



MACROECONOMIC MONITOR OF CYPRUS

December 2016

MACROECONOMIC MONITOR OF CYPRUS

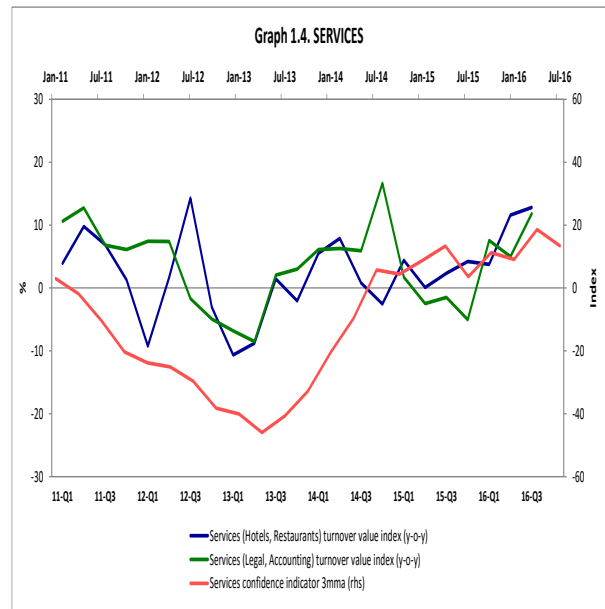
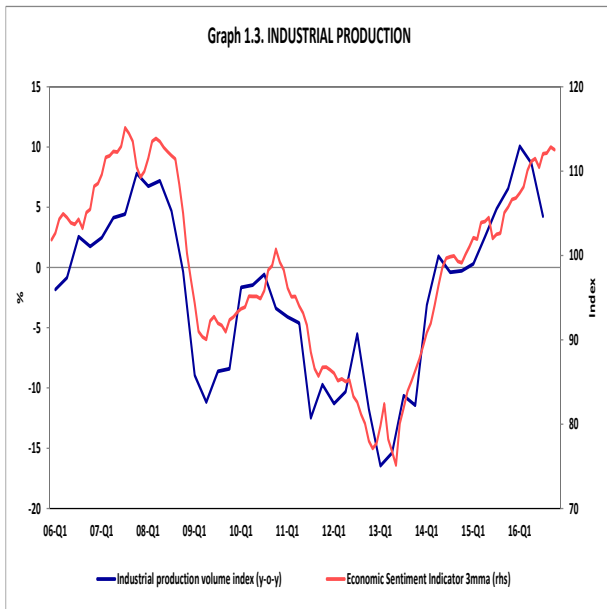
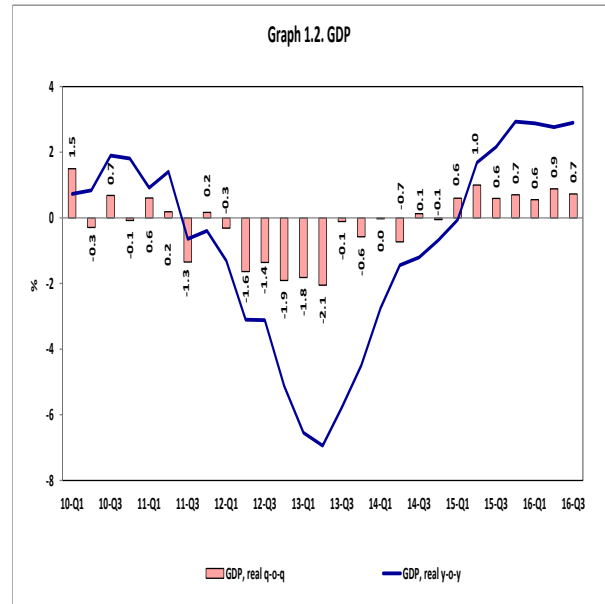
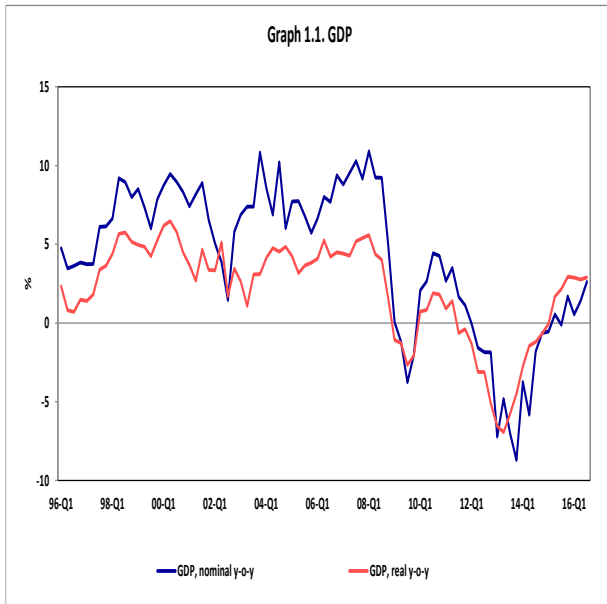
Updated on 19 December 2016

