



MACROECONOMIC MONITOR OF CYPRUS

March 2016

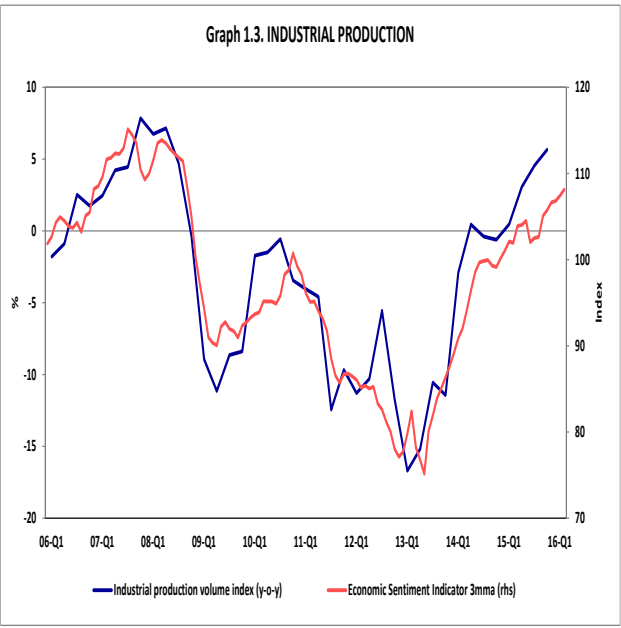
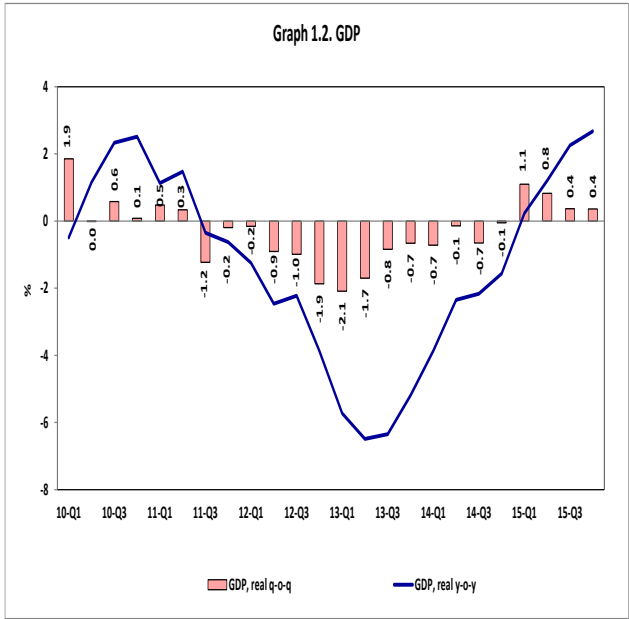
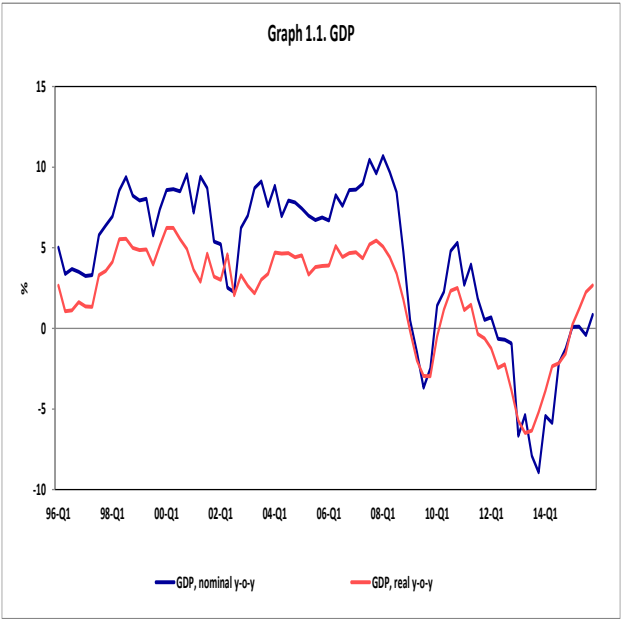
MACROECONOMIC MONITOR OF CYPRUS

Updated on 29 March 2016

- **In the 4th 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 3rd 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 of hotels and restaurants, professional, scientific and technical activities, retail and wholesale trade, manufacturing, construction, transport, as well as, the financial service activities while from the expenditure side it was mainly due to consumption and investment (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 1.2 points in March 2016** compared to February 2016 (see graph 1.3). This increase is due to a further improvement of the business climate in services and, to a lesser extent, to enhancement of consumer's economic confidence.
- **Exports of goods decreased by 57.5%** in January 2016 compared to January 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 growth rate of 8.9%.
- In January-February 2016 **tourist arrivals increased by 23.9%** compared to January-February 2015 (see graph 6.3). An increase of 49.7% was recorded in tourist arrivals from Russia, a 25.5% increase from Germany, a 23.8% increase from the UK and a 16.9% increase from Greece.
- **Employment** adjusted to the conditions of improving economic growth (see graphs 4.1 and 4.4). Employment in persons **increased by 0.9%** in 2015 compared to 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 the 4th quarter of 2015 declined considerably and fell to 12.8% compared to 14.8% the previous quarter or 16% the corresponding quarter last year, mainly due to the significant decrease in registered unemployed. Labour Force Survey (LFS) unemployment**, in monthly seasonally adjusted terms, **decreased to 15.3% in January 2016 compared to 16.3% in January 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 January 2014. Particularly challenging is also the increase in long-term unemployed.
- **Compensation per employee** in 2015 **declined by around 1%** compared to 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 February 2016 stood at -2.2% compared to -1.1% in January 2016 (see graph 5.1). For 2016 so far it stands at -1.6%. Core HICP inflation stood at -0.7% in January-February 2016 (see graph 5.2). All subcategories of HICP presented a decrease except for alcoholic beverages and tobacco, clothing and footwear, furnishings, household equipment and supplies, health, communication, 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.

