



MACROECONOMIC MONITOR OF CYPRUS

July 2015

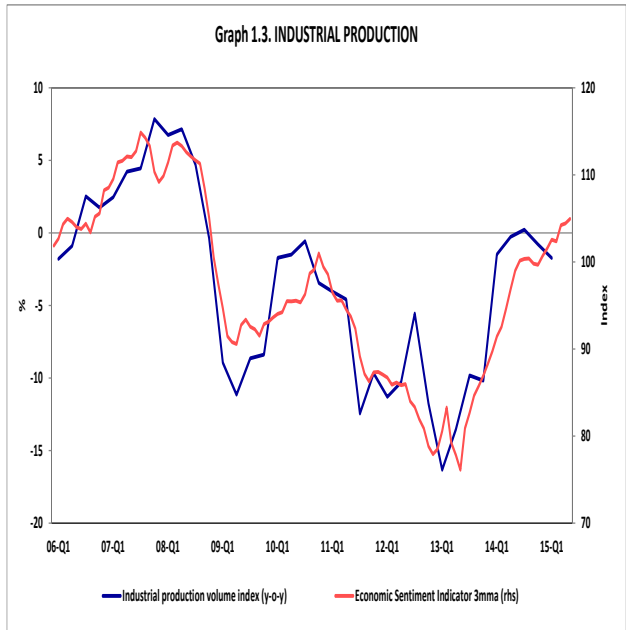
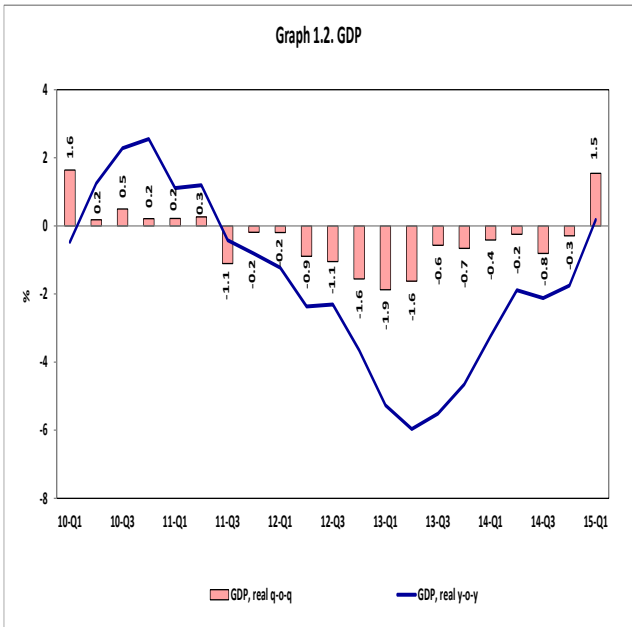
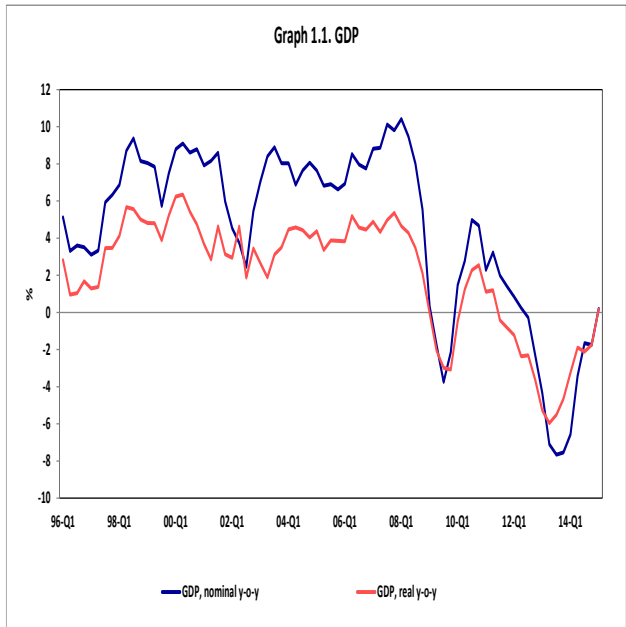
MACROECONOMIC MONITOR OF CYPRUS

Updated on 21 July 2015

- **In the 1st quarter of 2015, GDP** (in seasonally adjusted terms) **recorded a positive rate of growth of 0.2% compared with a negative rate of growth of -1.8% in the 4th quarter of 2014** on an annual basis (see graphs 1.1-1.2). Positive growth rates were recorded by the sectors of trade, hotels and restaurants, communication, electricity, as well as, the legal and accounting activities while negative growth rates were recorded by the secondary sector of the economy, mining, manufacturing and construction. From the expenditure side private consumption, gross fixed capital formation and net exports contributed positively, while, government consumption contributed negatively (see graphs 3.1-3.4 and 6.1-6.2).
- The business operating environment shows signs of stabilization and gradual improvement given that lending to non-financial corporations is marginally positive and interest rates are in decline and we assume return to growth in 2015.
- Developments are currently driven by improving **domestic demand** (see graphs 2.1-2.4).
- The **economic sentiment indicator** by CypERC **remained at 104.2 in June 2015** compared to May 2015, and still remaining in the negative territory (see graph 1.3). The stagnation in the index of ESI is mainly due to a slight fall in consumer confidence and a simultaneous improvement of the business climate in retail trade, construction and industry.
- **Exports of goods increased by 34%** in January-May 2015 compared to January-May 2014, mainly due to the transfer of economic ownership of mobile transport equipment, with total value of €158.6 mn in January 2015.
- In January-June 2015 tourist arrivals increased by 5.7% compared to January-June 2014 (see graph 6.3). An increase of 48.6% was recorded in tourist arrivals from Israel, a 25.2% increase from Germany, a 14.3% increase from the UK and a 42.1% increase from Greece. On the other hand a 20.9% decrease was recorded in arrivals from Russia.
- **Employment** is showing an adjustment to the conditions of lower economic growth (see graphs 4.1 and 4.4). Employment in persons remained almost the same in the 1st quarter of 2015 compared to the 1st quarter of 2014.
- **Labour market** developments exhibit **considerable flexibility** adjusting to the new environment. This led to a decrease in the marginal costs of businesses and at the same time this allowed businesses to provide goods and services at reduced prices.
- **Labour Force Survey (LFS) unemployment**, in monthly seasonally adjusted terms, **remained at 16% in May 2015 compared to May 2014** (see graphs 4.2-4.3). The most affected segment of the population is youth, although it has been on a downward trend since January 2014. Particularly challenging is also the increase in long-term unemployed.
- **Compensation per employee in the 1st quarter of 2015 declined by around 1.3% compared to the 1st quarter of 2014**, contributing to a decline of nominal unit labour cost and improving cost competitiveness further (see graphs 5.3-5.5). The observed wage adjustment is expected to help containing the upward pressure on unemployment.
- **Inflation (HICP) for June 2015 was -2.1%** compared to -1.7% in May 2015 (see graph 5.1) and for 2015 so far it stands at -1.4%. Core HICP inflation stood at -0.4% in January-June 2015 (see graph 5.2). All subcategories of HICP presented a decrease except for food and non-alcoholic beverages, alcoholic beverages and tobacco, health and communication which presented an increase.

