



# MACROECONOMIC MONITOR OF CYPRUS

January 2016

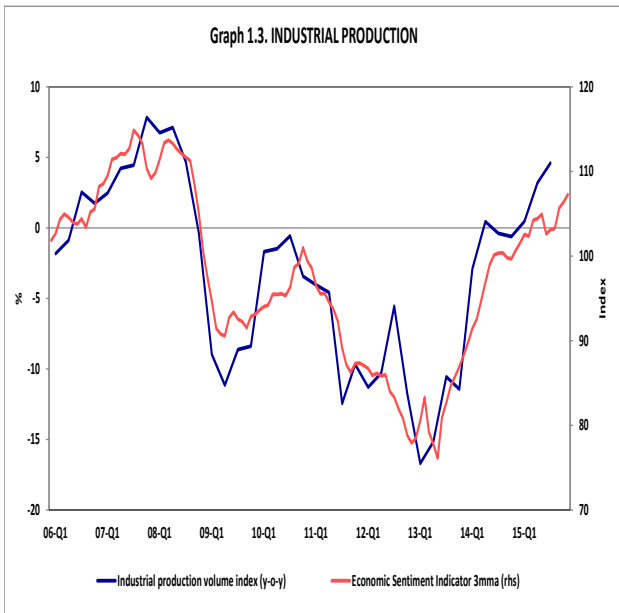
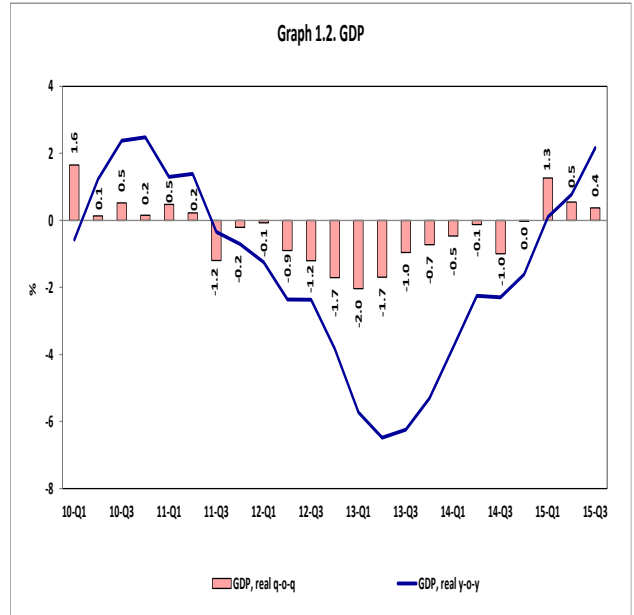
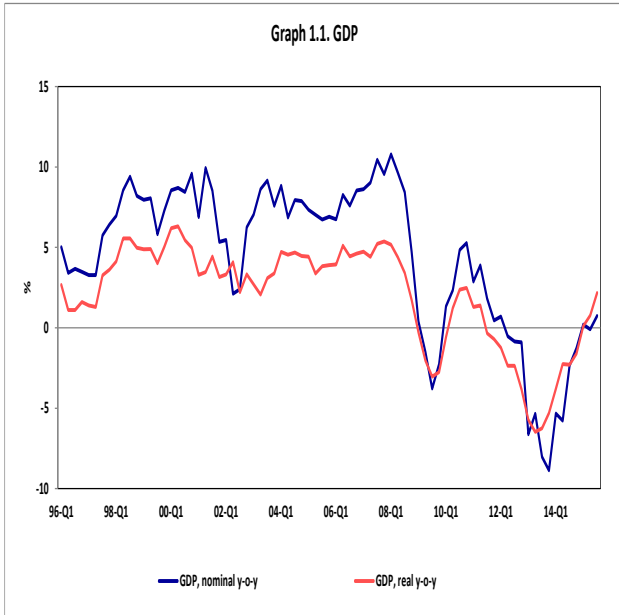
## MACROECONOMIC MONITOR OF CYPRUS

*Updated on 21 January 2016*

- **In the 3<sup>rd</sup> quarter of 2015, GDP** (in seasonally adjusted terms) **recorded a positive rate of growth of 2.2% compared with a positive rate of growth of 0.8% in the 2<sup>nd</sup> quarter of 2015** on an annual basis (see graphs 1.1-1.2). Positive growth rates were recorded by the sectors of manufacturing, construction, retail and wholesale trade, hotels and restaurants, transport, professional, scientific and technical activities, administrative and support service activities as well as the financial service activities. Negative growth rates were recorded by the sectors of recreational, cultural and sporting activities, activities of households as employers and other community, social and personal service activities (see graphs 3.1-3.4 and 6.1-6.2).
- Having regard that, the business operating environment stabilized and gradual rebounding given that lending to non-financial corporations has turned marginally positive and interest rates are in decline, we expect return to growth as from 2015.
- Developments are currently driven by improving **domestic demand** (see graphs 2.1-2.4).
- The **economic sentiment indicator** by CypERC **increased by 1.3 points in December 2015** compared to November 2015 (see graph 1.3). This increase is due to strengthening of economic confidence in services and, to lesser extent, to retail trade.
- **Exports of goods increased by 19.3%** in January-November 2015 compared to January-November 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 7.4%.
- In 2015 **tourist arrivals increased by 8.9%** compared to 2014 (see graph 6.3). An increase of 43.3% was recorded in tourist arrivals from Israel, a 29.9% increase from Germany, a 19.5% increase from the UK and a 38.2% increase from Greece. On the other hand a 17.6% decrease was recorded in arrivals from Russia the second major player in the sector.
- **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 15.8% in November 2015 compared to 16.6% in November 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 December 2015 stood at -0.6% compared to -1.5% in November 2015 (see graph 5.1) and for 2015 it averaged at -1.6%. Core HICP inflation stood at -0.3% in 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 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.

