



# MACROECONOMIC MONITOR OF CYPRUS

September 2015

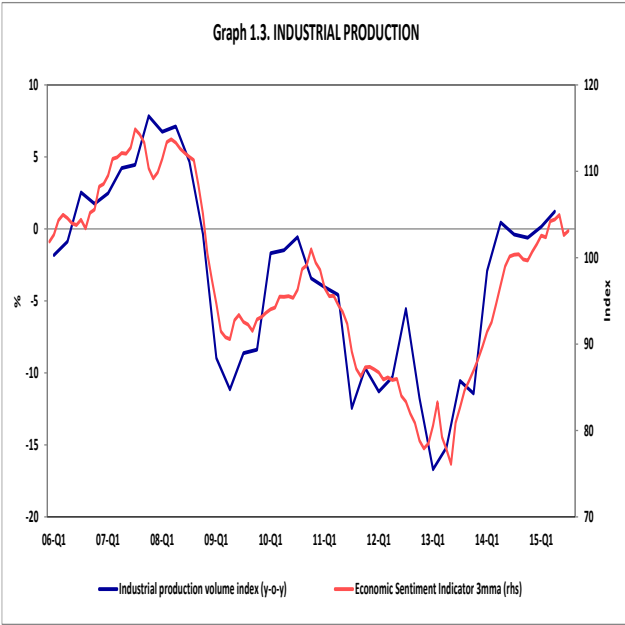
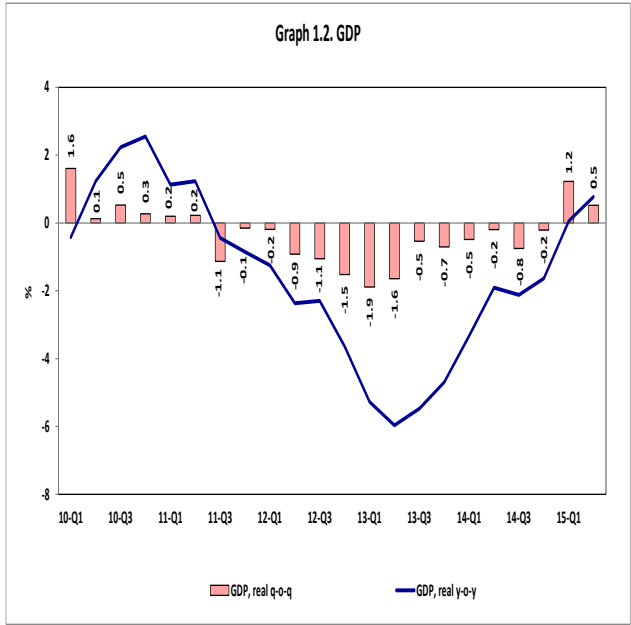
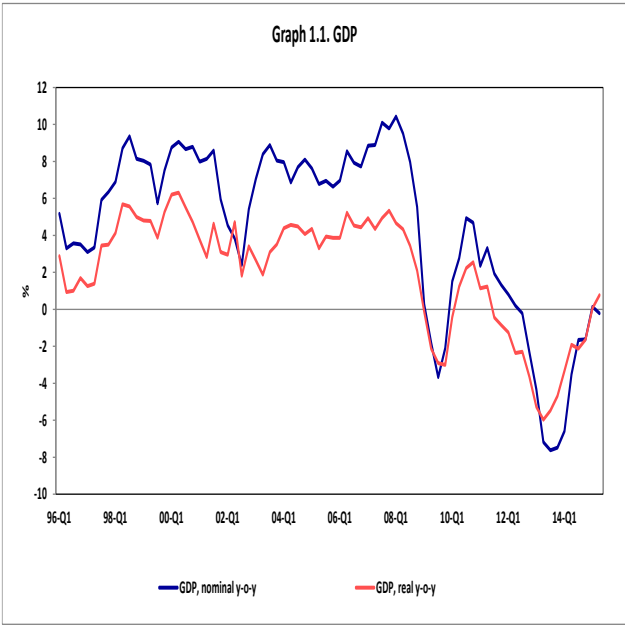
## MACROECONOMIC MONITOR OF CYPRUS

*Updated on 18 September 2015*

- **In the 2<sup>nd</sup> quarter of 2015, GDP** (in seasonally adjusted terms) **recorded a positive rate of growth of 0.8% compared with a positive rate of growth of 0.1% in the 1<sup>st</sup> quarter of 2015** on an annual basis (see graphs 1.1-1.2). Positive growth rates were recorded by the sectors of manufacturing, trade, hotels and restaurants, transport, communication, the professional, scientific and technical activities and administrative and support service activities, as well as, the financial service activities. Negative growth rates were recorded by the sectors of construction, electricity, as well as, activities of households as employers (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 is marginally positive and interest rates are in decline, 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 **increased by 6.6 points in August 2015** compared to July 2015 (see graph 1.3). This increase is mainly due to strengthening of economic confidence in the services and among consumers, who are the two components of the ESI with the greatest weight.
- **Exports of goods increased by 21.7%** in January-July 2015 compared to January-July 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 4.3%.
- In January-August 2015 tourist arrivals increased by 6.2% compared to January-August 2014 (see graph 6.3). An increase of 46.2% was recorded in tourist arrivals from Israel, a 34.8% increase from Germany, a 16.3% increase from the UK and a 41.6% increase from Greece. On the other hand a 19.6% 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 1<sup>st</sup> half of 2015 compared to the 1<sup>st</sup> 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 marginally **to 16.3% in July 2015 compared to 16.4% in July 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 1<sup>st</sup> half of 2015 declined by around 1.1% compared to the 1<sup>st</sup> 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 August 2015 was -1.9%** compared to -2.4% in July 2015 (see graph 5.1) and for 2015 so far it stands at -1.6%. Core HICP inflation stood at -0.4% in January-August 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 1<sup>st</sup> 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 1<sup>st</sup> quarter of 2014 (see graph 6.4) due to an improvement in services and primary income.

