



# MACROECONOMIC MONITOR OF CYPRUS

July 2016

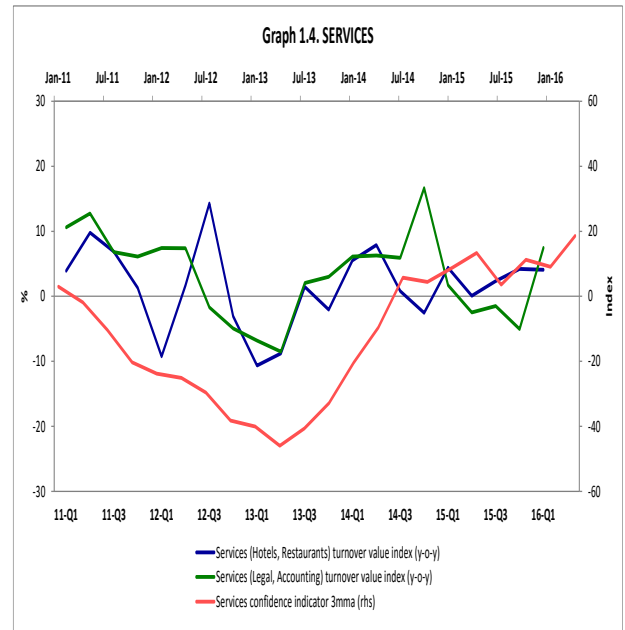
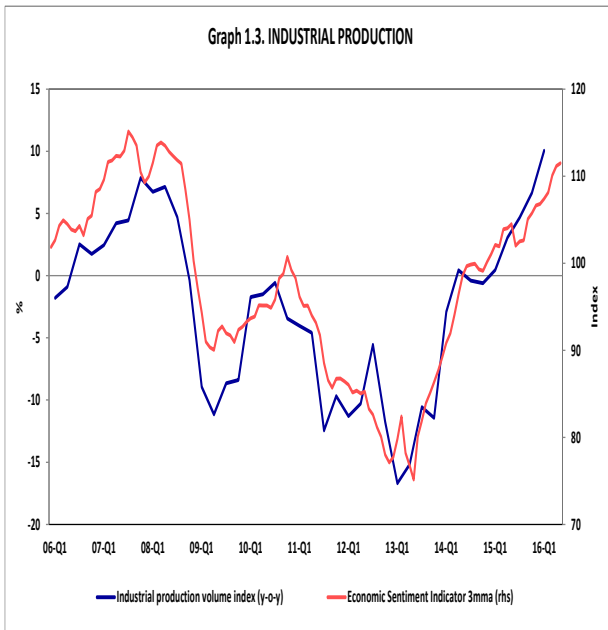
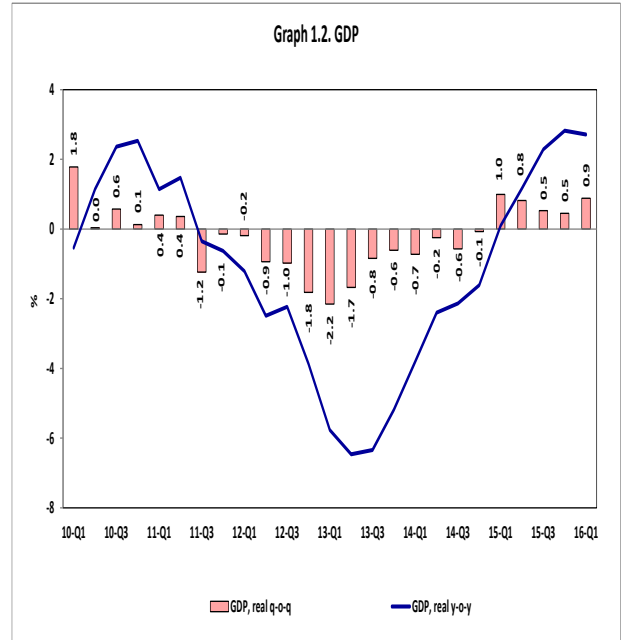
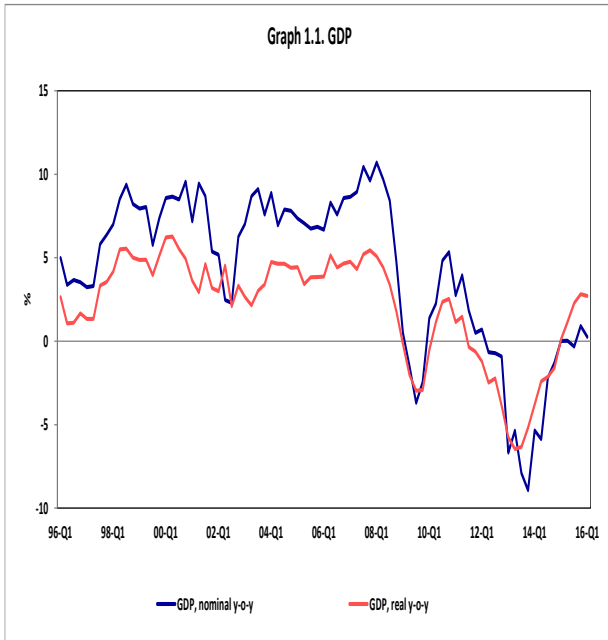
## MACROECONOMIC MONITOR OF CYPRUS