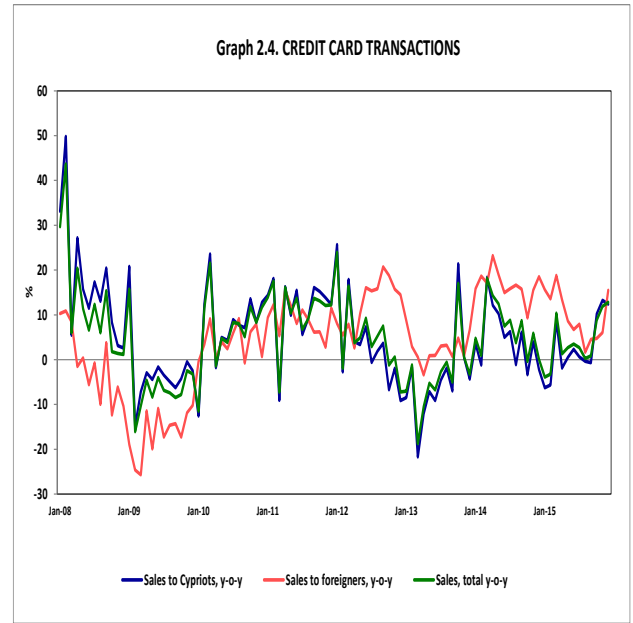
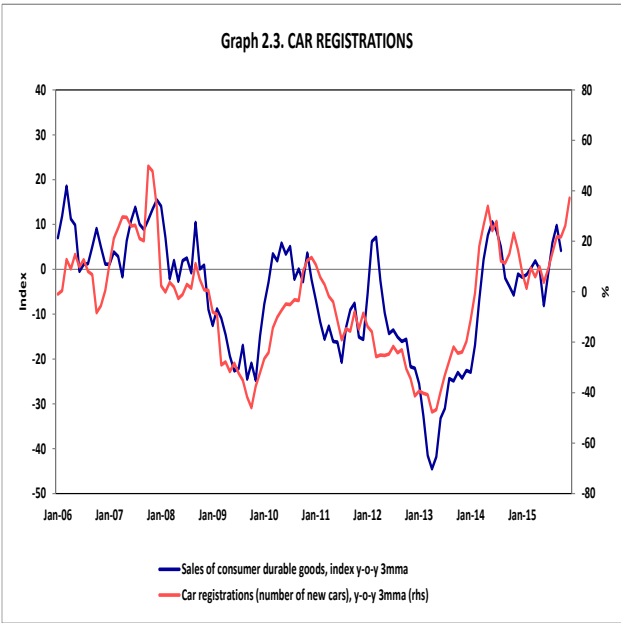
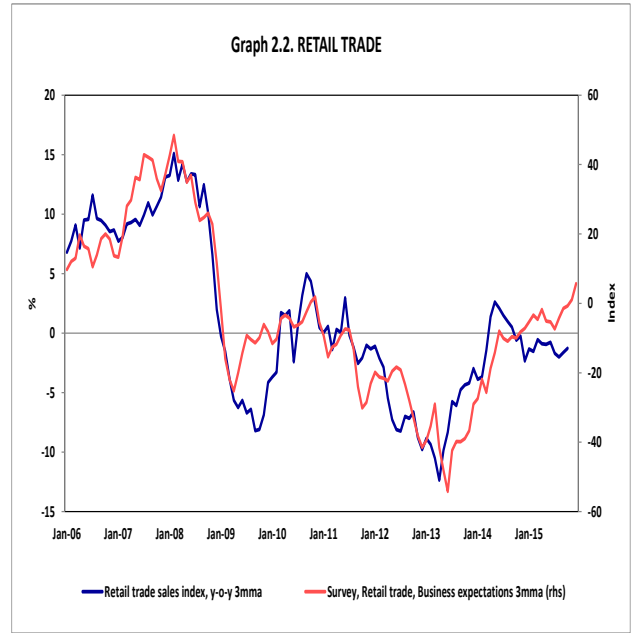
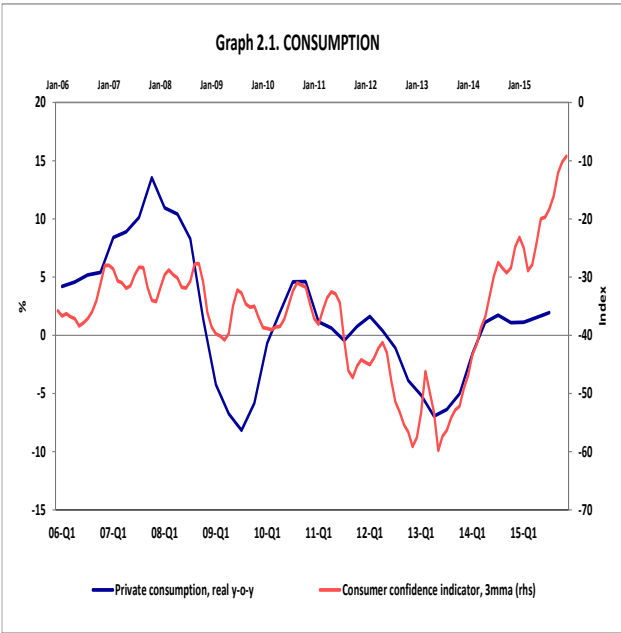
- The **primary income** recorded a **deficit of €152.9 mn** in the first nine months of 2015 compared with a deficit of €408.2 mn in the first nine months of 2014 (see graph 6.4) mainly due to improvement in investment income (direct investment).
- The international investment position of Cyprus (see 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 surplus** in January-November 2015, of the order of **€1.6 mn (0.0% of GDP)** compared to a surplus of €251.7 mn (1.4% of GDP) during the corresponding period the year before (see graph 9.1).
- General government **primary balance** (GGPB) **was in surplus** in January-November 2015, of the order of **€455.3 mn (2.6% of GDP)** compared to a surplus of €671.8 mn (3.9% 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 November 2015 stood at €19,356.7 mn (111.2% to GDP).
- **Total revenue** exhibited a **negative** rate of growth of about 3%, declining to €5,939.0 mn in January-November 2015, compared to €6,125.0 mn during the corresponding period of 2014 (see graph 9.3).
- **Total expenditure** exhibited a positive rate of growth of about 1.1%, increasing to €5,937.4 mn in January-November 2015, compared to €5,873.3 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 0.8%** in November 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 0.5%** in November 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 November 2015, **deposit interest rates** for maturity up to 1 year decreased and up to 3 months **remained unchanged** compared with the previous month. The **lending interest rates** to households for primary residence acquisition **remained unchanged** and the rate for other loans up to €1 mn for businesses 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 9.4% while, transfers of property were up by 22% in 2015 compared to 2014 (see graph 7.3). MFI mortgage loans to domestic residents for housing declined with an annual rate of 1.4% in November 2015 (see graph 7.2).
- The Cyprus Government bond spread compared to the German Government bond, increased in mid-January 2016 compared to December 2015 to around 214 basis points above the German bond on 21/01/2016 compared to 187 basis points on 31/12/2015 (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



