

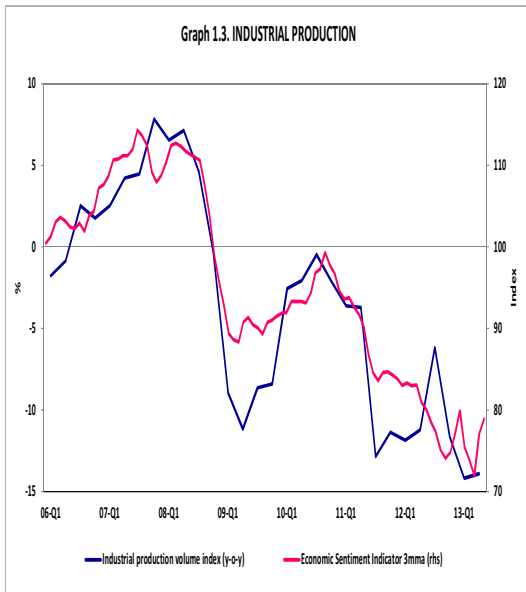
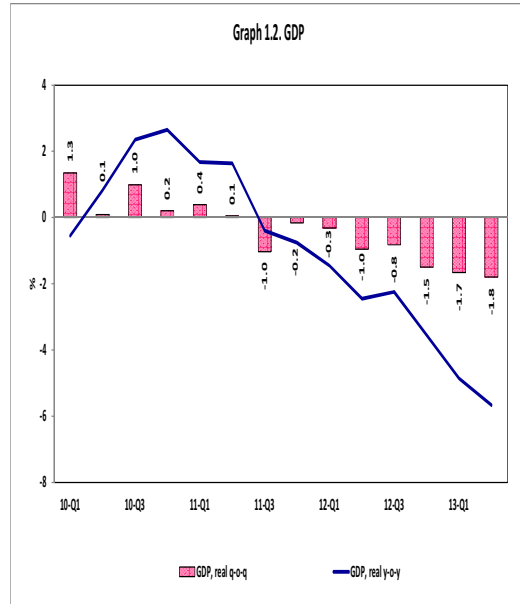
MACROECONOMIC MONITOR OF CYPRUS

Updated on 10 September 2013

- In the 2nd quarter of 2013, GDP contracted by -5.7% on an annual basis and -1.8% on a quarterly basis, compared to a contraction of -4.9% in the 1st quarter of 2013 (see graphs 1.1-1.2). The recession was not as steep as originally forecast in the baseline scenario used in Memorandum of Understanding (MoU), agreed by the Cyprus Authorities and the programme partners. The contraction was mainly driven by 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, it increased by 0.8 in August 2013 compared to July 2013, remaining at negative levels (see graph 1.3). Expectations in some sectors showed an improvement from low levels, but it is too soon to draw any conclusions.
- Exports of goods increased substantially by 11.7% in the period January-July 2013 compared to the same period in 2012, mainly due to the increase in the exports of pharmaceutical products, cement and potatoes.
- Tourist arrivals declined by 5.8% in the period January-July 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 six months 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 12.2% in July 2012 to 17.3% in July 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.
- Wages in the 1st quarter of 2013 declined by 0.6% compared to an increase of 1.9% in the 1st quarter of 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 -3% in the 1st quarter of 2013 compared with -0.1% in the 1st quarter 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 decreased at a rate of 0.1% in August 2013 compared to 0.7% in July, and for the period January-August as a whole, it stood at 0.9% compared to the same period in 2012 (see graphs 5.1-5.2).

