

MACROECONOMIC MONITOR OF CYPRUS

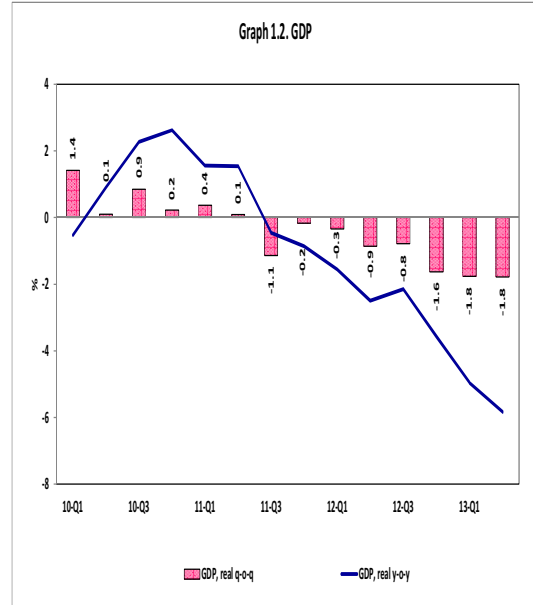
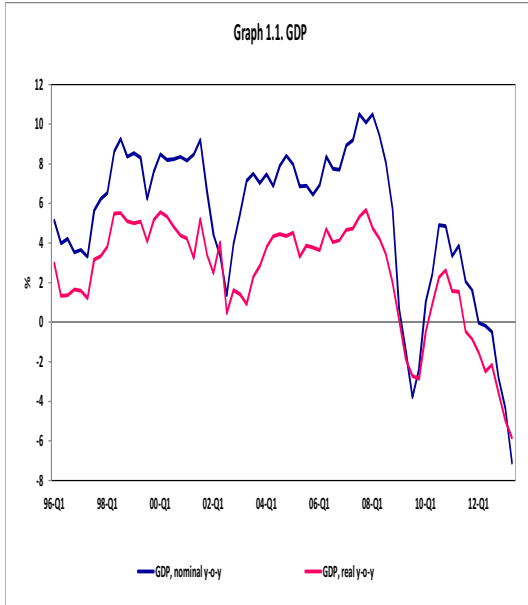
Updated on 11 October 2013

- In the 2nd quarter of 2013, GDP contracted by -5.8% on an annual basis and -1.8% on a quarterly basis, compared to a contraction of -5% in the 1st quarter of 2013 (see graphs 1.1-1.2). The recession was not as steep as originally forecasted in the baseline scenario used in the Memorandum of Understanding (MoU), agreed by the Cyprus Authorities and the programme partners. The contraction was mainly due to the performance of the secondary sector (construction, industry). From the expenditure side, the contraction was more pronounced in investments of the construction sector, while net exports made a positive contribution (see graphs 3.1-3.4 and 6.1-6.2).
- Developments currently are driven by lower domestic demand (see graphs 2.1-2.4).
- The economic sentiment indicator by CypERC presented a less negative picture, as it increased by 1 point in September 2013 compared to August 2013, although remaining at negative levels (see graph 1.3). Expectations in some sectors showed an improvement from low levels, but it is early to draw any conclusions.
- Exports of goods increased substantially by 10.2% in the period January-August 2013 compared to the same period in 2012, mainly due to the increase in the exports of pharmaceutical products, cement, halloumi cheese and potatoes.
- Tourist arrivals declined by 5.3% in the period January-August 2013 compared to the same period in 2012 (see graph 6.3). Per capita spending shows an improvement while revenues from tourism remain close to last year levels.
- Employment is also affected by the slowdown and it is adjusting (see graphs 4.1 and 4.4). Employment in persons (FTE) has decreased by around 5.6% in the first half of 2013 compared to the same period in 2012. The decrease was more pronounced in construction, trade and manufacturing. Employment in the financial sector is expected to further decrease due to the voluntary exit scheme for the employees of ex Laiki Bank and Bank of Cyprus.
- Labour Force Survey (LFS) unemployment, in monthly seasonally adjusted figures, increased steeply from 12.3% in August 2012 to 16.9% in August 2013, reflecting the effect of a protracted slowdown in economic activity (see graphs 4.2-4.3). The category mostly affected is youth. Particularly worrying is also the rapid increase in long-term unemployment.
- Average monthly earnings of employees in the 1st half of 2013 declined by 0.6% compared to an increase of 2.1% in the 1st half 2012, contributing to a decline of nominal unit labour cost and improving cost competitiveness especially in manufacturing (see graphs 5.3-5.5). The revised nominal unit labour cost declined by -4.6% in the 1st half of 2013 compared with -1.7% in the 1st half of 2012. The observed wage adjustment is expected to help containing the upward pressure on unemployment.

