



# MACROECONOMIC MONITOR OF CYPRUS

June 2015

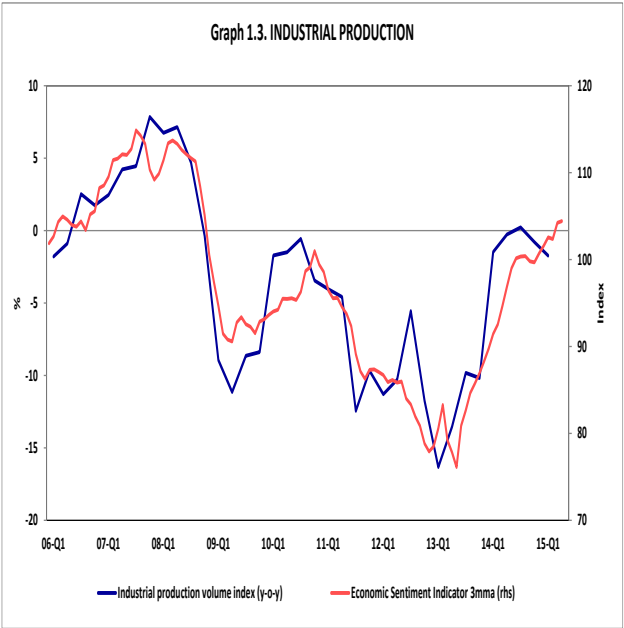
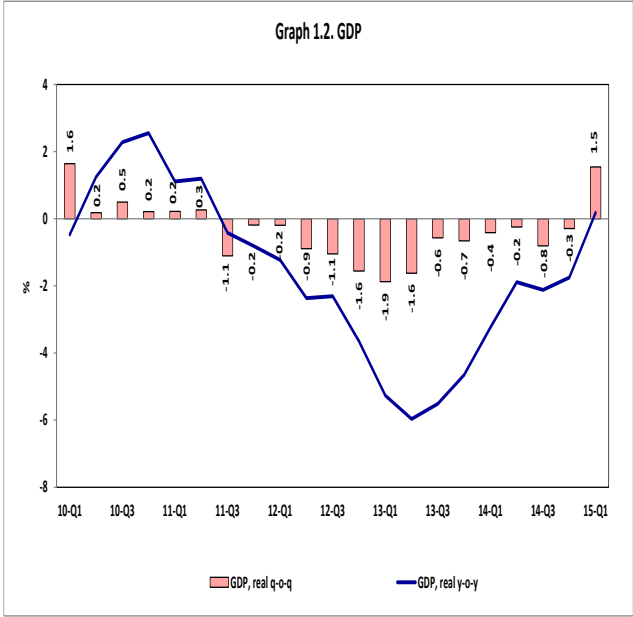
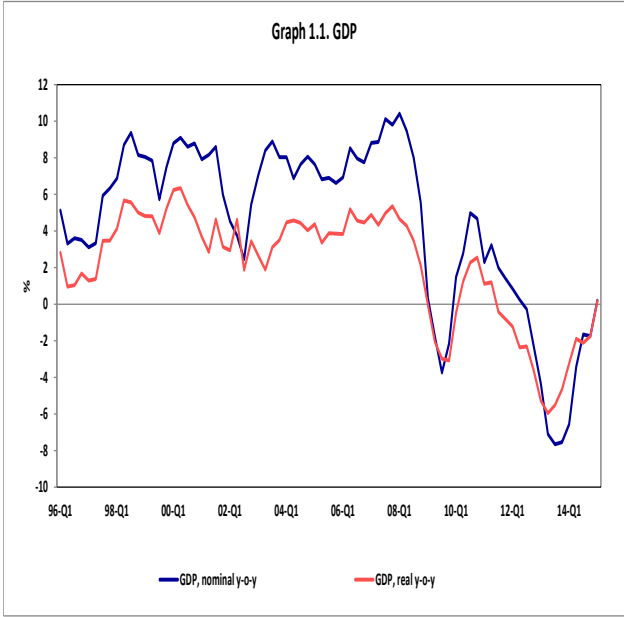
## MACROECONOMIC MONITOR OF CYPRUS

*Updated on 22 June 2015*

- **In the 1<sup>st</sup> quarter of 2015, GDP** (in seasonally adjusted terms) **increased by 0.2% compared with -1.8% in the 4<sup>th</sup> 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 **decreased by 3.5 points in May 2015** compared to April 2015, and still remaining in the negative territory (see graph 1.3). This decrease is due to the worsening of business climate in all sectors mainly due to more pessimist evaluations regarding business activity in the next three months.
- **Exports of goods increased by 36.9%** in January-April 2015 compared to January-April 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-May 2015 tourist arrivals increased by 9.6% compared to January-May 2014 (see graph 6.3). An increase of 58.1% was recorded in tourist arrivals from Israel, a 26.5% increase from Germany, a 16.4% increase from the UK and a 40.6% increase from Greece. On the other hand an 18.4% 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 1<sup>st</sup> quarter of 2015 compared to the 1<sup>st</sup> 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, **decreased from 16.1% in April 2014 to 15.6% in April 2015** (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 1<sup>st</sup> quarter of 2015 declined by around 1.3% compared to the 1<sup>st</sup> 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 May 2015 was -1.7%** compared to -1.7% in April 2015 (see graph 5.1) and for 2015 so far it stands at -1.3%. Core HICP inflation stood at -0.3% in January-May 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 2014 recorded a **deficit of €885.3 mn (-5.1% of GDP)** compared with a deficit of €552.3 mn (-3% of GDP) in 2013 (see graph 6.4) mainly due to the deterioration in services and primary income.