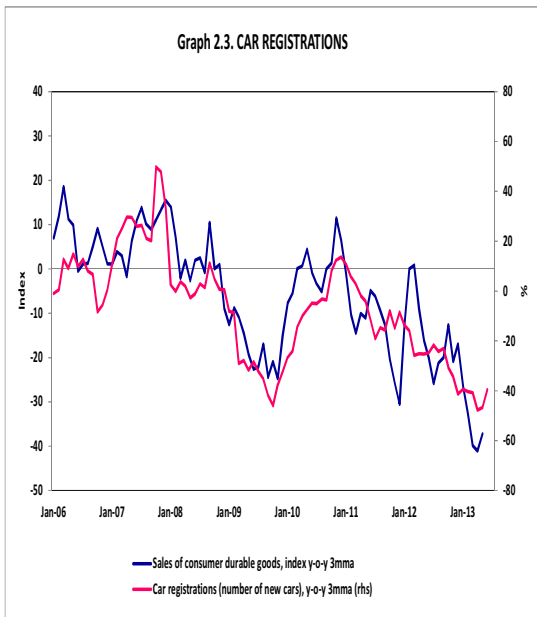
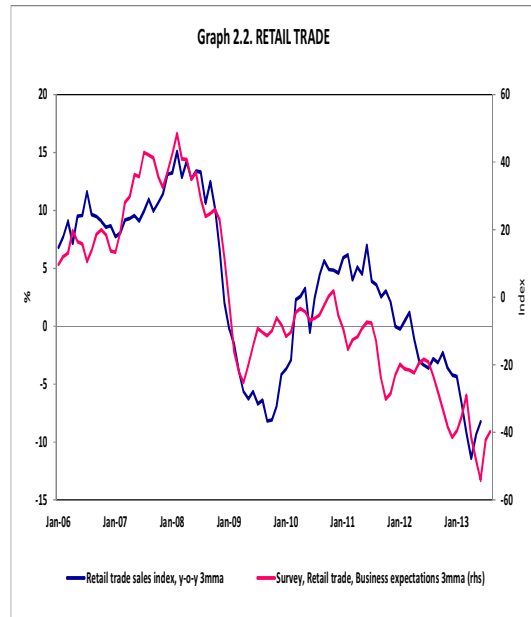
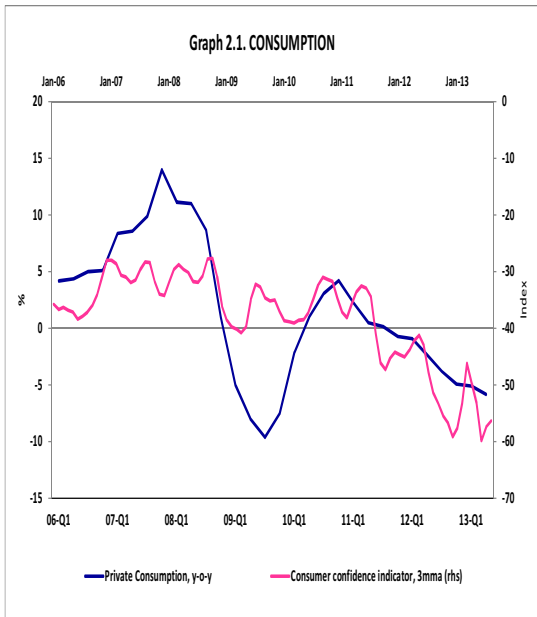
- The current account balance in the 1st quarter of 2013 was in deficit of €502,4 mn (3.1% of GDP) compared to €477,2 mn (2.7% of GDP) in the 1st quarter of 2012 (see graph 6.4). This is mainly due to the deterioration in the export of financial services and the income account, notwithstanding the improvement in the trade account.
- The income account recorded a deficit of €218,8 mn in the 1st quarter of 2013 compared with a deficit of €85,8 mn in the 1st quarter of 2012 due to the reduction in the revenues which exceeded the reduction in expenditure for this category (see graph 6.4).
- The international investment position of Cyprus (see graph 6.5) recorded a significant deterioration in the 1st quarter of 2013, reaching €20.812 mn compared with €15.682,7 mn in the last quarter of 2012, thus remaining in a net liability position (Cyprus' liabilities exceed the respective assets).
- In the first seven months of 2013, the budget balance recorded a deficit of €357 mn (2.2% of GDP) as compared to deficit of €615,3 mn (3.4% of GDP) during the corresponding period of 2012 and a target incorporated in the MoU of €743,3 mn (4.5% 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), following a protracted downward trend, declined with an annual growth rate of -3% in July 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 -17.4% in July 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 (even though in July 2013, an increase has been observed in lending rates compared to previous month), but the decline is more accentuated in deposit rather than loan interest rates (see graph 8.5). Also, a significant deviation of the Cypriot interest rates, compared to the euro area average is observed, mainly in relation to loans to business, reaching to about 3 pp.
- 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 45.9% lower and property transfers were 34.9% lower in January-August 2013 compared to the same period in 2012 (see graph 7.3). MFI loans to domestic residents for housing declined with an annual growth rate of -3.6% in July 2013 (see graph 7.2).
- The Cyprus Government bond spread compared to the German bond, shows a small decline in August 2013 compared to July 2013 (see graph 8.6, yields refer to the bonds maturing in 2020).