- **In the 3rd quarter of 2016, GDP** (in seasonally adjusted terms) **recorded a positive rate of growth of 2.9% compared to 2.8% in the 2nd quarter of 2016** on an annual basis (see graphs 1.1-1.2). The GDP increase is broad based and is mainly attributed to sectors: hotels and restaurants, professional, scientific and technical activities, retail and wholesale trade, manufacturing, construction and transport. Negative growth rate was recorded in the financial services sector and information and communication sector (see graphs 3.1-3.4 and 6.1-6.2).
- Developments are currently driven by improving **private consumption, gross fixed capital formation as well as net exports** (see graphs 2.1-2.4).
- The **economic sentiment indicator** by CypERC **increased by 0.3 points in November 2016** compared to the preceding month (see graphs 1.3-1.4) because of improvements in retail trade, industry and consumer confidence.
- In January-November 2016 **tourist arrivals increased at a rate of 20.1%** compared to January-November 2015 (see graph 6.3). An increase of 48.9% was recorded in tourist arrivals from Russia, a 14.9% increase from Greece, an 11.5% increase from the UK and a 10.3% increase from Germany.
- **Employment** adjusted to conditions of improving economic activity (see graphs 4.1 and 4.4). Employment in persons **increased by 2.6%** in the first nine months of 2016 compared to the first nine months of 2015. The increase was mainly in the sectors of accommodation and food service activities, wholesale and retail trade, professional, scientific and technical activities and manufacturing.
- **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 to 12.0% in October 2016 compared to 13.8% in October 2015** (see graphs 4.2-4.3). The most affected segment of the population is youth unemployment, although it has been on a downward trend since the last quarter of 2013 falling to 26.8% in the 3rd quarter of 2016 from the peak of 40.2% in the 2nd quarter of 2013. Particularly challenging is also the relatively high long-term unemployed.
- **Compensation per employee** in the first nine months of 2016 marginally decreased by around 0.1% compared to the first nine months of 2015 (see graphs 5.3-5.5). The observed wage adjustment is expected to help maintaining a downward trend in unemployment.
- **Inflation (HICP)** for November 2016 stood at -0.8% compared to -1.0% in October 2016 (see graph 5.1). For 2016 so far it stands at -1.3%. Core HICP inflation stood at -0.7% in January-November 2016 (see graph 5.2). All subcategories of HICP presented a decrease except categories of alcoholic beverages and tobacco, clothing and footwear, health, education and restaurants and hotels.
- **Exports of goods decreased by 4.9%** in January-October 2016 compared to January-October 2015, mainly due to the transfer of economic ownership of mobile transport equipment that was recorded as exports, with total value of €158.6 mn in January 2015. Excluding this one-off transaction exports of goods exhibited an increase of 6.5%.
- **Imports of goods increased by 12.8%** in January-October 2016 compared to January-October 2015 mainly due to the transfer of economic ownership of mobile transport equipment, with total value of €563.4 mn in May 2016 recorded as imports. Excluding this one-off transaction imports of goods and services exhibited a decrease of 0.4%.
- The **current account balance** in the 1st half of 2016 recorded a **deficit of €409.1 mn (-2.3% of GDP)** compared with a deficit of €444.8 mn (-2.5% of GDP) in the 1st half of 2015 (see graph 6.4) mainly due to improvement in the services balance. Excluding the one-off transactions in imports and exports of goods and services of mobile transport equipment the current account balance recorded a surplus of €154.3

mn (0.9% of GDP) during the reference period of 2016 compared with a deficit of €603.4 mn (-3.4% of GDP) during the corresponding period of 2015.

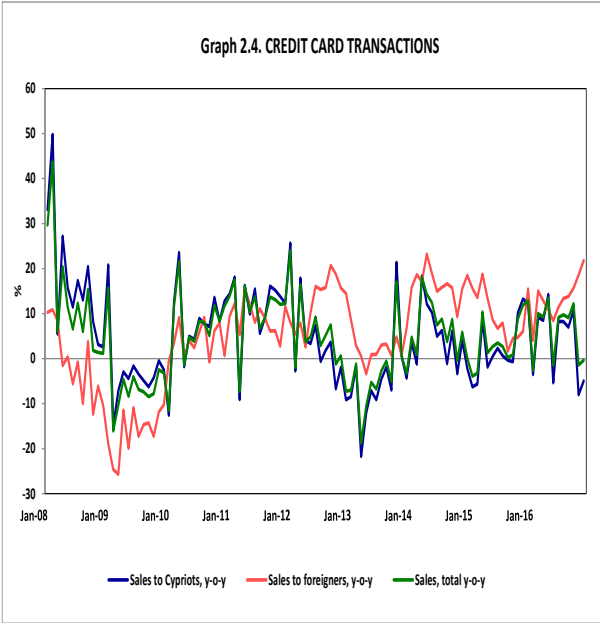
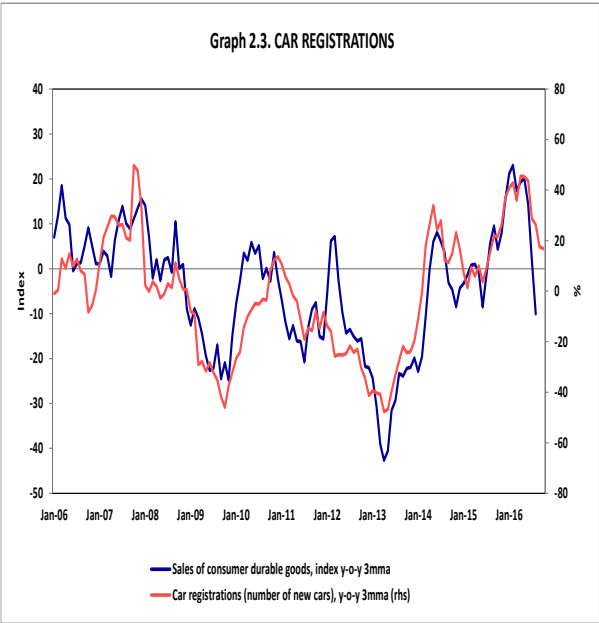
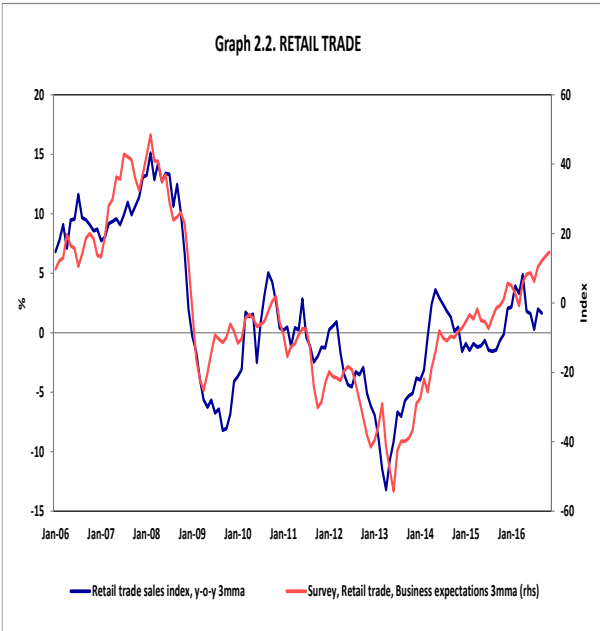
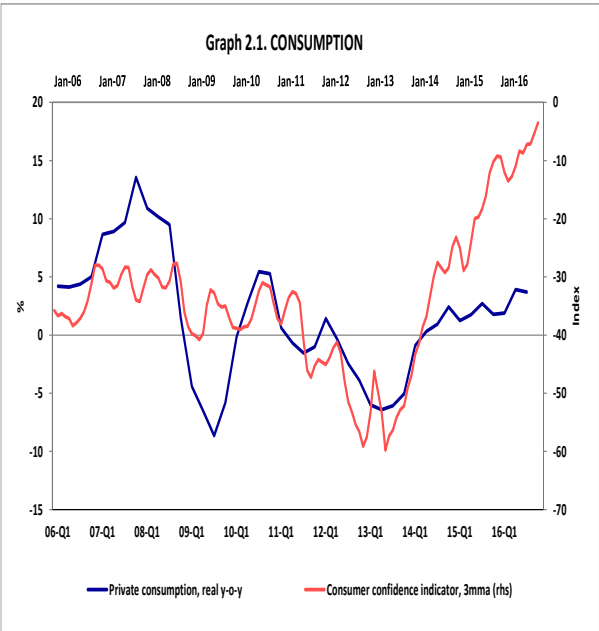
- The **primary income** recorded a **deficit of €269.0** mn in the 1st half of 2016 compared with a deficit of €70.5 mn in the 1st half of 2015 (see graph 6.4) mainly due to worsening of investment income.
- The international investment position of Cyprus (see graph 6.5) recorded an improvement in June 2016 reaching -€21,488.5 mn compared with -€21,603.6 mn in March 2016.
- General government budget balance (GGBB) **was in surplus** in January-October 2016, of the order of **€138.2 mn (0.8% of GDP)** compared to a surplus of €78.4 mn (0.4% of GDP) during the corresponding period the year before (see graph 9.1).
- General government **primary balance** (GGPB) **was in surplus** in January-October 2016, of the order of **€531.9 mn (3% of GDP)** compared to a surplus of €489.3 mn (2.8% of GDP) during the corresponding period the year before (see graphs 9.1-9.2).
- **Total revenue** exhibited a positive rate of growth of about 0.6%, reaching to €5,417.6 mn in January-October 2016, compared to €5,387.2 mn during the corresponding period the year before (see graph 9.3).
- **Total expenditure** exhibited a decrease of about 0.6%, reaching to €5,279.4 mn in January-October 2016, compared to €5,308.8 mn during the corresponding period the year before (see graph 9.3).
- Monetary Financial Institutions (MFI) **loans to domestic residents** (private sector), **decreased** with an **annual rate of 8.2%** in October 2016, affecting both households and enterprises (see graphs 8.2-8.4). This is reflecting the tight lending conditions (see graphs 8.7-8.8).
- **Deposits of domestic** residents held with MFIs (private sector) exhibited an increase translating into an **annual rate of 6.6%** in October 2016, 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 October 2016, **deposit interest rates** for maturity of up to 1 year decreased and up to 3 months marginally increased compared with the preceding month. The **lending interest rates** to households for primary residence remained unchanged and the rate for other loans up to €1 mn for businesses increased. The interest 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 decreased by **0.9%** in the **2nd quarter of 2016** compared to the 1st quarter of 2016 and decreased by 8.9% compared to the 2nd quarter of 2015.
- The CBC's residential property price index declined by 1.7% in the 2nd quarter of 2016 compared to the 2nd quarter of 2015. Cumulative from the 1st quarter of 2008 it has declined by 30% (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 33.6% while, transfers of property were up by 42.1% in January-November 2016 compared to January-November 2015 (see graph 7.3). MFI mortgage loans to domestic residents for housing declined with an annual rate of 0.8% in October 2016 (see graph 7.2).
- The Cyprus Government bond spread compared to the German Government bond, decreased in mid-December 2016 compared to November 2016 to around 154 basis points above the German bond on 16/12/2016 compared to 165 basis points on 30/11/2016 (see graph 8.6, yields refer to the bonds maturing in 2020).