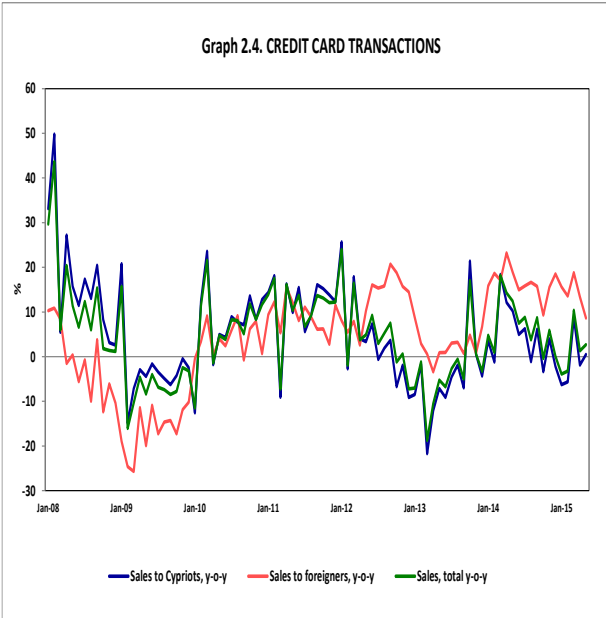
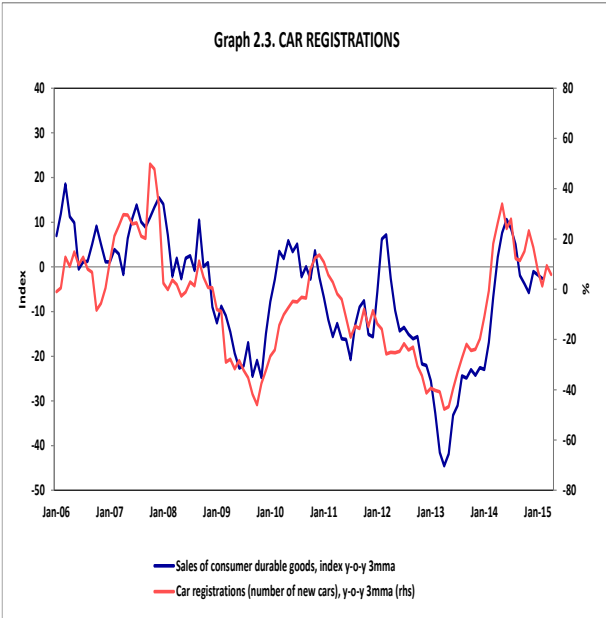
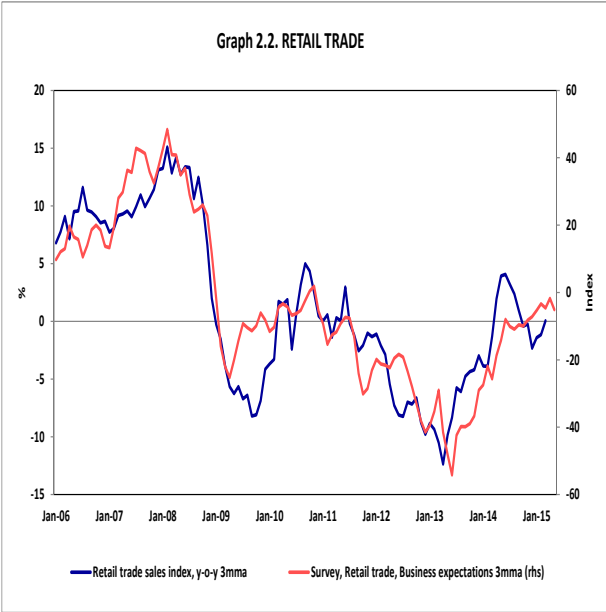
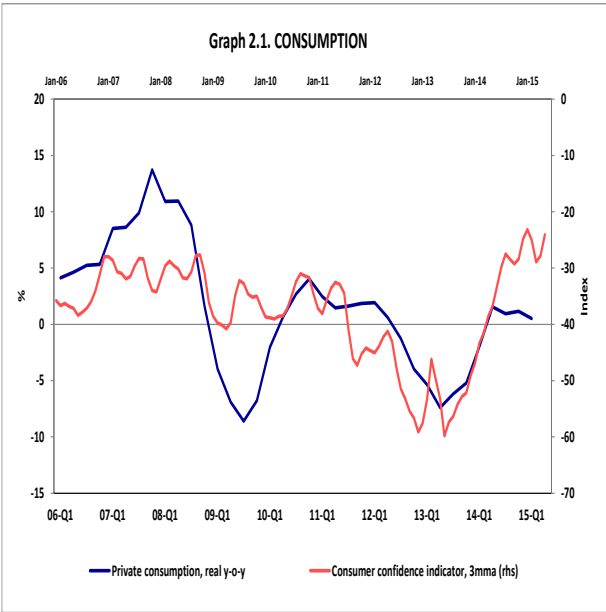
- The **primary income** recorded a **deficit of €459.3 mn** in 2014 compared with a deficit of €227 mn in 2013 (see graph 6.4) mainly due to lower investment income (direct investment and other investment).
- The international investment position of Cyprus (see graph 6.5) recorded deterioration in 2014 reaching -€28,898.7 mn compared with -€28,417.9 mn in 2013.
- General government budget balance (GGBB) was in deficit in January-April 2015, of the order of **€28.4 mn (-0.2% of GDP)** compared to a surplus of €120.8 mn (0.7% of GDP) during the same period the previous year (see graph 9.1).
- General government **primary balance (GGPB) was in surplus** in January-April 2015, of the order of **€105.3 mn (0.6% of GDP)** compared to a surplus of €256.5 mn (1.5% of GDP) during the same period the previous year (see graphs 9.1-9.2).
- General government debt (see graph 9.2) in January-April 2015 stood at €18,573.6 mn.
- **Total revenue** exhibited a **negative** rate of growth of about **10.3%**, reaching €2,011.9 mn in January-April 2015, compared to €2,243.8 mn during the same period the previous year (see graph 9.3). This outcome is mainly attributed to the fact that last year's Central Bank dividend was received during April (€180 mn), whereas receipt of this year's dividend has taken place in May.
- **Total expenditure** exhibited a **negative** rate of growth of about **3.9%**, reaching €2,040.3 mn in January-April 2015, compared to €2,123.0 mn during the same period the previous year (see graph 9.3).
- Monetary Financial Institutions (MFI) **loans to domestic residents** (private sector), marginally **increased** with an annual **rate of 0.7%** in April 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 2.3%** in April 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 April 2015, deposit interest rates for maturity up to 1 year increased and up to 3 months decreased compared with the previous month. The lending interest rates to households for primary residence acquisition decreased and the rate for other loans up to €1 mn for businesses increased. The rate for bank overdrafts to non-financial corporations remained unchanged. 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 1<sup>st</sup> quarter of 2015 compared to the 1<sup>st</sup> quarter of 2014. Cumulative from the 1<sup>st</sup> 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 4.1% while, transfers of property were up by 3.7% in January-May 2015 compared to January-May 2014 (see graph 7.3). MFI loans to domestic residents for housing declined with an annual rate of 2% in April 2015 (see graph 7.2).
- The Cyprus Government bond spread compared to the German Government bond, decreased in mid-June 2015 compared to May 2015 to around 291 basis points above the German bond on 22/06/2015 from around 297 basis points above on 29/05/2015 (see graph 8.6, yields refer to the bonds maturing in 2020).

