



MACROECONOMIC MONITOR OF CYPRUS

June 2016

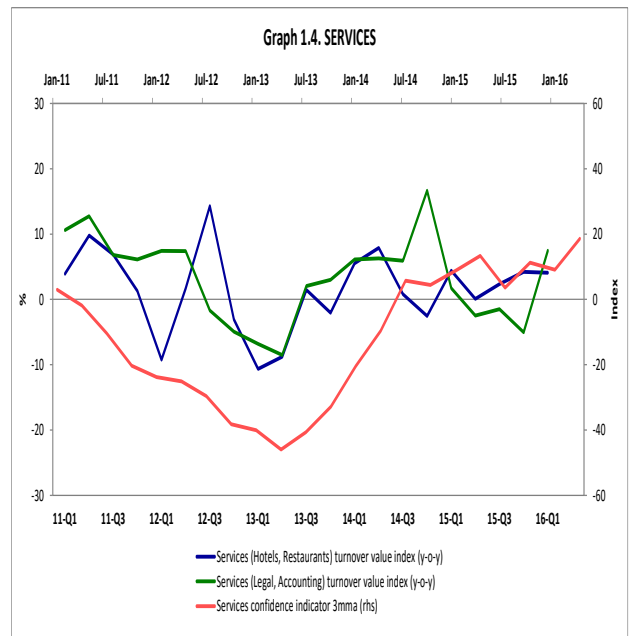
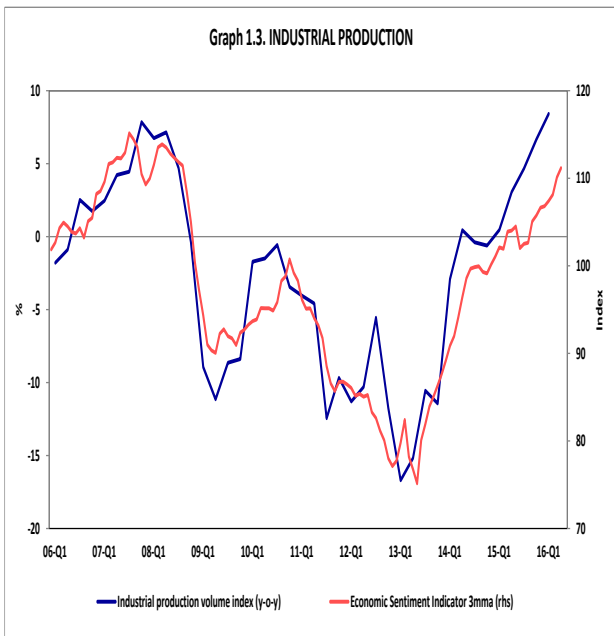
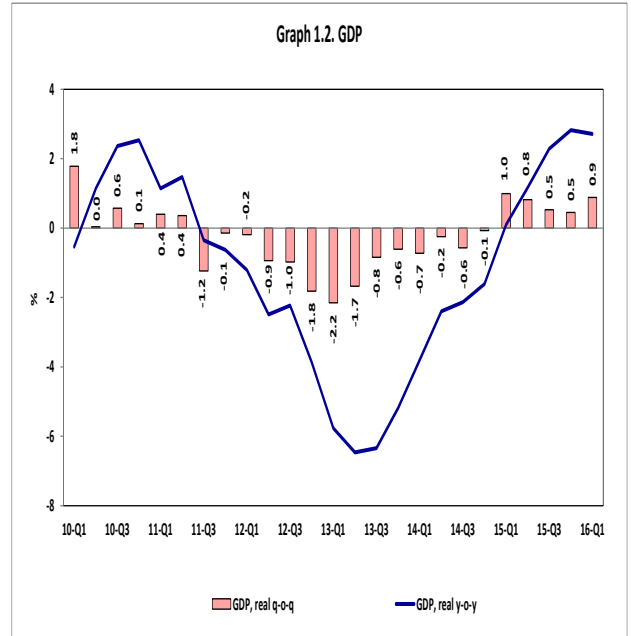
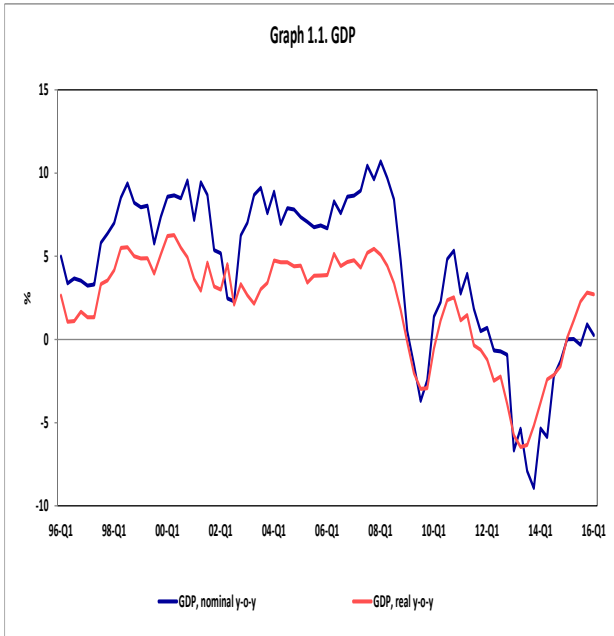
MACROECONOMIC MONITOR OF CYPRUS

Updated on 21 June 2016

- **In the 1st 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 4th 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 **decreased by 2.4 points in May 2016** compared to April 2016 (see graphs 1.3-1.4). This decrease is due to the decline in the business climate in the sectors of services and construction, as well as the weakening of the consumer's economic confidence.
- **Exports of goods decreased by 23.8%** in January-April 2016 compared to January-April 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 0.5%.
- In January-May 2016 **tourist arrivals increased by 20.5%** compared to January-May 2015 (see graph 6.3). An increase of 52.6% was recorded in tourist arrivals from Russia, a 13.1% increase from Germany, a 13.9% increase from the UK and a 9.7% 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 1st quarter of 2016 compared to the 1st 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 11.6% in April 2016 compared to 15.7% in April 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 July 2013. Particularly challenging is also the increase in long-term unemployed.
- **Compensation per employee** in the 1st quarter of 2016 **declined by around 1.1%** compared to the 1st 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 May 2016 stood at -1.9% compared to -2.1% in April 2016 (see graph 5.1). For 2016 so far it stands at -1.9%. Core HICP inflation stood at -0.6% in January-May 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 2015 recorded a **deficit of €634.2 mn (-3.6% of GDP)** compared with a deficit of €791.5 mn (-4.6% of GDP) in 2014 (see graph 6.4) mainly due to improvement in primary income.
- The **primary income** recorded a **surplus of €60.5 mn** in 2015 compared with a deficit of €488.8 mn in 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 2015 reaching -€22,507.0 mn compared with -€24,468.1 mn in 2014.