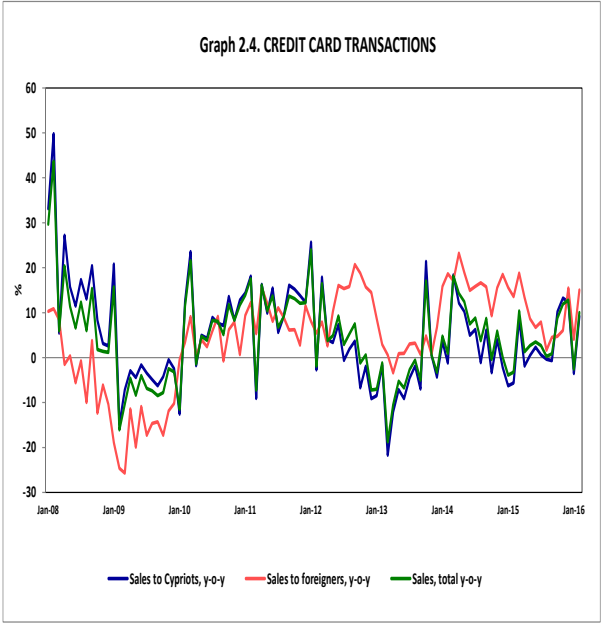
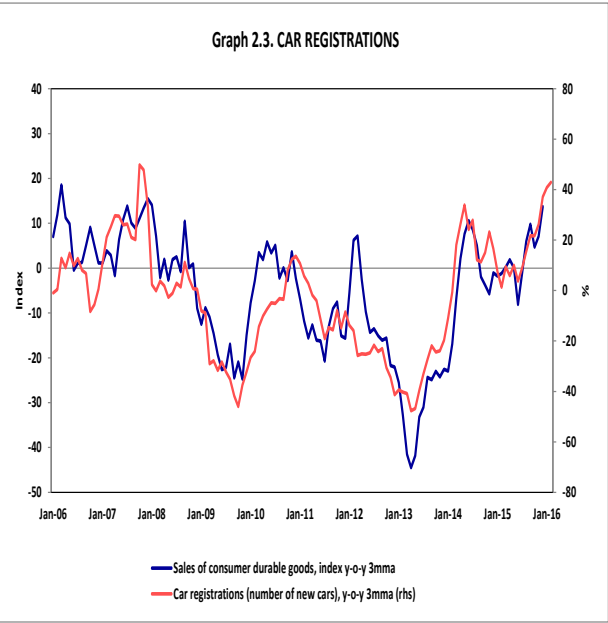
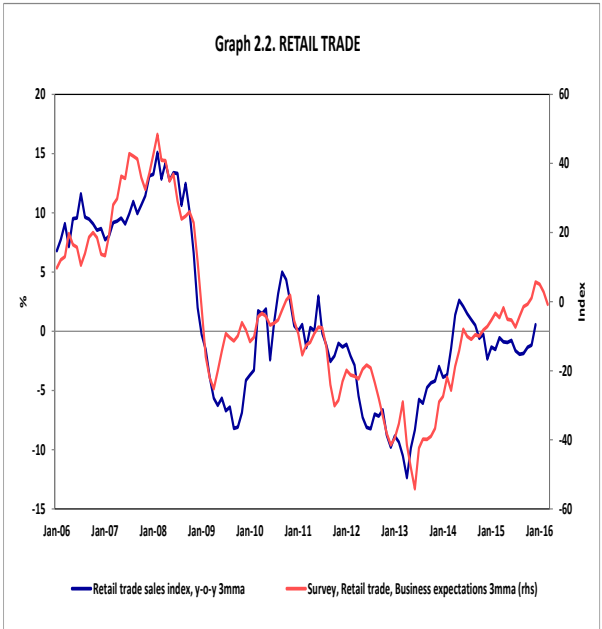
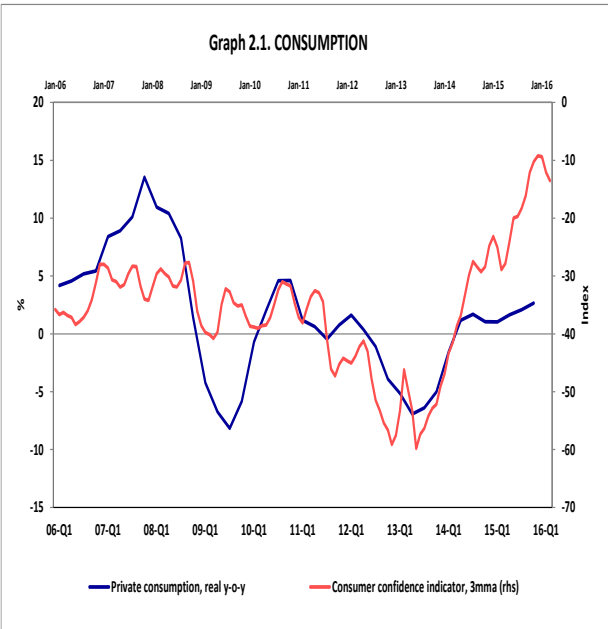
- The **primary income** recorded a **deficit of €152.9 mn** in the first nine months of 2015 compared with a deficit of €408.2 mn in the first nine months of 2014 (see graph 6.4) mainly due to improvement in investment income (direct investment).
- The international investment position of Cyprus (see 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 surplus** in January 2016, of the order of **€102.7 mn (0.6% of GDP)** compared to a surplus of €81.3 mn (0.5% of GDP) during the corresponding month the year before (see graph 9.1).
- General government **primary balance** (GGPB) **was in surplus** in January 2016, of the order of **€115.6 mn (0.7% of GDP)** compared to a surplus of €99.1 mn (0.6% of GDP) during the corresponding month the year before (see graphs 9.1-9.2).
- **Total revenue** exhibited a **negative** rate of growth of about 3.6%, declining to €560 mn in January 2016, compared to €580.7 mn during the corresponding month the year before (see graph 9.3) attributed to temporary factors.
- **Total expenditure** exhibited a negative rate of growth of about 8.4%, reaching to €457.3 mn in January 2016, compared to €499.4 mn during the corresponding month the year before (see graph 9.3) attributed to Social Security payments, pensions and other current transfers.
- Monetary Financial Institutions (MFI) **loans to domestic residents** (private sector), **decreased** with an annual **rate of 7.4%** in January 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 1.7%** in January 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 January 2016, **deposit interest rates** for maturity up to 1 year and up to 3 months remained unchanged 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 **0.7%** in the **3rd quarter of 2015** compared to the 2nd quarter of 2015 and increased by 2.5% compared to the 3rd 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 28.2% while, transfers of property were up by 30.5% in January-February 2016 compared to January-February 2015 (see graph 7.3). MFI mortgage loans to domestic residents for housing declined with an annual rate of 1.8% in January 2016 (see graph 7.2).
- The Cyprus Government bond spread compared to the German Government bond, decreased in March 2016 compared to February 2016 to around 290 basis points above the German bond on 29/03/2016 compared to 298 basis points on 29/02/2016 (see graph 8.6, yields refer to the bonds maturing in 2020).

