



MACROECONOMIC MONITOR OF CYPRUS

September 2016

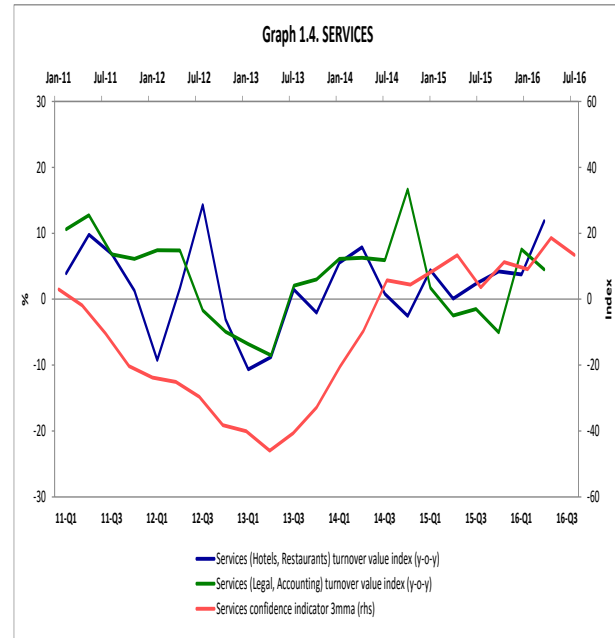
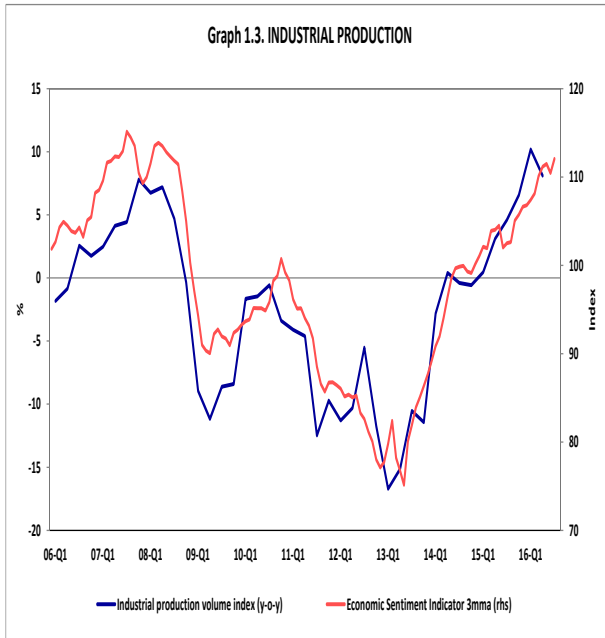
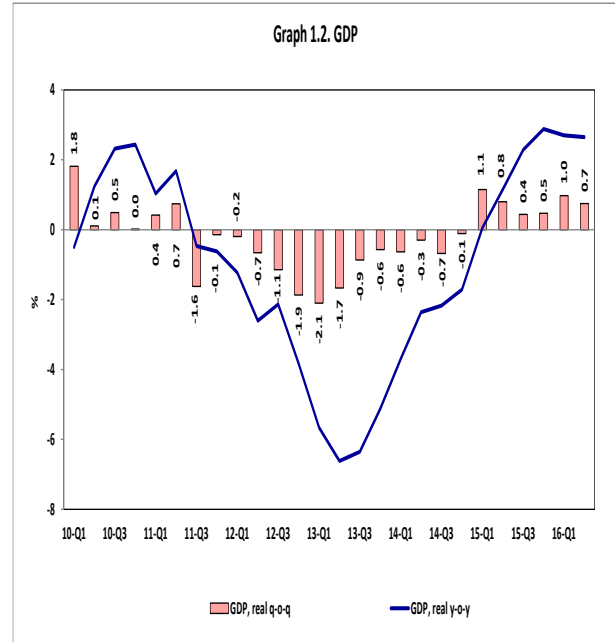
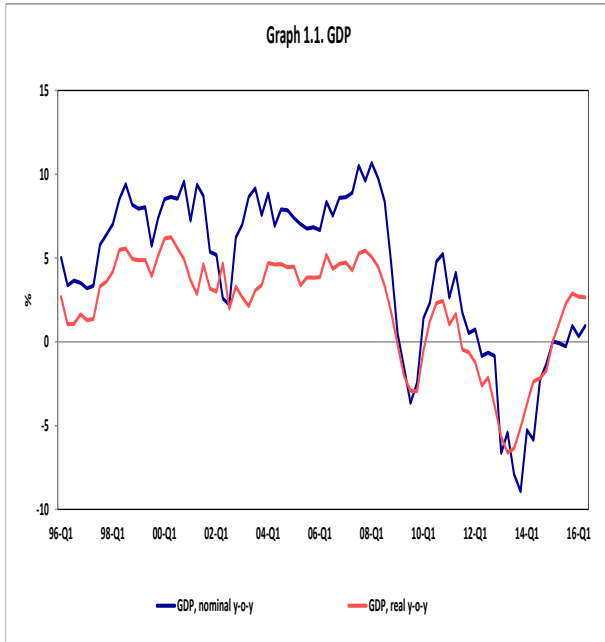
MACROECONOMIC MONITOR OF CYPRUS

Updated on 21 September 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 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 **increased by 5.1 points in August 2016** compared to July 2016 (see graphs 1.3-1.4) as a result of the pickup of business confidence in services, retail trade and industry.
- **Exports of goods decreased by 16.8%** in January-July 2016 compared to January-July 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 3.2%.
- **Imports of goods increased by 14.8%** in January-July 2016 compared to January-July 2015 mainly due to the transfer of economic ownership of mobile transport equipment, with total value of €563.4 mn in May 2016.
- In January-August 2016 **tourist arrivals increased with a rate of 19.2%** compared to January-August 2015 (see graph 6.3). An increase of 43.1% was recorded in tourist arrivals from Russia, a 12.8% increase from the UK, a 10.8% increase from Greece and a 7.6% 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 11.6% in July 2016 compared to 15.0% in July 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 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 August 2016 stood at -0.6% compared to -0.4% in July 2016 (see graph 5.1). For 2016 so far it stands at -1.6%. Core HICP inflation stood at -0.8% in January-August 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 1st 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 1st 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 1st quarter of 2016 compared with a surplus of €24.6 mn in the 1st 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.

