

**ECONOMIC DEVELOPMENTS IN 2010  
AND PROSPECTS FOR 2011**

October 2010

MINISTRY OF FINANCE

## CONTENTS

<b><u>I. INTRODUCTION</u></b>	<b>3</b>
<b><u>II. STRATEGIC OBJECTIVES</u></b>	<b>3</b>
1. MACROECONOMIC STABILITY	4
2. ECONOMIC DEVELOPMENT AND SOCIAL COHESION	5
<b><u>III. ECONOMIC ENVIRONMENT</u></b>	<b>7</b>
1. WORLD ECONOMY	7
2. CYPRUS ECONOMIC GROWTH RATE 2010	11
3. INFLATION	13
4. LABOUR MARKET	13
5. FISCAL DEVELOPMENTS IN THE PERIOD JANUARY - AUGUST 2010	14
6. BALANCE OF PAYMENTS 2010	20
7. MONETARY DEVELOPMENTS - EXCHANGE RATE - STOCK MARKET	21
8. CYPRUS ECONOMIC PROSPECTS FOR 2011	22
<b><u>IV. BUDGET 2011</u></b>	<b>23</b>
1. REVENUE	23
2. EXPENDITURE	25
3. FISCAL FORECASTS FOR 2011	32
4. MEDIUM TERM BUDGETARY FRAMEWORK 2011-2013	32

## **I. INTRODUCTION**

This publication refers to the strategic goals and main objectives of the economic policy of the Government. The economic policy of the Government aims at addressing the effects of the recent global economic crisis, with a focus on public finances, taking into account Cyprus' entry into the Excessive Deficit Procedure, on 15/07/2010.

An analysis of the strategic goals will be included in the Stability Programme 2010-2014 (SP) and the National Reform Programme of the Europe 2020 Strategy, which will be submitted in April 2011, according to the new European calendar. The SP sets out the strategic objectives of the macroeconomic policy and identifies the measures planned to be promoted for the reduction of the budgetary deficit, whereas the National Programme of the Europe 2020 Strategy identifies the major challenges confronted by the Cyprus economy and proposes structural reforms within the broader development and social policy of the Government.

An analysis of the international economic environment, which is characterized by globalization, intense competition and significant changes in the international economy, follows further down. Currently, the course of the global economy is being highly influenced by the global financial crisis. The international environment is a key element for the course of the Cyprus economy, given its openness and small size.

The main part of this publication focuses on the analysis of the economic developments during the current year. Reference concerning the economic outlook for the upcoming year, as well as for the Budget of 2011, follows thereafter.

## **II. STRATEGIC OBJECTIVES**

The economic policy of the Government is based on four axes:

- Macroeconomic stability
- Economic development
- Social cohesion
- Serving the Citizen

The Ministry of Finance, taking into account the above four economic policy axes, has set the following strategic objectives:

- Fiscal consolidation

- Combating tax fraud and the improvement of the efficiency of the tax system
- Restructuring the productive base of the economy and enhancing competitiveness
- Increasing the standard of living
- Supporting vulnerable groups and strengthening social state
- Improvement of the efficiency of the public service:
  - Better service for citizens
  - Accelerate the computerization of the public service
  - Effective participation in all EU institutions

The successful participation of Cyprus in the Economic and Monetary Union remains an important strategic objective of the Ministry of Finance.

The economic policy of the Government follows, in more detail:

### *1. Macroeconomic Stability*

#### *Fiscal Policy*

The global economic crisis affected the Cyprus economy with a time lag, causing negative effects on public finances.

The Government reacted promptly and effectively by preparing a fiscal consolidation program in order to minimize the impact of the crisis.

Despite the difficult economic conditions, the main objective of the Government remains the achievement of a satisfactory growth rate and macroeconomic stability, as well as the continuous improvement of the standard of living of all citizens, especially the vulnerable groups.

The preparation of the 2011 Budget and of the Medium-Term Budgetary Framework 2011-2013, focuses on the correction of the fiscal imbalances as well as the reversion of the public debt's upward trend, through the creation of primary surpluses. The savings that will arise, will lead to the release of resources, which will be used for the development, the modernization and the renewal of the structure of the economy, while strengthening social cohesion.

The Medium-Term Budgetary Framework 2011-2013 has been prepared along the above lines, and has been submitted for approval to the Council of Ministers. It aims at improving the quality of public finances, transparency as well as better planning and coordination of the relevant departments of the Government.

Furthermore, the gradual promotion of reforms in the sectors of health and social security helps in addressing the serious issue of the sustainability of public finances, as a response to the provisions of the revised Stability and Growth Pact.

### *Wage Policy*

Wages constitute a supporting element of demand, while being, at the same time, an element of cost for businesses, affecting competitiveness. Maintaining macroeconomic stability and the level of competitiveness of the Cyprus economy, has as a precondition the stabilization of the labor costs' enlargement rate, at the same levels as the productivity improvement rate.

### *Monetary and Exchange Rate Policy*

The recent monetary and exchange rate policy of the Central Bank of Cyprus, has played an important role in maintaining a low and manageable inflation and exchange rate stability. With the adoption of the euro on 1/1/2008, monetary policy is determined by the European Central Bank, whose member of the Board is the Governor of Central Bank of Cyprus. The interest rate decisions are taken by the European Central Bank, based on the conditions and forecasts regarding the economy of the single market as a whole, having as the primary objective price stability. Also, the policy regarding the exchange rate is determined by the supranational institutions in the EU.

Given the loss of power in setting the monetary and exchange rate policy only on purely national criteria, the burden of the macroeconomic policy is focused on fiscal policy, wage policy and structural changes, which aim at strengthening the competitiveness of the economy.

## ***2. Economic Development and Social Cohesion***

The National Reform Programme of the Europe 2020 Strategy identifies the major challenges faced by the Cyprus economy at this stage, and proposes specific measures for structural reforms regarding human resource development as well as for the broader development and social policy of the Government.

The main challenges faced by the Cyprus economy, are:

- Reducing the high structural deficit and ensuring the long-term sustainability of public finances, in view of the aging population.
- Improving the quality of public expenditure and ensuring a reallocation towards these areas that enhance development.
- Promoting innovation and dispersion of the information technology society, mainly regarding the private sector, for strengthening investment,

- for diversifying the current economic structure and shifting to a higher value added activities in manufacturing and services.
- Upgrading human resources giving emphasis on highly skilled professions, educating the low-skilled and disadvantaged groups and continuous upgrading of the infrastructure in transport, communication and energy.
  - Ensuring energy supply and promoting energy saving and renewable sources.
  - Ensuring environmental sustainability.

In order to address the above challenges, a series of measures are being implemented including, inter alia, the following:

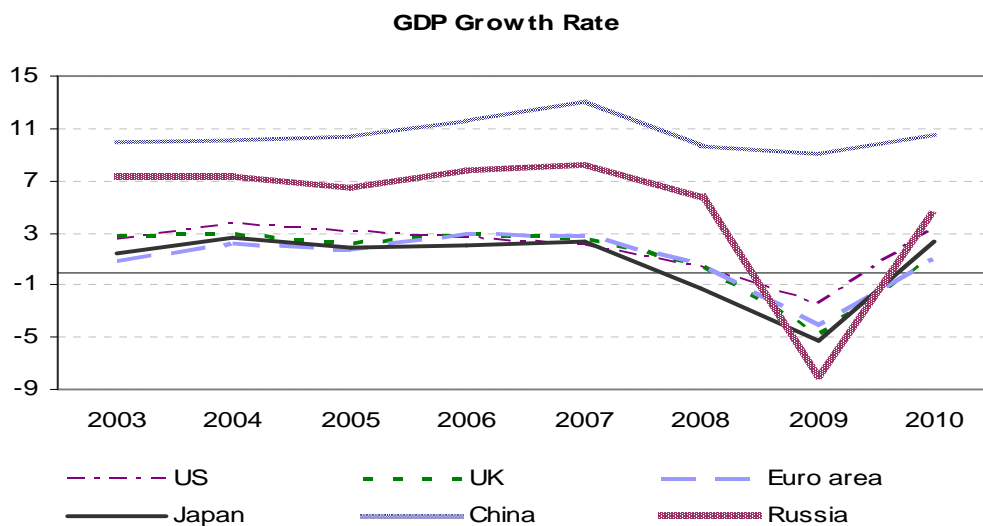
- The promotion of a modern financial management framework, which will allow:
  - the estimation of revenues and costs, taking into account the potential of the economy, on a three-year basis,
  - the setting of priorities and the reallocation of costs, for the benefit of development and social cohesion
  - the reduction of spending and the gradual abolition of supplementary budgets.
- Upgrading the benefits of the vulnerable groups and reducing income inequality, with a view to strengthening social cohesion. In this context, important measures are being promoted, such as strengthening low pensions, student care, public transport, housing policy etc.
- Simplification of the regulatory framework, through the implementation of the National Action Plan.
- The modernization of public administration, through the establishment of additional Citizens Service Centers, increase of services offered via the Internet, as well as the expansion of the institution of the introduction of Citizen's Charter.
- Strengthening public employment services.
- The gradual promotion of reforms in the health care sector, in order to introduce a modern health care system and the restructuring of public hospitals.
- The promotion of new infrastructure projects, especially in the transport, energy and environment sectors.
- Promotion of policies to reduce the impact of climate change.
- Promotion of the development of new sectors of economic activity, with an emphasis on innovation and research. The primary tool of national policy is the National Framework Programme launched by the Research Promotion Foundation.

- Increase of opportunities for studying in Cyprus with the establishment of the Technological University of Cyprus and the evolution of private colleges to universities.

### III. ECONOMIC ENVIRONMENT

#### 1. World Economy

The world economy has shown signs of gradual recovery during the recent months with an estimated growth rate around 4.5% for 2010. Despite the signs of recovery, uncertainty continues to exist. The major concerns have to do with the sustainability of the recovery, especially due to the turmoil in the financial system, the fiscal imbalances, the increasing unemployment and the weak channelling of loans to the economy. In general, based on the most recent data for the first quarter, international organizations are reviewing slightly upwards their estimates for 2010, for some countries. According to the latest forecasts from the International Monetary Fund (IMF) in July 2010, the world economy is expected to grow by 4.6% in 2010 and 4.3% in 2011. The acceleration of the growth of the world economy is also expected to increase the growth of international trade by 9% in 2010, compared to a decrease of 11.3% in 2009.



#### *United States and Asia*

After a reduction in the growth rate by 2.4% in 2009, United States are now in a phase of a relatively slow growth. Unemployment remains at high levels; real estate market is slow-moving and large budgetary deficits as well as deficits at

**the Current Account exist. The activity in the banking sector remains weak.** The GDP grew by 3.7% and 1.6%, on a year basis, during the first and the second quarter of 2010, respectively. According to IMF projections, the growth rate for 2010 is estimated to be around 3.3% (assumptions July 2010), but more recent estimates (Consensus Economics Forecasts, September 2010) estimate a growth rate of 2.7%.

