



MACROECONOMIC MONITOR OF CYPRUS

October 2016

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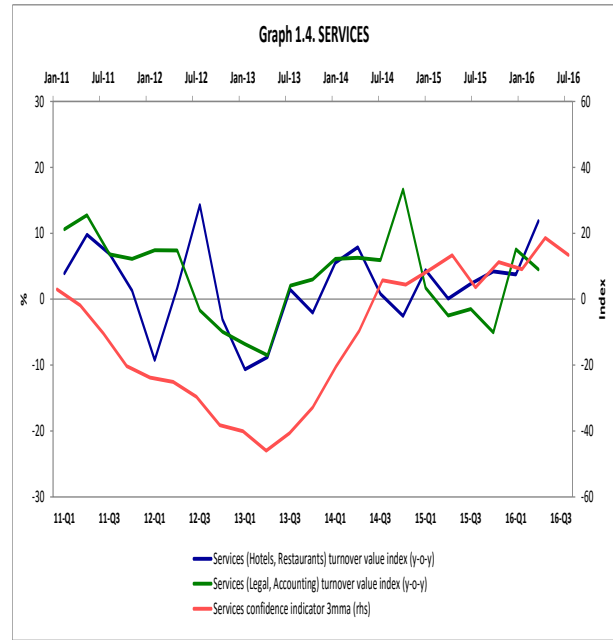
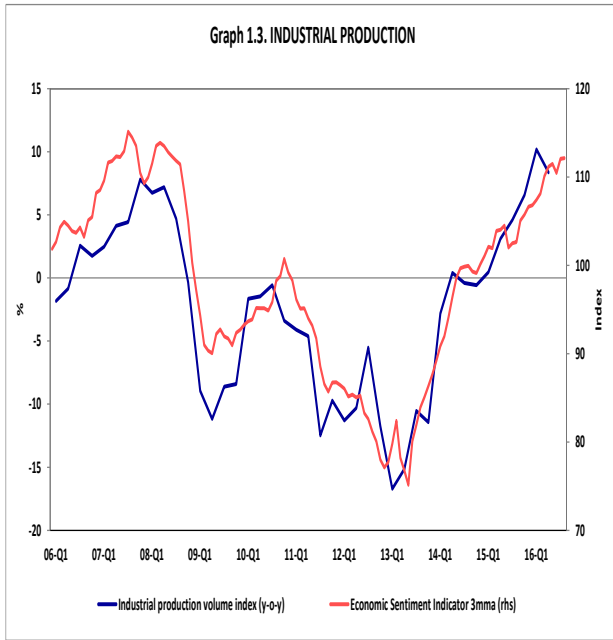
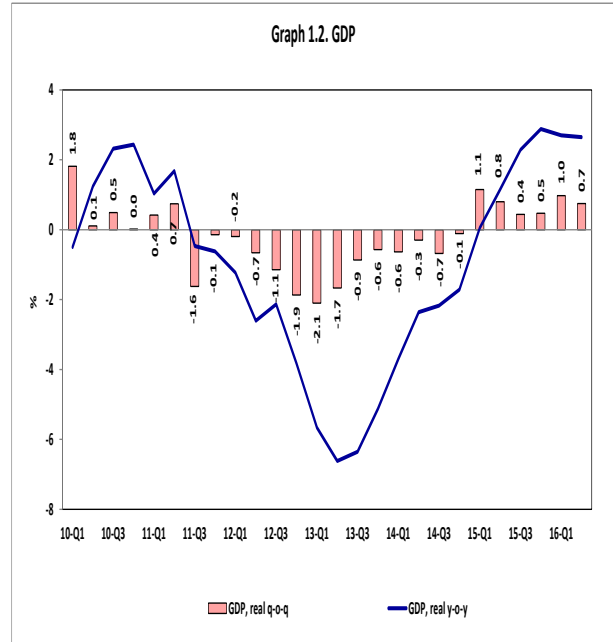
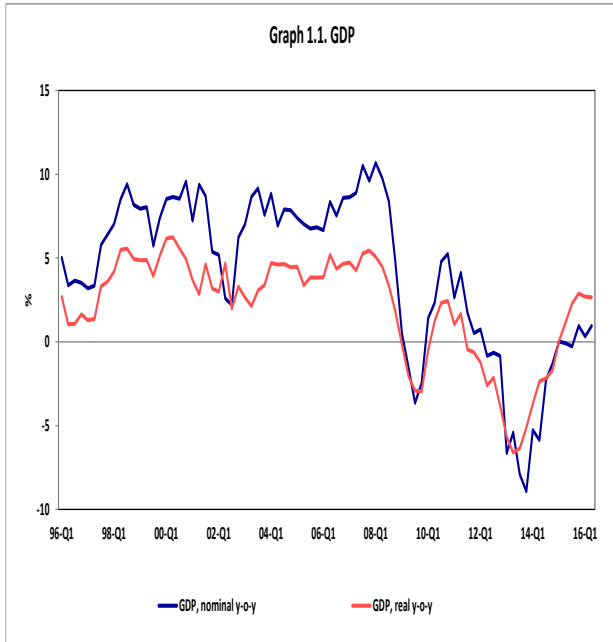
Updated on 21 October 2016

- **In the 2nd quarter of 2016, GDP** (in seasonally adjusted terms) continued to **record a positive rate of growth of 2.7% as was the case in the 1st quarter of 2016** on an annual basis (see graphs 1.1-1.2). The increase in the GDP growth rate is broad based and 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 in the financial service activities (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 to be robust.
- 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 3.2 points in September 2016** compared to August 2016 (see graphs 1.3-1.4) as a result of the worsening of business confidence in services, retail trade and industry.
- In January-September 2016 **tourist arrivals increased with a rate of 18.8%** compared to January-September 2015 (see graph 6.3). An increase of 44.5% was recorded in tourist arrivals from Russia, a 12.4% increase from Greece, an 11.1% increase from the UK and a 6.6% increase from Germany.
- **Employment** adjusted to conditions of improving economic growth (see graphs 4.1 and 4.4). Employment in persons **increased by 2.1%** in the 1st half of 2016 compared to the 1st half 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 12.1% in August 2016 compared to 14.7% in August 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 falling to 26.7% in the 2nd quarter of 2016 from the peak of 40.2% in the 2nd quarter of 2013. Particularly challenging is also the relatively high long-term unemployed.
- **Compensation per employee** in the 1st half of 2016 **marginally increased by around 0.2%** compared to the 1st half of 2015 (see graphs 5.3-5.5). The observed wage adjustment is expected to help containing the upward pressure on unemployment.
- **Inflation (HICP)** for September 2016 stood at -0.4% compared to -0.6% in August 2016 (see graph 5.1). For 2016 so far it stands at -1.4%. Core HICP inflation stood at -0.8% in January-September 2016 (see graph 5.2). All subcategories of HICP presented a decrease except for food and non-alcoholic beverages, alcoholic beverages and tobacco, clothing and footwear, health, education and restaurants and hotels which presented an increase.
- **Exports of goods decreased by 13.1%** in January-August 2016 compared to January-August 2015, mainly due to the transfer of economic ownership of mobile transport equipment that was recorded as exports, with total value of €158.6 mn in January 2015. Excluding this one-off transaction exports of goods exhibited a decrease of 0.4%.
- **Imports of goods increased by 13.7%** in January-August 2016 compared to January-August 2015 mainly due to the transfer of economic ownership of mobile transport equipment, with total value of €563.4 mn in May 2016 recorded as imports. Excluding this one-off transaction imports of goods and services exhibited a decrease of 2.7%.
- The **current account balance** in the 1st half of 2016 recorded a **deficit of €409.1 mn (-2.3% of GDP)** compared with a deficit of €444.8 mn (-2.5% of GDP) in the 1st half of 2015 (see graph 6.4) mainly due to improvement in the services balance. Excluding the one-off transactions in imports and exports of goods