- Inflation remains subdued. As measured by the HICP, it increased at a rate of 0.3% in September 2013 compared to 0.1% in August, and for the period January-September as a whole, it stood at 0.8% compared to the same period in 2012 (see graphs 5.1-5.2).
- The current account balance in the 1st half of 2013 was in deficit of €150,3 mn (0.9% of GDP) compared to a deficit of €652,7 mn (3.7% of GDP) in the 1st half of 2012 (see graph 6.4). This is mainly due to the improvement of the goods account.
- The income account recorded a deficit of €95,2 mn in the 1st half of 2013 compared with a deficit of €145,6 mn in the 1st half of 2012 due to the reduction in expenditure which exceeded the reduction in revenues for this category (see graph 6.4).
- The international investment position of Cyprus (see graph 6.5) recorded an improvement in June 2013, reaching €17.126 mn compared with €18.817 mn in March 2013, thus remaining in a net liability position (Cyprus' liabilities exceed the respective assets).
- During the first eight months of 2013, the budget balance recorded a deficit of €336,7 mn (2.0% of GDP) as compared to deficit of €541,4 mn (3.0% of GDP) during the corresponding period of 2012 and a target of -€680,1 mn (4.1% of GDP). The relatively good performance in public finances is associated with formidable expenditure constraint in the context of the implementation of the MoU as well as to further discretionary spending cuts, beyond those foreseen in the MoU. Nevertheless, public debt increased substantially, reflecting the steep decline of GDP as well as pre-financing of government operations.
- Monetary Financial Institutions (MFI) loans to domestic residents (private sector), declined with an annual rate of -5.3% in August 2013, affecting both households and enterprises (see graphs 8.2-8.4). This is reflecting low demand and very tight lending conditions (see graphs 8.7-8.9).
- Deposits of domestic residents held with MFIs (private sector) exhibited a substantial fall presenting an annual decline of -14.5% in August 2013, reflecting the negative climate of confidence (see graph 8.1).
- Deposit and lending interest rates in Cyprus have declined compared to last year levels and the levels prevailing during the period prior to the levy on deposits. However, the decline in deposit rates is much bigger than the decline in lending rates (see graph 8.5). A significant decrease in lending rates for loans to corporations up to 1 million euro was observed in August 2013. A significant deviation of the Cypriot interest rates, compared to the euro area average is still observed, mainly in relation to loans to businesses.
- The CBC's residential property price index declined by 5.4% in the 1st quarter of 2013 on an annual basis and cumulative from 2008 it has declined by around 16% (see graph 7.1).
- According to the Department of Lands and Surveys, new sale contracts were 45% lower and property transfers 32.7% lower in January-September 2013 compared to the same period in 2012 (see graph 7.3). MFI loans to domestic residents for housing declined with an annual rate of -4% in August 2013 (see graph 7.2).

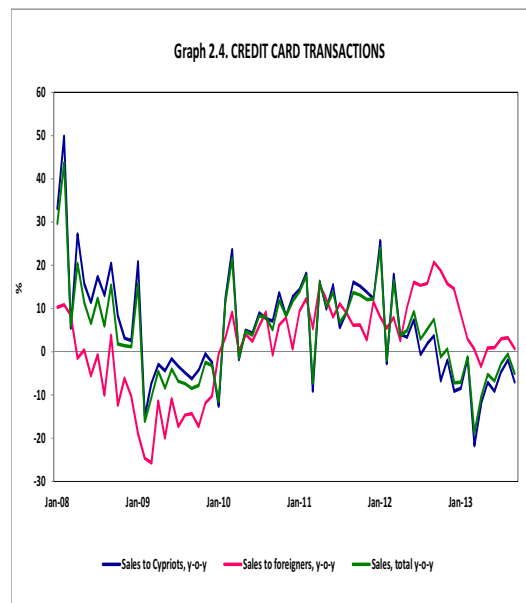
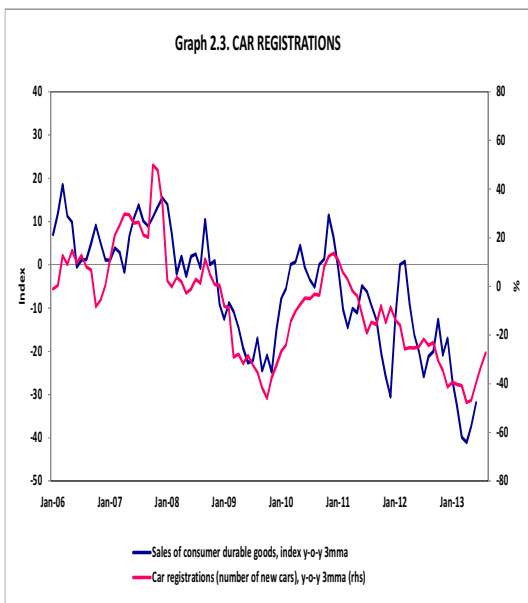
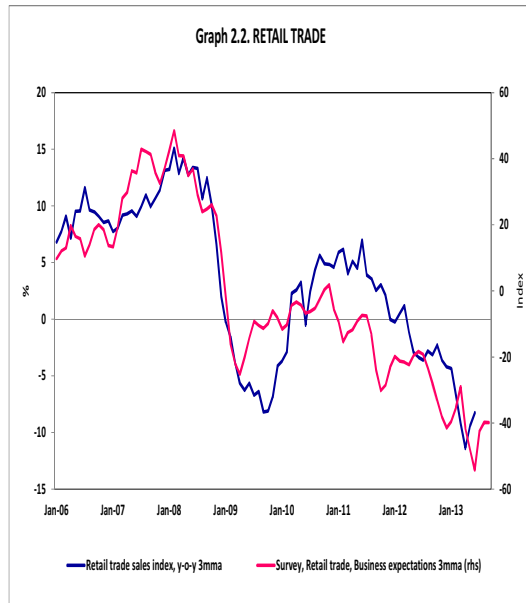
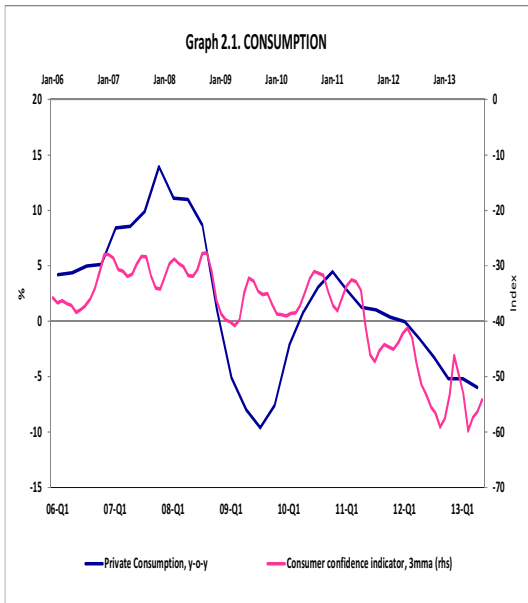
- The Cyprus Government bond spread compared to the German Government bond, in early October 2013 remained in similar levels as in September 2013 (see graph 8.6, yields refer to the bonds maturing in 2020).