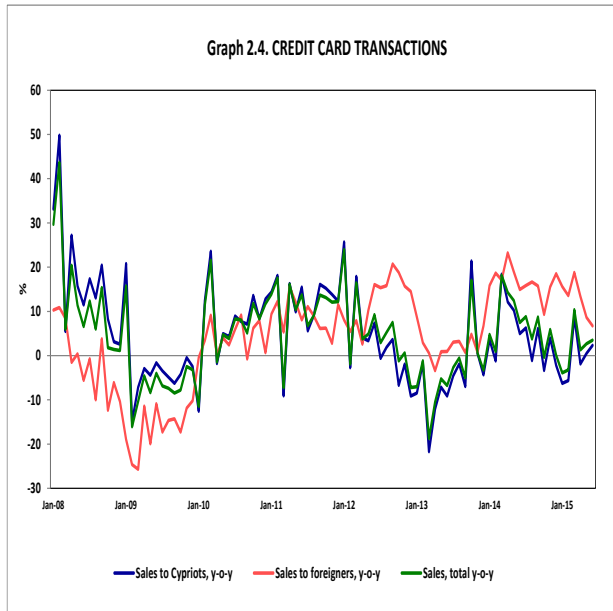
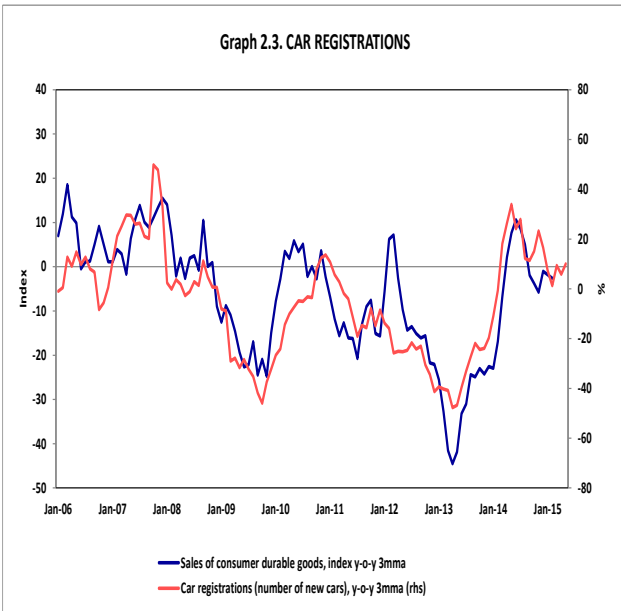
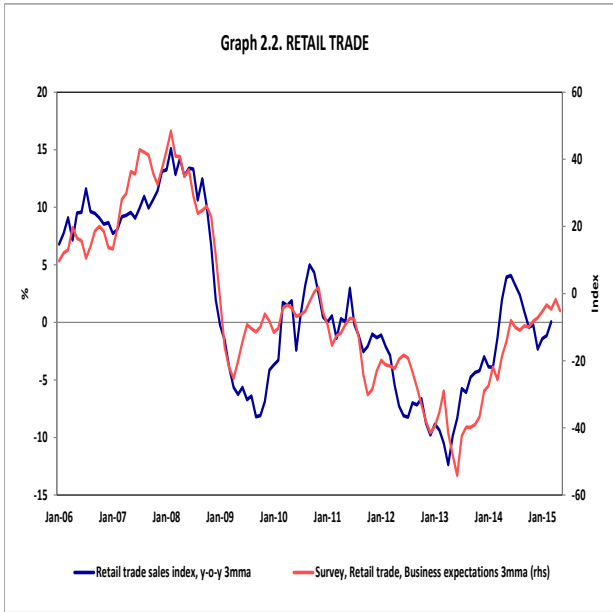
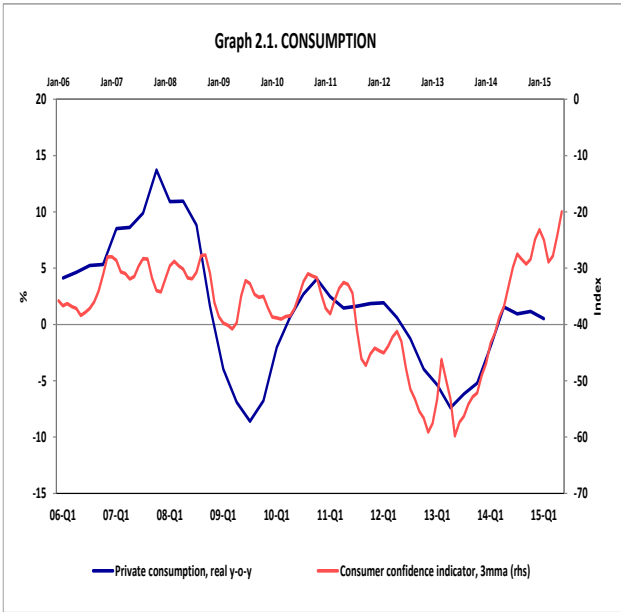
- The **current account balance** in the 1st quarter of 2015 recorded a **deficit of €706.1 mn (-4.1% of GDP)** compared with a deficit of €778.5 mn (-4.4% of GDP) in the 1st quarter of 2014 (see graph 6.4) due to the improvement in services and primary income.
- The **primary income** recorded a **deficit of €34.3 mn** in the 1st quarter of 2015 compared with a deficit of €146 mn in the 1st quarter of 2014 (see graph 6.4) mainly due to improvement in investment income (direct investment) and other primary income.
- The international investment position of Cyprus (see graph 6.5) recorded an improvement in March 2015 reaching -€27,672.1 mn compared with -€28,898.7 mn in December 2014.
- General government budget balance (GGBB) was in deficit in January-June 2015, of the order of **€31.2 mn (-0.2% of GDP)** compared to a deficit of €5.6 mn (0.0% of GDP) during the corresponding period the year before (see graph 9.1).
- General government **primary balance** (GGPB) **was in surplus** in January-June 2015, of the order of **€202.5 mn (1.2% of GDP)** compared to a surplus of €187.8 mn (1.1% of GDP) during the corresponding period the year before (see graphs 9.1-9.2).
- General government debt (see graph 9.2) at the end of June 2015 stood at €19,214.2 mn.
- **Total revenue** exhibited a **negative** rate of growth of about **0.8%**, declining to €3,158.9 mn in January-June 2015, compared to €3,185.6 mn during the corresponding period of 2014 (see graph 9.3).
- **Total expenditure** exhibited marginal decrease falling to €3,190.1 mn in January-June 2015, compared to €3,191.2 mn during the corresponding period the year before (see graph 9.3).
- Monetary Financial Institutions (MFI) **loans to domestic residents** (private sector), marginally **increased** with an annual **rate of 0.1%** in May 2015, affecting both households and enterprises (see graphs 8.2-8.4). This is reflecting low demand and tight lending conditions (see graphs 8.7-8.8).
- **Deposits of domestic** residents held with MFIs (private sector) exhibited a contraction presenting an **annual decline of 1.5%** in May 2015, reflecting the negative climate in confidence (see graph 8.1).
- Overall lending and deposit interest rates in Cyprus have declined, however, the decline in deposit rates is much bigger than the decline in lending rates (see graph 8.5). In May 2015, deposit interest rates for maturity up to 1 year and up to 3 months decreased compared with the previous month. The lending interest rates to households for primary residence acquisition and the rate for other loans up to €1 mn for businesses decreased. The rate for bank overdrafts to non-financial corporations also decreased. A significant deviation of the Cypriot interest rates, compared to the euro area average is still observed.
- The CBC's residential property price index declined by 6.5% in the 1st quarter of 2015 compared to the 1st quarter of 2014. Cumulative from the 1st quarter of 2008 it has declined by 27.8% (see graph 7.1), revealing a modest adjustment to the conditions of lower domestic and foreign demand.
- According to the Department of Lands and Surveys, new sale contracts were up by 6.1% while, transfers of property were up by 2.9% in January-June 2015 compared to January-June 2014 (see graph 7.3). MFI loans to domestic residents for housing declined with an annual rate of 2% in May 2015 (see graph 7.2).
- The Cyprus Government bond spread compared to the German Government bond, decreased in mid-July 2015 compared to June 2015 to around 255 basis points above the German bond on 21/07/2015 from around 295 basis points above on 30/06/2015 (see graph 8.6, yields refer to the bonds maturing in 2020).
- Following the approval of the disbursement under the 6th Review of the Macroeconomic Adjustment Programme by the European Stability Mechanism on 02/07/2015, the CBC initiated on 03/07/2015 a purchasing programme for Cyprus Government bonds from the secondary market, in the context of the ECB's Quantitative Easing (QE) programme.

