



MACROECONOMIC MONITOR OF CYPRUS

July 2017

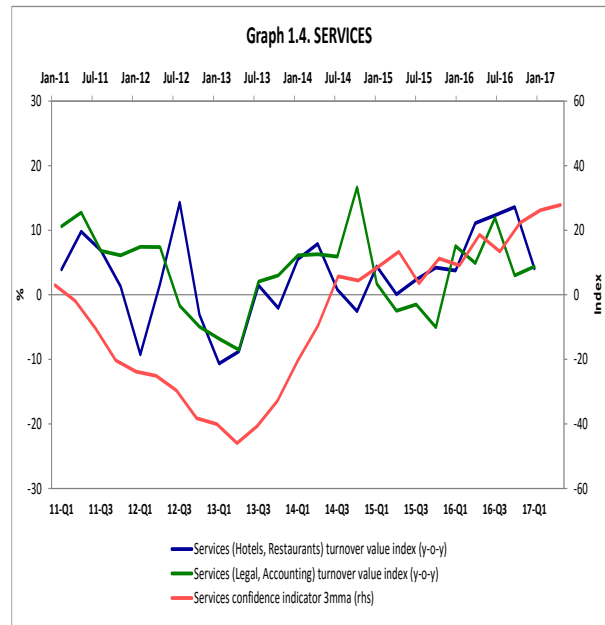
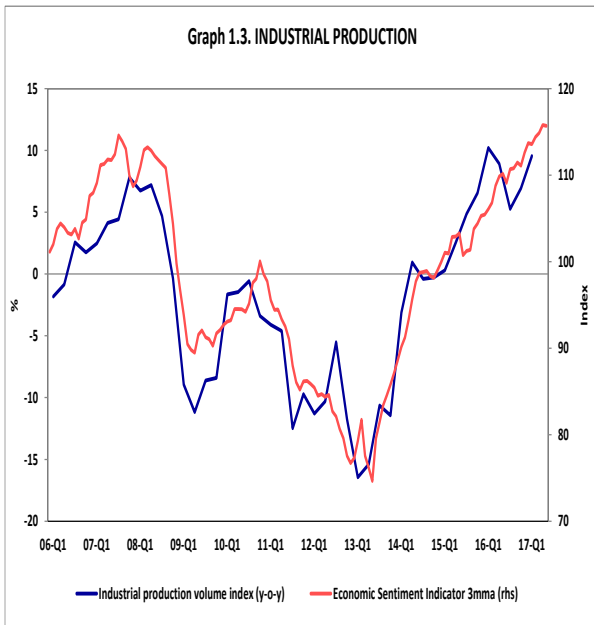
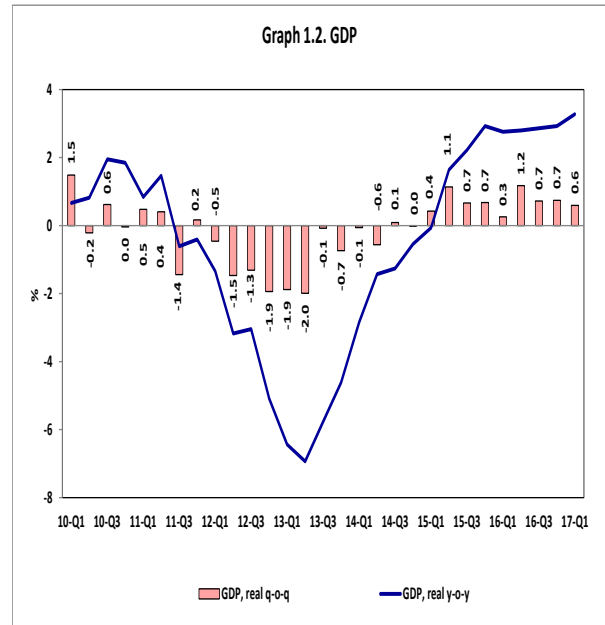
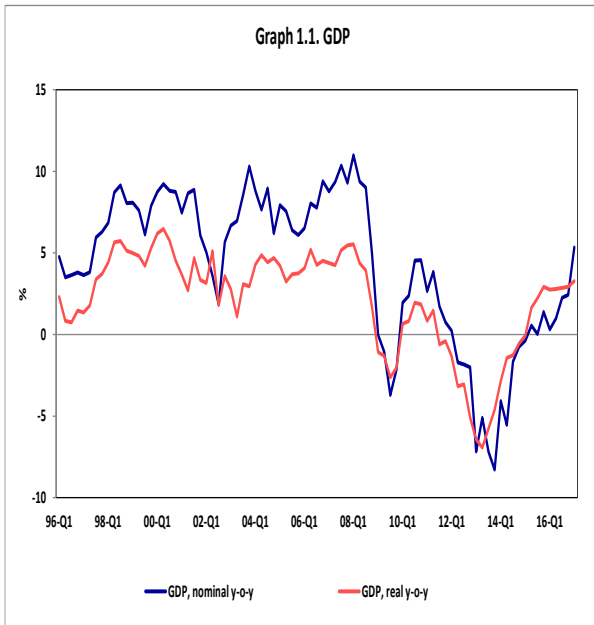
MACROECONOMIC MONITOR OF CYPRUS