1. OUTPUT



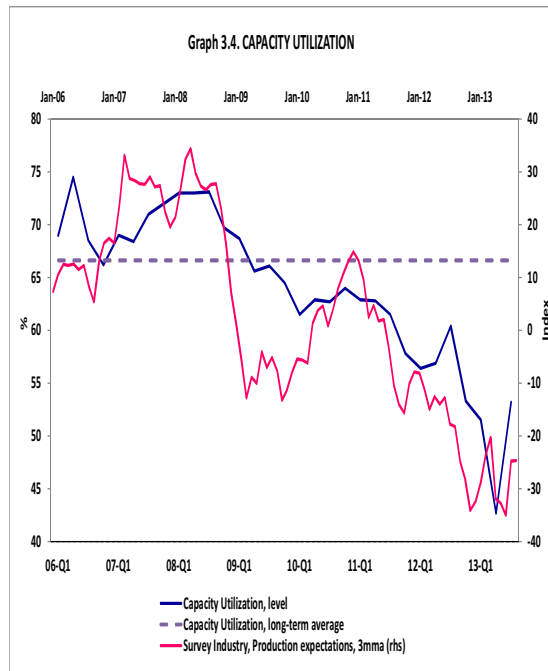
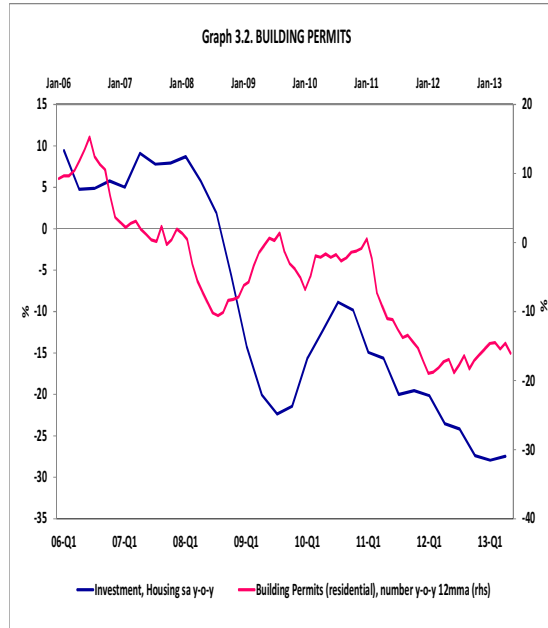
Sources: Eurostat, DG ECFIN

2. CONSUMPTION



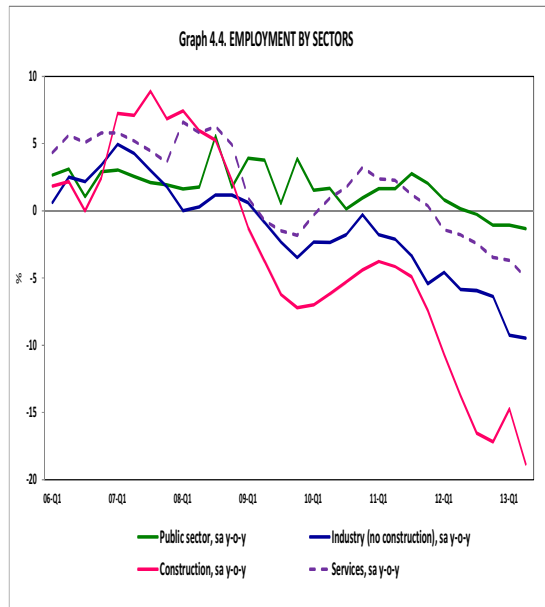
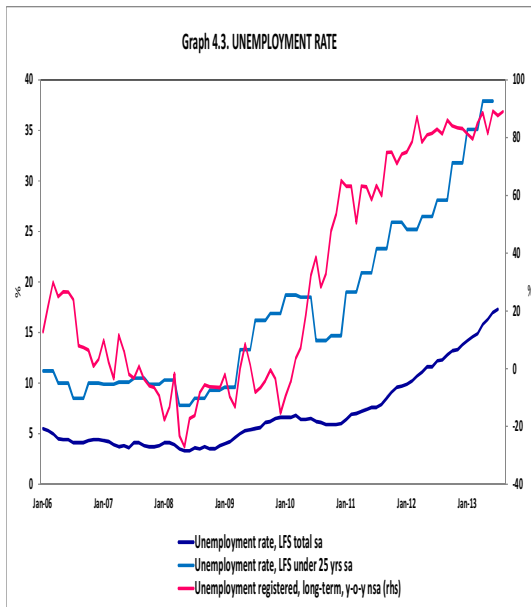
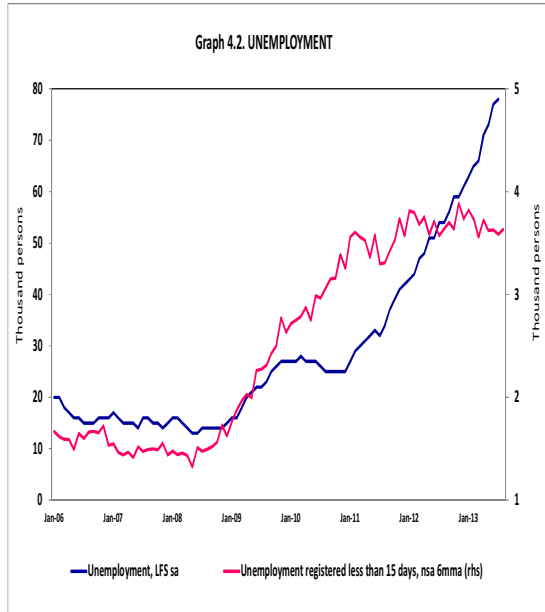
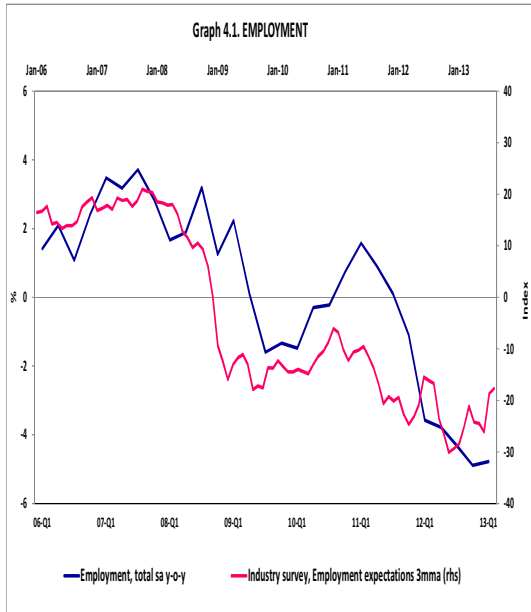
Sources: Eurostat, DG ECFIN, Cystat, JCC Payment Systems Ltd