1. OUTPUT



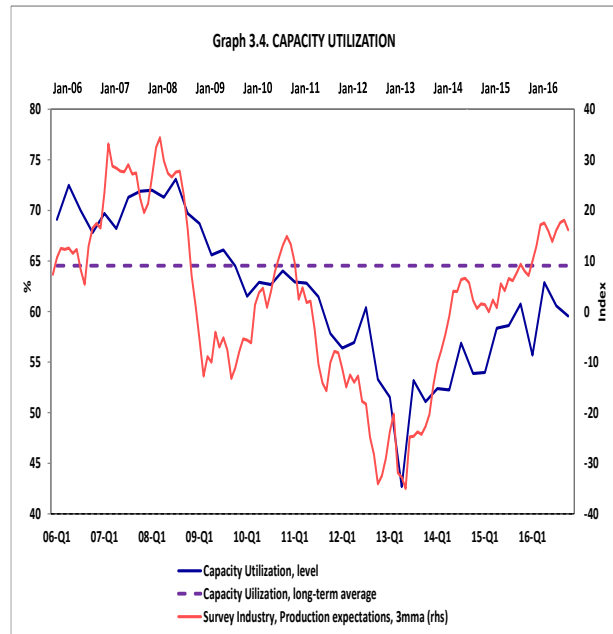
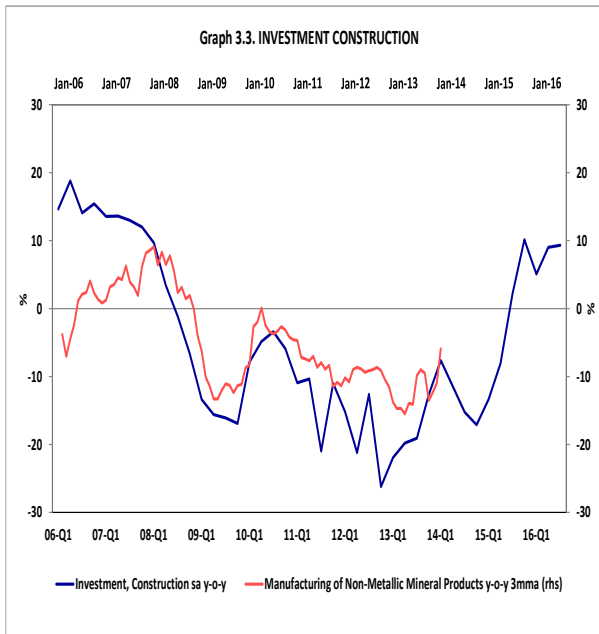
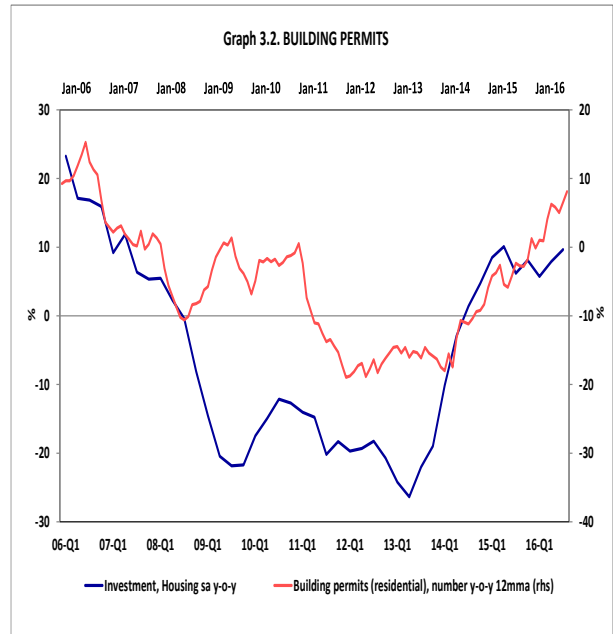
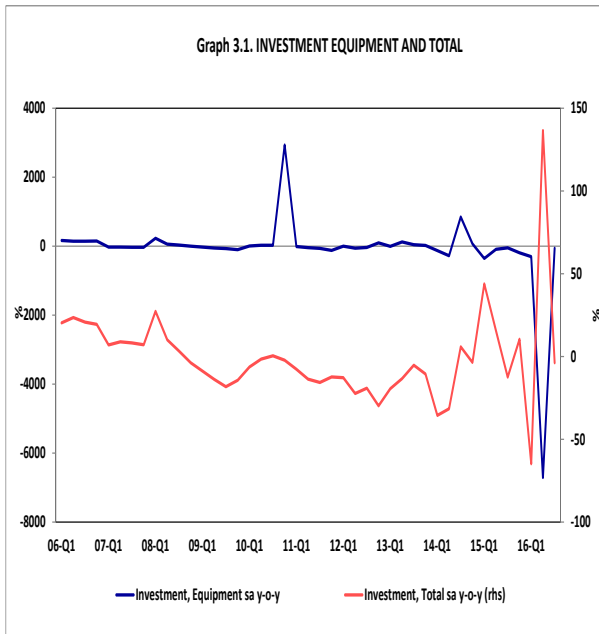
Sources: Eurostat, DG ECFIN, Cystat