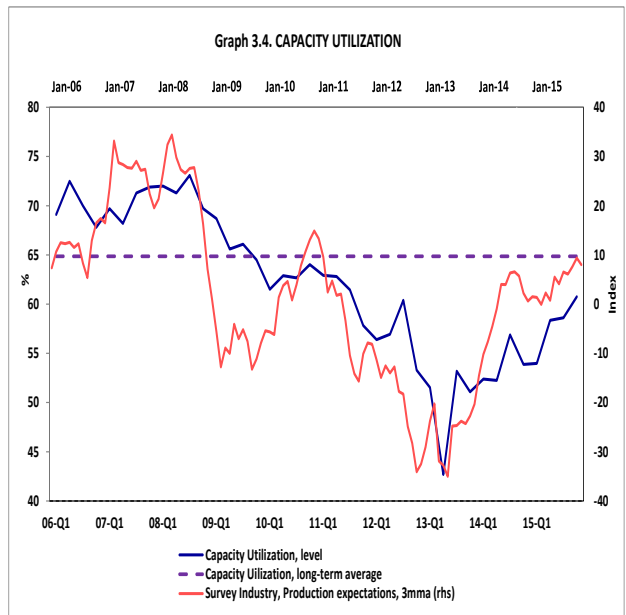
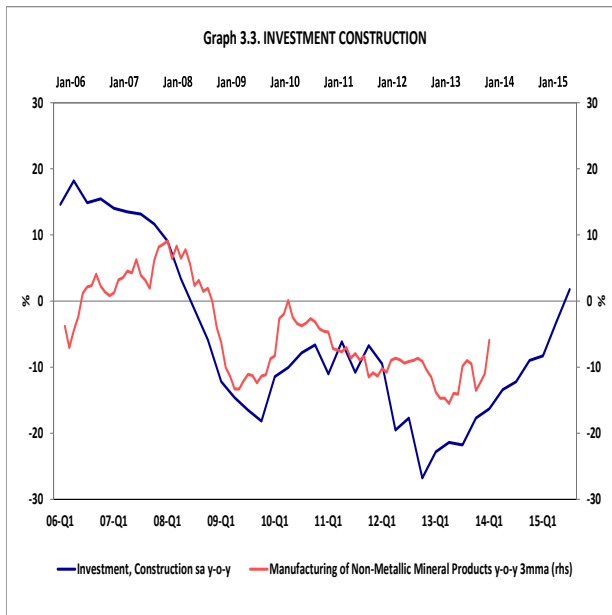
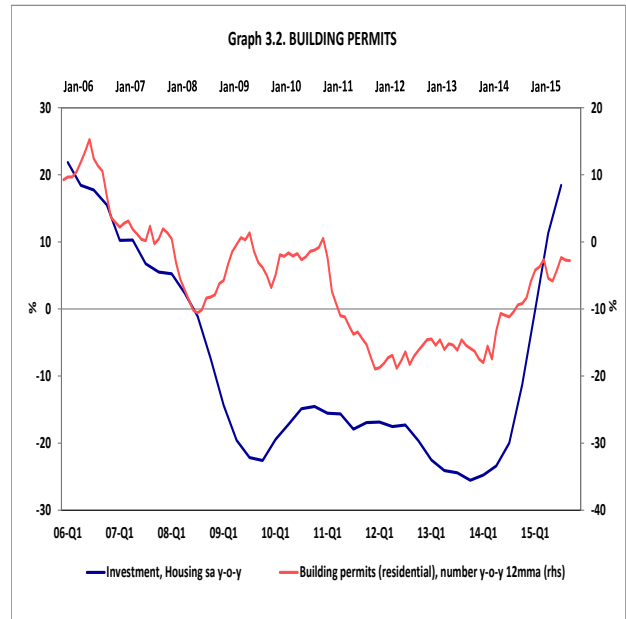
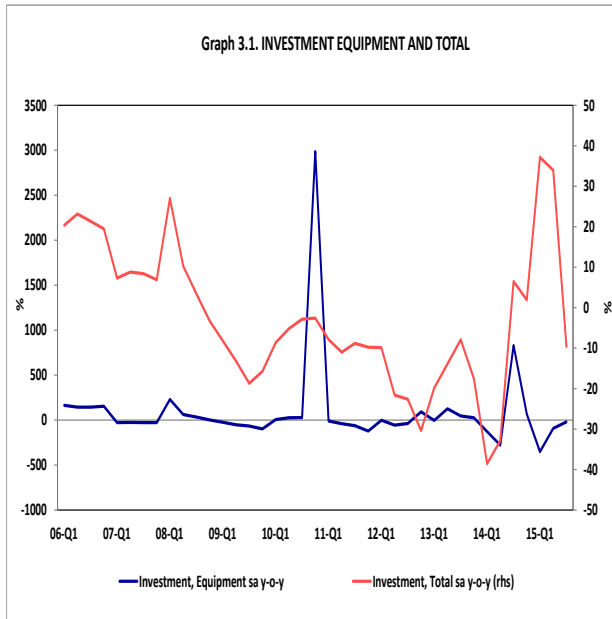
Sources: Eurostat, DG ECFIN, Cystat