Updated on 19 July 2017

- **In the 1st quarter of 2017, GDP** (in seasonally adjusted terms) **recorded a positive rate of growth of 3.3% compared with 2.9% in the 4th quarter of 2016** on an annual basis (see graphs 1.1-1.2). The increased activity was broad based and is mainly attributed to sectors: hotels and restaurants, professional, scientific and technical activities, retail and wholesale trade, manufacturing and construction. Negative growth rate was recorded in the financial services sector (see graphs 3.1-3.4 and 6.1-6.2).
- Developments are currently driven by increases in **private consumption and gross fixed capital formation** (see graphs 2.1-2.4).
- The economic sentiment indicator deteriorated slightly by 0.8 points in June 2017 compared to the preceding month (see graphs 1.3-1.4), as a result of a relatively weaker confidence in the prospects of the construction sector and among consumers.
- During January-June 2017 **tourist arrivals increased at a rate of 16.6%** compared to the corresponding period of 2016 (see graph 6.3). An increase of 53.2% was recorded in tourist arrivals from Germany; an 11.3% increase was recorded from Russia, a 9.7% increase from the UK and a 6.4% increase from Greece.
- **Employment** is adjusting to conditions of improving economic activity (see graphs 4.1 and 4.4). Employment in persons **increased by 3.4%** in the 1st quarter of 2017 compared to the 1st quarter of 2016. The increase was mainly in the sectors of education, wholesale and retail trade, transport and storage, and information and communication.
- **The labour market's flexibility** led to a reduction in labour costs fueling decreases in the marginal costs of businesses and improved profitability 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 to 11.0% in May 2017 compared to 12.8% in May 2016** (see graphs 4.2-4.3). The most affected segment of the population is youth unemployment, although it has been on a downward trend since the 3rd quarter of 2013 falling to 24.8% in the 1st quarter of 2017 from the peak of 39.9% in the 2nd quarter of 2013. Particularly challenging is also the relatively high long-term unemployed.
- **Compensation per employee** decreased by around 0.4% in the 1st quarter of 2017 compared to the 1st quarter of 2016 (see graphs 5.3-5.5). The observed wage adjustment is expected to help maintaining a downward trend in unemployment.
- **Inflation (HICP)** in June 2017 stood at 0.9% like in May 2017 (see graph 5.1). For 2017 so far it stands at 1.2%. Core HICP inflation stood at 0% during January-June 2017 (see graph 5.2). All subcategories of HICP presented an increase except categories of alcoholic beverages and tobacco, clothing and footwear, furnishings, household equipment and supplies and communication.
- **Imports of goods increased by 8.1%** in January-May 2017 compared to January-May 2016. The increase in imports is influenced by imports of transport equipment (airplanes and vessels). Excluding these transport equipment imports, imports of goods exhibited an increase of 25.2%.
- **Exports of goods decreased by 14.4%** in January-May 2017 compared to January-May 2016 due to exports of transport equipment (vessels) occurred in the latter period. Excluding these transport equipment exports, exports of goods exhibited an increase of 32.8%.
- The **current account balance** in the 1st quarter of 2017 recorded a **deficit of €721.1 mn (-3.9% of GDP)** compared with a surplus of €73.2 mn (0.4% of GDP) in the 1st quarter of 2016 (see graph 6.4). This deterioration is mainly due to the trade balance of goods attributed to imports of transport equipment (airplanes and vessels). The remaining categories of the CA (services, primary income and secondary income) recorded small improvements which only mitigated, to a small extent, the deterioration recorded in goods.
- The **primary income** recorded a **deficit of €139.6 mn** the 1st quarter of 2017 compared with a deficit of €158.0 mn 1st quarter of 2016 (see graph 6.4).
- The **secondary income** recorded a **deficit of €89.5 mn** the 1st quarter of 2017 compared with a deficit of €109.8 mn the 1st quarter of 2016 (see graph 6.4).