and services of mobile transport equipment the current account balance recorded a surplus of €154.3 mn (0.9% of GDP) during the reference period of 2016 compared with a deficit of €603.4 mn (-3.4% of GDP) during the corresponding period of 2015.

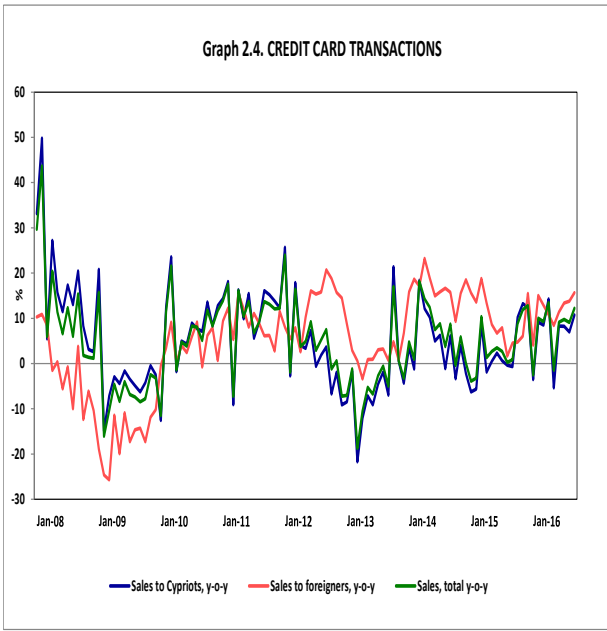
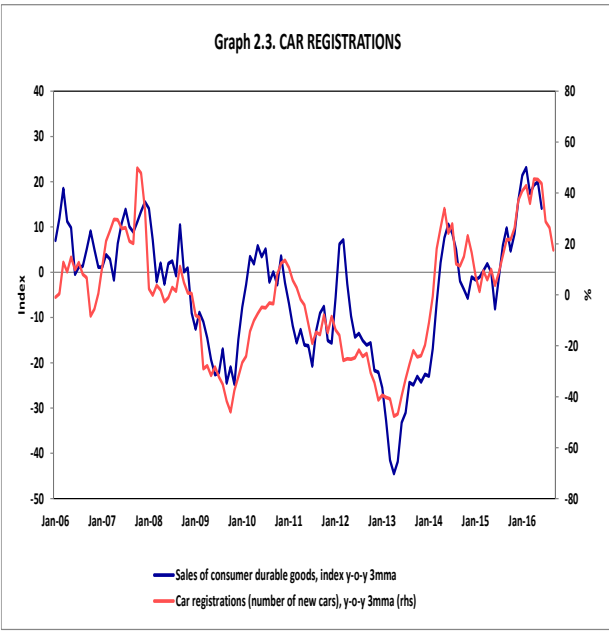
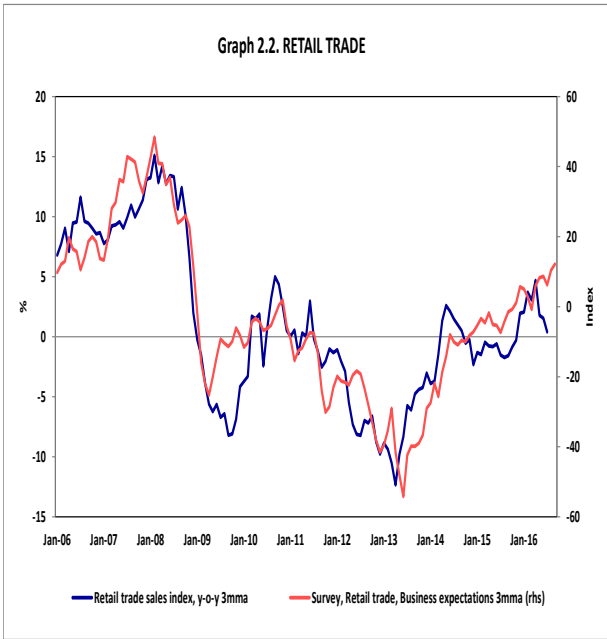
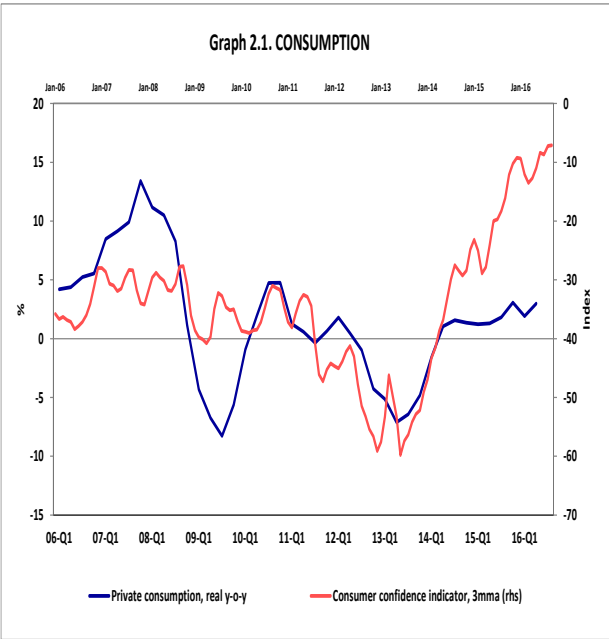
- The **primary income** recorded a **deficit of €269.0** mn in the 1st half of 2016 compared with a deficit of €70.5 mn in the 1st half of 2015 (see graph 6.4) mainly due to worsening of investment income.
- The international investment position of Cyprus (see graph 6.5) recorded an improvement in June 2016 reaching -€21,488.5 mn compared with -€21,603.6 mn in March 2016.
- General government budget balance (GGBB) **was in surplus** in January-August 2016, of the order of **€11.4 mn (0.1% of GDP)** compared to a surplus of €118.8 mn (0.7% of GDP) during the corresponding period the year before (see graph 9.1).
- General government **primary balance** (GGPB) **was in surplus** in January-August 2016, of the order of **€340.8 mn (1.9% of GDP)** compared to a surplus of €472.3 mn (2.7% 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 2.4%, reaching to €4,240.7 mn in January-August 2016, compared to €4,342.9 mn during the corresponding period the year before (see graph 9.3).
- **Total expenditure** exhibited a marginal increase of about 0.1%, reaching to €4,229.3 mn in January-August 2016, compared to €4,224.1 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 8.2%** in August 2016, affecting both households and enterprises (see graphs 8.2-8.4). This is reflecting the 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 7.1%** in August 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 August 2016, **deposit interest rates** for maturity up to 1 year and up to 3 months increased 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 **0.9%** in the **2nd quarter of 2016** compared to the 1st quarter of 2016 and decreased by 8.9% compared to the 2nd quarter of 2015.
- The CBC's residential property price index declined by 1.6% in the 1st quarter of 2016 compared to the 1st quarter of 2015. Cumulative from the 1st quarter of 2008 it has declined by 29% (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 31.6% while, transfers of property were up by 52% in January-September 2016 compared to January-September 2015 (see graph 7.3). MFI mortgage loans to domestic residents for housing declined with an annual rate of 1% in August 2016 (see graph 7.2).
- The Cyprus Government bond spread compared to the German Government bond, decreased in mid-October 2016 compared to September 2016 to around 193 basis points above the German bond on 21/10/2016 compared to 217 basis points on 30/09/2016 (see graph 8.6, yields refer to the bonds maturing in 2020).