2. CONSUMPTION



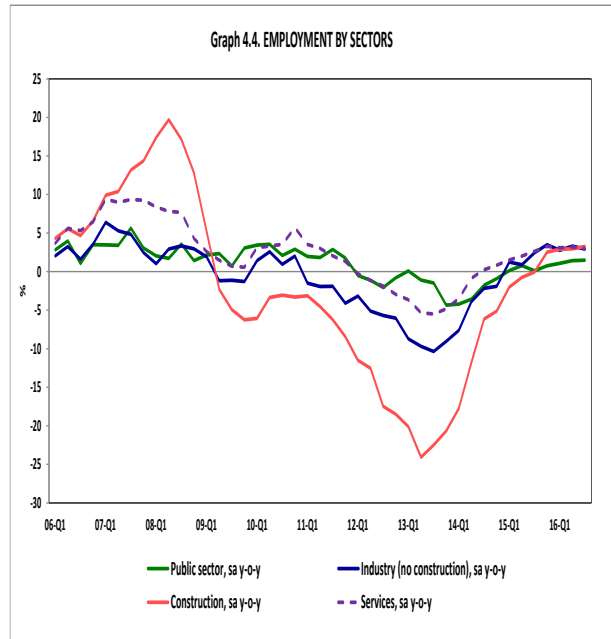
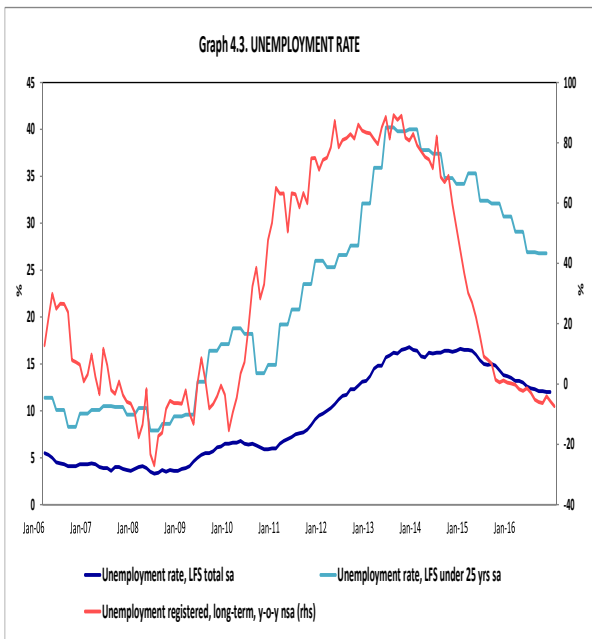
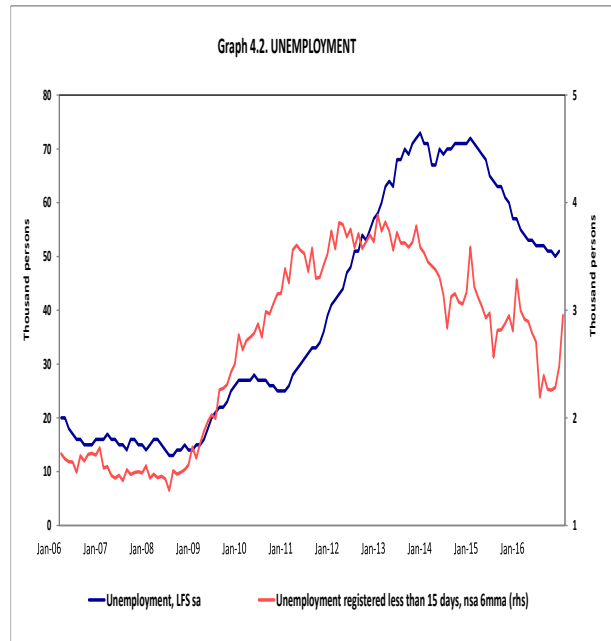
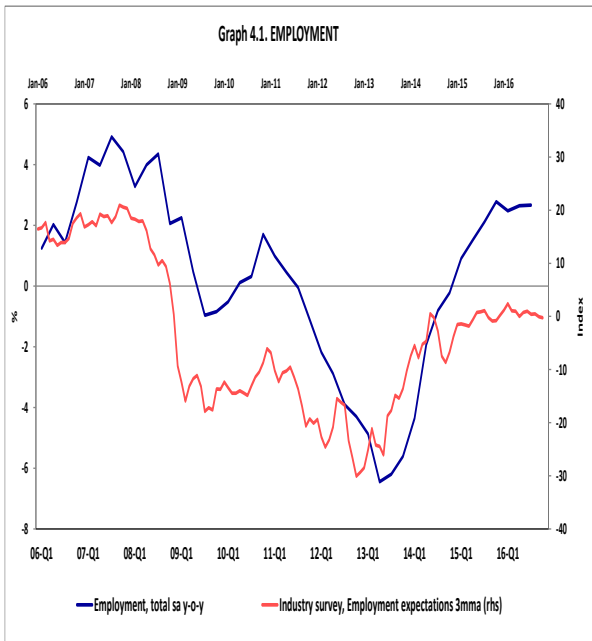
Sources: Eurostat, DG ECFIN, Cystat, JCC Payment Systems Ltd