2. CONSUMPTION



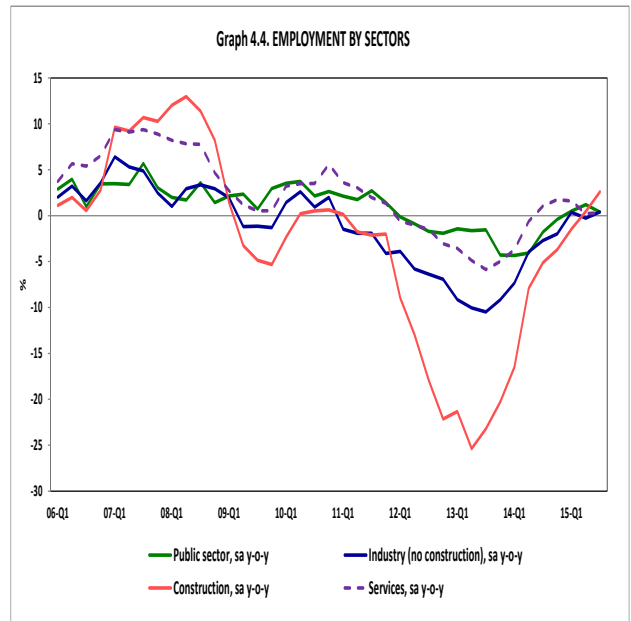
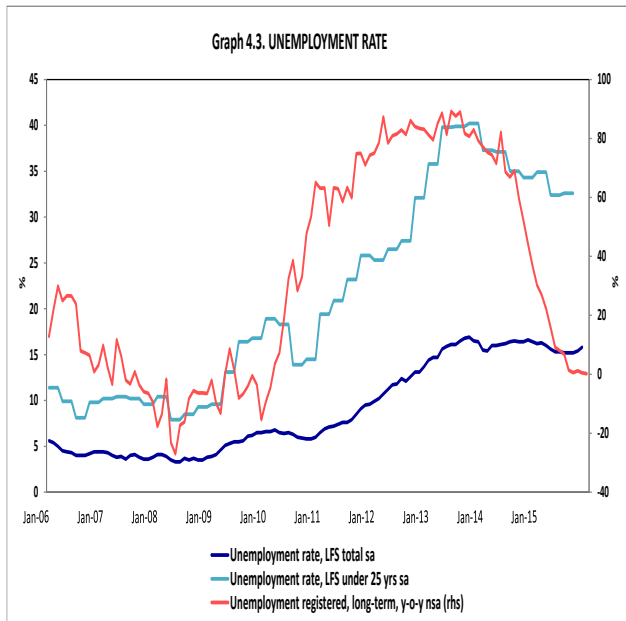
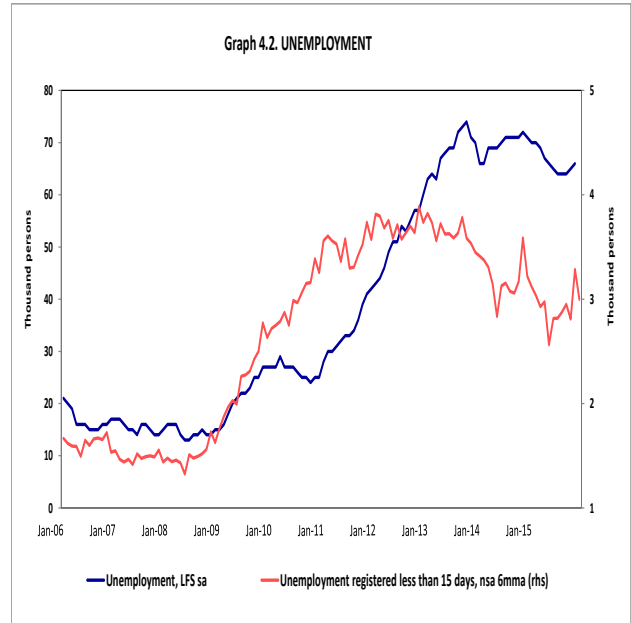
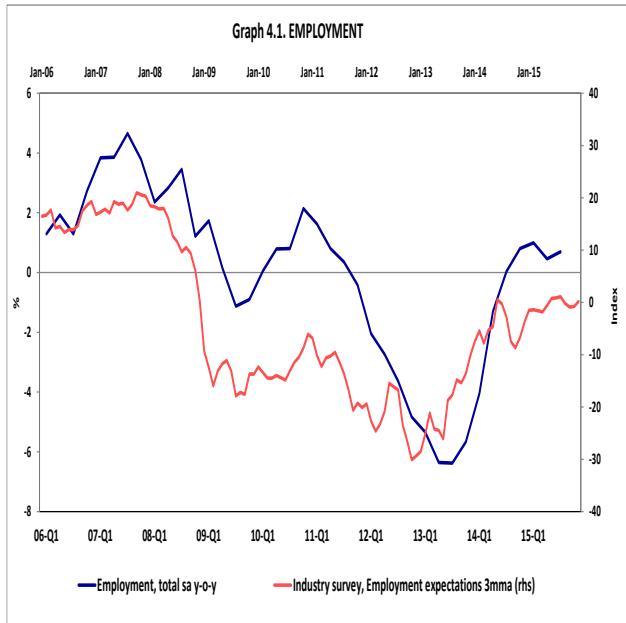
Sources: Eurostat, DG ECFIN, Cystat, JCC Payment Systems Ltd