1. OUTPUT



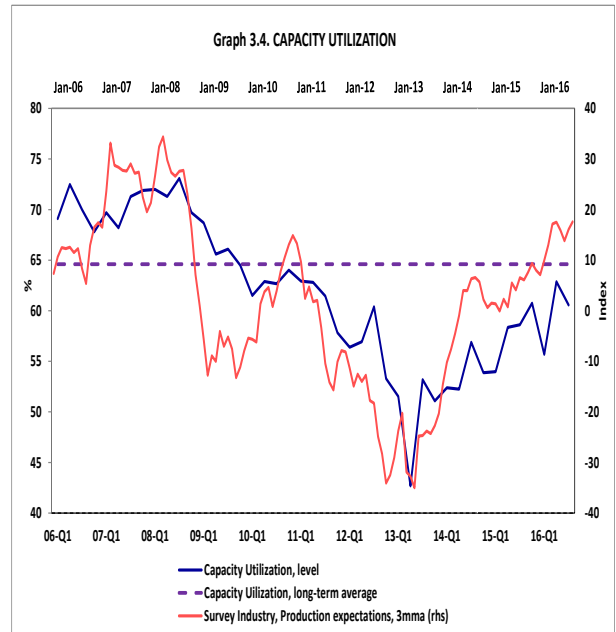
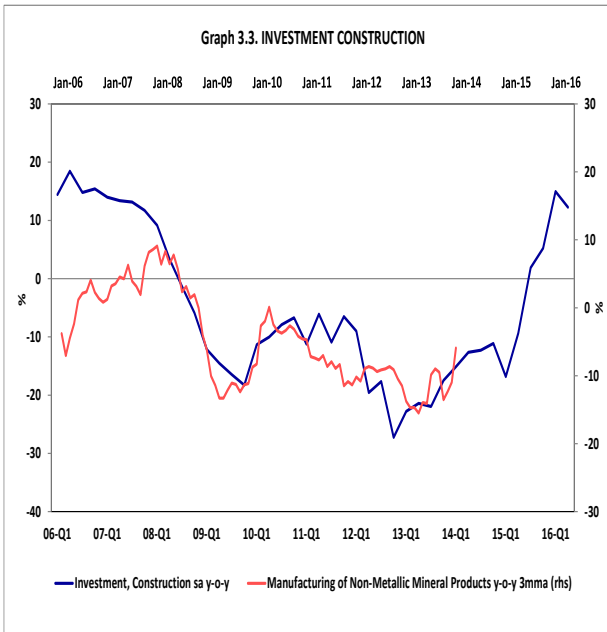
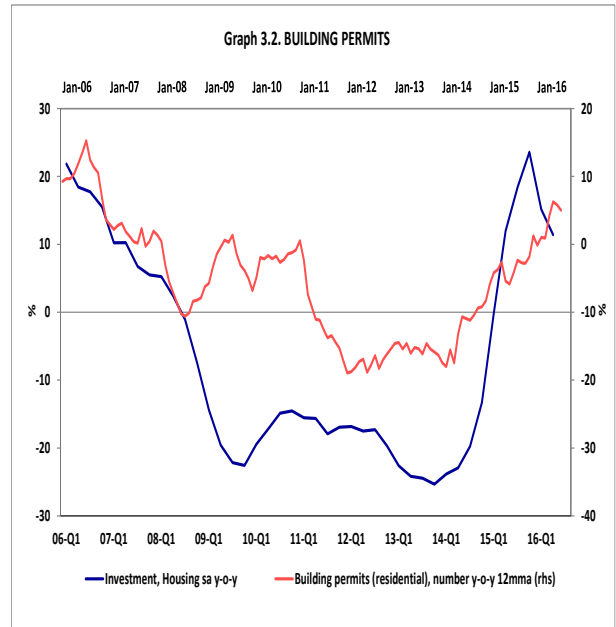
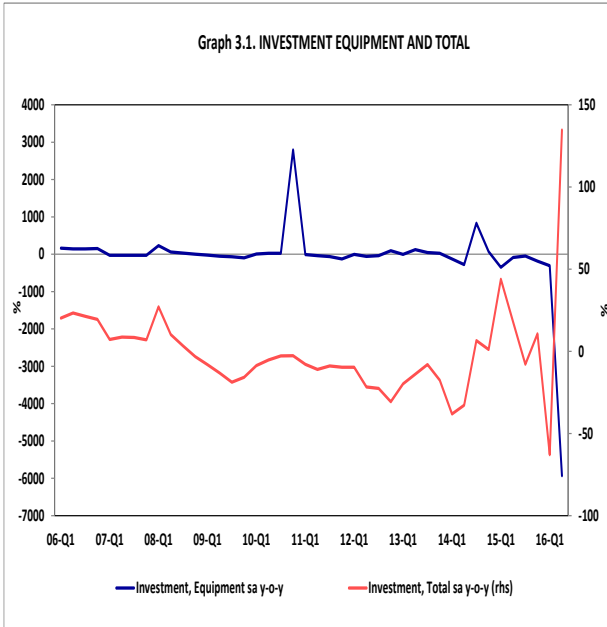
Sources: Eurostat, DG ECFIN, Cystat

