

## EDITORIAL

## If I was a CTO board member...

How awkward it must be for the chairman of the Cyprus Tourism Organisation to plead to parliament not to slash his organisation's budget, at a time when our MPs ought to have raised the amount that the CTO spends to promote Cyprus, not cut it. The smaller the marketing budget, the fewer the visitors and less earnings for the hoteliers, the whole tourism and leisure industry, and of course, the government. Could it be that simple?

Mandarin in the Finance Ministry have already been slashing the CTO's budget relentlessly for the past few years from 90-odd million euros a few years back, down to 71.3 mln, then to 67.2 mln and now to 62.5 mln for 2012. The intention here is to cut elsewhere in order to ensure the civil servants' own salaries remain intact and "who cares about tourism?"

Surely, our lawmakers could have had the foresight to demand that the CTO contains its operational budget within the general spirit of public austerity, while doubling its marketing budget in order to attract more tourists from Germany (that is enjoying an economic recovery), Israel, Scandinavia and Russia, by targeting outlying regions.

Several middle-class towns have mushroomed across Russia in recent years to accommodate the growing needs of newly-wealthy and successful entrepreneurs. This category of high net-worth individuals is increasingly searching out holiday and long-term destinations, with Cyprus theoretically at the top of their list.

Special-interest tourism is also a neglected and poorly promoted part of our tourist product, with the only good thing going for us being the Wine Routes and Nature Trails. Our favourable weather throughout the year and ease of connectivity around the island ought to have been our strongest selling point to boost sports, cultural and religious tourism, with our biggest failure to date being unable to capitalise on Pope Benedict's historical visit to Cyprus.

Parliament wants to show it still has some say in executive matters by using the legislature to control the government, but it has also been weak in its inability to stand up to the government and send the CTO budget back to the administration in order to be revised upwards, probably the only public service that needs to.

Many people in the industry, frustrated by this schizophrenic situation, are probably thinking: "If I was a CTO board member, I would quit!"

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# A look at euro trends

PERSELLA IOANNIDES

When the Greek debt crisis first erupted in April 2010 the EURUSD declined from 1.35 reaching 1.19 in June 2010. Various investment gurus expressed pessimistic views, even betting on the EUR to fall to parity with the USD as at its birth in May 1998. With the May 2010 bailout of 110 bln euros from the Eurozone countries and the IMF, the Euro debt crisis had initially quelled. Moreover, the US Fed launched QE2 in November 2010 to spur growth and maintain US economic recovery. These two main variables boosted the EURUSD to near all-time highs of 1.50, perceived by general consensus as an overpriced level.

In May 2011, the Euro debt crisis took its toll with the worsening situation in Greece rippling the much feared contagion effects to the rest of the peripheral countries of the Eurozone. The EURUSD had held up surprisingly well and closed the year at 1.29. This may be attributable to a repatriation of the EUR via a sell-off of assets by European banks struggling to meet the new Core Tier 1 ratio requirement of 9% set by the European Banking Authority.

In our current unprecedented economic times, it is hard to attempt to predict the trend of the EUR. We can, nonetheless, analyse a few domineering fundamentals that have predicted its historic trend.

Primarily, it is in the interest of countries to have weaker currencies as it increases their trading competitiveness in times when the

developed world is struggling for growth. Several central banks have applied currency interventions to this effect including Switzerland's and Japan's. Concurrently, the UK's QE programmes have also pressured the GBPEUR. Both factors account for an influential play in trend.

Moreover, amongst increasing market and, effectively, currency volatility global central banks endeavor to divert respective reserves out of the USD, the world's reserve currency, into other currencies such as the EUR and the Canadian and Australian dollars. Following the recent EUR weakness there may be a reluctance to increase respective stakes, although statistics illustrate that EUR to USD proportions have not altered greatly. It will probably prove prudent to further diversify as economic dynamics are constantly changing. Alternatively, a shift of view on diversification or on the EUR will have a material impact as it currently forms 25% of global central bank reserves.

Additionally, the so-called carry trade, where traders borrow low-yielding currencies and long higher-yielding currencies or assets, also forms a major role. With the ECB's predominant focus on inflation in its monetary policy operations, former president Trichet kept a persistent view of not easing interest rates in line with above-target inflation levels, irrespective of meager growth. Draghi, the ECB's new president, performed two rate cuts last autumn to 1%, modestly higher than the US fed fund rate of 0.25%. Inclination to perform carry trades on the

EUR should now increase and put downward pressure on the currency. In this credit crisis, however, the ECB rate spread versus the Fed Fund or BOJ rate may still lure the borrowing of USD or JPY vs. the EUR. Furthermore, the previous trend of risk taking and the USD has shifted now with the USD weakening in line with risk and vice versa indicating borrowing in the USD (rather than the EUR) and investing in foreign assets and currencies.

Finally, the Greek debt crisis still lingers. There remains an ongoing debate on the appropriate dealing of the hit of the Private Sector Involvement (PSI) bond holders that stands in the way of Greece securing the 130 bln euro bailout loan in March. With the aid of the ECB, peripheral government debt buying and the 3-year loan programme it made available to banks, investor confidence has somewhat resumed in the Eurozone with increasingly successful debt auctions of troubled Eurozone countries such as Italy and Spain locking in lower respective 10-year debt yields (6.12% and 5.4%, respectively).

We have seen that the convoluted Greek problem never ceases to negatively surprise us, however, and like the global central banks, we too should remain diversified in our currency holdings.