1. OUTPUT



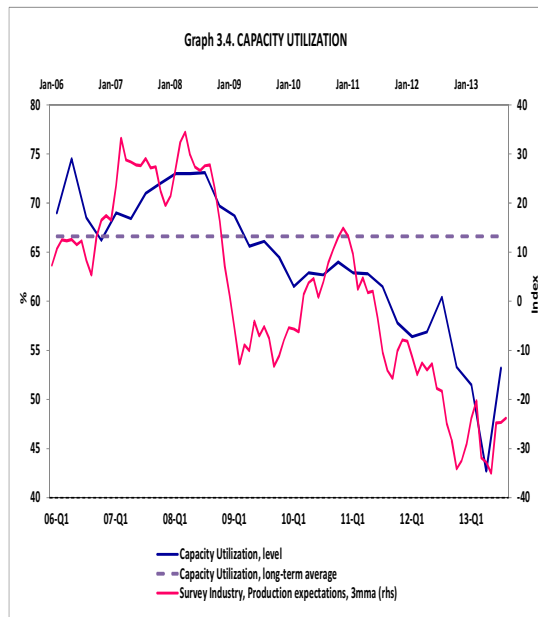
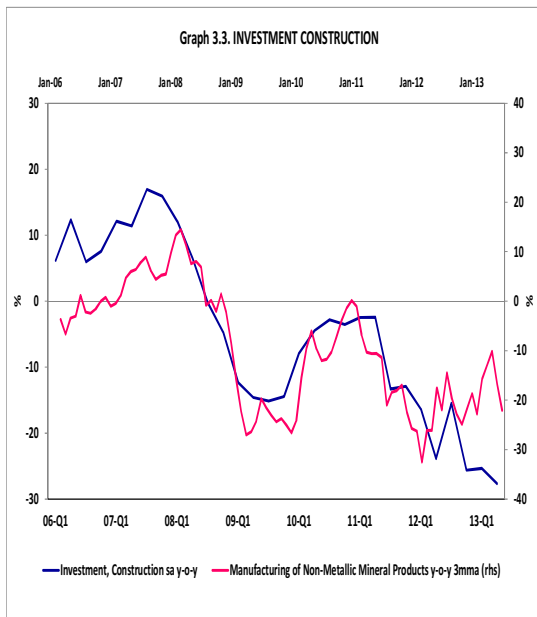
Sources: Eurostat, DG ECFIN