1. OUTPUT



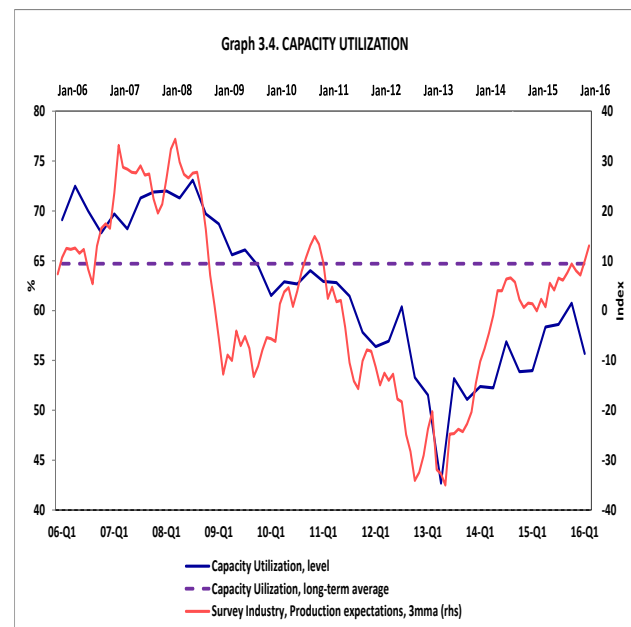
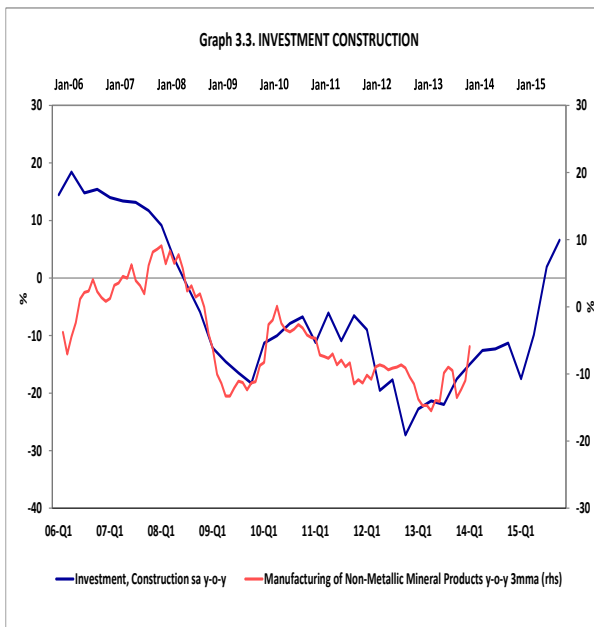
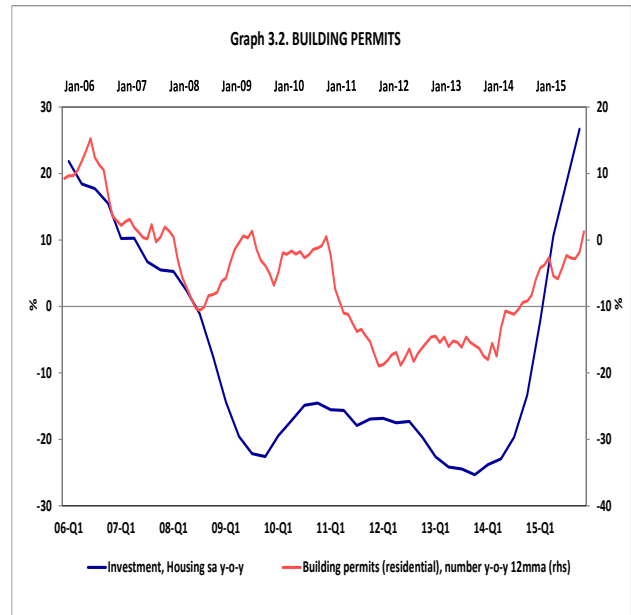
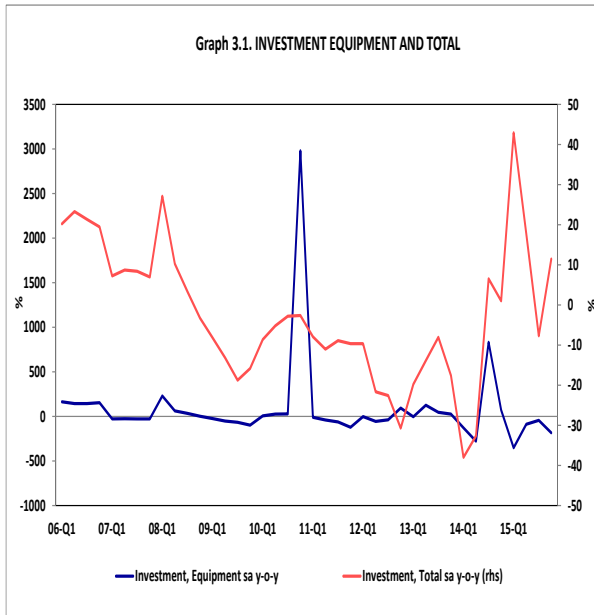
Sources: Eurostat, DG ECFIN, Cystat