2. CONSUMPTION



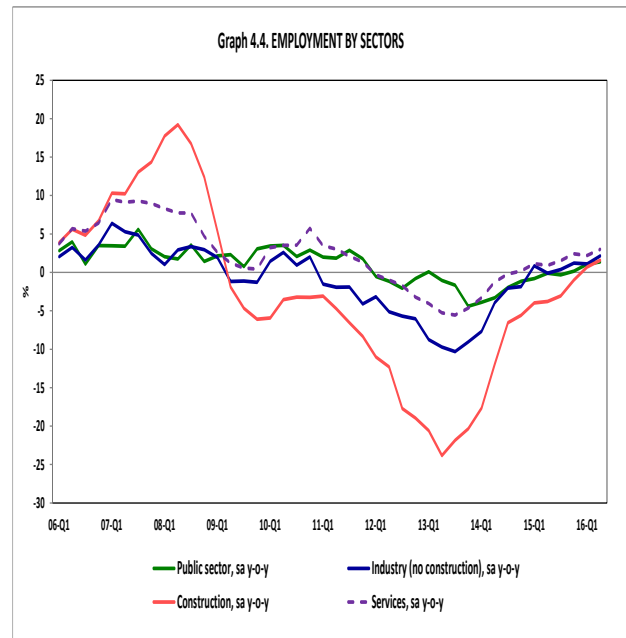
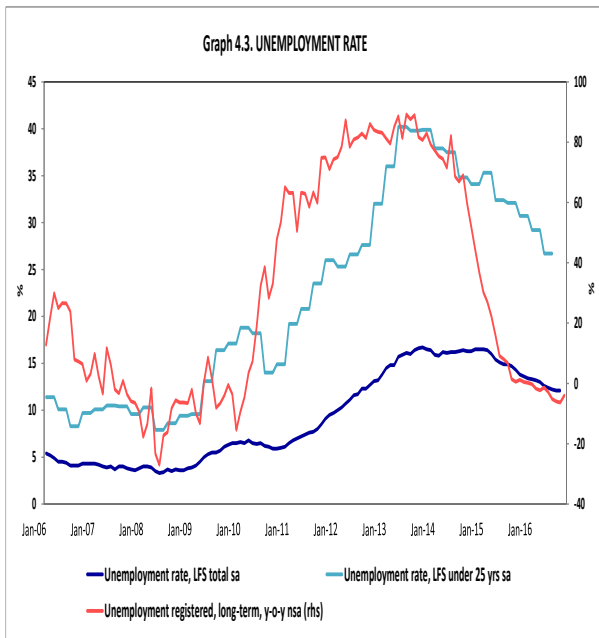
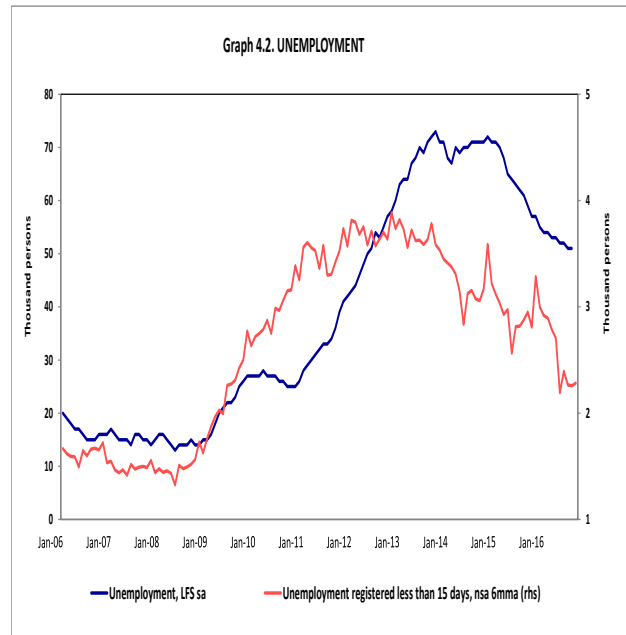
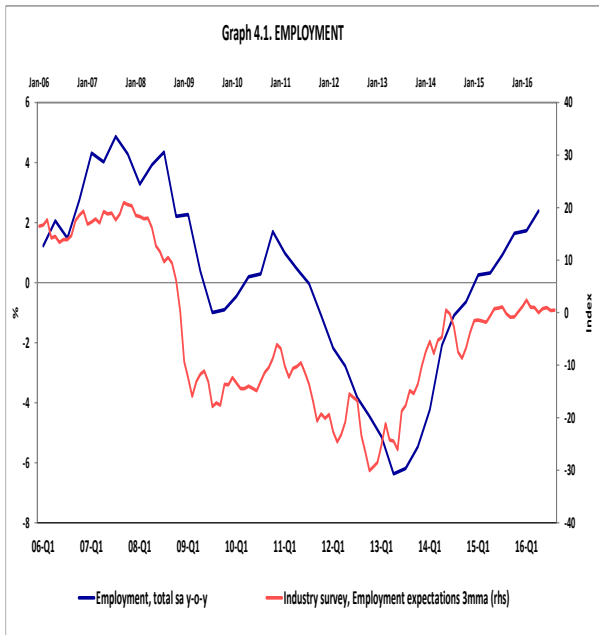
Sources: Eurostat, DG ECFIN, Cystat, JCC Payment Systems Ltd