3. INVESTMENT



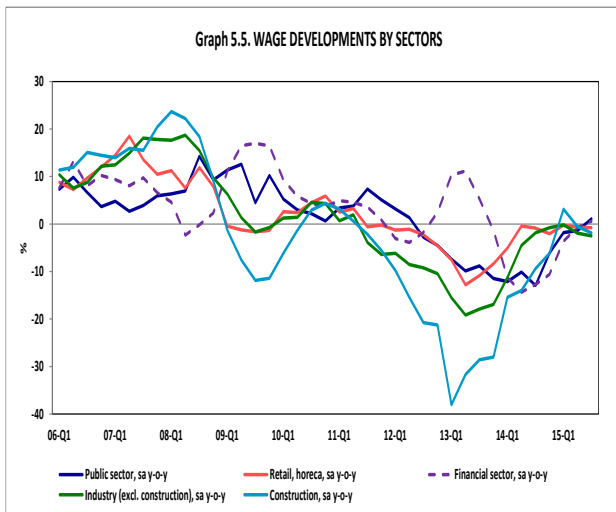
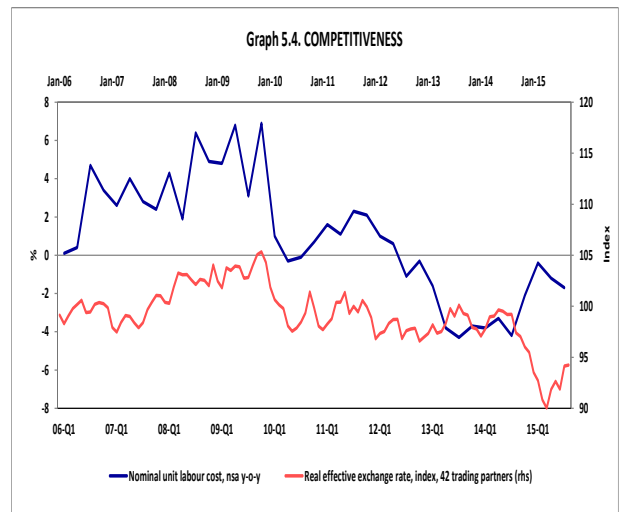
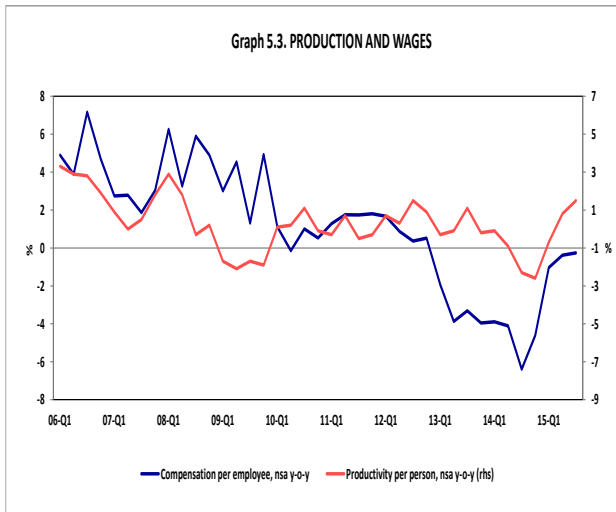
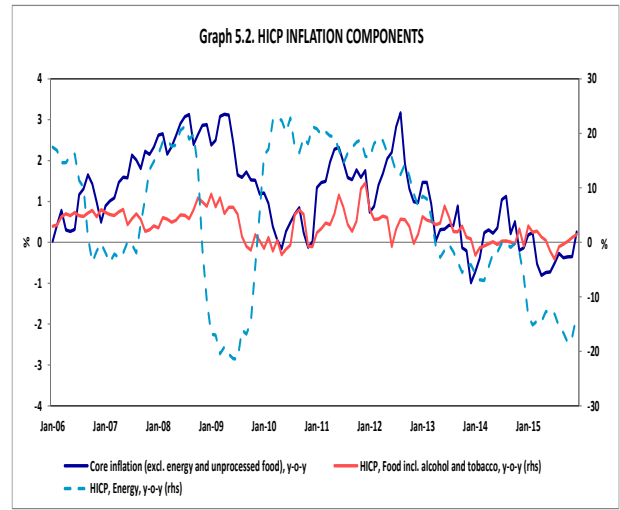
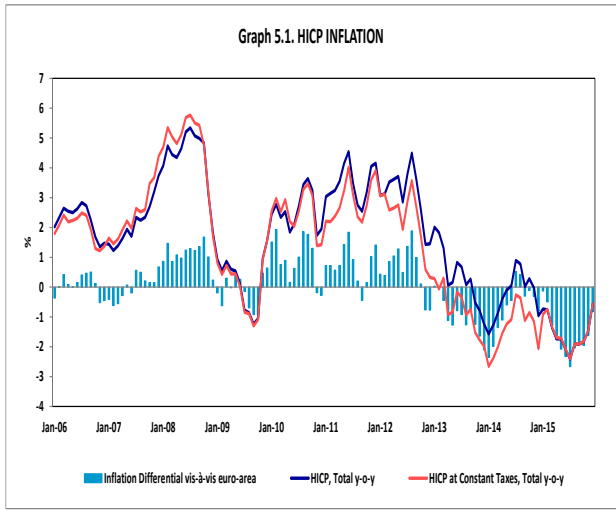
Sources: Eurostat, DG ECFIN, Cystat

4. LABOUR MARKET



Sources: Eurostat, DG ECFIN, Cystat

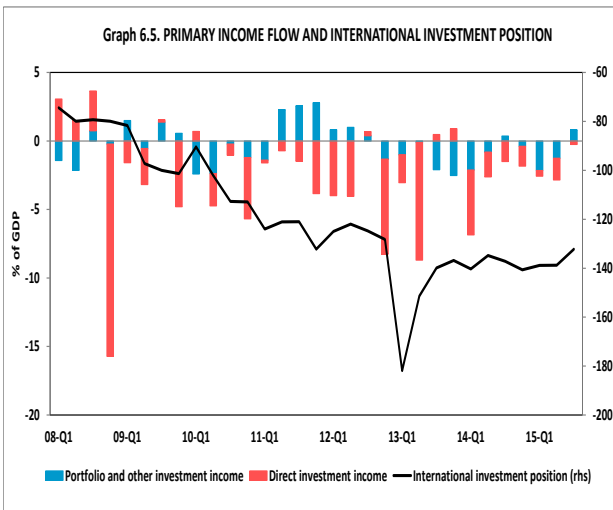
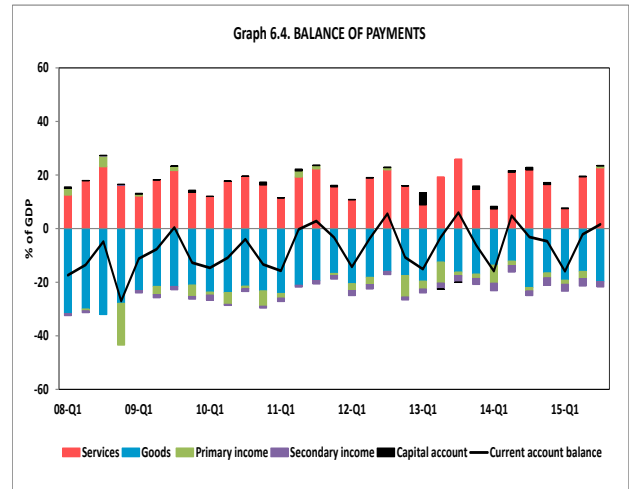
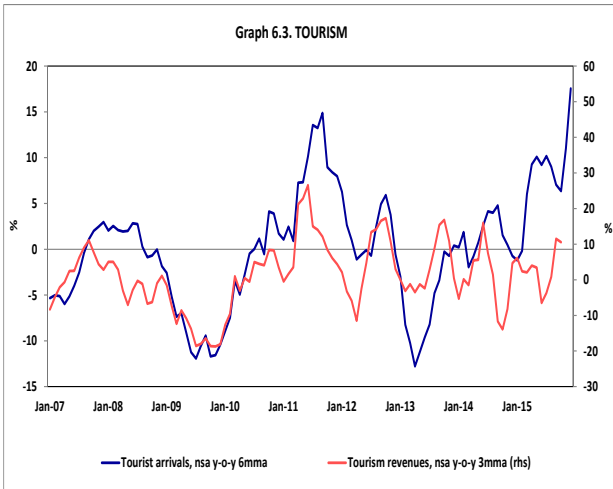
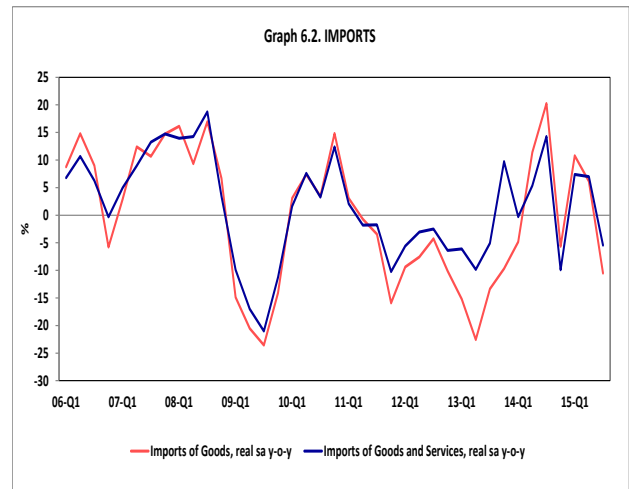
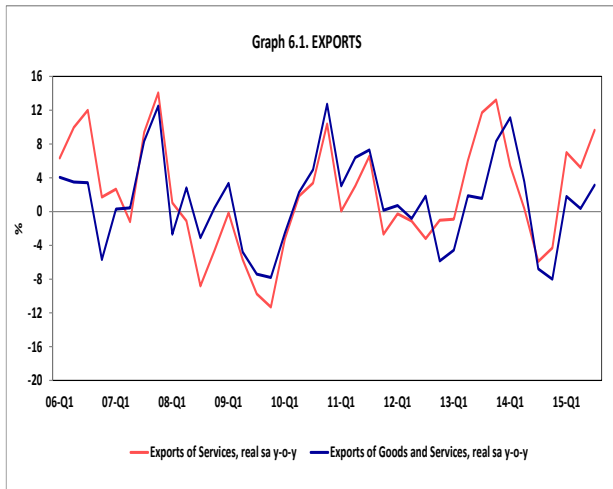
5. INFLATION, WAGES