2. CONSUMPTION



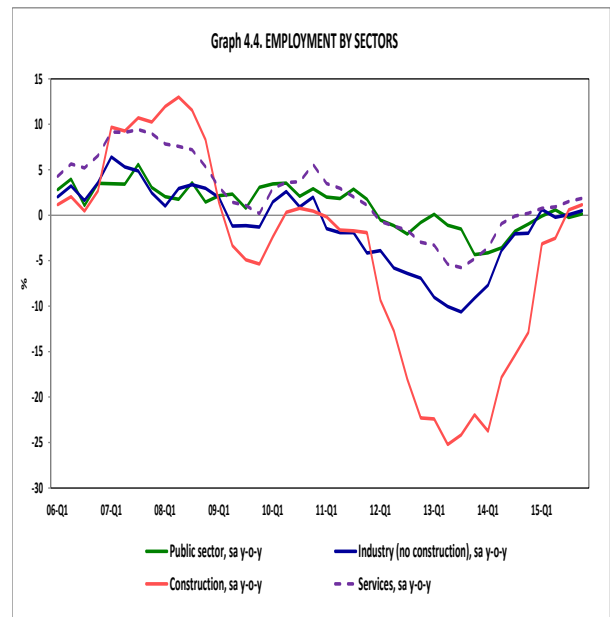
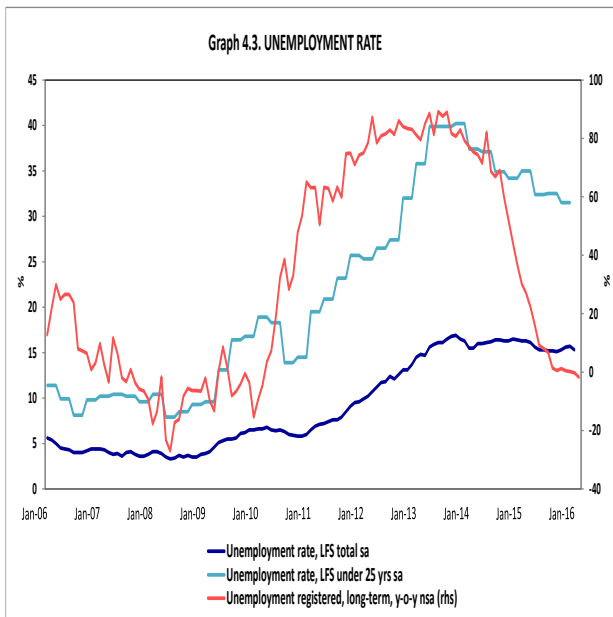
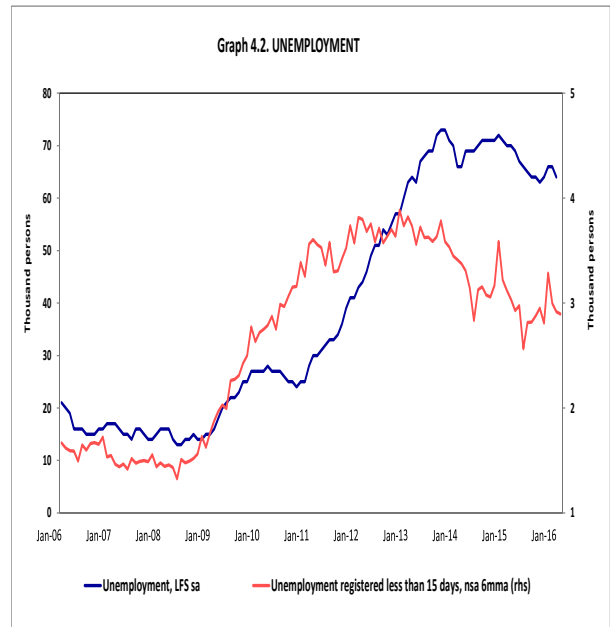
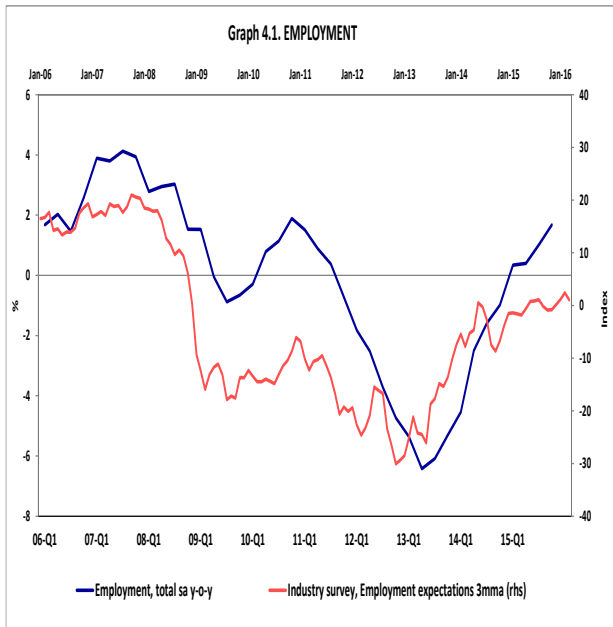
Sources: Eurostat, DG ECFIN, Cystat, JCC Payment Systems Ltd

