

CYPRUS



GREECE



EUROLAND



Cyprus was one of only three countries in Euroland to register positive economic growth in the final quarter of 2008. Economic activity is expected to decelerate in 2009 largely due to the deteriorating external environment which will have an adverse impact on exports.

Key metrics

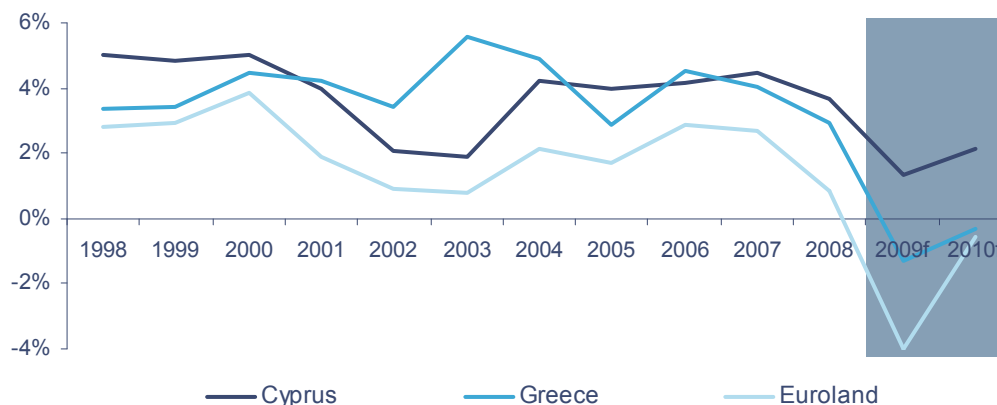
Indicator	2008	2009 ^f	2010 ^f
GDP growth	3.7%	1.4%	2.1%
Inflation	4.4%	-0.1%	2.1%
Base interest rate	2.5% [^]	▼*	◀▶
General outlook		Negative	Negative/Stable

Source: ECB; Eurostat; PricewaterhouseCoopers forecasts (f) [^] End of period. * Rate as of May 2009 is 1%.

Key trends

- Preliminary data suggests that Cypriot economic growth remained stagnant in Q1 2009.
- Cypriot inflation fell to 0.9% in March, converging towards the Euroland average.
- Cypriot unemployment reached 4.9% in March – the highest level since June 2006.

Economic growth profile



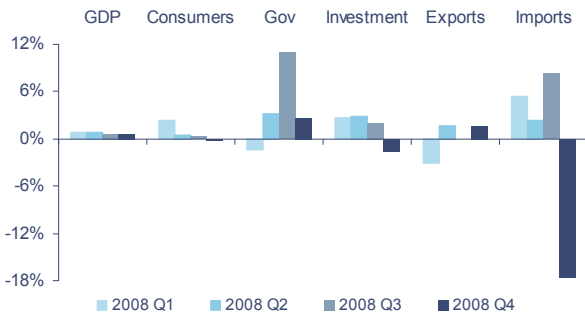
Source: Eurostat; PricewaterhouseCoopers forecasts (f)

Yael Selfin yael.selfin@uk.pwc.com +44 (0)20 7804 7630	Mal Božić mal.bozic@uk.pwc.com +44 (0)20 7804 4089	Sajeel Shah sajeel.shah@uk.pwc.com +44 (0)18 9552 2365
--	--	--

Cyprus

Preliminary estimates suggest that economic growth remained stagnant in the first quarter of 2009. This is a significant deterioration from the growth achieved in Q4 2008, when the economy expanded by 0.5% (see Chart 1 below). Growth in the final quarter of 2008 was aided by a contraction in imports, which fell by a huge 17.7%.

Chart 1: Cypriot quarter-on-quarter growth rates

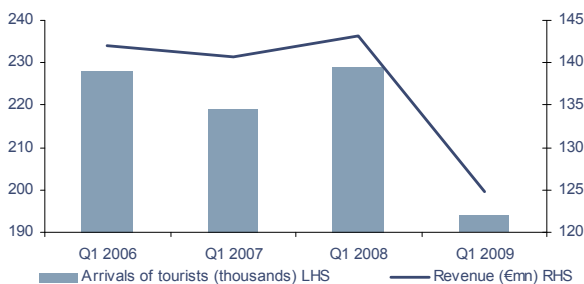


Source: Eurostat

Cypriot consumer spending contracted for the first time in almost 4 years in Q4 2008. The trend is expected to continue as rising unemployment and low levels of consumer sentiment take their toll. A weaker performance in private consumption will hamper Cypriot growth prospects, particularly given the gloomy outlook for the external sector.