3. INVESTMENT



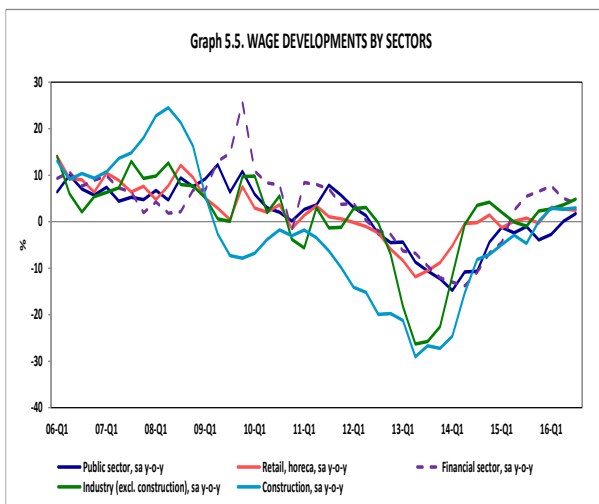
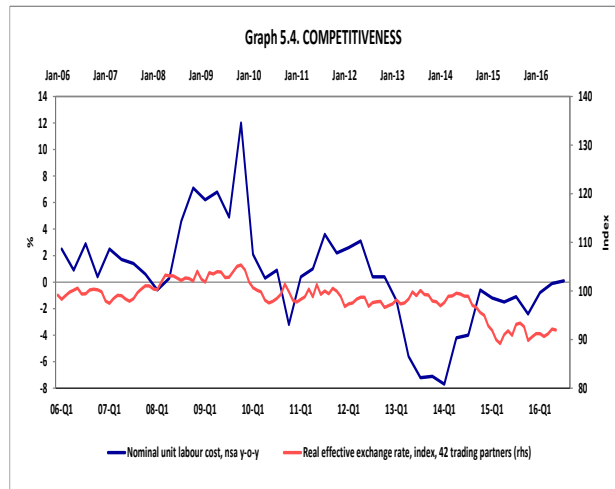
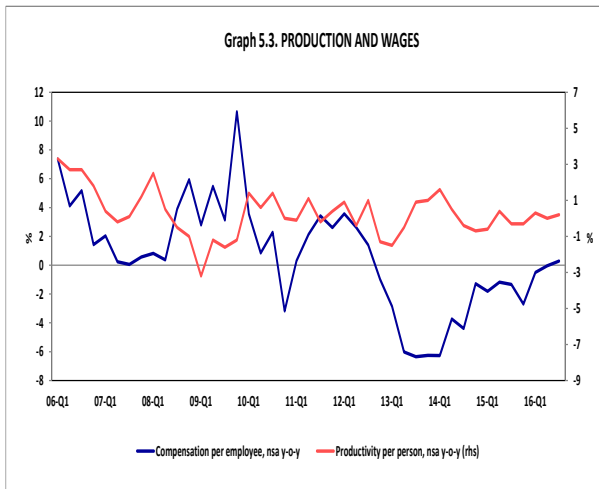
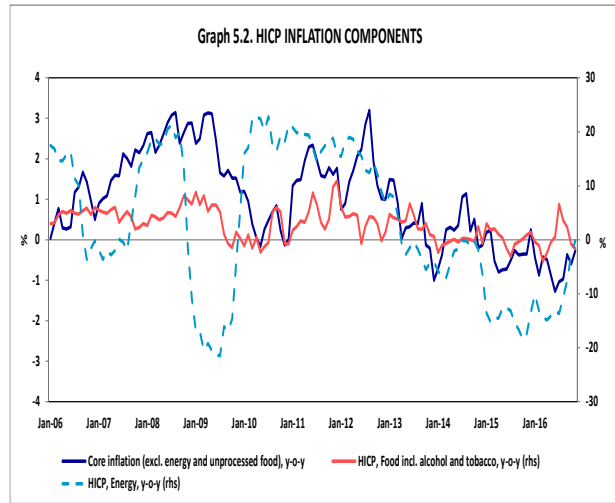
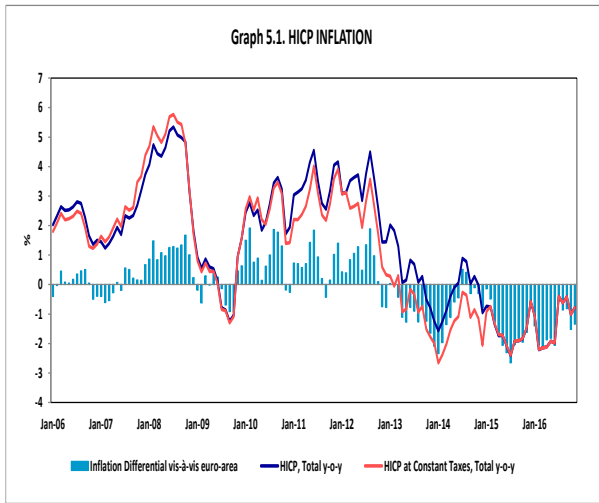
Sources: Eurostat, DG ECFIN, Cystat