1. OUTPUT



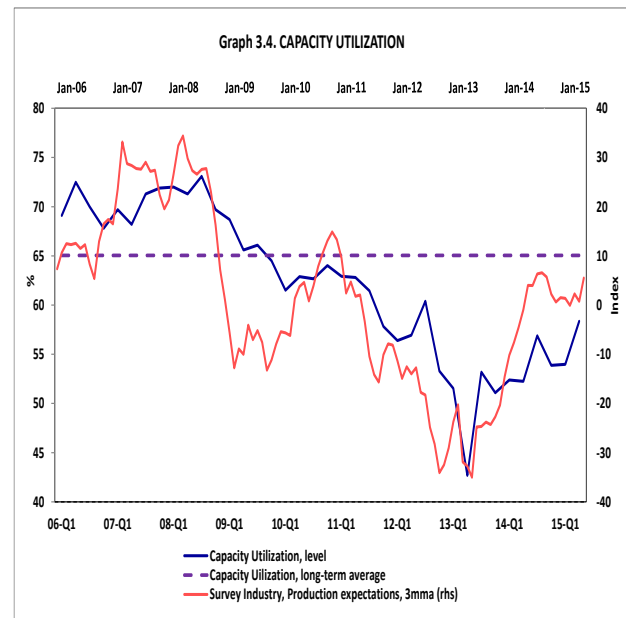
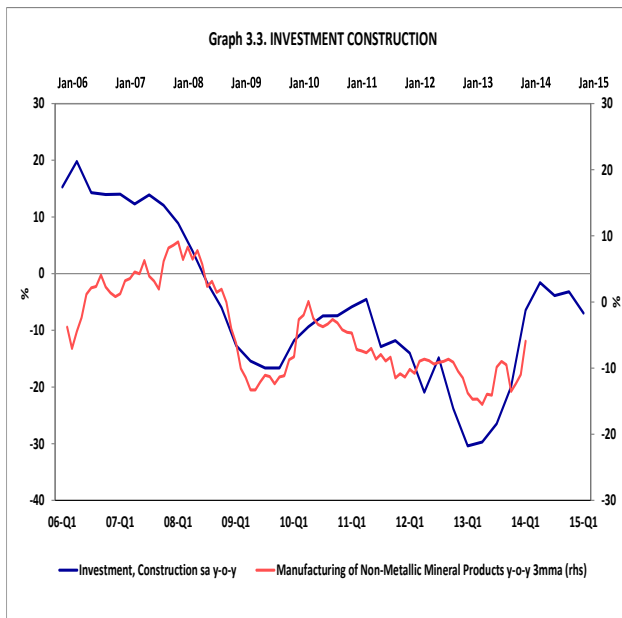
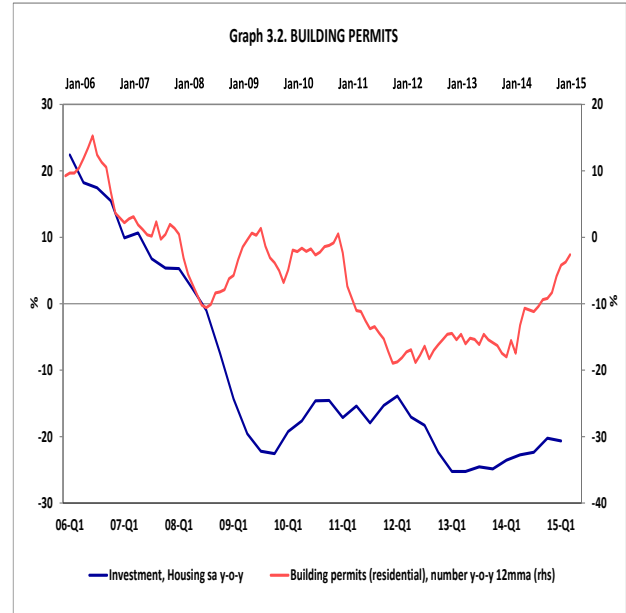
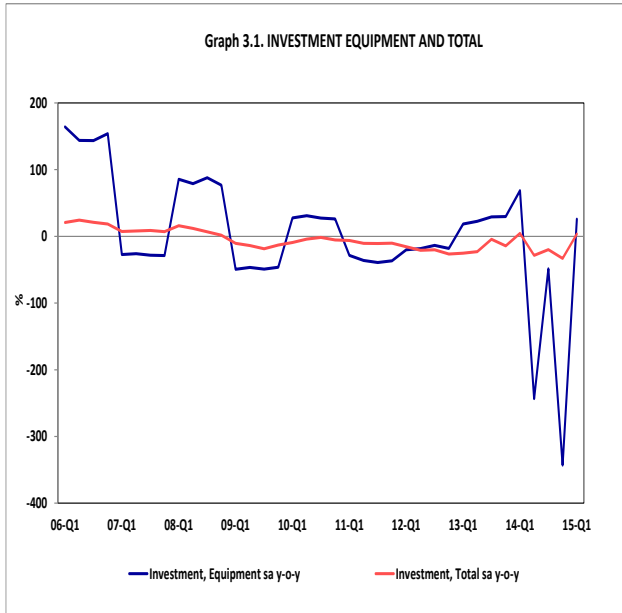
Sources: Eurostat, DG ECFIN, Cystat