3. INVESTMENT



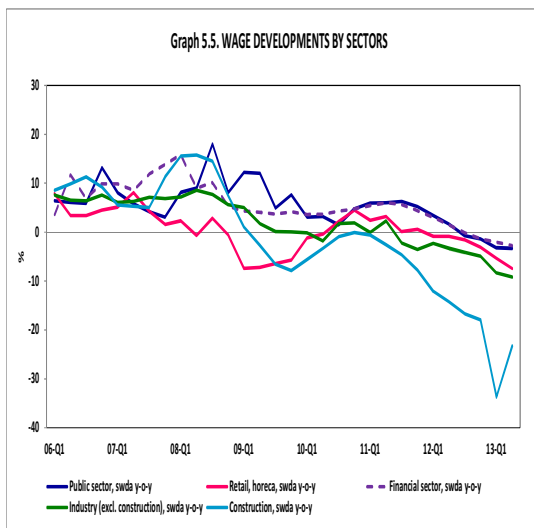
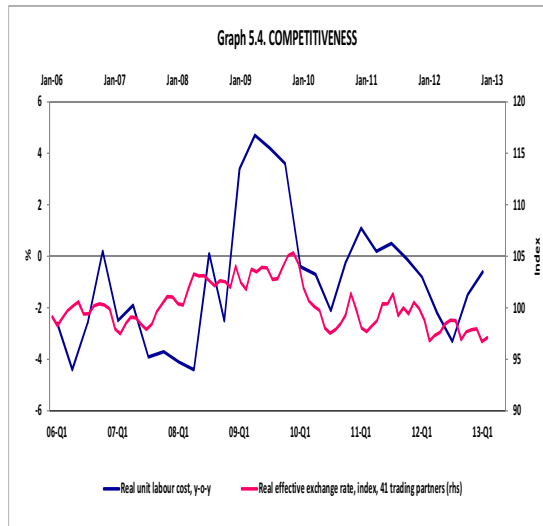
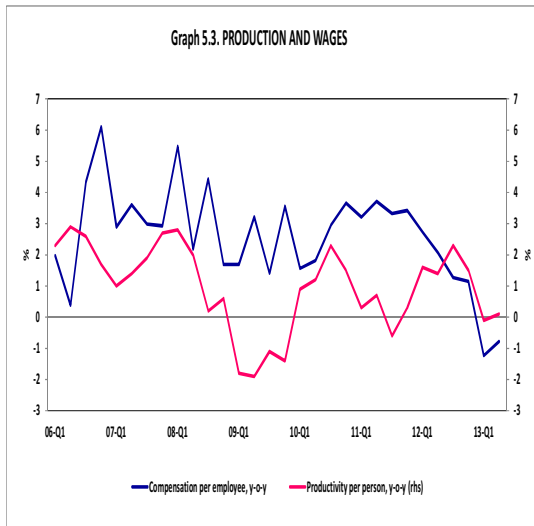
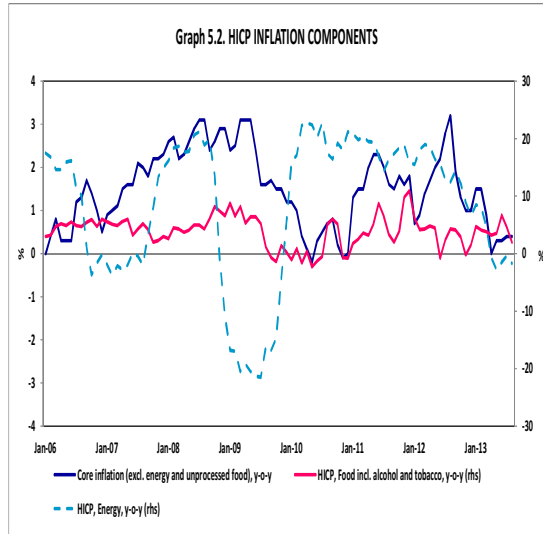
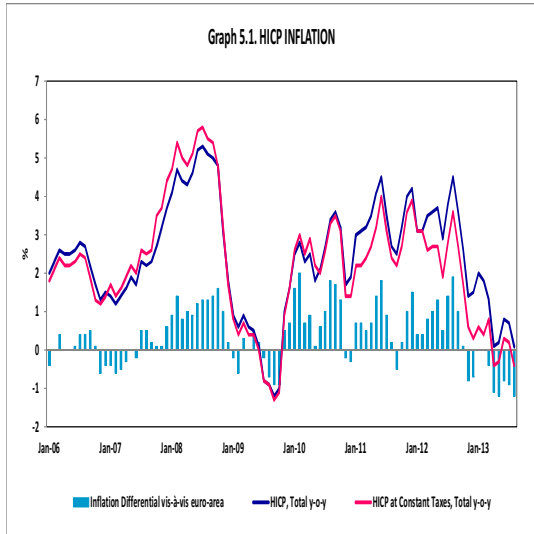
Sources: Eurostat, DG ECFIN, Cystat