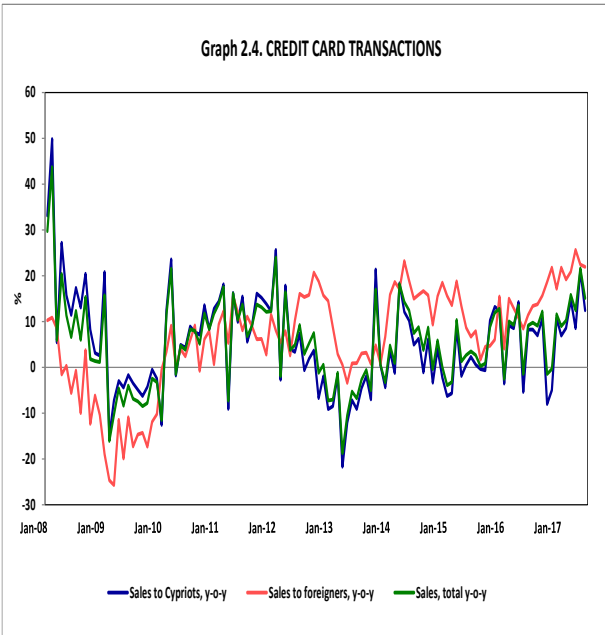
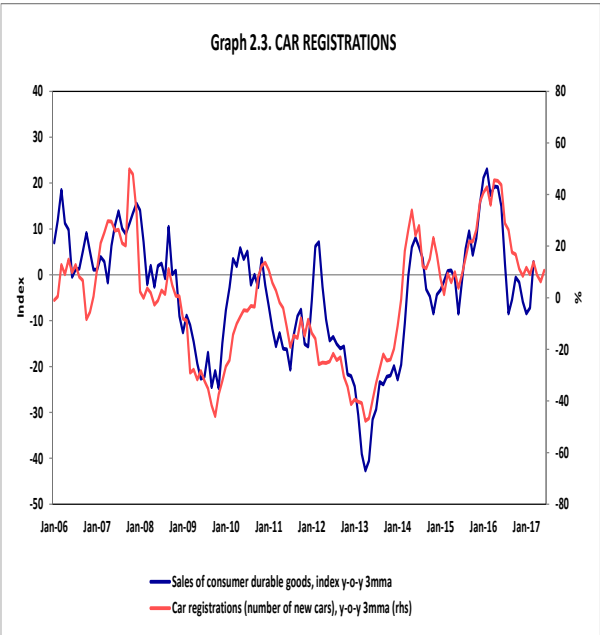
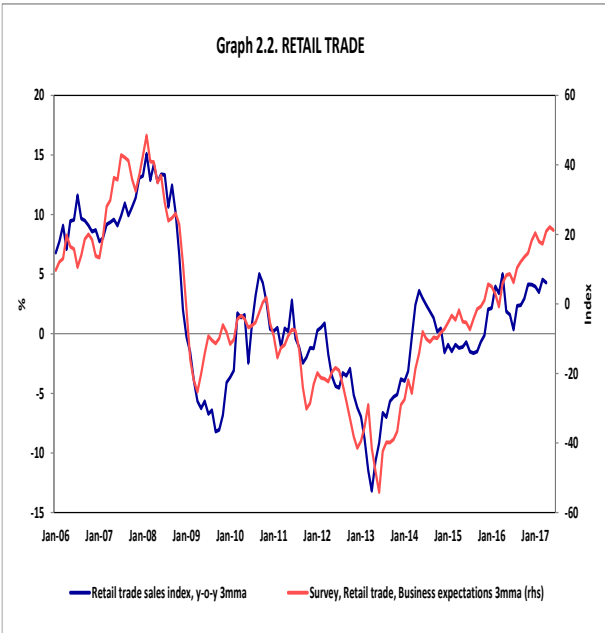
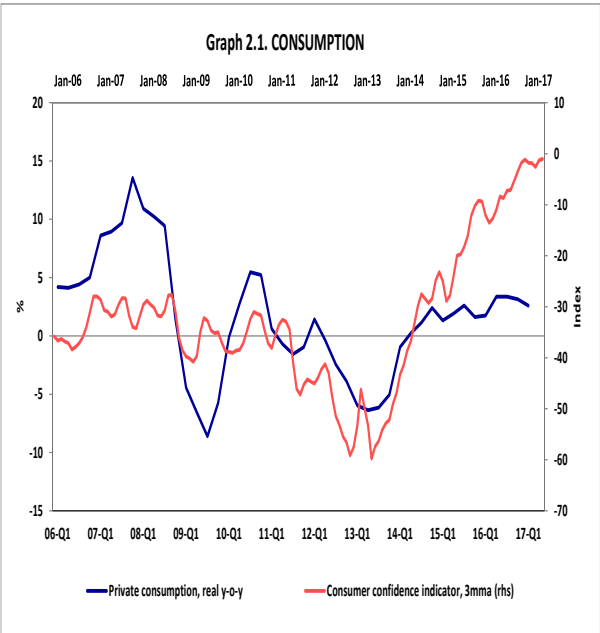
- The international investment position of Cyprus (see graph 6.5) recorded a deterioration in the 1st quarter of 2017 showing a net liability position at €23.057 mn compared with €22.453 mn the previous quarter. The increase in net liabilities of Cyprus is mainly due to the deterioration of direct investment and, to a lesser extent, other investment in spite of the improvement recorded in portfolio investment.
- General government budget balance (GGBB) **was in surplus** during January-May 2017, of the order of **€113.9 mn (0.6% of GDP)** compared to a surplus of €24.6 mn (0.1% of GDP) during the corresponding period the year before (see graph 9.1).
- General government **primary balance** (GGPB) **was in surplus** during January-May 2017, of the order of **€288.7 mn (1.5% of GDP)** compared to a surplus of €194.2 mn (1.1% 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 6%, reaching €2,746.2 mn during January-May 2017, compared to €2,591.9 mn during the corresponding period the year before (see graph 9.3).
- **Total expenditure** exhibited a positive rate of growth of about 2.5%, reaching €2,632.3 mn during January-May 2017, compared to €2,567.3 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 0.7%** in May 2017, 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 translating into an **annual rate of 6.0%** in May 2017, reflecting the improving performance of the economy (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 2017, **deposit interest rates** for maturity of up to 1 year remained unchanged and of up to 3 months marginally increased compared with the preceding month. The **lending interest rates** to households for primary residence and the rate for other loans up to €1 mn for businesses decreased. The interest rate for bank overdrafts to non-financial corporations marginally 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 **1.4%** in the **1st quarter of 2017** compared to the 4th quarter of 2016 and increased by 4.1% compared to the 1st quarter of 2016.
- The CBC's **residential property price index** declined by **0.9%** in the **4th quarter of 2016** compared to the 4th quarter of 2015. Cumulative from the 1st quarter of 2008 it has declined by 29.5% (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 19.9% while, transfers of property were up by 0.1% in January-June 2017 compared to January-June 2016 (see graph 7.3). MFI mortgage loans to domestic residents for housing declined with an annual rate of 0.7% in May 2017 (see graph 7.2).
- The Cyprus Government bond spread compared to the German Government bond, decreased in mid-July 2017 compared to end June 2017 to around 6 basis points above the German bond from 17 basis points (see graph 8.6, yields refer to the bonds maturing in 2020).
- In June Cyprus issued a new 7-year 2.75% **benchmark bond** of €0.85 bn with a simultaneous offer for switch or sale of outstanding international bonds due in 2019 and 2020. A nominal amount of €515 mn or 37% of the outstanding bonds was switched.
- In July Cyprus proceeded with partial early repayment of the **loan by the IMF** which had been granted in the period of the economic adjustment programme (2013-2016). The prepayment of the order of €0.3 bn reduced the outstanding balance of the loan to €0.7 bn. The prepayment related to tranches carrying a higher interest rate than the current market rates.

