



MACROECONOMIC MONITOR OF CYPRUS

November 2015

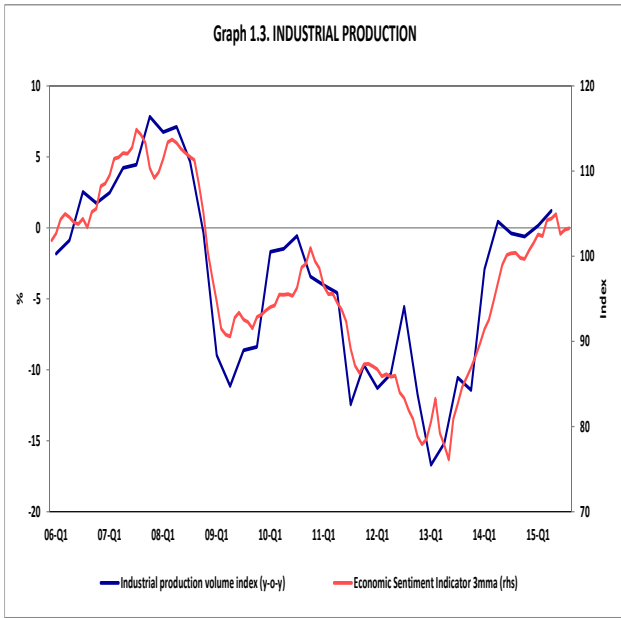
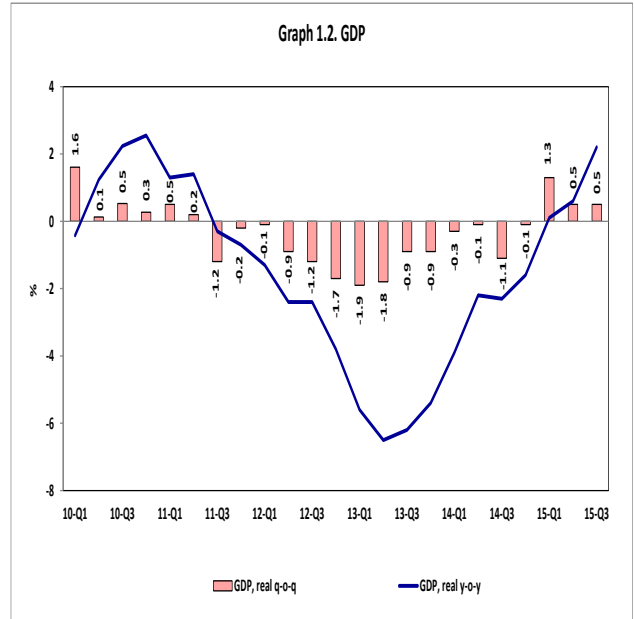
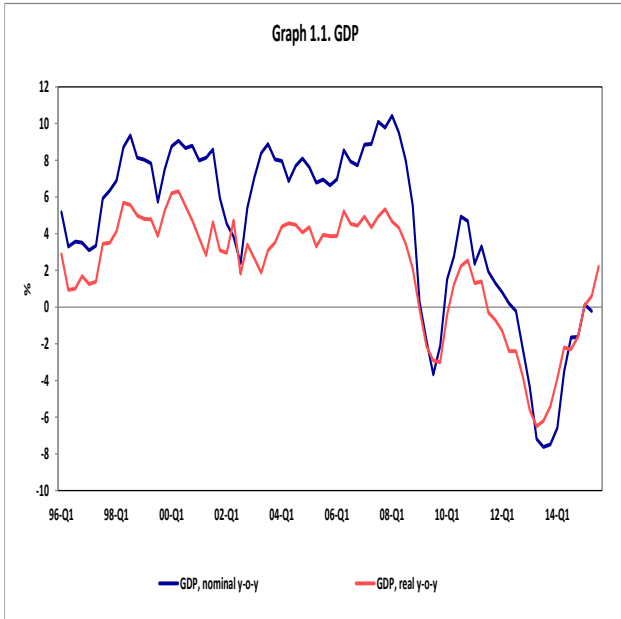
MACROECONOMIC MONITOR OF CYPRUS

Updated on 16 November 2015

- **In the 3rd quarter of 2015, GDP** (in seasonally adjusted terms) **recorded a positive rate of growth of 2.2% compared with a positive rate of growth of 0.6% in the 2nd quarter of 2015** on an annual basis (see graphs 1.1-1.2). Positive growth rates were recorded by the sectors of manufacturing, retail and wholesale trade, hotels and restaurants, transport, professional, scientific and technical activities, administrative and support service activities, as well as the financial service activities. Negative growth rates were recorded by the sectors of recreational, cultural and sporting activities, activities of households as employers and other community, social and personal service activities (see graphs 3.1-3.4 and 6.1-6.2).
- Having regard that, the business operating environment shows signs of stabilization and gradual improvement given that lending to non-financial corporations has turned marginally positive and interest rates are in decline, we expect return to growth as from 2015.
- Developments are currently driven by improving **domestic demand** (see graphs 2.1-2.4).
- The **economic sentiment indicator** by CypERC **increased by 0.7 points in October 2015** compared to September 2015 (see graph 1.3). This increase is due to the improvement in business climate in manufacturing and to further enhancement of consumer confidence.
- **Exports of goods increased by 20%** in January-September 2015 compared to January-September 2014, mainly due to the transfer of economic ownership of mobile transport equipment, with total value of €158.6 mn in January 2015. Excluding the impact of the said transfer exports of goods exhibited a growth rate of 5.8%.
- In January-October 2015 tourist arrivals increased by 7.4% compared to January-October 2014 (see graph 6.3). An increase of 46.8% was recorded in tourist arrivals from Israel, a 33.9% increase from Germany, an 18% increase from the UK and a 39.3% increase from Greece. On the other hand a 19.9% decrease was recorded in arrivals from Russia.
- **Employment** adjusted to the conditions of improving economic growth (see graphs 4.1 and 4.4). Employment in persons increased marginally by 0.1% in the 1st half of 2015 compared to the 1st half of 2014.
- **Labour market** developments exhibited **considerable flexibility**. 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 significantly **to 15.1% in September 2015 compared to 16.3% in September 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 half of 2015 declined by around 1.1% compared to the 1st half 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 October 2015 was -1.8%** compared to -1.9% in September 2015 (see graph 5.1) and for 2015 so far it stands at -1.7%. Core HICP inflation stood at -0.4% in January-October 2015 (see graph 5.2). All subcategories of HICP presented a decrease except for alcoholic beverages and tobacco, health and communication which presented an increase.
- The **current account balance** in the 1st half of 2015 recorded a **deficit of €752.9 mn (-4.3% of GDP)** compared with a deficit of €444.5 mn (-2.6% of GDP) in the 1st half of 2014 (see graph 6.4) mainly due to a deterioration in goods.