2. CONSUMPTION



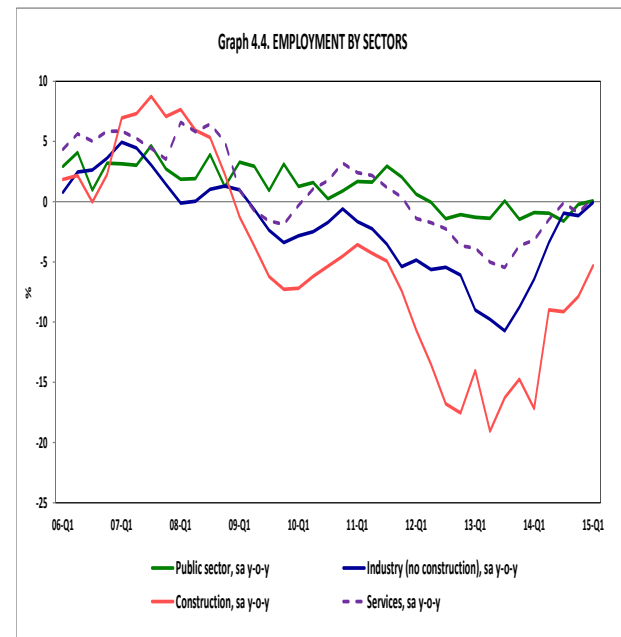
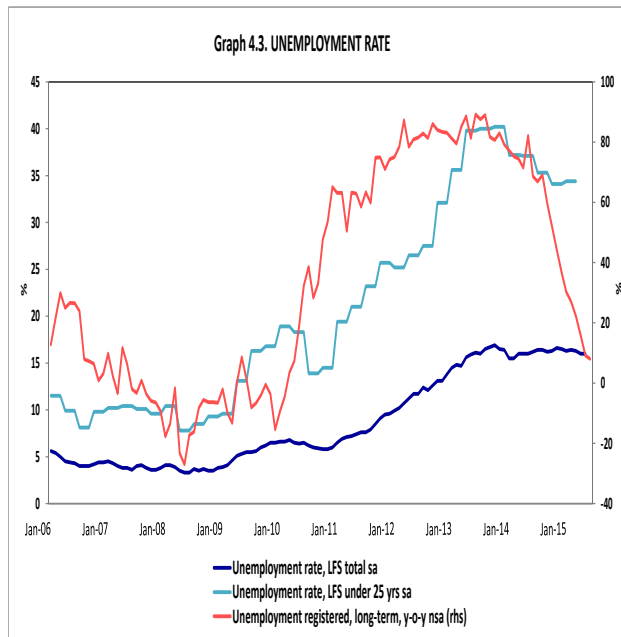
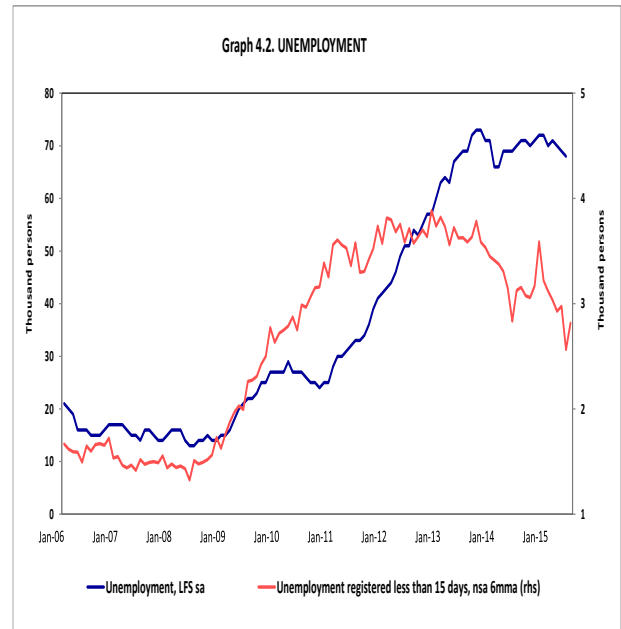
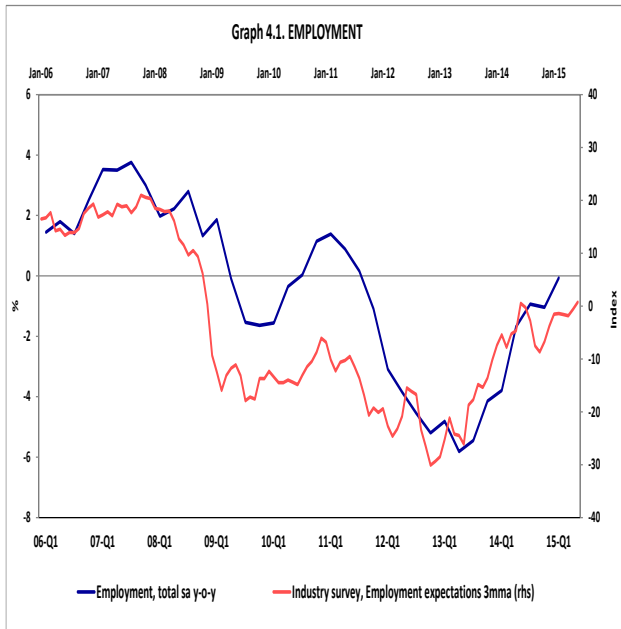
Sources: Eurostat, DG ECFIN, Cystat, JCC Payment Systems Ltd