2. CONSUMPTION



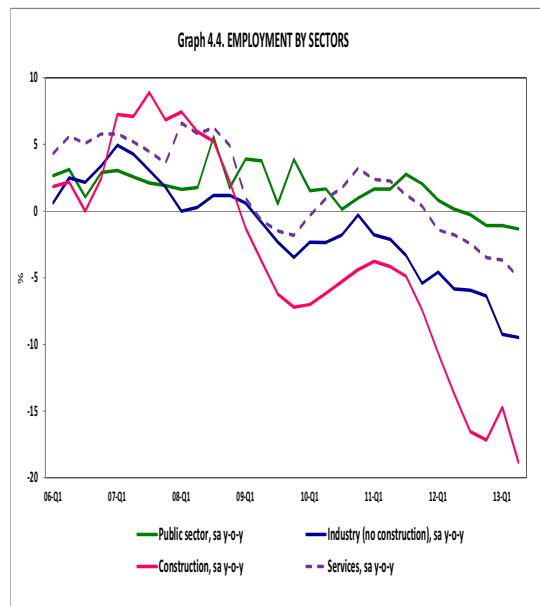
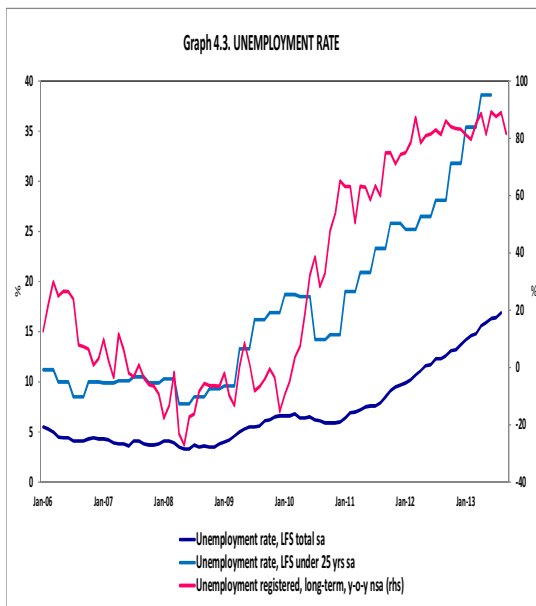
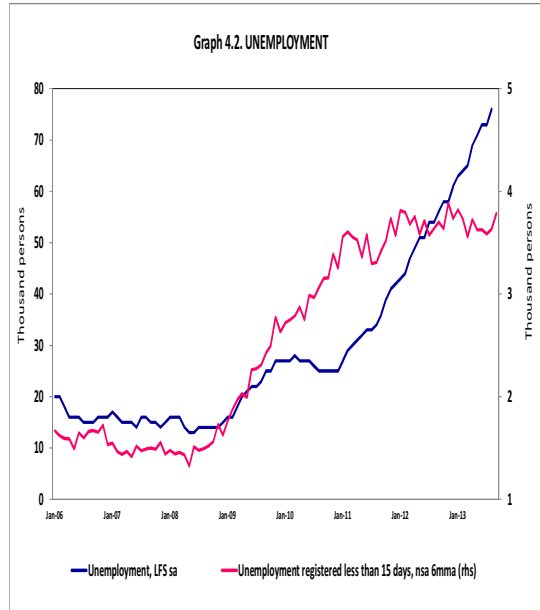
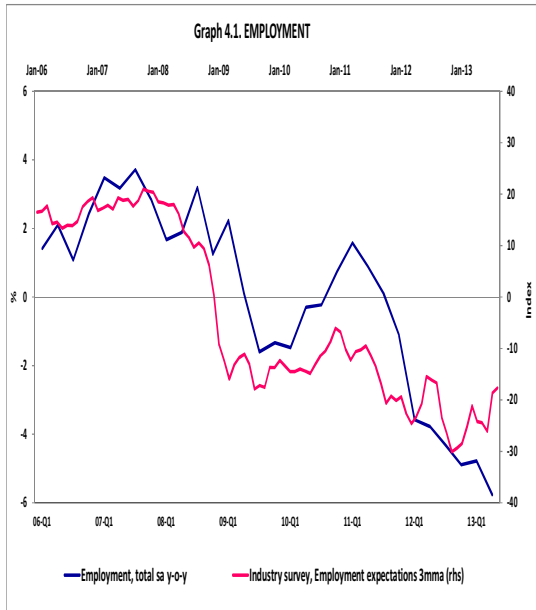
Sources: Eurostat, DG ECFIN, Cystat, JCC Payment Systems Ltd