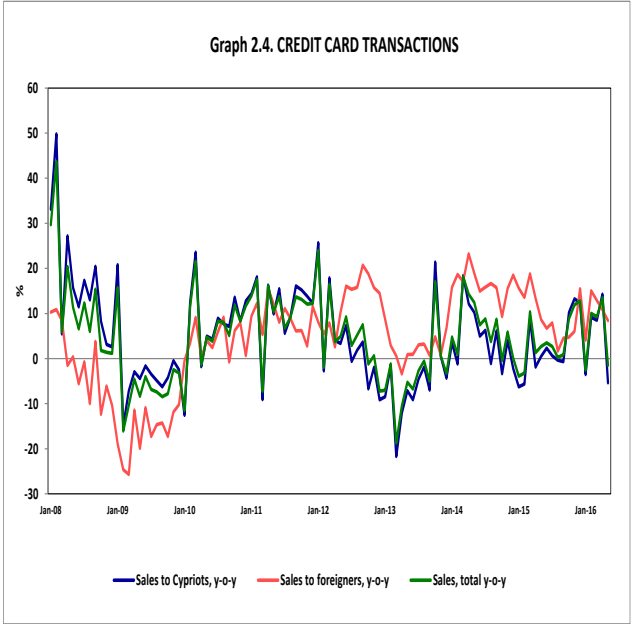
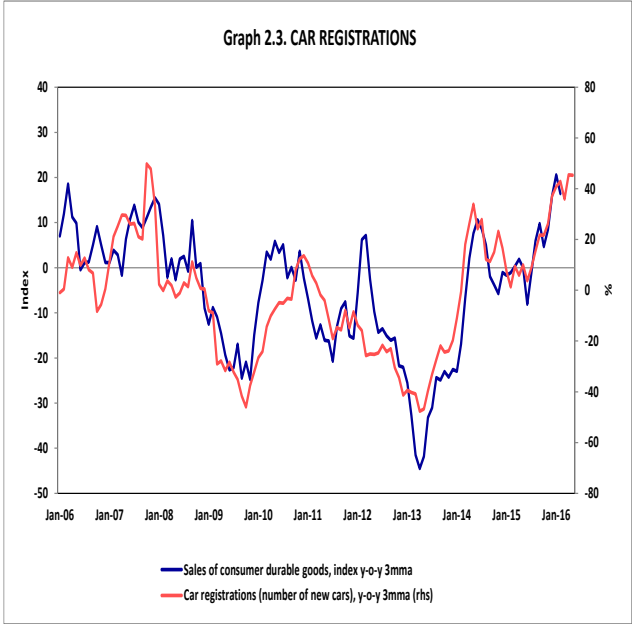
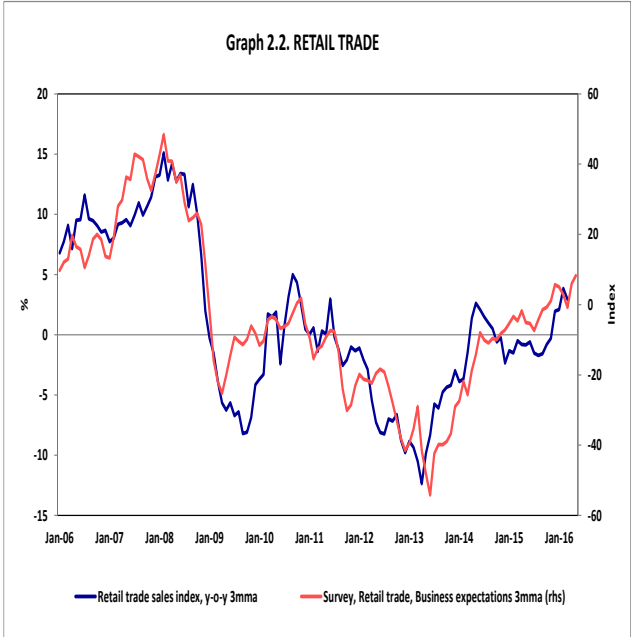
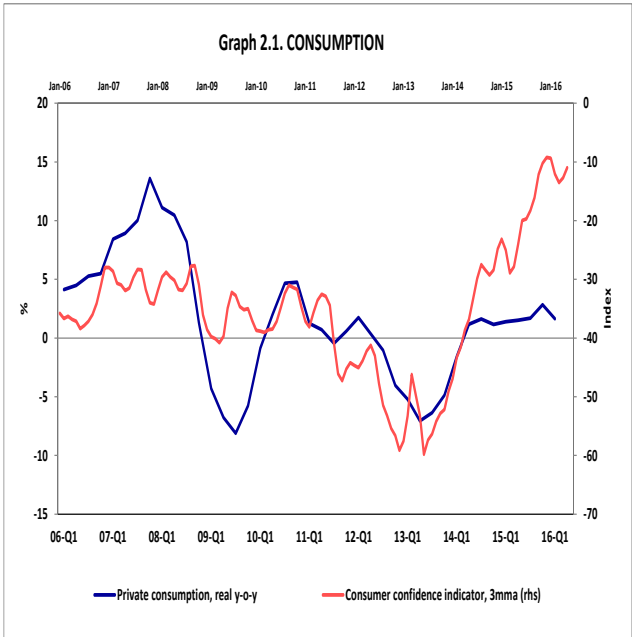
- General government budget balance (GGBB) **was in surplus** in January-April 2016, of the order of **€72.6 mn (0.4% of GDP)** compared to a deficit of €24.5 mn (-0.1% of GDP) during the corresponding period the year before (see graph 9.1).
- General government **primary balance** (GGPB) **was in surplus** in January-April 2016, of the order of **€177.6 mn (1.0% of GDP)** compared to a surplus of €105.3 mn (0.6% 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 5.9%, increasing to €2,090.9 mn in January-April 2016, compared to €1,975.3 mn during the corresponding period the year before (see graph 9.3).
- **Total expenditure** exhibited a positive rate of growth of about 0.9%, reaching to €2,018.3 mn in January-April 2016, compared to €1,999.8 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 7.5%** in April 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 3.8%** in April 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 April 2016, **deposit interest rates** for maturity up to 1 year increased and up to 3 months decreased marginally compared with the previous month. The **lending interest rates** to households for primary residence increased 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 **4.2%** in the **4th quarter of 2015** compared to the 3rd quarter of 2015 and decreased by 0.6% compared to the 4th quarter of 2014.
- The CBC's residential property price index declined by 1.8% in the 4th quarter of 2015 compared to the 4th quarter of 2014. Cumulative from the 1st 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 25% while, transfers of property were up by 47.5% in January-May 2016 compared to January-May 2015 (see graph 7.3). MFI mortgage loans to domestic residents for housing declined with an annual rate of 1.4% in April 2016 (see graph 7.2).
- The Cyprus Government bond spread compared to the German Government bond, increased in mid-June 2016 compared to May 2016 to around 269 basis points above the German bond on 15/06/2016 compared to 251 basis points on 31/05/2016 (see graph 8.6, yields refer to the bonds maturing in 2020).