1. OUTPUT



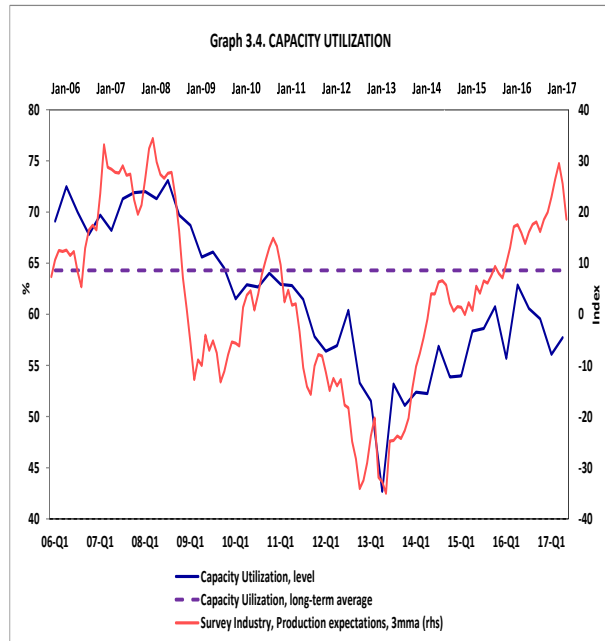
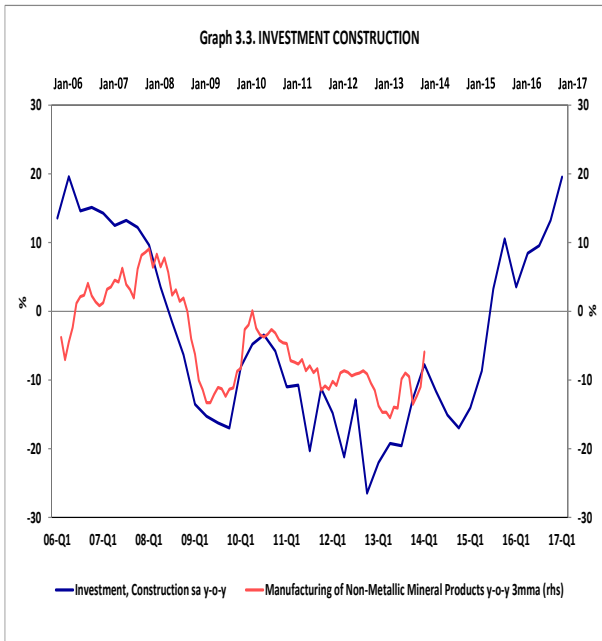
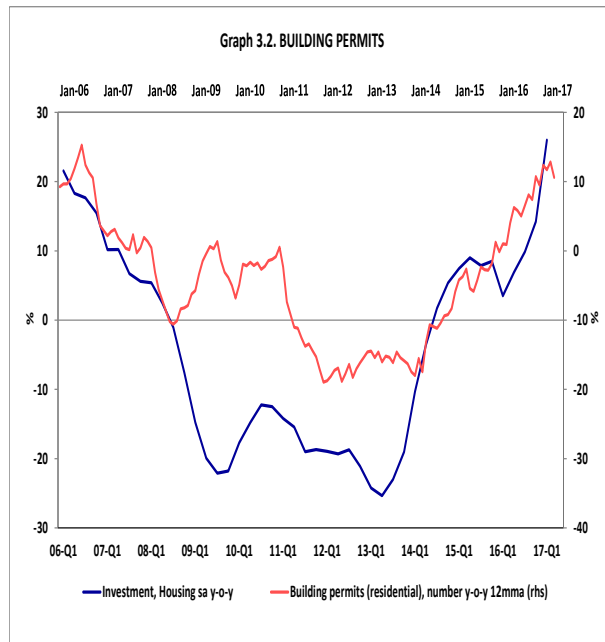
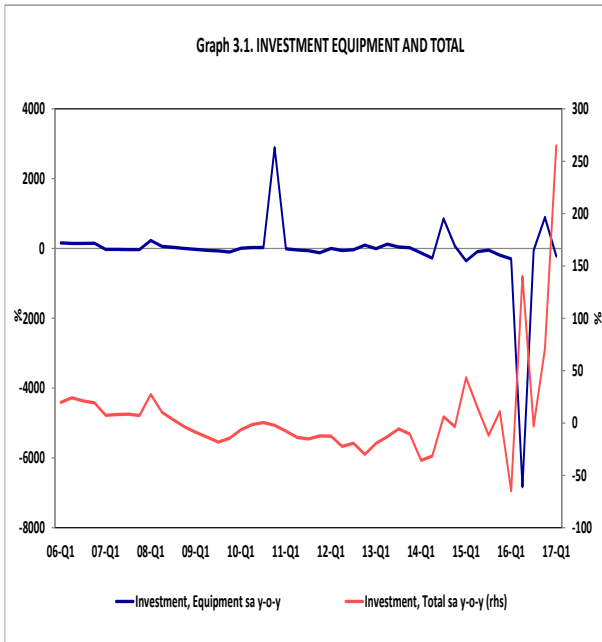
Sources: Eurostat, DG ECFIN, Cystat