1. OUTPUT



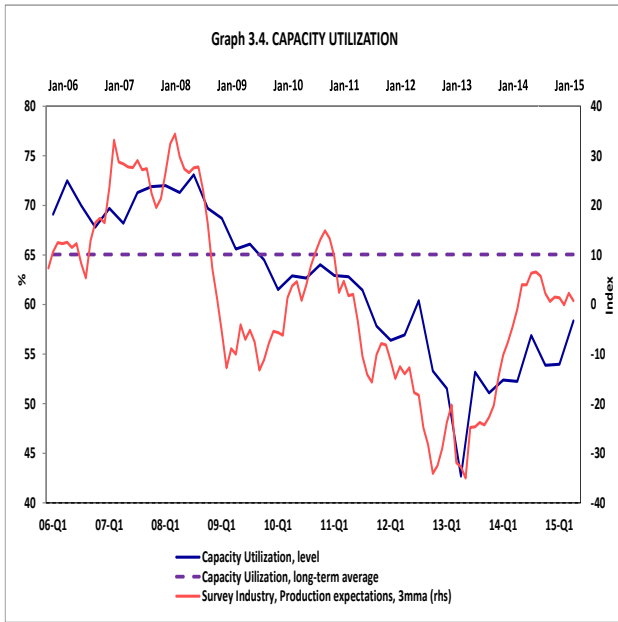
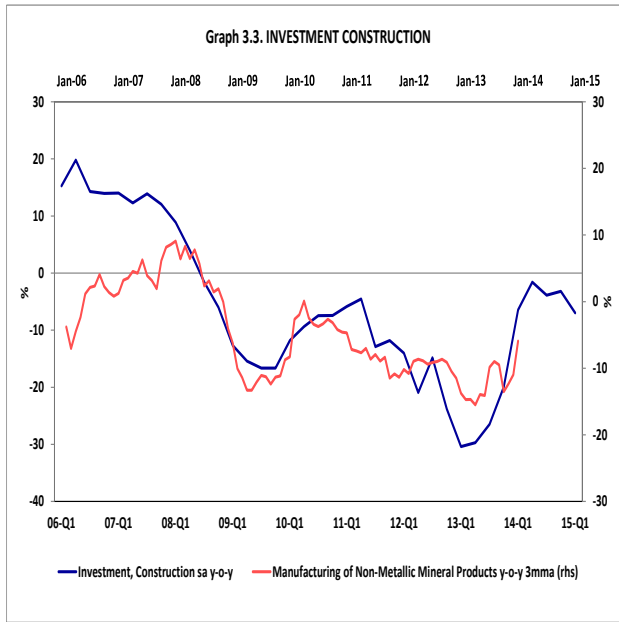
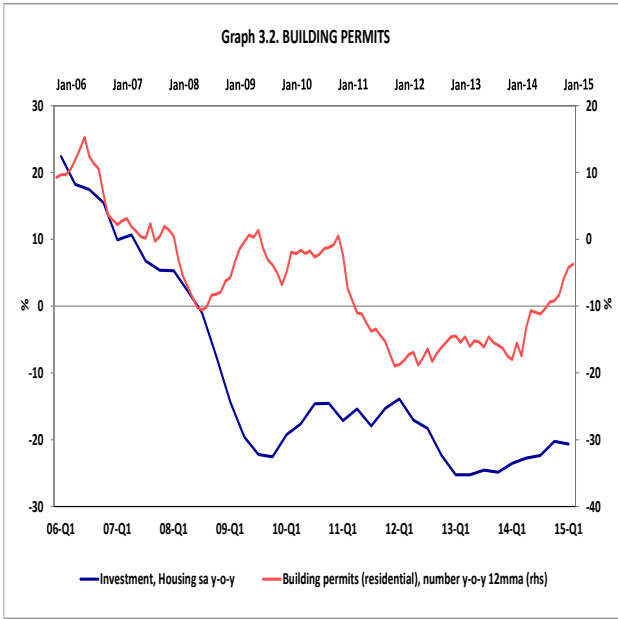
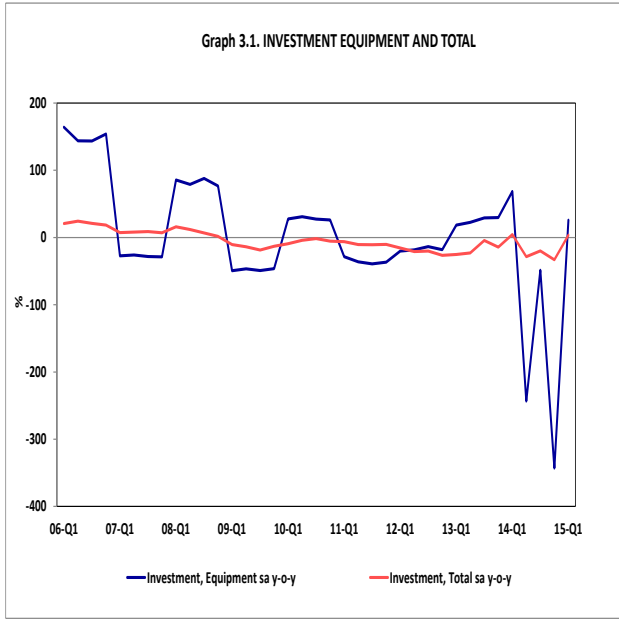
Sources: Eurostat, DG ECFIN, Cystat