*Updated on 18 July 2016*

- **In the 1<sup>st</sup> quarter of 2016, GDP** (in seasonally adjusted terms) **recorded a positive rate of growth of 2.7% compared with a positive rate of growth of 2.8% in the 4<sup>th</sup> quarter of 2015** on an annual basis (see graphs 1.1-1.2). The increase of the GDP growth rate is mainly attributed to the sectors: hotels and restaurants, professional, scientific and technical activities, retail and wholesale trade, manufacturing, construction and transport while negative growth rates were recorded by the financial service activities and the household activities with employed persons (see graphs 3.1-3.4 and 6.1-6.2).
- Having regard that, the business operating environment is exhibiting signs of rebound given that lending to non-financial corporations has turned positive and interest rates are in decline, we expect growth to continue and accelerate further in 2016.
- Developments are currently driven by improving **private consumption and net exports** (see graphs 2.1-2.4).
- The **economic sentiment indicator** by CypERC **declined by 1.5 points in June 2016** compared to May 2016 (see graphs 1.3-1.4) as a result of the worsening of business confidence in the services, retail trade and industry sectors.
- **Exports of goods decreased by 23.3%** in January-May 2016 compared to January-May 2015, 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 decrease of 5.9%.
- In January-June 2016 **tourist arrivals increased by 21.2%** compared to January-June 2015 (see graph 6.3). An increase of 47.7% was recorded in tourist arrivals from Russia, a 9.4% increase from Germany, a 16.1% increase from the UK and a 13.5% increase from Greece.
- **Employment** adjusted to the conditions of improving economic growth (see graphs 4.1 and 4.4). Employment in persons **increased by 1.6%** in the 1<sup>st</sup> quarter of 2016 compared to the 1<sup>st</sup> quarter of 2015.
- **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 significantly **to 12.0% in May 2016 compared to 15.3% in May 2015** (see graphs 4.2-4.3). The most affected segment of the population is youth, although it has been on a downward trend since the last quarter of 2013. Particularly challenging is also the increase in long-term unemployed.
- **Compensation per employee** in the 1<sup>st</sup> quarter of 2016 **declined by around 1.1%** compared to the 1<sup>st</sup> quarter of 2015, 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 June 2016 stood at -2.0% compared to -1.9% in May 2016 (see graph 5.1). For 2016 so far it stands at -1.9%. Core HICP inflation stood at -0.7% in January-June 2016 (see graph 5.2). All subcategories of HICP presented a decrease except for alcoholic beverages and tobacco, clothing and footwear, health, education and restaurants and hotels which presented an increase.
- The **current account balance** in the 1<sup>st</sup> quarter of 2016 recorded a **deficit of €39.1 mn (-0.2% of GDP)** compared with a deficit of €643.7 mn (-3.7% of GDP) in the 1<sup>st</sup> quarter of 2015 (see graph 6.4) mainly due to improvement in the goods and services balance.
- The **primary income** recorded a **deficit of €133.5 mn** in the 1<sup>st</sup> quarter of 2016 compared with a surplus of €24.6 mn in the 1<sup>st</sup> quarter 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 March 2016 reaching -€21,087.1 mn compared with -€22,507.0 mn in December 2015.

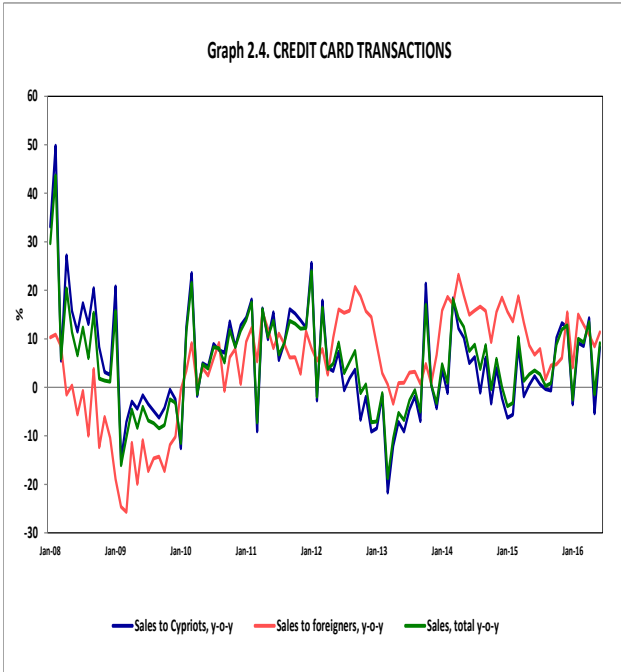
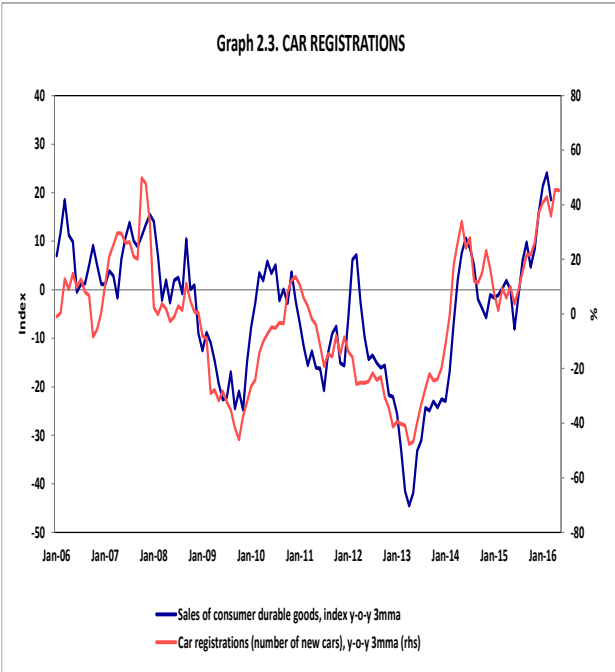
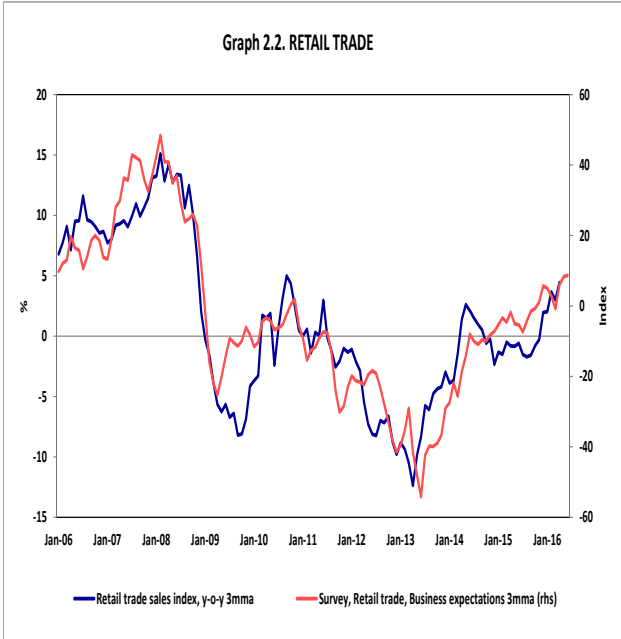
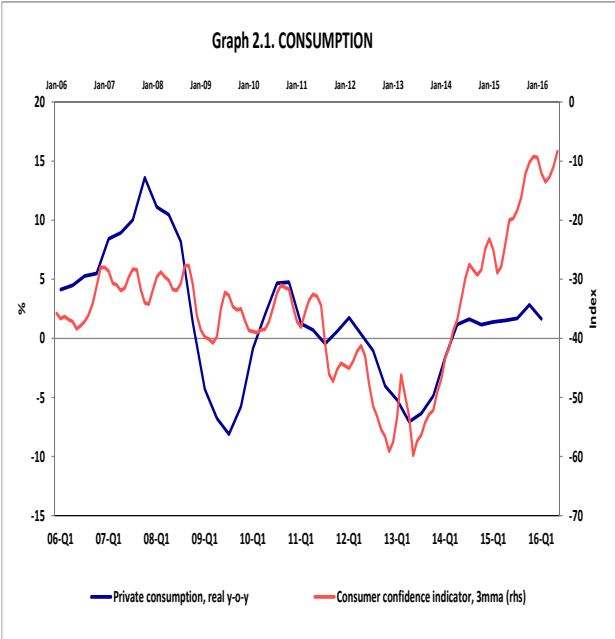
- General government budget balance (GGBB) **was in surplus** in January-May 2016, of the order of **€23.1 mn (0.1% of GDP)** compared to a surplus of €94.8 mn (0.5% of GDP) during the corresponding period the year before (see graph 9.1).
- General government **primary balance** (GGPB) **was in surplus** in January-May 2016, of the order of **€197.4 mn (1.1% of GDP)** compared to a surplus of €262.3 mn (1.5% 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 1.2%, reaching to €2,575.8 mn in January-May 2016, compared to €2,606.8 mn during the corresponding period the year before (see graph 9.3).
- **Total expenditure** exhibited a positive rate of growth of about 1.6%, reaching to €2,552.7 mn in January-May 2016, compared to €2,512.0 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 8.1%** in May 2016, affecting both households and enterprises (see graphs 8.2-8.4). This is reflecting 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 4.7%** in May 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 May 2016, **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 decreased and the rate for other loans up to €1 mn for businesses decreased. 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 **3.4%** in the **1<sup>st</sup> quarter of 2016** compared to the 4<sup>th</sup> quarter of 2015 and decreased by 1.2% compared to the 1<sup>st</sup> quarter of 2015.
- The CBC's residential property price index declined by 1.8% in the 4<sup>th</sup> quarter of 2015 compared to the 4<sup>th</sup> quarter of 2014. Cumulative from the 1<sup>st</sup> quarter of 2008 it has declined by 28.8% (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 28.3% while, transfers of property were up by 60.8% in January-June 2016 compared to January-June 2015 (see graph 7.3). MFI mortgage loans to domestic residents for housing declined with an annual rate of 1.4% in May 2016 (see graph 7.2).
- The Cyprus Government bond spread compared to the German Government bond, decreased in mid-July 2016 compared to June 2016 to around 255 basis points above the German bond on 18/07/2016 compared to 281 basis points on 30/06/2016 (see graph 8.6, yields refer to the bonds maturing in 2020).

