



# MACROECONOMIC MONITOR OF CYPRUS

February 2016

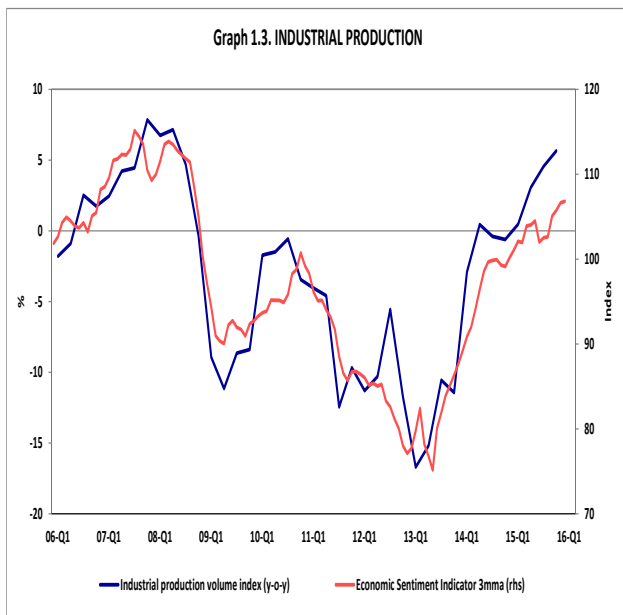
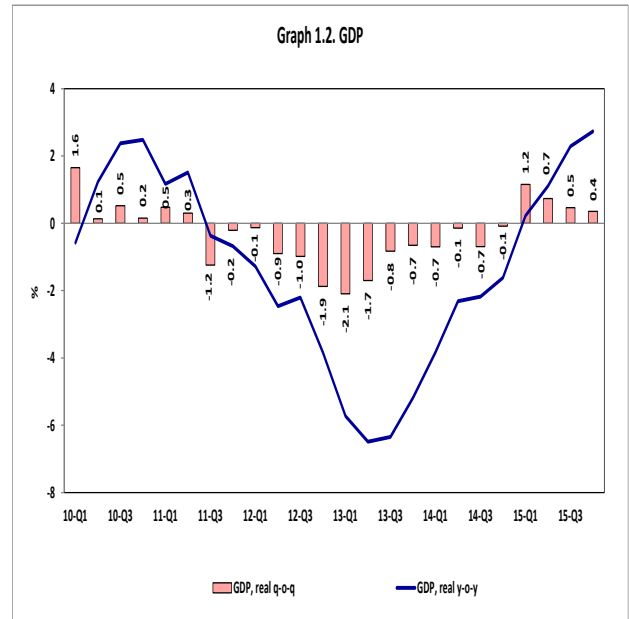
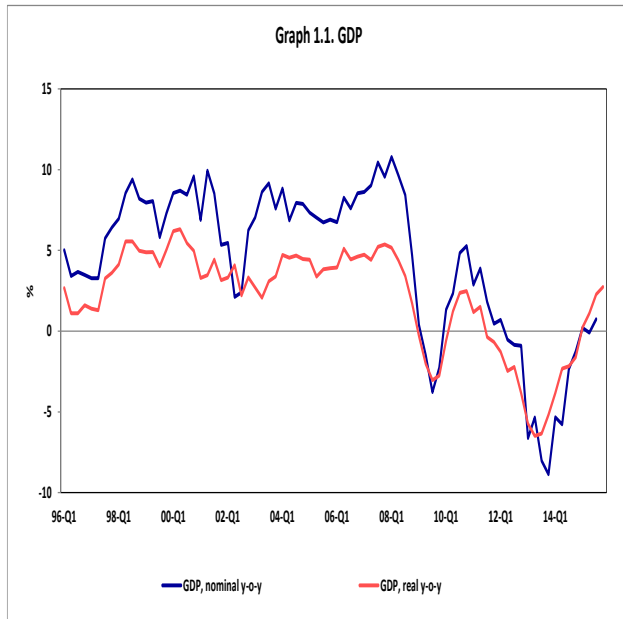
## MACROECONOMIC MONITOR OF CYPRUS

*Updated on 26 February 2016*

- **In the 4<sup>th</sup> quarter of 2015, GDP** (in seasonally adjusted terms) **recorded a positive rate of growth of 2.7% compared with a positive rate of growth of 2.3% in the 3<sup>rd</sup> quarter of 2015** on an annual basis (see graphs 1.1-1.2). The increase of the GDP growth rates is mainly attributed to the sectors hotels and restaurants, professional, scientific and technical activities, retail and wholesale trade, manufacturing, construction, transport as well as the financial service activities (see graphs 3.1-3.4 and 6.1-6.2). For 2015 as a whole, real GDP recorded a positive rate of growth of the order of 1.6% compared to 2014.
- Having regard that, the business operating environment is exhibiting signs of rebound given that lending to non-financial corporations has turned marginally positive and interest rates are in decline, we expect growth to continue and accelerate further in 2016.
- Developments are currently driven by improving **domestic demand** (see graphs 2.1-2.4).
- The **economic sentiment indicator** by CypERC **increased by 2.2 points in January 2016** compared to December 2015 (see graph 1.3). This increase is due to improvement of the business climate in services and to a lesser extent in construction.
- **Exports of goods increased by 19%** in January-December 2015 compared to January-December 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 8%.
- In January 2016 **tourist arrivals increased by 16.3%** compared to January 2015 (see graph 6.3). An increase of 10.5% was recorded in tourist arrivals from Russia, a 23% increase from Germany, an 18% increase from the UK and a 17.3% increase from Greece.
- **Employment** adjusted to the conditions of improving economic growth (see graphs 4.1 and 4.4). Employment in persons **increased by 0.7%** in the first nine months of 2015 compared to the first nine months 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 **to 15.7% in December 2015 compared to 16.5% in December 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 first nine months of 2015 **declined by around 0.6%** compared to the first nine months of 2014, contributing to a decline of nominal unit labour costs 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 January 2016 stood at -1.1% compared to -0.6% in December 2015 (see graph 5.1). Core HICP inflation stood at -0.4% in January 2016 (see graph 5.2). All subcategories of HICP presented a decrease except for clothing and footwear, furnishings, household equipment and supplies, health, education and restaurants and hotels which presented an increase.
- The **current account balance** in the first nine months of 2015 recorded **a deficit of €680.4 mn (-3.9% of GDP)** compared with a deficit of €586.5 mn (-3.4% of GDP) in the first nine months of 2014 (see graph 6.4) mainly due to a deterioration in goods.
- The **primary income** recorded a **deficit of €152.9 mn** in the first nine months of 2015 compared with a deficit of €408.2 mn in the first nine months 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 significant improvement in September 2015 reaching -€23,048.2 mn compared with -€24,189.0 mn in June 2015.