2. CONSUMPTION



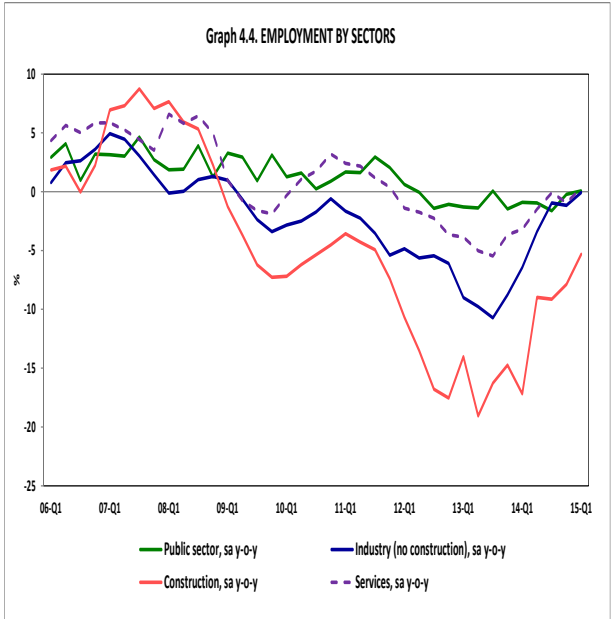
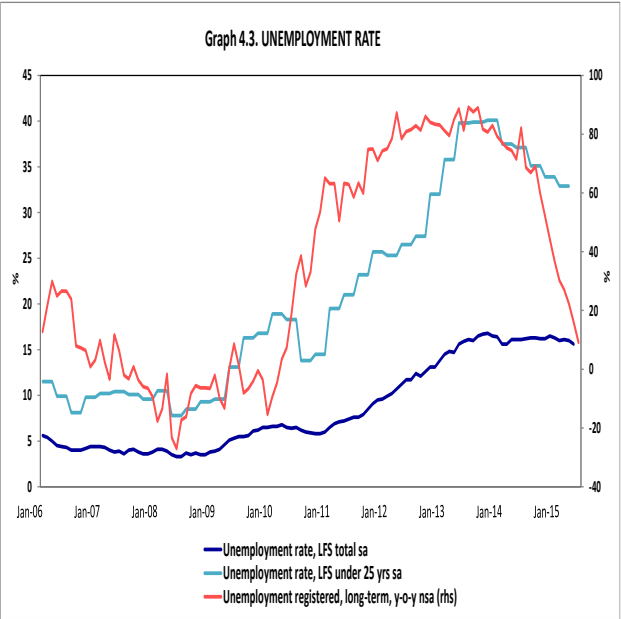
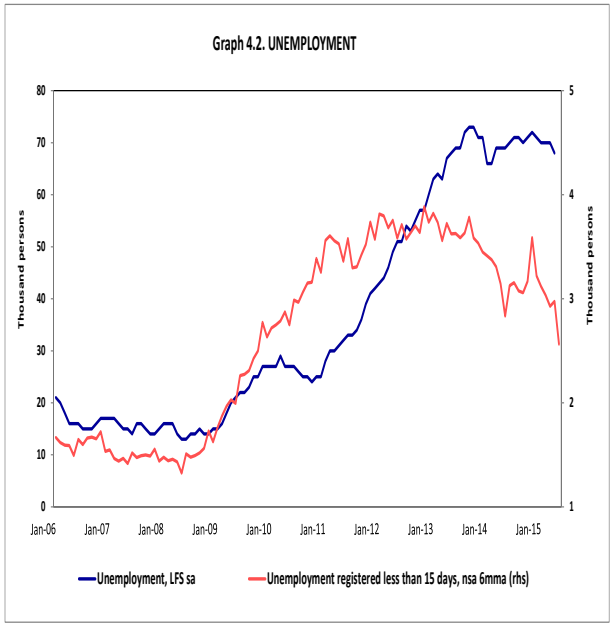
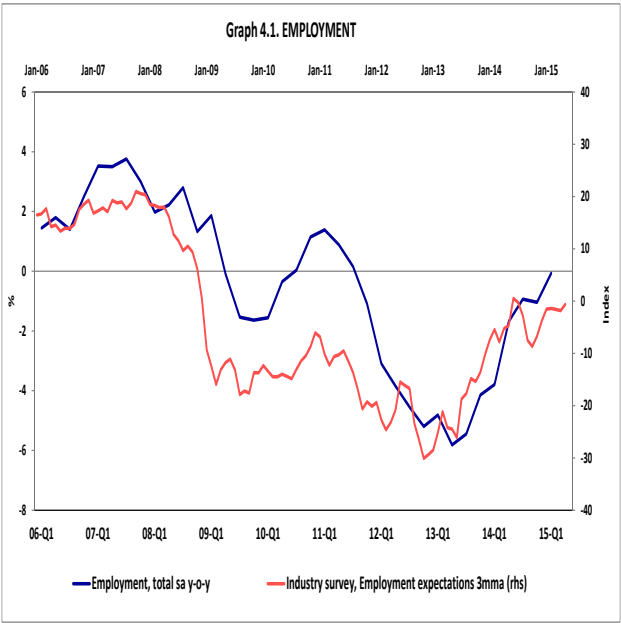
Sources: Eurostat, DG ECFIN, Cystat, JCC Payment Systems Ltd