3. INVESTMENT



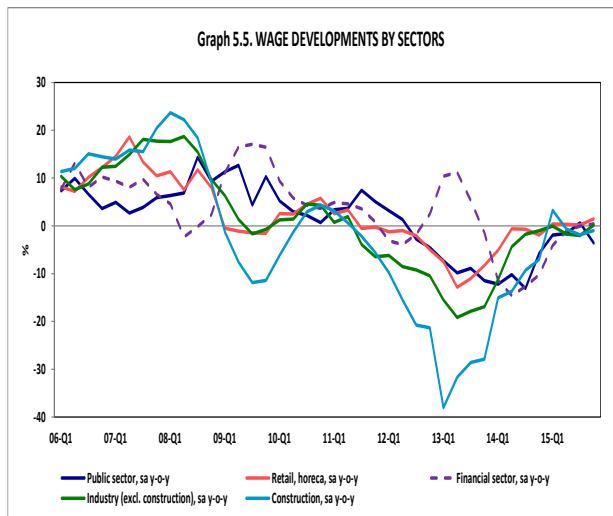
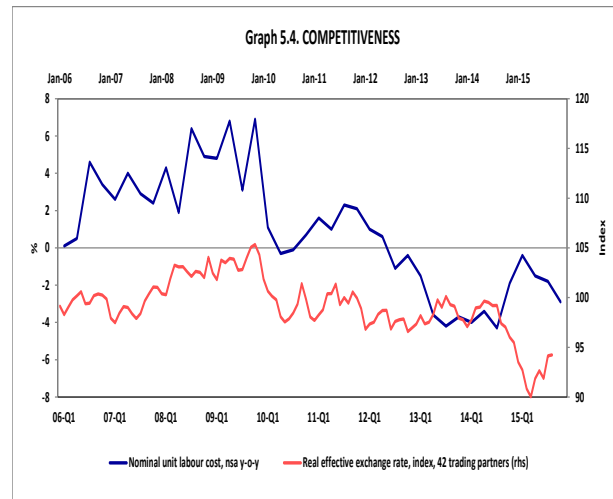
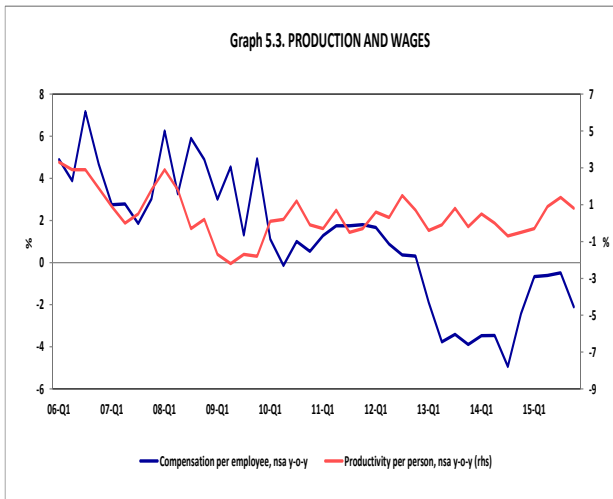
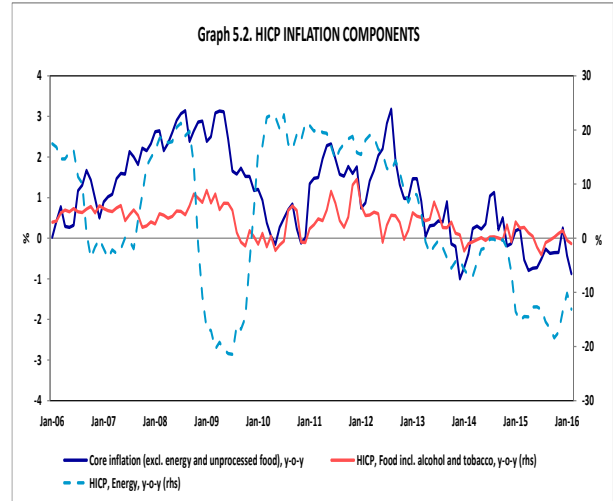
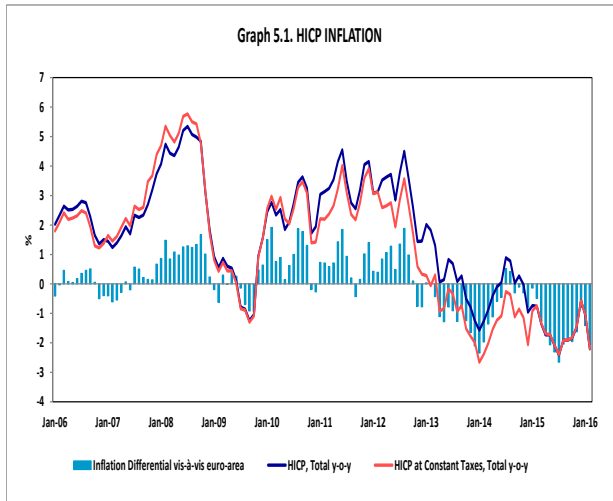
Sources: Eurostat, DG ECFIN, Cystat

4. LABOUR MARKET



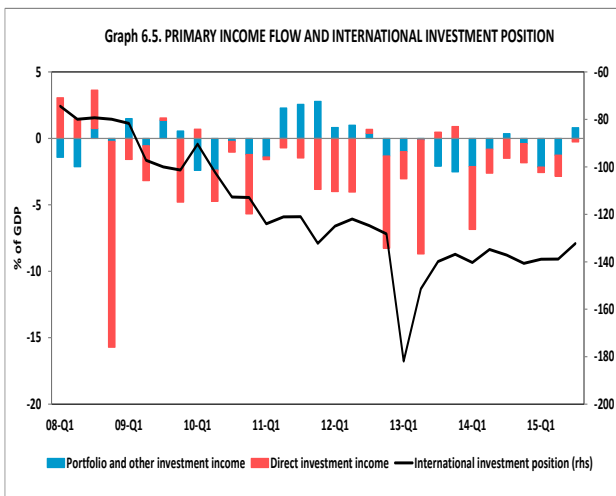
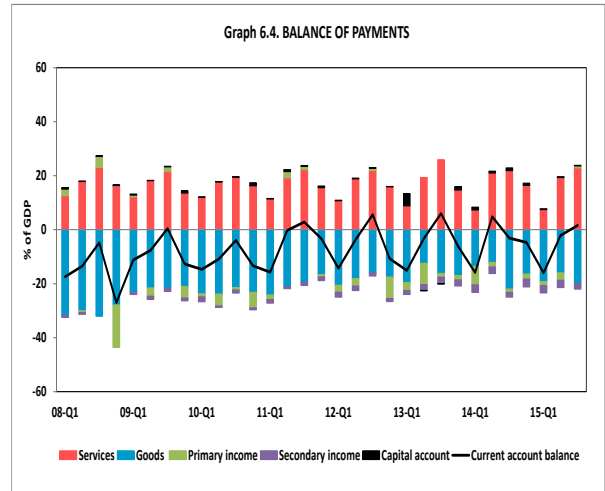
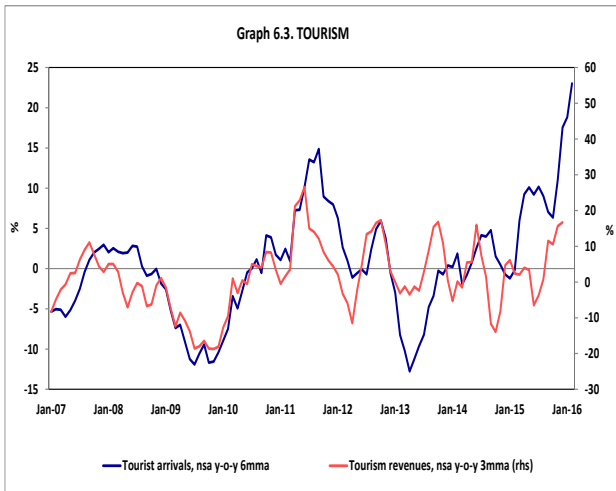
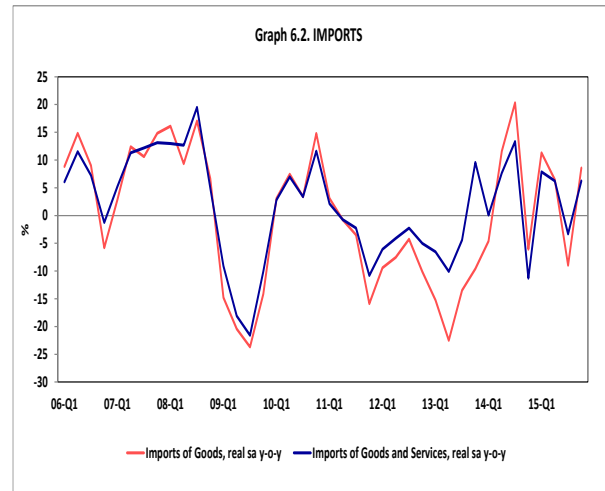
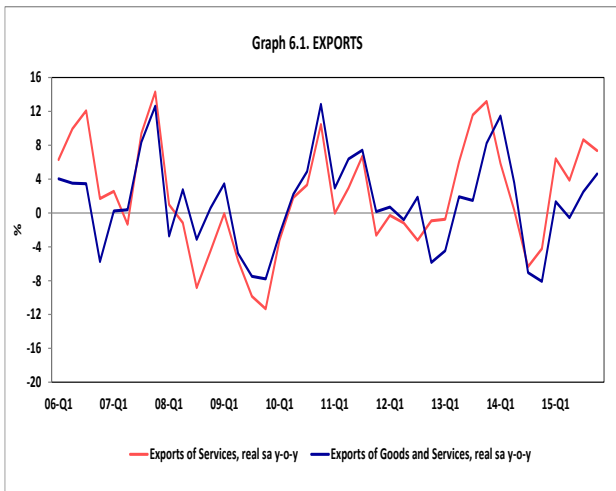
Sources: Eurostat, DG ECFIN, Cystat