4. LABOUR MARKET



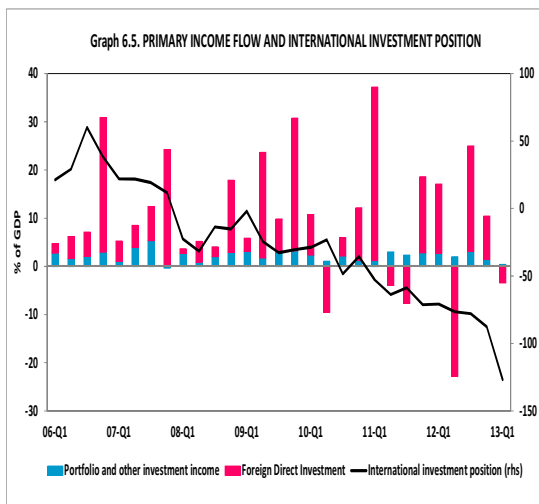
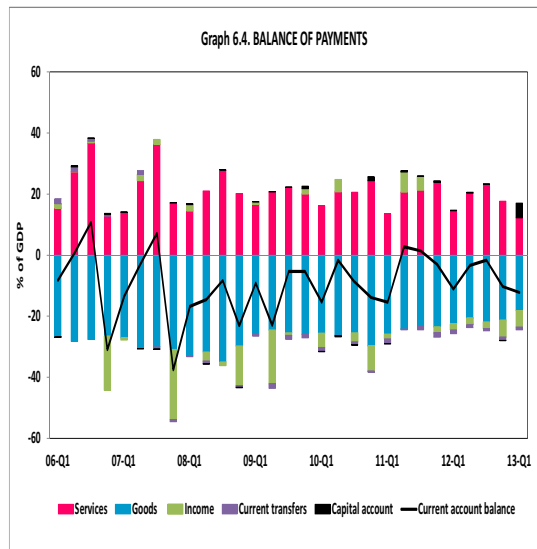
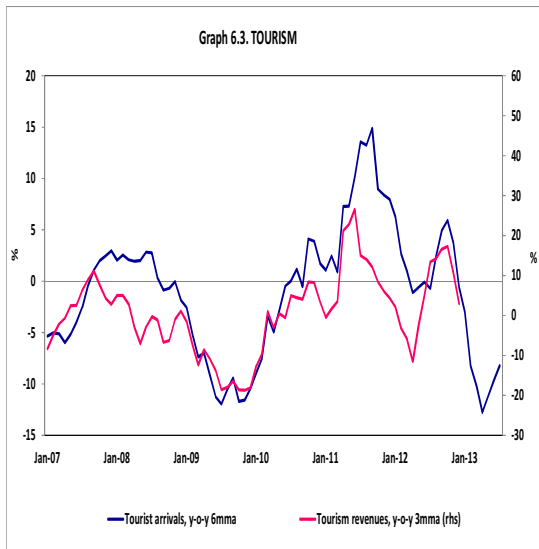
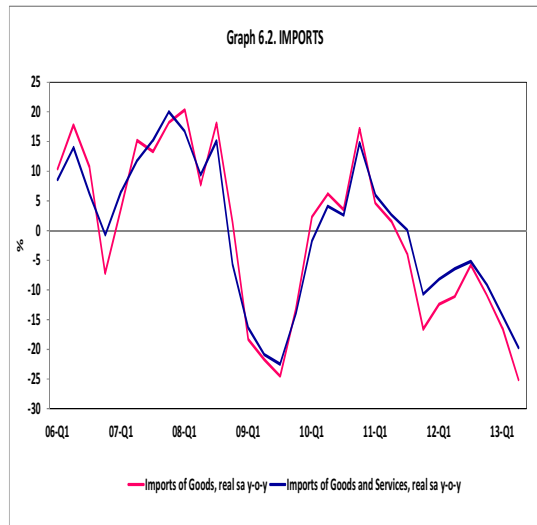
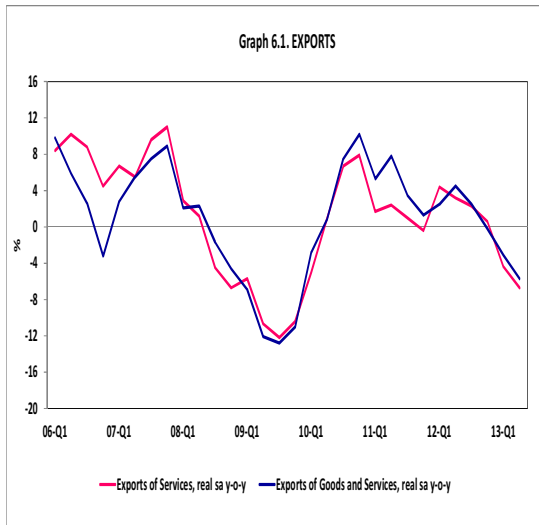
Sources: Eurostat, DG ECFIN, Cystat