1. OUTPUT



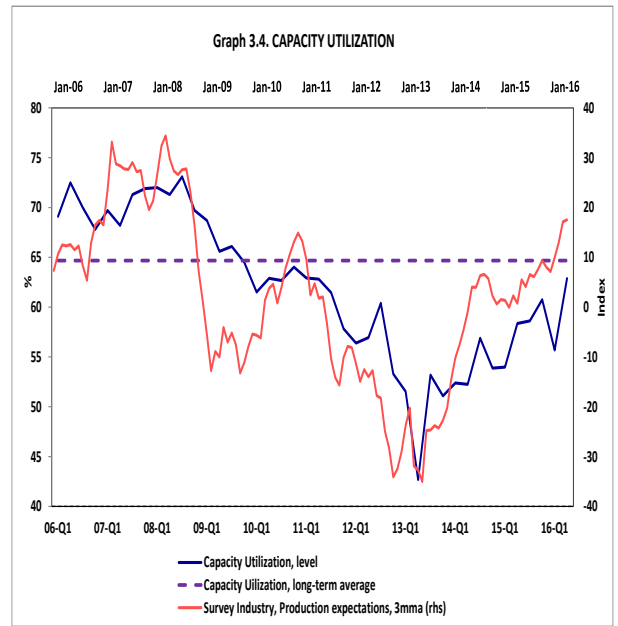
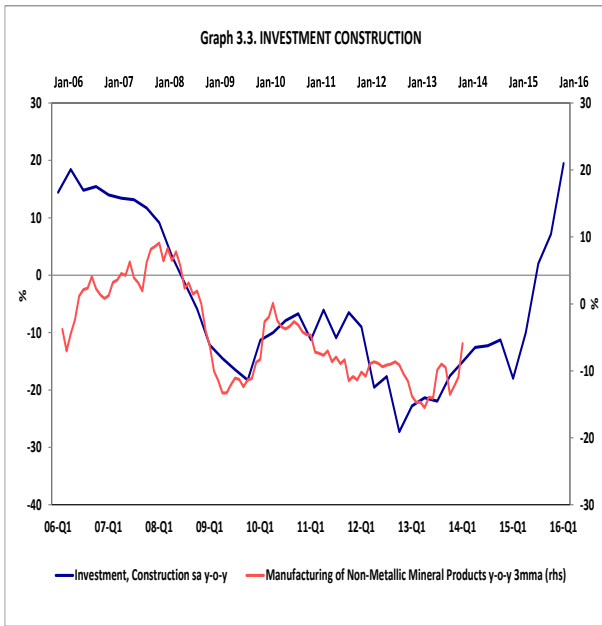
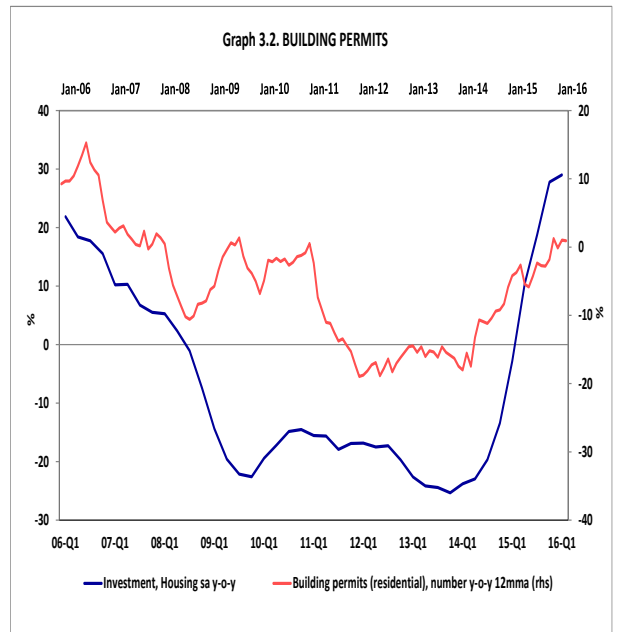
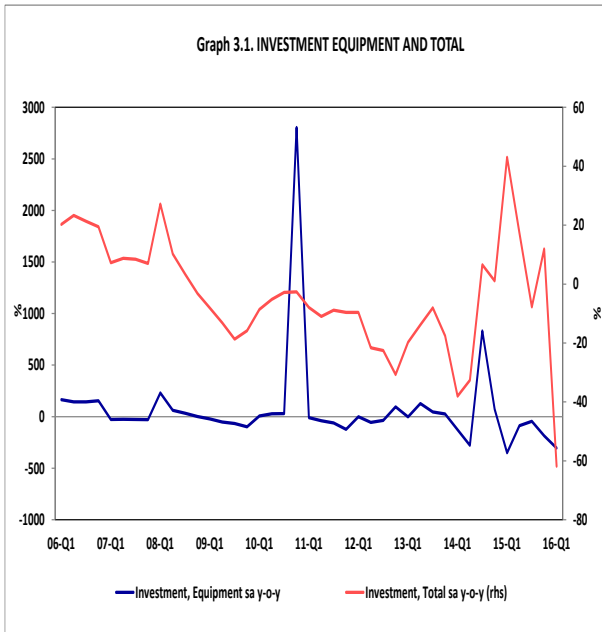
Sources: Eurostat, DG ECFIN, Cystat