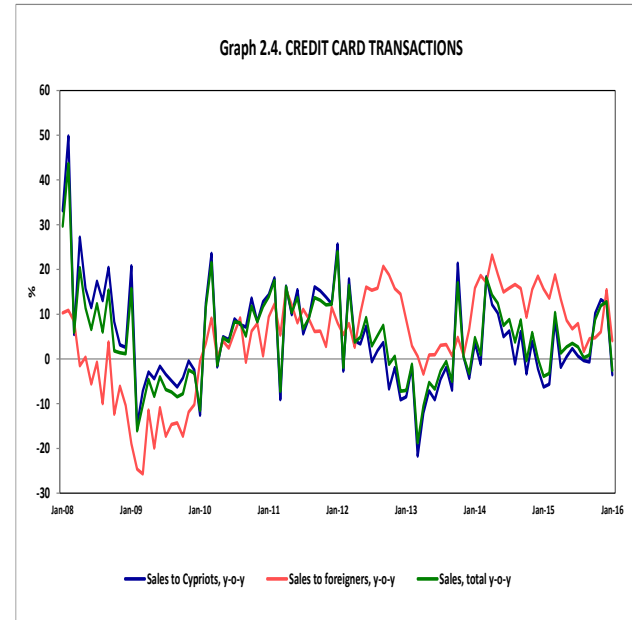
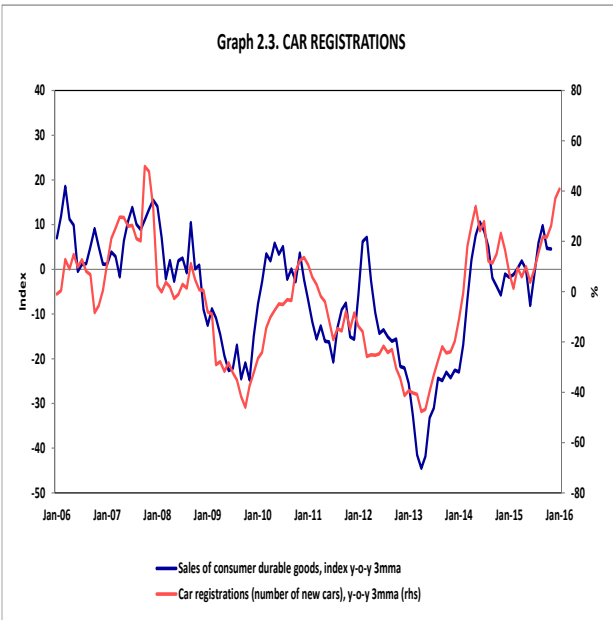
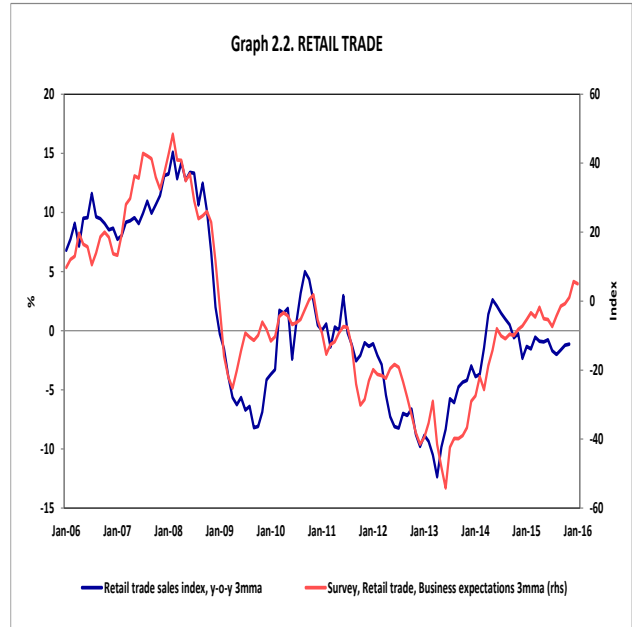
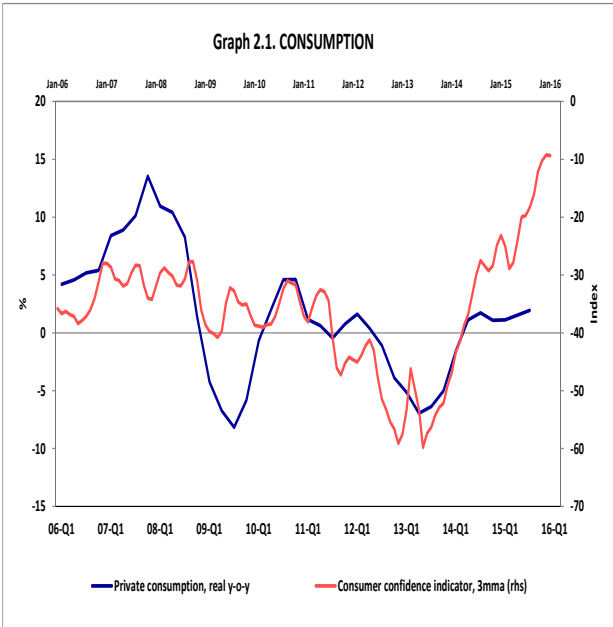
- General government budget balance (GGBB) **was in deficit** in January-December 2015, of the order of **€81.5 mn (-0.5% of GDP)** compared to a deficit of €43 mn (-0.2% of GDP) during the corresponding period the year before (see graph 9.1).
- General government **primary balance** (GGPB) **was in surplus** in January-December 2015, of the order of **€466.5 mn (2.7% of GDP)** compared to a surplus of €455.2 mn (2.6% of GDP) during the corresponding period the year before (see graphs 9.1-9.2).
- **Total revenue** exhibited a **negative** rate of growth of about 0.6%, declining to €6,885.6 mn in January-December 2015, compared to €6,924.2 mn during the corresponding period of 2014 (see graph 9.3).
- **Total expenditure** remained almost unchanged, reaching to €6,967.1 mn in January-December 2015, compared to €6,967.2 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 1.5%** in December 2015, affecting both households and enterprises (see graphs 8.2-8.4). This is reflecting gradually improving but still tight 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 0.9%** in December 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 December 2015, **deposit interest rates** for maturity up to 1 year increased and up to 3 months **marginally increased** compared with the previous month. The **lending interest rates** to households for primary residence **decreased** and the rate for other loans up to €1 mn for businesses marginally increased. 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 decreased by **0.7%** in the **3<sup>rd</sup> quarter of 2015** compared to the 2<sup>nd</sup> quarter of 2015 and increased by 2.5% compared to the 3<sup>rd</sup> quarter of 2014.
- The CBC's residential property price index declined by 3.7% in the 3<sup>rd</sup> quarter of 2015 compared to the 3<sup>rd</sup> quarter of 2014. Cumulative from the 1<sup>st</sup> quarter of 2008 it has declined by 28.9% (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 1.9% while, transfers of property were up by 14.8% in January 2016 compared to January 2015 (see graph 7.3). MFI mortgage loans to domestic residents for housing declined with an annual rate of 1.9% in December 2015 (see graph 7.2).
- The Cyprus Government bond spread compared to the German Government bond, increased in February 2016 compared to January 2016 to around 292 basis points above the German bond on 26/02/2016 compared to 226 basis points on 29/01/2016 (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