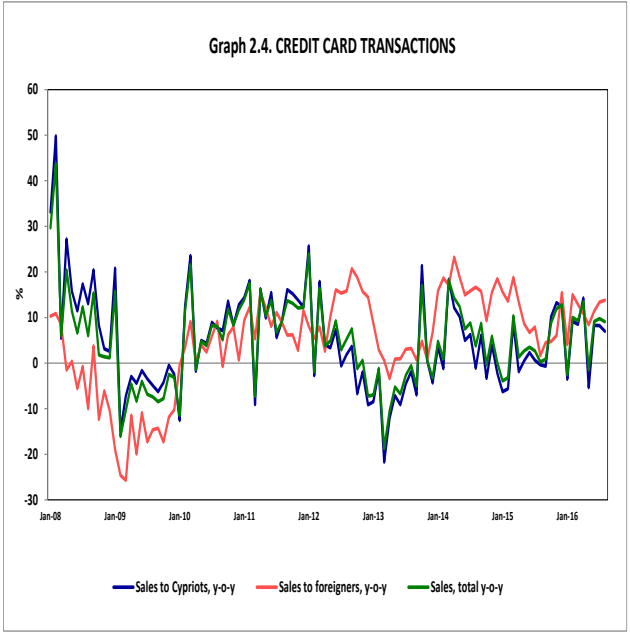
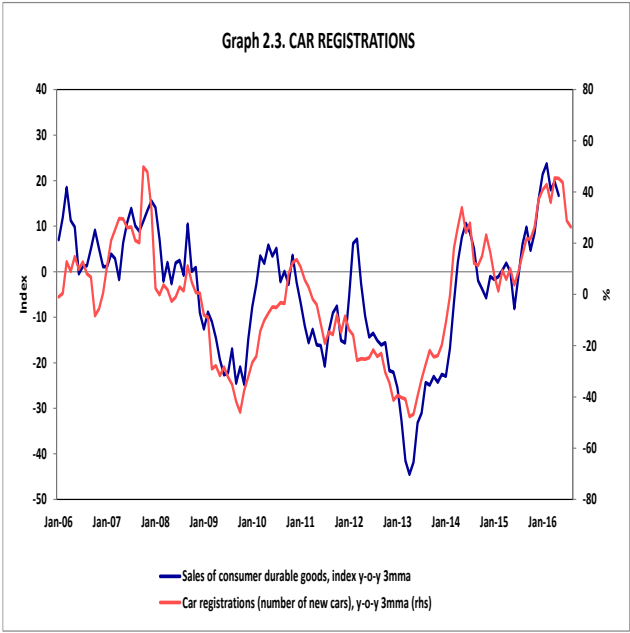
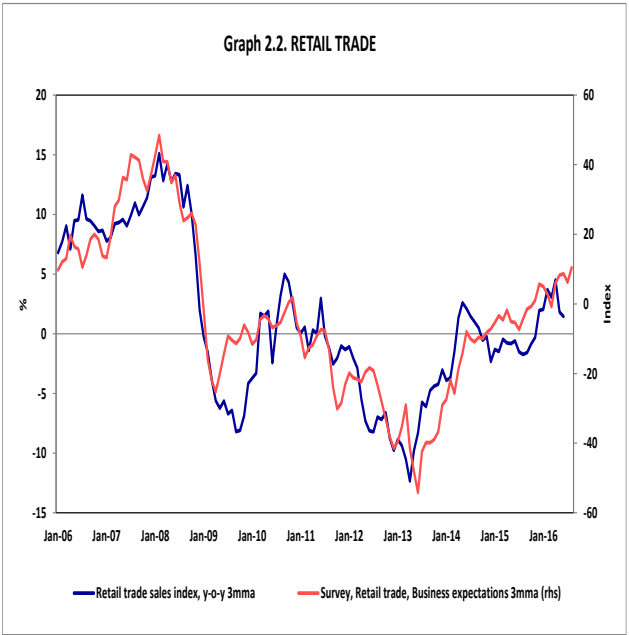
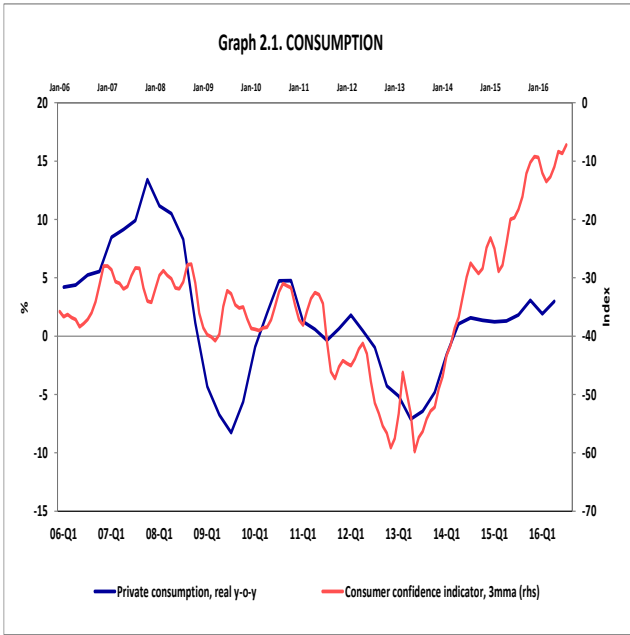
- General government budget balance (GGBB) **was in deficit** in January-July 2016, of the order of **€92.2 mn (-0.5% of GDP)** compared to a surplus of €38.5 mn (0.2% of GDP) during the corresponding period the year before (see graph 9.1).
- General government **primary balance** (GGPB) **was in surplus** in January-July 2016, of the order of **€226.8 mn (1.3% of GDP)** compared to a surplus of €383.2 mn (2.2% 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 3.5%, reaching to €3,662.0 mn in January-July 2016, compared to €3,794.3 mn during the corresponding period the year before (see graph 9.3).
- **Total expenditure** remained almost unchanged, reaching to €3,754.2 mn in January-July 2016, compared to €3,755.8 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 9.3%** in July 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 6.9%** in July 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 July 2016, **deposit interest rates** for maturity up to 1 year increased and up to 3 months decreased 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 remained unchanged. 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 **1st quarter of 2016** compared to the 4th quarter of 2015 and decreased by 1.2% compared to the 1st 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 30% while, transfers of property were up by 54.9% in January-August 2016 compared to January-August 2015 (see graph 7.3). MFI mortgage loans to domestic residents for housing declined with an annual rate of 1.0% in July 2016 (see graph 7.2).
- The Cyprus Government bond spread compared to the German Government bond, decreased in mid-September 2016 compared to August 2016 to around 226 basis points above the German bond on 15/09/2016 compared to 243 basis points on 31/08/2016 (see graph 8.6, yields refer to the bonds maturing in 2020).