3. INVESTMENT



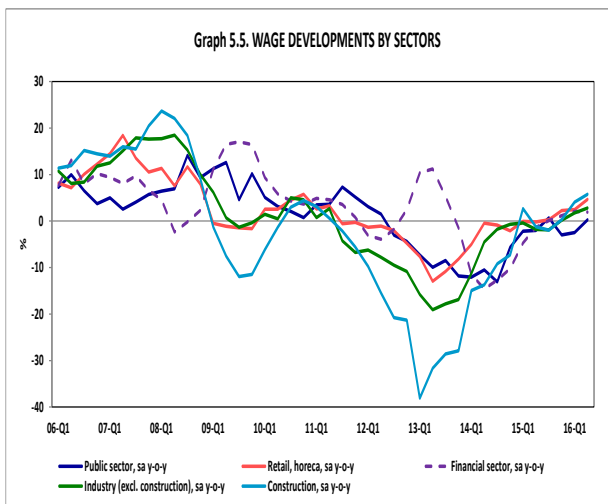
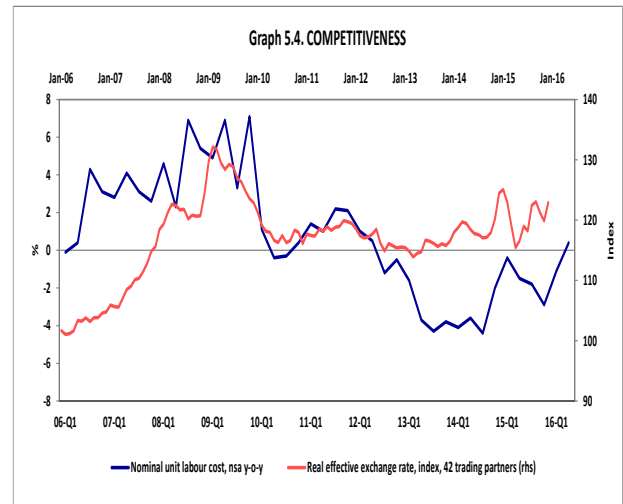
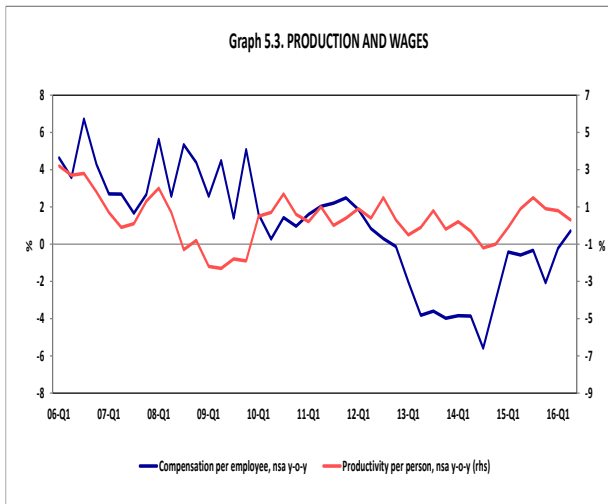
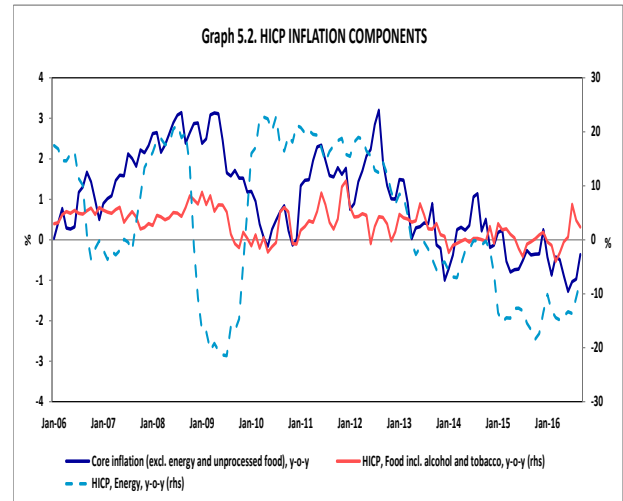
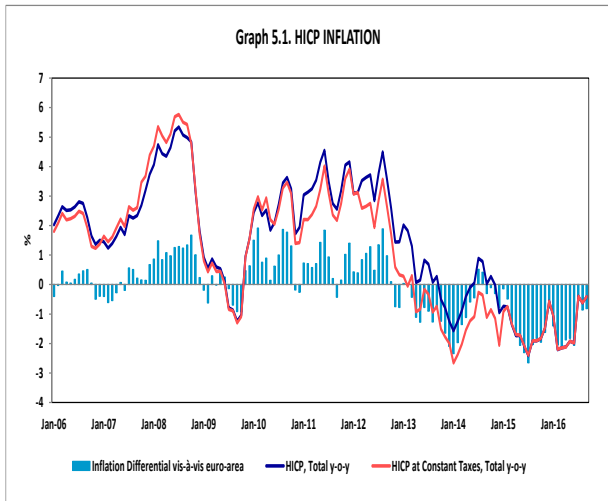
Sources: Eurostat, DG ECFIN, Cystat