1. OUTPUT



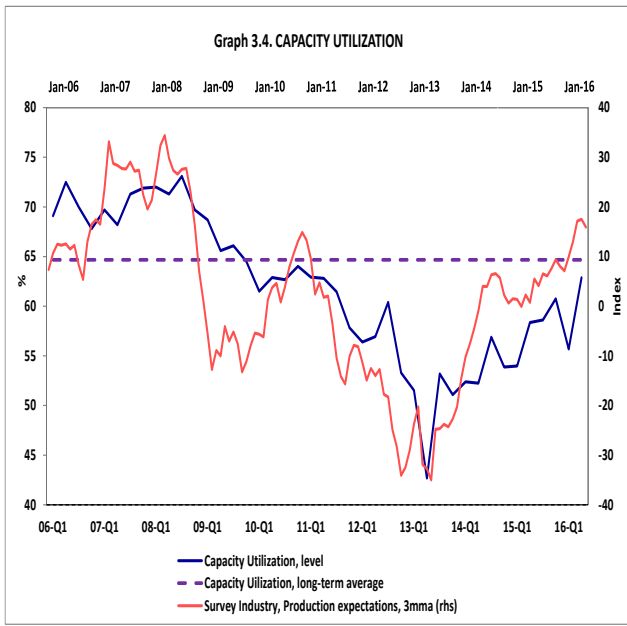
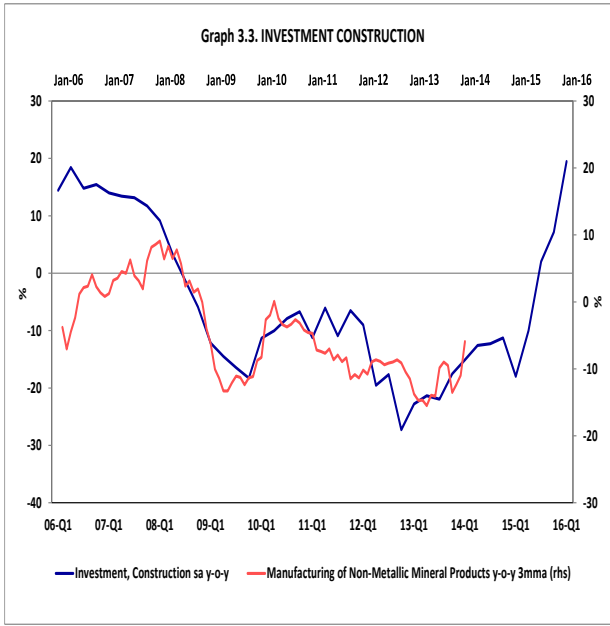
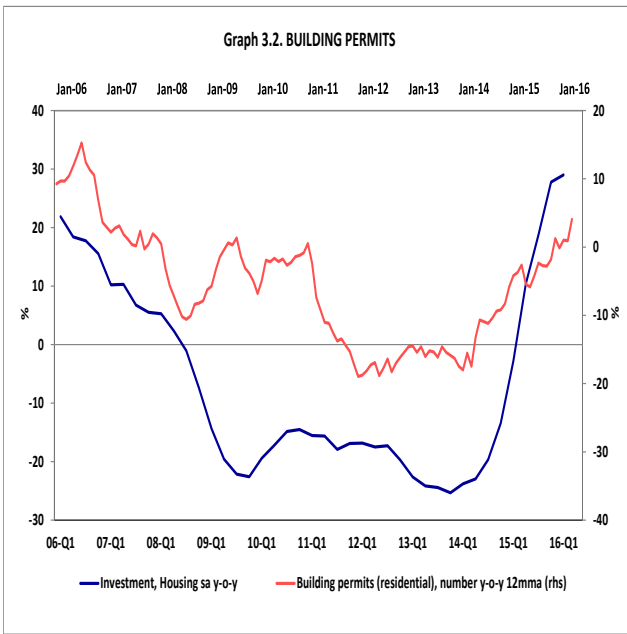
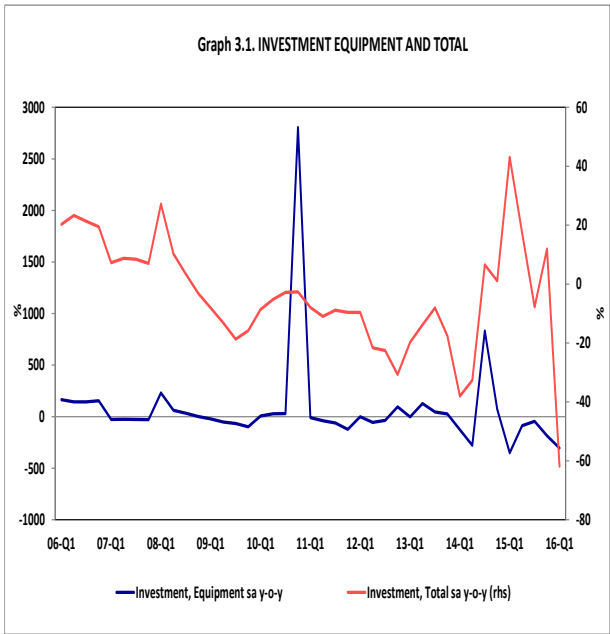
Sources: Eurostat, DG ECFIN, Cystat