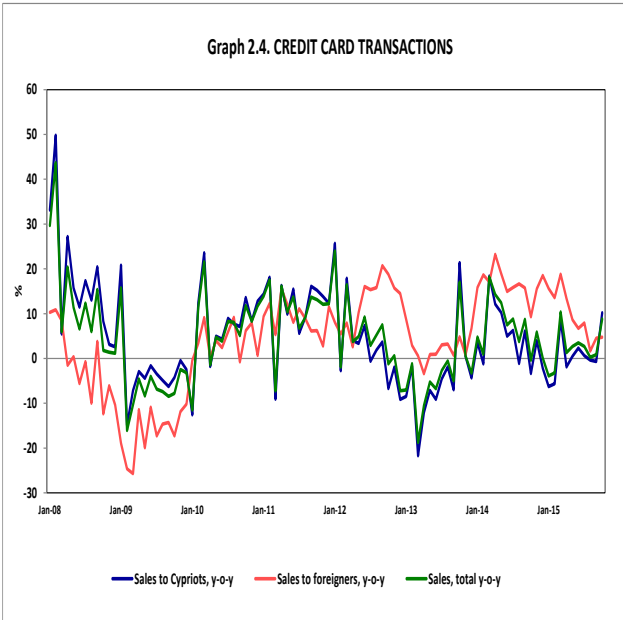
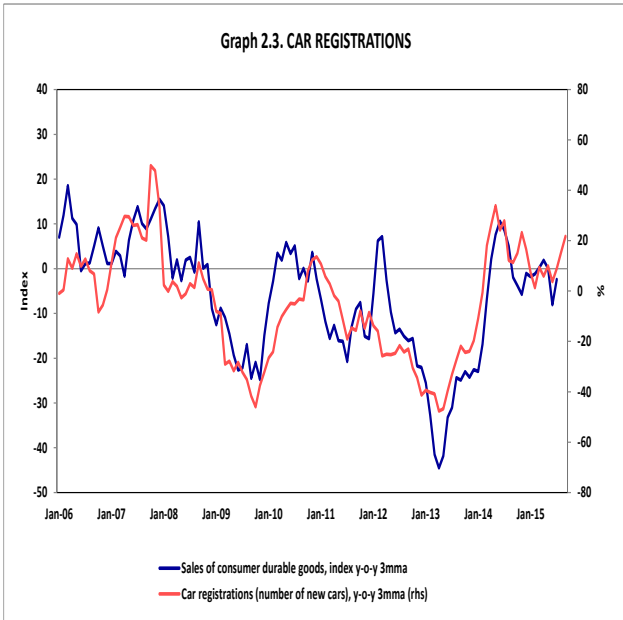
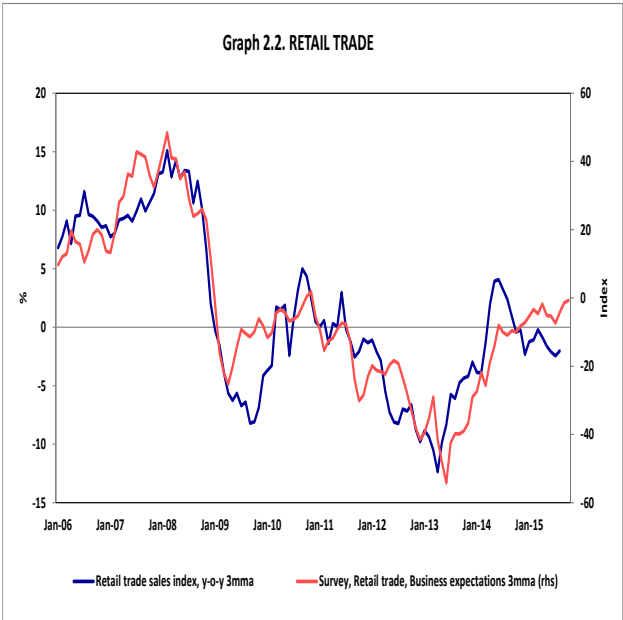
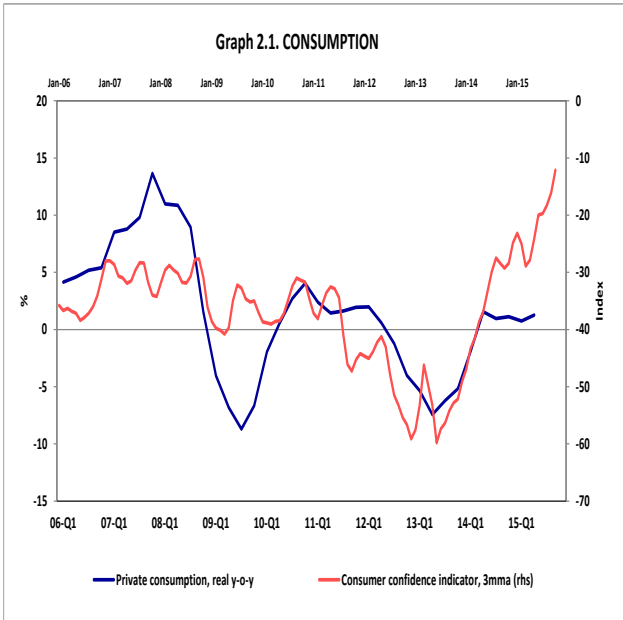
- The **primary income** recorded a **deficit of €182.8 mn** in the 1st half of 2015 compared with a deficit of €352.4 mn in the 1st half of 2014 (see graph 6.4) mainly due to improvement in investment income (direct investment).
- The international investment position of Cyprus (see graph 6.5) recorded a marginal improvement in June 2015 reaching -€24,189.0 mn compared with -€24,198.2 mn in March 2015.
- General government budget balance (GGBB) **was in surplus** in January-September 2015, of the order of **€100.8 mn (0.6% of GDP)** compared to a surplus of €212 mn (1.2% of GDP) during the corresponding period the year before (see graph 9.1).
- General government **primary balance** (GGPB) **was in surplus** in January-September 2015, of the order of **€500.3 mn (2.9% of GDP)** compared to a surplus of €582.5 mn (3.3% 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 September 2015 stood at €19,114.4 mn (109.7% to GDP).
- **Total revenue** exhibited a **negative** rate of growth of about 2.2%, declining to €4,947.0 mn in January-September 2015, compared to €5,058.0 mn during the corresponding period of 2014 (see graph 9.3).
- **Total expenditure** remained almost unchanged, at €4,846.2 mn in January-September 2015, compared to €4,846.0 mn during the corresponding period the year before (see graph 9.3).
- Monetary Financial Institutions (MFI) **loans to domestic residents** (private sector), **increased** with an annual **rate of 0.6%** in September 2015, affecting both households and enterprises (see graphs 8.2-8.4). This is reflecting gradually improving lending conditions (see graphs 8.7-8.8).
- **Deposits of domestic** residents held with MFIs (private sector) exhibited an increase presenting an **annual rate of 0.8%** in September 2015, reflecting the improving 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 September 2015, **deposit interest rates** for maturity up to 1 year decreased and up to 3 months **marginally increased** compared with the previous month. The **lending interest rates** to households for primary residence acquisition **marginally increased** and the rate for other loans up to €1 mn for businesses decreased. The rate for bank overdrafts to non-financial corporations decreased. A significant deviation of the Cypriot interest rates, compared to the euro area average still prevails.
- Eurostat's **house price index** for Cyprus increased by **7.4%** in the **2nd quarter of 2015** compared to the 1st quarter of 2015 and increased by 2.4% compared to the 2nd quarter of 2014.
- The CBC's residential property price index declined by 5% in the 2nd quarter of 2015 compared to the 2nd quarter of 2014. Cumulative from the 1st quarter of 2008 it has declined by 28.8% (see graph 7.1), revealing an adjustment to the conditions of lower domestic and foreign demand.
- According to the Department of Lands and Surveys, new sale contracts were up by 7.8% while, transfers of property were up by 16.2% during January-October 2015 compared to January-October 2014 (see graph 7.3). MFI mortgage loans to domestic residents for housing declined with an annual rate of 1.6% in September 2015 (see graph 7.2).
- The Cyprus Government bond spread compared to the German Government bond, decreased marginally in mid-November 2015 compared to October 2015 to around 201 basis points above the German bond on 16/11/2015 compared to 203 basis points on 31/10/2015 (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