1. OUTPUT



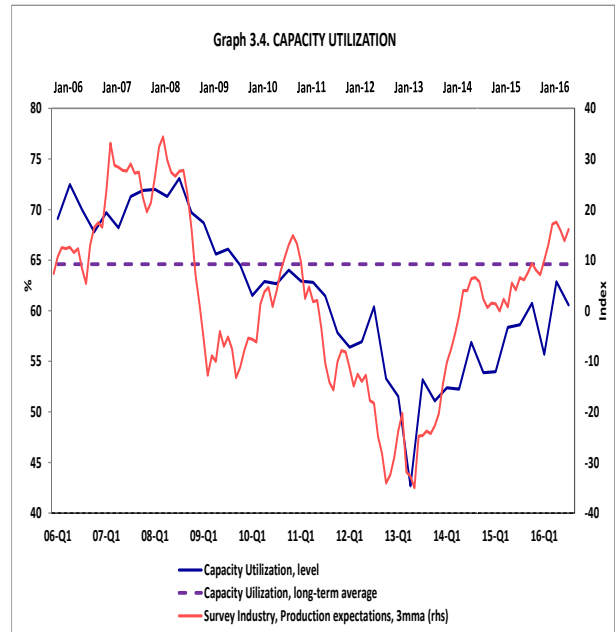
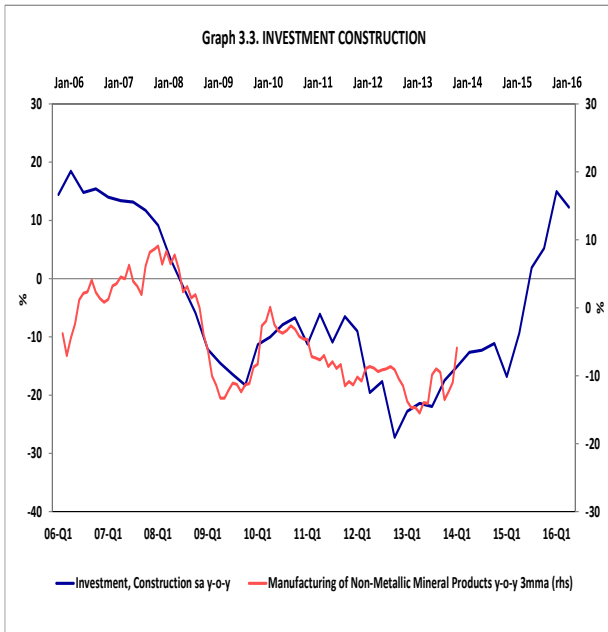
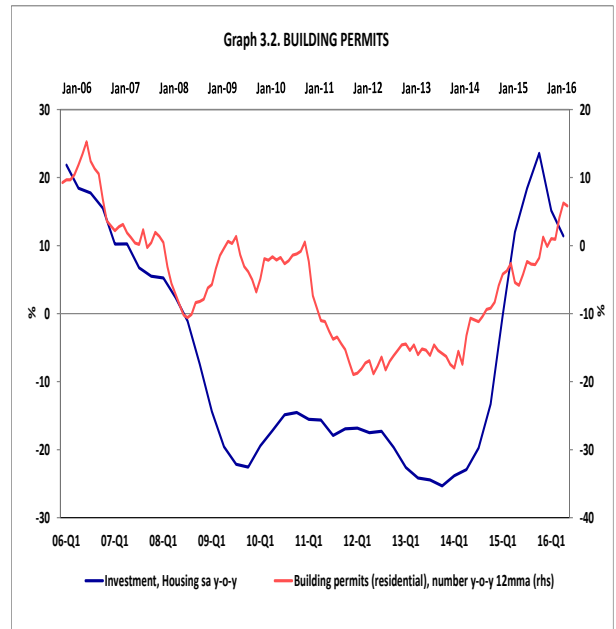
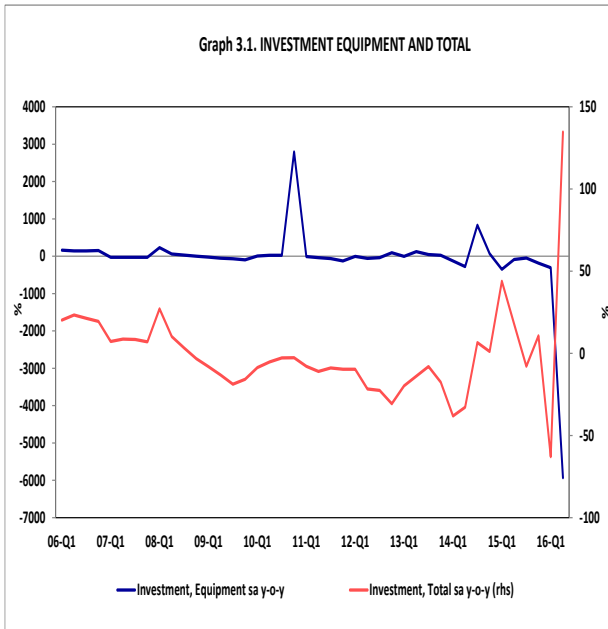
Sources: Eurostat, DG ECFIN, Cystat