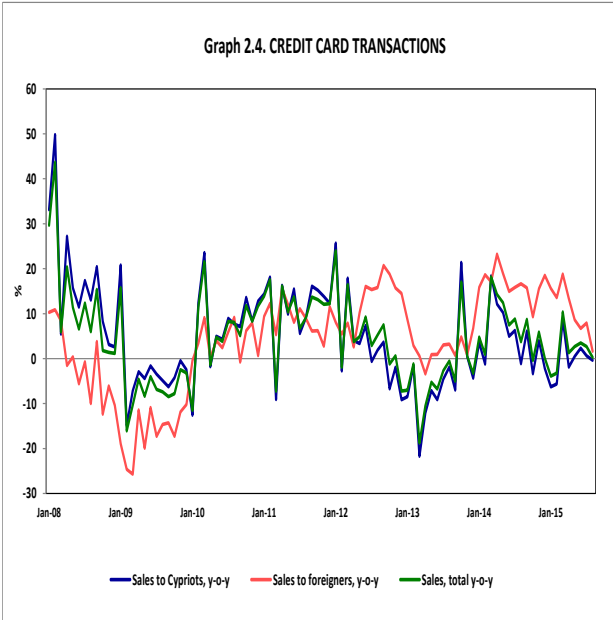
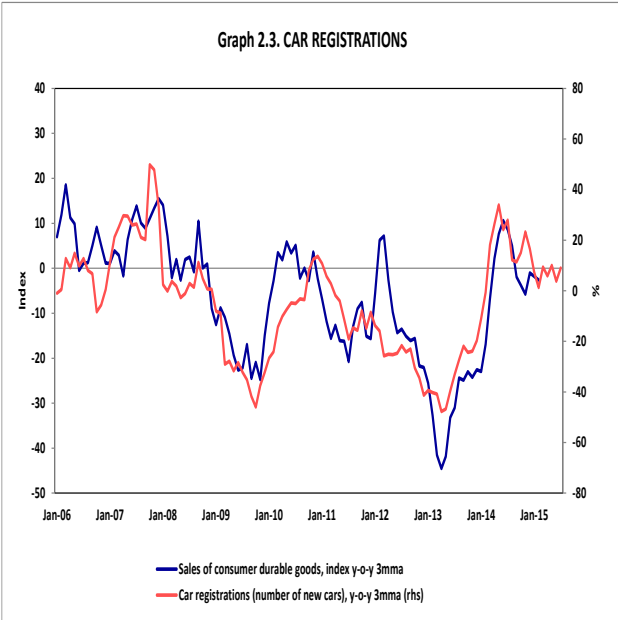
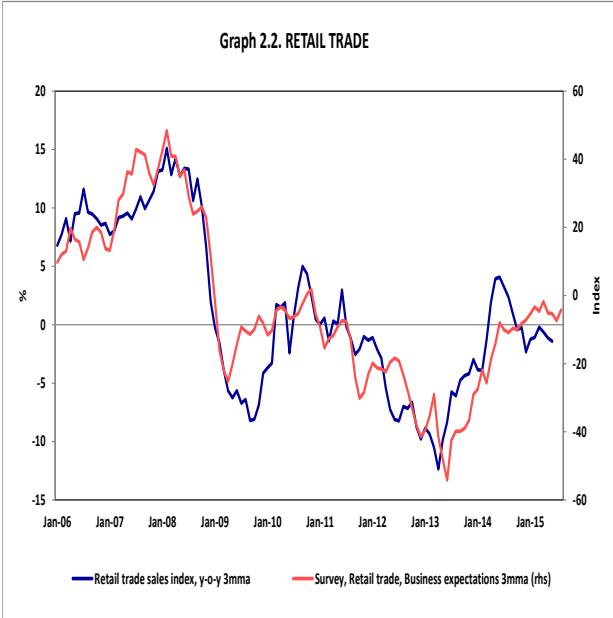
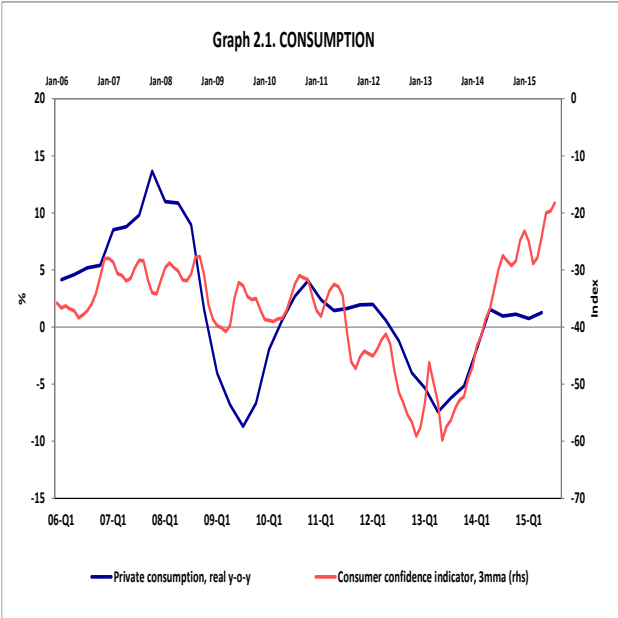
- The **primary income** recorded a **deficit of €34.3 mn** in the 1<sup>st</sup> quarter of 2015 compared with a deficit of €146 mn in the 1<sup>st</sup> quarter of 2014 (see graph 6.4) mainly due to improvement in investment income (direct investment) and other primary income.
- The international investment 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 surplus** in January-July 2015, of the order of **€38.5 mn (0.2% of GDP)** compared to a surplus of €57.1 mn (0.3% of GDP) during the corresponding period the year before (see graph 9.1).
- General government **primary balance** (GGPB) **was in surplus** in January-July 2015, of the order of **€383.2 mn (2.2% of GDP)** compared to a surplus of €379.5 mn (2.2% 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 July 2015 stood at €19,169.3 mn (109.5% to GDP).
- **Total revenue** exhibited a **negative** rate of growth of about **1.7%**, declining to €3,864.8 mn in January-July 2015, compared to €3,932.5 mn during the corresponding period of 2014 (see graph 9.3).
- **Total expenditure** exhibited a negative rate of growth of about 1.3%, falling to €3,826.3 mn in January-July 2015, compared to €3,875.4 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 0.9%** in July 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 a contraction presenting an **annual decline of 2%** in July 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 July 2015, deposit interest rates for maturity up to 1 year remained unchanged and up to 3 months increased marginally 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 still prevails.
- 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 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 6.4% while, transfers of property were up by 7.7% during January-August 2015 compared to January-August 2014 (see graph 7.3). MFI mortgage loans to domestic residents for housing declined with an annual rate of 1.8% in July 2015 (see graph 7.2).
- The Cyprus Government bond spread compared to the German Government bond, decreased marginally in mid-September 2015 compared to August 2015 to around 265 basis points above the German bond on 18/09/2015 compared to 266 basis points above on 31/08/2015 (see graph 8.6, yields refer to the bonds maturing in 2020).
- Following the approval of the disbursement under the 6<sup>th</sup> 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