4. LABOUR MARKET



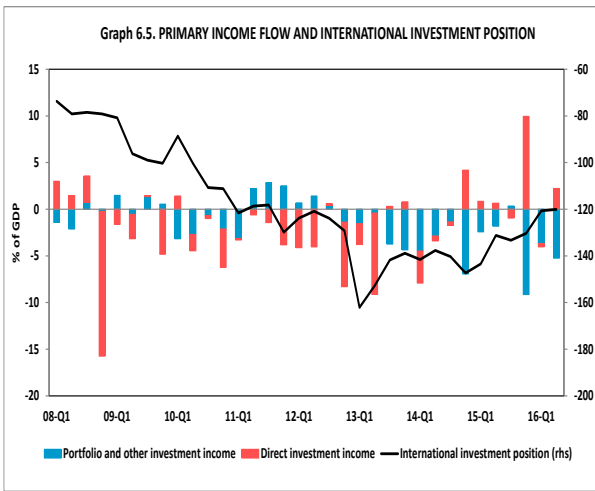
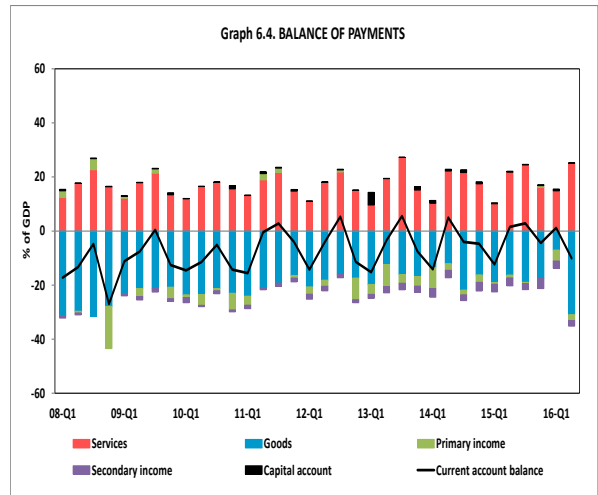
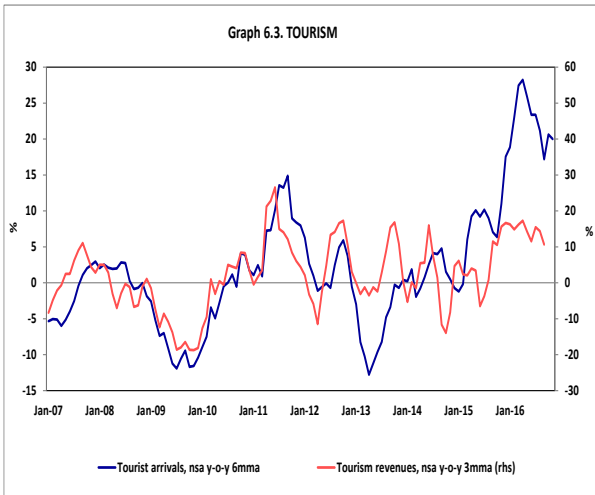
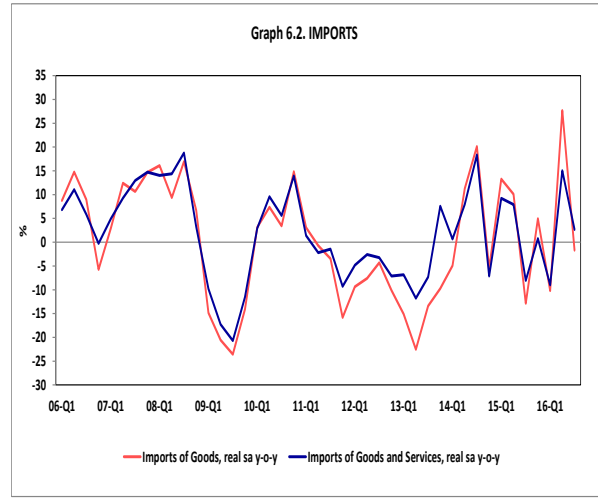
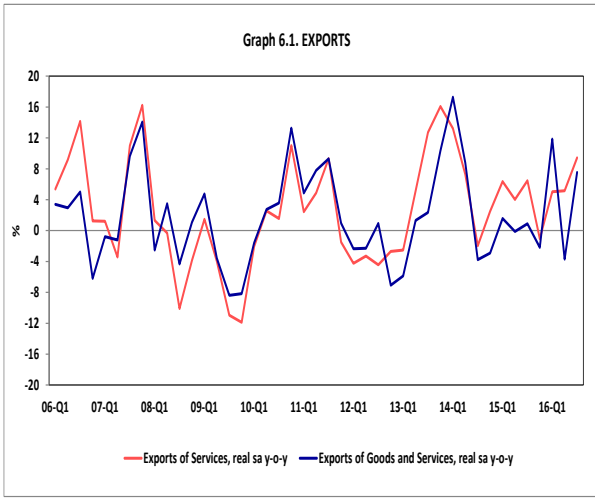
Sources: Eurostat, DG ECFIN, Cystat

5. INFLATION, WAGES



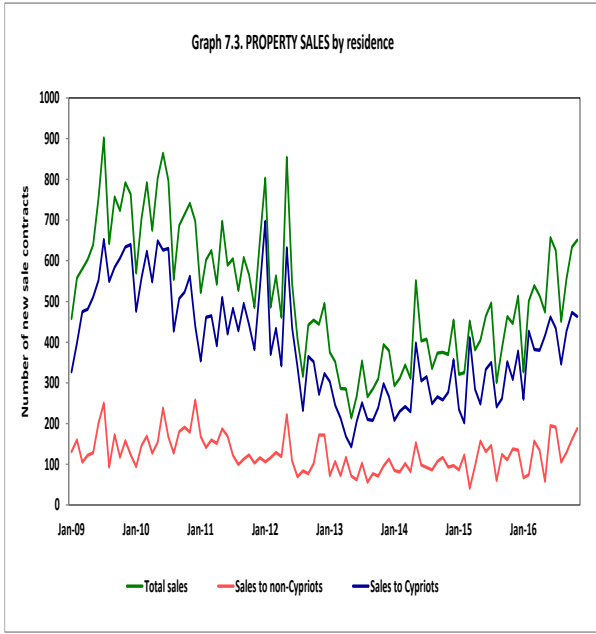
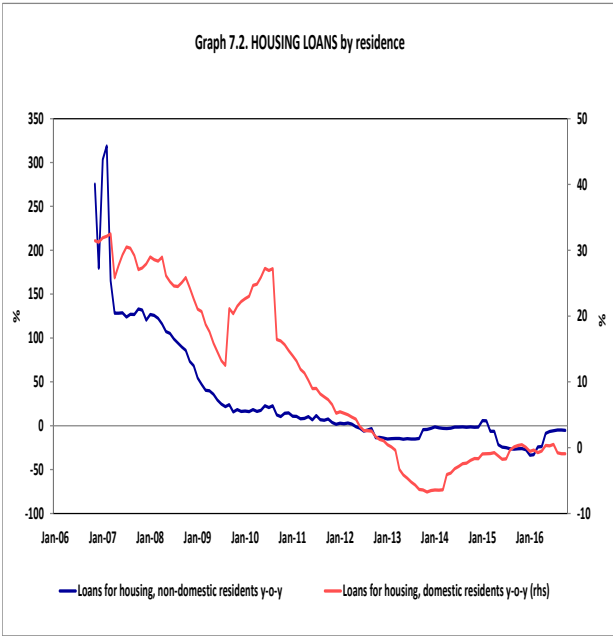
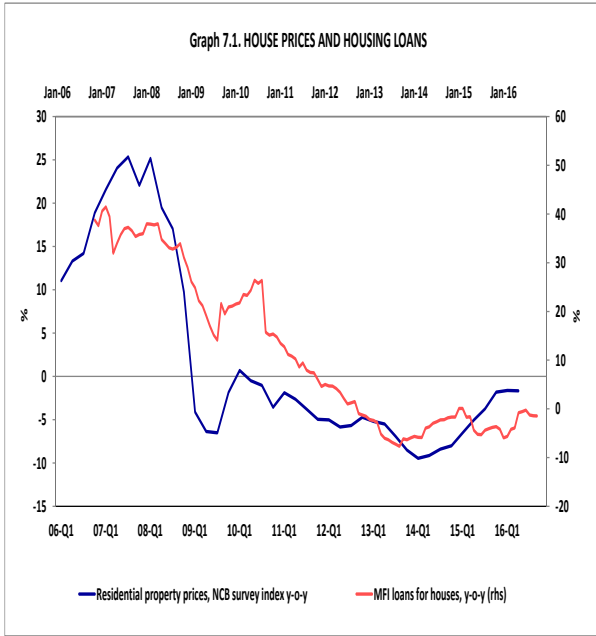
Source: Eurostat