2. CONSUMPTION



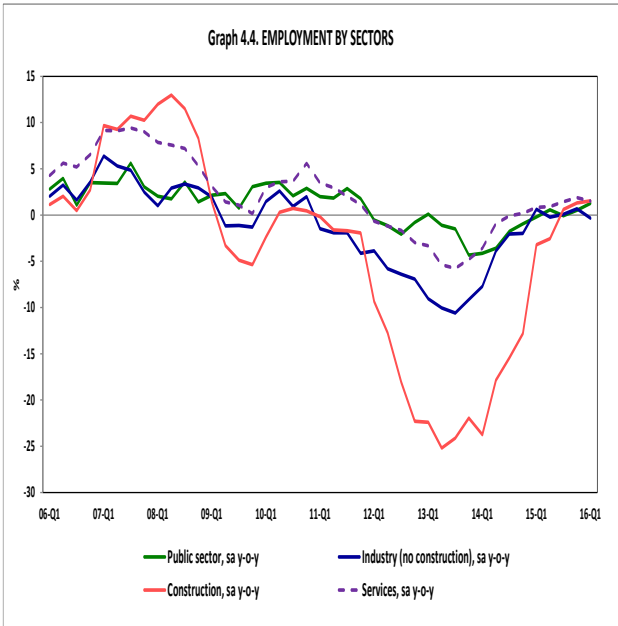
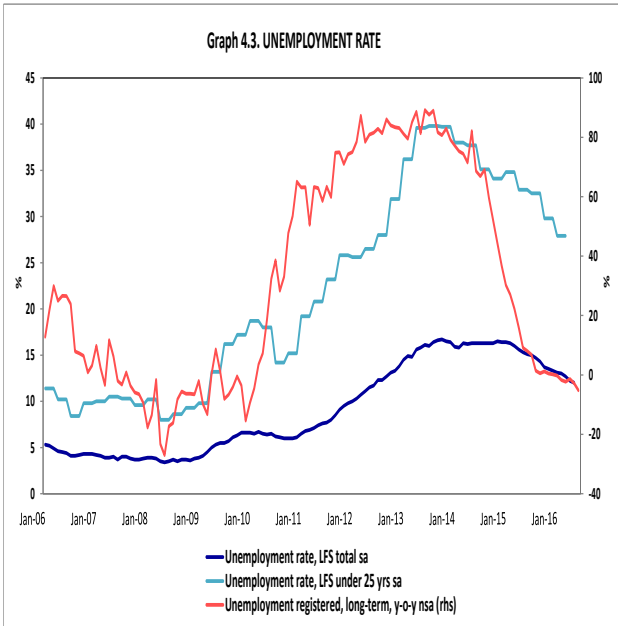
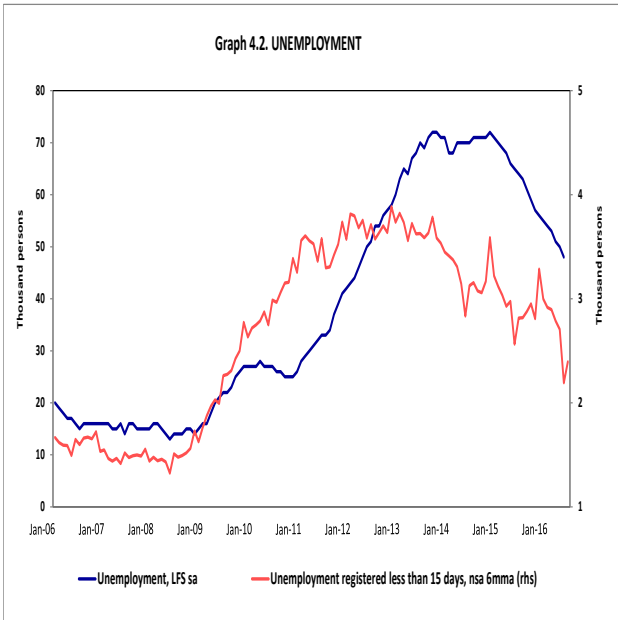
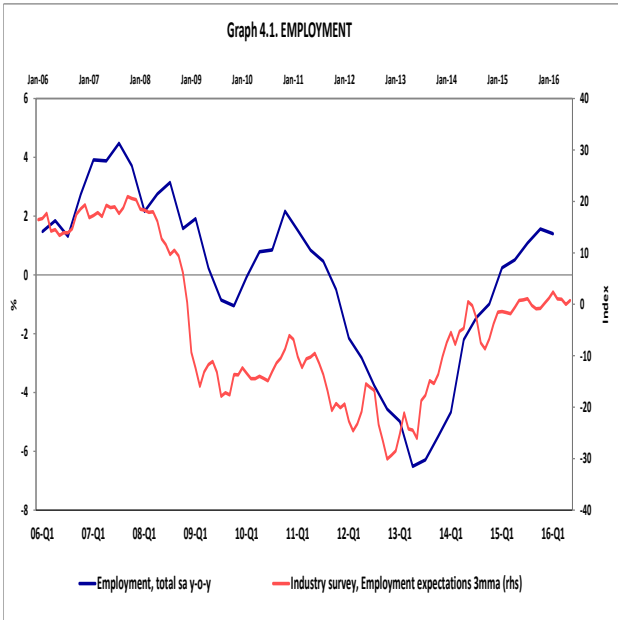
Sources: Eurostat, DG ECFIN, Cystat, JCC Payment Systems Ltd