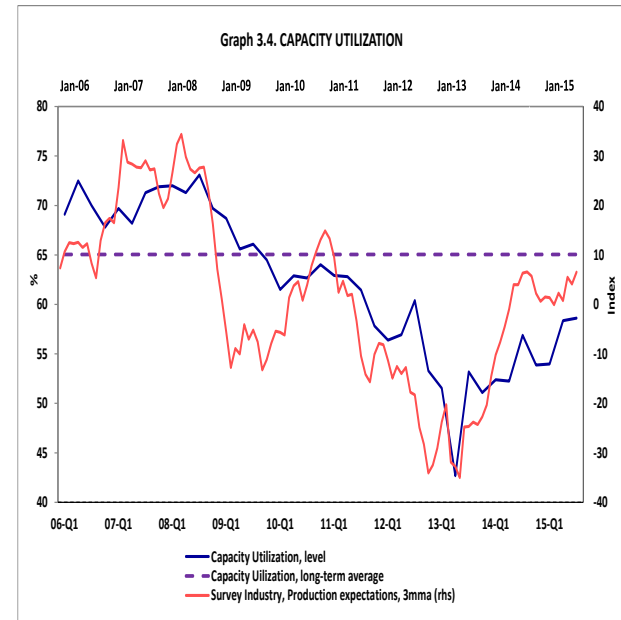
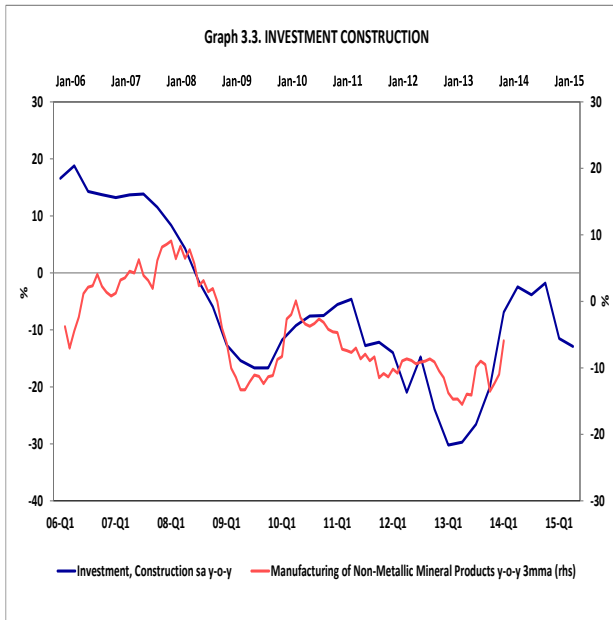
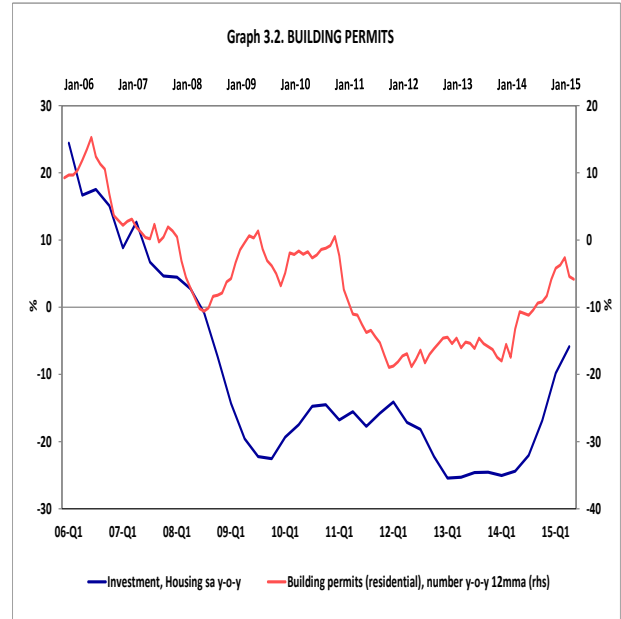
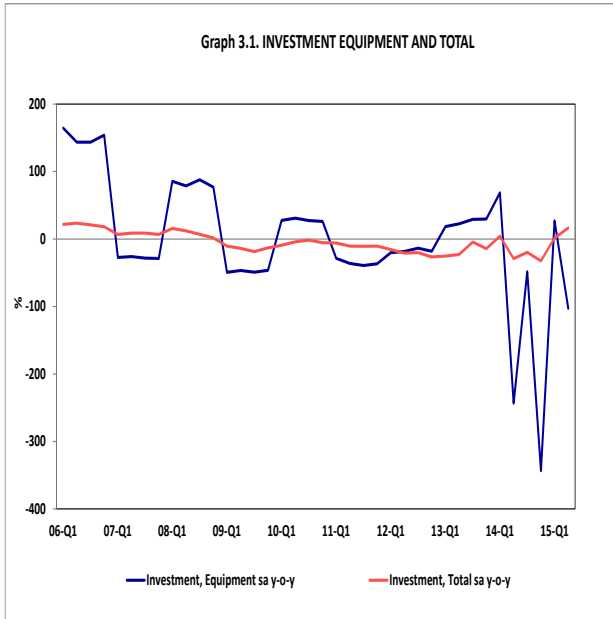
Sources: Eurostat, DG ECFIN, Cystat