**3. INVESTMENT**



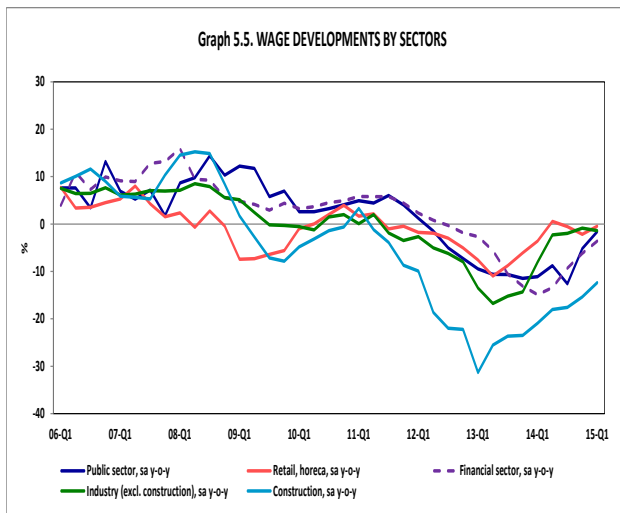
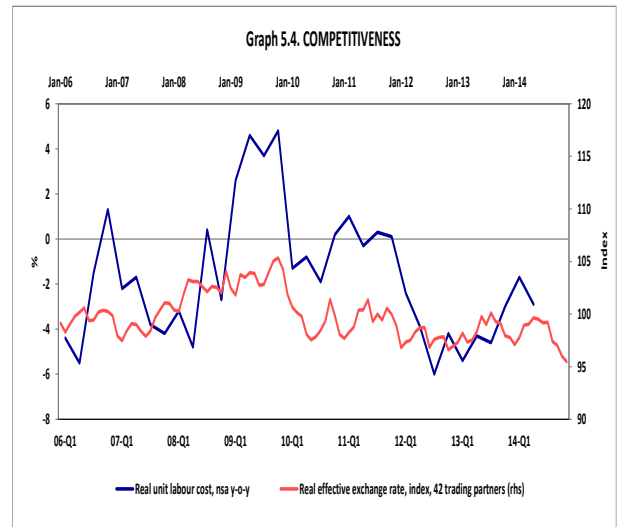
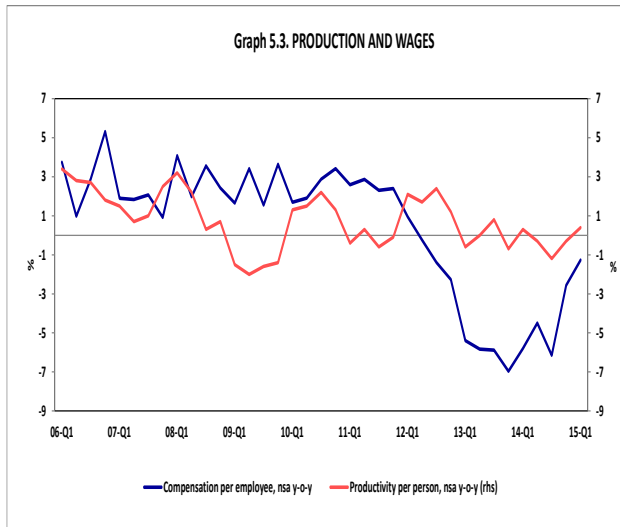
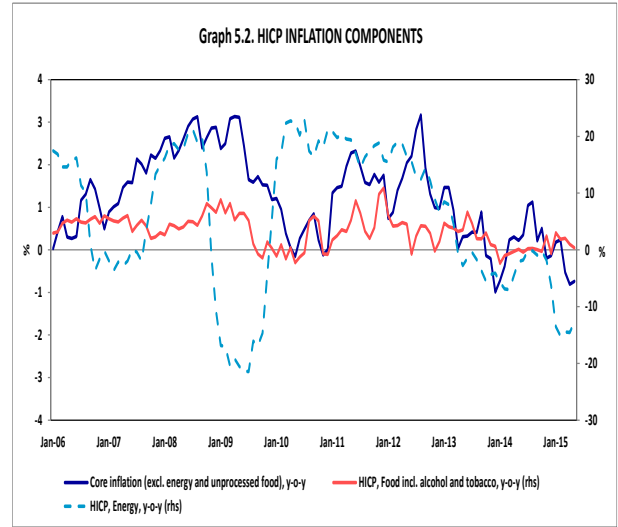
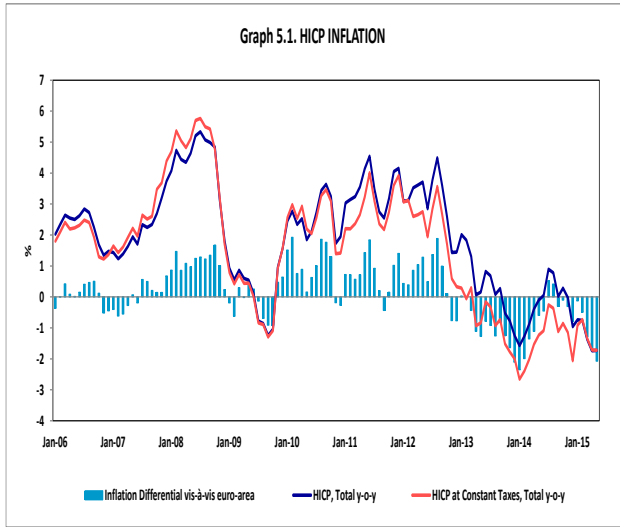
Sources: Eurostat, DG ECFIN, Cystat

4. LABOUR MARKET



Sources: Eurostat, DG ECFIN, Cystat

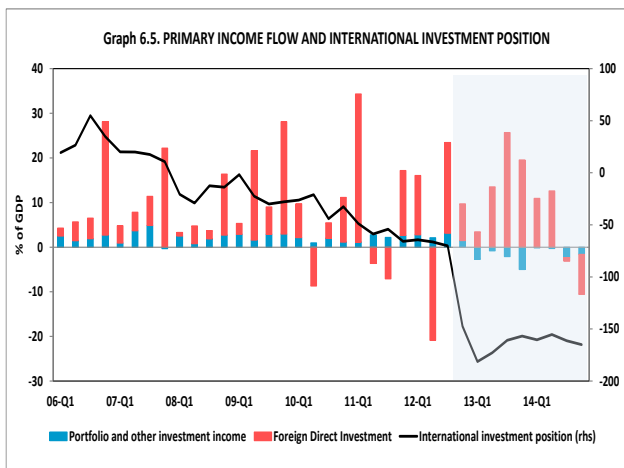
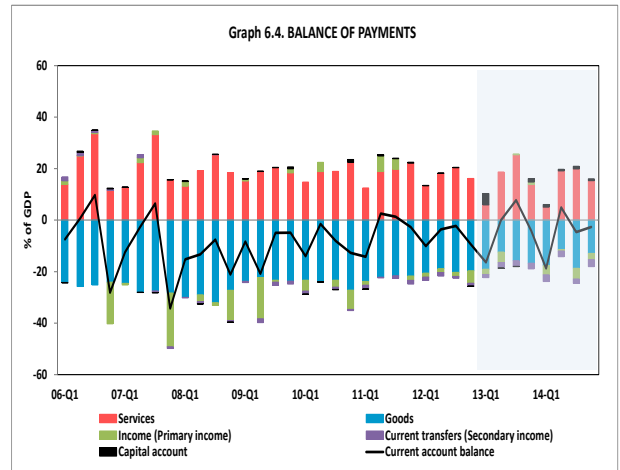
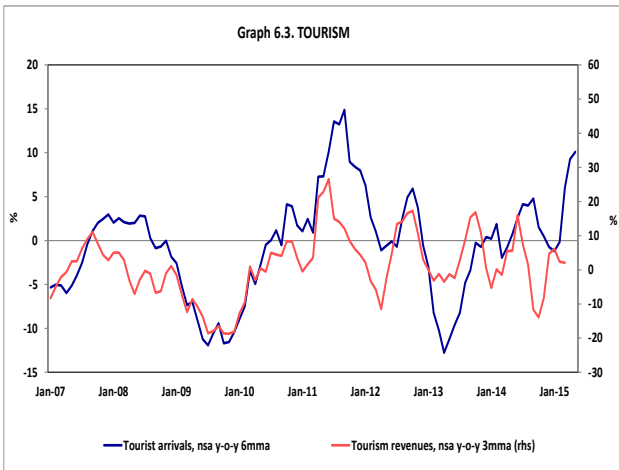
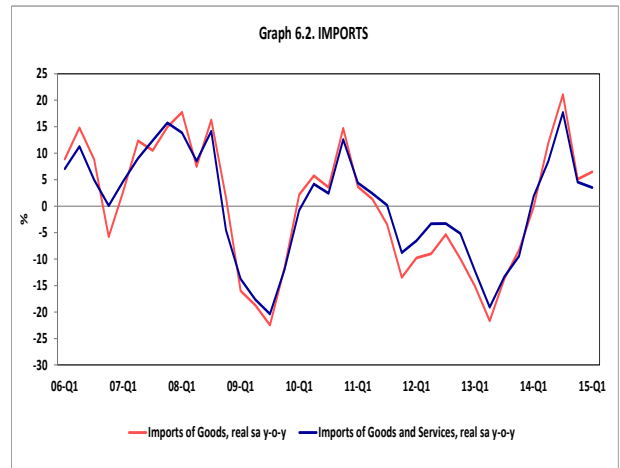
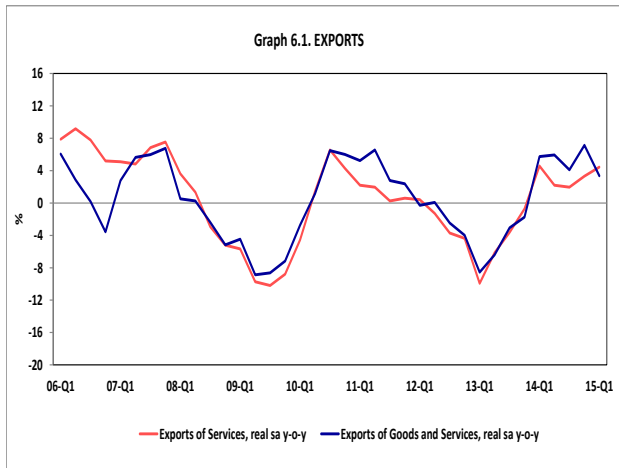
5. INFLATION, WAGES