The global slowdown has had an adverse impact on the Cypriot tourism industry (see Chart 2 below). The number of tourists from the United Kingdom fell by 9.9% in April 2009 compared to the prior year. This is having a significant impact on Cypriot tourist revenues, given that visitors from the United Kingdom account for over 40% of the total number of tourists to the island.

Chart 2: Tourist arrivals and revenues



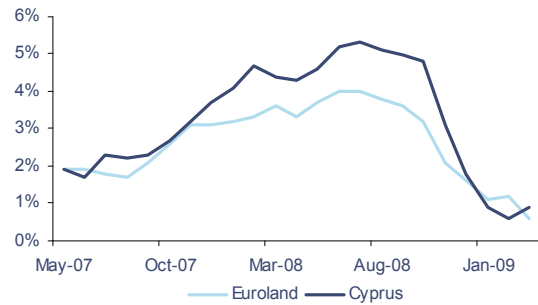
Source: Statistical Service of the Republic of Cyprus

Investment fell by 1.6% in Q4 2008, the first quarterly contraction since Q2 2005. Investment activity has weakened due to tighter financial conditions and low levels of economic sentiment driven by an uncertain economic environment. The construction sector is likely to see a significant fall in investment activity as demand for dwellings by non-residents cools.

The Cypriot economy relies heavily on imported products and is therefore relatively susceptible to inflationary pressures from abroad. As demand has weakened, and falls in commodity prices have been passed on to the supply chain, inflationary pressures have also eased significantly. The annual rate of consumer price inflation, which stood at 3.1% in November 2008, fell to only 0.9% in March 2009.

After several years of diverging inflation, Cypriot inflation is now back around the Euroland average (see Chart 3 below).

Chart 3: Cypriot and Euroland inflation

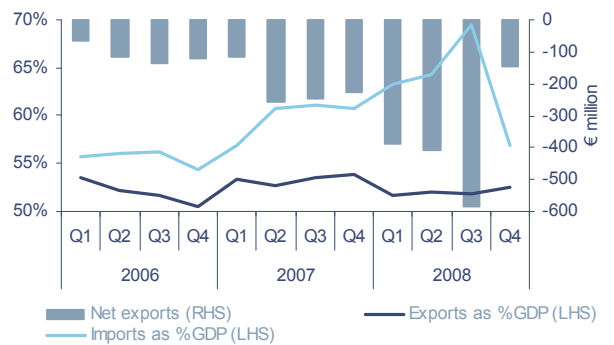


Source: Eurostat

The Cypriot unemployment rate increased to 4.9% in March 2009, the highest rate since June 2006. We expect the Cypriot unemployment rate to increase in the short term with the largest movements occurring in the sectors most vulnerable to the downturn, namely tourism and real estate.

Cypriot exports made a surprising recovery in Q4 2008, growing by 1.7% compared with no growth in the previous quarter. Imports fell sharply in Q4 2008 making a significant positive contribution to overall GDP growth in the quarter and improving the trade balance (see Chart 4 below). The anticipated slowdown in consumer spending and investment activity is likely to constrain import demand in the coming months.

Chart 4: Cypriot net exports



Source: Eurostat

In late May 2009 Cyprus launched its largest ever bond issue, the first since 2004. The issue raised €1.5 billion, compared to the original €1 billion planned.

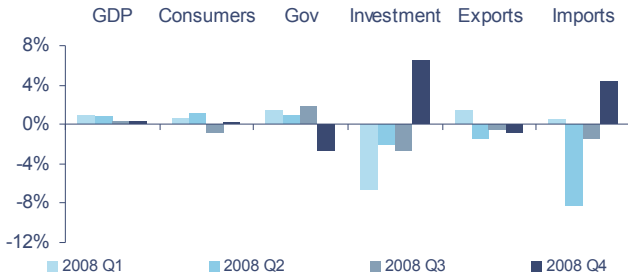
According to the finance minister most of the fresh capital will be used to refinance maturing public debt, which amounts to approximately €1.9 billion.

Unlike most European economies we expect positive growth for Cyprus in 2009, albeit at a weaker pace than in recent years. An expected slowdown in the tourism and construction sectors leads us to forecast growth of 1.4% in 2009 followed by stronger growth of 2.1% in 2010.