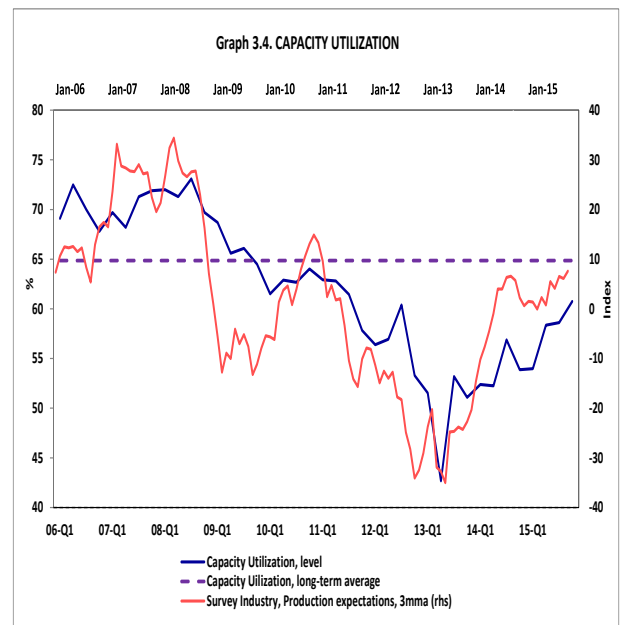
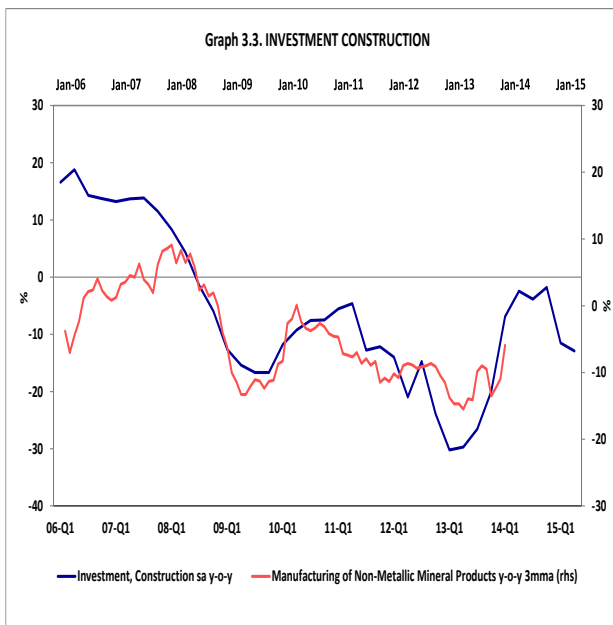
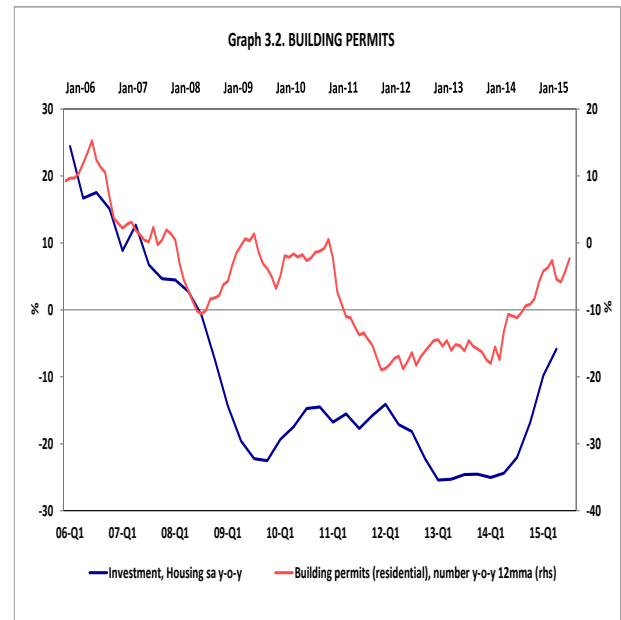
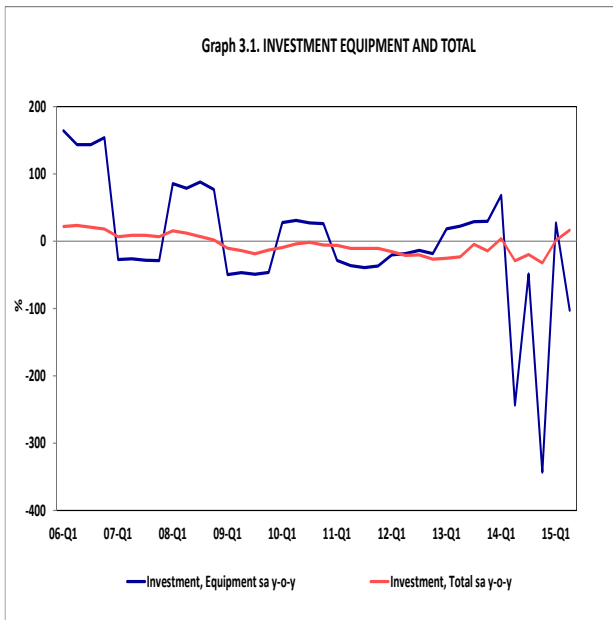
Sources: Eurostat, DG ECFIN, Cystat