Source: Eurostat



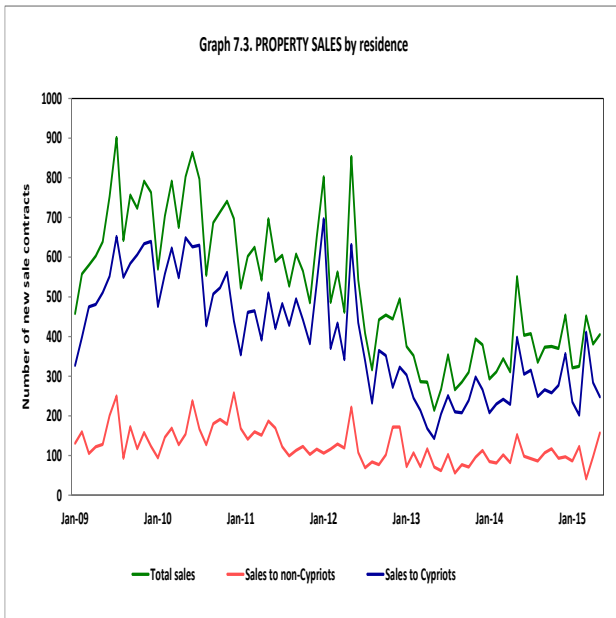
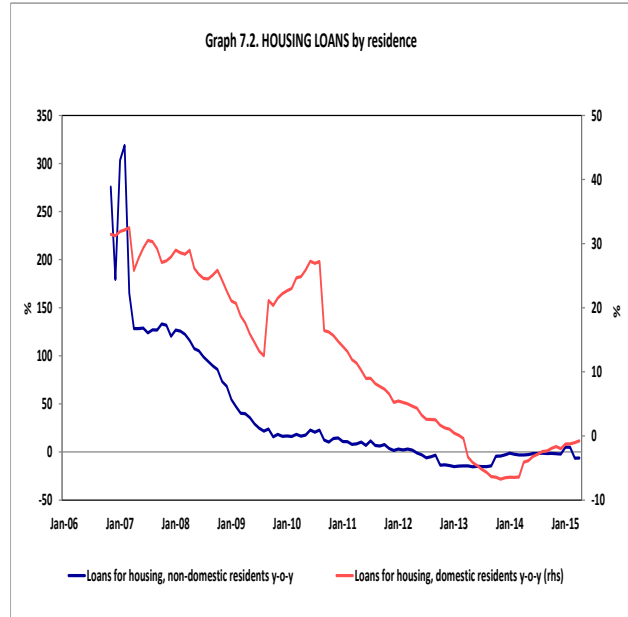
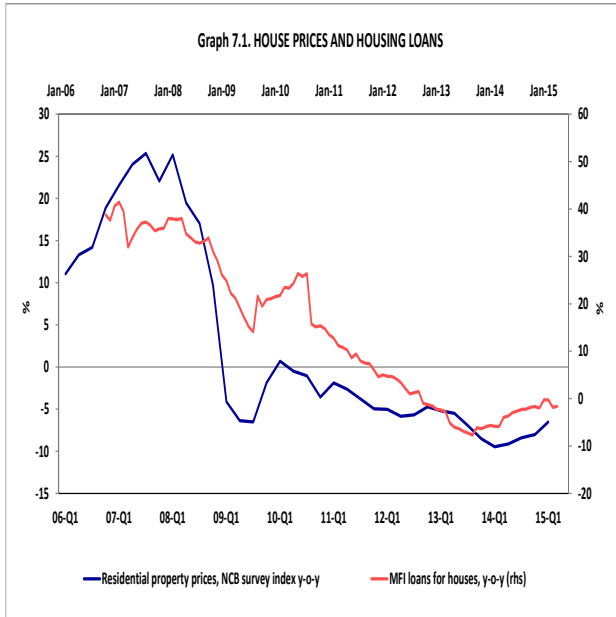
6. EXTERNAL SECTOR