2. CONSUMPTION



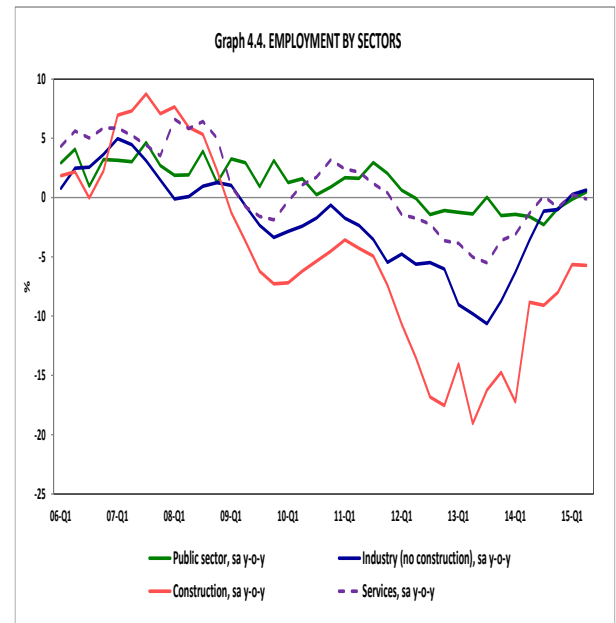
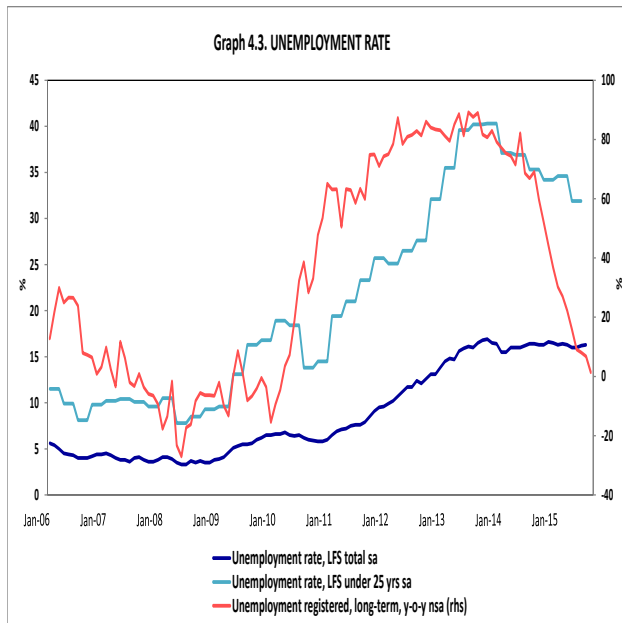
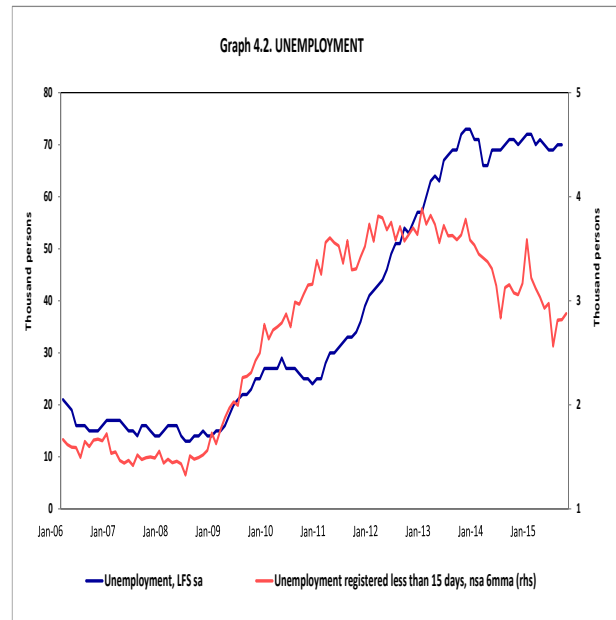
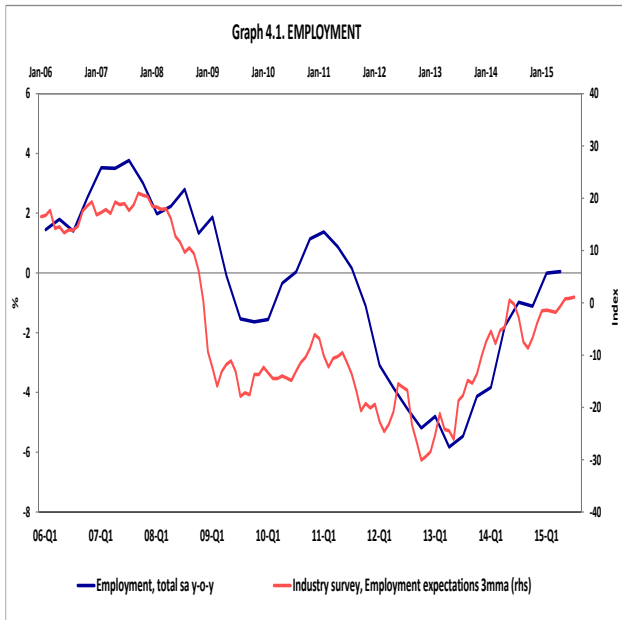
Sources: Eurostat, DG ECFIN, Cystat, JCC Payment Systems Ltd