2. CONSUMPTION



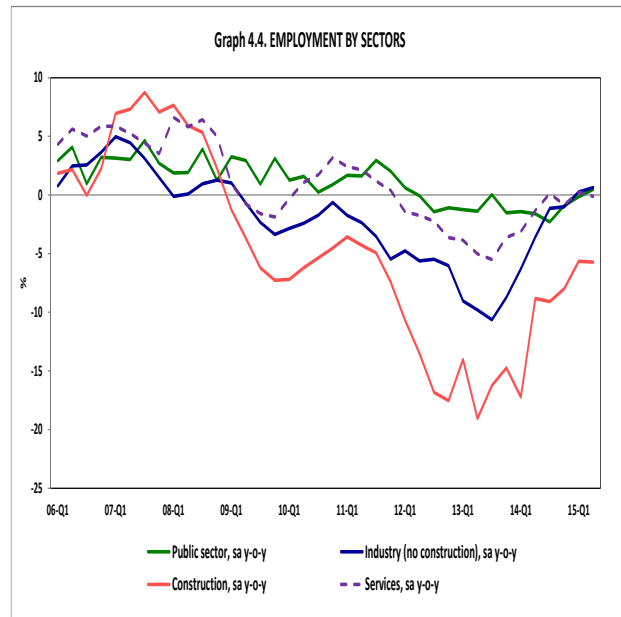
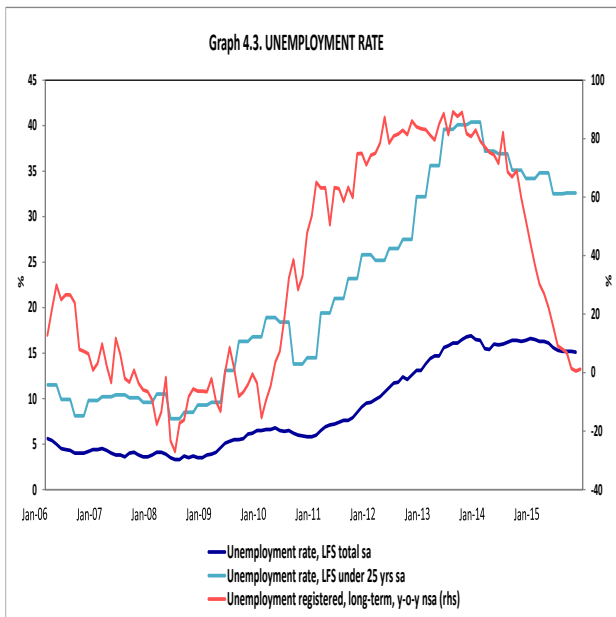
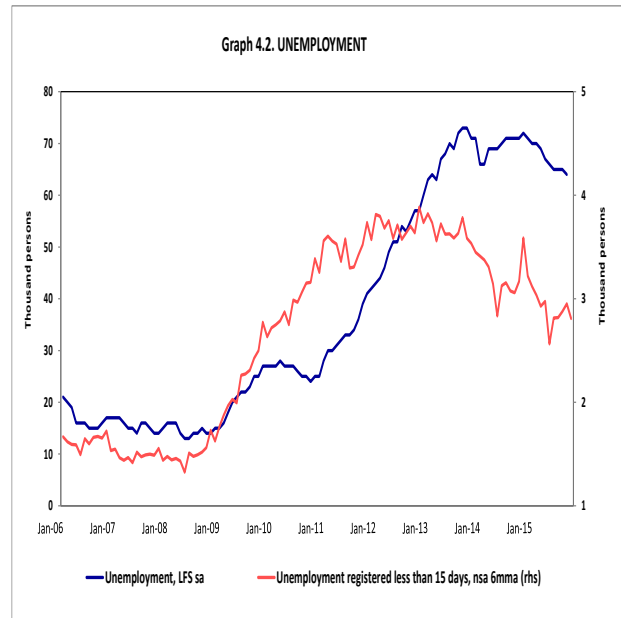
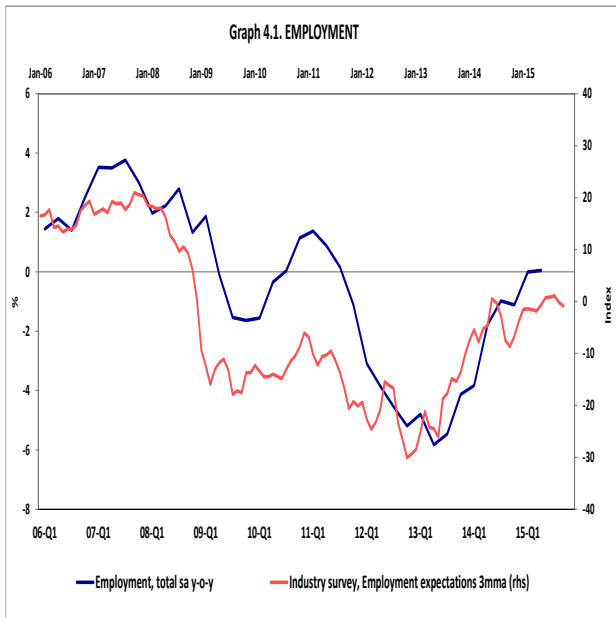
Sources: Eurostat, DG ECFIN, Cystat, JCC Payment Systems Ltd