2. CONSUMPTION



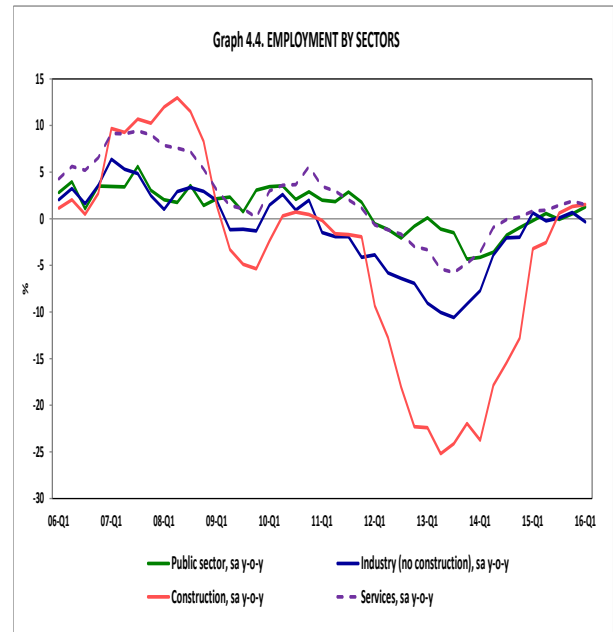
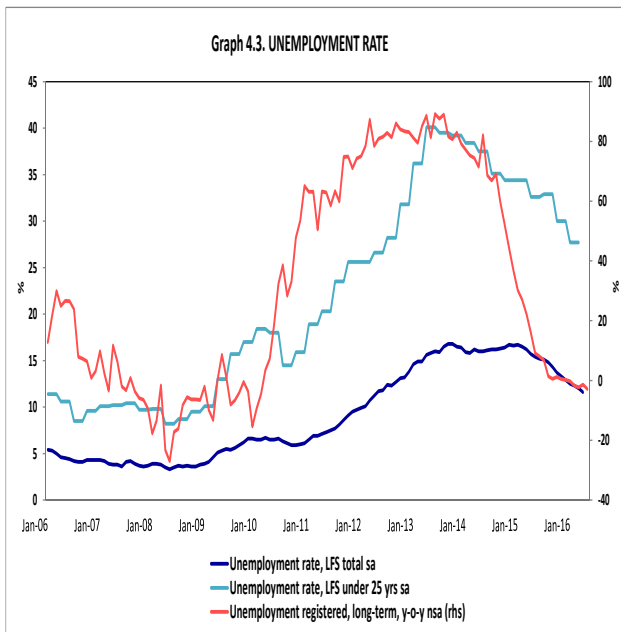
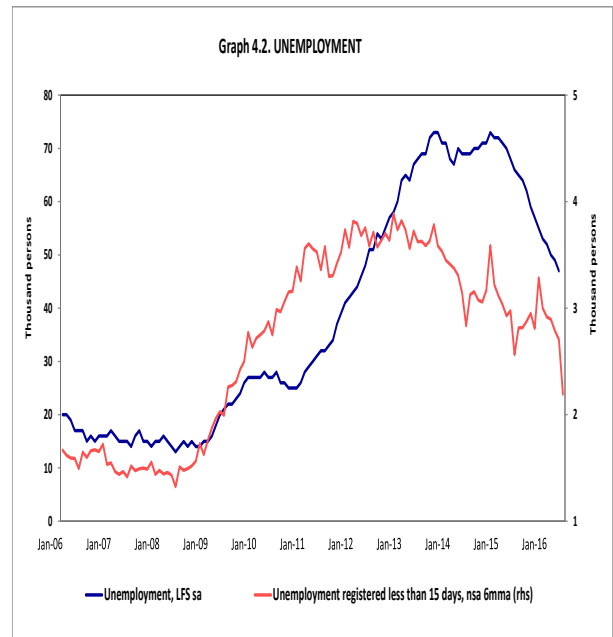
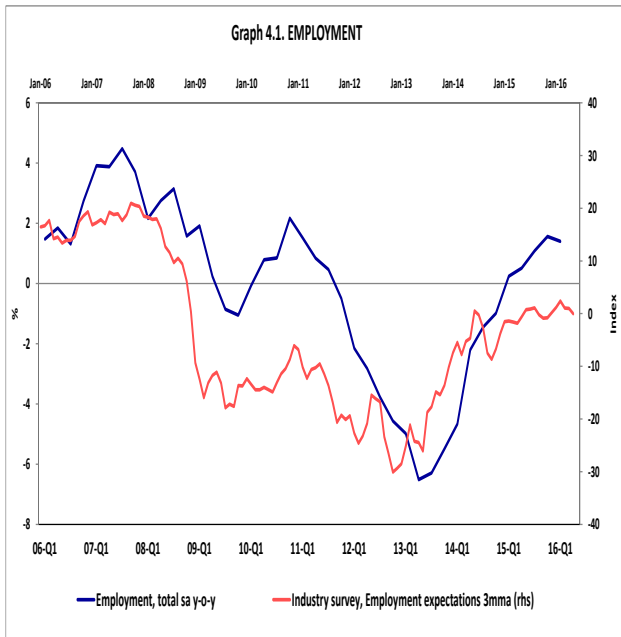
Sources: Eurostat, DG ECFIN, Cystat, JCC Payment Systems Ltd