**3. INVESTMENT**



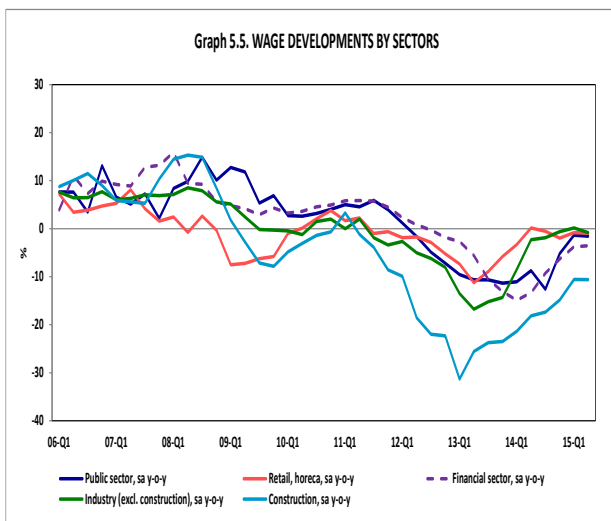
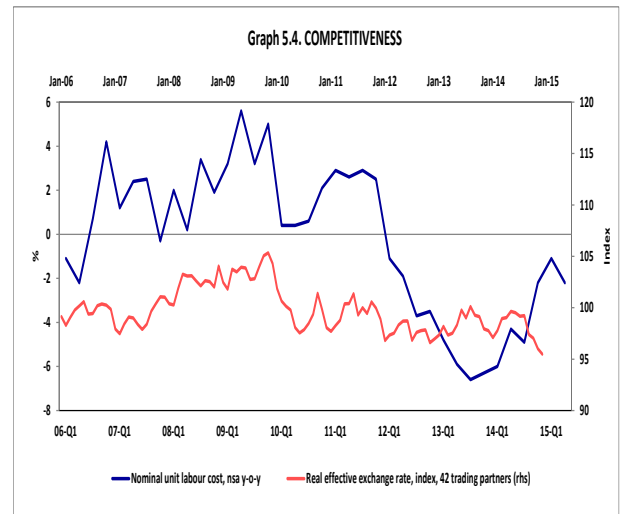
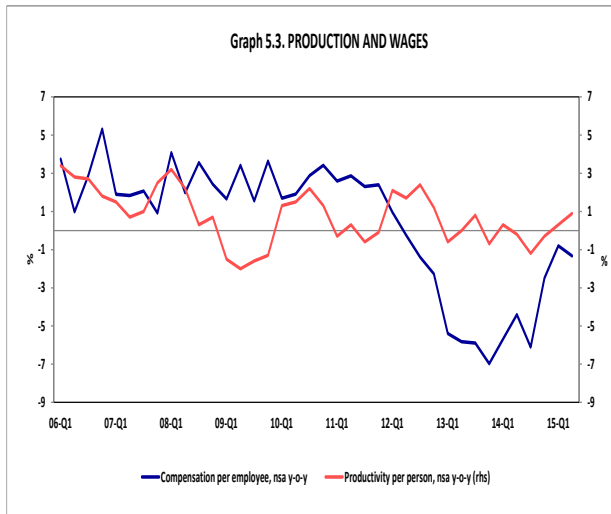
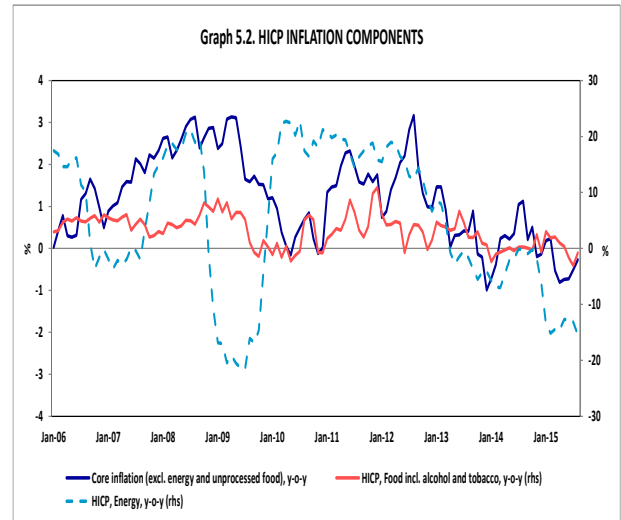
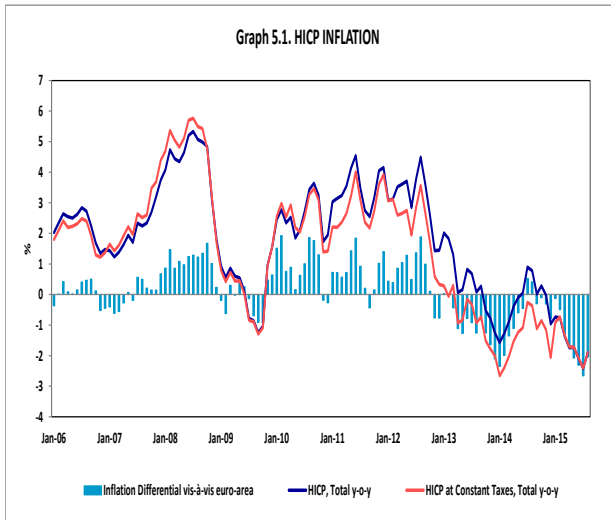
Sources: Eurostat, DG ECFIN, Cystat

4. LABOUR MARKET



Sources: Eurostat, DG ECFIN, Cystat

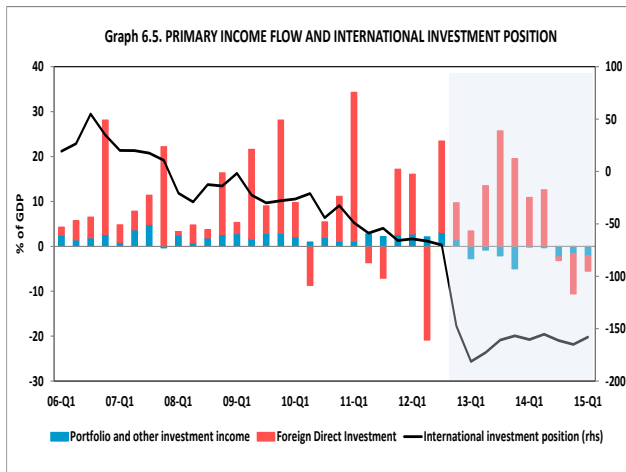
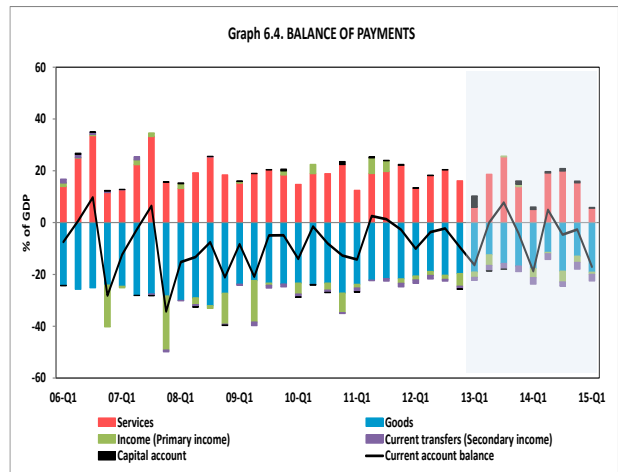
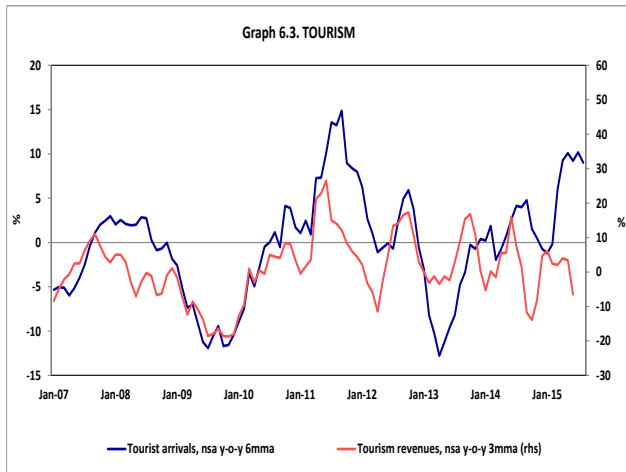
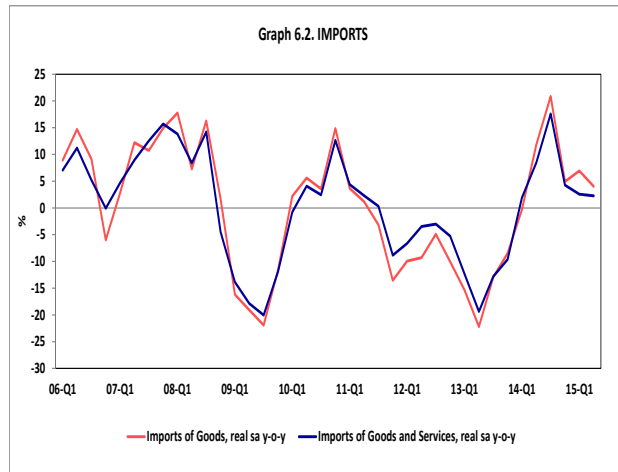
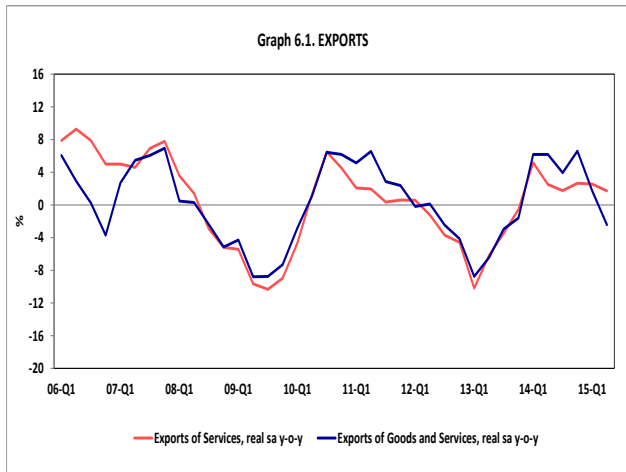
5. INFLATION, WAGES