3. INVESTMENT



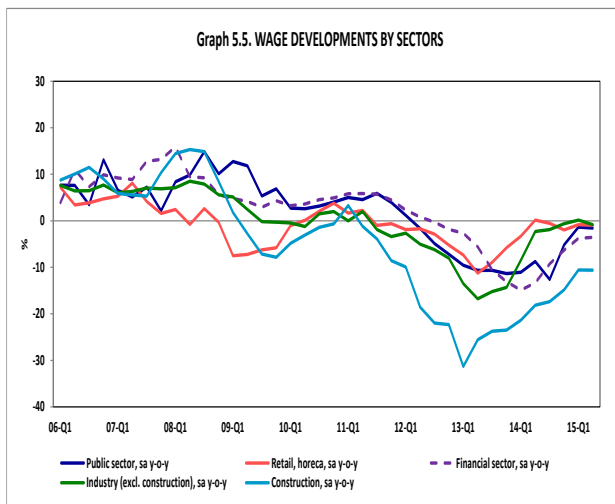
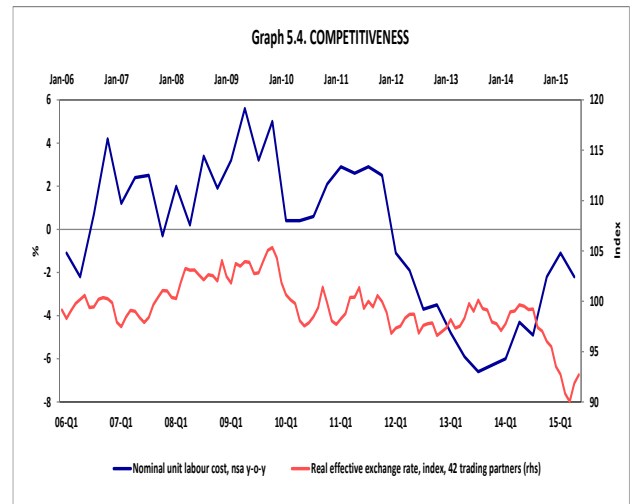
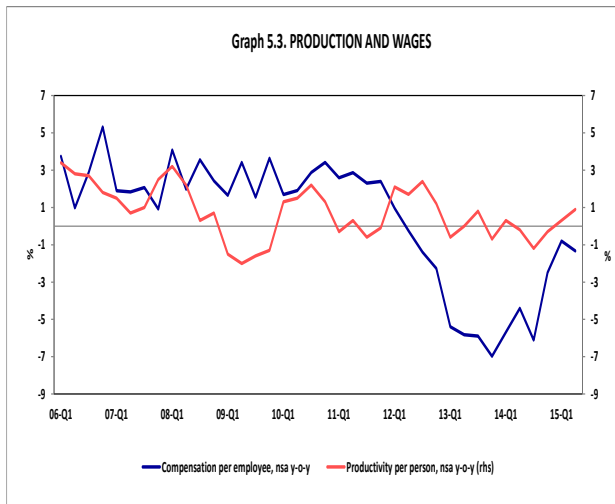
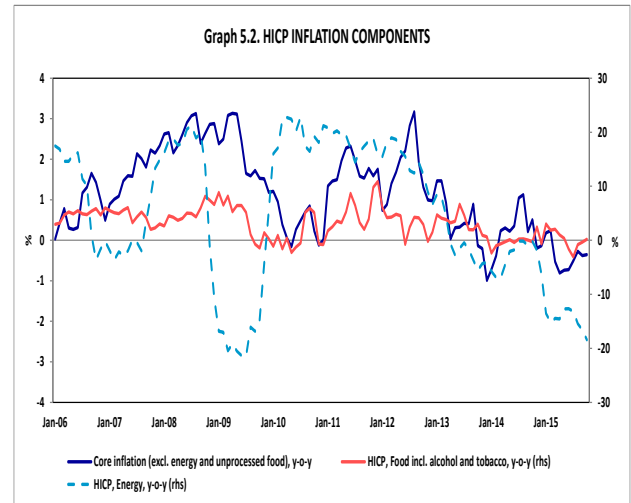
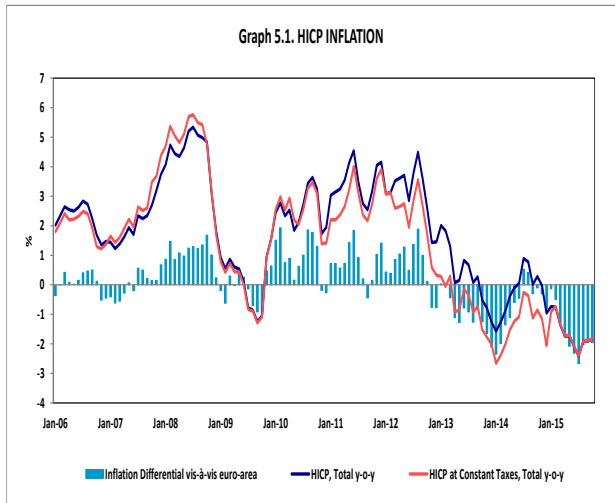
Sources: Eurostat, DG ECFIN, Cystat