**Southeast Asia, which has been significantly influenced during 2009, after a decrease in its growth rate from 7.7% in 2008 to 6.9% in 2009, started to recover in 2010 with a more rapid pace than the EU and the USA.** According to the latest IMF forecasts, the economic growth of the emerging countries in the Southeast is expected to be around 9.2% in 2010 and 8.5% in 2011. China's economic activity is accelerating, with a growth of around 10.5% in 2010, compared to 9.6% in 2008 and 9.1% in 2009. Inflation is estimated to be around 3.1% and the IMF estimates that, for the 2011, growth will reach 9.6%. Japan's economy, after a period of severe recession, shows signs of weakness and low inflation. The Japanese authorities are making efforts to stimulate the economy. In accordance with the latest IMF forecasts, growth is expected to be at 2.4% during 2010, from -5.2% in 2009. However, recent estimates project a lower growth rate. Inflation in 2010 is expected at -1.4%, as it was during 2009. The IMF estimates that the growth rate in 2011 will reach 1.8% while inflation will continue to be negative, around -0.5%.

#### *Russia*

**Russia's economy has shown signs of recovery during 2010, with an estimated growth rate around 4.3%.** It is estimated that economic growth in 2009 has declined by 7.9% after an increase of 5.6% in 2008. At the same time, inflation in 2009 reached 11.7% and is expected to fall to 7.0% in 2010. The IMF estimates that the growth rate in 2011 will reach 4.1%

#### *European Union*

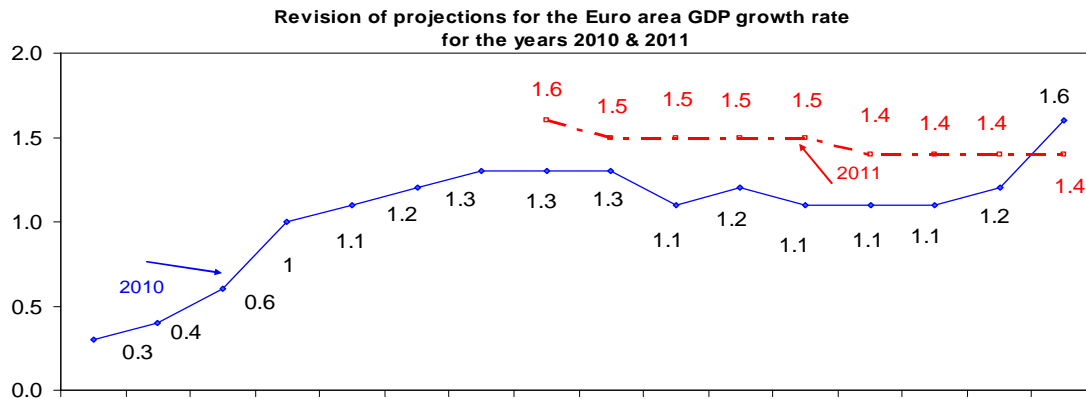
**In the European Union (EU) and Eurozone, recovery has begun to be more evident, especially during the second quarter of 2010, after a period of recession and a significant decrease in GDP in 2009. Although there are positive growth rates for most countries in the first half of 2010; still, economic conditions remain unstable.** According to the preliminary estimates of the European Statistical Office (Eurostat), GDP<sup>1</sup> grew by 1.7% in the Euro Area and by 1.7% in the European Union (Germany, 3.7%, France, 1.7% Italy 1.1% Spain -0.2% Netherlands 2.1% and Greece -3.5%) during the second quarter of 2010, compared to the corresponding period of 2009. The European Commission

---

<sup>1</sup> Date seasonally adjusted.



(Interim Forecasts, September 2010) estimates that the growth in the EU in 2010 will increase to 1.8% and inflation will fluctuate at around the same levels.



In September 2010, the Economic Sentiment Indicator<sup>2</sup>, after its large increase in July and an improvement during August, continued to improve in the countries of the Eurozone and the EU. More specifically, the index improved by 0.3 points in the EU and by 0.9 points in the Eurozone, reaching 103.4 and 103.2 respectively. Both in the EU and in the Euro area, the level is higher than the long-term average. The Business Climate Indicator<sup>3</sup> in the Eurozone continued to increase since April 2009. The level of the indicator suggests that economic activity in the industry will continue to recover in the coming months, although there is need time to reach the level it was before the crisis. The index is now at its highest level since December 2007.

Unemployment in the Eurozone increased during 2010; the unemployment rate remains at 10% since March 2010. During the period January-July, the unemployment rate (seasonally adjusted data), as estimated by Eurostat, is 10%, compared to 9.1% during the same period in 2009.

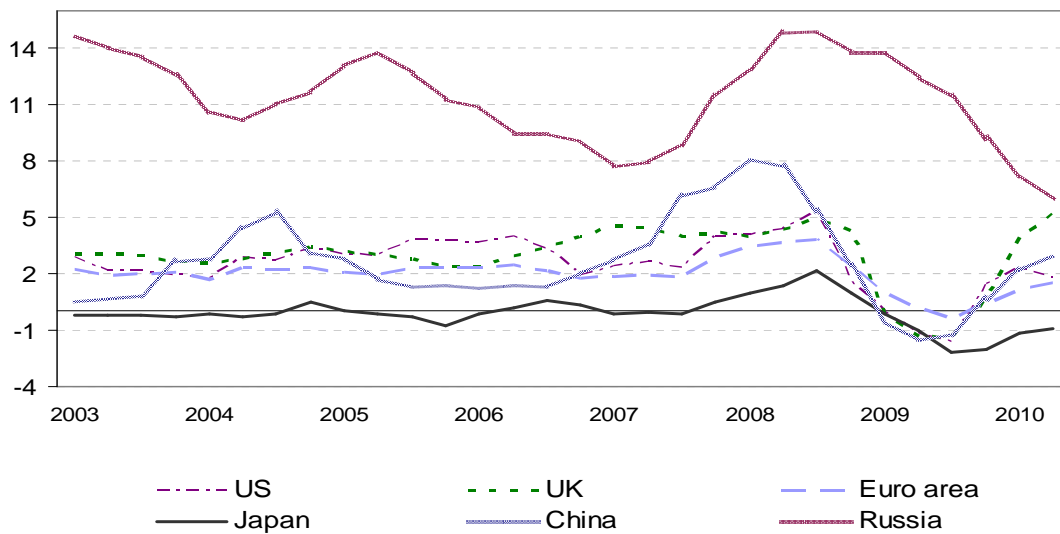
Inflation has internationally accelerated considerably, primarily due to higher oil prices compared to last year. However, core inflation remains low. The crude oil price type (Europe Brent Spot), which had reached a historical high record of \$144 per barrel in July 2008, fell significantly to \$33.7 in December 2008 and then averaged to \$61.7 in 2009, it ranges currently at \$70-80 per barrel. In the

<sup>2</sup> It provides an overall assessment of the economic activity. The Economic Sentiment Indicator (ESI) is a composite index of perceptions and expectations of participants in the economic environment, as well as of consumers. It is a weighted arithmetic mean of the responses of surveys/ confidence indicators from five sectors, confidence indicators in industry, construction, in retail trade, services and consumers. Each indicator is the balance of positive and negative responses. The aim of the ESI is to observe growth.

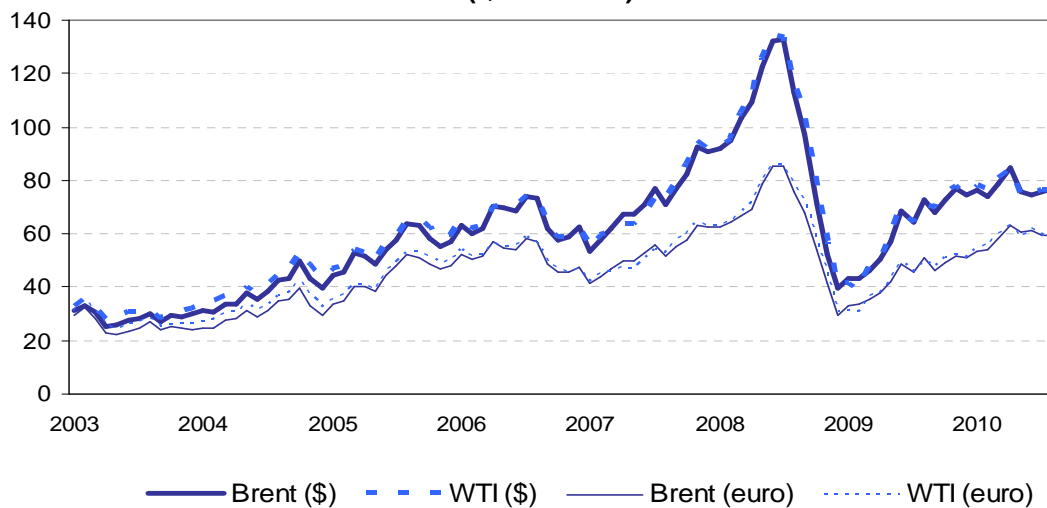
<sup>3</sup> It estimates the current business conditions. Based on the results of the research industry and provide a picture of the business climate. It is designed to evaluate the cyclical developments in the Eurozone.

Eurozone, inflation reached 1.8% in September 2010, from 1.6% in August and 1.7% in July 2010. According to the European Commission, based on the assumptions of September 2010, inflation in 2010 is expected to be contained to 1.4% in the Eurozone and 1.8% in the EU. Regarding 2011, oil price is estimated to fluctuate at around \$83 compared to \$78 per barrel in 2010. Consequently a marginal acceleration in inflation is projected at 1.5% for the Euro Area and 1.7% for the EU, during 2011.

### Inflation



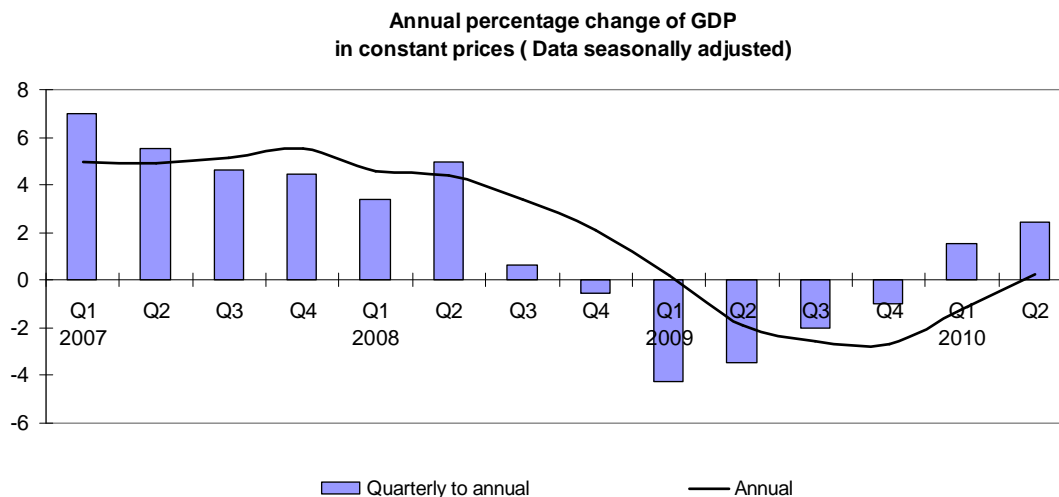
### BRENT & WTI Oil Prices (\$ and euro)



## 2. Cyprus Economic Growth Rate 2010

The Cyprus economy improved in the first half of 2010. Based on estimates of the Statistical Service, seasonally adjusted GDP at constant prices rose 0.6% in the second quarter of 2010, compared to the first quarter of 2010. On an annual basis, it rose 0.5% in the second quarter and after the correction of GDP for seasonality and working days, the growth rate was estimated at 0.2%. For the whole of 2010, economic growth is projected to reach around 0.6%.