4. LABOUR MARKET



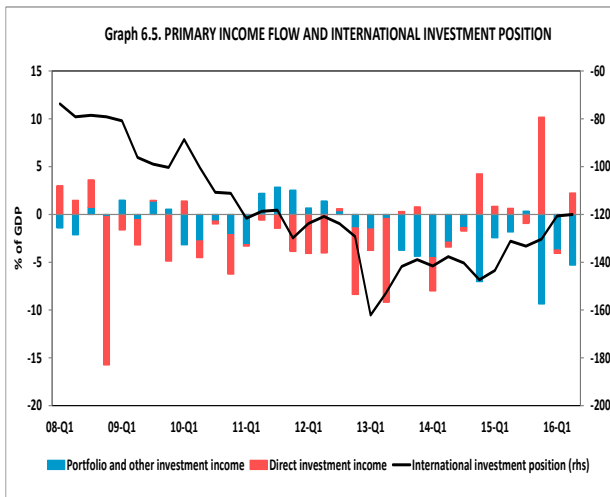
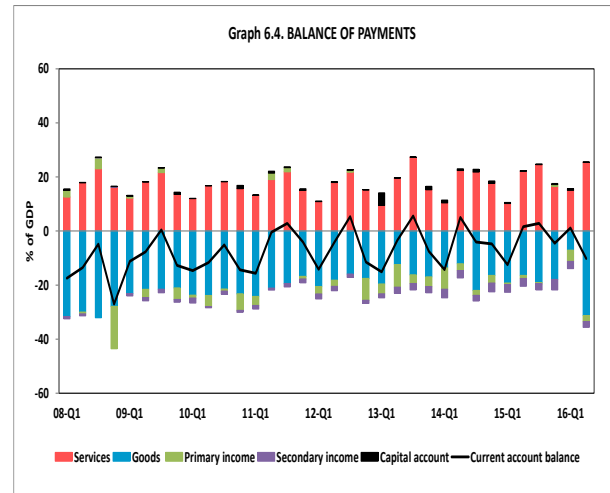
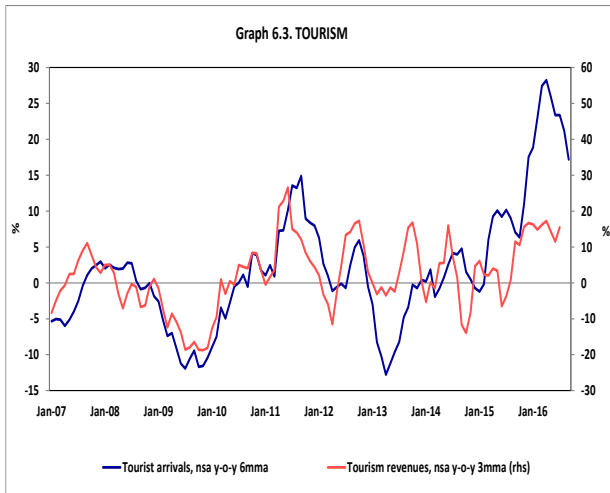
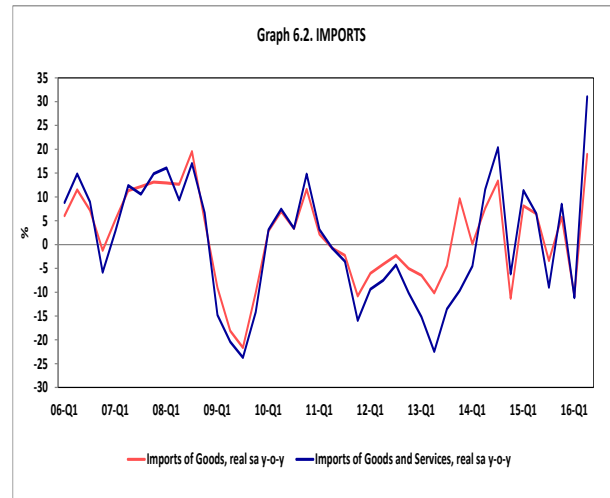
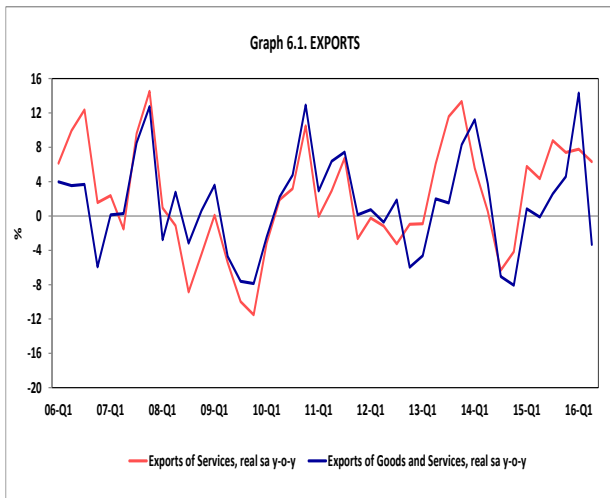
Sources: Eurostat, DG ECFIN, Cystat

5. INFLATION, WAGES



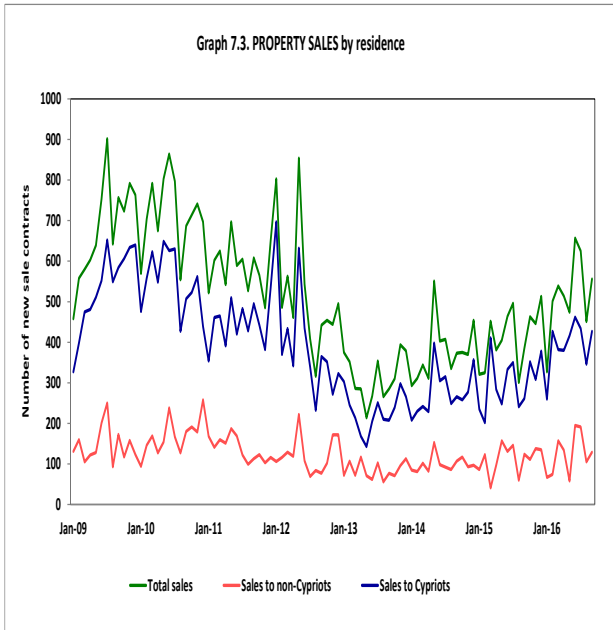
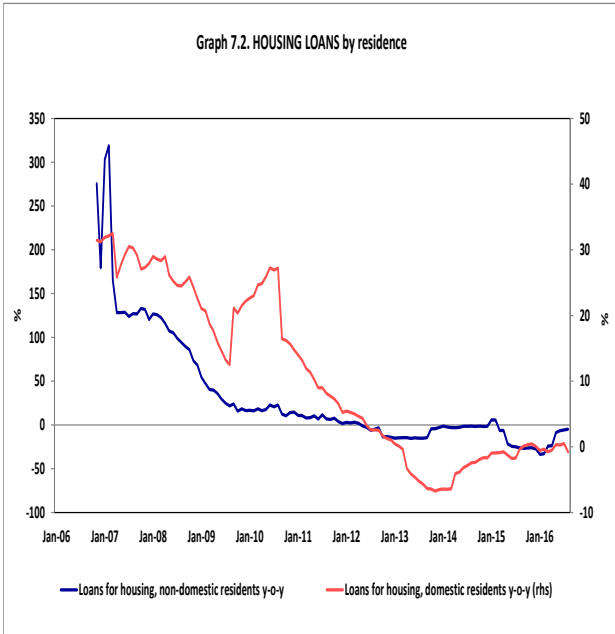
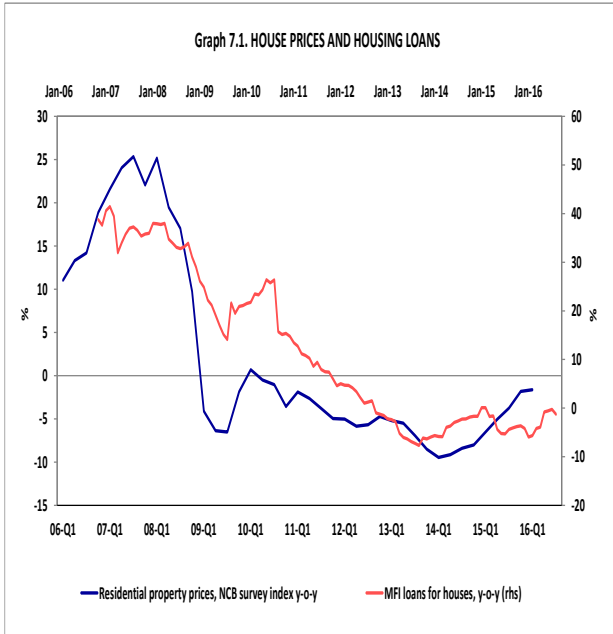
Source: Eurostat