3. INVESTMENT



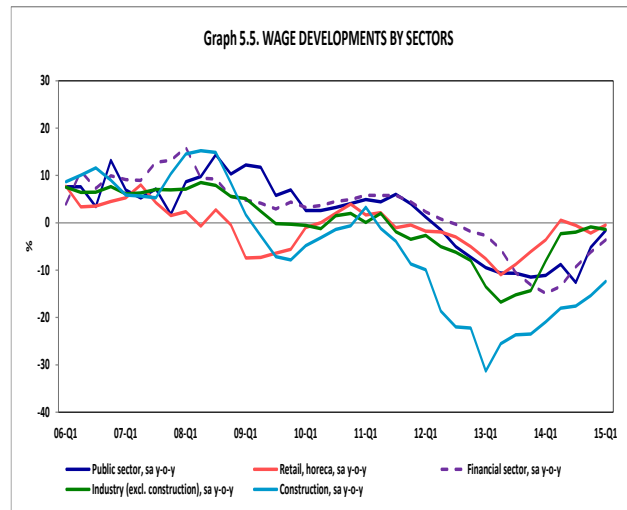
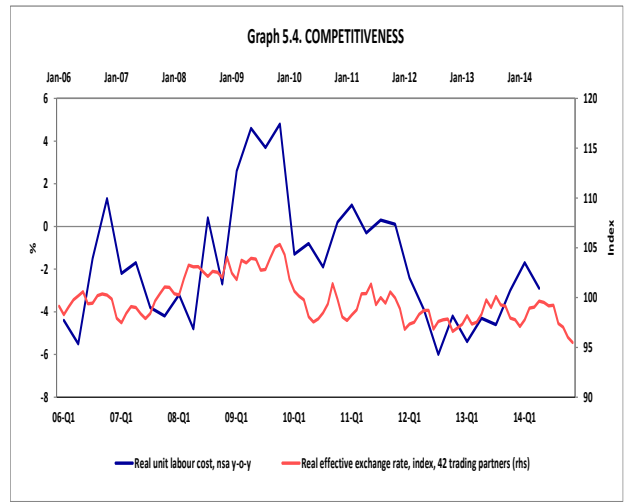
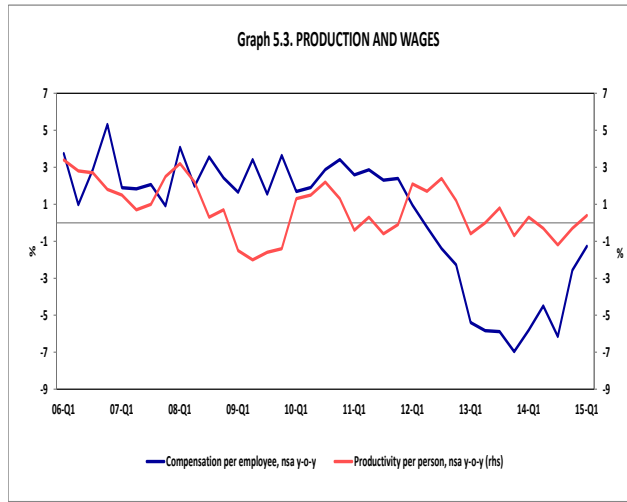
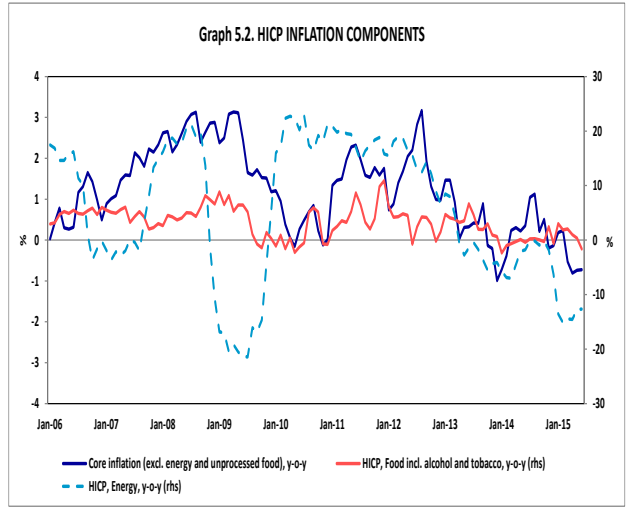
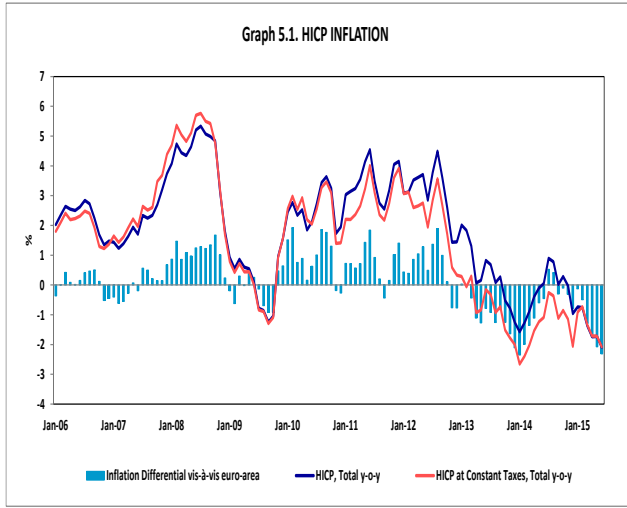
Sources: Eurostat, DG ECFIN, Cystat