3. INVESTMENT



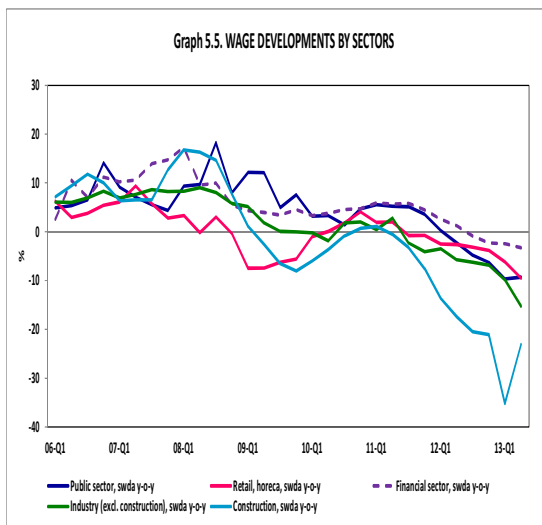
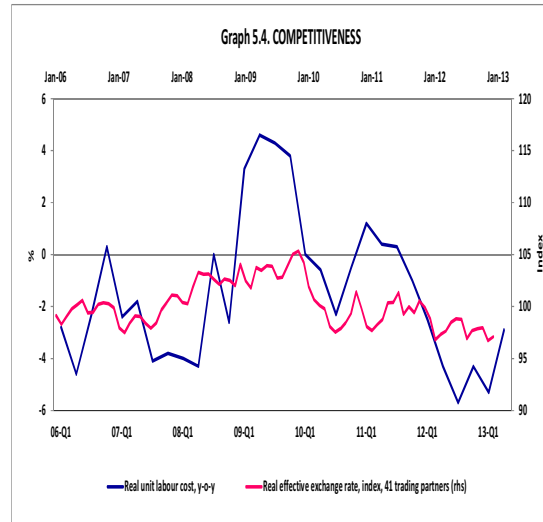
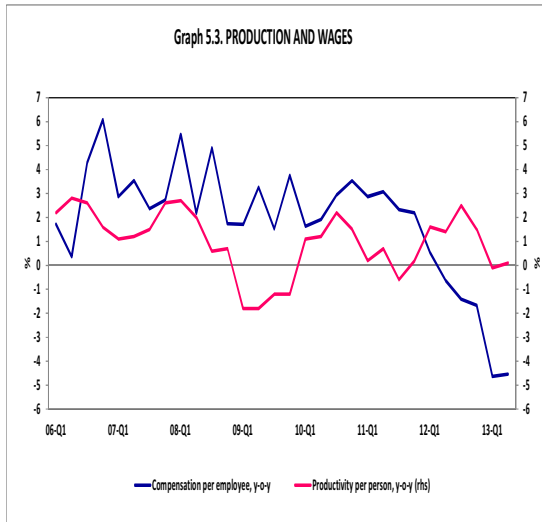
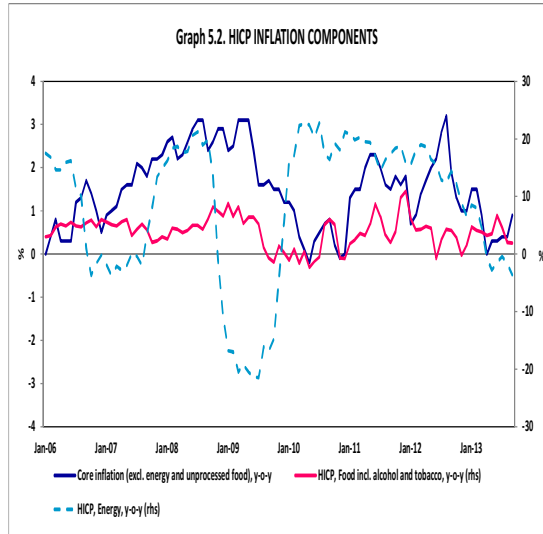
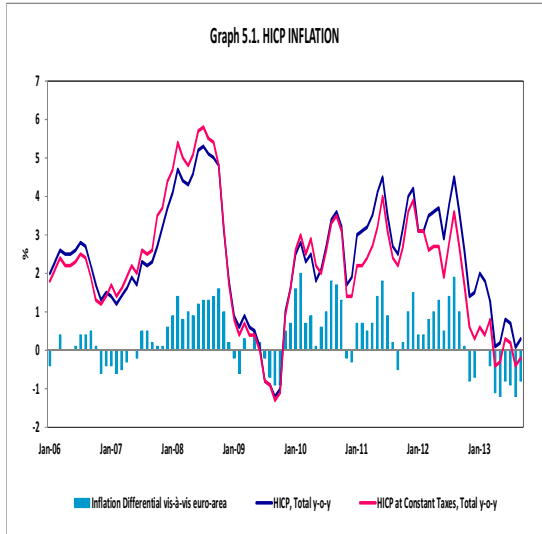
Sources: Eurostat, DG ECFIN, Cystat