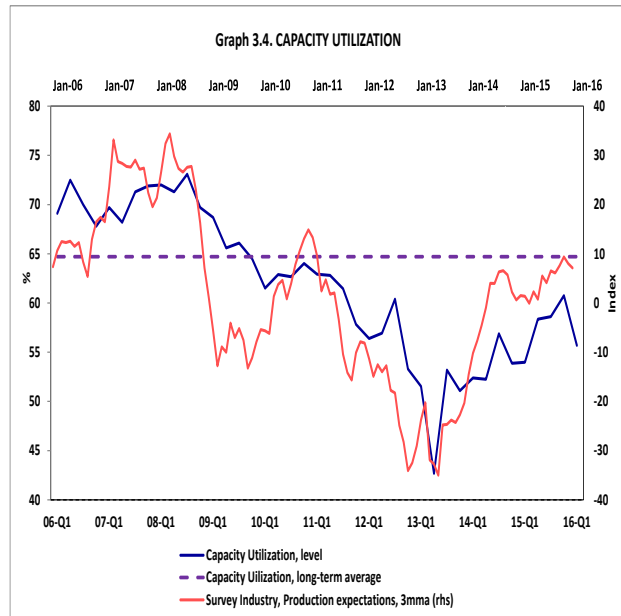
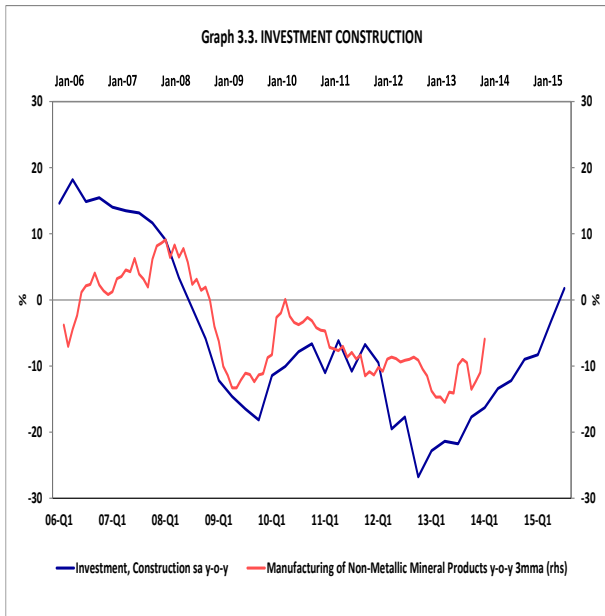
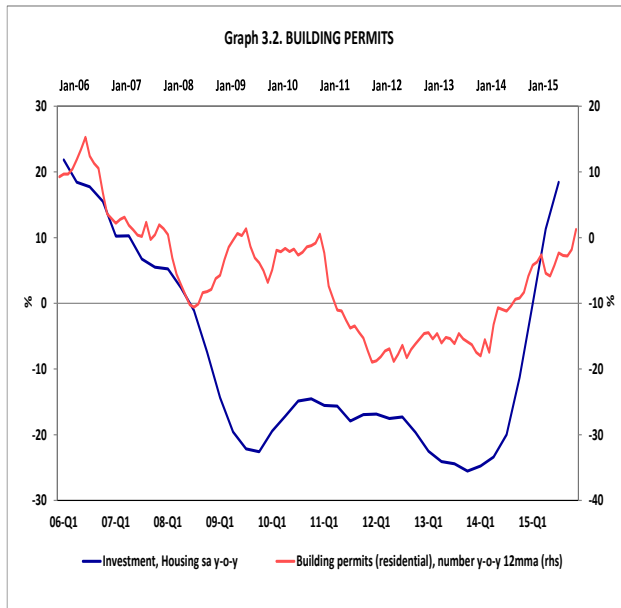
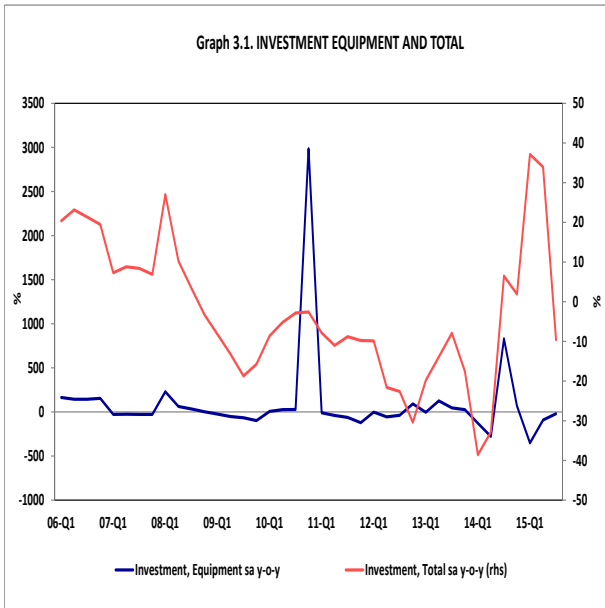
Sources: Eurostat, DG ECFIN, Cystat