6. EXTERNAL SECTOR



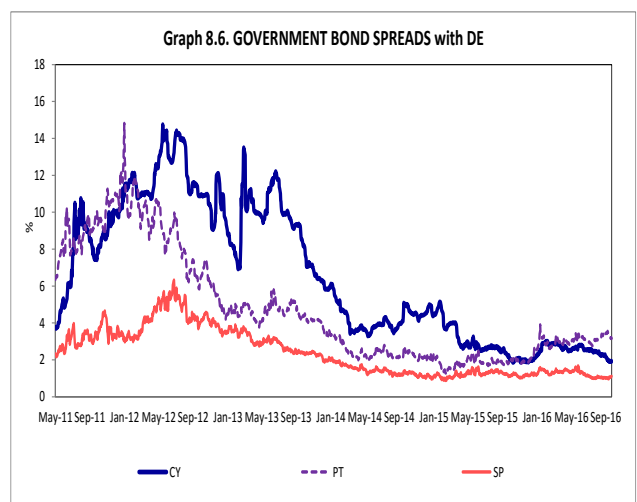
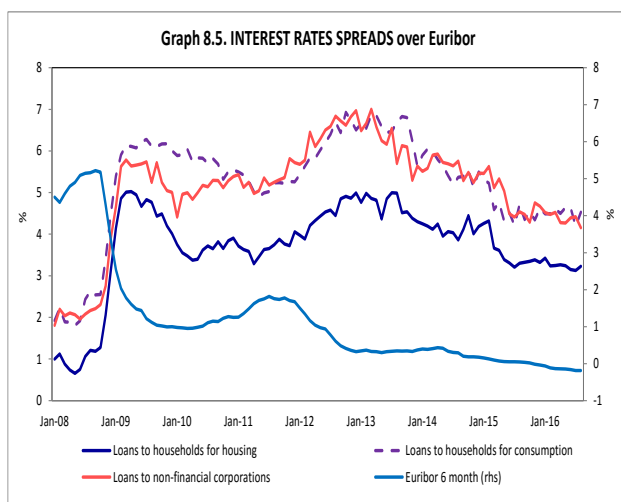
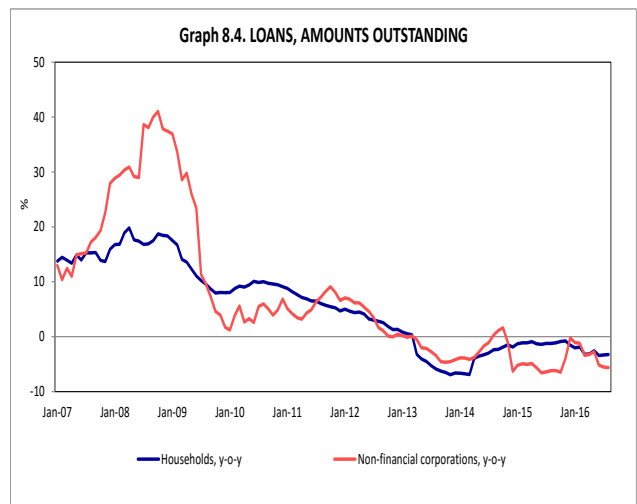
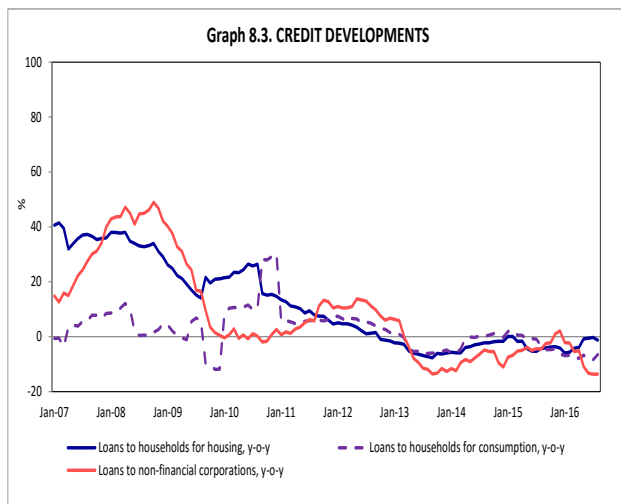
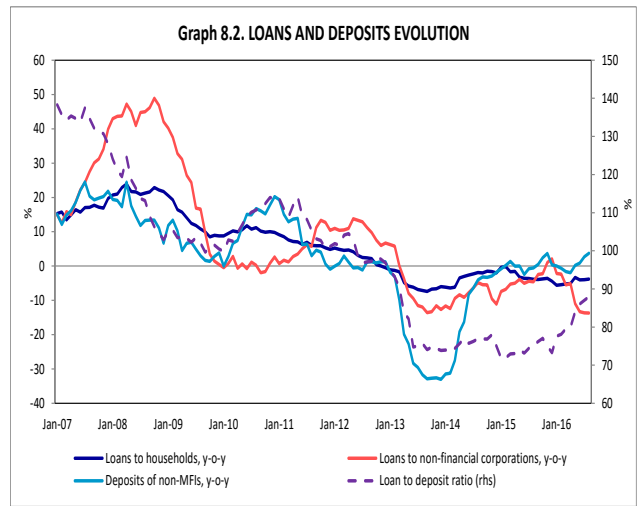
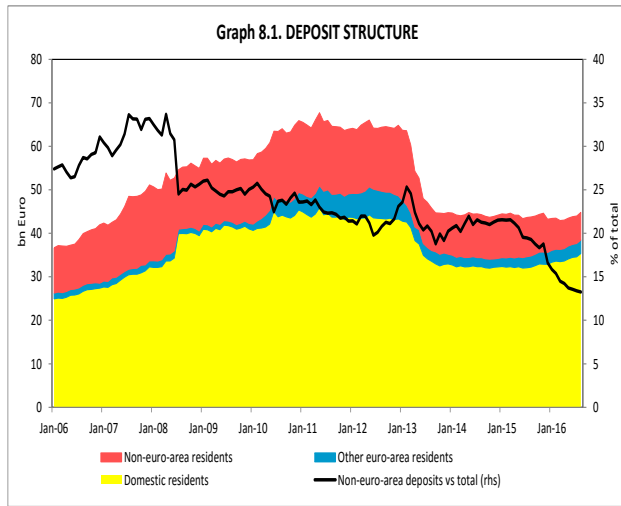
Sources: Eurostat, Cystat, ECB, CBC