4. LABOUR MARKET



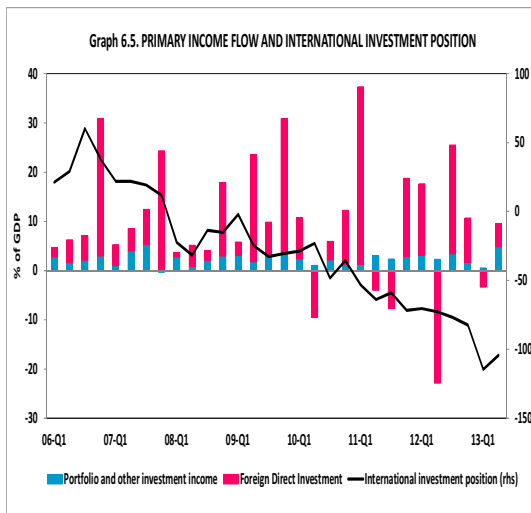
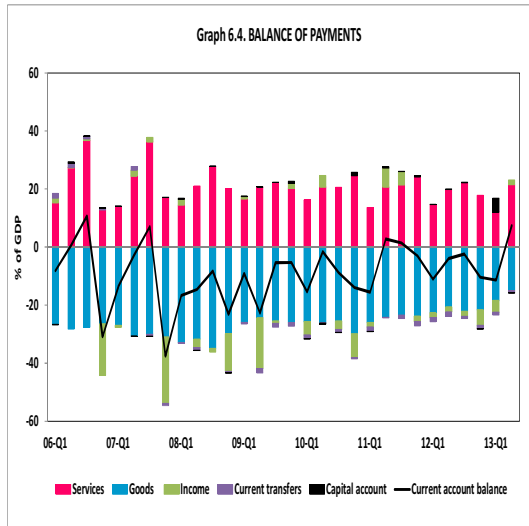
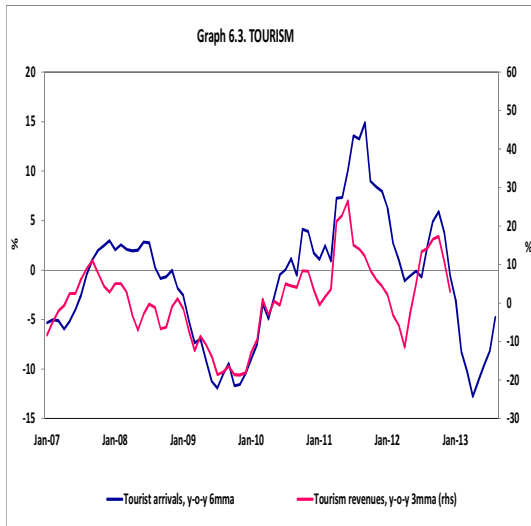
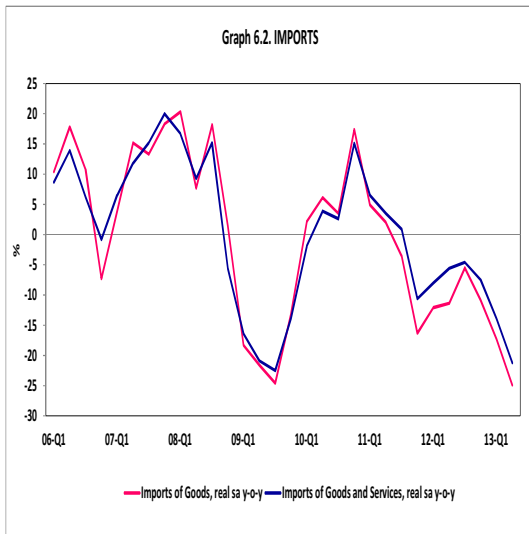
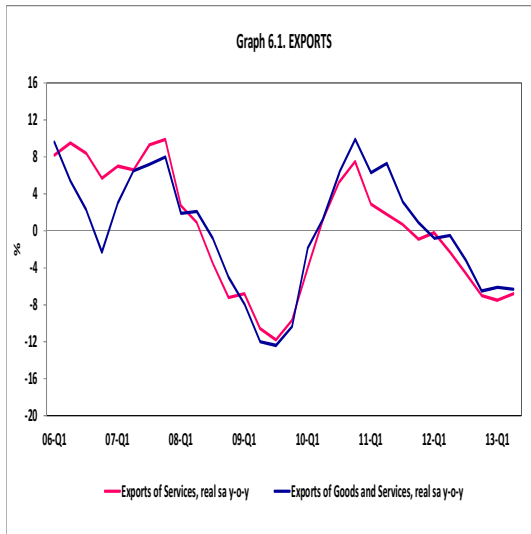
Sources: Eurostat, DG ECFIN, Cystat

5. INFLATION, WAGES



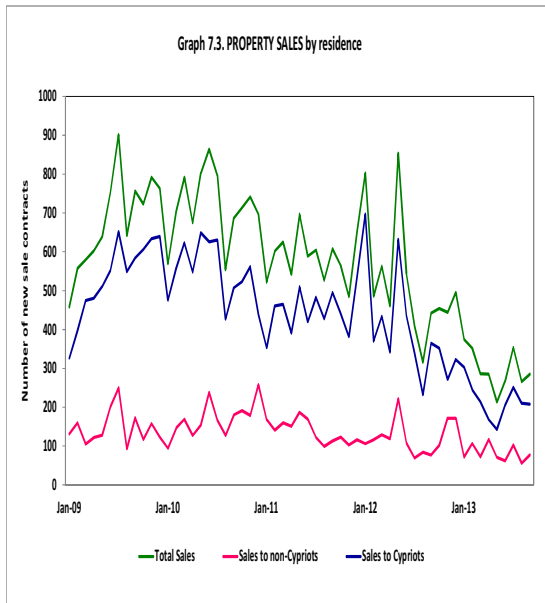
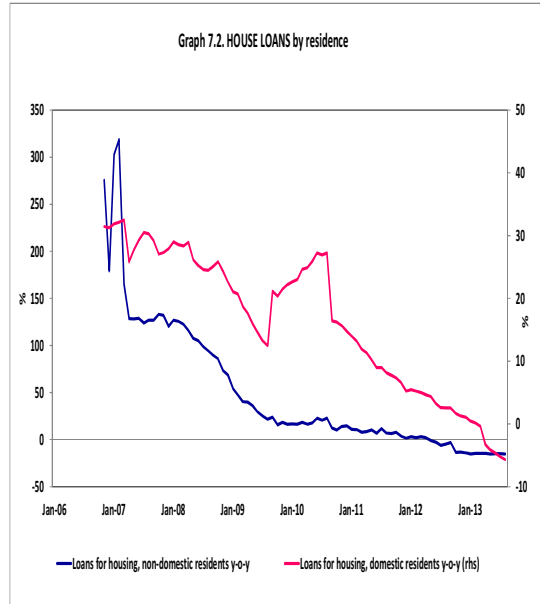
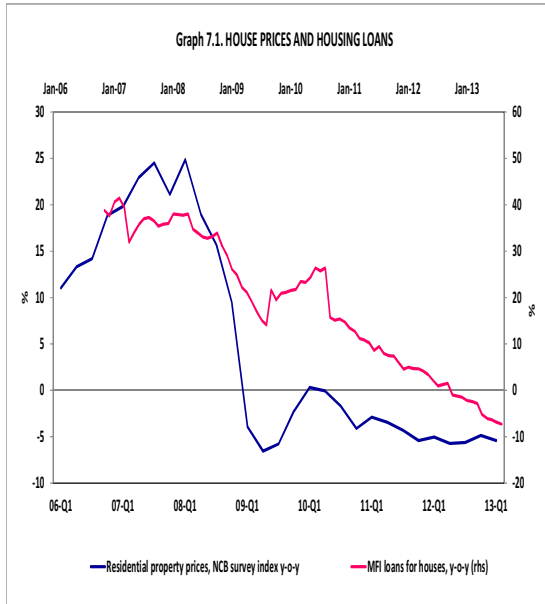
Source: Eurostat