4. LABOUR MARKET



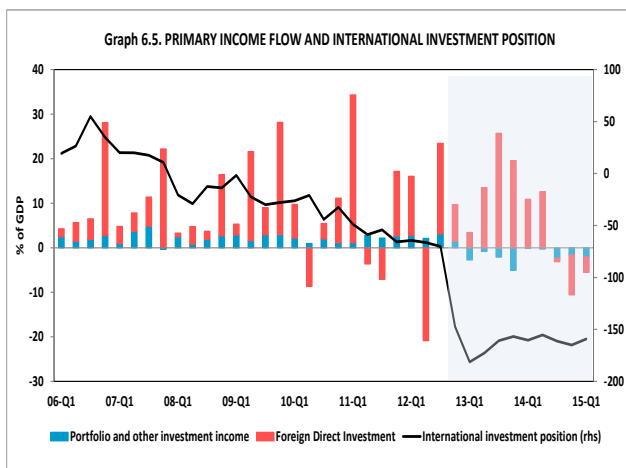
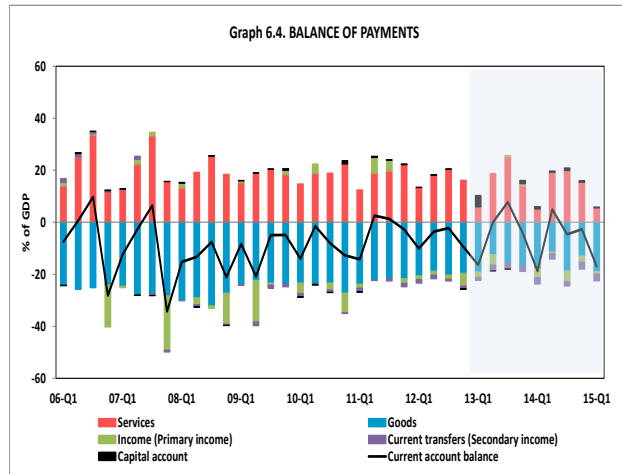
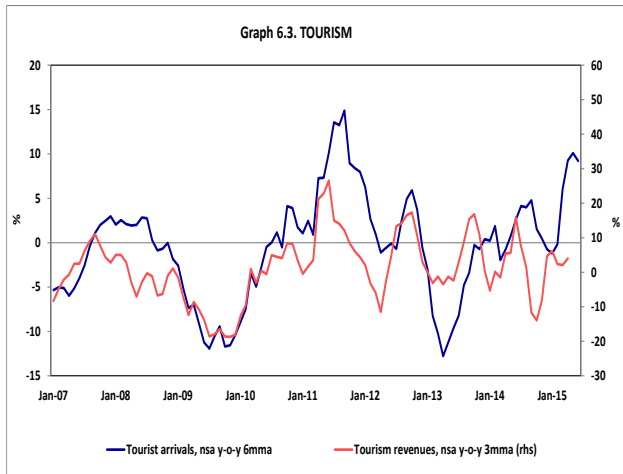
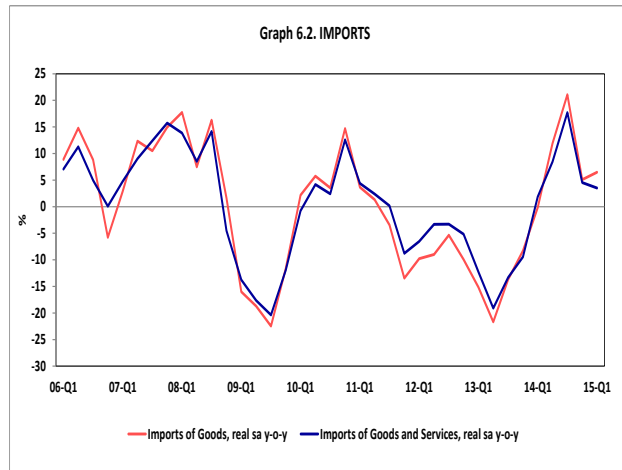
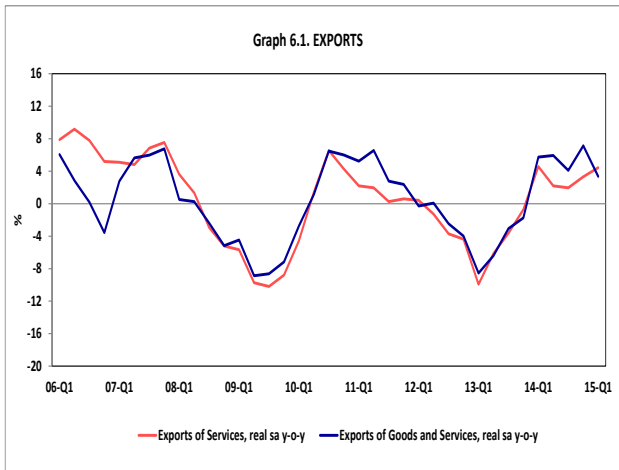
Sources: Eurostat, DG ECFIN, Cystat

5. INFLATION, WAGES



Source: Eurostat

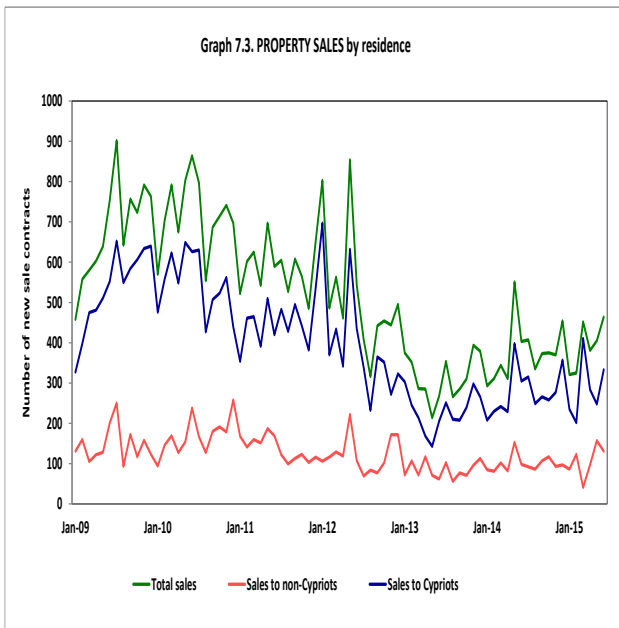
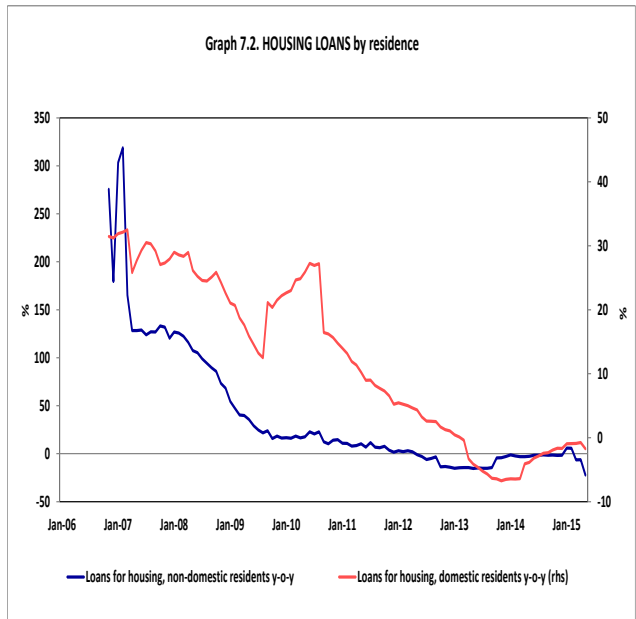
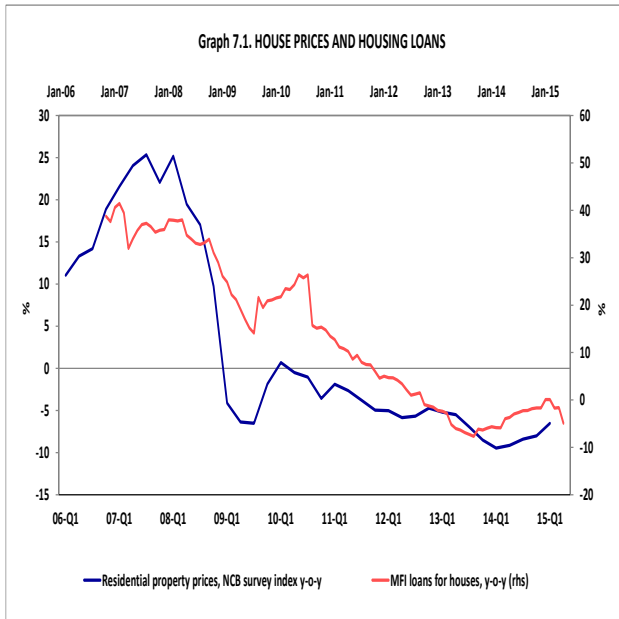
6. EXTERNAL SECTOR