3. INVESTMENT



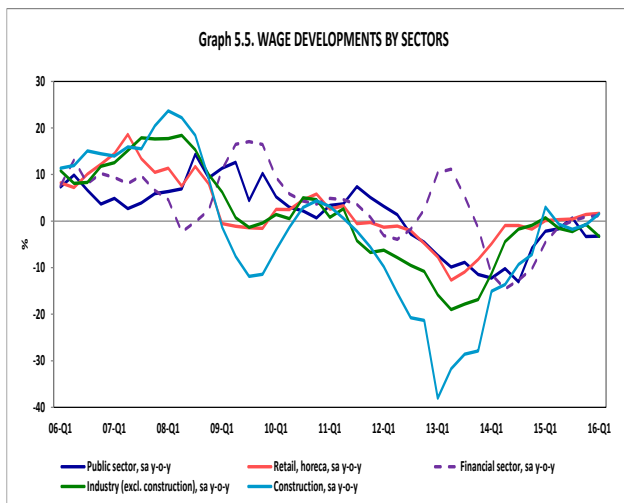
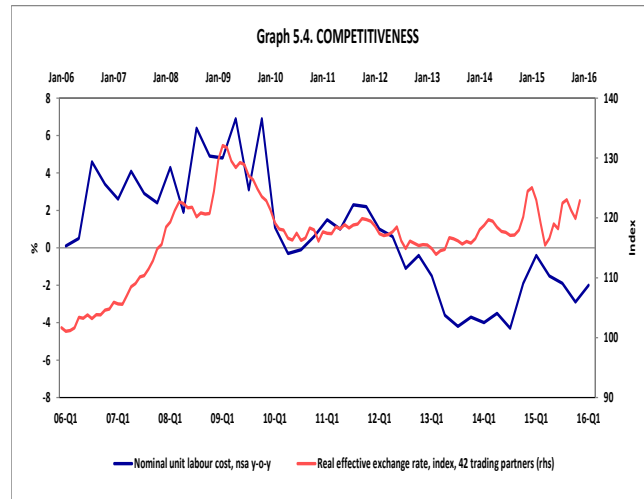
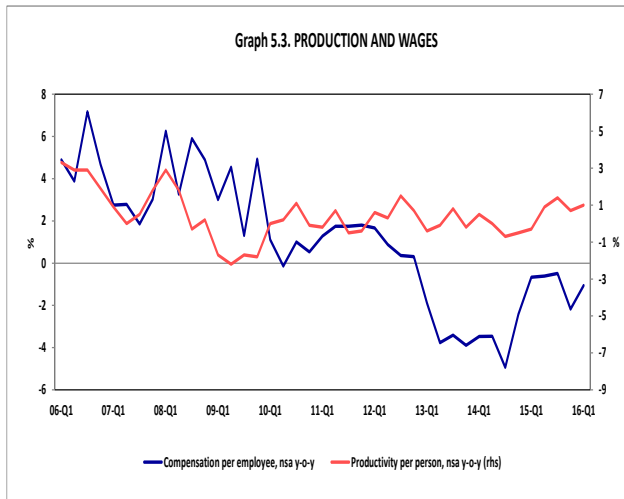
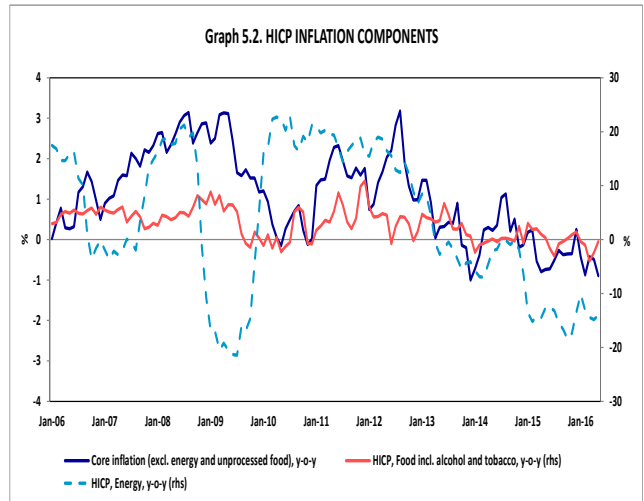
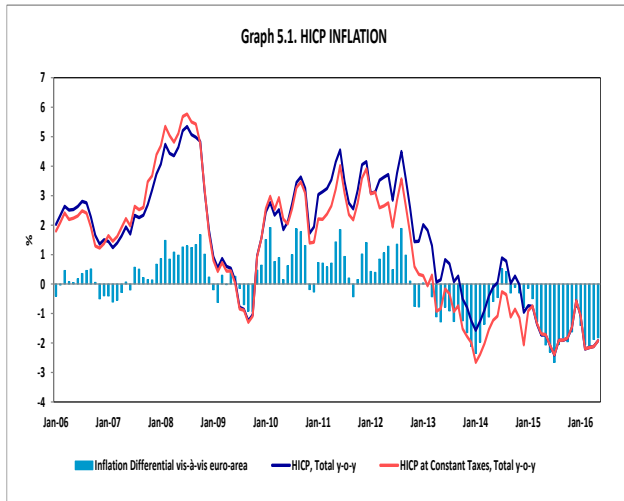
Sources: Eurostat, DG ECFIN, Cystat

4. LABOUR MARKET



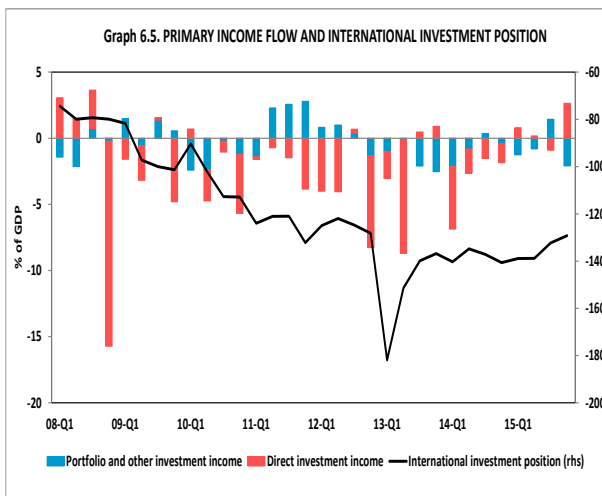
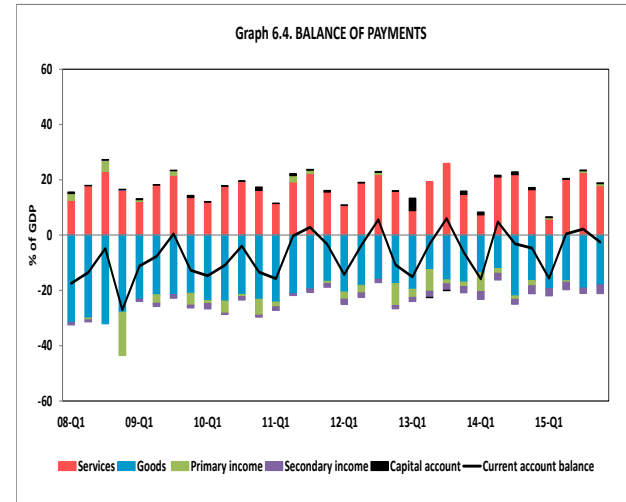
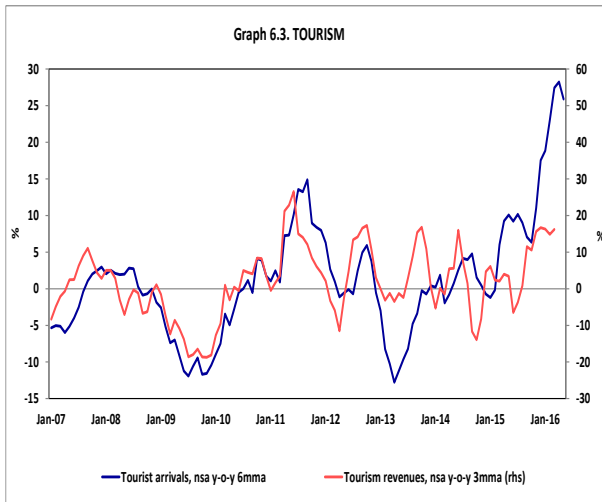
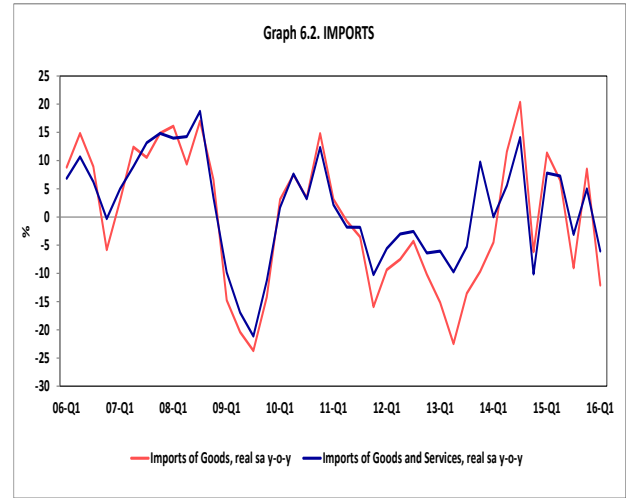
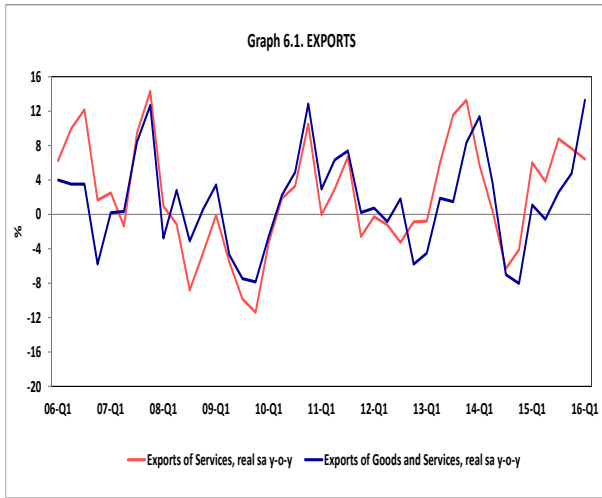
Sources: Eurostat, DG ECFIN, Cystat