2. CONSUMPTION



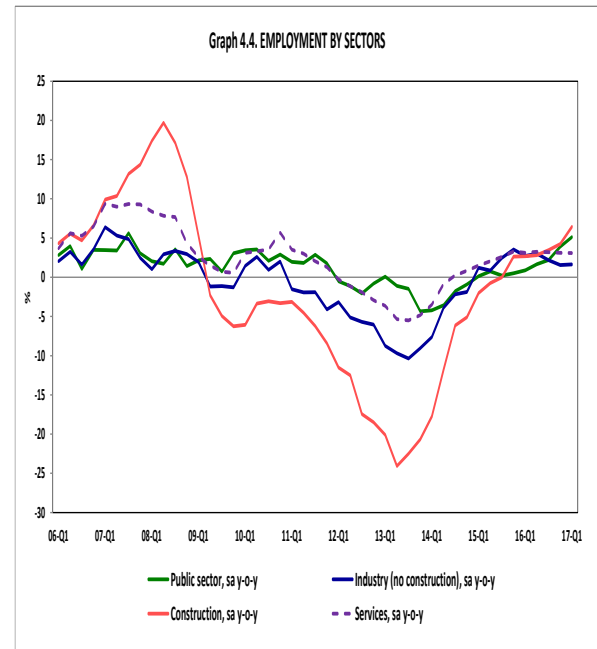
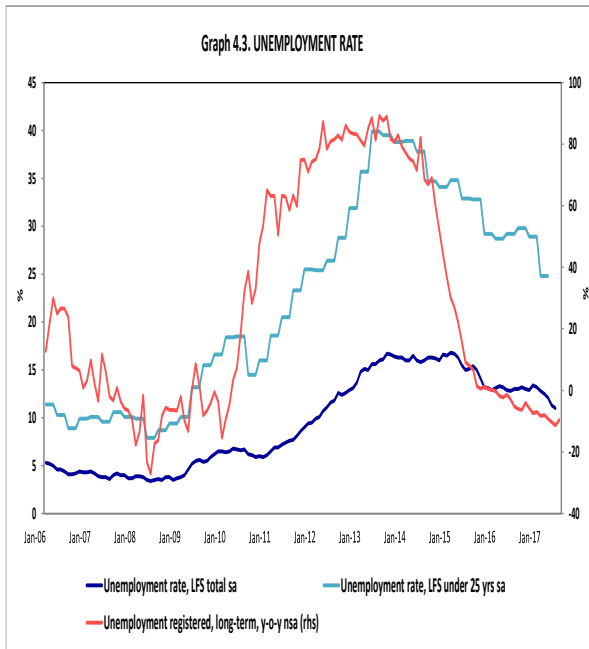
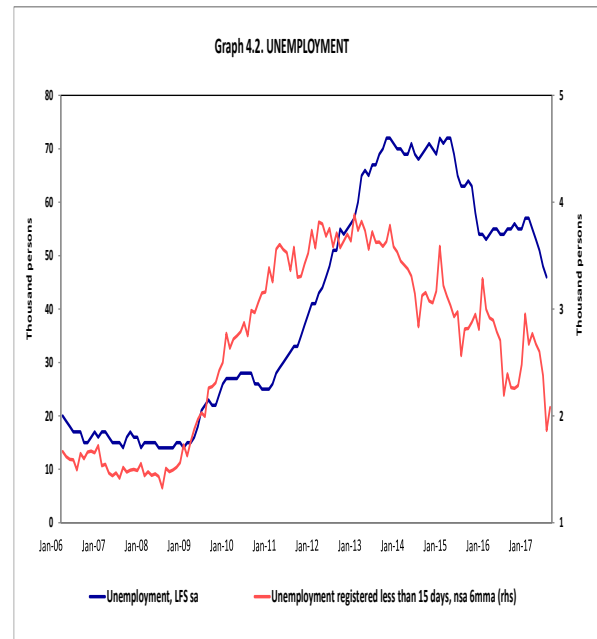
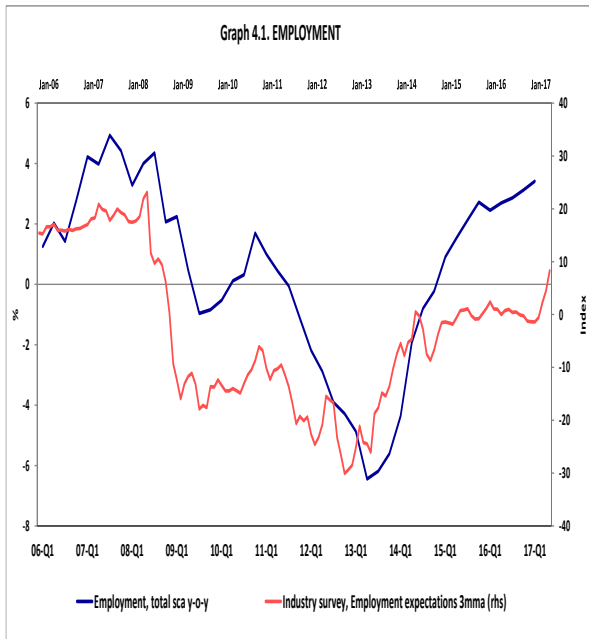
Sources: Eurostat, DG ECFIN, Cystat, JCC Payment Systems Ltd