Sources: Eurostat, Cystat, ECB, CBC

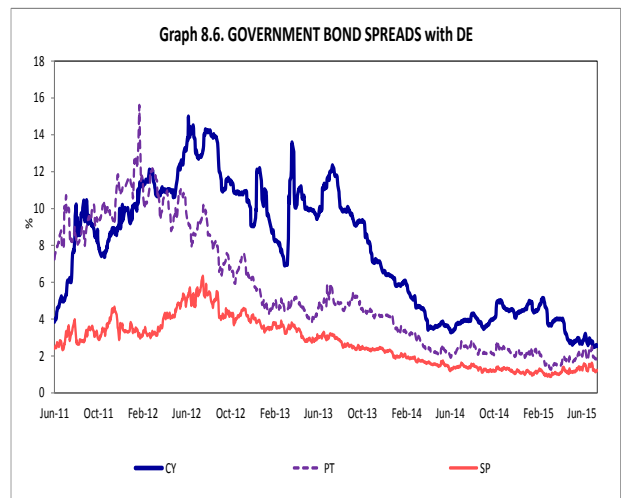
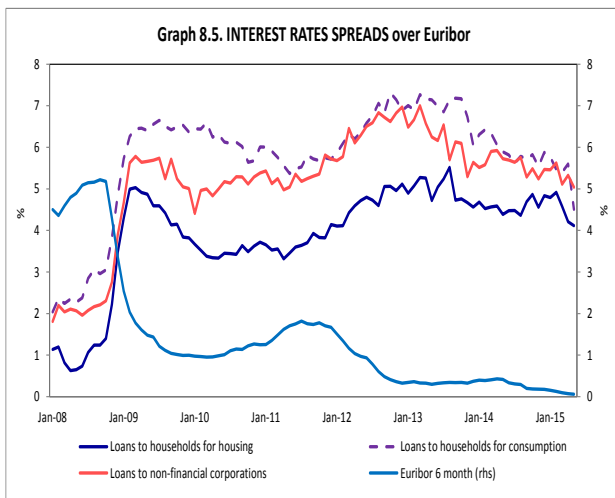
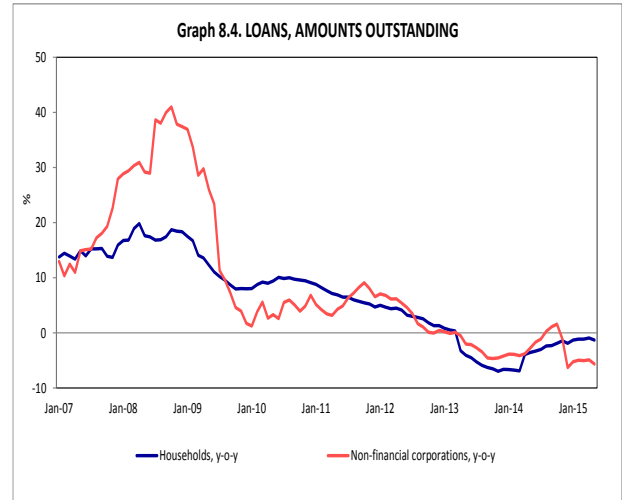
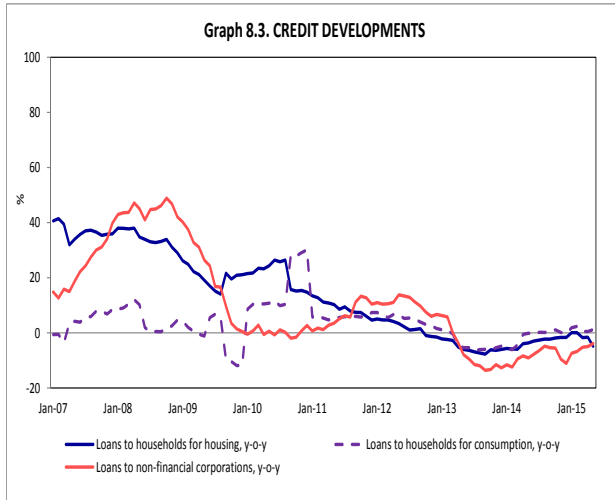
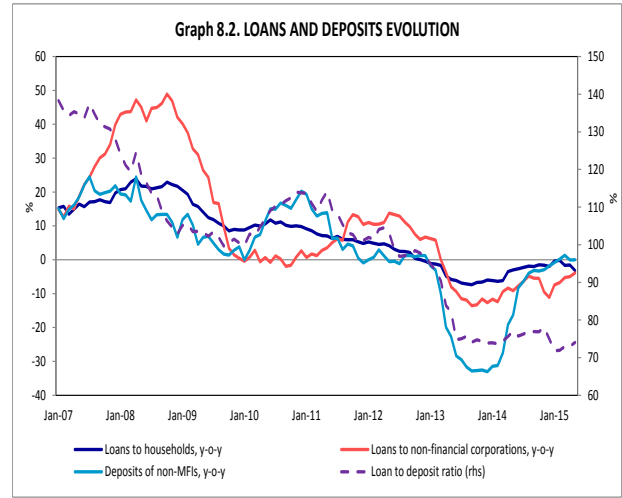
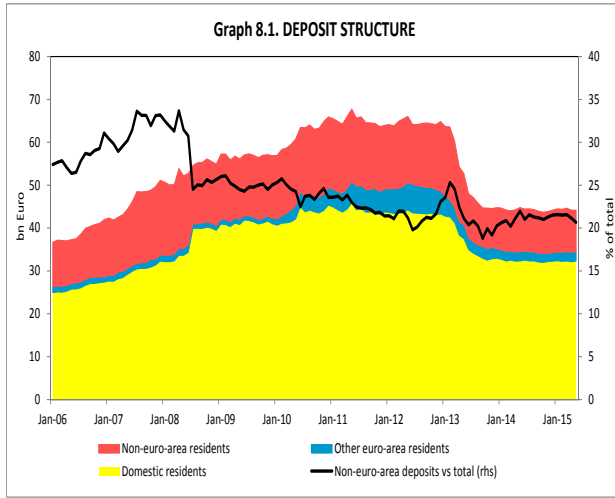
Note: Regarding graphs 6.4 and 6.5, BoP data from 2013 onwards and IIP data from 2012Q4 onwards are compiled in accordance with the new international methodological standards (BPM6) and are not comparable to data prior to this.