5. INFLATION, WAGES



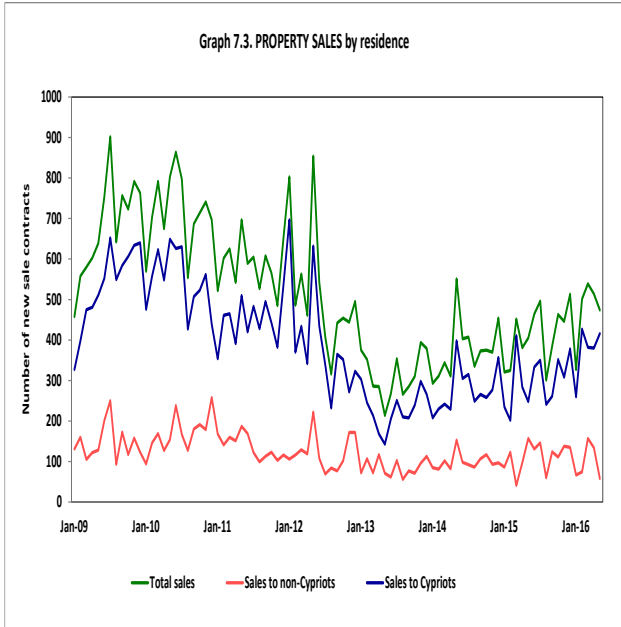
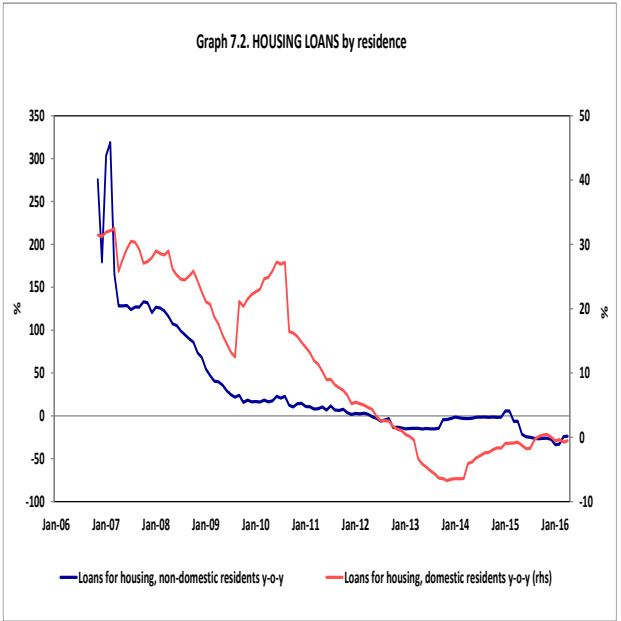
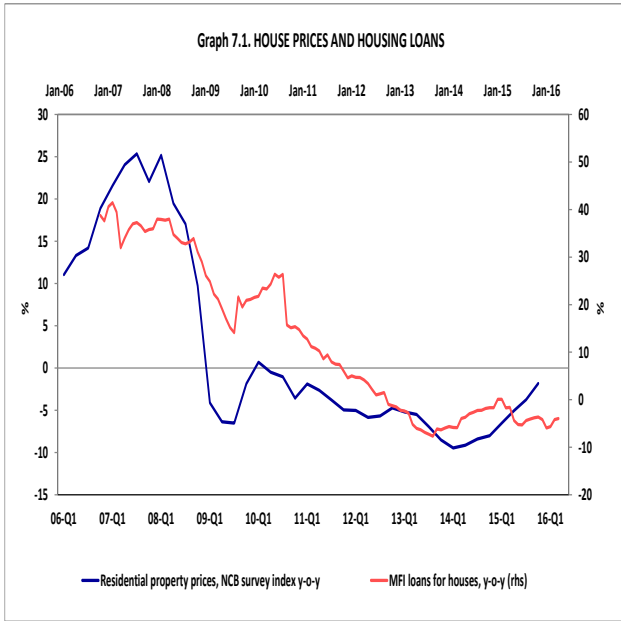
Source: Eurostat