2. CONSUMPTION



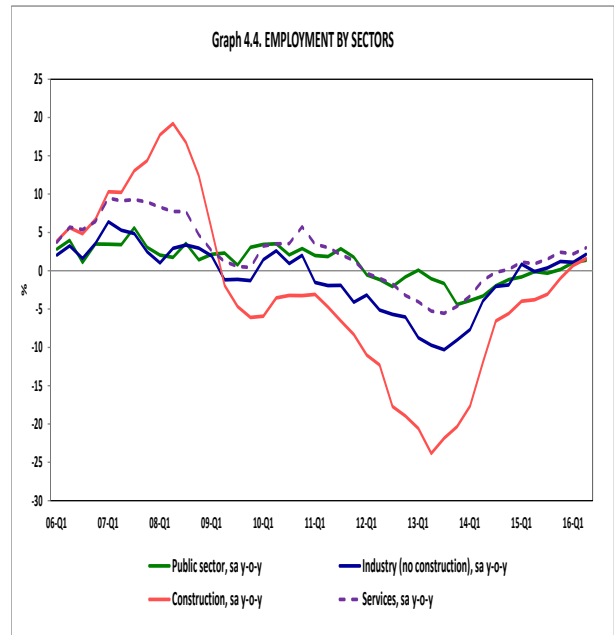
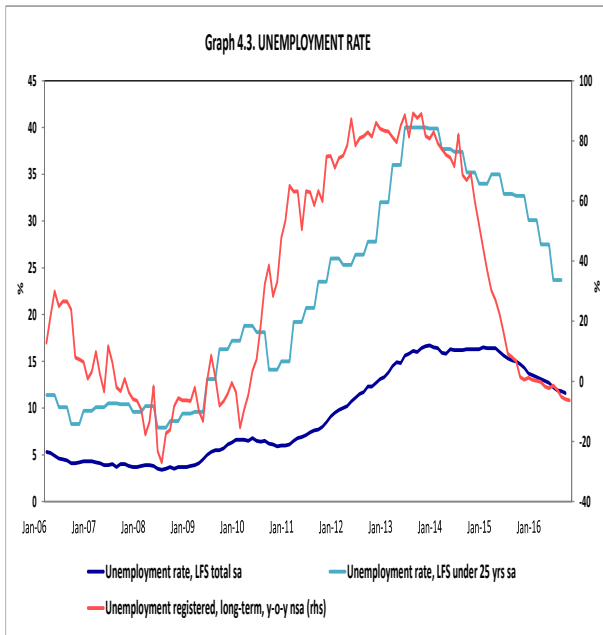
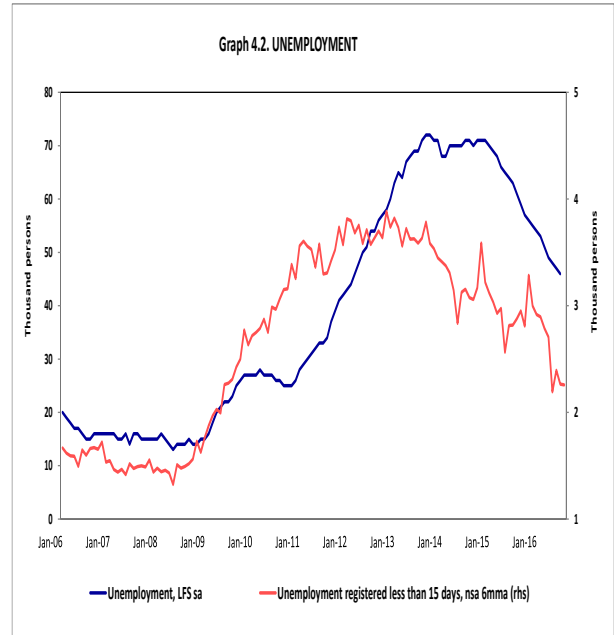
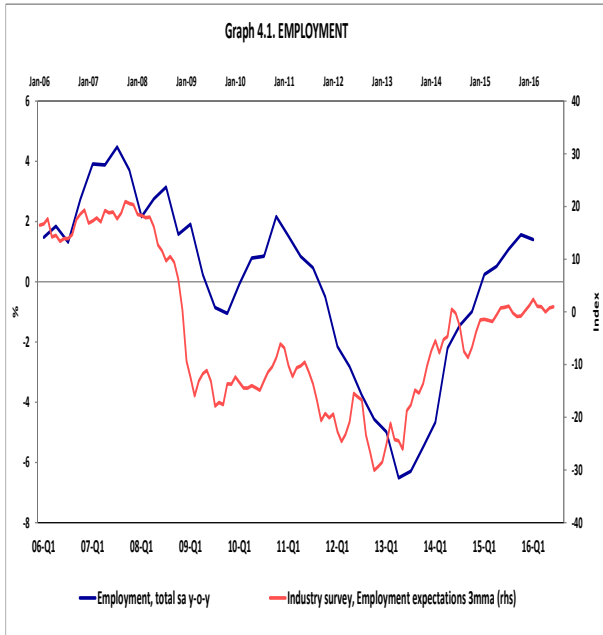
Sources: Eurostat, DG ECFIN, Cystat, JCC Payment Systems Ltd