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## Asia in the Year of the Dragon

HARUHIKO KURODA



MANILA – This is the year of the "Black Water Dragon," an astrological cycle that indicates change, but with a measure of calm, sensibility, and prudence. The people and governments of Asia certainly hope that this proves to be the case, but uncertainties – from within and without the region – are growing rapidly.

Developing Asia has performed relatively well over the past two years. It led the world out of the 2008-2009 "Great Recession," recording 9% average economic growth in 2010 and solidifying that recovery by laying the basis for a more moderate – and, one hopes, sustainable – pace of economic expansion. In 2011, despite Europe's debt struggles and an anemic recovery in the United States, developing Asia's economies grew at a more restrained but still strong 7.5% average rate.

The biggest economic risk to the region is that Europe hits a financial tripwire and plummets into a deep recession, or that the US recovery stagnates during this election year. Volatility has come to define market behavior, and Asian markets are no exception. Investor sentiment seems driven by daily events rather than longer-term trends.

If the eurozone crisis leads to a sovereign default, contagion could spread to the rest of the world. In the short term, Asia and other emerging economies could be hit hard as finance dries up, choking off trade and investment flows that coursed through European banks – and hitting American banks that need to shore up capital to cover their European exposure. Any new crisis would thus hurt global trade and Asia's economic growth.

Still, for the most part, developing Asia has little external financial vulnerability. Many countries continue to run current-account surpluses, and have low external debt and high foreign reserves. Most of the region's banking systems are sound, with a high capital base and low – for now, at least –

non-performing-loan ratios.

This gives Asia more room to maneuver in the event of a crisis, and policymakers would likely respond with available macroeconomic tools promptly and decisively, and collaborate regionally. But we must not forget that – as 2008 showed – Asia has not decoupled from the West.

That is why European leaders must speak and act responsibly, and work harder to resolve the crisis. Europe clearly has the political and financial potential to resolve its own difficulties, with the help of European and multilateral financial institutions.

But perhaps there is something that Europe can learn from Asia. In Asia's response to the 1997-1998 Asian financial crisis, policymakers adopted measures designed to contract, consolidate, and restructure affected financial systems, particularly banking. It was not easy, but the external environment at the time was conducive to recovery. A decade later, Asia had sufficient savings and fiscal space to stimulate a rapid, solid recovery when the global economy sputtered. Europe, too, must embrace a costly and painful adjustment process as an opportunity to fix its system.

Asia can also help the process of global economic recovery. Certainly, high-saving Asian economies can participate in exter-

nal financial-bailout packages. But the best thing that Asia can do is to sustain its own robust economic growth. By generating new growth opportunities, Asia can play an increasingly critical role in stimulating the global economy.

That means that developing Asia must escalate its efforts at rebalancing growth by reducing reliance on exports and increasing domestic spending, which would help to prop up import demand. The major challenge is to keep domestic demand growing, despite the region's strong links to the global economy. Doing so would benefit national economies, bolster regional development, and support global growth.

If Asia can overcome its short-term difficulties, and global financial markets stabilize, the region faces bright prospects. Annual GDP growth this year will likely sustain last year's momentum and remain above 7%. A recent Asian Development Bank study estimates that Asia could account for about 52% of the global economy by 2050. But that is not a pre-ordained outcome.

In the medium term, Asia faces several challenges, a key one being rising inequality. Years of rapid economic growth have given rise to growing disparities. In urban China, for example, the Gini coefficient, a 100-point index that measures income inequality, has risen from 25.6 in 1990 to 34.8 in 2005. This is unlike the

region's past experience in the 1980's and 1990's, when high growth was accompanied by declining inequality.

As a result, domestic inequities now pose major risks to social stability and could hamper long-term growth prospects. That is why governments should seek to ensure that growth is inclusive, with benefits that are widely shared, including by women and the poor, and that these benefits reach isolated areas. Asia's rapidly aging populations also require social protection, and strengthening access to healthcare and education could help the rebalancing process and contribute to global recovery.

Growing inequality is not just an Asian issue. Inequality in Asia rose after the financial crisis of 1997-1998, and Europe will not be immune to that pattern. Europeans, too, should take steps to ensure that recovery from the current crisis is marked by inclusive growth.

As we enter the Year of the Dragon, Asia's best contribution may be a calm, sensible, and prudent approach to mitigating any potential global crisis by continuing its steady economic and development transformation.

*Haruhiko Kuroda is President of the Asian Development Bank.*

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## Prado museum takes steps to fight budget cuts

Madrid's Prado Museum has started opening seven days a week and will lengthen its highly visited special exhibitions to offset the pain of government cutbacks.

Despite enjoying record attendance, the home of masterpieces by Francisco Goya and Diego Velazquez is feeling the blow of a 6 mln euro subsidy cut as Spain tries to rein in its swollen deficit.

The Prado currently has a 42 mln euro annual budget, about half of which had come from public subsidies. That figure will now fall to 30% of the total budget until 2013, forcing the museum to make up for the shortfall.

"Museums are affected by the crisis without

being in crisis themselves," Prado director Miguel Zugaza said, referring to the record 2.9 mln visitors the museum received in 2011, the bulk of which were foreigners.

On weekends tourists can be seen waiting in long lines outside the museum to see a collection which also includes Rembrandt, Rubens and El Greco as well as special exhibits such as "The Hermitage", until March 25.

An exhibition organised in conjunction with the Louvre on the last years of 15th century Italian master Raphael is scheduled for June through September, followed by one on the young 17th century Flemish painter Anthony van Dyck.