6. EXTERNAL SECTOR



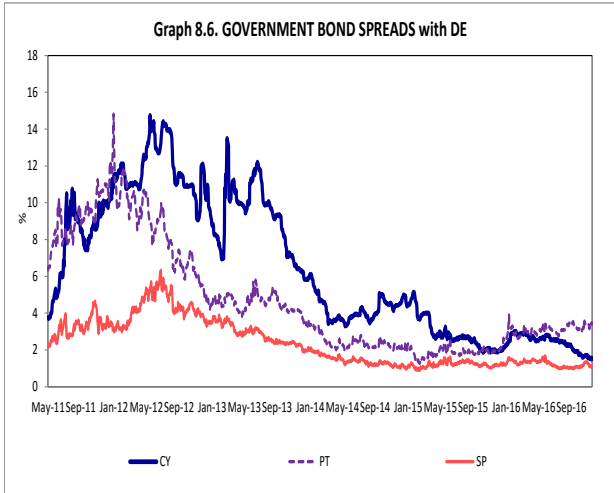
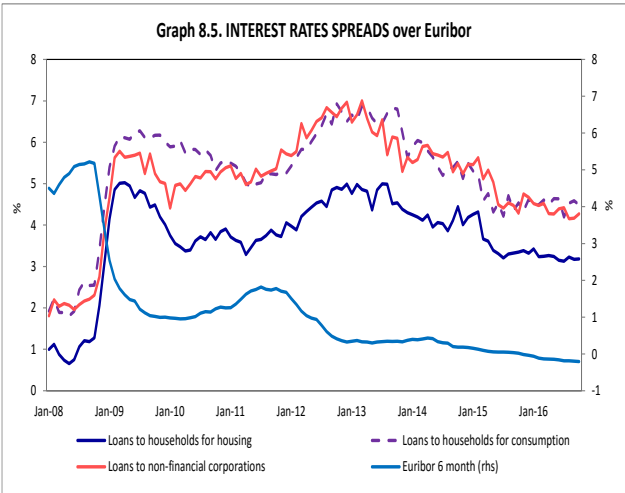
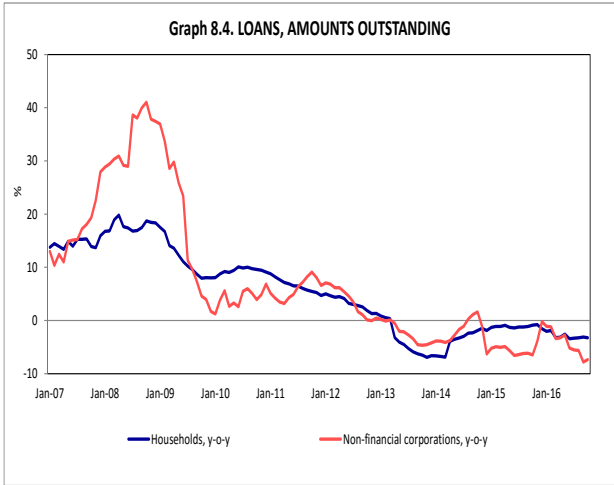
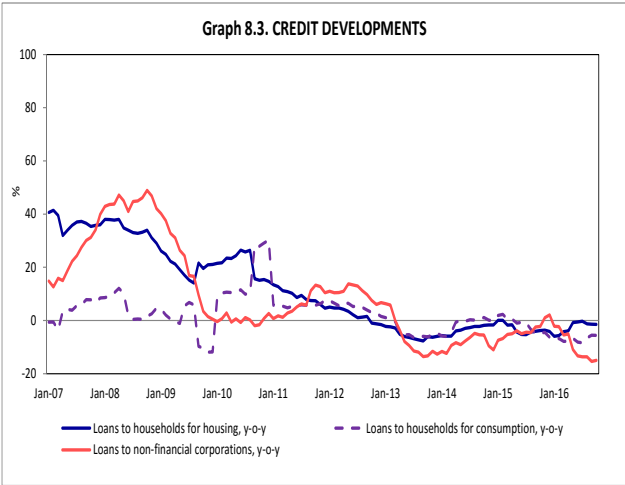
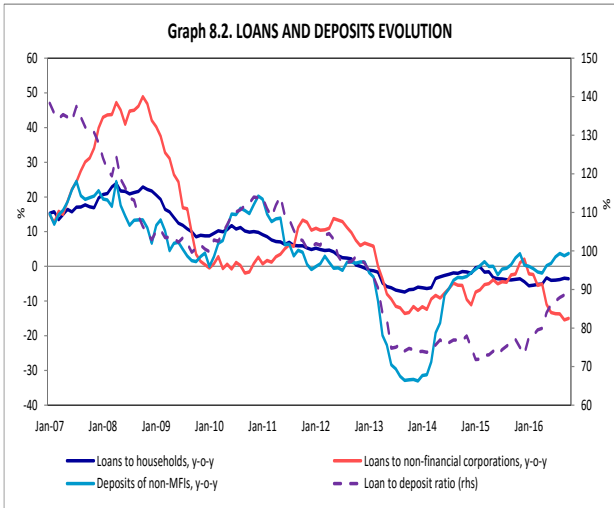
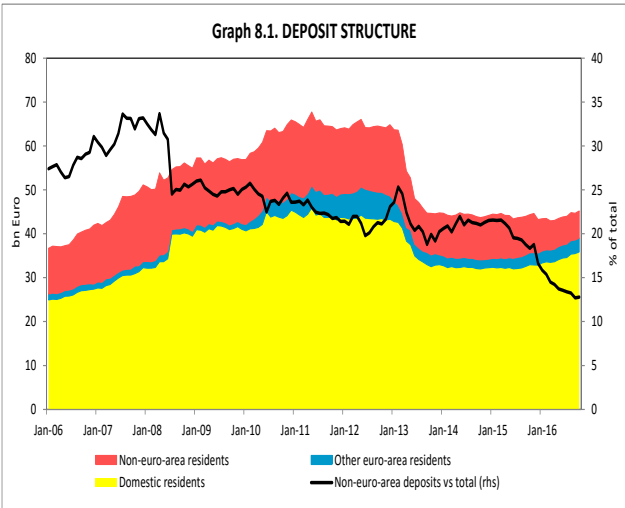
Sources: Eurostat, Cystat, ECB, CBC