The improvement in economic growth, compared to previous quarters, is due, primarily, to the positive growth rates that the banking and services sectors continue to have. Improved performance was showed, in the second quarter, and by the rest of the economy. In particular, the results were encouraging in the tourism sector, in wholesale and retail trade, compared with the first quarter of 2010.



The latest monthly figures confirm the trend of recovery in economic activity, particularly in services, in real estate and in tourism.

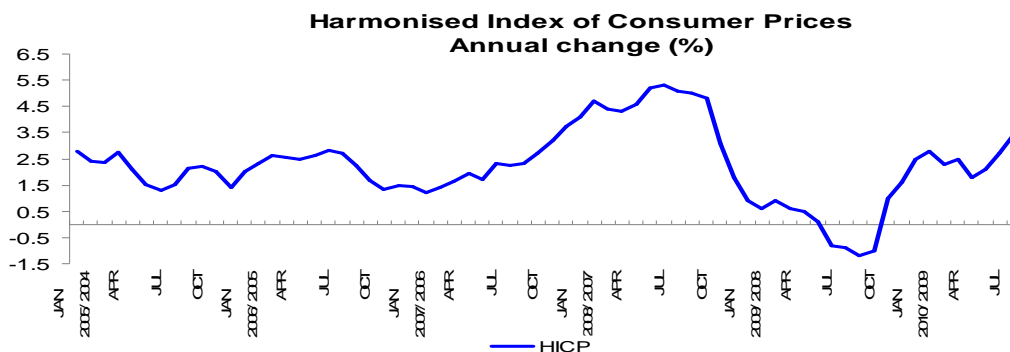
- The confidence indicators show continuous improvement of expectations, during recent months. Particularly important was the improvement in September.
- The overall index of industrial production fell by 1.4% in January-July compared with the corresponding period last year.
- Building permits, by volume, are reduced by 3.1% in January-July 2010 compared with the corresponding period last year.

- The sales of cement fell by 9.9% in January-August 2010, compared with the corresponding period last year.
- The property sales have increased 12.2% during January-August 2010, compared with the corresponding period last year.
- Improved growth in the field of real estate and construction is presented by the revenue figures, which have increased during the period January-June compared with the corresponding period last year.
- In the transport sector, the registrations of motor vehicles decreased by 15.7% during January-August 2010, compared with the corresponding period last year.
- In the services sector, during the period January-June 2010, the turnover index has risen by an average of 2.5% in total, by 3.6% in hotels and restaurants, 4.6% in IT, 0.2% in the activities of architects and engineers and by 4.2% in the legal, accounting and related activities, compared with the corresponding period last year.
- Also, in the services sector, most banking institutions have positive profit rates.
- The volume index of retail sales (excluding automotive fuel) fell by 0.6% in January-July of 2010, compared with the corresponding period last year. Sales using credit cards rose by 2.5% in January-August 2010, compared with the corresponding period last year.
- Tourist arrivals rose by 0.7% in January-August 2010, compared with the corresponding period last year. Revenues from tourism are increased by 1.4% in January-July compared with the corresponding period last year. The total per capita spending rose 1.7% in January-July compared with the corresponding period last year.

On the demand side, in the first half of 2010, estimates of the Statistical Service show a small decrease in public consumption, a small decrease in private consumption and increase in the overall investment, with a small decrease in fixed capital formation (increase in investment in transport equipment and a reduction in investment in construction) and a smaller reduction in inventories.

### 3. Inflation

Inflation, based on the Harmonized Index of Consumer Prices (HICP), has risen to 2.5% in the first eight months of 2010, compared with the corresponding period of 2009, and for the whole of 2010, is expected to be around 2.5%. Core inflation, however, remains low. The increase in inflation in 2010 is mainly due to increased oil prices, increase in electricity price and increase in the excise duty on fuel. During January - August 2010, the average price of Brent crude oil is higher by 38.2% in dollar and 43.1% in euro, compared with the corresponding months of 2009. The weight of the products which are directly affected by the rising price of oil in the Harmonised Index of Consumer Prices (fuel, electricity, gas) is 13.5%.



### 4. Labour Market

The number of registered unemployed presents an upward trend in 2010, which verifies the non satisfactory situation that still prevails in the labour market. For the first and second quarter of 2010, the unemployment rate was 7.2% and 6.4% respectively, compared to 4.6% and 5.2% over the same period in 2009. For 2010, the unemployment rate is expected to fluctuate at 7%. The main increases were traced in the areas of trade, construction, tourism and newcomers. The fact that long-term unemployment has not been, substantially, affected, is positive. Despite the increase, the unemployment rate in Cyprus has remained at lower levels, in comparison with the majority of EU member's countries.

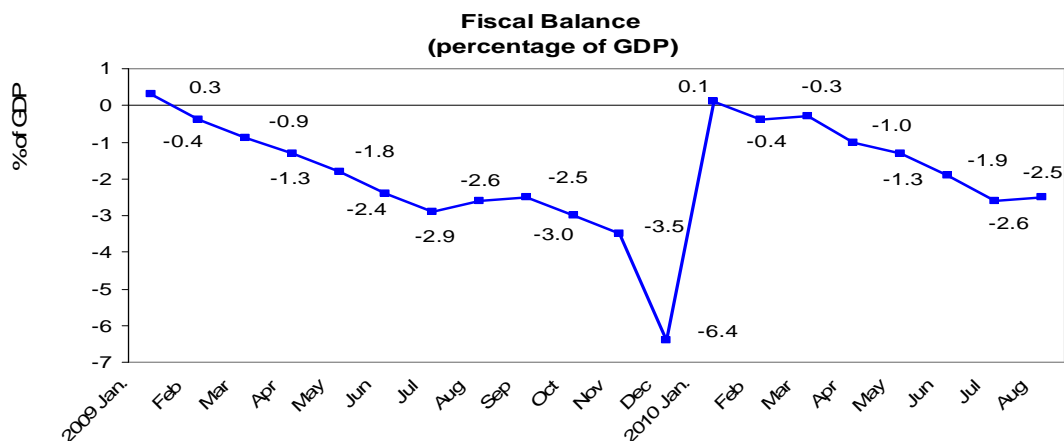
Rising unemployment (LFS) is reflected in the deceleration of employment, which, in the first half of 2010, has shown a slight increase (0.8% for ages 15-64 and 1.1% for ages 15+) compared to 2009. It is evident that despite the deceleration of the economic activity, the employment of foreigners increased further. From a sectoral point of view, employment has increased in the services sector and decreased in the sectors of industry and agriculture.

The rate of change in earnings, in the first half of 2010, has shown an increase of 2.2% compared to 5.8% in the first half of 2009, attributed to the low activity and to the increase in unemployment.

### 5. Fiscal developments in the period January - August 2010

The fiscal balance for the period January-August 2010 showed a marginal deterioration compared with the corresponding period in 2009.

More specifically, the fiscal balance<sup>4</sup> over the period January-August 2010 showed a deficit of around 2.54% of GDP compared with a deficit of 2.49% of GDP for the corresponding period last year. In absolute numbers, the budget deficit during the reporting period amounted to €445,0 mil. compared to €422,3 mil. in 2009. The primary balance<sup>5</sup> showed a lower deficit of €64,7 mil. compared to €83,5 mil. in the corresponding period in 2009.



Public revenue, during the first eight months of 2010, has increased compared with the corresponding period of the previous year, mainly as a result of temporary factors, such as increased dividends from the Central Bank, the swap rate and the change in the methodology for the reporting of the deduction of proportional pensions of retired government officials<sup>6</sup>. The growth rate of public revenue during the first eight months of 2010 amounted to 6.9%, compared with a negative rate of 11.2% for the same period last year.

<sup>4</sup> The balance is calculated on a cash basis and includes the accounts of Central Government and the Social Security Fund.

<sup>5</sup> The primary balance is the budget deficit (revenue - expenses) excluding interest payments.

<sup>6</sup> As from January 2010, the expenditure for pensions is being reported on a gross basis with their deductions being credited to non-tax revenue, as opposed to 2009 where the expenditure of pensions of government employees were reported to a net basis only on the expenditure side.

Public expenditure, in the first eight months of 2010, showed a slightly slower expansion rate ranging to 6.7% compared to 7.5% in the corresponding period last year. This increase is due to the change in the methodology for reporting pensions of government employees and due to debit of interests of the Social Insurance Fund in July 2010 instead of at the end of the year, as it was the case in the past, due to the change in the management of public debt from the Central Bank to the Ministry of Finance. Excluding the above, the growth rate of spending is restricted to 4.0%.

More specifically, the picture of public finances during the period January-August 2010 compared to the corresponding period in 2009 is as follows:

### *5.1 Revenue*

Government revenue increased by 6.9% in January-August 2010 compared to the corresponding period in 2009, in comparison with a decrease of 11.2% over the period of 2009 compared to 2008. In absolute terms during the reporting period, government revenue amounted to €4.039,8 mil. compared to €3.780,1 mil. in 2009.

Tax revenues, which are the main source of revenue, increased slightly by 0.8% in the first eight months of the year, compared with a decrease of 10.9% in the corresponding period last year, due to reduced revenue from direct taxation and the marginal increase from indirect taxation. Moreover, non-tax revenues have accelerated with a rate of 56.3% during the reporting period, compared with a decrease of 14.4% in the corresponding period in 2009.