3. INVESTMENT



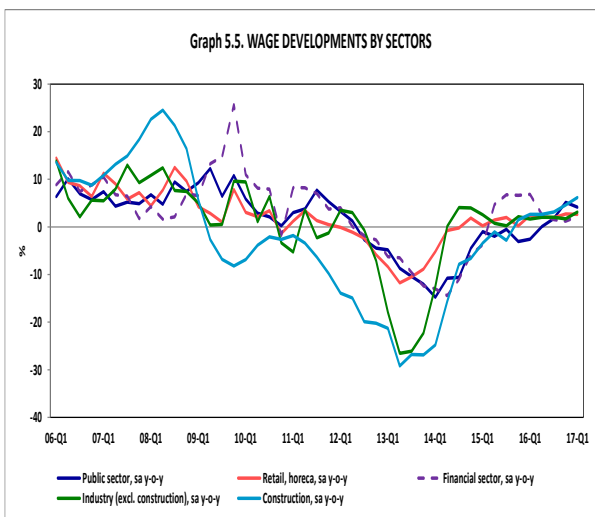
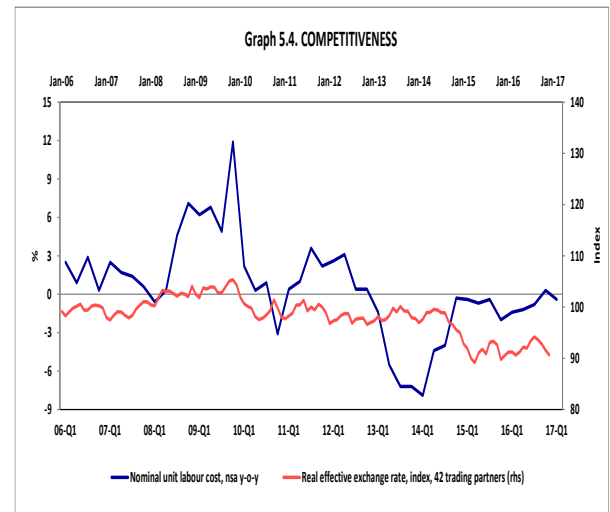
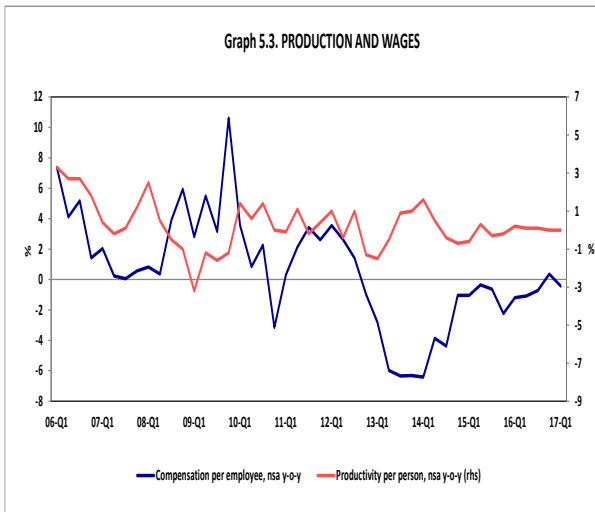
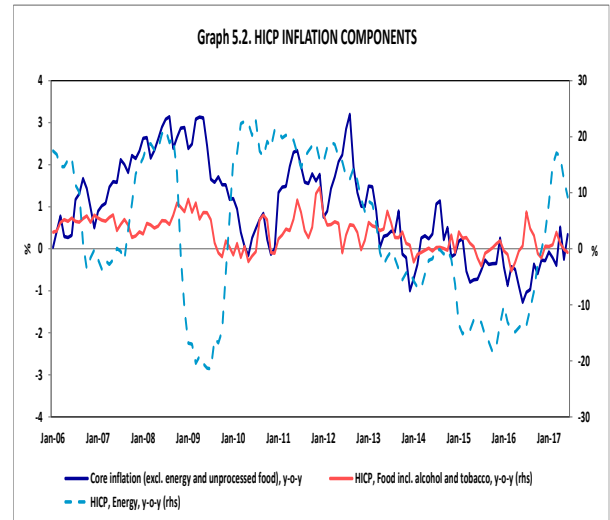
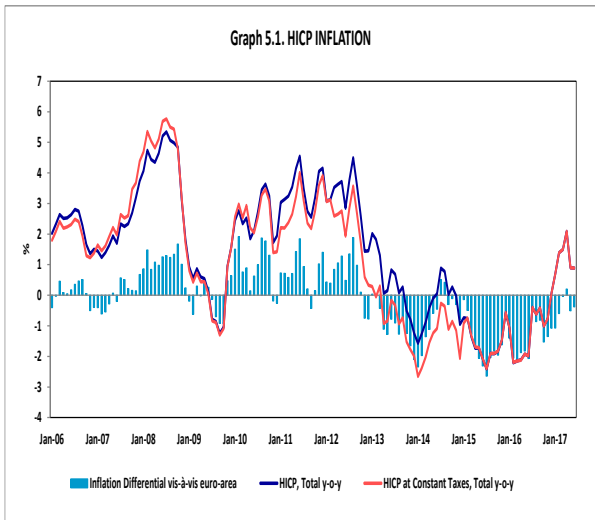
Sources: Eurostat, DG ECFIN, Cystat