5. INFLATION, WAGES



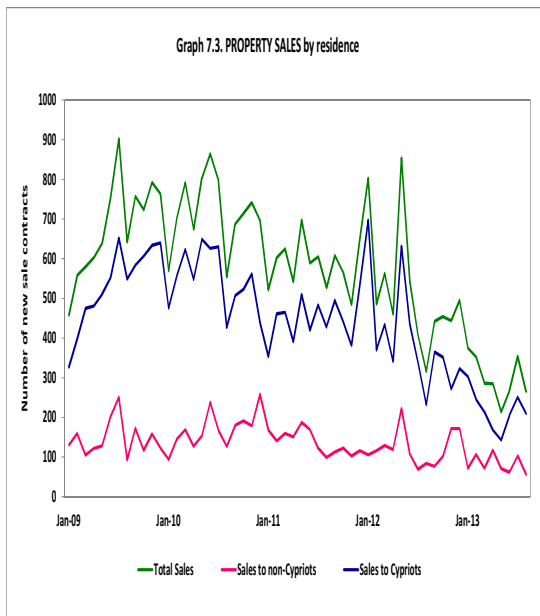
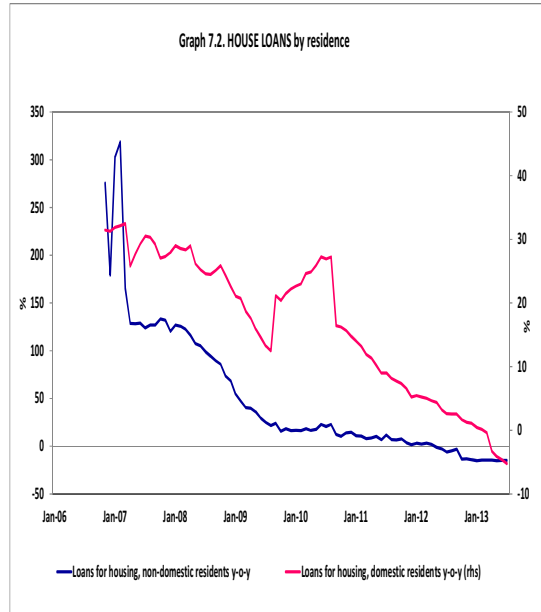
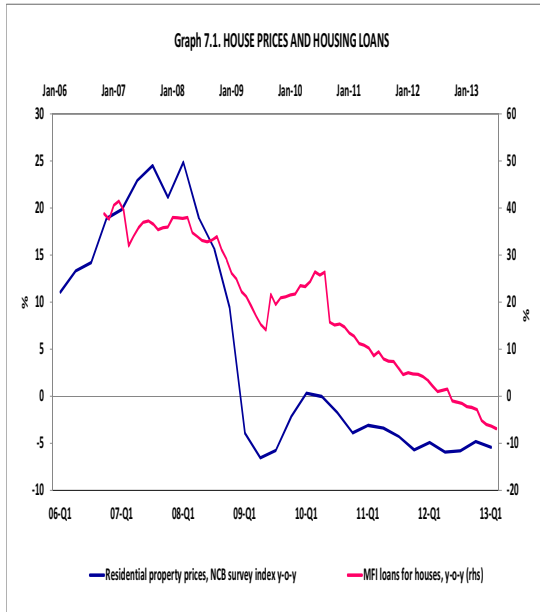
Source: Eurostat