Greece

In the fourth quarter of 2008 the Greek economy expanded by 0.3% quarter-on-quarter, down from 0.4% in Q3 2008. Economic growth was driven by a strong rebound in investment, following four consecutive quarters of significant contractions. (see Chart 5 below).

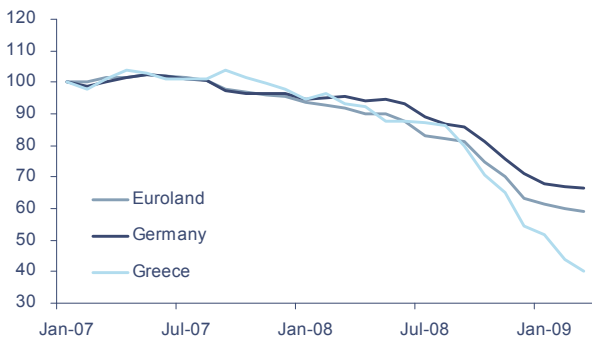
Chart 5: Greek quarter-on-quarter growth rates



Source: Eurostat

The economic sentiment indicator for Greece reached its lowest level in March 2009 since records began in January 1985 (see Chart 6 below). This indicates that investment growth is likely to be weaker in the coming months. Furthermore, data released by Eurostat estimates that the Greek budget deficit stood at approximately 5% of GDP in 2008. The combination of high public debt and a large budget deficit could have an adverse impact on investors' confidence in the Greek economy as well as restricting the government's ability to support growth.

Chart 6: Economic sentiment indicator (Jan 07 = 100)



Source: European Commission

Greek exports fell for a third consecutive quarter in the final quarter of 2008 and are not expected to recover soon. The deepening recessions in Germany and the UK are likely to have a significant impact on Greece's tourism sector, the country's largest employer.

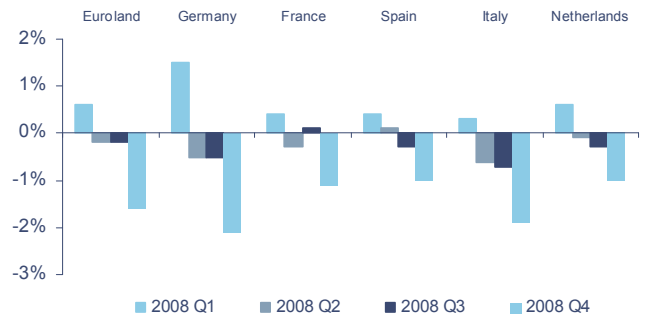
Greek unemployment remained stable at 7.8% throughout Q4 2008, but new data suggests that it has since risen. A prolonged slowdown in key industries including tourism, shipping and construction could lead to further increases in unemployment.

Due to the combined impact of the global slowdown and the need for fiscal tightening, we expect the Greek economy to contract in the short term by 1.3% in 2009 and 0.3% in 2010.

Euroland

The contraction of the Euroland economy accelerated in the fourth quarter of 2008, with GDP falling by 1.6% compared to a 0.2% fall in Q3 (see Chart 7 below). It was the third consecutive quarter of falling output and the sharpest contraction since Euroland quarterly economic growth records began in 1995.

Chart 7: Quarter-on-quarter GDP growth rates

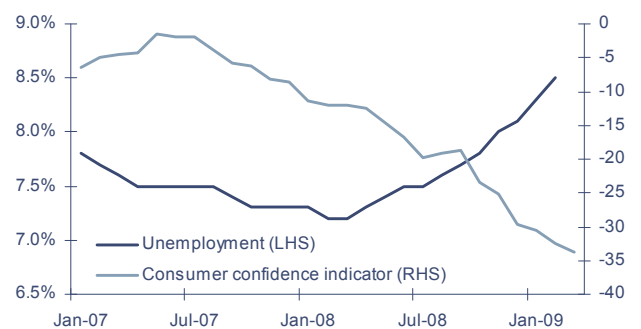


Source: Eurostat

Despite expectations to the contrary at the start of the economic crisis, the German and Italian economies are contracting faster than the Spanish economy. Across the 16 Euroland countries, the Q4 change in GDP ranged from a fall of 7.1% in Ireland to an expansion of 2.1% in Slovakia. Apart from Slovakia, only Greece and Cyprus managed to grow in the last quarter of 2008.