Source: Eurostat



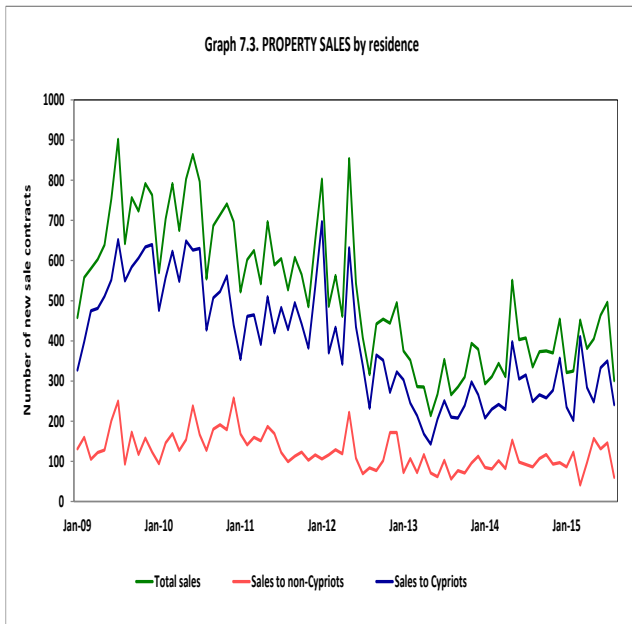
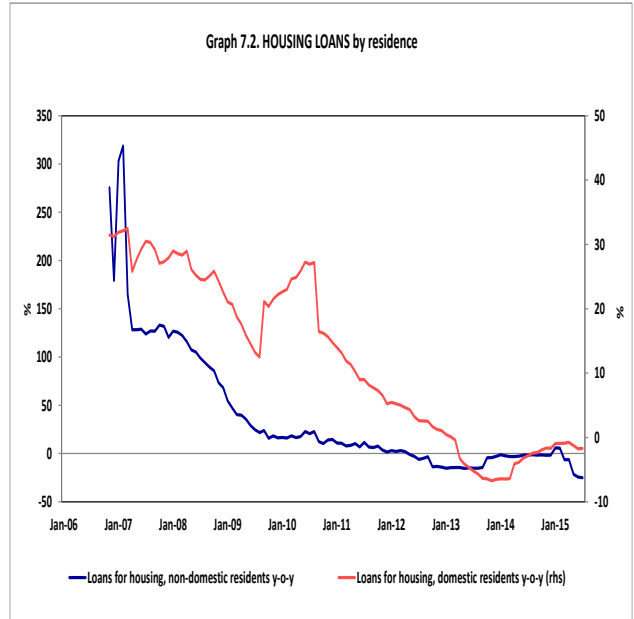
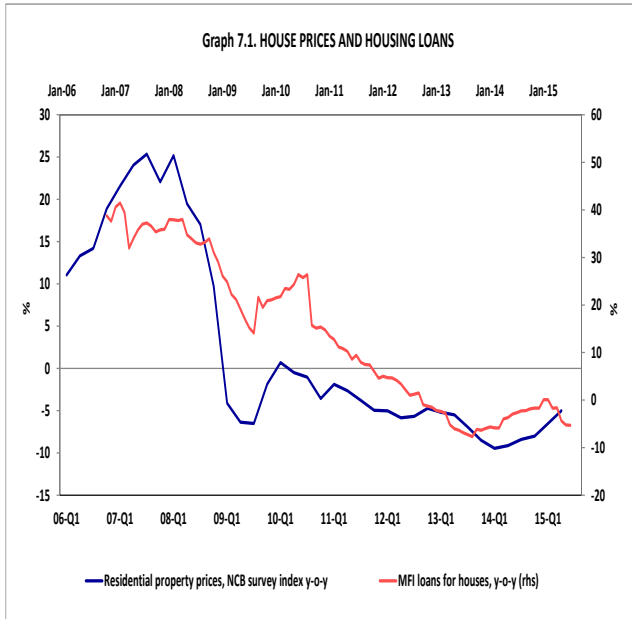
6. EXTERNAL SECTOR