2. CONSUMPTION



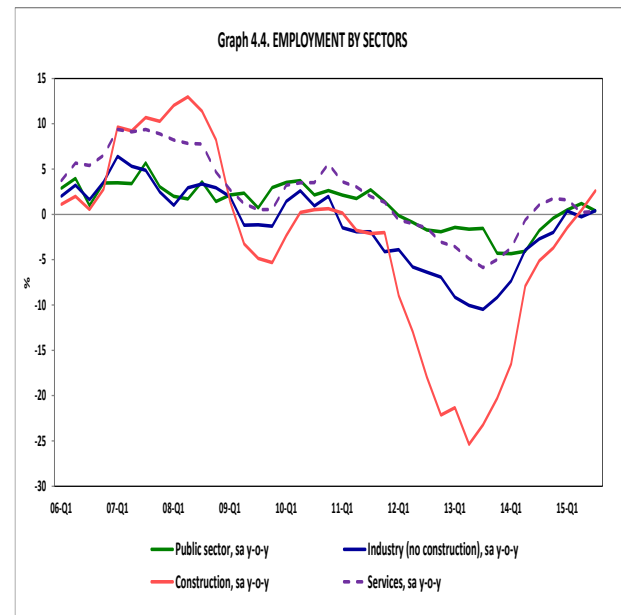
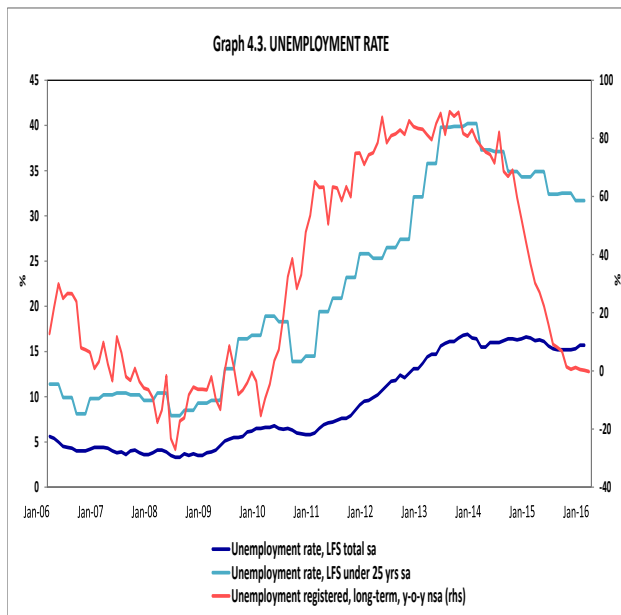
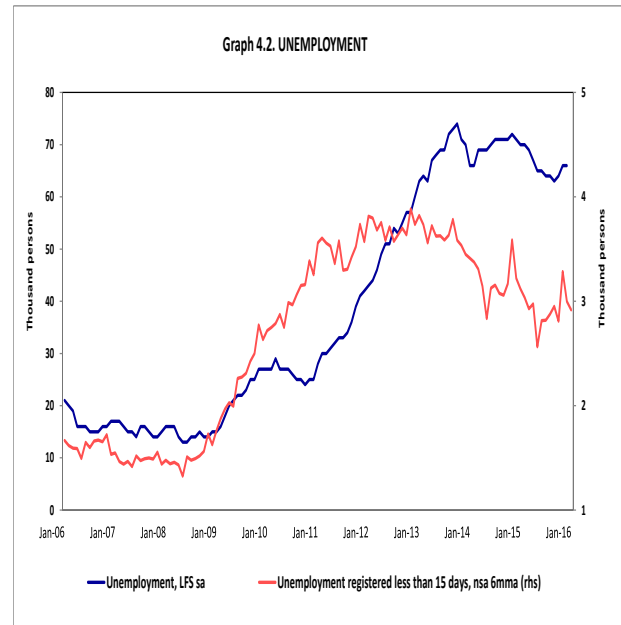
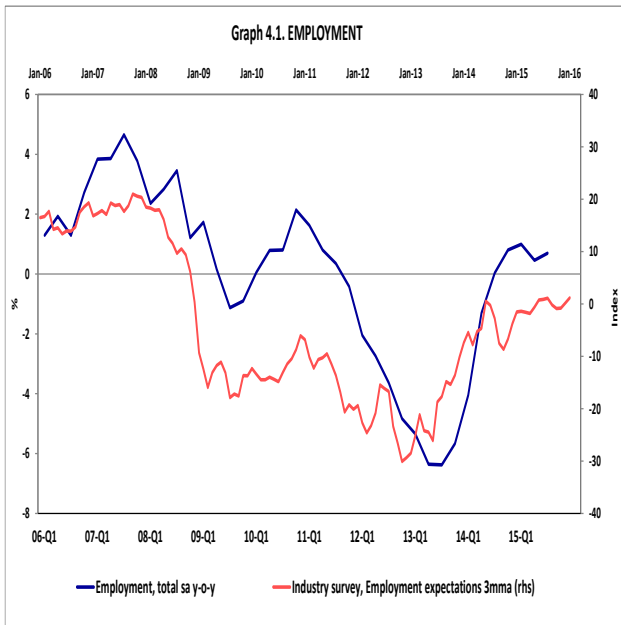
Sources: Eurostat, DG ECFIN, Cystat, JCC Payment Systems Ltd