6. EXTERNAL SECTOR



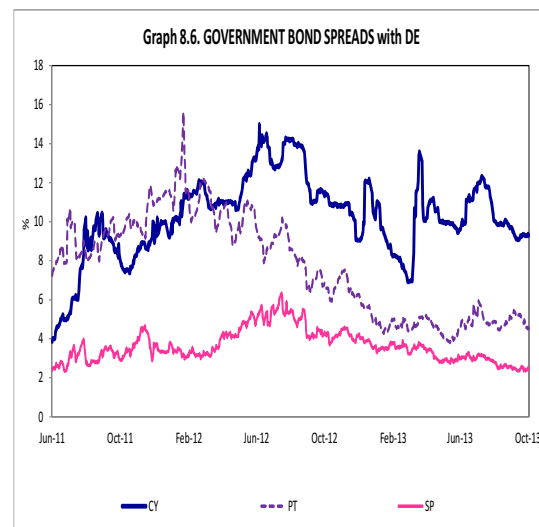
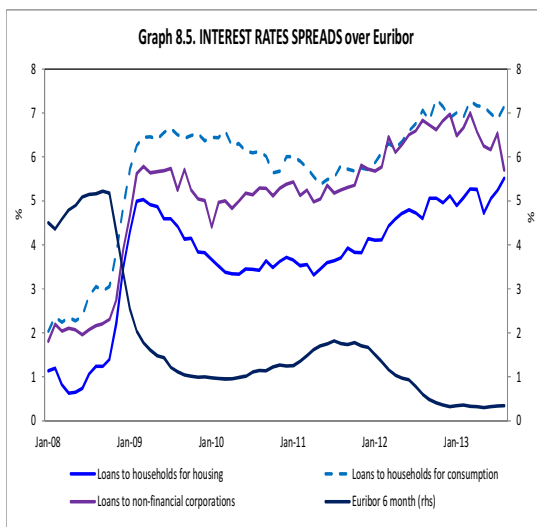
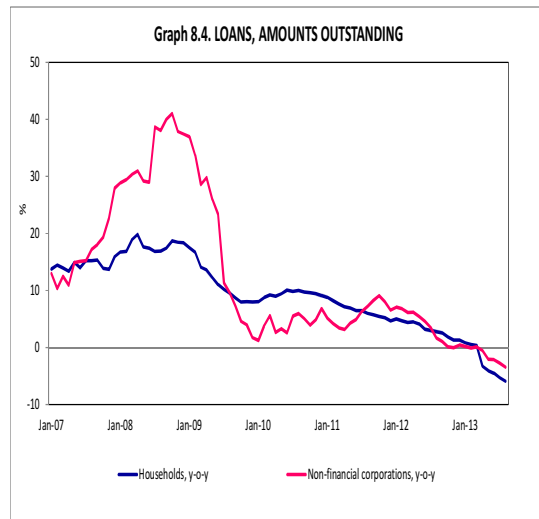
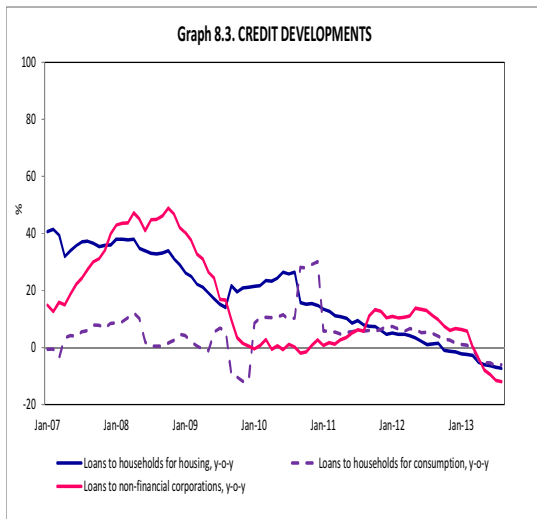
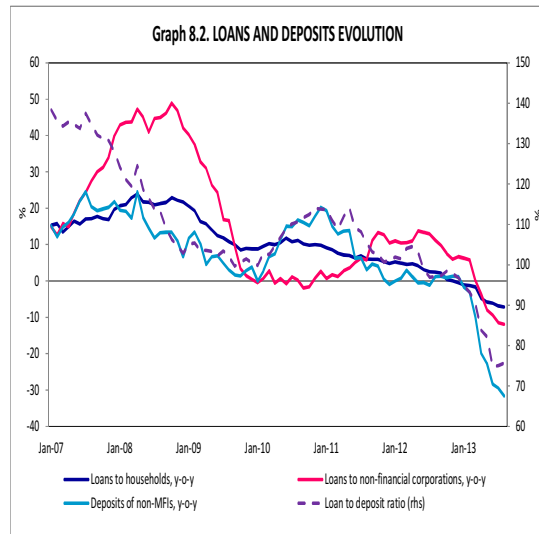
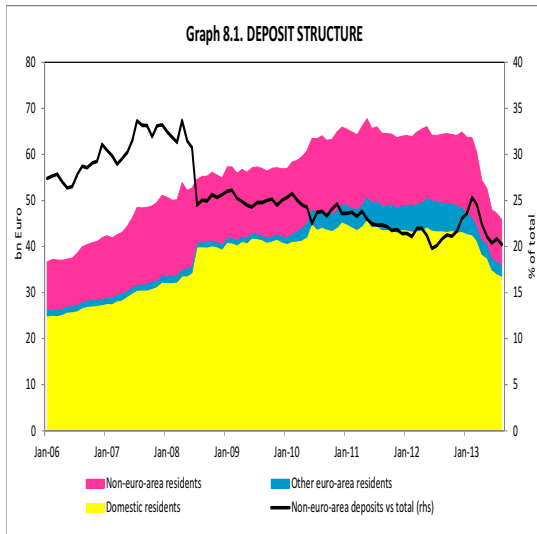
Sources: Eurostat, Cystat, ECB, CBC