5. INFLATION, WAGES



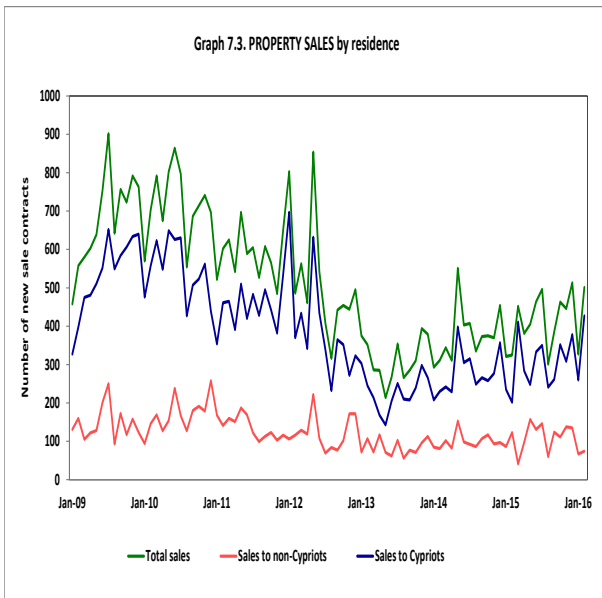
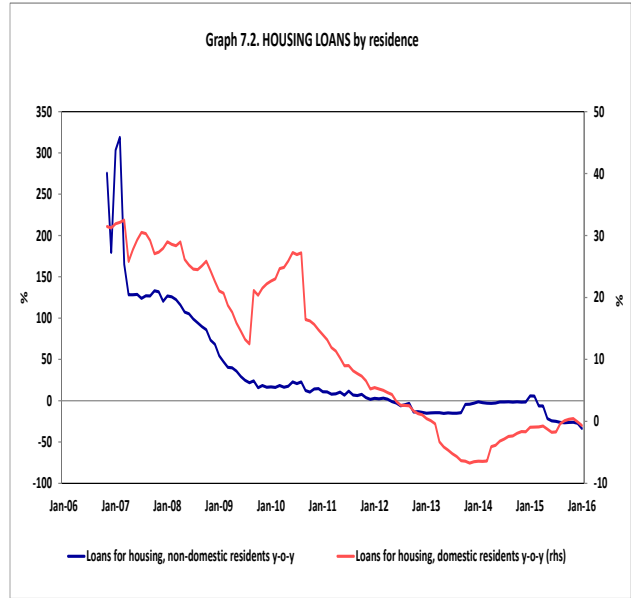
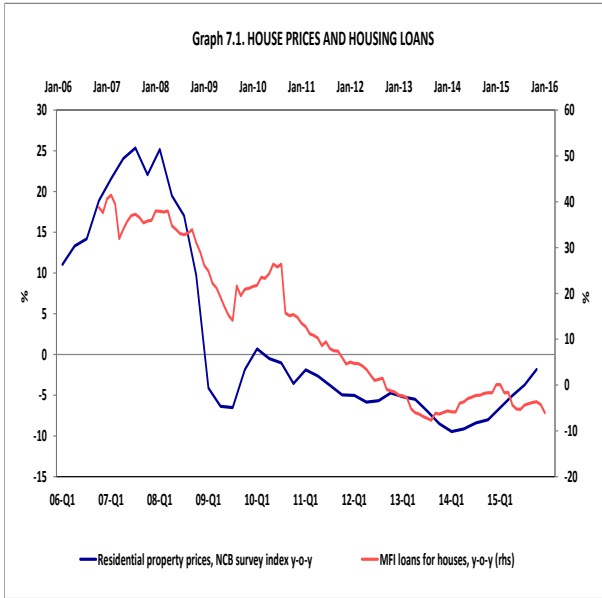
Source: Eurostat