4. LABOUR MARKET



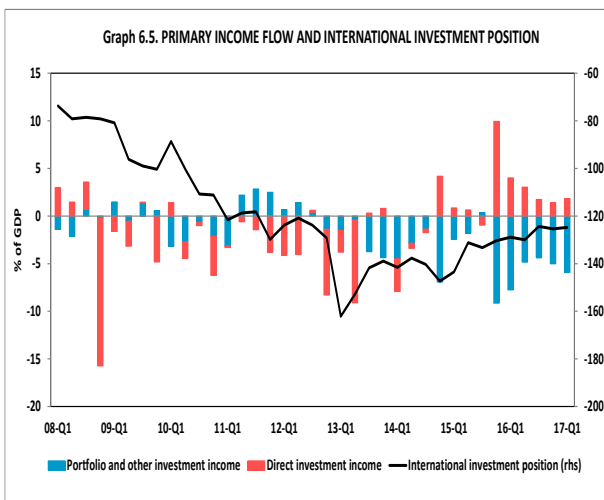
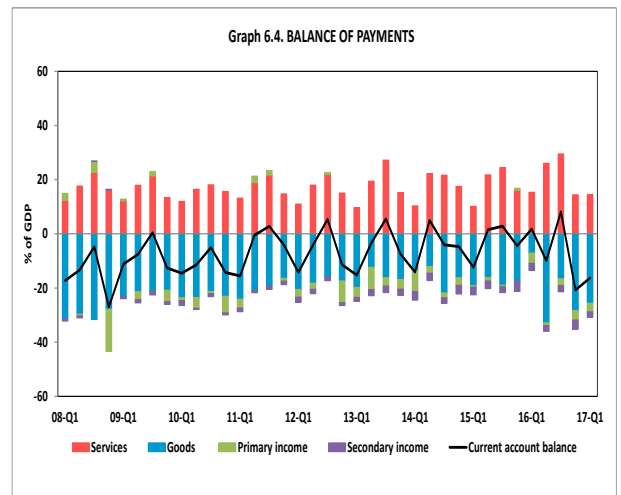
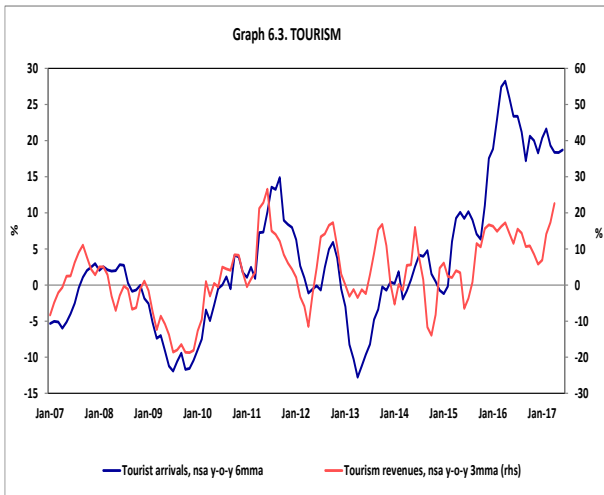
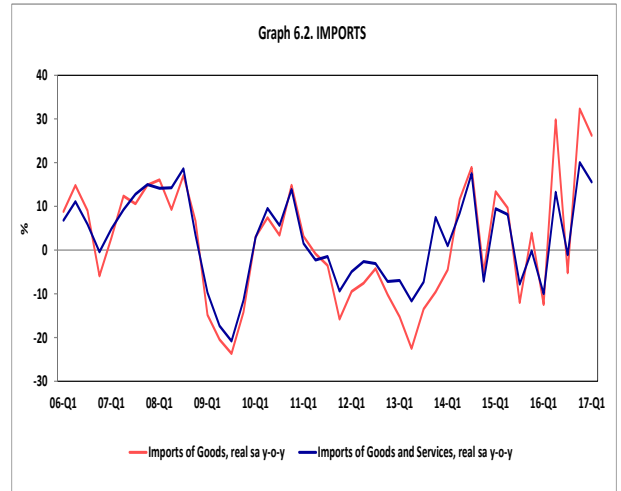
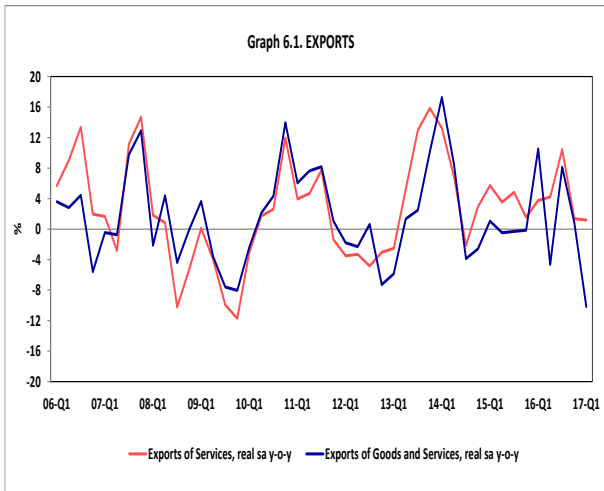
Sources: Eurostat, DG ECFIN, Cystat