Sources: Eurostat, Cystat, ECB, CBC

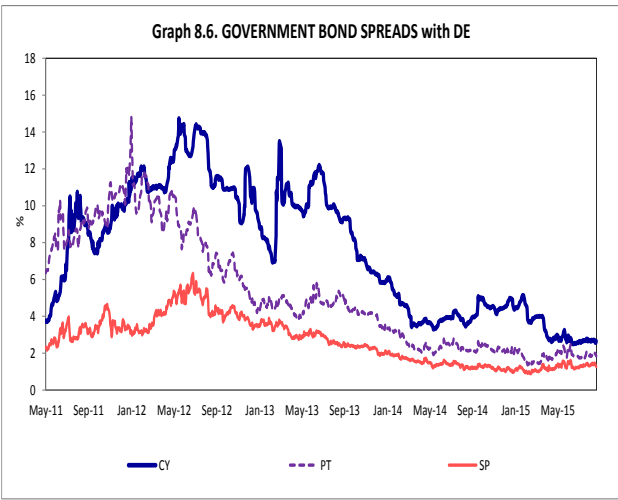
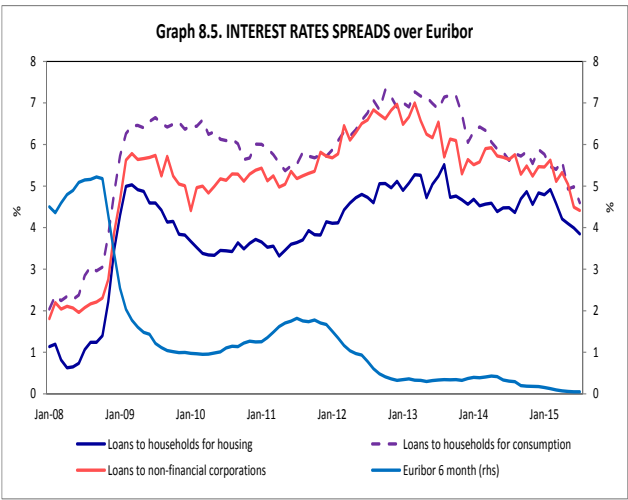
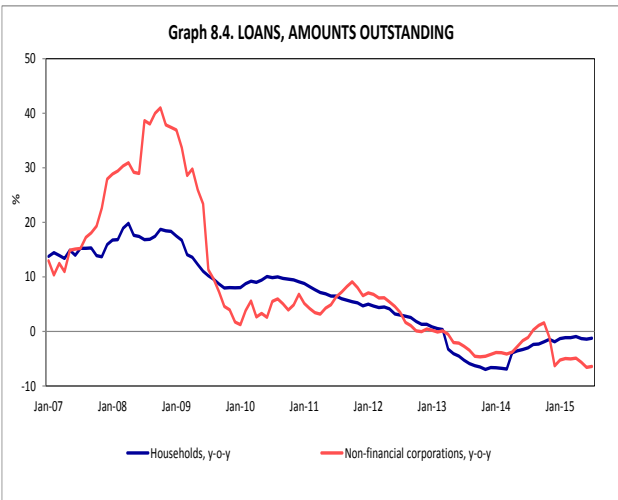
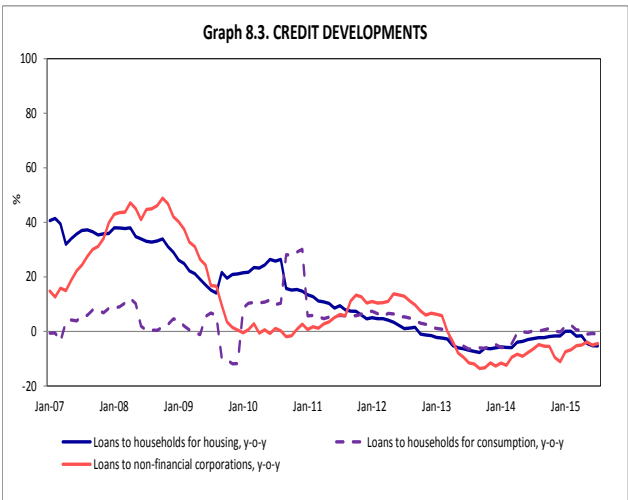
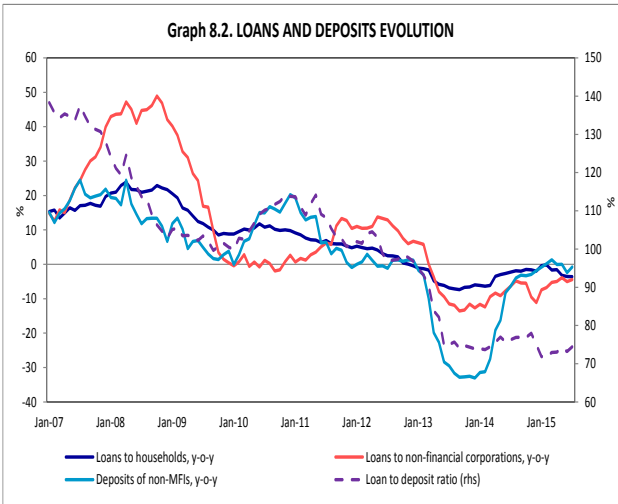
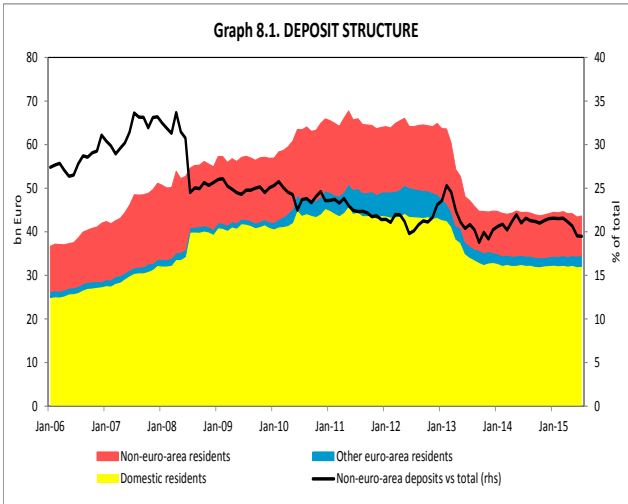
Note: Regarding graphs 6.4 and 6.5, BoP data from 2013 onwards and IIP data from 2012Q4 onwards are compiled in accordance with the new international methodological standards (BPM6) and are not comparable to data prior to this.