#### *5.1.1 Tax Revenue*

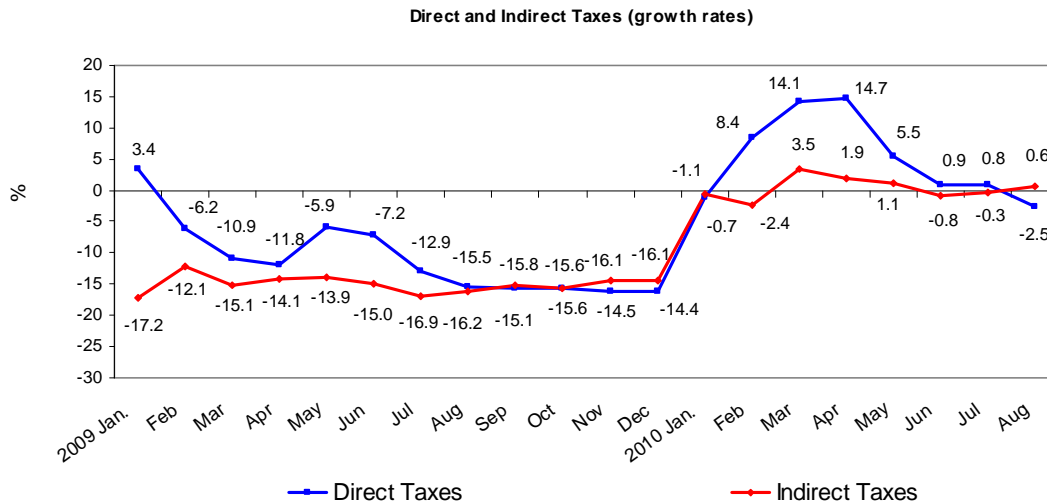
##### *5.1.1.1 Direct Taxes*

In more detail, revenue from direct taxes in the first eight months of 2010 narrowed to €1.108,7 mil. compared to €1.137,3 mil. in the corresponding period last year, showing a decrease of 2.5%. This decrease is mainly due to reduced revenue from the imposition of corporation tax (14.8%) and from taxes on motor vehicles (10.8%). The above mentioned decreases were, partially, offset by increases in revenues from capital gains tax (20.7%), from income tax on individuals (4.6%) and from charges of the Departments of Lands and Surveys (34.5%).

##### *5.1.1.2 Indirect Taxes*

The revenue from indirect taxes in the first eight months of 2010 amounted to €1.568,2 mil. compared to €1.558,7 mil. in the corresponding period last year,

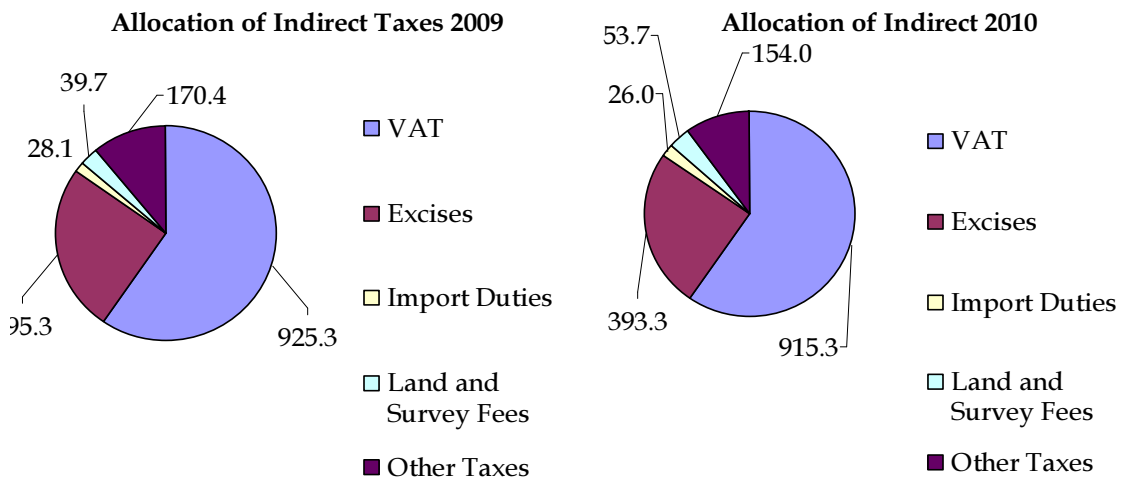
showing a marginal increase of 0.6% compared with a decrease of 16.2% in same period last year.



This marginal increase results from reduced revenues in both the VAT and excise duties. More specifically, revenue from VAT decreased by 1.1% and was, thus, reduced to €915,3 mil. in the first eight months of this year, compared to €925,3 mil. in the corresponding period of 2009. This was mainly due to the reduction in the demand of consumer goods during the first months of 2010 and to the low activity in the construction sector.

Revenue from excise duties shows a marginal decrease of 0.5%, reducing revenues to €393,3 mil. in the reference period of 2010 compared with the corresponding period last year, which were €395,3 mil., mainly due to the reduction in revenue from excise duty on motor vehicles.



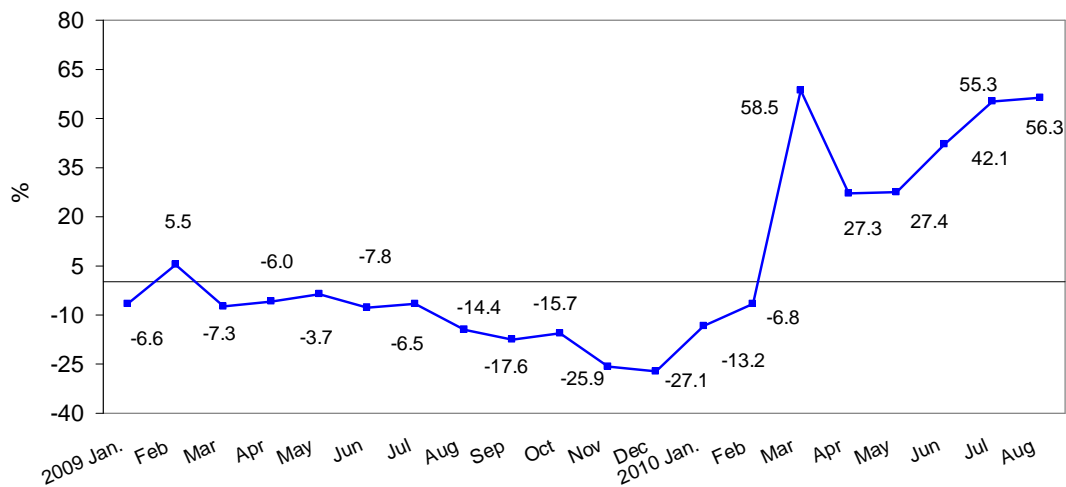


### 5.1.2 Non-tax revenue

The increase in non-tax revenue was around 56.3% in the eight months period under review, compared to the corresponding period in 2009, in comparison with a decrease of 14.4% for the same period in 2009 compared to 2008. In absolute terms, revenue reached €610,5 mil. in the first eight months of this year from €390,7 mil. in the corresponding period of 2009. This increase is attributed to temporary factors. These factors include the recovery of increased dividends by the Central Bank (€80 mil.) and profit from the swap rate (€30 mil.), a total of approximately €110<sup>7</sup> mil..

<sup>7</sup> Meanwhile, the growth rate of non-tax revenue is affected by the change in methodology for reporting of the deduction of proportional pensions of government officials which was split by the amount of pensions paid and recorded in revenue (€34 million) and commissions paid by issuing three-year bonds to commercial banks (€13,5 million). The above increases were offset partially by royalty from the company managing the airport €13,8 million.

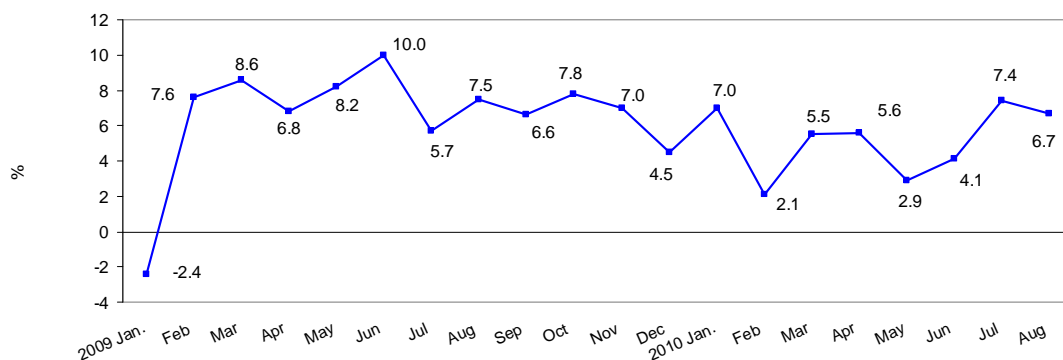
**Non tax revenues (growth rates)**



## 5.2 Expenditure

During the first eight months of 2010, public spending increased by 6.7% compared to the corresponding period in 2009. Excluding the impact of increased costs due to the change in the methodology for the registration of pensions, the growth of public spending is restricted to 5.6%. This expansion rate varies at slightly higher levels than the annual forecast of 4.9%, which was included in the Stability Programme. In absolute numbers, total expenditure amounted to €4.484,8 mil. in the first eight months of 2010 compared to €4.202,4 mil. in the corresponding period in 2009. Significant increases are observed for pensions and gratuities, payments from the Social Security Fund, social pension and other current transfers.

**Public Expenditure (growth rates)**



Expenditure on wages and salaries showed a slight increase of 1.7% for the reference period of 2010 compared with the corresponding period in 2009, thus reaching to €1.163,6 mil. from €1.144,4 mil., respectively. The rate of wage growth

has decreased due to increases of the Cost of Living Allowance (COLA) rate by 2.3% in the first eight months of 2010 compared with the corresponding period of last year and the containment of public sector employment.

Expenditure on goods and services<sup>8</sup> decreased marginally by -0.5%, thus being reducing to €304,0 mil. during January-August 2010 compared to € 305,5 mil. in the corresponding period in 2009. This is mainly due to lower spending for the purchase of water by €9,5 mil. because of the termination of the contract regarding the import of water from Greece, and due to lower spending for the purchase of medical supplies by €3,5 mil., despite the increase for the purchase of medicine and vaccines by €4,0 mil., due to seasonal factors.

Payments from the Social Insurance Fund increased at a rate of 10.3% thus amounting to €796,9 mil. for the reference period of the first eight months of 2010, compared to €722,4 mil. in the corresponding period in 2009. This increase is mainly due to the increase in the number of beneficiaries that receive unemployment benefit and due to the redundancy payments.

Interest payments have increased by 12.2% thus amounting to €380,2 mil. compared to €338,7 mil. in the corresponding period in 2009. This is mainly due to the debit of interests of the Social Security Funds in July instead of at the end of the year as it was the case until now, as a result of the undertaking of public debt management by the Ministry of Finance. This increase was partially offset by the decrease of the average cost of servicing debt and especially of Treasury Bills.

Current transfers<sup>9</sup> increased by 12% thus reaching €1.527,8 mil. in the first eight months of 2010, compared to €1.364,4 mil. in the corresponding period in 2009. Spending on pensions and gratuities, which are part of transfer payments, has increased by 21.6% thus reaching €290,3 mil. in the first eight months of 2010, compared to €238,7 mil. in the corresponding period in 2009. This is due to the change in the methodology for reporting of the pension proportionate deduction from the expenditure side to the revenue side. Welfare benefits increased at a rate of 14.2% mainly due to the implementation of a new scheme for low pensioners and the introduction of the Student Welfare plan in conjunction with increases in bonuses for the vulnerable groups. These increases were partially offset by the savings derived from targeting Easter bonus for pensioners on income criteria, by €15,4 mil.. Housing benefits increased at a rate of 10.4% due to

---

<sup>8</sup> Expenditure on goods and services cover costs for purchase of medicine and vaccines, buying water, personnel training / conferences, publications and publicity, etc.