Source: Eurostat

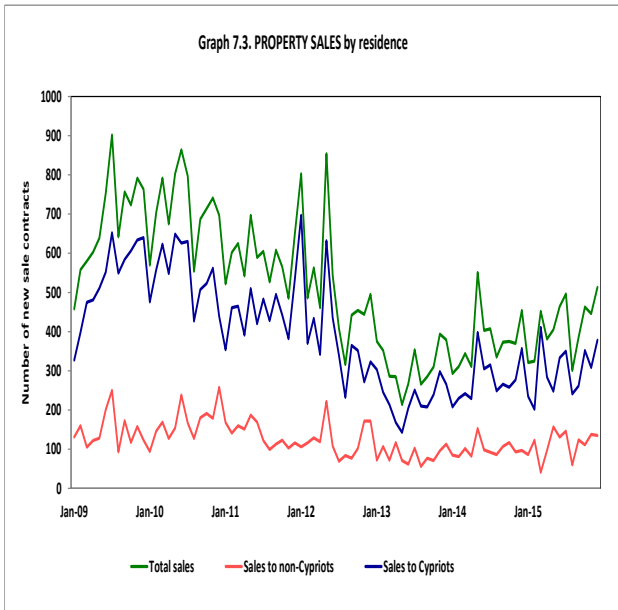
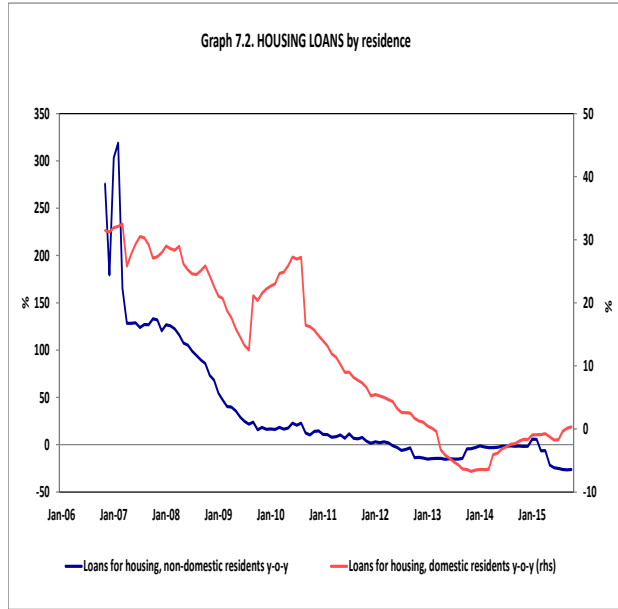
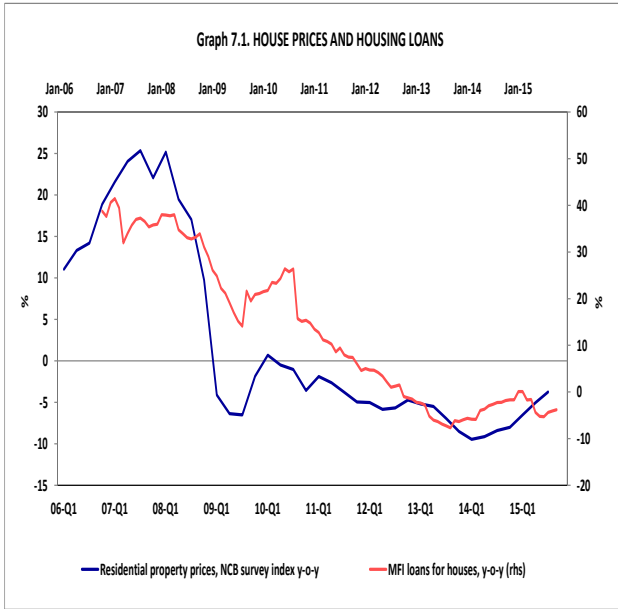