3. INVESTMENT



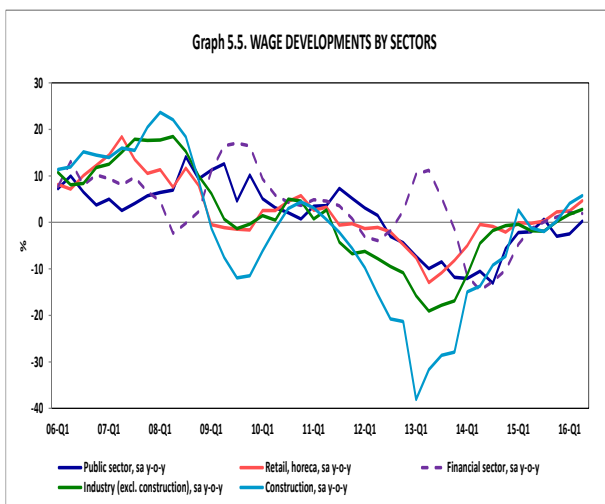
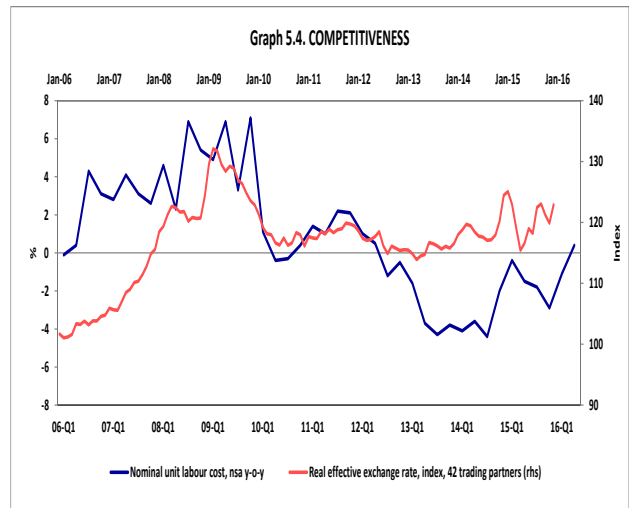
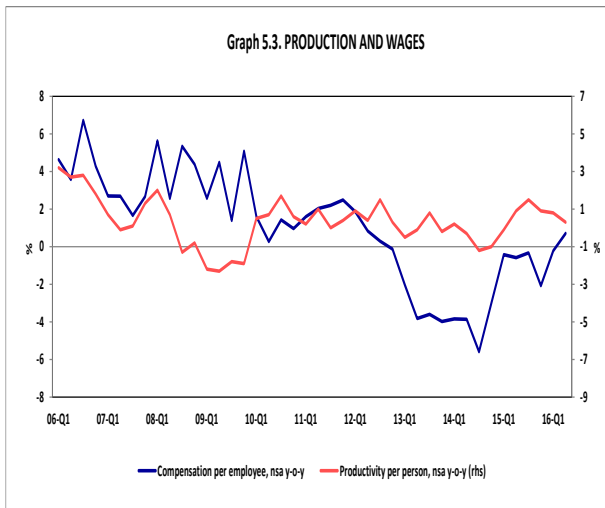
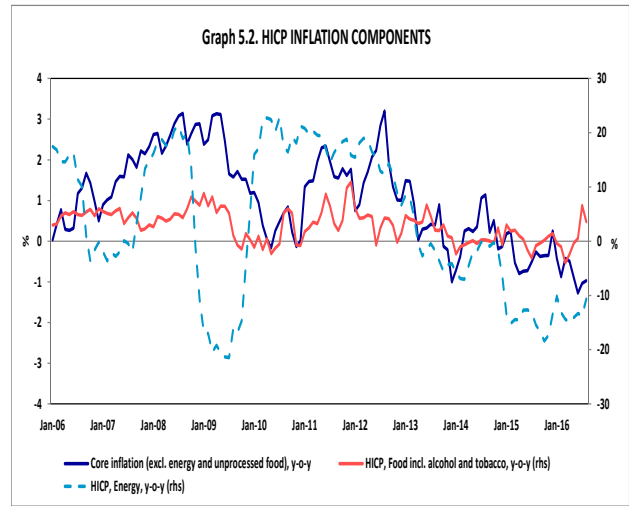
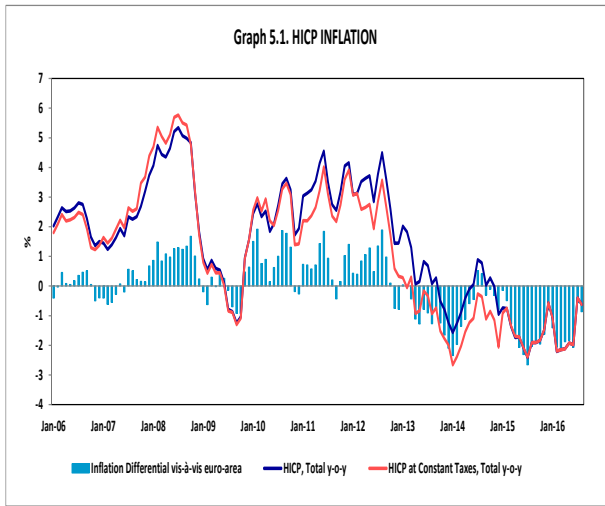
Sources: Eurostat, DG ECFIN, Cystat

4. LABOUR MARKET



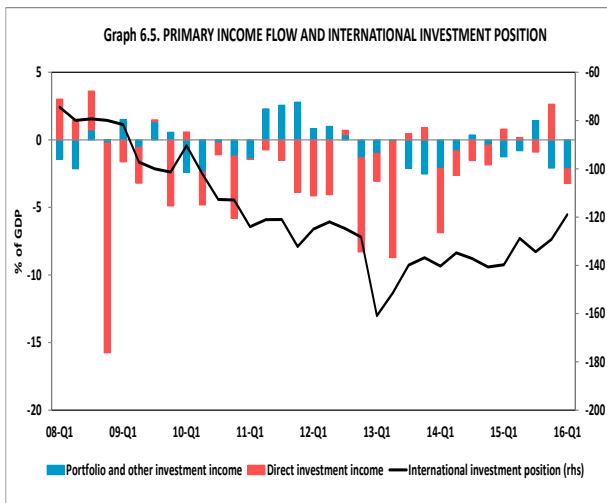
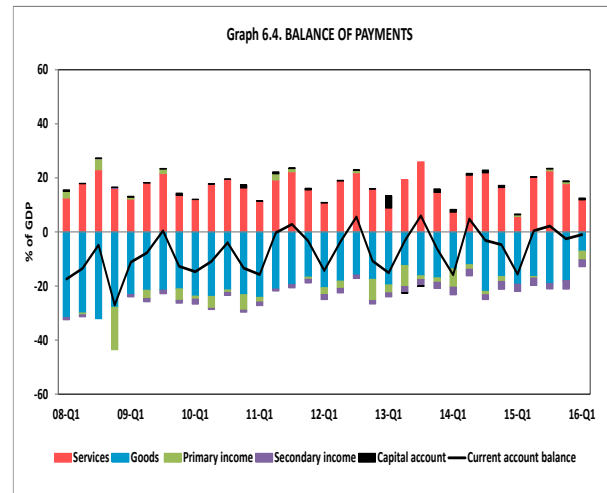
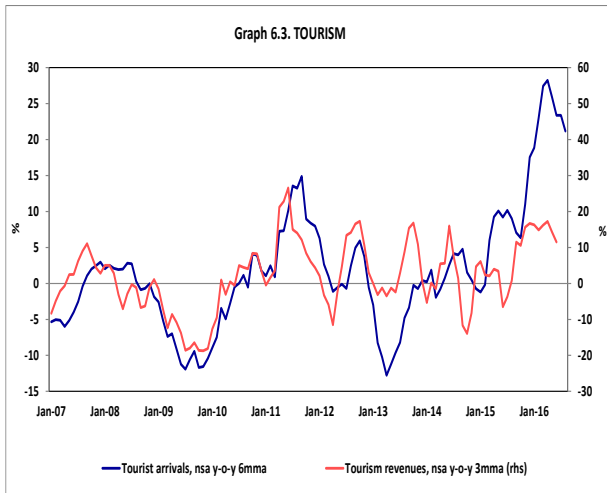
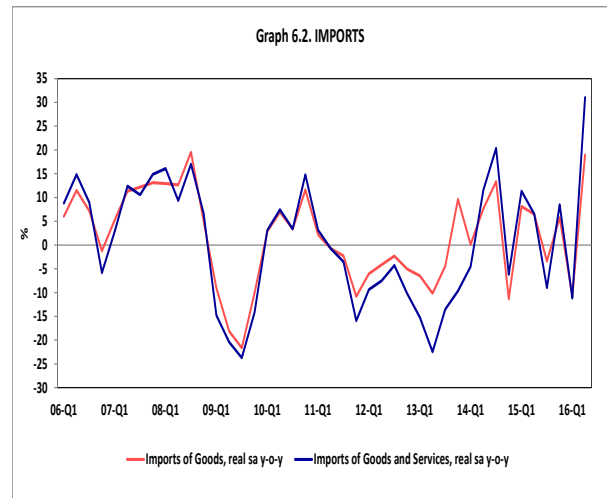
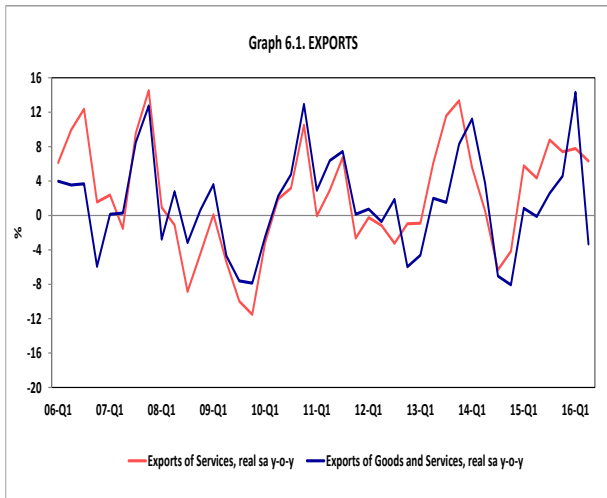
Sources: Eurostat, DG ECFIN, Cystat