4. LABOUR MARKET



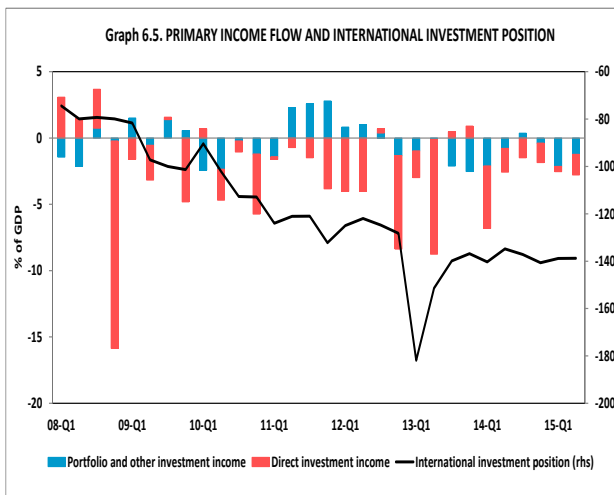
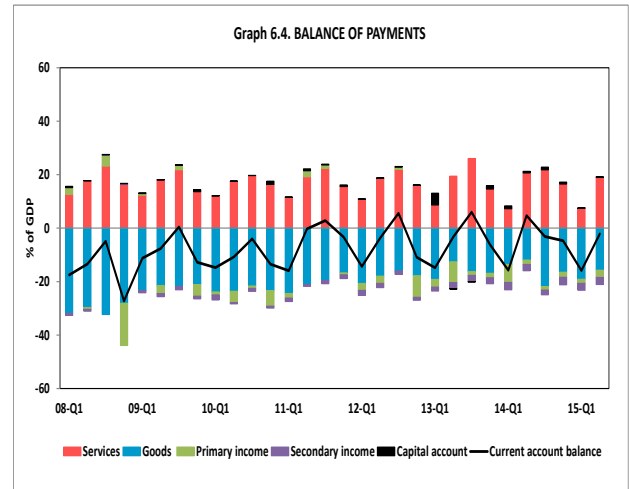
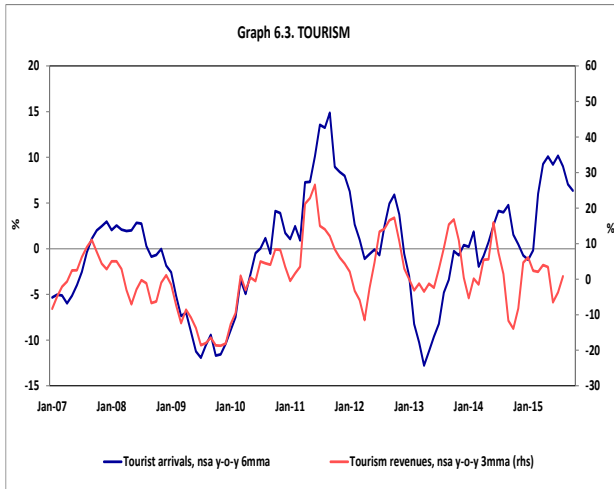
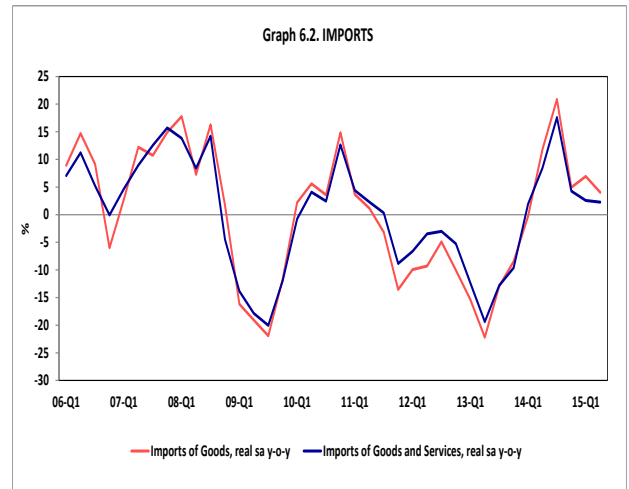
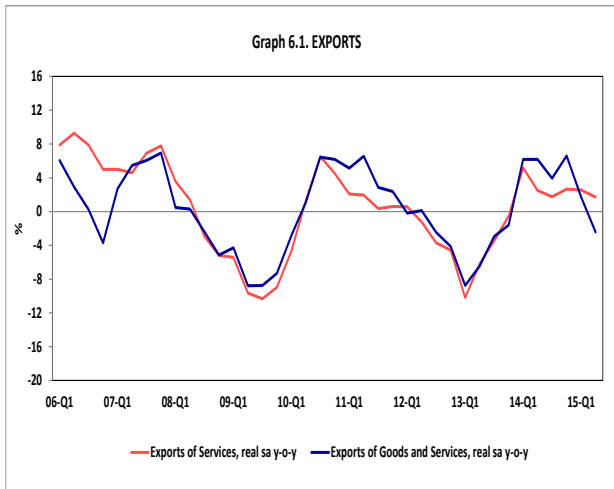
Sources: Eurostat, DG ECFIN, Cystat

5. INFLATION, WAGES



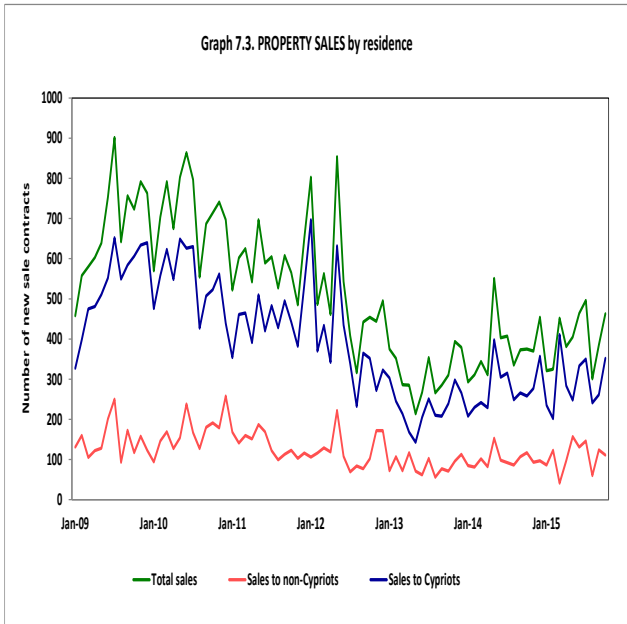
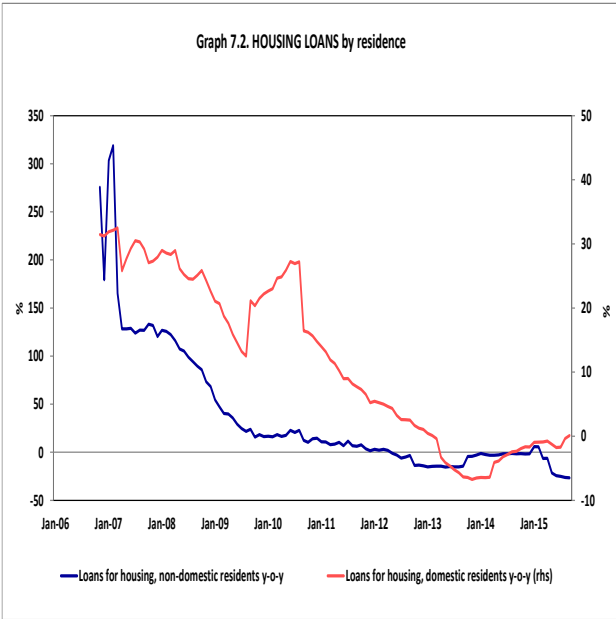
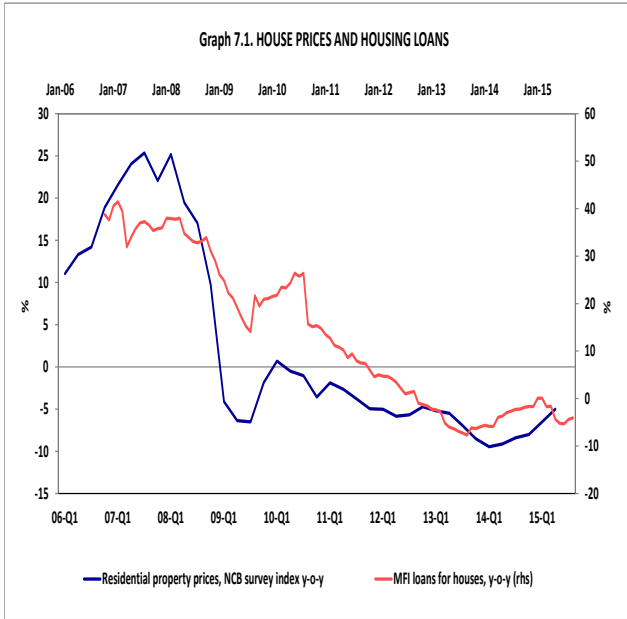
Source: Eurostat