6. EXTERNAL SECTOR



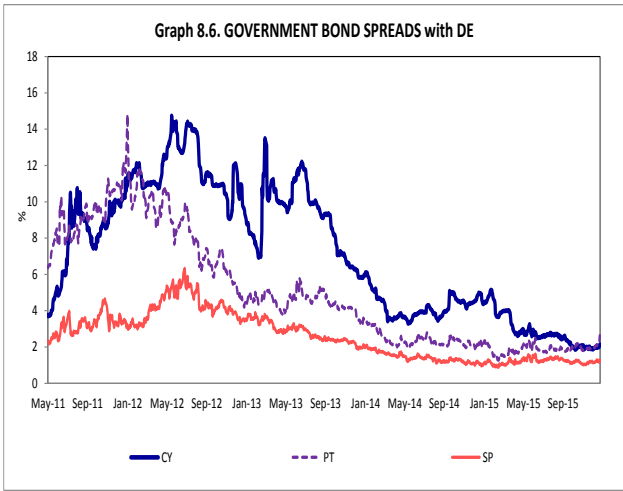
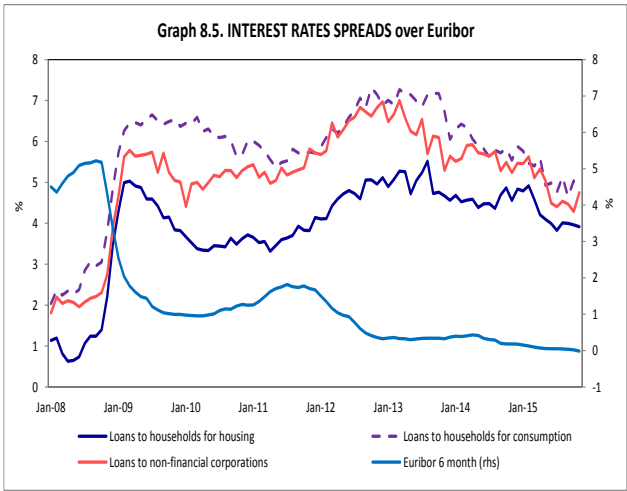
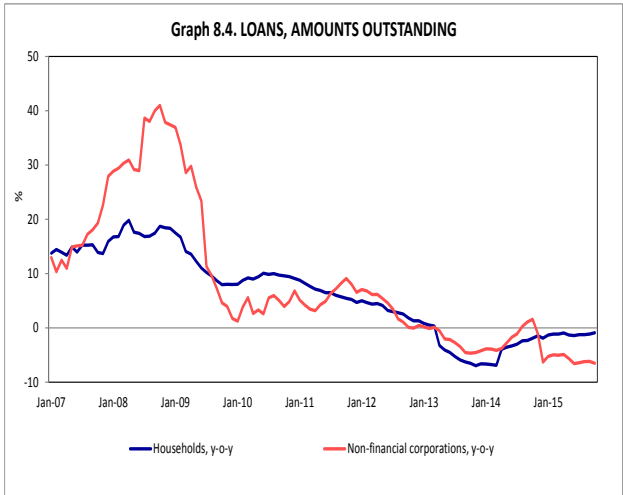
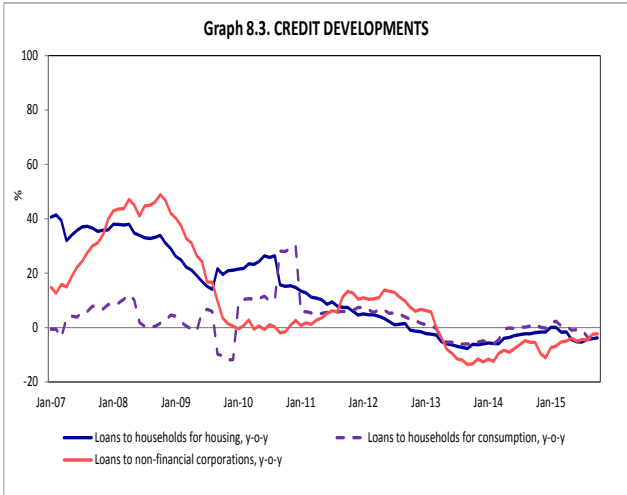
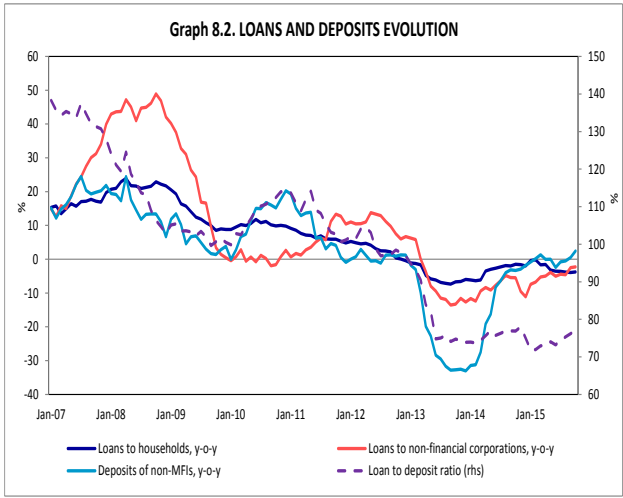
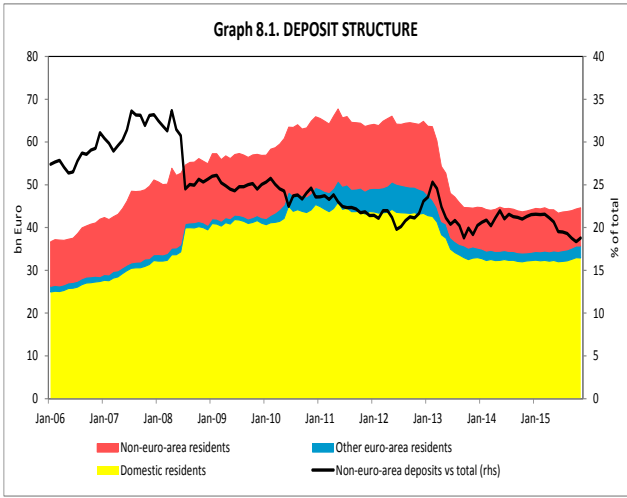
Sources: Eurostat, Cystat, ECB, CBC