5. INFLATION, WAGES



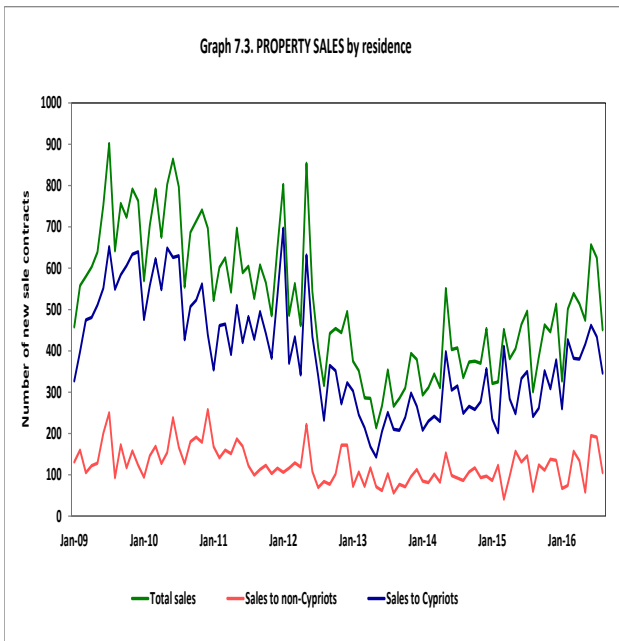
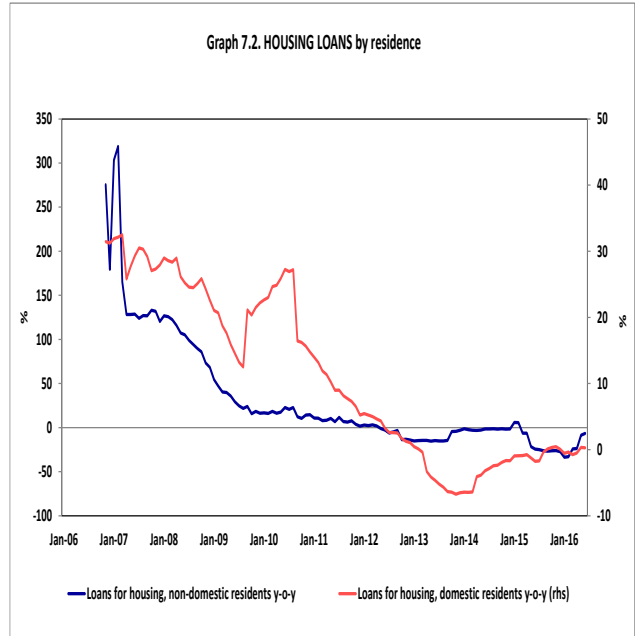
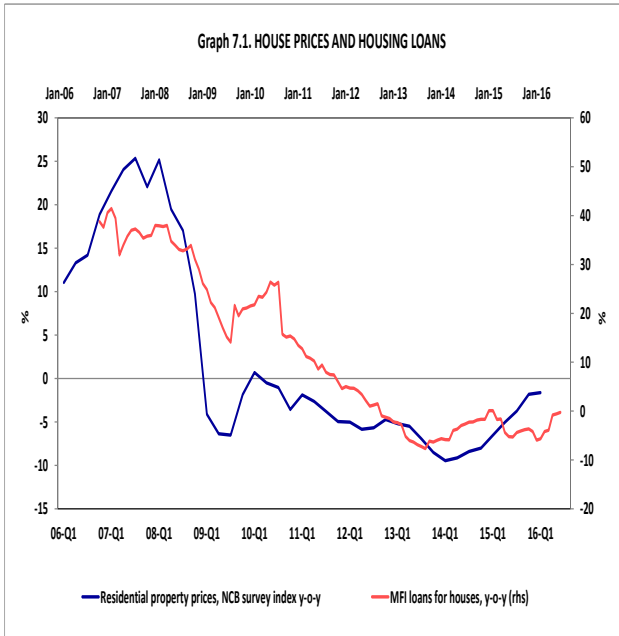
Source: Eurostat