7. HOUSING



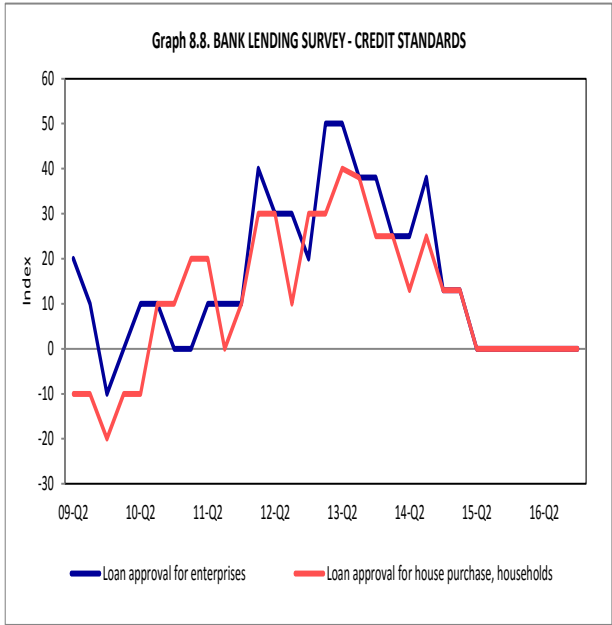
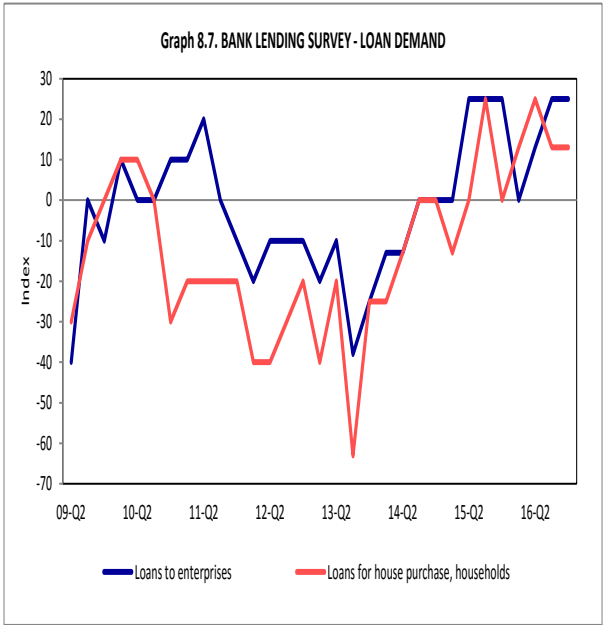
Sources: ECB, CBC, Dep. of Lands and Surveys

8. FINANCIAL SECTOR



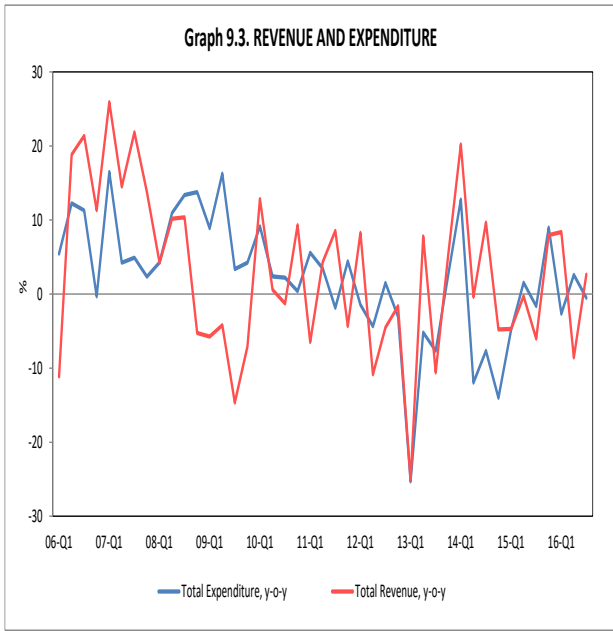
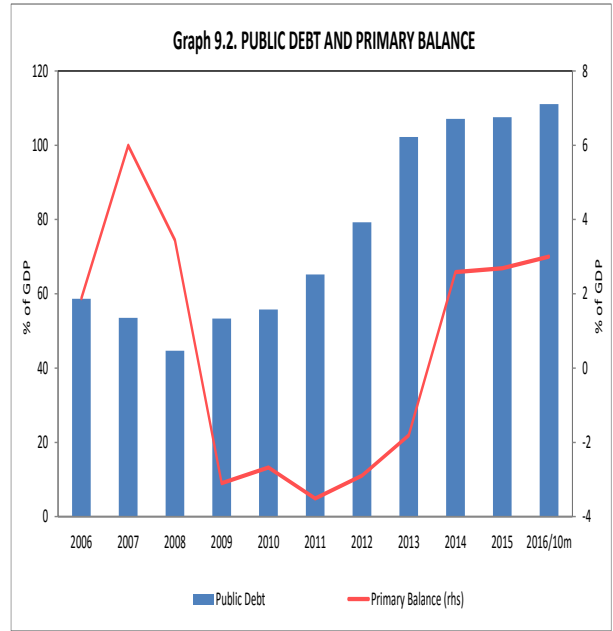
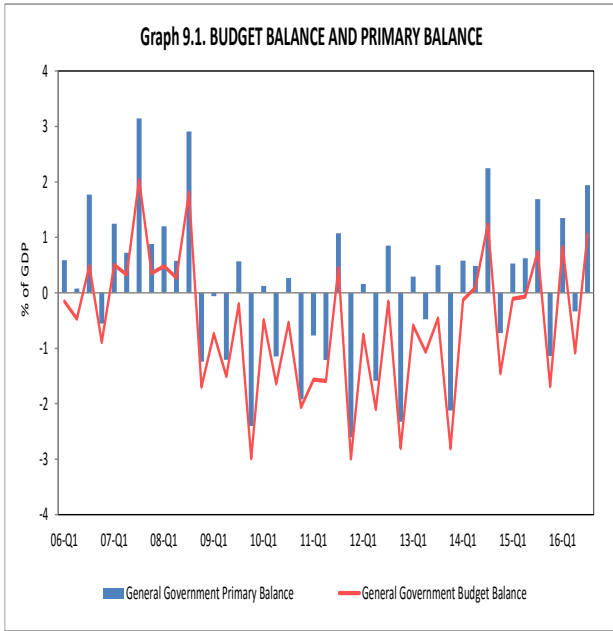
Sources: ECB, CBC, Bloomberg

8. FINANCIAL SECTOR – CONT.



Source: ECB

9. PUBLIC SECTOR



Sources: Ministry of Finance, Cystat