Sources: Eurostat, Cystat, ECB, CBC

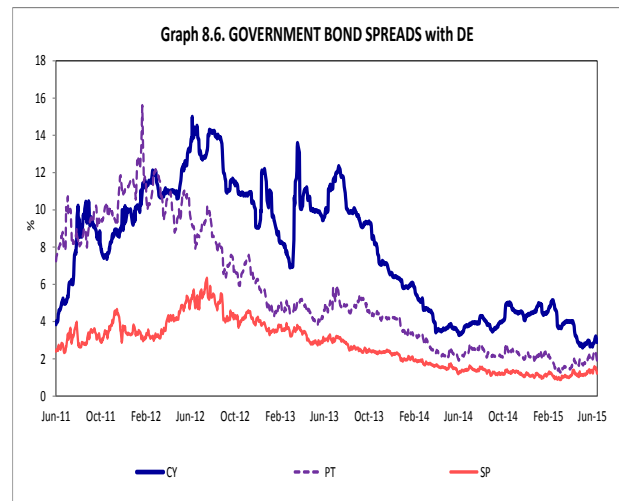
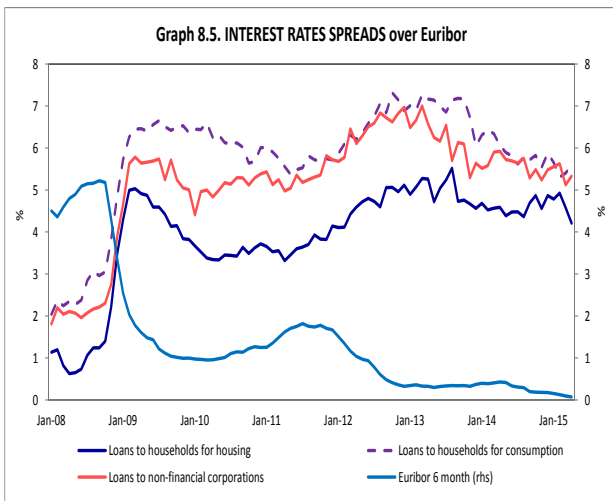
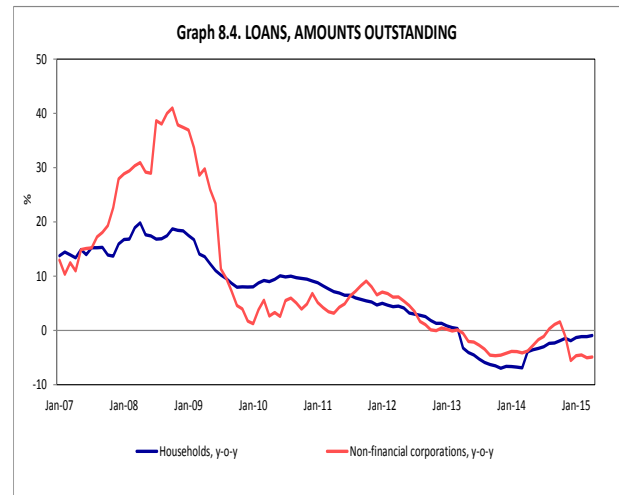
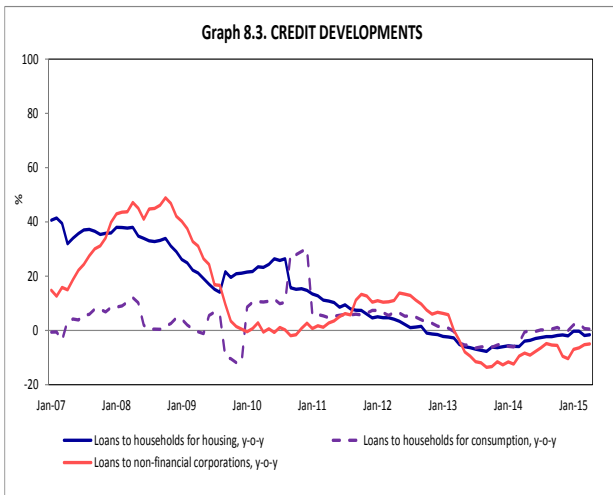
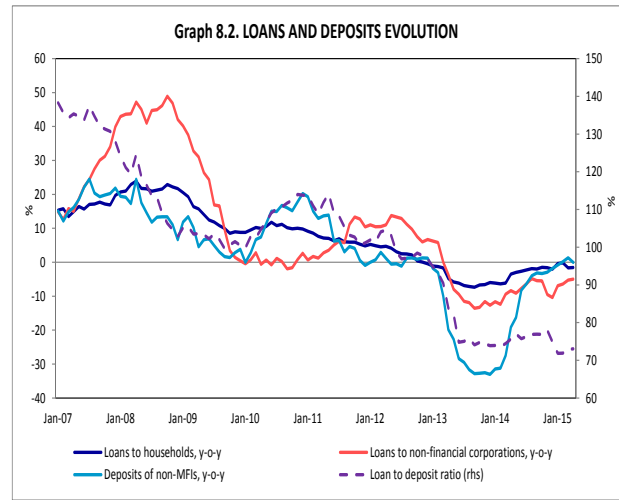
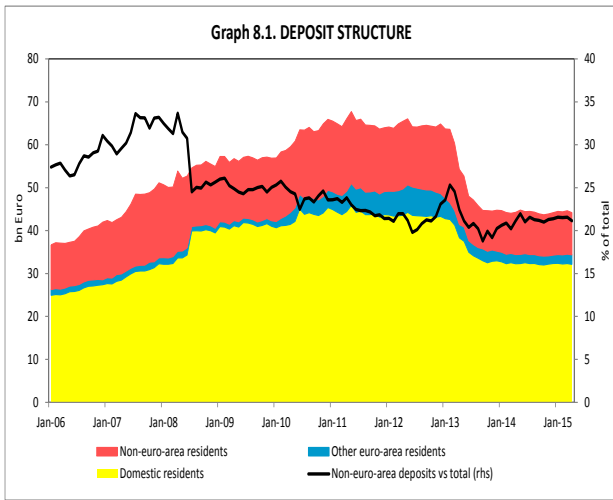
Note: Regarding graphs 6.4 and 6.5, BoP data from 2013 onwards and IIP data from 2012Q4 onwards are compiled in accordance with the new international methodological standards (BPM6) and are not comparable to data prior to this.