6. EXTERNAL SECTOR



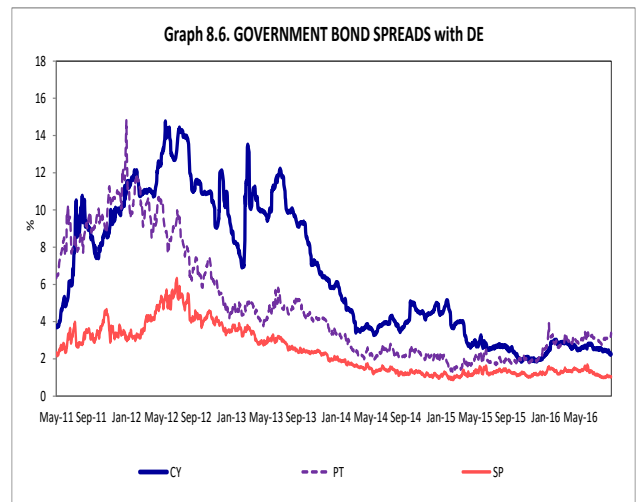
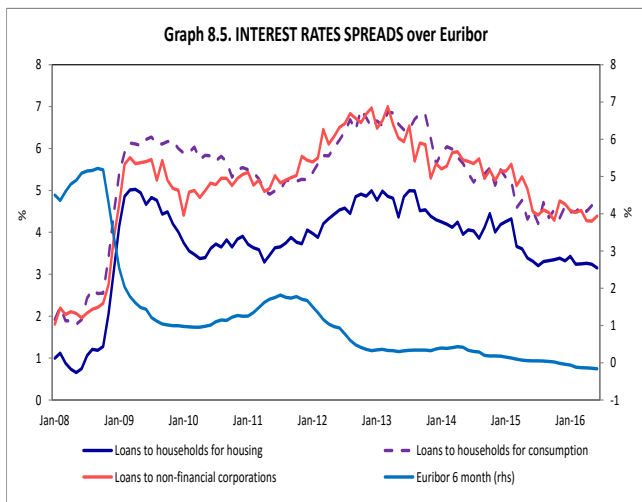
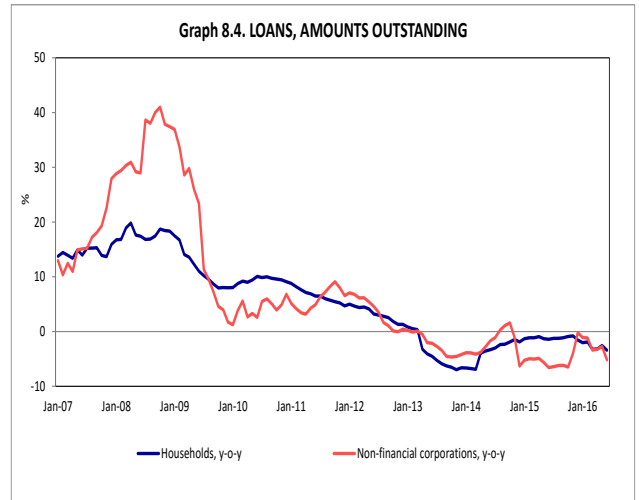
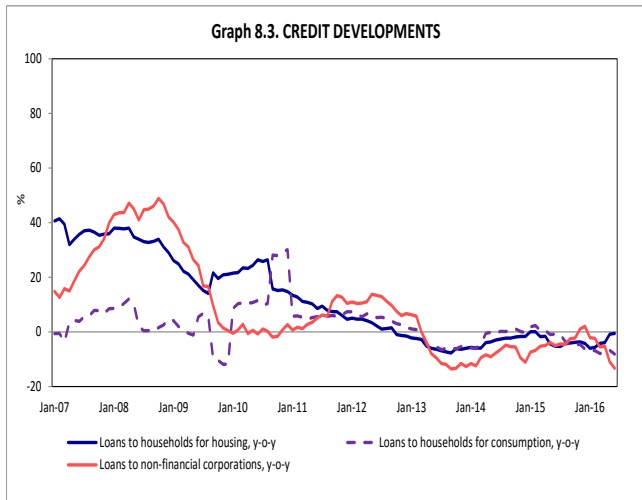
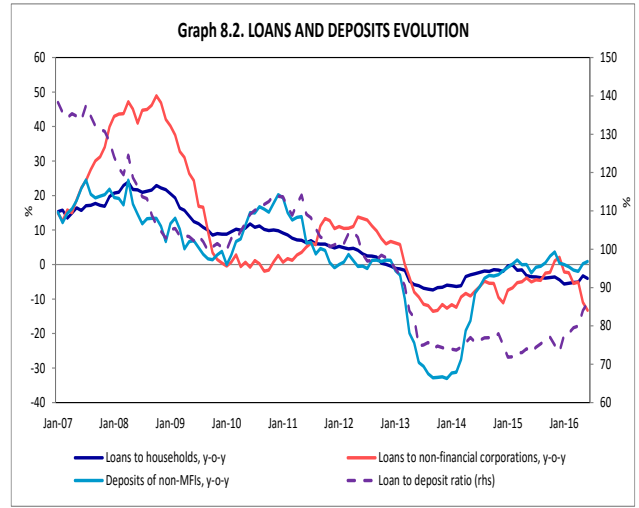
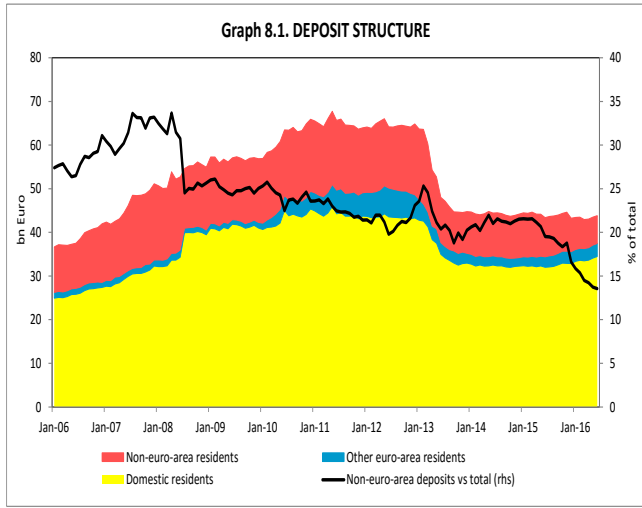
Sources: Eurostat, Cystat, ECB, CBC