7. HOUSING



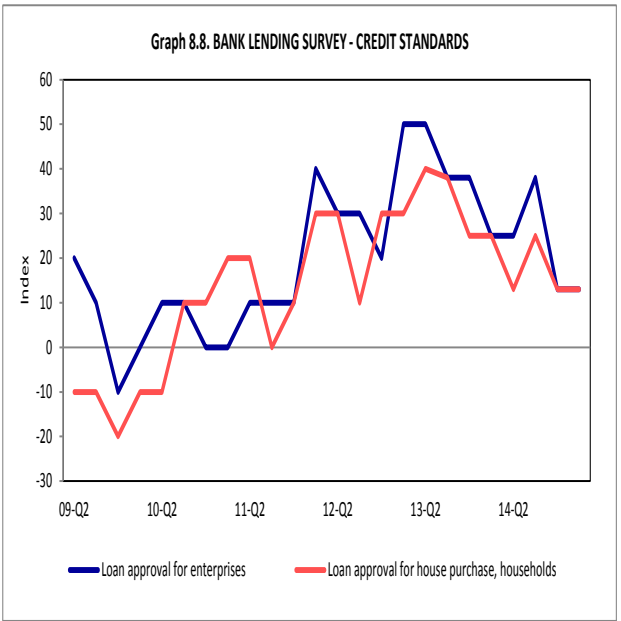
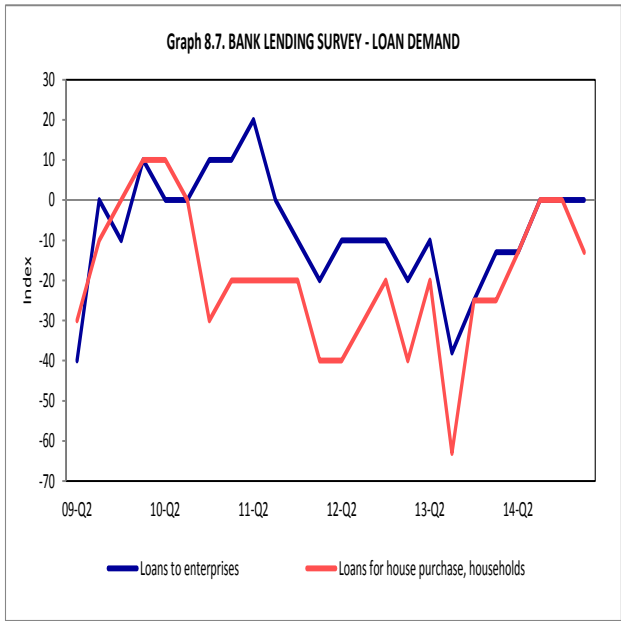
Sources: ECB, CBC, Dep. of Lands and Surveys

8. FINANCIAL SECTOR



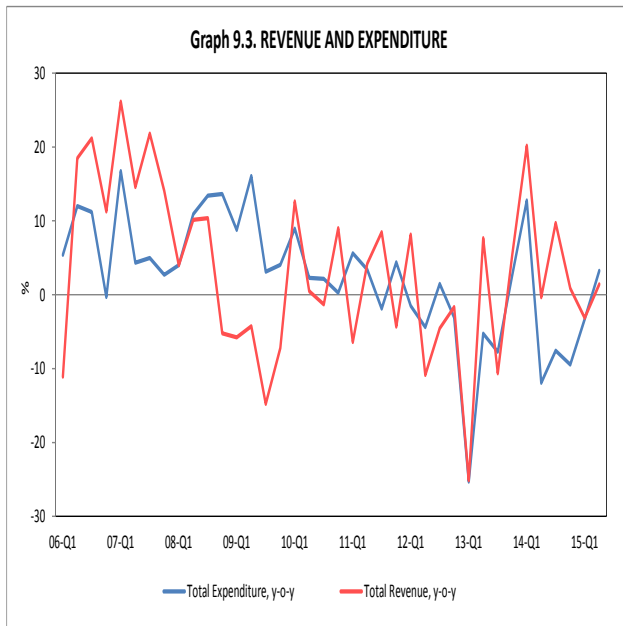
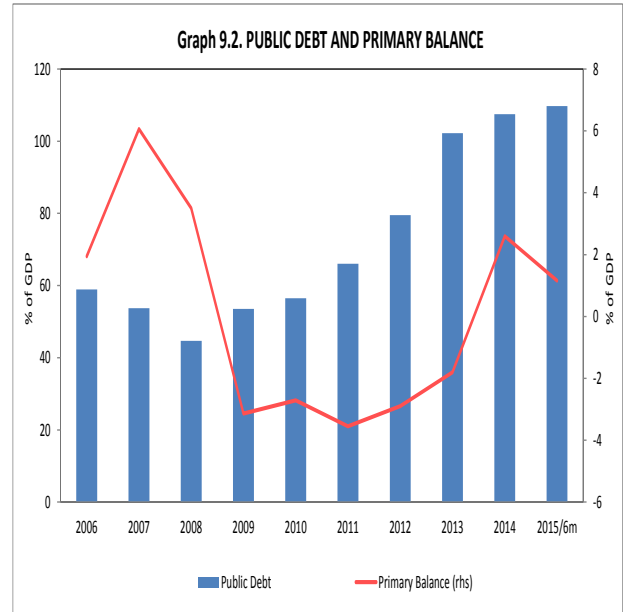
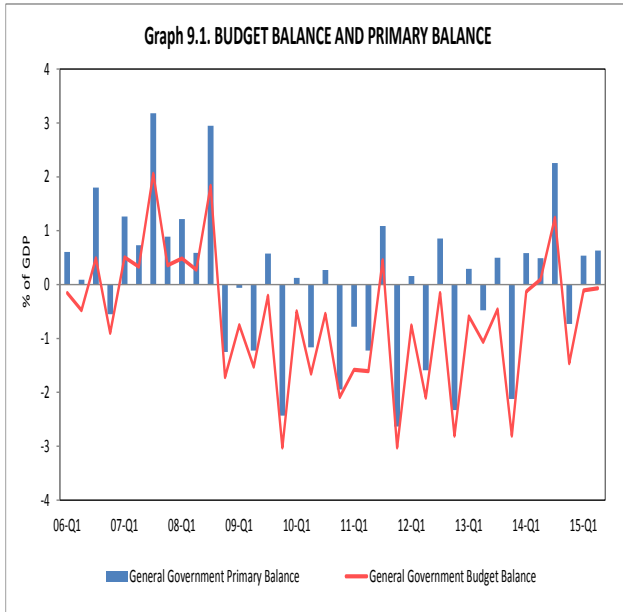
Sources: ECB, CBC, Bloomberg

8. FINANCIAL SECTOR – CONT.



Source: ECB

9. PUBLIC SECTOR



Sources: Ministry of Finance, Cystat