6. EXTERNAL SECTOR



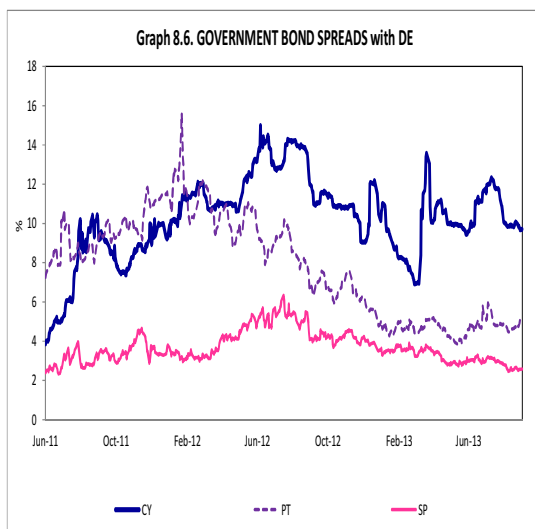
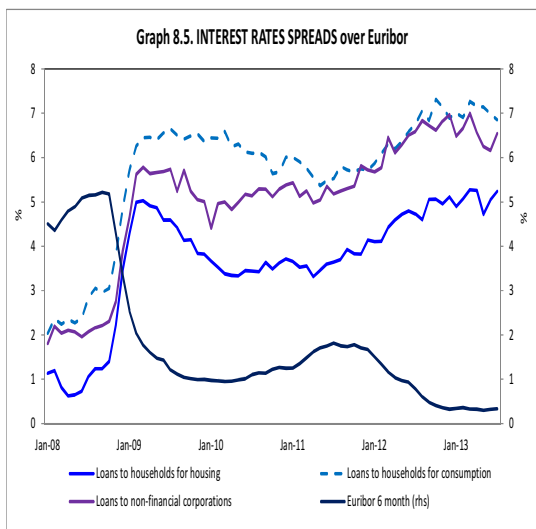
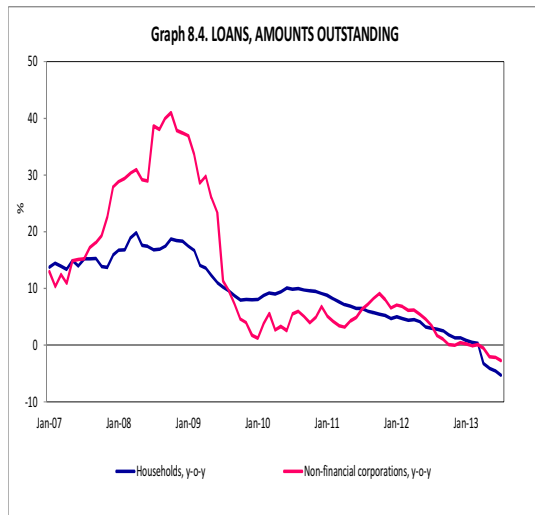
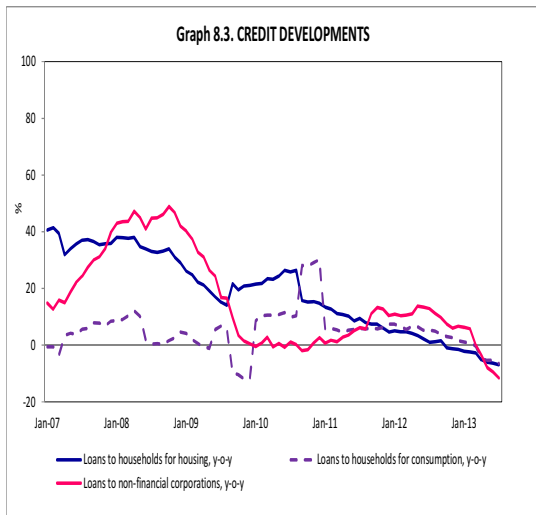
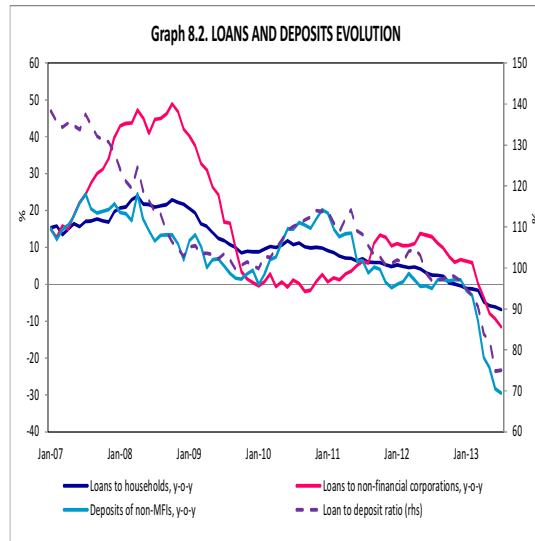
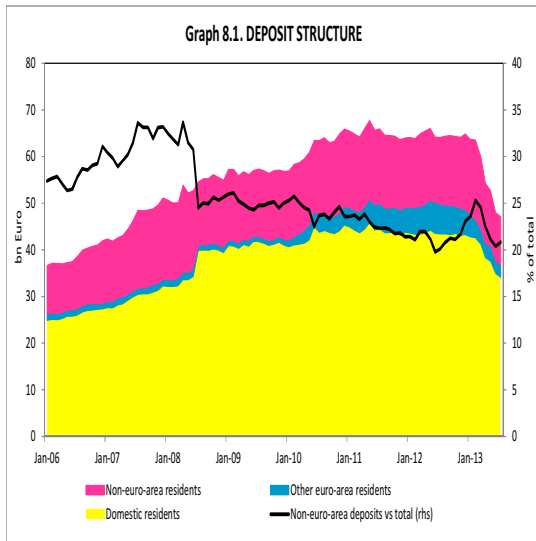
Sources: Eurostat, Cystat, ECB, CBC

