroeconomic projections for the euro area foresee annual real GDP increasing by 1.50% in 2015, 1.90% in 2016 and 2% in 2017. Compared with the March 2015 ECB staff macroeconomic projections, the projections for real GDP growth remain virtually unchanged. In the Governing Council's assessment, risks to the outlook for economic activity – while remaining on the downside – have become more balanced on account of its monetary policy decisions and oil price and exchange rate developments. The June 2015 Eurosystem staff macroeconomic projections for the euro area foresee annual Harmonized Index of Consumer Prices (HICP) inflation at 0.30% in 2015, 1.50% in 2016 and 1.80% in 2017. In comparison with the March 2015 ECB staff macroeconomic projections, the inflation projections have been revised upwards for 2015 and remain unchanged for 2016 and 2017. The projections are conditional on the full implementation of the ECB's monetary policy measures. The Governing Council will continue to monitor closely the risks to the outlook for price developments over the medium term, focusing in particular on the pass-through of its monetary policy measures, as well as on geopolitical, exchange rate and energy price developments.

United States: Following the moderation in activity in the first quarter, US growth is expected to rebound throughout the remainder of this year. The past appreciation of the effective exchange rate of the US dollar will dampen export growth, and the decline in the oil price will weigh on energy sector investment. However, it is anticipated that US economic activity will be supported by stronger household spending following the boost to real incomes from lower oil prices, favourable financial conditions, and continued strengthening of the labour and housing markets. Economic activity has been expanding moderately. The pace of job gains picked up while the unemployment rate remained steady. Growth in household spending has been moderate and the housing sector has shown some improvement; however, business fixed investment and net exports stayed soft. For 2015, GDP growth rate is expected to be at around 1.80% to 2%. Inflation projections for 2015 is below 1%, unchanged since March. The unemployment rate was 5.50% in May 2015. At its meeting on June 17 the Federal Open Market Committee (FOMC) decided to keep its 0% to 0.25% target range for the federal funds rate. In determining how long to maintain this target range, the Committee will assess progress - both realized and expected - toward its objectives of maximum employment and 2 percent inflation. This assessment will take into account a wide range of information, including

measures of labour market conditions, indicators of inflation pressures and inflation expectations, and readings on financial and international developments. The Committee anticipates that it will be appropriate to raise the target range for the federal funds rate when it has seen further improvement in the labour market and is reasonably confident that inflation will move back to its 2 percent objective over the medium term.

United Kingdom: The UK economy softened in the first quarter of 2015, but is expected to strengthen as falling energy prices and accelerating wage growth support private consumption, while business investment recovers as demand grows and credit conditions ease. UK GDP growth in 2015 Q1 was 0.50%, and growth in Q2 is estimated to be stronger, at 0.70%, quarter-on-quarter. The unemployment rate had declined as expected to 5.50% in 2015 Q1 from 5.70% in 2014 Q4. For May, CPI inflation rate was 0.10% as compared to -0.10% in March. At its meeting on 3 June, the Bank of England's Monetary Policy Committee maintained the policy rate unchanged at 0.50% and the size of the Asset Purchase Programme at GBP 375 billion.

Japan: Activity in Japan is recovering after the slump following the VAT hike in April 2014, with a sharp rise in growth in the first quarter of 2015. Looking ahead, activity is expected to strengthen slowly as households benefit from the increase in real incomes provided by the lower oil prices, and exports gain from the past depreciation of the Japanese yen.

China: In China, both the slowdown in the housing market and the decline in production in many heavy industries weighed on growth in the first quarter of this year. While growth will receive a near-term boost from the decline in the oil price and recent monetary easing, in the longer term the pace of expansion is expected to slow as the political leadership tackles financial fragilities and macroeconomic imbalances.

Energy News: While oil prices were broadly stable from 2011 to mid-2014, they declined by more than 50% from end-June 2014 (USD 106/barrel) to January 2015 (USD 55/barrel) owing to an oversupplied oil market, with robust increases in North American shale oil production and sluggish oil demand growth. Since then, Brent crude oil prices have rebounded somehow with the price on 7 July 2015 being around USD 57 per barrel. Looking ahead, the oil futures market expects slightly higher oil prices over the medium term, with June 2016 Brent futures contracts trading at around USD 62 per barrel.

CYPRUS ECONOMY AND MAJOR DEVELOPMENTS

The GDP growth rate in real terms during the first quarter of 2015 is positive and estimated at 0.20% (seasonally adjusted) over the corresponding quarter of 2014. Positive growth rates were recorded by the sectors of Trade, Hotels and Restaurants, Communication, Electricity as well as the Legal and Accounting activities. Negative growth rates were recorded by the secondary sector of the economy, Mining, Manufacturing and Construction. The rate of inflation for June 2015 decreased by -2.40% compared to -2.00% in May 2015 and -1.20% in June 2014. For the period January-June 2015, the CPI recorded a decrease of -1.90% compared to the corresponding period of 2014. The rate of unemployment remained steady in May at 16% at the same level as the previous month. Following the new Insolvency and Foreclosures legislation passed by the Cyprus Parliament in April 2015, the Troika (IMF, European Commission and ECB) on June 19 completed the combined fifth, sixth and seventh reviews of Cyprus's economic adjustment program, approving the disbursement of €378 million (IMF €278 million, EU 100 million). As stated in the IMF's Report, the effective implementation of the new private debt restructuring framework will address the high level of non-performing loans (currently at 60%) and hence to consolidate financial stability and boost growth. Pursuance of a prudent fiscal policy and of structural reforms (tax administration, public administration, privatizations, and social benefit reforms) are also an essential and integral part of the program's success. In the context of the ECB's Quantitative Easing (QE) Programme, the Central Bank of Cyprus (CBC) began purchasing Cypriot bonds on Friday, July 3.

Main Economic Indicators

Period: First Quarter of 2015					
	<i>Eurozone</i>	<i>United States</i>	<i>United Kingdom</i>	<i>Japan</i>	<i>Cyprus</i>
<i>Real GDP (year-on-year 2014-2013 %)</i>	-0.80	2.40	2.60	-0.10	-2.30
<i>Forecasted Real GDP (year-on-year 2015-2014 %)</i>	1.50	2.00	2.50	1.00	0.20
<i>Real GDP (1st quarter 2015 compared to 1st quarter 2014 %)</i>	1.00	-0.20	2.90	3.90	0.40
<i>Unemployment (%)</i>	11.10	5.50	5.50	3.30	16.00 (*)
<i>Inflation (1st quarter 2015 compared to 1st quarter 2014 %)</i>	-0.30	-0.10	0.10	2.30	-1.50

* Data for June 2015

Sources:

1) European Central Bank 2) Bank of England 3) Federal Reserve 4) Statistical Service of Cyprus (CYSTAT) 5) Bloomberg Statistics

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