**3. INVESTMENT**



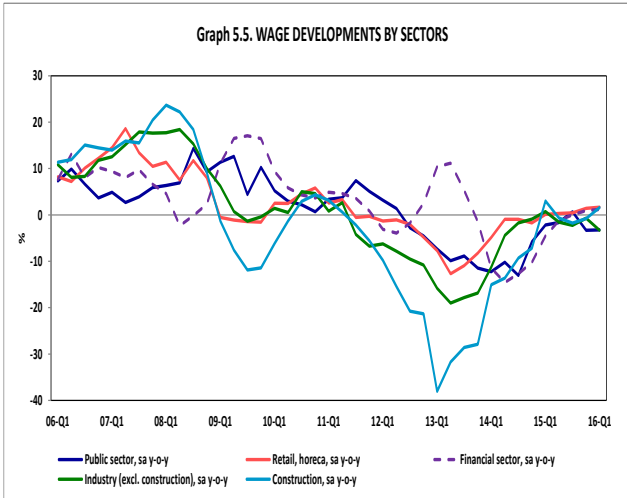
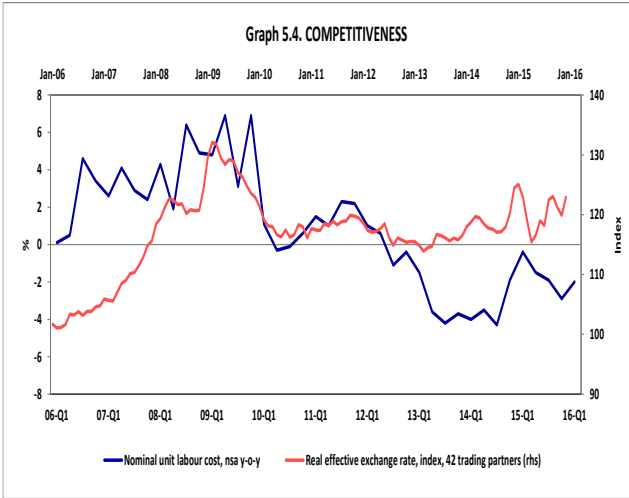
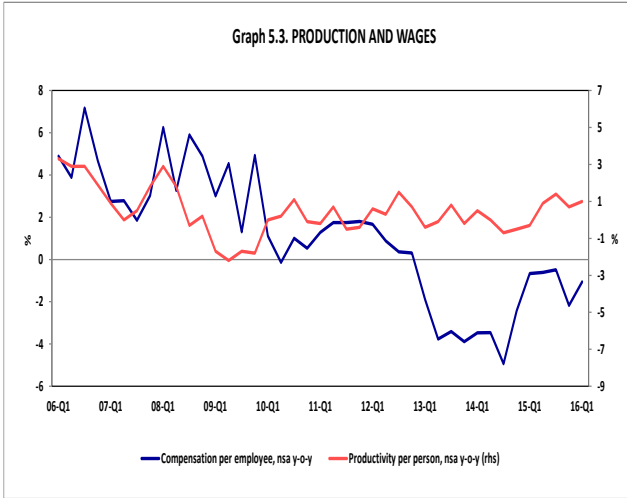
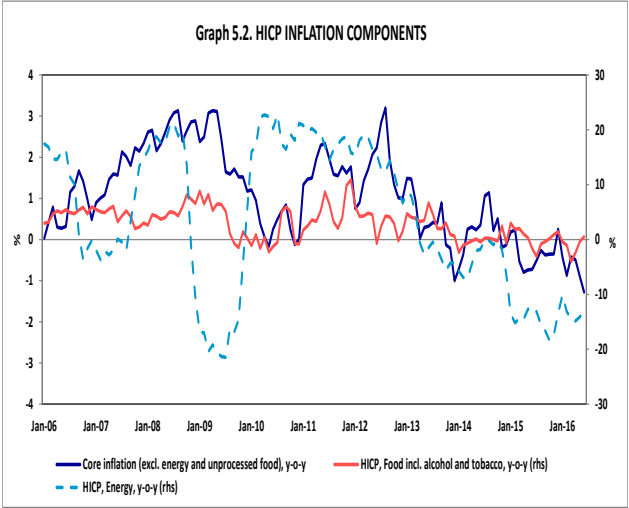
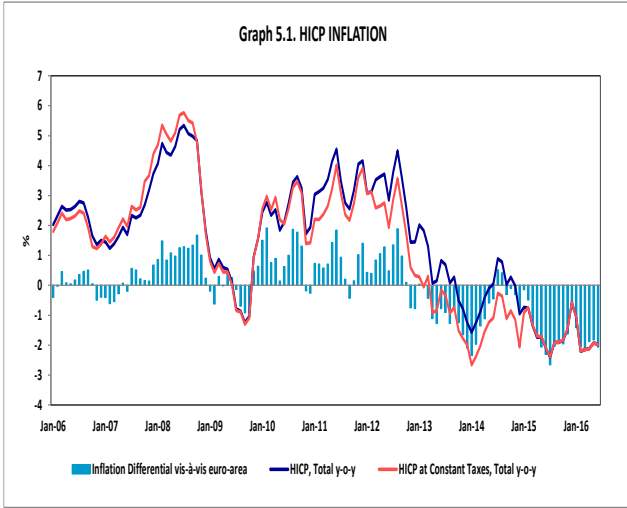
Sources: Eurostat, DG ECFIN, Cystat