3. INVESTMENT



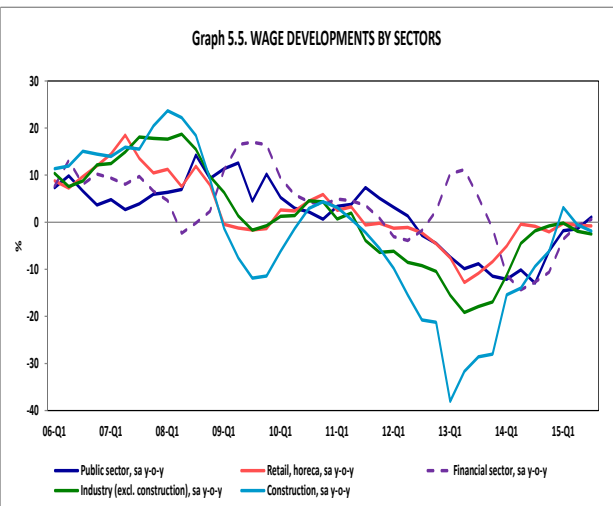
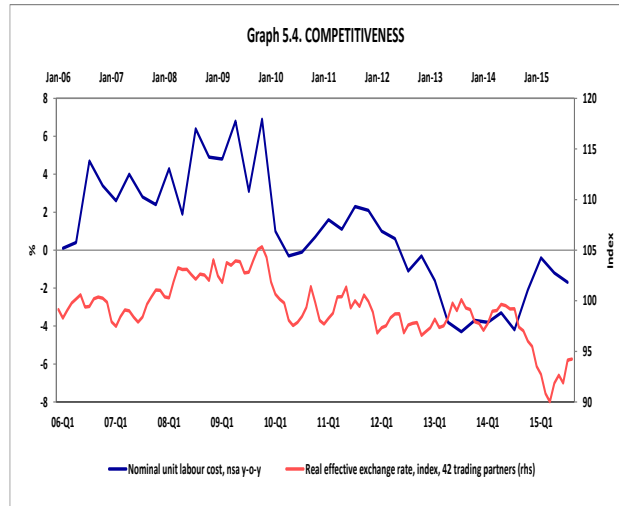
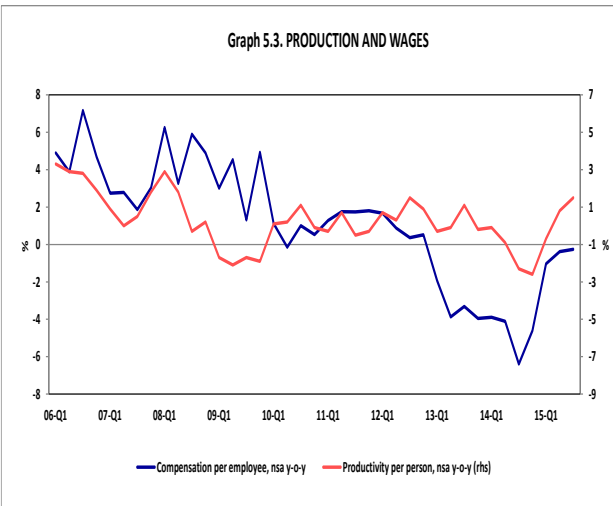
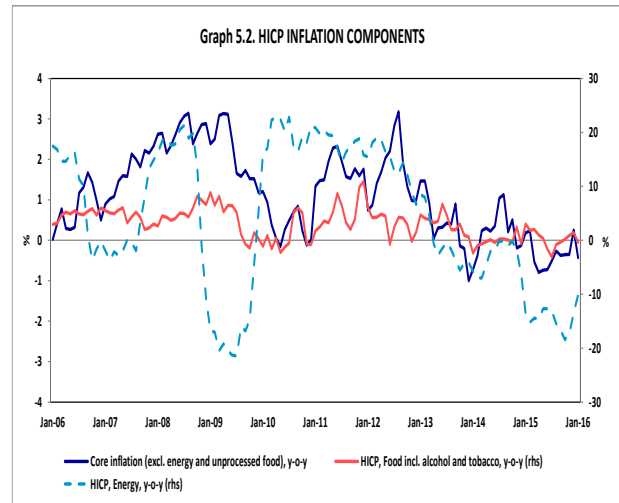
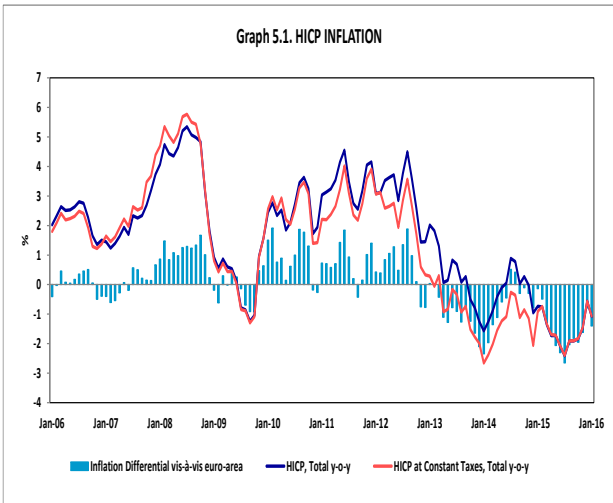
Sources: Eurostat, DG ECFIN, Cystat