6. EXTERNAL SECTOR



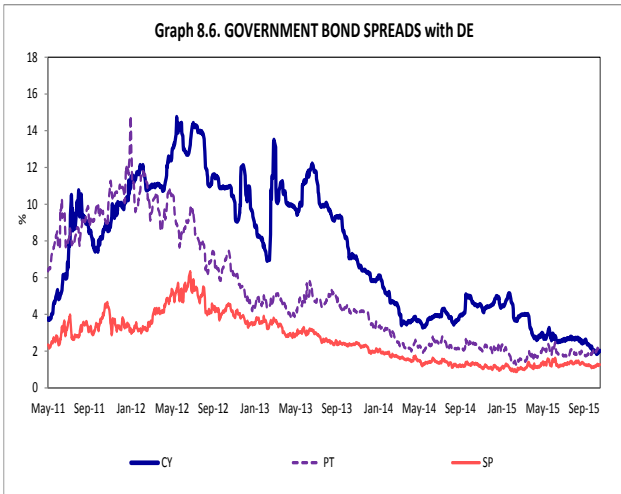
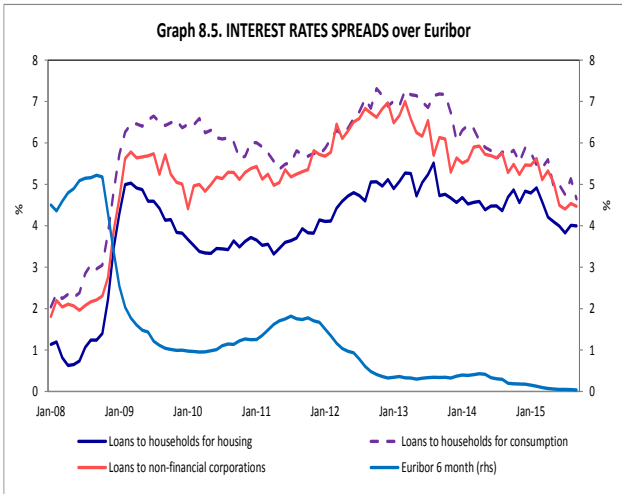
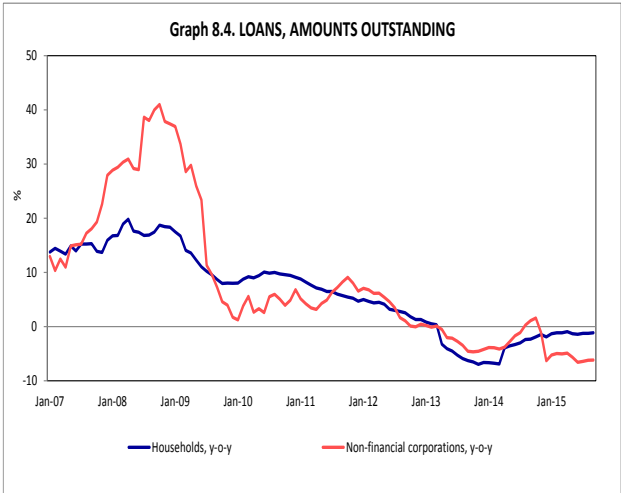
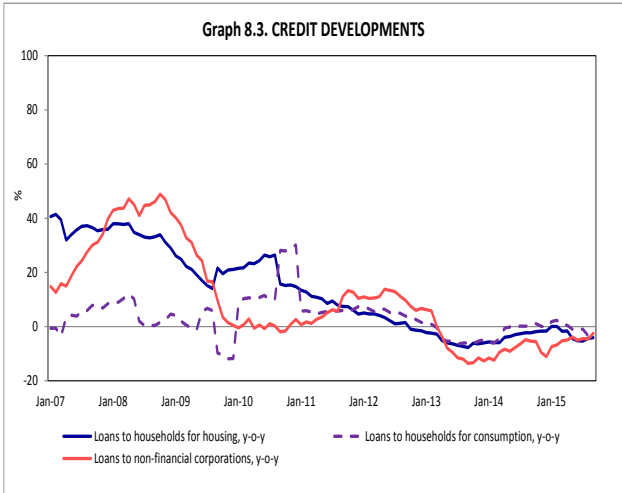
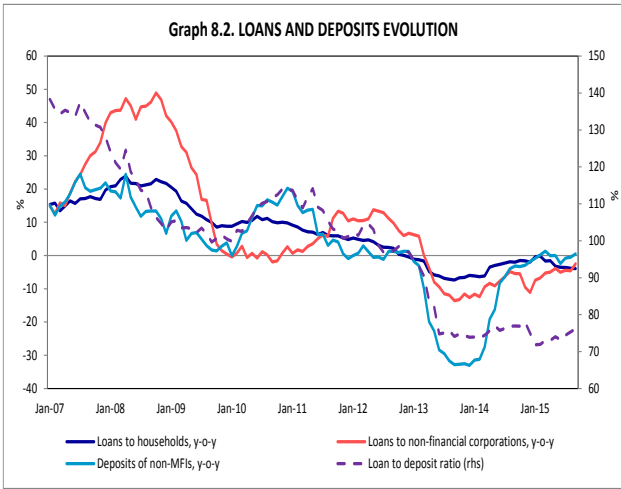
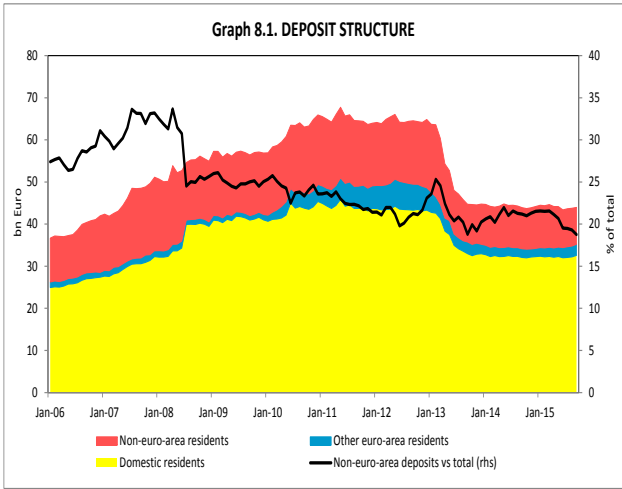
Sources: Eurostat, Cystat, ECB, CBC