7. HOUSING



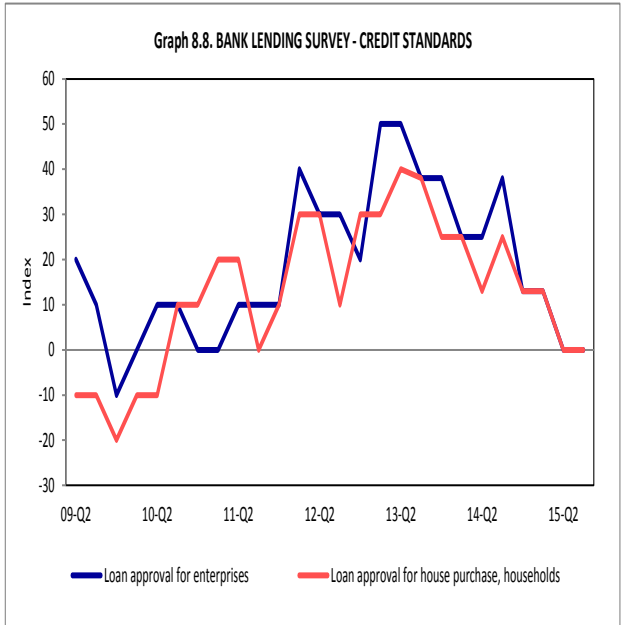
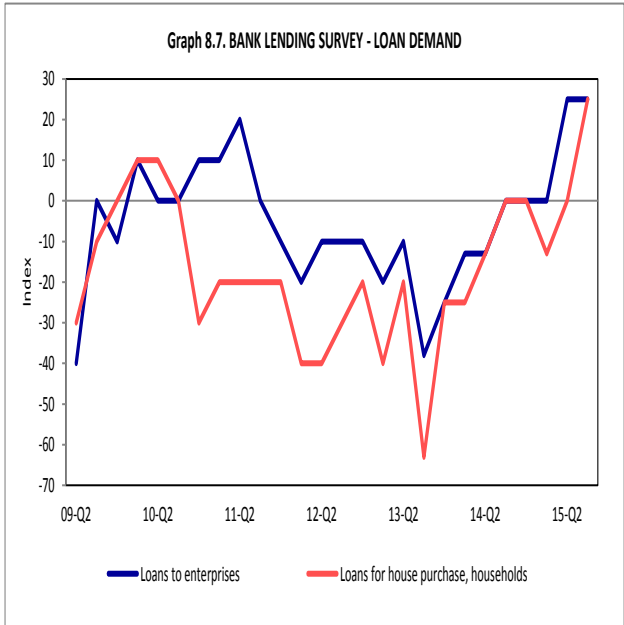
Sources: ECB, CBC, Dep. of Lands and Surveys

8. FINANCIAL SECTOR



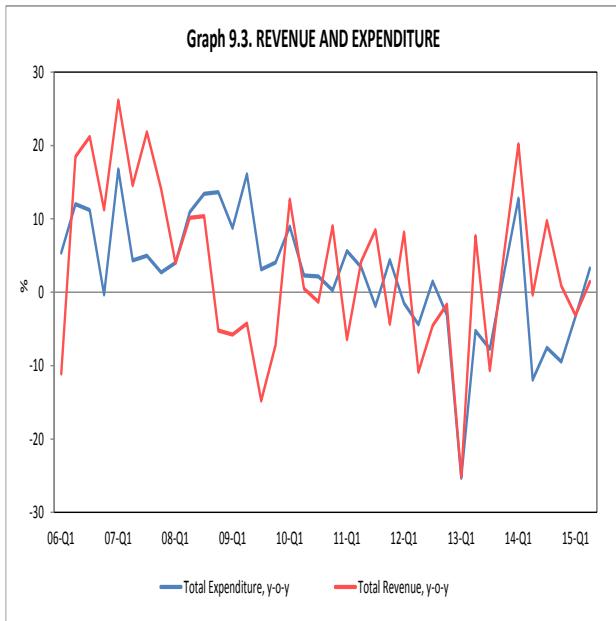
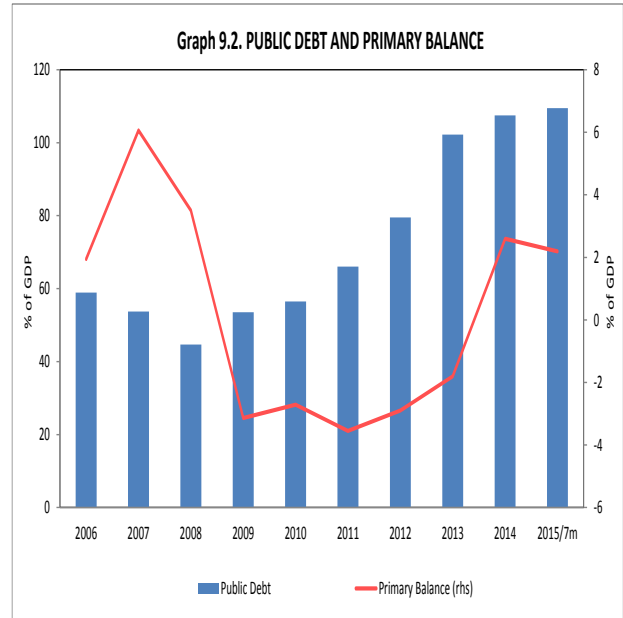
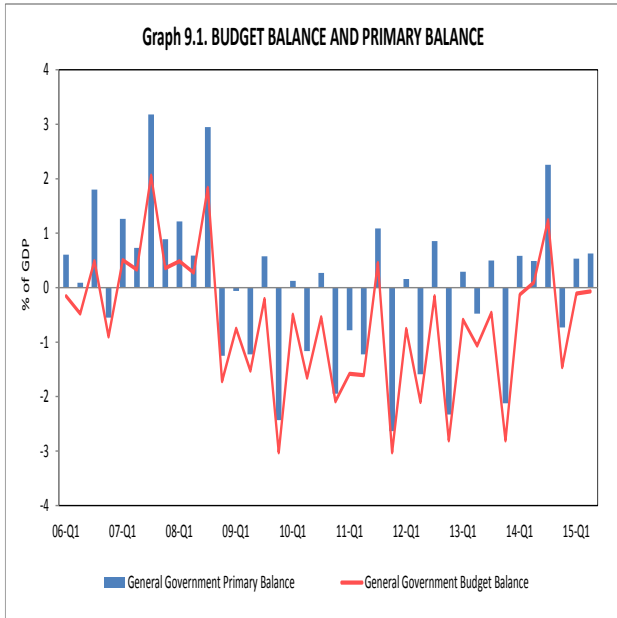
Sources: ECB, CBC, Bloomberg

8. FINANCIAL SECTOR – CONT.



Source: ECB

9. PUBLIC SECTOR



Sources: Ministry of Finance, Cystat