4. LABOUR MARKET



Sources: Eurostat, DG ECFIN, Cystat

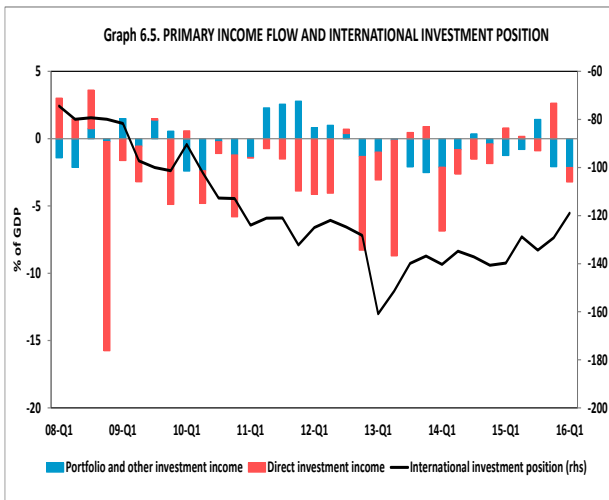
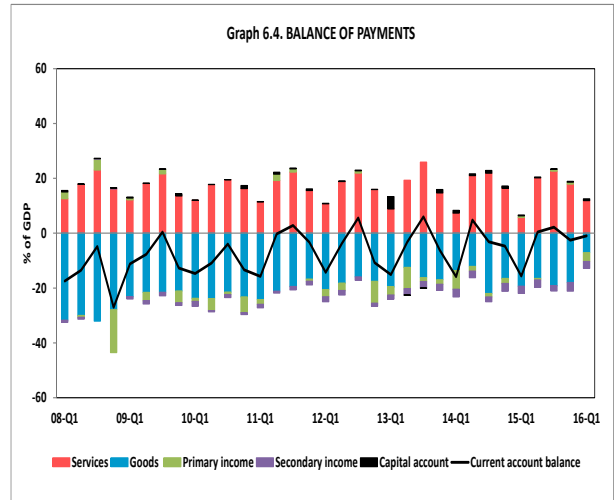
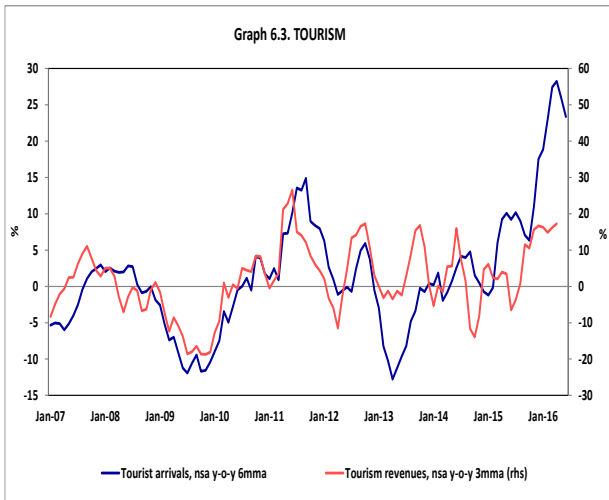
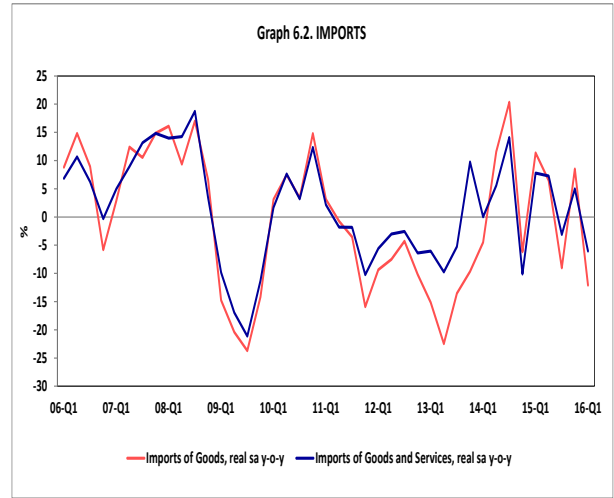
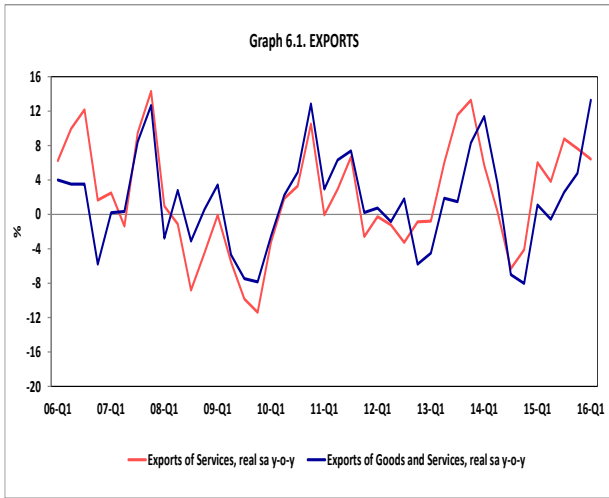
5. INFLATION, WAGES



Source: Eurostat

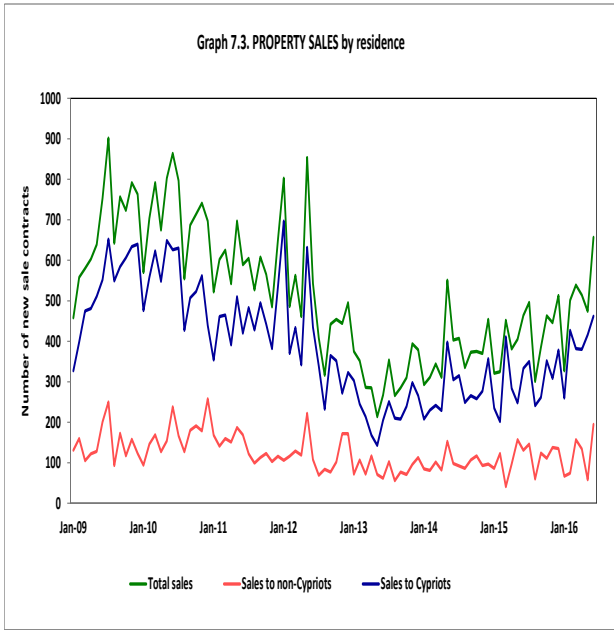
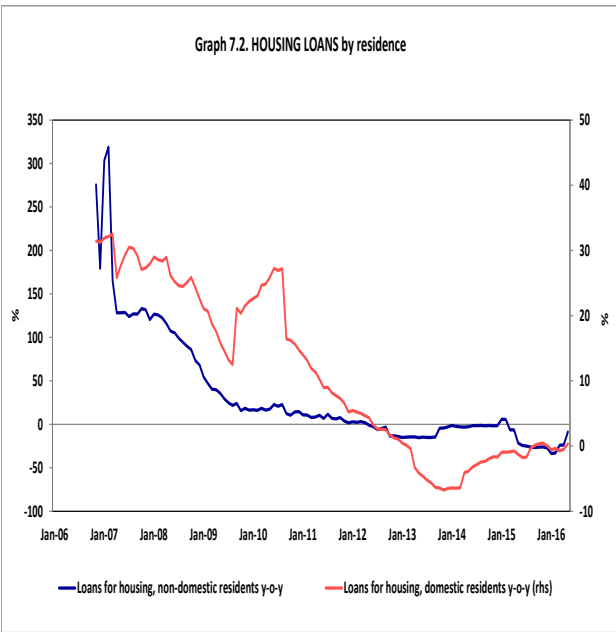
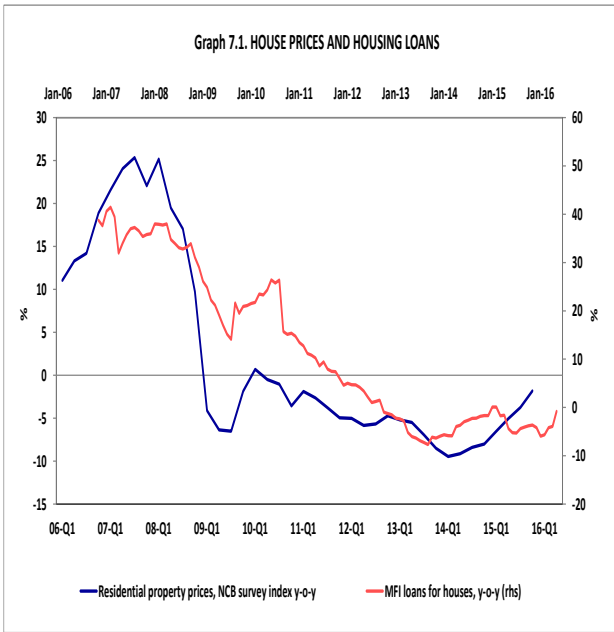