6. EXTERNAL SECTOR



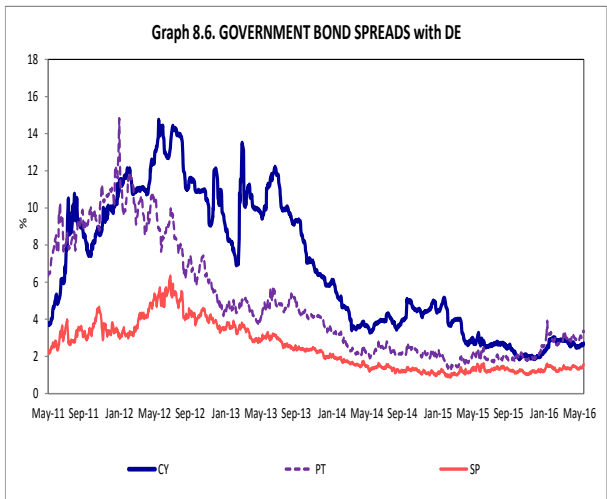
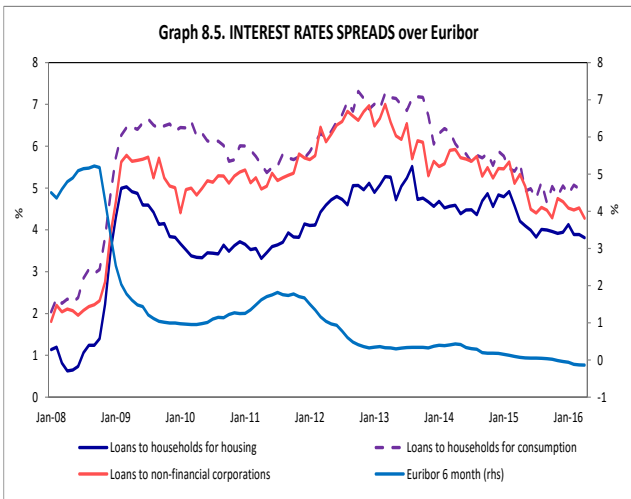
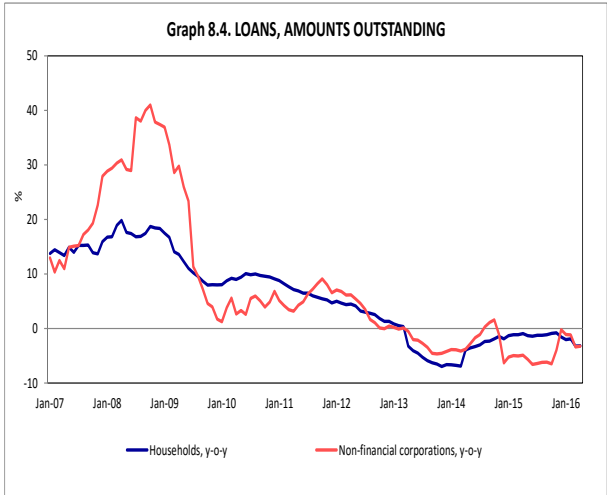
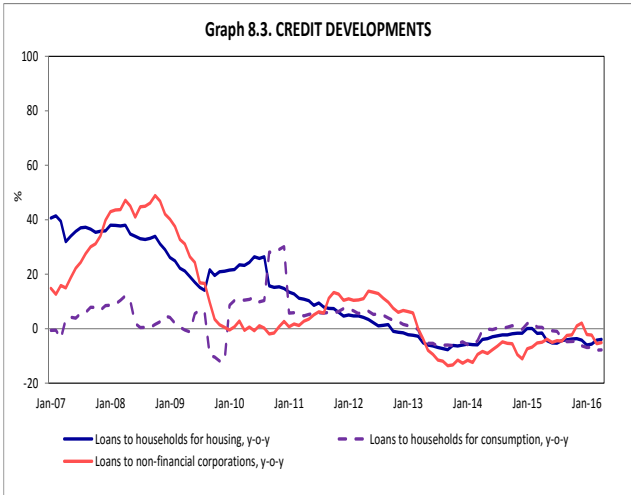
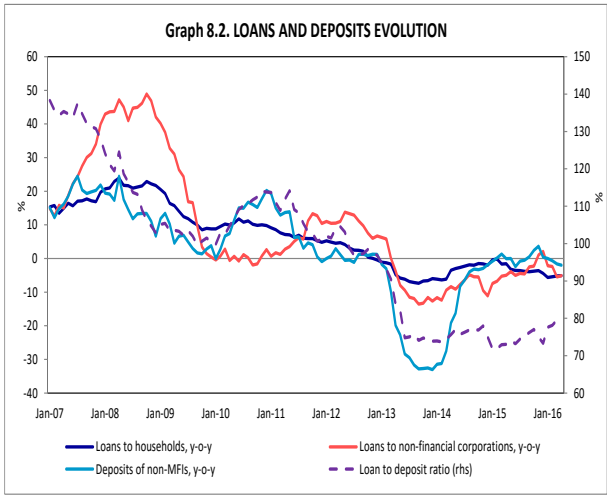
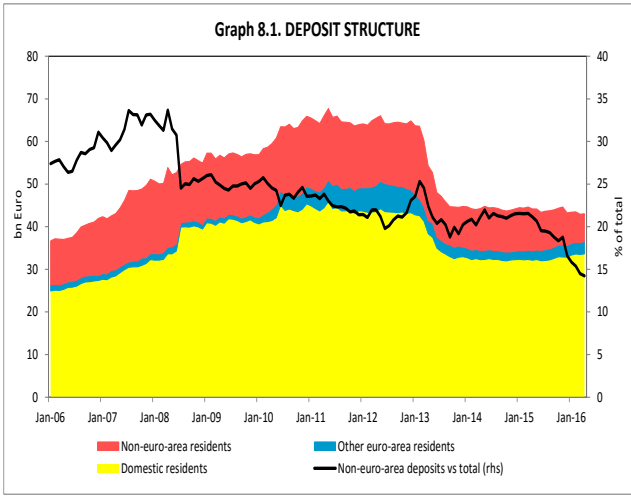
Sources: Eurostat, Cystat, ECB, CBC