4. LABOUR MARKET



Sources: Eurostat, DG ECFIN, Cystat

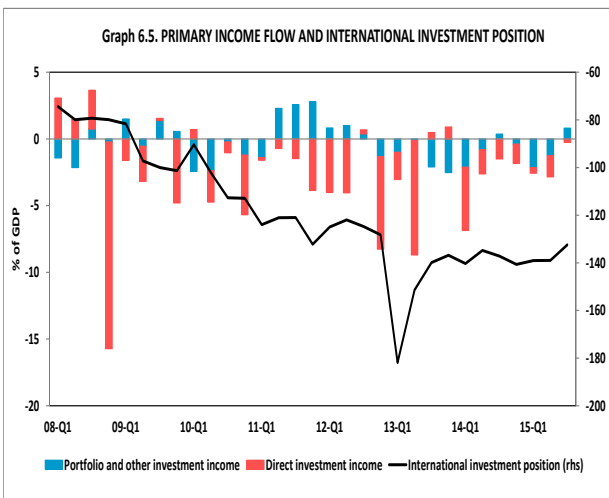
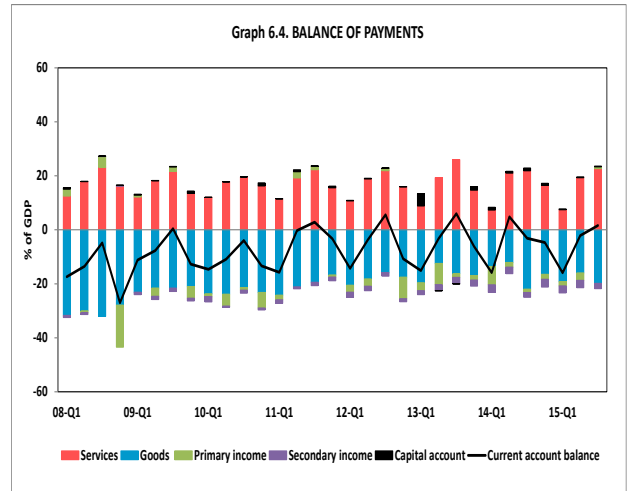
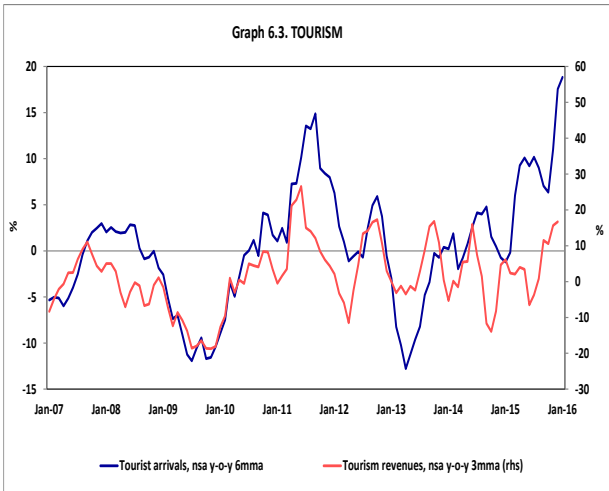
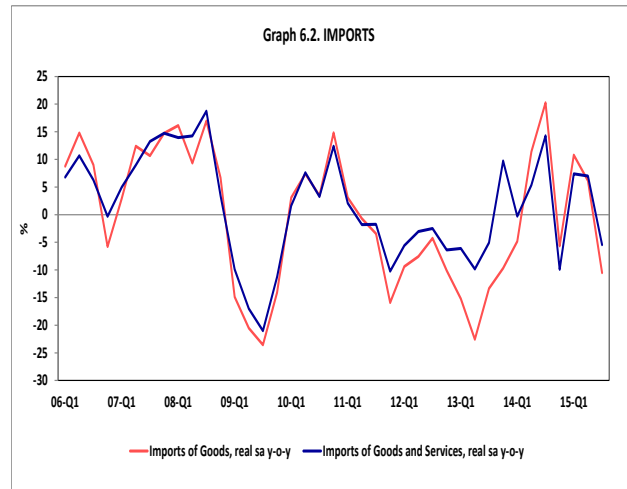
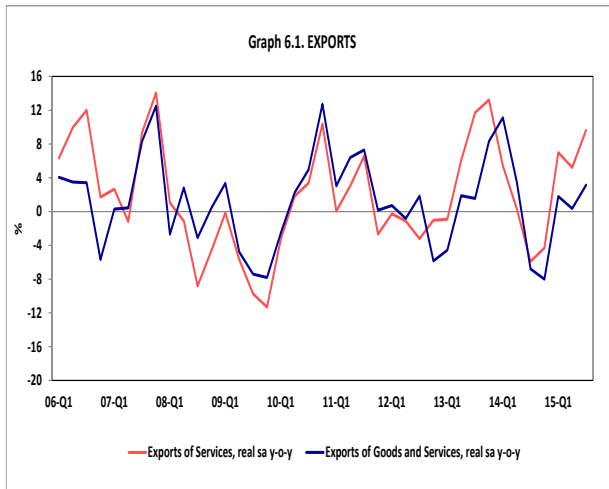
5. INFLATION, WAGES



Source: Eurostat

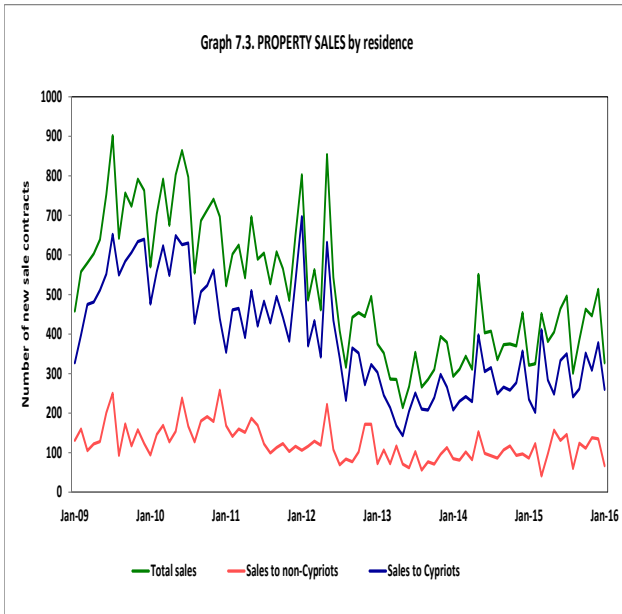
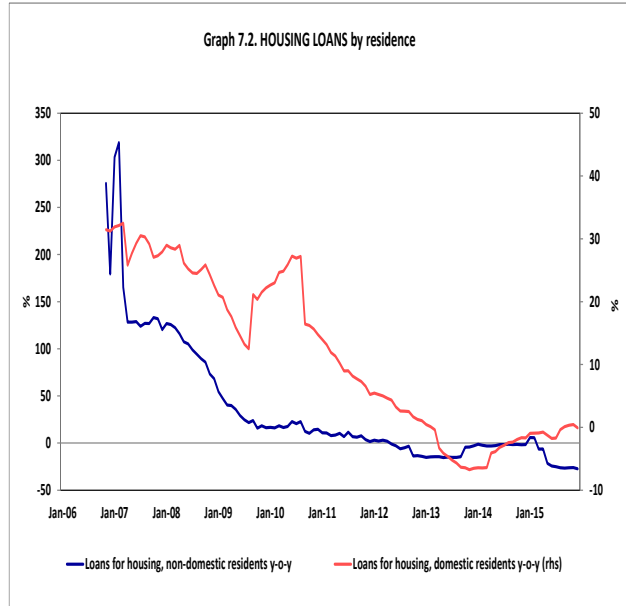
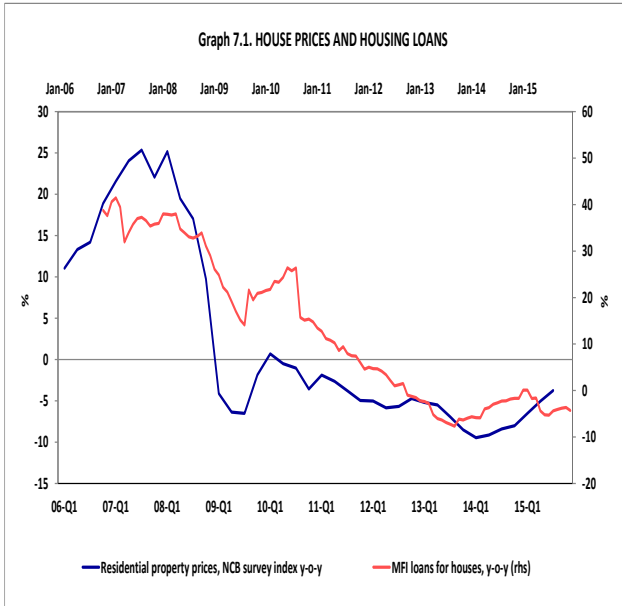