6. EXTERNAL SECTOR



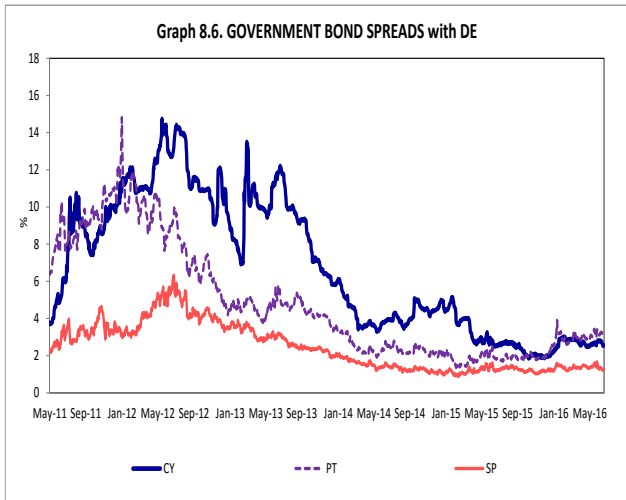
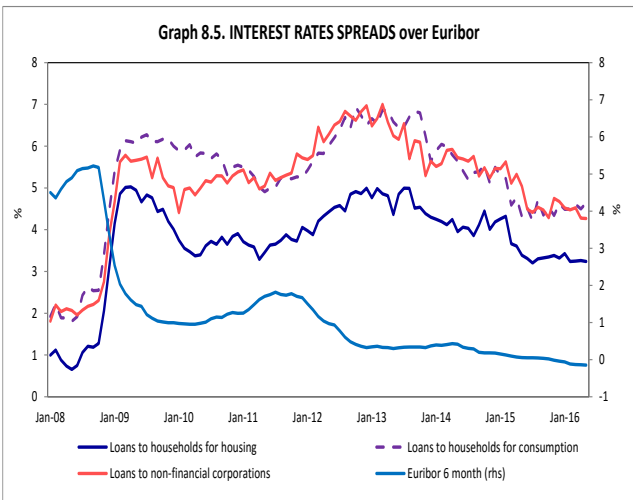
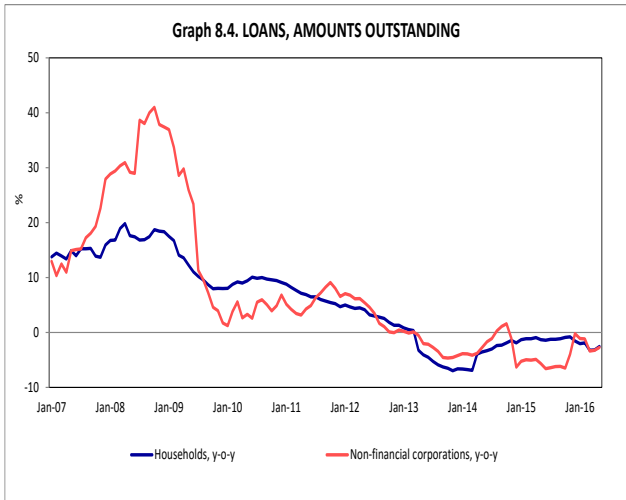
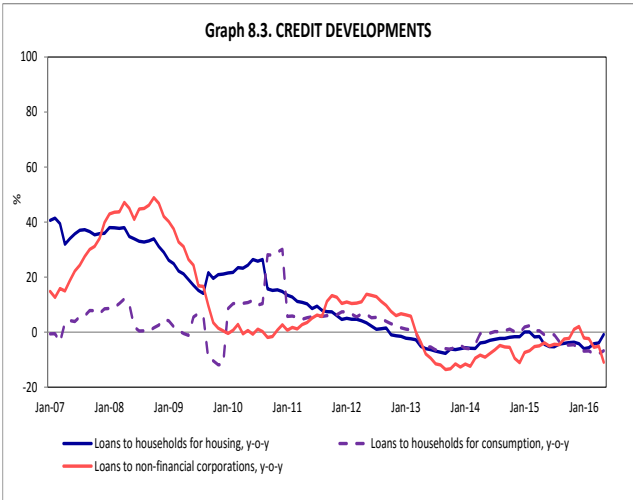
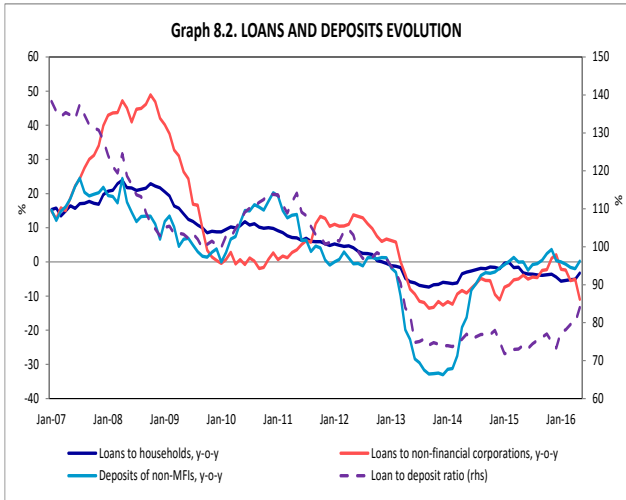
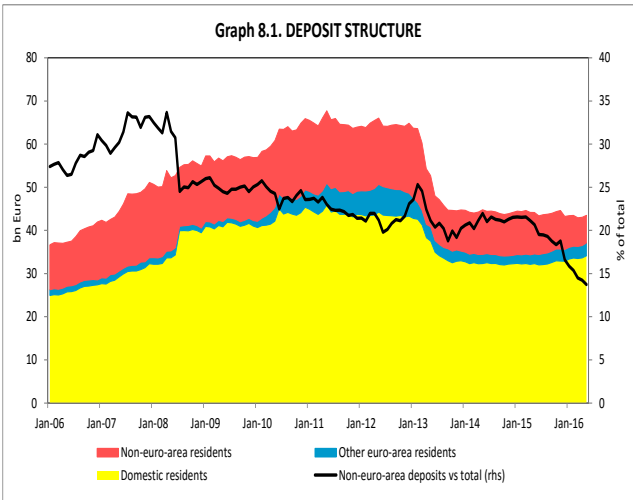
Sources: Eurostat, Cystat, ECB, CBC