7. HOUSING



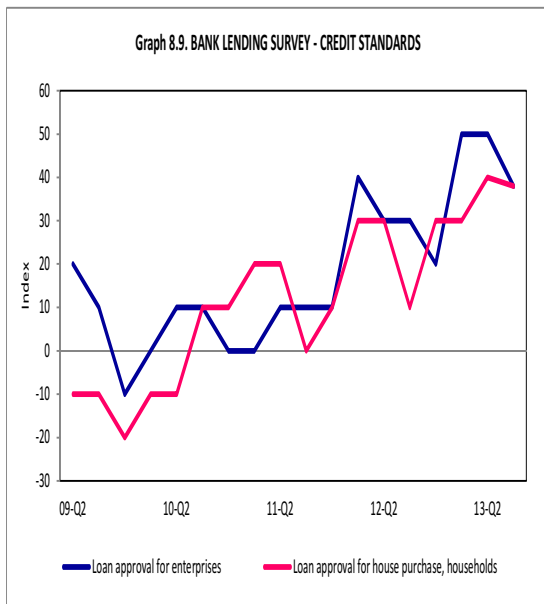
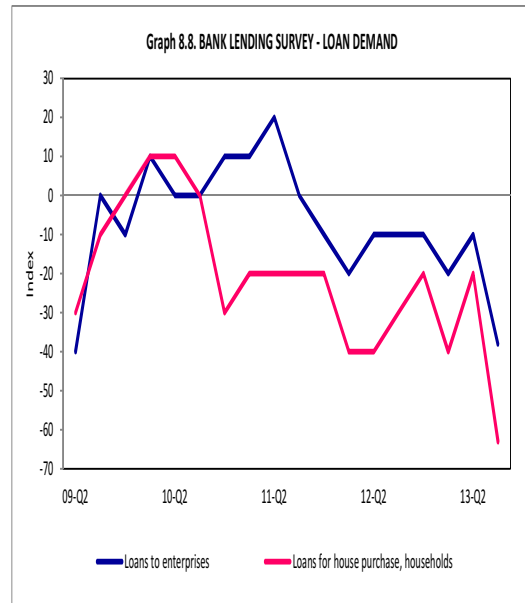
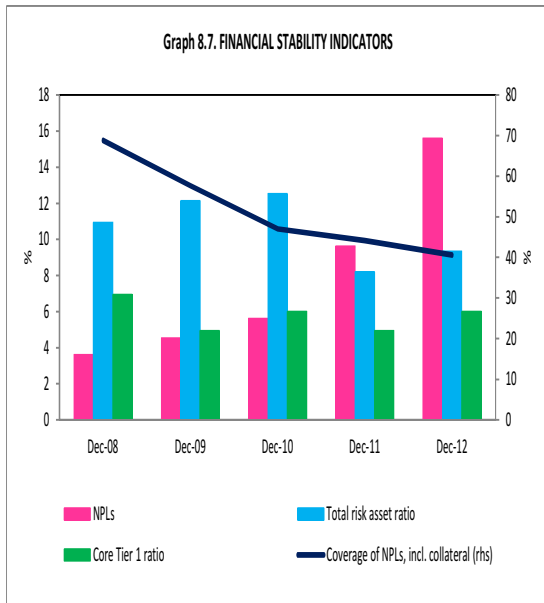
Sources: ECB, CBC, Dep. of Lands and Surveys

8. FINANCIAL SECTOR



Sources: ECB, CBC, Bloomberg

8. FINANCIAL SECTOR – cont.



Sources: CBC, ECB disseminated April 2013