7. HOUSING



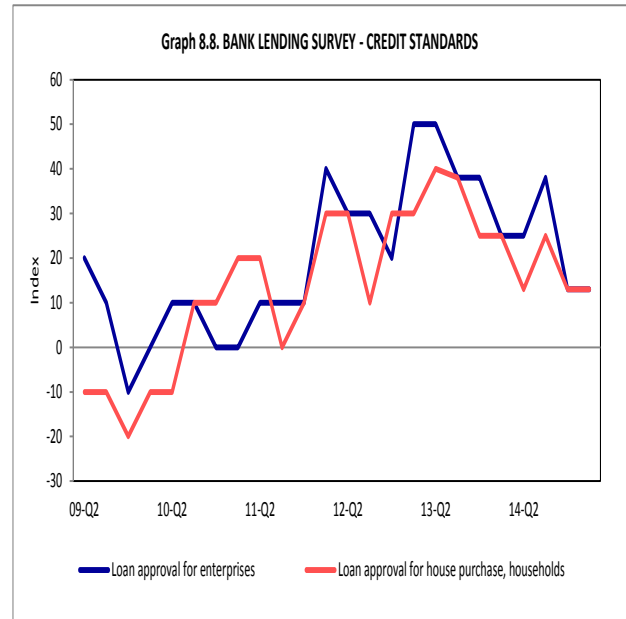
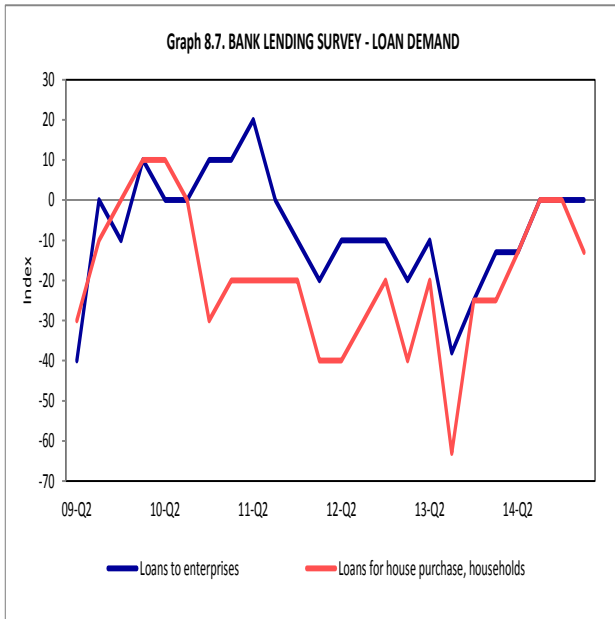
Sources: ECB, CBC, Dep. of Lands and Surveys

8. FINANCIAL SECTOR



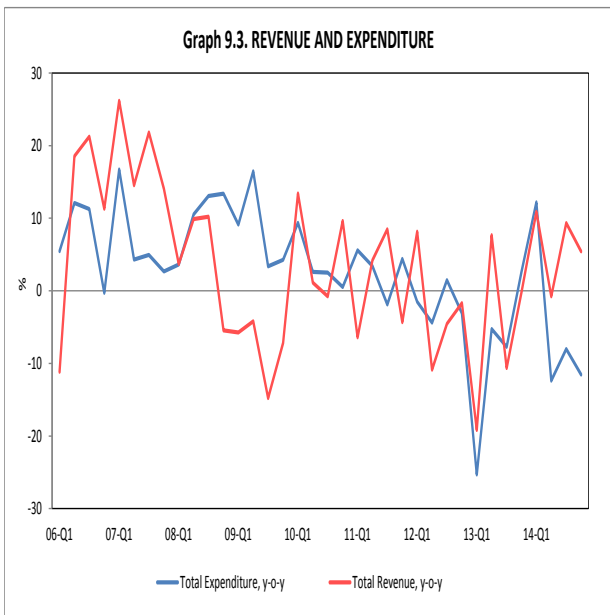
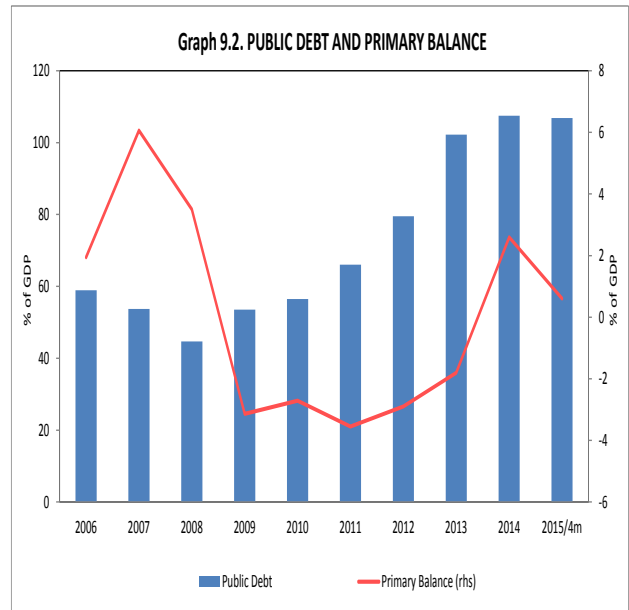
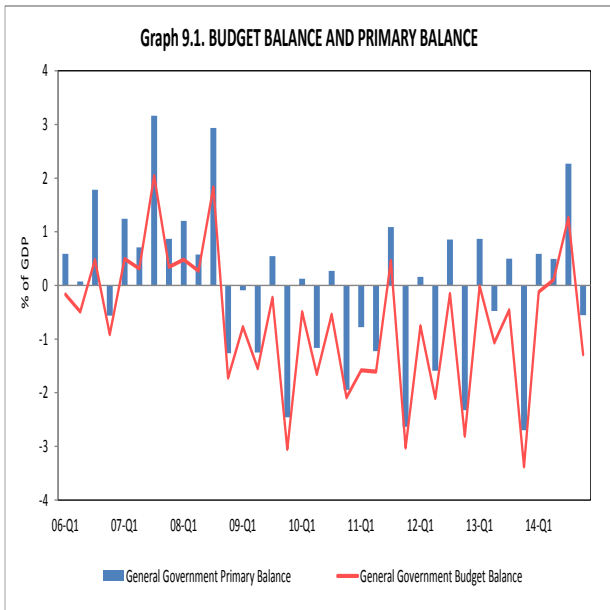
Sources: ECB, CBC, Bloomberg

8. FINANCIAL SECTOR – CONT.



Source: ECB

9. PUBLIC SECTOR



Sources: Ministry of Finance, Cystat