7. HOUSING



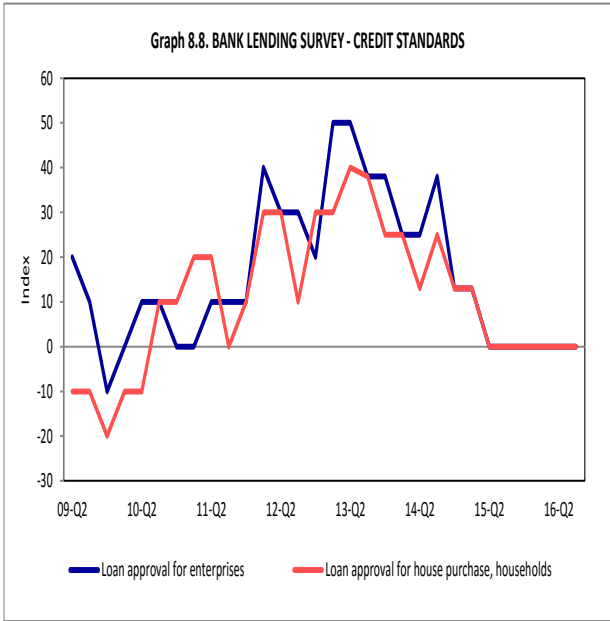
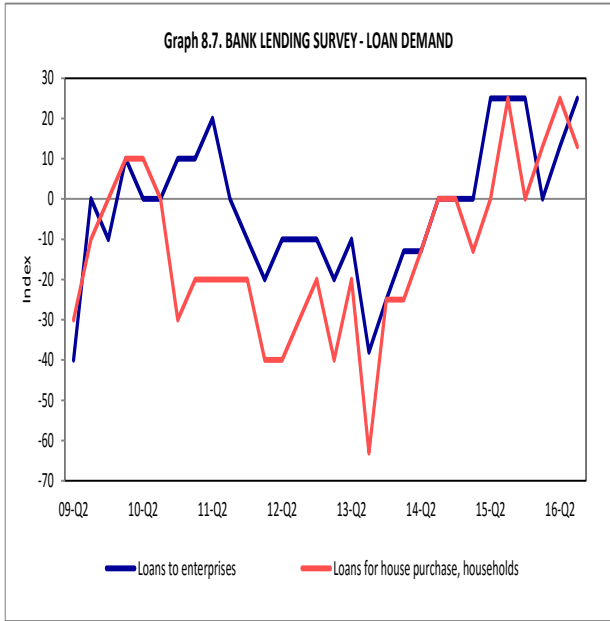
Sources: ECB, CBC, Dep. of Lands and Surveys

8. FINANCIAL SECTOR



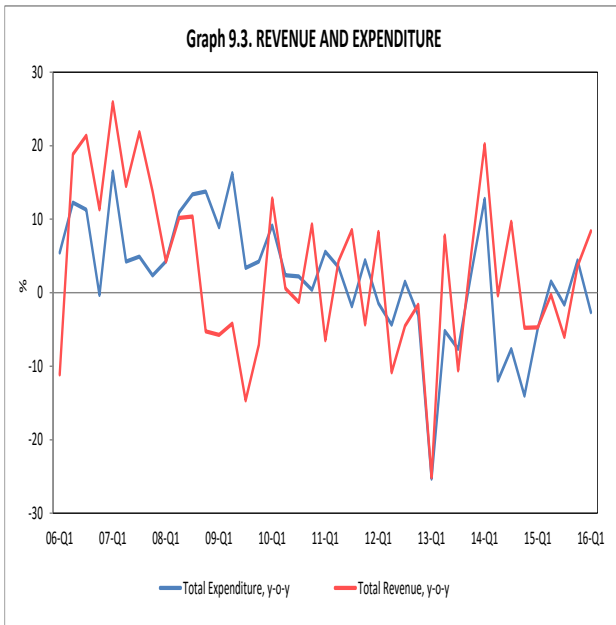
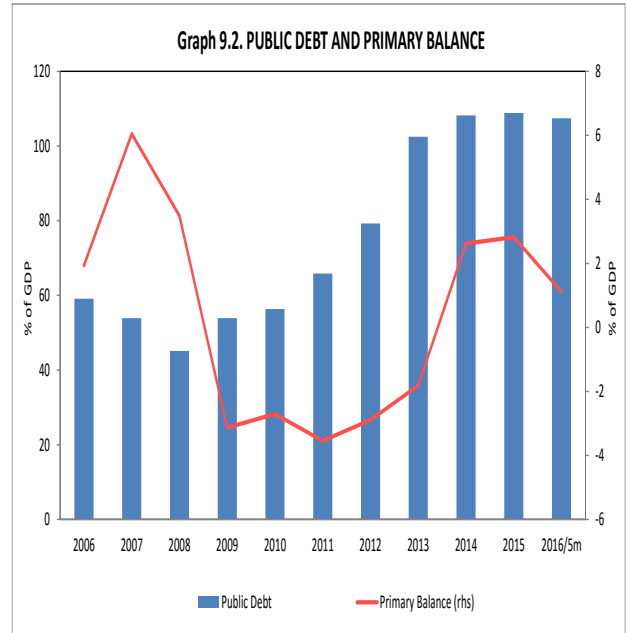
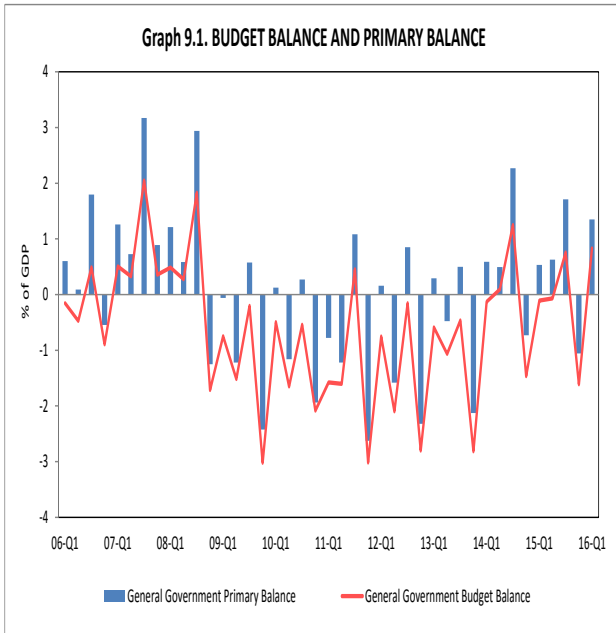
Sources: ECB, CBC, Bloomberg

8. FINANCIAL SECTOR – CONT.



Source: ECB

9. PUBLIC SECTOR



Sources: Ministry of Finance, Cystat