6. EXTERNAL SECTOR



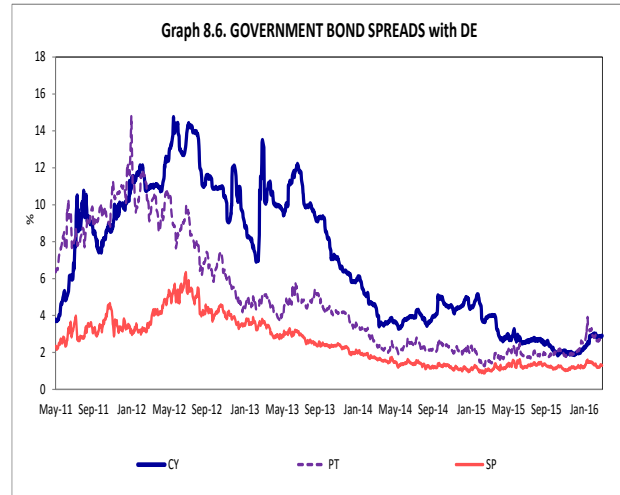
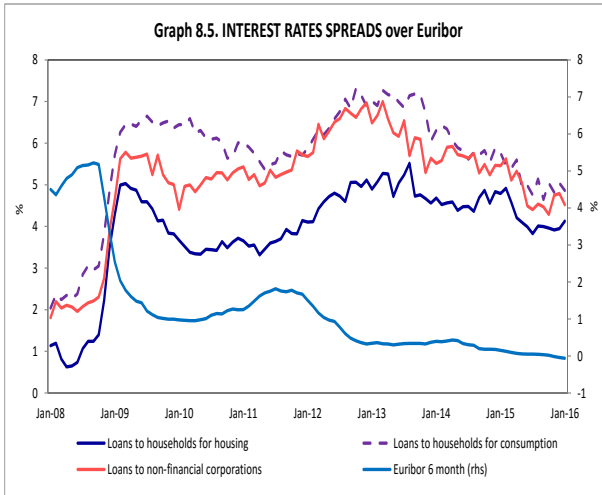
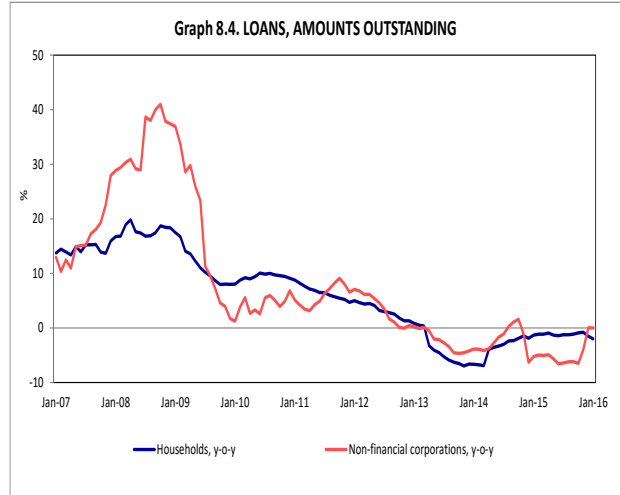
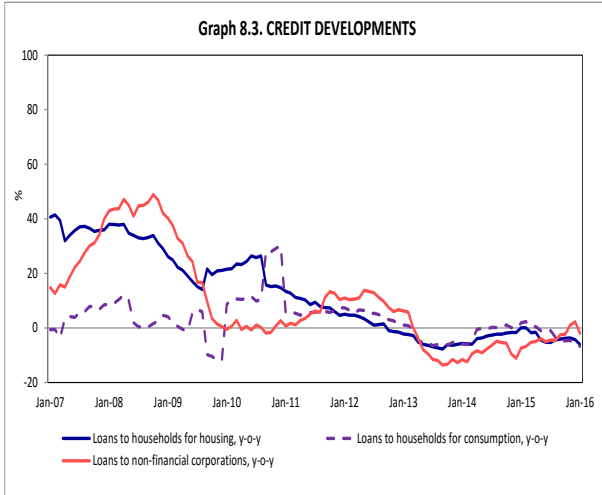
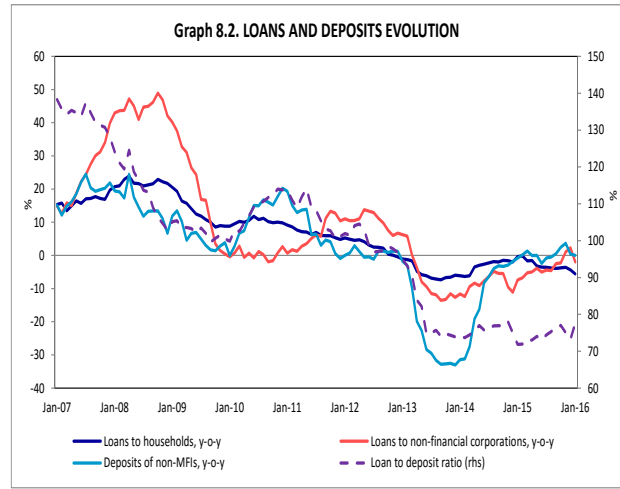
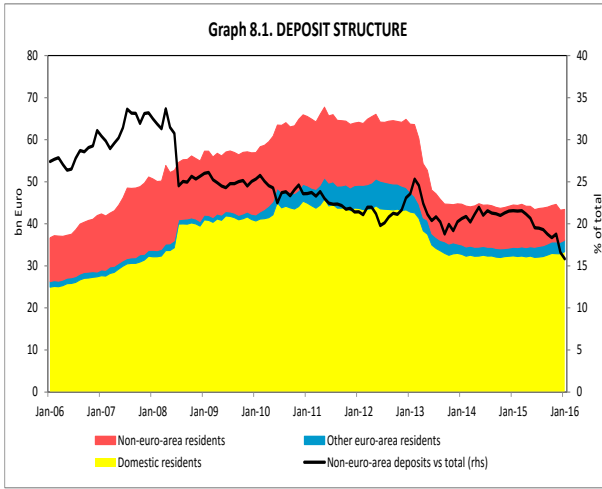
Sources: Eurostat, Cystat, ECB, CBC