7. HOUSING



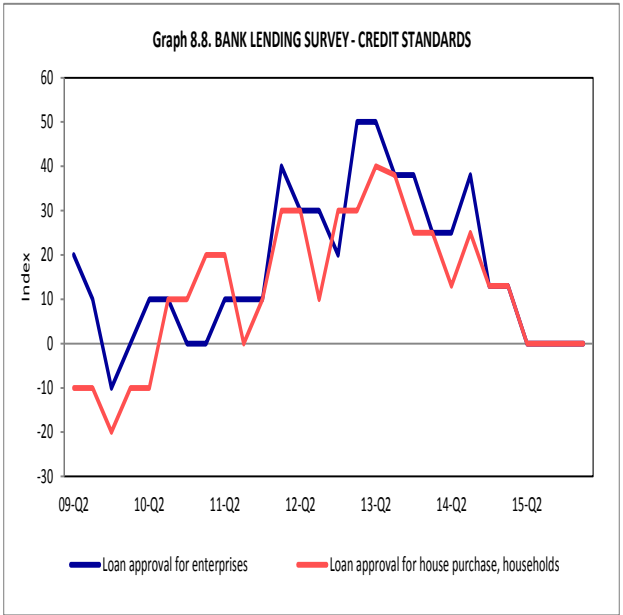
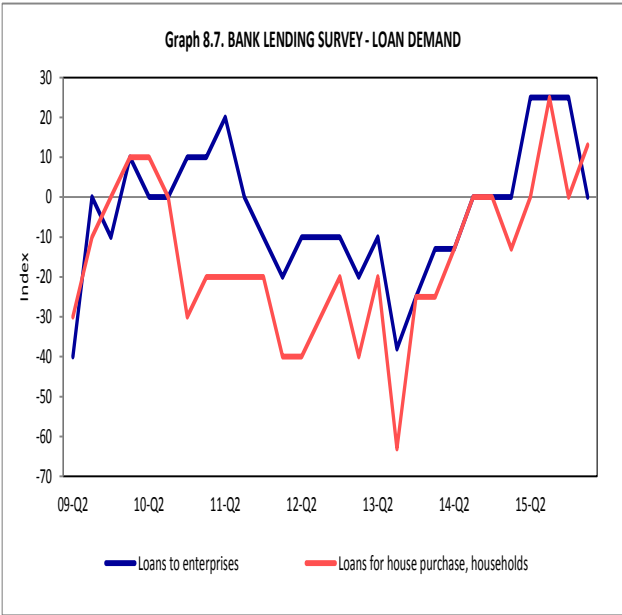
Sources: ECB, CBC, Dep. of Lands and Surveys

8. FINANCIAL SECTOR



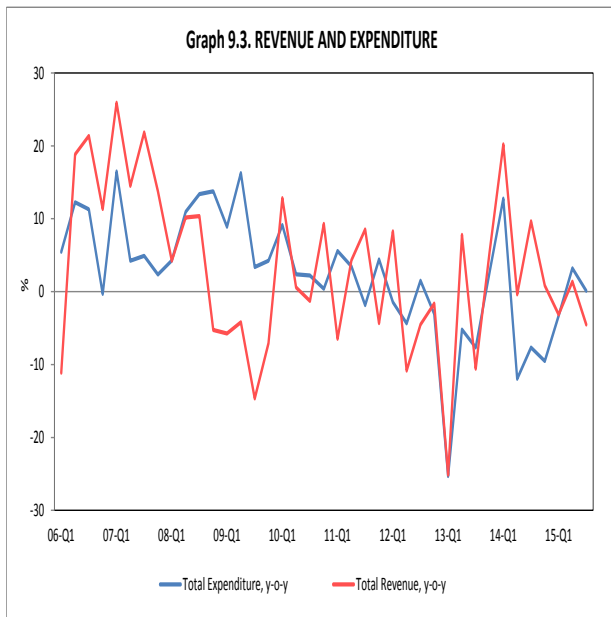
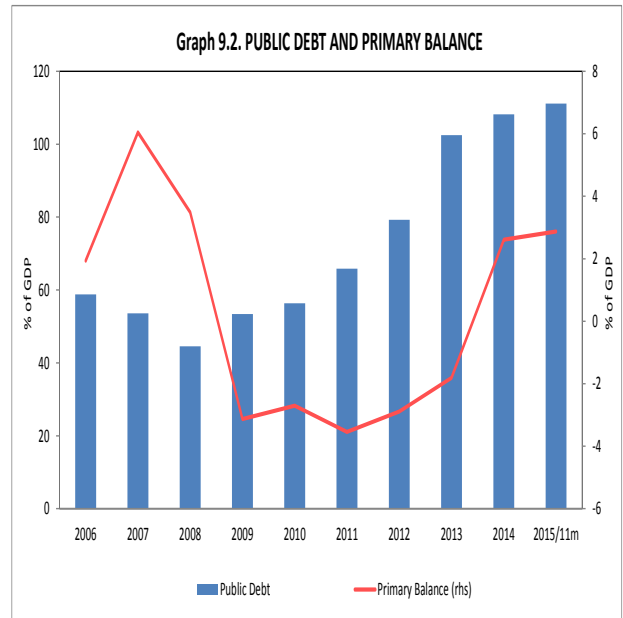
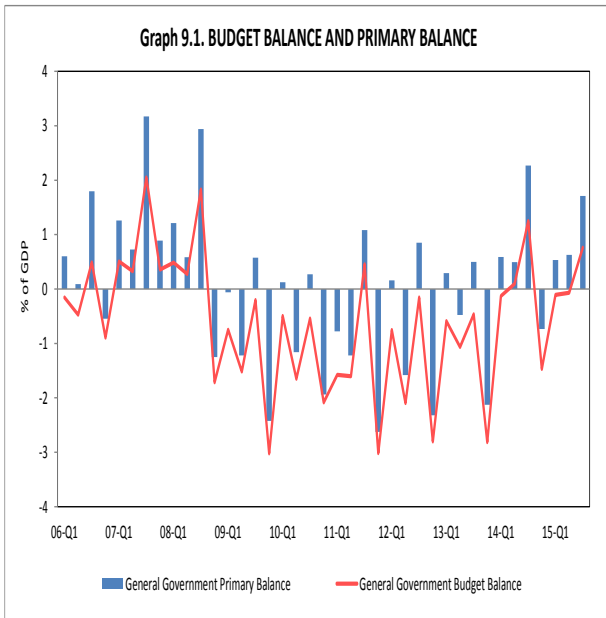
Sources: ECB, CBC, Bloomberg

8. FINANCIAL SECTOR – CONT.



Source: ECB

9. PUBLIC SECTOR



Sources: Ministry of Finance, Cystat