The Q4 contraction in Euroland was driven by a 4% fall in investment and a 6.7% reduction in exports. This confirms that the current recession is largely business-driven, except in countries like Spain and Ireland that are suffering from burst property price bubbles. However, the pain is gradually moving from the factory to the home, as reflected in the rising unemployment rate (see Chart 8 below).

Chart 8: Unemployment and consumer confidence



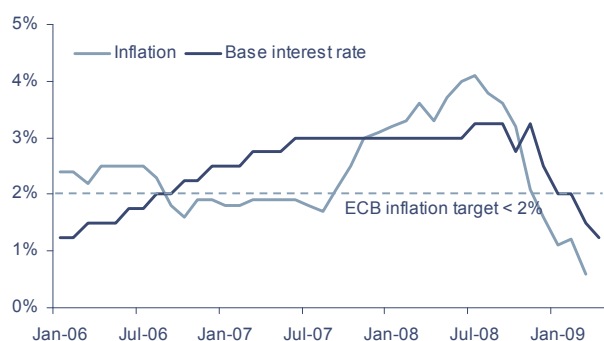
Source: Eurostat; European Commission

With falling export orders resulting in idle factories across the continent, the unemployment rate reached 8.5% in February 2009, the highest level since May 2006. The reaction of consumers has been proportionate. Although consumer confidence has been generally on a downward trajectory since the start of the financial crisis in mid-2007, it has fallen precipitously since late-2008 (see Chart 8 above), as the rise in unemployment has picked up. Accordingly, consumer spending contracted by 0.3% in Q4. An upside of falling consumer confidence is that, despite the strength of the euro, imports also fell in Q4 by 4.7%.

Despite the depth of the recession, policy thus far has been cautious. Although fiscal stimulus packages have been announced by national governments across Euroland, and by the European Commission (EC), the amounts committed relative to GDP are lower than in the US, Japan or China, according to ILO estimates. In fact, government spending decelerated in the second half of 2008.

The monetary policy response has been similarly timid. Whilst interest rates have fallen considerably since November 2008 (see Chart 9 below), the European Central Bank (ECB) has not gone as far as its counterparts in the US or the UK. However, with inflation anchored safely below the ECB's 2% ceiling, there is further scope for supporting the economy through lower interest rates.

Chart 9: Interest rates and inflation



Source: European Central Bank; Eurostat

Some 'green shoots' are being observed in the US, but it is expected that the recovery in Euroland will lag behind. Nevertheless, the EC's Euroland economic sentiment indicator (ESI) may be bottoming out. Since the start of 2009, the ESI for Euroland and Germany has fallen only marginally, but it has continued falling for Greece, which is yet to enter recession.

We expect the Euroland economy to continue contracting during 2009 but at a decreasing rate. The economy should resume growing very slowly during the course of 2010. We forecast a 4% overall contraction in GDP in 2009 and a contraction of 0.5% in 2010.

Cyprus: recent performance and forecasts

	2006	2007	2008	2009 ^f	2010 ^f
Real growth (annual % change)					
GDP	4.1	4.4	3.7	1.4	2.1
Consumer spending	4.5	8.2	7.0	-0.6	2.0
Government	7.4	0.1	8.7	11.2	3.7
Investment	10.4	10.5	9.8	-4.1	0.3
Exports	3.9	7.2	1.1	-0.8	0.7
Imports	6.6	12.5	9.9	-12.9	2.7
Contribution to GDP growth (%)*					
Consumer spending	3.0	3.0	4.6	-0.4	1.4
Government	1.2	1.2	0.0	1.9	0.7
Investment	2.0	2.0	1.5	-0.9	0.1
Exports	2.0	2.0	3.9	-0.4	0.4
Imports	-3.6	-3.6	-6.2	8.2	-1.5
Domestic demand	6.6	6.6	5.4	-4.4	3.2
Net Exports	-1.6	-1.6	-2.3	7.8	-1.1
Economic structure (% of GDP)*					
Consumer spending	66.2	66.2	67.8	69.3	69.3
Government	17.3	17.3	16.5	19.1	19.3
Investment	19.9	19.9	20.5	21.1	20.7
Exports	52.0	52.0	53.5	50.9	50.1
Imports	55.6	55.6	59.1	54.5	54.8
Inflation					
HICP (annual % change, average)	2.3	2.2	4.4	-0.1	2.1

Source: Eurostat; PricewaterhouseCoopers forecasts (f) *Component shares of GDP may not add up to 100% owing to stockbuilding and statistical discrepancy.