<sup>9</sup> Current transfers include, among other, expenses for pensions and gratuities, social pension, child benefit, student grants, public benefits, grants to semi-government organizations and Local Authorities, and financing the budget of the EU.

the speeding up of the procedures for awarding grants for the purchase of apartments and houses. Grants to the semi-government organizations have increased by 22.4% due to increased grants to State Universities by €19,8 mil., the CBC by €5,0 mil., the CTO by €4,0 mil. and the THOC by €11,0 mil..

Capital expenditure in the first eight months of 2010 decreased at a rate of -6.5% and reached €243,9 mil., compared to €260,9 mil. in the corresponding period in 2009. This was mainly due to reduced spending on extensions and improvements on buildings by €8,9 mil., and for the construction of sewage systems by €25,7 mil.. These decreases were partially offset by increases in construction costs for road works by €14,0 mil..

### *5.3 Fiscal Estimates for 2010*

In 2010 the fiscal balance is estimated to be negative and to vary around the levels of 2009. Specifically, the budget deficit in 2010 is estimated to be around 6% of GDP compared to 6.1% in 2009, provided that the proceeds from corporation tax in the last quarter of 2010 will not be lower than those in the corresponding period in the previous year.

The primary balance is expected to remain negative and amount to 3.7% of GDP in 2010 compared to 3.6% last year.

Public debt, as a percentage of GDP, is expected to increase compared to the previous year and reach 62.7%, compared to 58.0% in 2009, but still remaining well below the EU average. In absolute numbers, public debt is estimated at €10.859 mil. compared to €9.826 mil. in 2009.

## ***6. Balance of Payments 2010***

The current account deficit amounted at around 1.4 billion euros in 2009, amount equal to 8.5% of GDP, reflecting the sharp decline in imports due to reduced domestic consumption, the deceleration in the construction sector and the reduction of oil prices. For 2007 and 2008, the figures were 11.7% and 17.7%, respectively.

The deterioration of the current account deficit, in the recent years, is the result of the significant widening of the trade deficit and of the smaller increase in the surplus in the services balance. The significant widening of the trade deficit is mainly due to the significant increase in imports and the rising price of oil and raw materials. Instead, the surplus in the services balance is slightly reduced, despite the fact that the surplus from the professional and financial services sector, in the recent years, has increased significantly. This is attributed to the

fact that revenue from tourism decreased, while expenditure of Cypriot tourists abroad increased, thereby causing net revenues from tourism to show a reduction.

The data for the first quarter of 2010 show a slight deterioration in the current account compared with the corresponding quarter in 2009. The deficit of the current account rose to €309,1 mil. or 7.8% of GDP, compared with 6.1% of GDP in the corresponding quarter in 2009. This deterioration was mainly due to increasing trade deficit due to increased imports resulting from the increased prices of petroleum products and from the renewal of the fleet of Cyprus Airways. Excluding the aircrafts, the deficit of the current account decreased to €245,8 mil. or 6.3% of GDP, compared with 6.0% of GDP in the corresponding quarter in 2009. The deficit of the current account in 2010 is expected to be funded by direct and other investments.

In 2010 as a whole, the current account deficit is expected to reach around 8% of GDP, a development that shows the continuous partial alleviation of the imbalances and the bad conditions presented in the Cyprus economy in the recent years.

### *7. Monetary Developments - Exchange Rate - Stock Market*

The stance maintained by the European Central Bank, regarding the formation of the European interest rates, has as a result the stabilization of the market interest rates. The main refinancing rate is currently at 1%, while Euribor 3-months is around 0.9%. Furthermore, a partial normalization of the banking market was observed, resulting in all categories of deposit and lending rates to show a downward trend.

In Cyprus, the deposit products showed a downward trend, but still remain at higher levels compared to the corresponding levels in the Eurozone. The lending rates remained at relatively high levels, reflecting the high cost of acquiring capital from banks, the fact that banks are more cautious and the effort by banks to maintain profitability at high levels, thus widening the margin between lending and deposit rates .

Credit to the private sector continued to increase significantly, though at a lower rate than in previous years. The annual percentage change in credit to the private sector in August 2010 was at 12.0%, the rate of change in credit for housing loans was around 15.9%, for consumer loans was restricted to 2.6%, and for corporate loans 8.9%.

The value of the euro has declined in relation to the dollar and the sterling during 2010. Specifically, the euro fell from 1.43 dollars per euro in January 2010 to 1.36 dollars per euro by the end of September 2010, and from 0.88 pounds per euro to 0.86 pounds per euro, over the same period.

Financial markets have declined since the beginning of 2010 until the end of August. In America, Dow Jones and S&P500 declined 5.4% and 7.4%. In Europe, the indices DAX, CAC40 and FSTE100 declined 2.0%, 13.0% and 5.0% respectively. Japan's NIKKEI index fell 17.2% and in Cyprus index FTSE / MED 100 fell by 13.5%.

### ***8. Cyprus Economic Prospects for 2011***

The Cyprus economy is expected to improve further in 2011 and present a growth rate of 1.5%, provided that the forecasts of international organizations for the improvement of the global and the EU economy would be realized.

The Eurozone economy is still expected to grow at positive rates compared to 2010. The United Kingdom would also present an improvement compared to 2010, with positive impact on the Cyprus economy (tourism, investment in real estate). On the supply side, manufacturing and tourism industry are expected to continue facing challenges, while the broad service sector is expected to remain the main driver of growth.

The unemployment rate is expected to show some improvement and increase to 6.5% of the workforce. Inflation, based on the Harmonized Index of Consumer Prices (HICP) is expected to increase from 2.5% in 2010 to 3.0% in 2011, on the assumption of an increase in the oil price, the increases imposed in 2010 that will have an impact until mid-2011, and to the imposition of 5% VAT on food and other pharmaceutical products from 1/1/2011. Following 2010, the current account deficit in 2011 is expected to improve and reach around 7.0% of GDP.

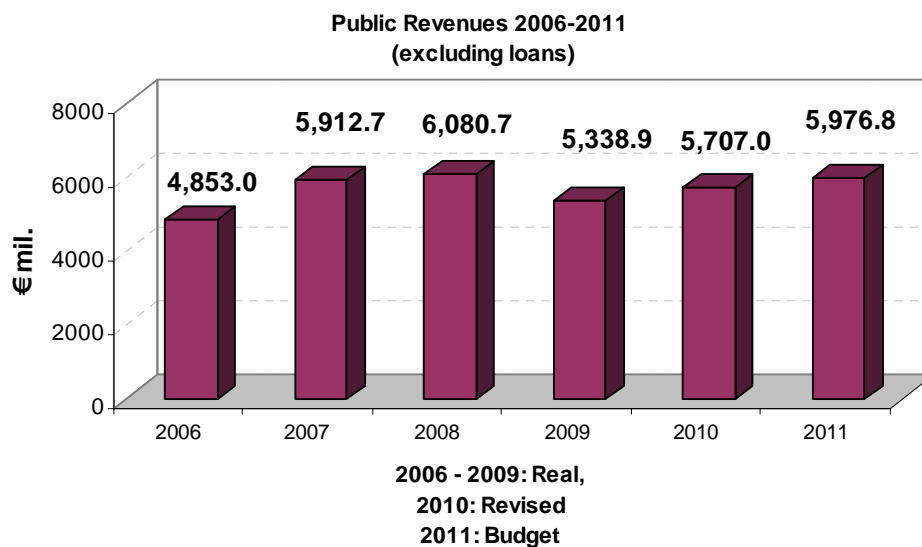
A summary of the projections of the Ministry of Finance appear in the following table:

	2009	2010	2011
Growth rate (%)	-1.7	0.6	1.5
Inflation (%)	0.2	2.5	3.0
Unemployment (%)	5.3	7.0	6.5
Current account (% of GDP)	8.5	8.0	7.0

## IV. BUDGET 2011

### 1. Revenue

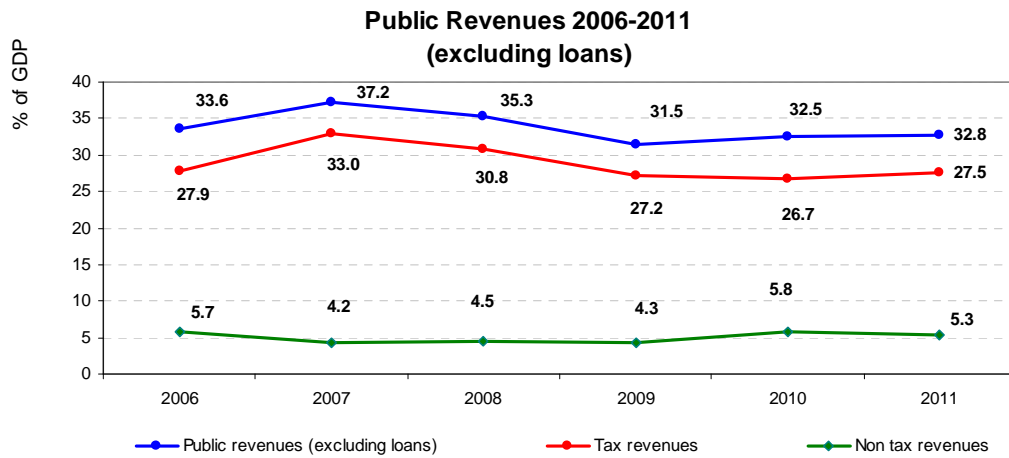
In the draft Budget for 2011, net revenue (excluding loans proceeds) is forecasted at €5.977 mil., compared to the updated revenue figures for 2010 of €5.707 mil.. Revenue growth rate is estimated to reach 4.7% compared to the expected growth of 6.9% for 2010.