7. HOUSING



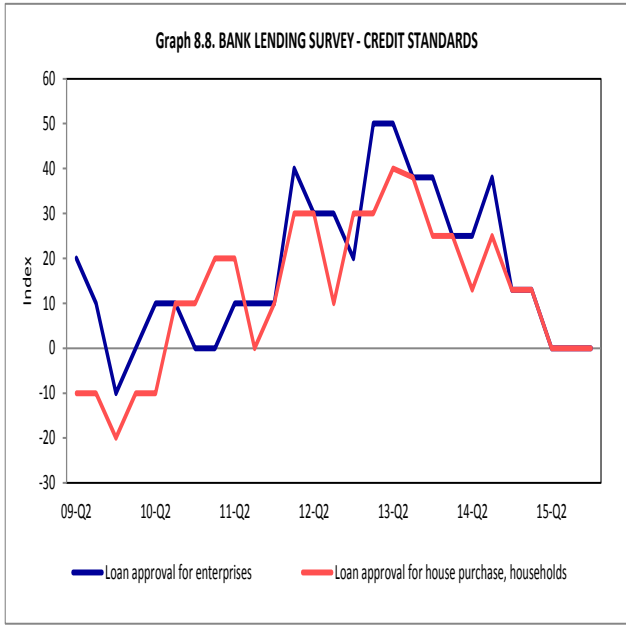
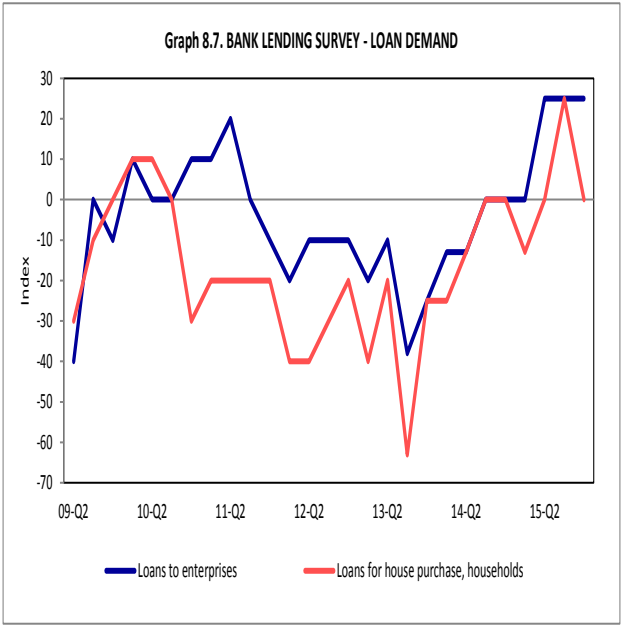
Sources: ECB, CBC, Dep. of Lands and Surveys

8. FINANCIAL SECTOR



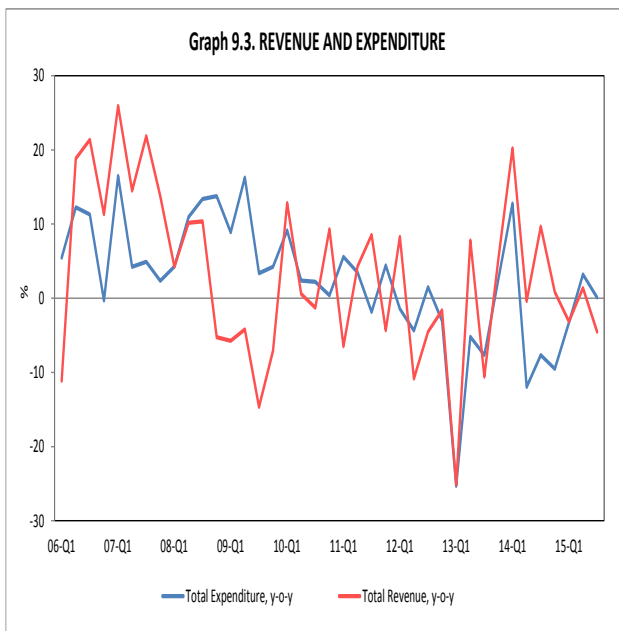
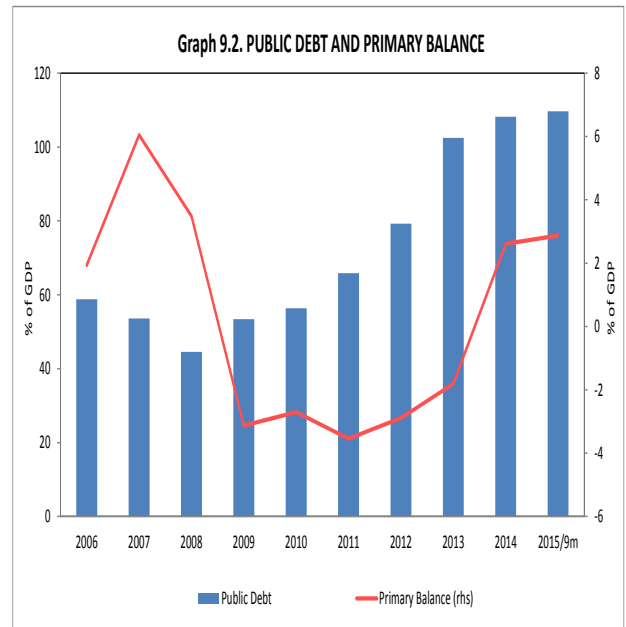
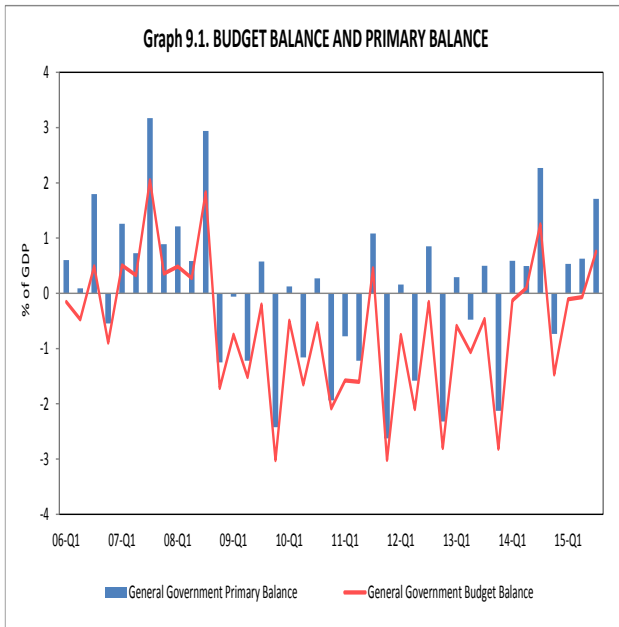
Sources: ECB, CBC, Bloomberg

8. FINANCIAL SECTOR – CONT.



Source: ECB

9. PUBLIC SECTOR



Sources: Ministry of Finance, Cystat