7. HOUSING



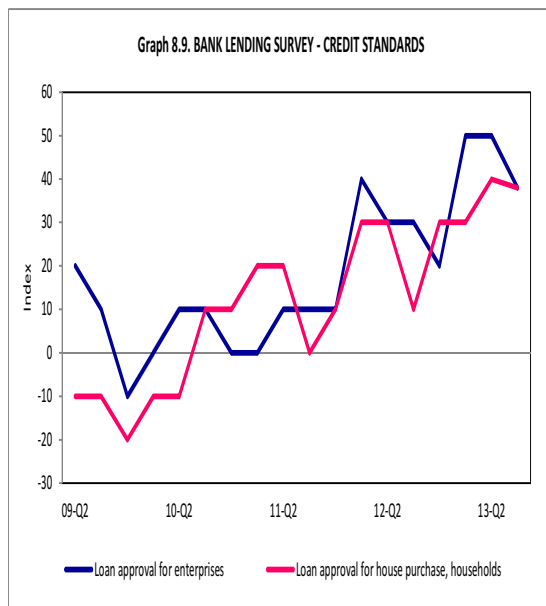
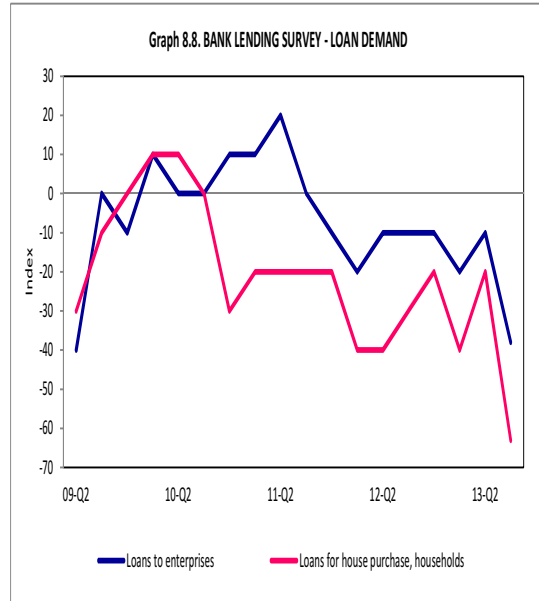
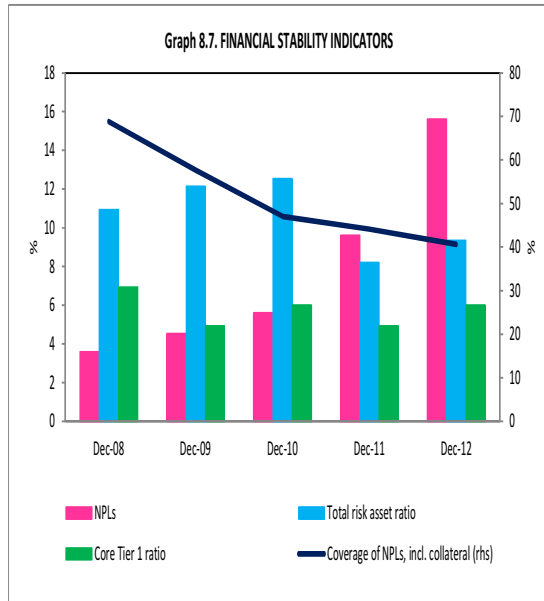
Sources: ECB, CBC, Dep. of Lands and Surveys

8. FINANCIAL SECTOR



Sources: ECB, CBC, Bloomberg

8. FINANCIAL SECTOR – cont.



Sources: CBC, ECB disseminated April 2013