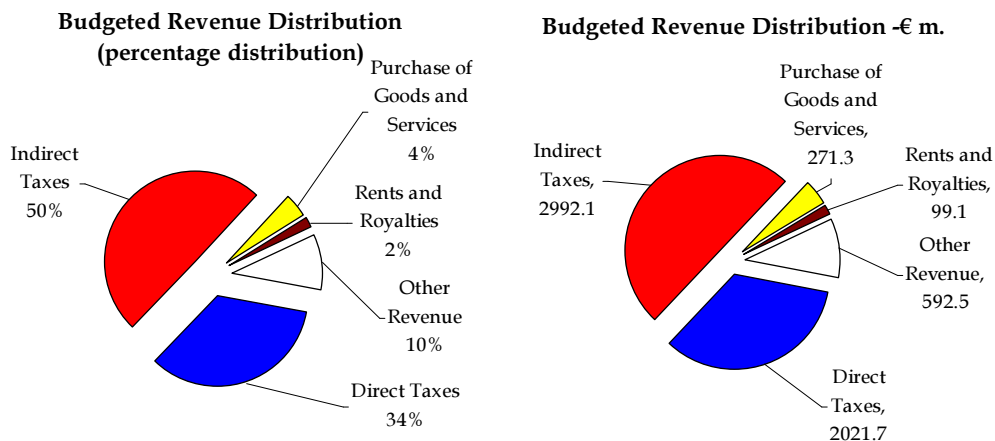
The observed dynamism in public revenue during 2007-2008, as a result of intense activity in the real estate sector, could not be sustained, and public revenue contracted significantly. Public revenue<sup>10</sup> as a percentage of GDP is estimated around 32.8% for 2011, compared to last year's updated figure of 32.5%, depicting only a marginal increase.

---

<sup>10</sup> Excluding the revenue from loans.



The basic revenue categories are direct and indirect taxes, which are budgeted for 2011 at €5.014 mil., representing 84% of total revenue. The remaining 16%, excluding loan proceeds, are non-tax revenue, which include revenue from sales of goods and services, transfers, estimated at €963 mil. for 2011.

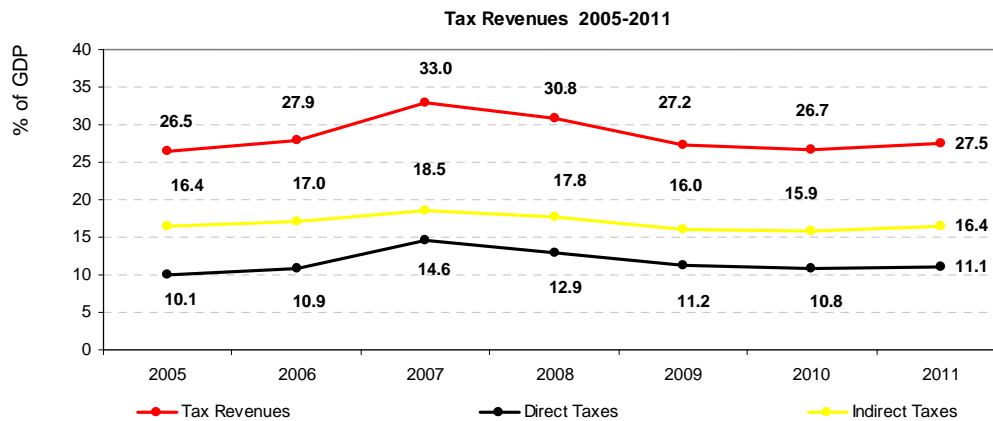


Tax revenue for 2011, is estimated to increase by 6.9% compared to the estimated small increase of 1.9% for 2010.

Tax revenue as a percentage of GDP, is estimated to increase to 27.5% compared to 26.7% for 2010. This increase is attributed to the expected recovery of the growth rate of the Cypriot economy, in combination with yearly increased tax-coefficients for fuel consumption that were applied in June 2010, and also due to the withdrawal of measures planned to boost the tourist sector.



As a result, the revenue from indirect taxes as a percentage of GDP is estimated at 16.4% for 2011, in comparison to 15.9% in 2010. Revenue from direct taxes as a percentage of GDP is estimated to reach 11.1% for 2011 as opposed to 10.8% last year.

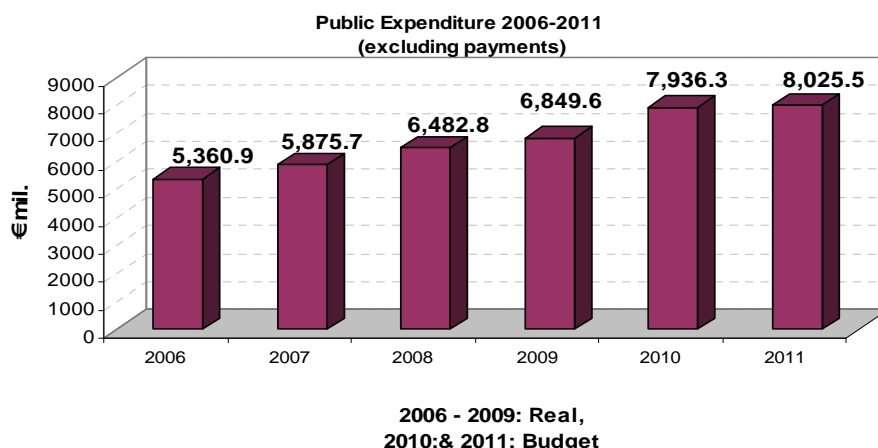


Finally, non-tax revenue is budgeted to decrease to € 963 mil. in relation to the revised revenue figures of €1.017 mil. in 2010. This results in a 5.3% decrease mainly due to the expected decrease of the dividends given by the Central Bank as well as the non-inclusion of the profit provision from the exchange of interests rates.

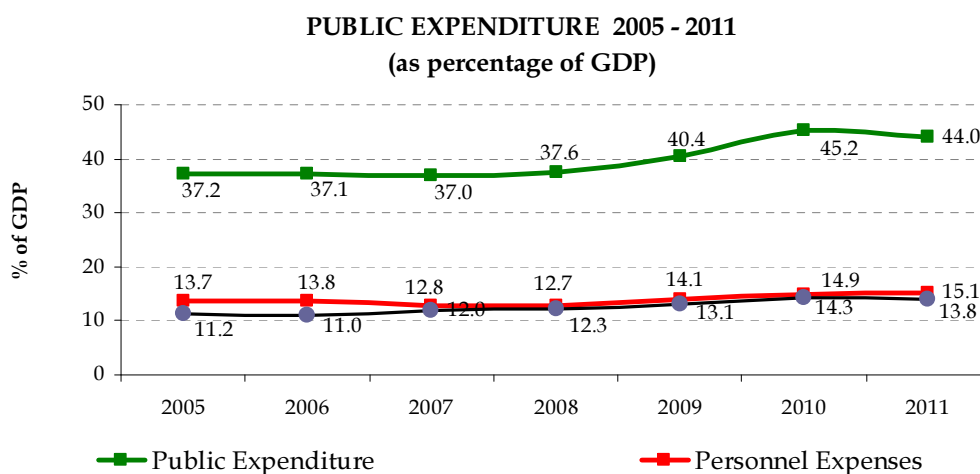
## **2. Expenditure**

The estimated net revenue in the 2011 Budget draft, excluding loan proceeds, is €8.025,6 mil., compared to €7.936.3<sup>11</sup> mil. in budgeted expenditure for 2010. The percentage increase of the budgeted expenditure for 2011 compared to 2010 is limited to 1.1% as opposed to the forecasted 15.9%.

<sup>11</sup> "The budgeted net revenue for 2010 includes the revenues which have been approved by the "Supplementary Budget".



Public expenditure as a percentage of GDP, compared to the 2010 figures, is estimated to decrease to 44% from 45.2% the previous year. The results of the analysis show that the only category exhibiting an increase is personnel expenditure, whereas the rest of the expenditure categories exhibit a decrease. Specifically, the personnel expenditures have marginally increased to 15.1% in 2011, from 14.9% the previous year, while transfers decreased to 13.8% from 14.3%.

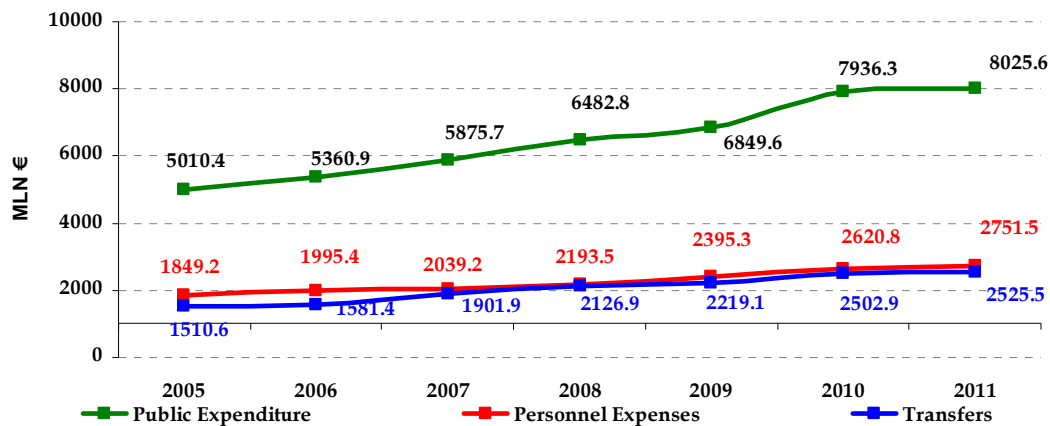


The largest category of government expenditures, is personnel expenditure and includes pensions and bonuses forecasted to reach €2.751 mil. compared to €2.621 mil. in 2010, and depicting an increase of 5%. More specifically in 2011, personnel emoluments increase by 5.4% compared to 2010, due to the COLA increase (2.7%), promotions and the yearly salary increases. On the other hand, pensions and bonuses increase at the lower rate of 3.1% due to the increase in the retirement age in the police force, new recruits and the increase of COLA (2.7%).

The second largest category of government expenditure is transfer payments, comprised mostly of social transfers, grants to semi-government organizations

and local authorities as well as contributions to the Social Security Fund. For 2011 it is forecasted, that the above-mentioned category, will increase marginally by 0.9% and is expected to reach €2.525 mil. compared to €2.503 mil. in 2010. The Social Transfers are budgeted at €1.265 mil. compared to €1.252 mil. last year reaching a growth rate of 1.1%.

Public Expenditure 2005 - 2011

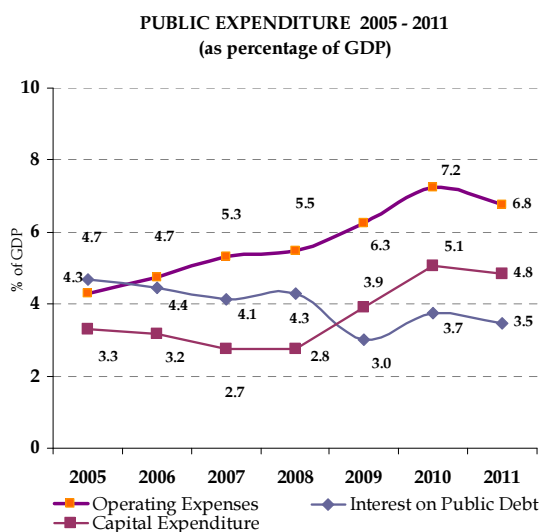
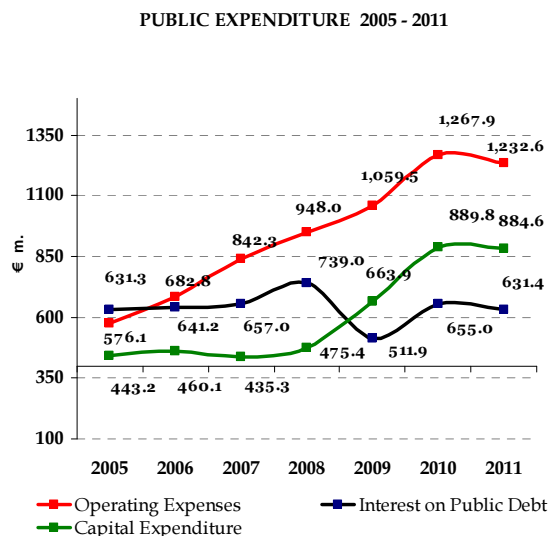


The remaining government expenditure categories concern operating expenditure, capital expenditure and interest payments.