7. HOUSING



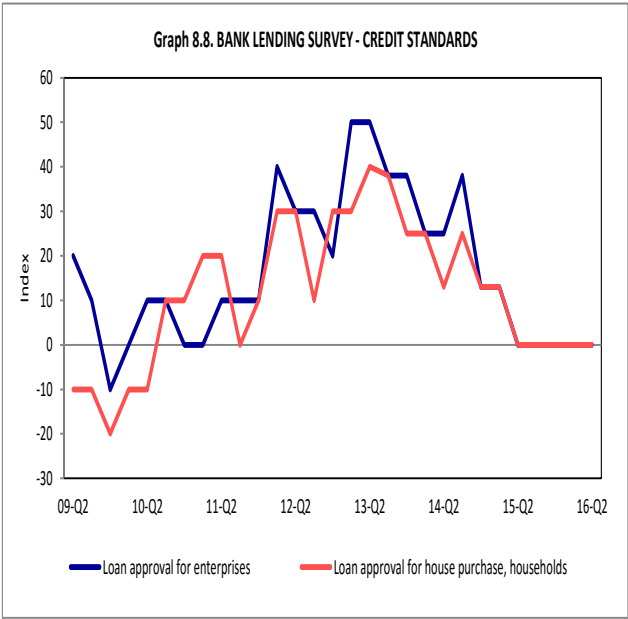
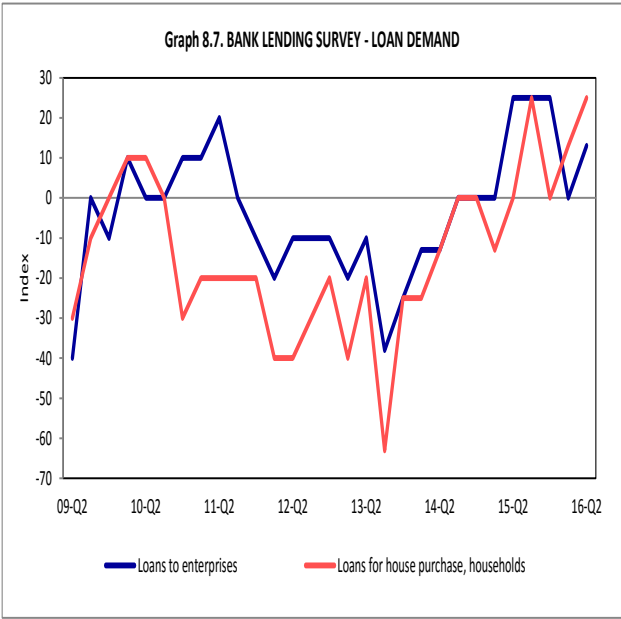
Sources: ECB, CBC, Dep. of Lands and Surveys

8. FINANCIAL SECTOR



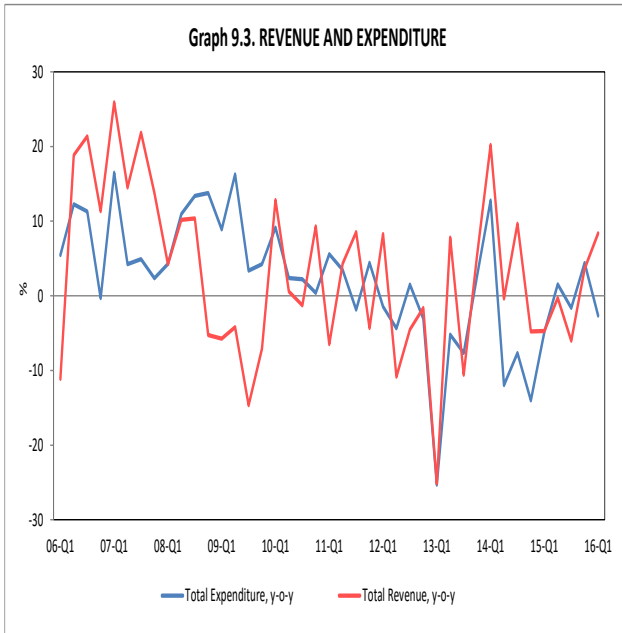
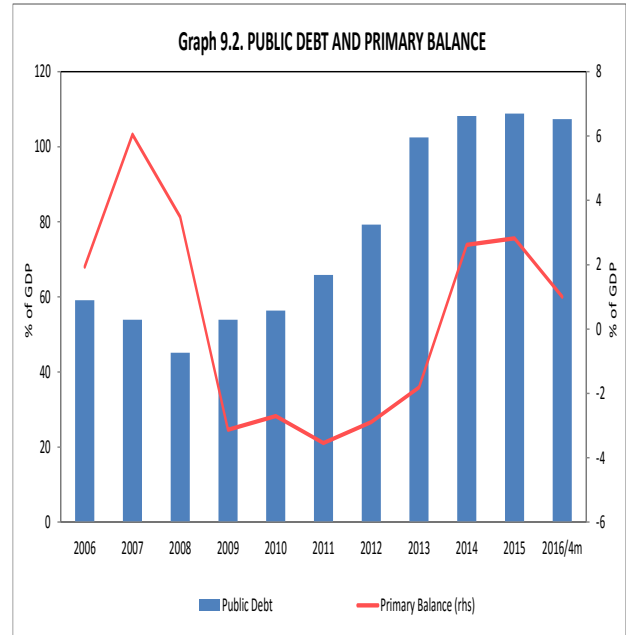
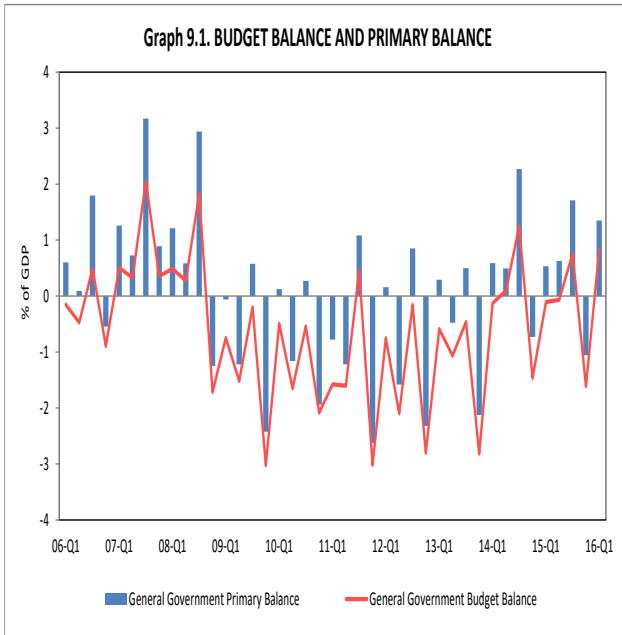
Sources: ECB, CBC, Bloomberg

8. FINANCIAL SECTOR – CONT.



Source: ECB

9. PUBLIC SECTOR



Sources: Ministry of Finance, Cystat