6. EXTERNAL SECTOR



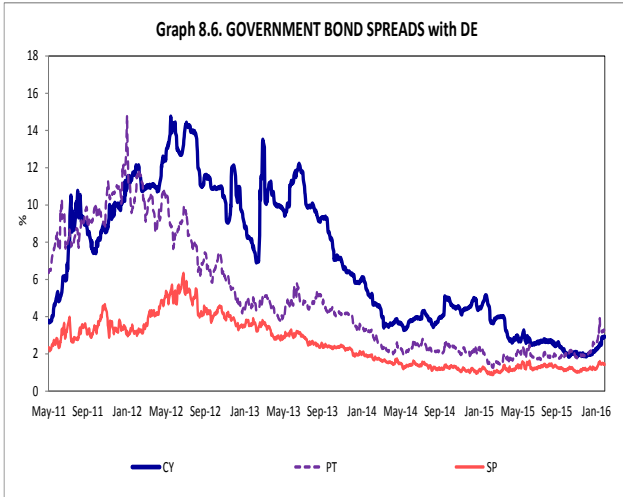
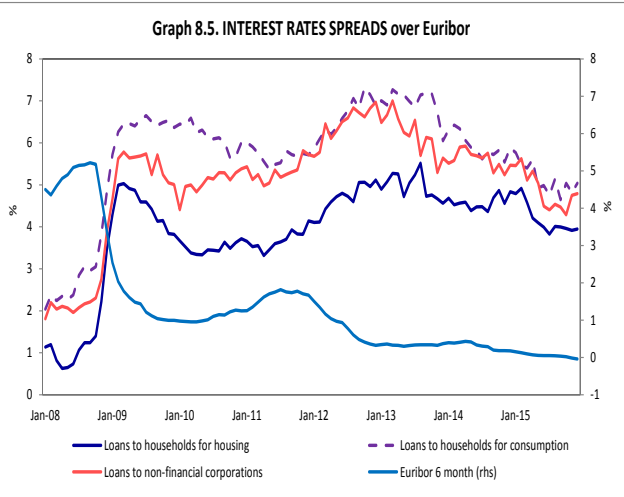
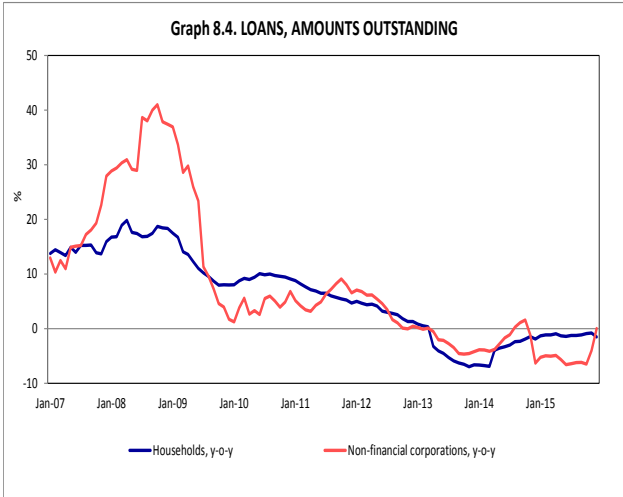
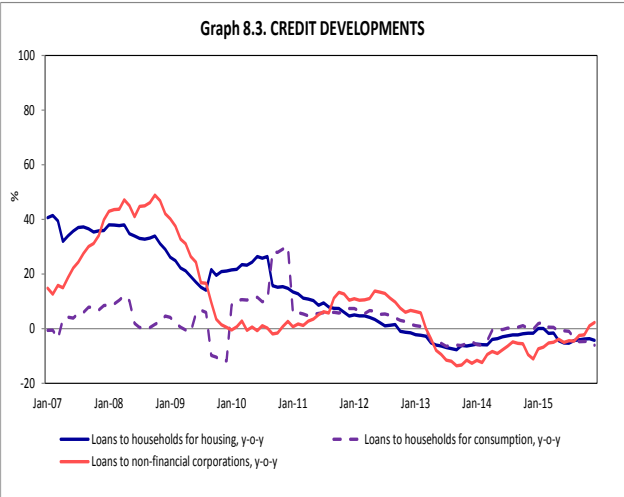
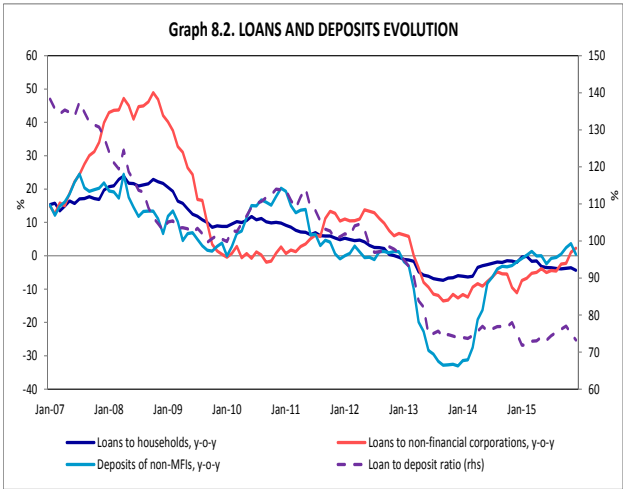
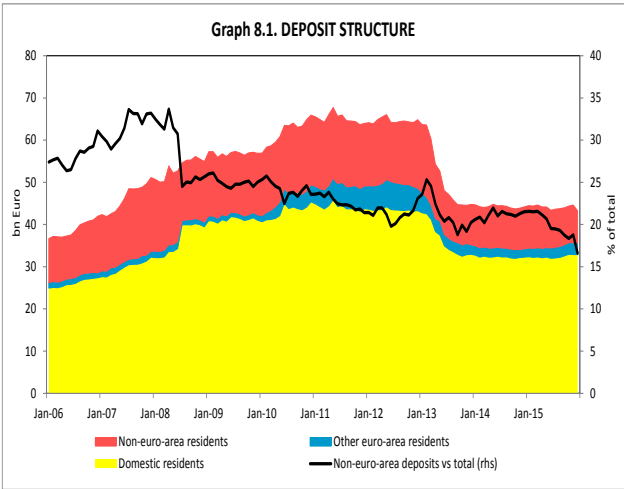
Sources: Eurostat, Cystat, ECB, CBC