Operating expenditure is forecasted to be restricted to €1.233 mil. in 2011, compared to €1.268 mil. in 2010, exhibiting a 2.8% decrease.

Capital expenditure is forecasted to remain at high levels, as in 2010, and reach €885 mil. in 2011 compared to €890 mil. in 2010, showing a marginal decrease of 0.6%.

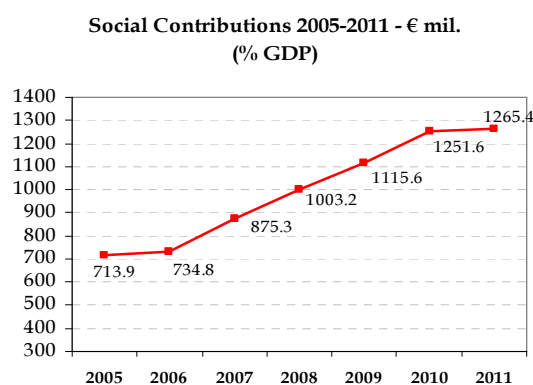
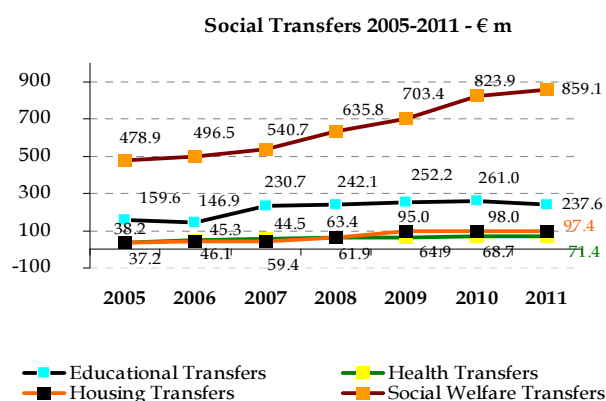
Interest payments are forecasted to decrease by 3.6% in 2011, and will be contained around €631 mil. compared to €655 mil. in 2010, due to the decrease in the service cost of government debt.



## 2.1. Social Transfers-Expenditure

In the context of the government economic policy framework for constant improvement of the standard of living for all citizens and especially for the vulnerable groups, social transfers (i.e. direct transfers to beneficiaries) continue to show an increase. In the 2011, Budget draft social transfers increased by 1.1%.

In absolute terms, social transfers are forecasted to reach €1.265 mil. compared to €1.252 mil. in 2010.



## 2.2. Overall Budget Expenditure

Overall budget expenditure in the Budget draft for each Ministry (including repayments) are presented in the following table and are forecasted to increase marginally by 1.6% reaching €8.862 mil., compared to €8.724 mil. in 2010. The

containment of the growth of the budgeted expenditure of 2011 in relation to 2010 is due to:

- (a) The decrease in operating expenditures by 2.8%.
- (b) The decrease in servicing public debt by 3.6%.
- (c) The decrease in capital expenditure at 0.6% and
- (d) The containment of transfers growth rate at 0.9%.

### TOTAL EXPENDITURES (ECONOMIC ANALYSIS) 2007-2011

	1	2	%	3	%	4	%	5	%
	Actual	Actual	Change	Actual	Change	Budgeted	Change	Budgeted	Change
	2007	2008	2:1	2009	3:2	Apprpr.	4:3	Apprpr.	5:4
	2007	2008		2009		2010		2011	
<b>1.PERSONAL EMOLUMENTS</b>	<b>2,039,240</b>	<b>2,193,471</b>	<b>7.6</b>	<b>2,395,260</b>	<b>9.2</b>	<b>2,620,773</b>	<b>9.4</b>	<b>2,751,530</b>	<b>5.0</b>
a.Total Emoluments	1,676,449	1,839,064	9.7	1,967,474	7.0	2,117,553	7.6	2,232,557	5.4
b.Pensions and Gratuities	362,790	354,407	-2.3	427,786	20.7	503,220	17.6	518,973	3.1
<b>2.OPERATING EXPENDITURE</b>	<b>842,328</b>	<b>948,027</b>	<b>12.5</b>	<b>1,059,450</b>	<b>11.8</b>	<b>1,267,943</b>	<b>19.7</b>	<b>1,232,634</b>	<b>-2.8</b>
Operating Expenditure	281,720	353,100	25.3	369,478	4.6	447,680	21.2	431,036	-3.7
Maintenance and Repairs	64,168	76,604	19.4	96,959	26.6	99,778	2.9	103,897	4.1
Personal Training/Conferences/Seminars and other Events	20,113	23,317	15.9	21,654	-7.1	44,200	104.1	36,697	-17.0
Consultancy Services	57,386	58,191	1.4	62,729	7.8	80,922	29.0	79,136	-2.2
Publications and Publicity	17,859	19,231	7.7	20,847	8.4	30,913	48.3	22,603	-26.9
Defence and Policing Expenditure	184,067	185,838	1.0	202,227	8.8	222,636	10.1	222,798	0.1
Defence Expenditure	181,915	184,000	1.1	200,376	8.9	220,500	10.0	221,045	0.2
Contingencies and Reserve	0	0		0		55,723		70,000	25.6
Expenditures relating to Revenue	217,015	231,746	6.8	285,556	23.2	286,091	0.2	266,467	-6.9
Other Operating Expenditure	0	0		0		0		0	
<b>3. TRANSFERS</b>	<b>1,901,915</b>	<b>2,126,889</b>	<b>11.8</b>	<b>2,219,127</b>	<b>4.3</b>	<b>2,502,869</b>	<b>12.8</b>	<b>2,525,455</b>	<b>0.9</b>
Local Transfers	647,588	734,776	13.5	776,068	5.6	866,444	11.6	864,871	-0.2
Transfers abroad	192,415	211,780	10.1	228,211	7.8	222,462	-2.5	247,311	11.2
Subsidies	152,967	158,792	3.8	73,750	-53.6	133,125	80.5	129,463	-2.8
Social Transfers	875,335	1,003,243	14.6	1,115,595	11.2	1,251,616	12.2	1,265,373	1.1
Compensations and Costs in Action	33,609	18,298	-45.6	25,503	39.4	29,222	14.6	18,437	-36.9
<b>4. CO-FINANCED PROJECTS</b>	<b>56,193</b>	<b>45,409</b>	<b>-19.2</b>	<b>50,419</b>	<b>11.0</b>	<b>78,407</b>	<b>55.5</b>	<b>122,706</b>	<b>56.5</b>
<b>5. DEBT SERVICING COST</b>	<b>656,972</b>	<b>739,033</b>	<b>12.5</b>	<b>511,927</b>	<b>-30.7</b>	<b>655,003</b>	<b>27.9</b>	<b>631,378</b>	<b>-3.6</b>
<b>6. CAPITAL EXPENDITURE</b>	<b>157,514</b>	<b>133,753</b>	<b>-15.1</b>	<b>172,221</b>	<b>28.8</b>	<b>277,474</b>	<b>61.1</b>	<b>206,987</b>	<b>-25.4</b>
<b>7. INFRASTRUCTURAL PROJECTS</b>	<b>221,554</b>	<b>296,202</b>	<b>33.7</b>	<b>441,214</b>	<b>49.0</b>	<b>533,870</b>	<b>21.0</b>	<b>554,869</b>	<b>3.9</b>
<b>TOTAL</b>	<b>5875715.71</b>	<b>6482784.017</b>	<b>10.3318189</b>	<b>6849618.01</b>	<b>5.658587299</b>	<b>7936339.01</b>	<b>15.86542488</b>	<b>8025559.01</b>	<b>1.124195928</b>

### 2.3. Distribution of Expenditure by Ministry

The distribution of expenditure by Ministry was computed by taking into consideration the social and the economic growth benefit, based on policy priorities within the constraints resulting from the global economic crisis.

#### 2.3.1 Current expenditure

Current expenditure by Ministry, as depicted in the table below, is estimated to increase by 1.9% and reach €5.676 mil. compared to €5.572 mil. in 2010.

The most substantial increases exhibited are for the Independent Services, the Ministry of Education and Culture and Ministry of Interior, with growth rates of 16.2%, 5.4% and 3.5% respectively.

The Ministries of Agriculture, Natural Resources and Environment, Labour and Social Insurance and Communications and Works exhibit negative growth rates amounting to 5.3% 0.6% and 1.2% respectively.

The decrease for the Ministry of Agriculture, Natural Resources and Environment is attributed to the inclusion of decreased budgeted amounts for the Action Plan against Scraple disease, since its completion is expected in the first six months of 2011, and also to the fact that most of the debt for Agricultural and Veterinary loans has been repaid. Furthermore, budgeted amounts for water purchase, are also reduced due to decreased needs.

The budget amount for the Ministry of Labour and Social Insurance depicts a decrease due to the transfer of funds related to the scheme for low pensioners, to the Special Grants Service, which is part of the Ministry of Finance. In the case that this transfer is not taken into account, then the Ministry will show an increase in budgeted expenditure of 6.2%.

Finally, the decrease depicted for the Ministry of Communications and Works is attributed to the inclusion of reduced provision for road maintenance, the exclusion of a provision for the Old Vehicle Retirement Plan and the transfer of the provision for bank transfers under the Treasury budget.