Size of the economy

	2006	2007	2008	Share of 2008 world total
Population (millions)	1	1	1	0.01%
GDP, market rates (US\$ billions)	18	21	26	0.04%
GDP, PPP rates (US\$ billions)	20	21	23	0.03%
GDP per capita, market rates (US\$)	23,779	27,047	32,195	
GDP per capita, PPP rates (US\$)	25,844	27,171	28,381	

Source: International Monetary Fund

Report date: 25 May 2009

Definitions

Base interest rate – The policy interest rate for Euroland is the main refinancing operations minimum bid rate

Base interest rate forecasts – ▲ increase; ▼ decrease; ◀▶ no change

General outlook – In the Key Metrics table on page 1, the overall economic environment is assessed as being Positive, Stable or Negative

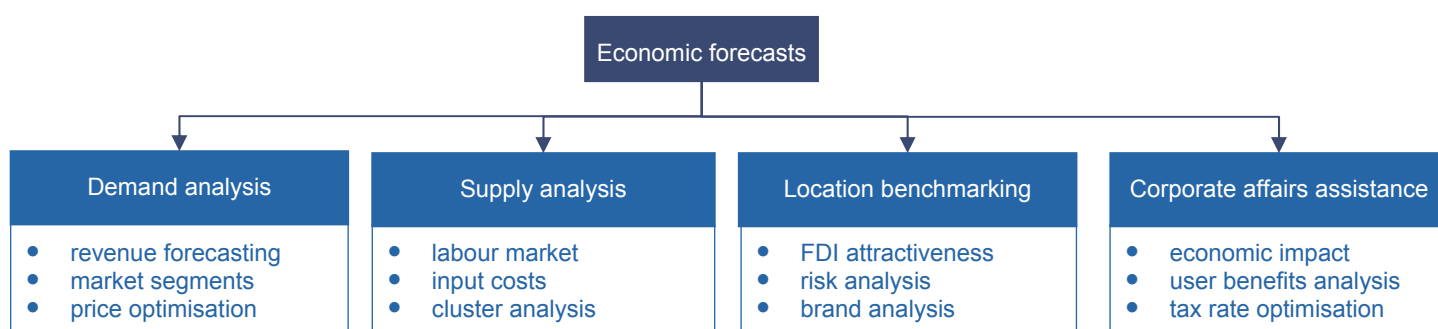
EOP – End of Period;

HICP – Harmonised Index of Consumer Prices

Economic Views reports are produced by the PwC Macro Consulting team. The team's consulting services provide practical and empirically-supported solutions using economic tools and combining strategic analysis with strong quantitative skills.

The PwC Macro Consulting team is committed to developing the solutions and tools that will help you to assess the risks and opportunities in your markets, as well as the effectiveness and impact of your business strategies.

PwC Macro Consulting services



For more information about our services please contact one of the members of the Macro Consulting team below:

Yael Selfin	Head of Macro Consulting	+44 (0)20 7804 7630	yael.selfin@uk.pwc.com
Mal Božić	Global	+44 (0)20 7804 4089	mal.bozic@uk.pwc.com
Paul Swinney	Western Europe	+44 (0) 207 804 2577	paul.a.swinney@uk.pwc.com
Sajeel Shah	Eastern Europe	+44 (0) 189 552 2365	sajeel.shah@uk.pwc.com
Alex Baker	North America	+44 (0)20 7212 2350	alex.baker@uk.pwc.com
Felicity Cumming	Asia Pacific	+44 (0)20 7212 4705	felicity.cumming@uk.pwc.com
Michael Nowak	Latin America	+44 (0)20 7804 6732	michael.nowak@uk.pwc.com
Jas Ellis	Africa	+44 (0) 20 7213 3966	jas.a.ellis@uk.pwc.com
Robert Sullivan	Special situations	+44 (0) 20 7804 0663	robert.s.sullivan@uk.pwc.com

economics.pwc.com

This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, PricewaterhouseCoopers does not accept or assume any liability, responsibility or duty of care for any consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it. This publication (and any extract from it) must not be copied, redistributed or placed on any website, without PricewaterhouseCoopers' prior written consent.

© 2009 PricewaterhouseCoopers. All rights reserved. 'PricewaterhouseCoopers' refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.