7. HOUSING



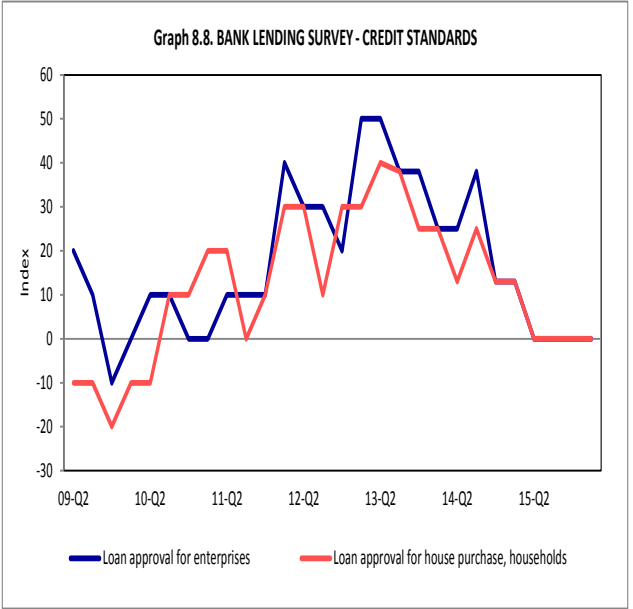
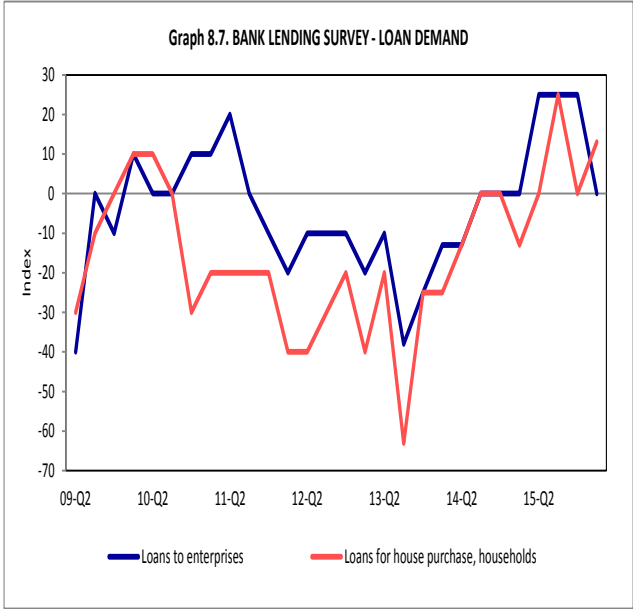
Sources: ECB, CBC, Dep. of Lands and Surveys

8. FINANCIAL SECTOR



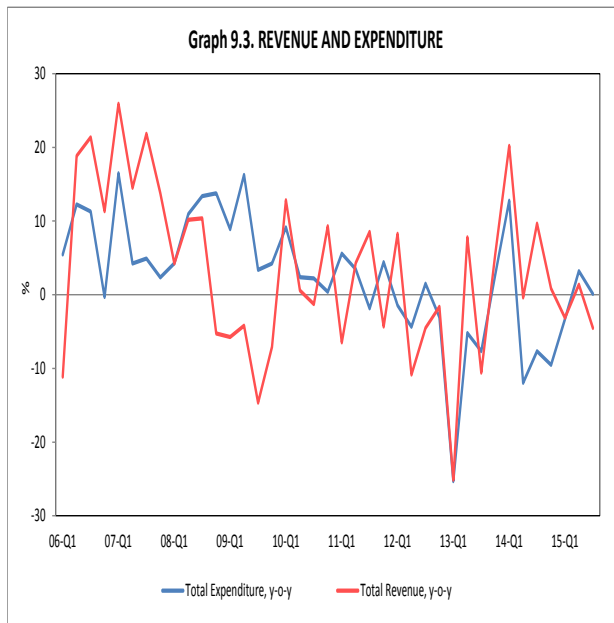
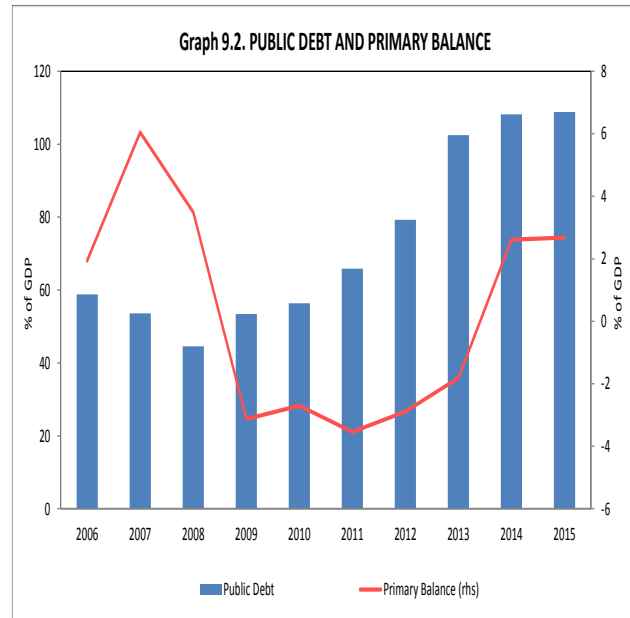
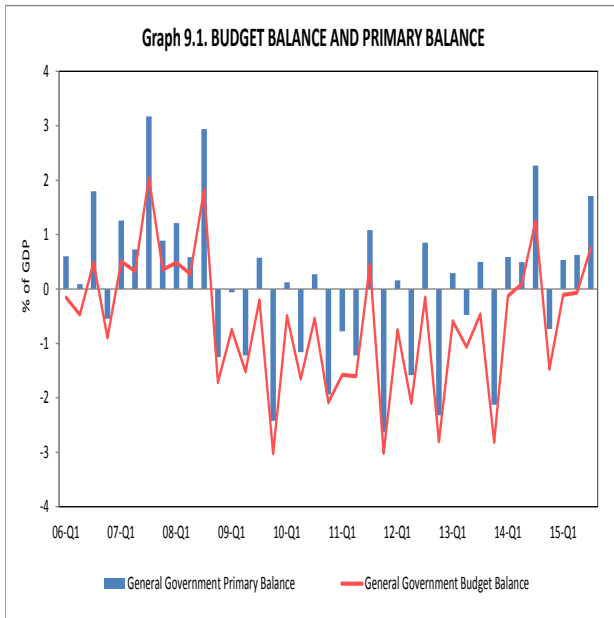
Sources: ECB, CBC, Bloomberg

8. FINANCIAL SECTOR – CONT.



Source: ECB

9. PUBLIC SECTOR



Sources: Ministry of Finance, Cystat