7. HOUSING



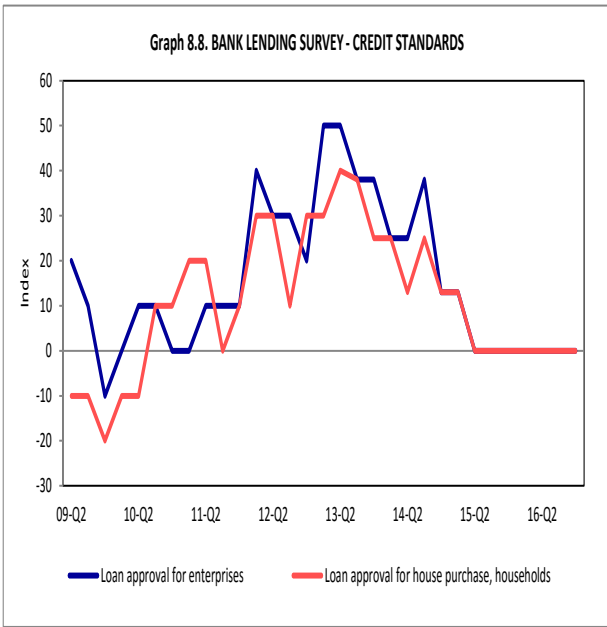
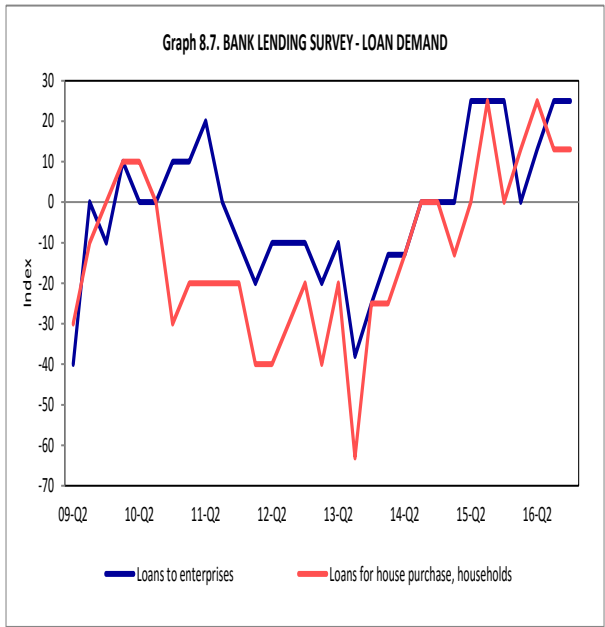
Sources: ECB, CBC, Dep. of Lands and Surveys

8. FINANCIAL SECTOR



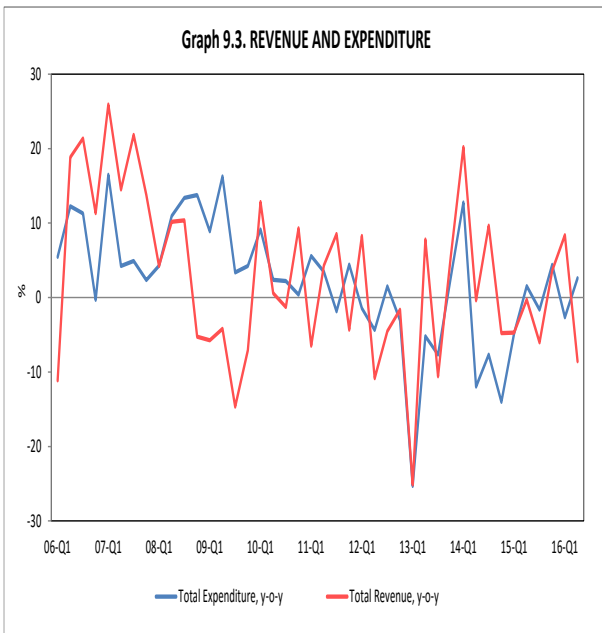
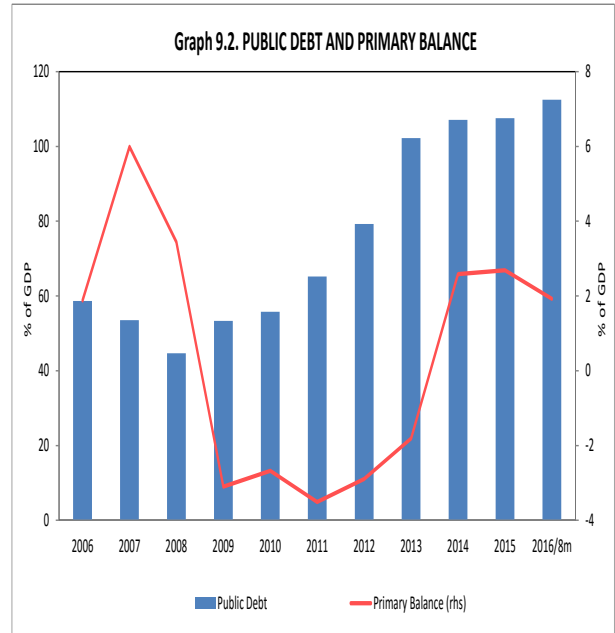
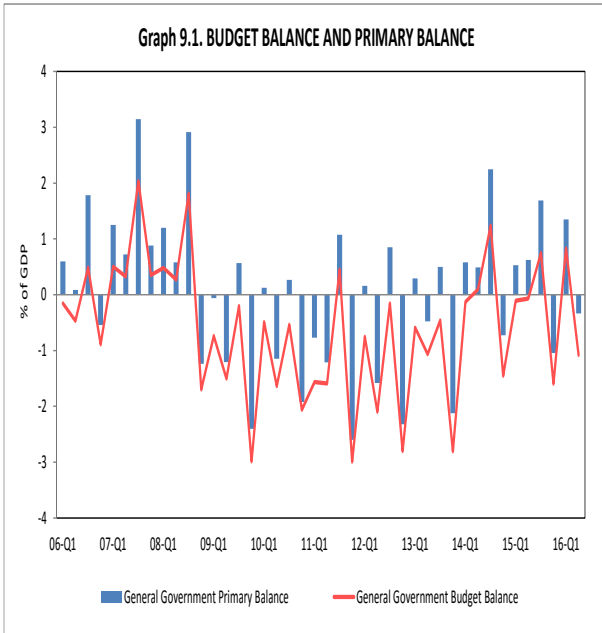
Sources: ECB, CBC, Bloomberg

8. FINANCIAL SECTOR – CONT.



Source: ECB

9. PUBLIC SECTOR



Sources: Ministry of Finance, Cystat