#### CURRENT EXPENDITURE BY MINISTRY 2007-2011

MINISTRY	2007 Actual € m.	2008 Actual € m.	2008/07 % Change	2009 Actual € m.	2009/08 % Change	2010 Actual € m.	2010/09 % Change	2011 Actual € m.	2011/10 % Change
INDEPENDENT OFFICES/SERVICES	104.5	117.8	12.7	125.2	6.3	135.0	7.8	156.8	16.2
MIN. OF DEFENCE	287.1	301.1	4.9	327.7	8.9	361.5	10.3	369.0	2.1
MIN. OF AGRICULT., NAT. RES & ENVIR.	171.4	289.6	69.0	224.2	-22.6	267.5	19.3	253.3	-5.3
MIN. OF JUSTICE & PUBLIC ORDER	243.5	260.0	6.8	274.5	5.6	302.8	10.3	304.7	0.6
MIN. OF COMMERCE, INDUST. & TOURISM	17.3	19.7	13.5	20.5	4.1	26.7	30.4	26.9	0.6
MIN. OF LABOUR AND SOCIAL INSURANCE	598.2	704.8	17.8	789.7	12.0	866.3	9.7	861.0	-0.6
MIN. OF THE INTERIOR	320.8	388.6	21.1	504.4	29.8	468.0	-7.2	484.2	3.5
MIN. OF FOREIGN AFFAIRS	55.9	63.7	13.9	67.6	6.1	77.8	15.2	79.5	2.1
MIN. OF FINANCE	1,040.2	1,006.5	-3.2	1,075.1	6.8	1,371.1	27.5	1,392.1	1.5
MIN. OF EDUCATION AND CULTURE	643.9	735.0	14.2	768.4	4.5	812.0	5.7	855.8	5.4
MIN. OF COMMUNICATIONS & WORKS	209.2	230.2	10.0	258.4	12.3	279.8	8.2	276.4	-1.2
MIN. OF HEALTH	447.8	502.6	12.2	534.4	6.3	603.7	13.0	616.7	2.2
<b>TOTAL</b>	<b>4,139.9</b>	<b>4,619.6</b>	<b>11.6</b>	<b>4,970.2</b>	<b>7.6</b>	<b>5,572.1</b>	<b>12.1</b>	<b>5,676.4</b>	<b>1.9</b>

#### 2.3.2 Development Expenditure

Development expenditure for 2011 is budgeted at €1.205 mil. compared to €1.240 mil. for 2010, depicting a marginal decrease of 2.8%.

The largest decrease is exhibited for the Ministry of Justice and Public Order (-44.4%) due to the completion of purchasing Police Force Helicopters. The Ministry of Commerce, Industry and Tourism follows (-24.1%), due to the non inclusion of a provision for the development of the Technological Park, the inclusion of reduced provision for participation in foreign exhibitions, and a reduced provision for the installation of photovoltaic systems in public buildings.

Furthermore, development expenditure for the Ministry of Foreign Affairs and Ministry of Finance, depicts a decrease of 20.9% and 22.6% respectively, due to the completion of buying equipment for printing entrance validation (visa), and due to the exclusion of a provision for purchasing stocks combined with a reduced provision related to the computerization of the public sector, respectively.

A smaller decrease is exhibited for the Ministry of Health amounting to 10% due to the inclusion of reduced provision for improving the General Hospital in Limassol, since it is close to completion.

The ministries of Labour and Social Insurance, Agriculture, Natural Resources and Environment and Communications and Works, depict an increase of 13%, 11.1% and 8.0% respectively.

The increase for the Ministry of Communications and Works is attributed to the increased provision related to the development of the road network and the promotion of projects for the Local Authorities (Eleftherias Square, Solomou Square, Grammic Park along the river Garillis, Multioperating Coastal Park-Reviving Limassol Centre).

The increase depicted for the Ministry of Labour and Social Insurance is attributed to the inclusion of an increased provision for the promotion of actions for tackling unemployment and boosting employment.

Finally, the increase depicted for the Ministry of Agriculture Natural Resources and Environment emerges from the increased provision for the construction of sewage systems and the completion of the Solea dam.

Analytically, development expenditure is as depicted below:

#### DEVELOPMENT EXPENDITURE BY MINISTRY 2007-2011

MINISTRY	2007	2008	2008/07	2009	2009/08	2010	2010/09	2011	2011/10
	Actual € m.	Actual € m.	% Change	Actual € m.	% Change	Actual € m.	% Change	Actual € m.	% Change
INDEPENDENT OFFICES/SERVICES	31.0	22.0	-29.1	48.3	119.9	82.4	70.8	92.4	12.2
MIN. OF DEFENCE	0.0	0.0	-30.1	0.0	-86.1	0.0	1,615.0	0.0	-94.1
MIN. OF AGRICULT., NAT. RES & ENVIR.	77.6	59.3	-23.6	123.9	108.8	137.1	10.7	152.3	11.1
MIN. OF JUSTICE & PUBLIC ORDER	7.7	17.4	125.8	21.8	25.5	59.1	171.1	32.8	-44.4
MIN. OF COMMERCE, INDUST. & TOURISM	31.5	22.1	-29.7	19.3	-12.8	38.4	99.0	29.1	-24.1
MIN. OF LABOUR AND SOCIAL INSURANCE	20.5	25.8	25.7	17.1	-33.6	22.5	31.6	25.5	13.0
MIN. OF THE INTERIOR	194.8	211.7	8.7	292.8	38.3	304.9	4.1	322.0	5.6
MIN. OF FOREIGN AFFAIRS	5.5	2.4	-55.8	1.6	-35.2	5.3	237.1	4.2	-20.9
MIN. OF FINANCE	52.9	34.0	-35.8	24.2	-28.7	128.8	432.0	99.7	-22.6
MIN. OF EDUCATION AND CULTURE	78.1	226.0	189.5	235.9	4.4	294.2	24.7	273.7	-7.0
MIN. OF COMMUNICATIONS & WORKS	68.2	69.7	2.2	90.9	30.5	128.0	40.8	138.2	8.0
MIN. OF HEALTH	19.7	15.6	-21.0	18.1	16.5	38.7	113.3	34.8	-10.0
<b>TOTAL</b>	<b>587.5</b>	<b>705.9</b>	<b>20.2</b>	<b>893.9</b>	<b>26.6</b>	<b>1,239.5</b>	<b>38.7</b>	<b>1,204.8</b>	<b>-2.8</b>

### *3. Fiscal Forecasts for 2011*

Based on the budget draft for 2011, the fiscal deficit for 2011 is estimated around 5.5% of GDP. Targeting a fiscal deficit of 4.5% of GDP as forecasted in the Stability Programme, additional revenue or savings up to €150 mil. are necessary.

The Ministry of Finance has prepared a series of measures that are soon to be discussed with the Political Parties, aiming at achieving common ground. With the completion of the consultation process and the adoption of specific measures, the government will immediately promote the relevant bills to the House of Representatives for examination and voting.

The aim is to adopt measures that will contain the fiscal deficit around 4.5% of GDP. Given the above, public debt is expected, as a percentage of GDP, to increase around 64.9% for 2011 in comparison to 62.7% that is expected for 2010.

### *4. Medium Term Budgetary Framework (MTBF) 2011-2013*

Due to the modernization of the yearly compilation process of the budget, and the improvement of the quality of public finances, Council of Ministers in 2006, approved the introduction of a Medium Term Budgetary Framework parallel with the compilation of the yearly budget.

The MTBF is the tool that connects the medium term policy targets of the Government, with the yearly compilation process of the budget, and helps in the improvement of the public finances through the redistribution of expenditure.

Within this framework the MTBF 2011-2013 was submitted to the Council of Ministers for approval, targeting the improvement of public finances, transparency and improved coordination and cooperation amongst public services.

According to macroeconomic forecasts for the next three years, public revenue is estimated to increase according to the growth rate of the economy, around 4% yearly. Specifically, public revenue is estimated for 2012, to reach €6.120 mil., depicting a rise of 4.1%, where as for 2013 revenue is estimated to increase by 3.9% reaching €6.360 mil.. The following table presents the main revenue categories for 2011-2013.



### BUDGET REVENUE 2010 - 2013

	2010	2011	2011/10	2012	2012/11	2013	2013/12
	€ m.	€ m.	% Change	€ m.	% Change	€ m.	% Change
DIRECT TAXES	1,900.0	2,021.7	6.4	2,127.6	5.2	2,212.9	4.0
INDIRECT TAXES	2,790.0	2,992.1	7.2	3,137.3	4.9	3,294.5	5.0
PROCEEDS FROM GOODS SERVICES RENDERED	225.0	271.3	20.6	275.4	1.5	280.4	1.8
RENTS, ROYALTIES AND OTHER INCOME	195.0	99.1	-49.2	80.3	-19.0	82.2	2.4
TRANSFERS	225.0	232.0	3.1	234.0	0.9	241.9	3.4
REVENUE NOT OTHERWISE CLASSIFIED	120.0	103.2	-14.0	23.1	-77.6	18.7	-19.0
GRANTS	130.0	167.6	28.9	157.2	-6.2	143.2	-8.9
OTHER OPERATING INCOME	65.0	71.6	10.2	67.2	-6.2	67.8	1.0
INTEREST REVENUE	52.0	13.1	-74.7	13.1	0.0	13.1	-0.3
SALE OF FIXED ASSETS	5.0	5.0	0.4	5.0	0.0	5.0	0.0
<b>TOTAL</b>	<b>5,707.0</b>	<b>5,976.8</b>	<b>4.7</b>	<b>6,120.2</b>	<b>2.4</b>	<b>6,359.7</b>	<b>3.9</b>

According to the MTBF analysis for 2011-2013, excluding loan repayment expenditure, it is estimated that total expenditure will increase around 2.8% for 2012 and 1.6% for 2013, reaching in absolute numbers €8.225 mil. and €8.360 mil., respectively, as following:

### BUDGET EXPENDITURE (ECONOMIC ANALYSIS) 2010 - 2013

	2010	2011	2011/10	2012	2012/11	2013	2013/12
	€ m.	€ m.	% Change	€ m.	% Change	€ m.	% Change
PERSONAL EMOLUMENTS	2,620.8	2,751.5	5.0	2,887.8	5.0	3,009.1	4.2
OPERATING EXPENDITURE	1,267.9	1,232.6	-2.8	1,223.8	-0.7	1,203.1	-1.7
TRANSFERS	2,502.9	2,525.5	0.9	2,575.6	2.0	2,707.2	5.1
OTHER CO-FINANCED PROJECTS	78.4	122.7	56.5	117.7	-4.1	104.6	-11.1
OTHER REVENUE/EXPENDITURE	655.0	631.4	-3.6	615.5	-2.5	638.3	3.7
CAPITAL EXPENDITURE	217.4	182.0	-16.3	186.5	2.5	176.6	-5.3
INFRASTRUCTURAL PROJECTS	533.9	554.9	3.9	618.5	11.5	520.9	-15.8
<b>TOTAL</b>	<b>7,876.3</b>	<b>8,000.6</b>	<b>1.6</b>	<b>8,225.3</b>	<b>2.8</b>	<b>8,359.9</b>	<b>1.6</b>

#### 4.1 Fiscal Predictions 2012-2013

According to the MTBF 2011-2013, fiscal deficit for 2012 is estimated to reach 5.1% of GDP, for 2013 is estimated to be contained around 4.5%, without accounting for any measures that might be adopted in 2010 and 2011. According to the Stability Programme, the fiscal deficit for 2012 and 2013 exceeds the target for reducing the deficit under the referred percentage.

The target still remains, to adopt measures that will ensure the containment of the fiscal deficit under 3% of GDP. By achieving the above, public debt is estimated to increase around 64.9% for 2012 and 63.8% for 2013, as a percentage of GDP.

-----