7. HOUSING



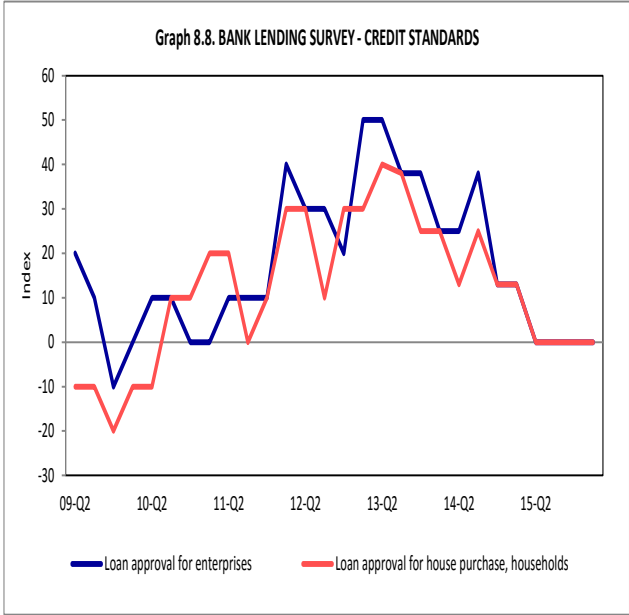
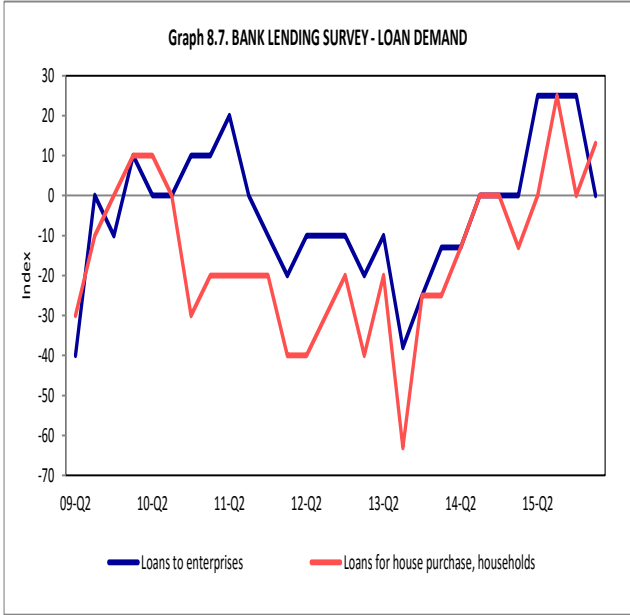
Sources: ECB, CBC, Dep. of Lands and Surveys

8. FINANCIAL SECTOR



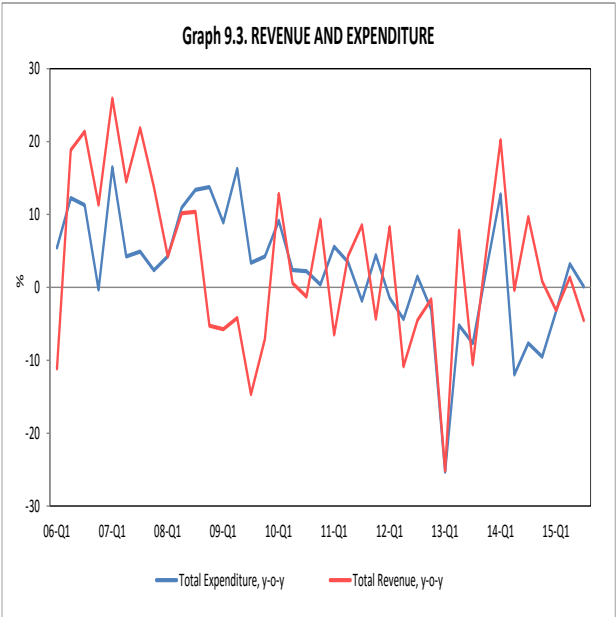
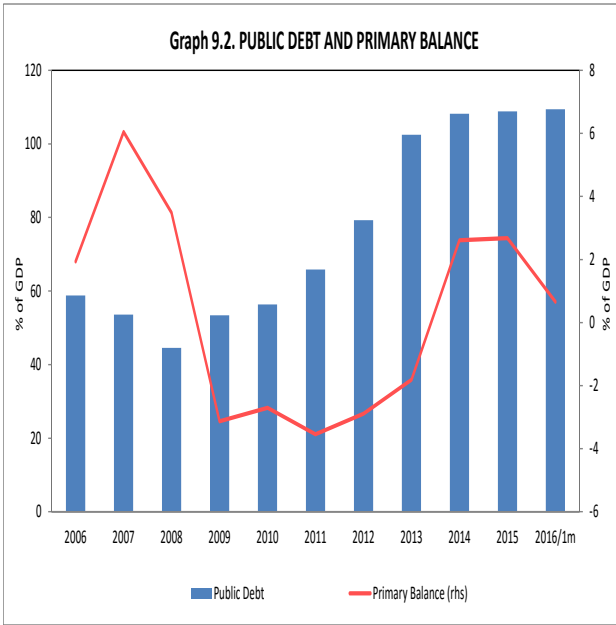
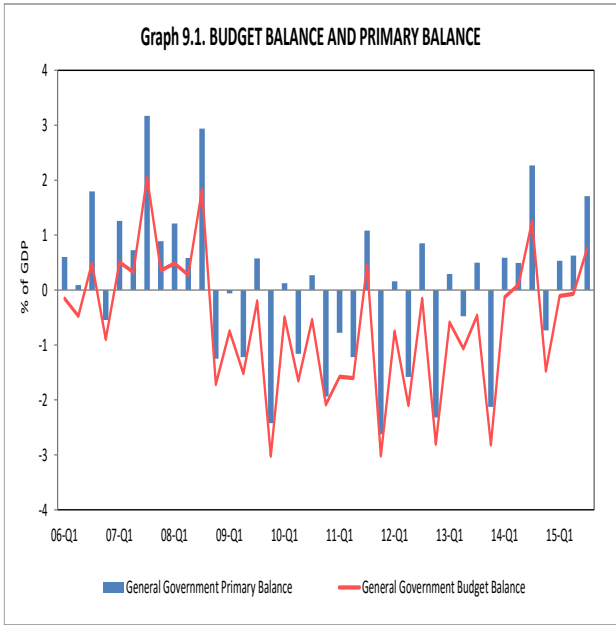
Sources: ECB, CBC, Bloomberg

8. FINANCIAL SECTOR – CONT.



Source: ECB

9. PUBLIC SECTOR



Sources: Ministry of Finance, Cystat