7. HOUSING



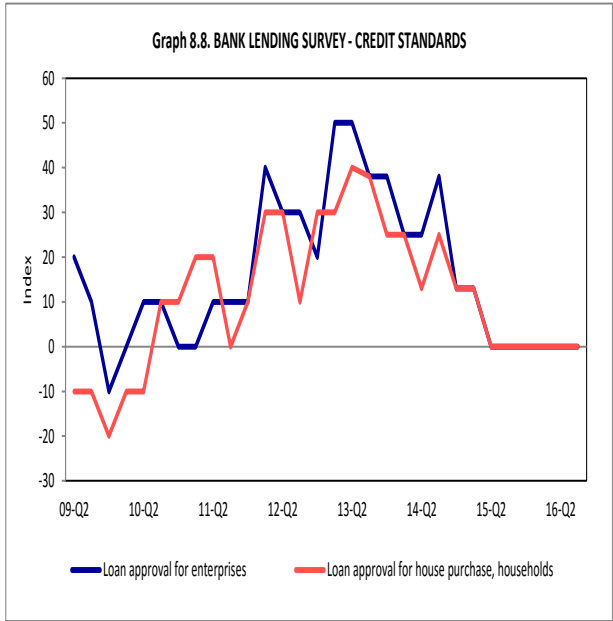
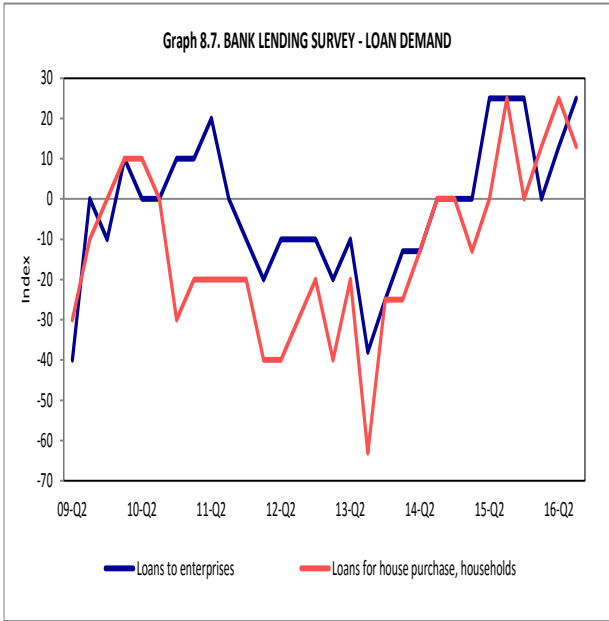
Sources: ECB, CBC, Dep. of Lands and Surveys

8. FINANCIAL SECTOR



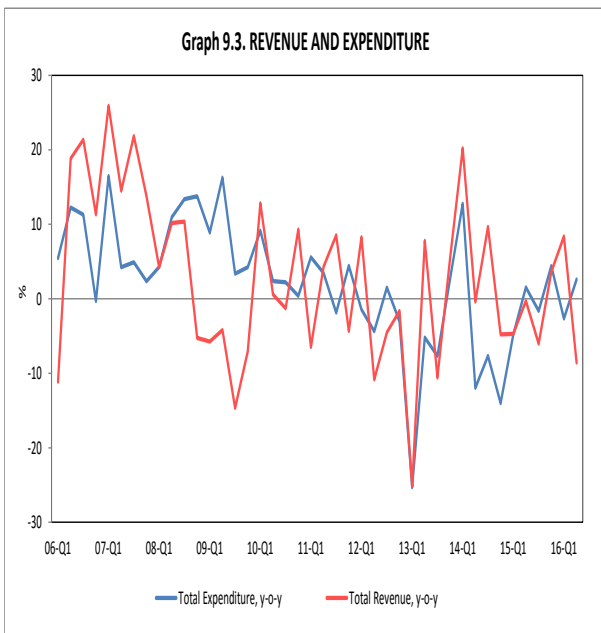
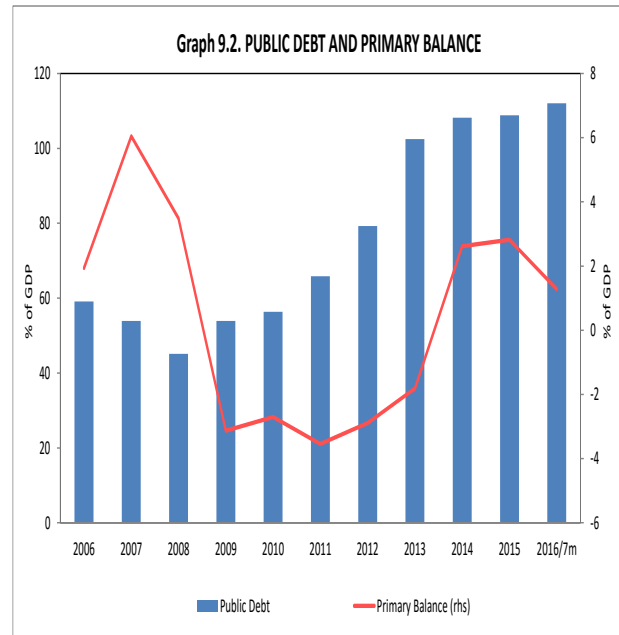
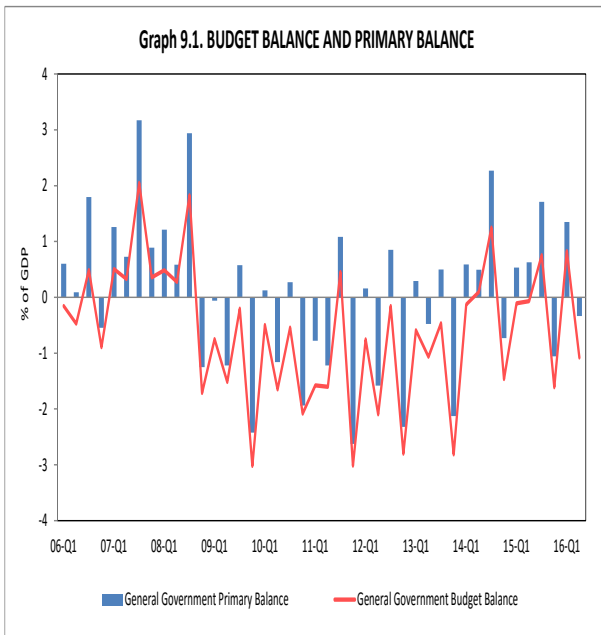
Sources: ECB, CBC, Bloomberg

8. FINANCIAL SECTOR – CONT.



Source: ECB

9. PUBLIC SECTOR



Sources: Ministry of Finance, Cystat