5. INFLATION, WAGES



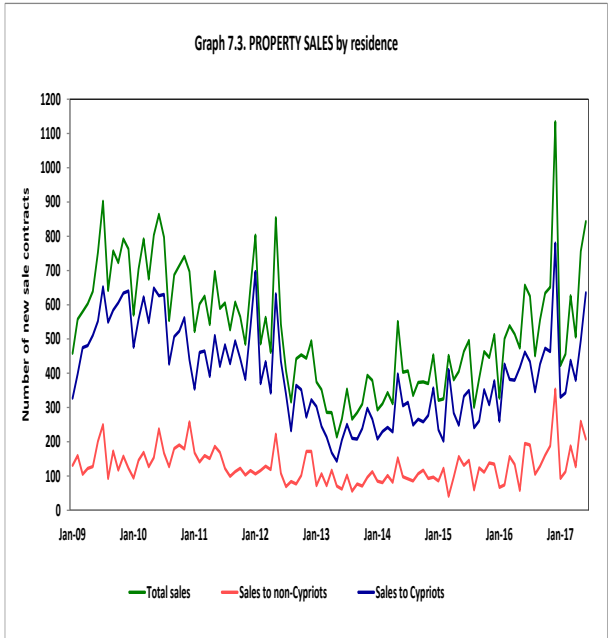
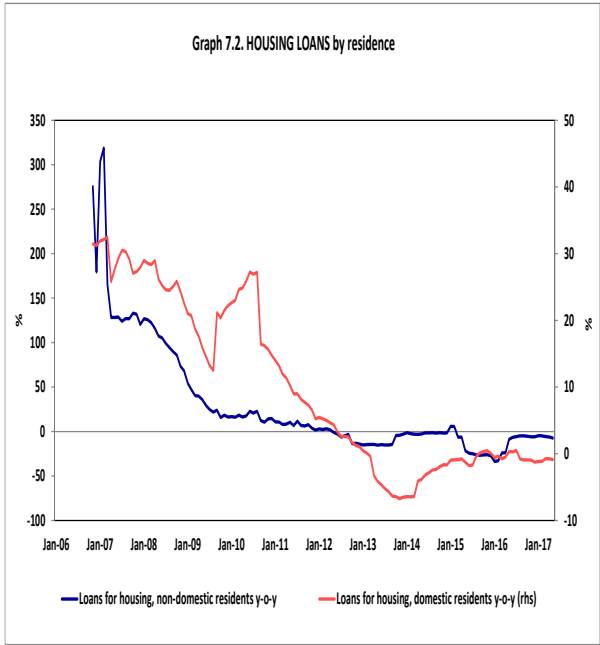
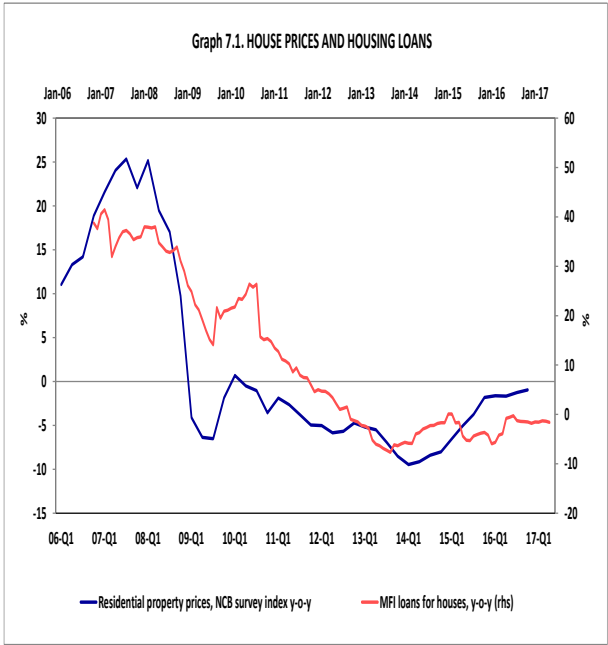
Source: Eurostat

6. EXTERNAL SECTOR



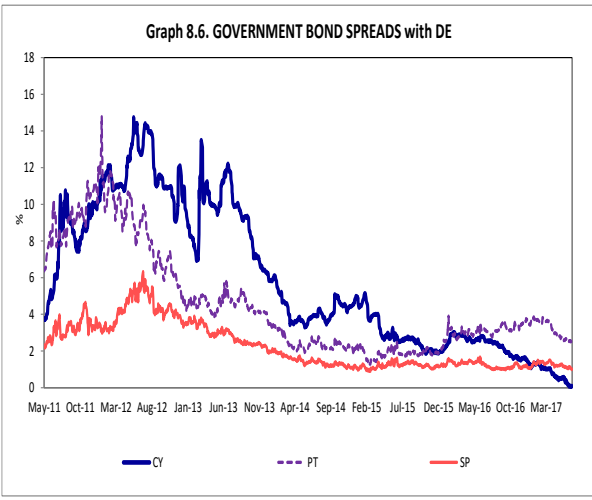
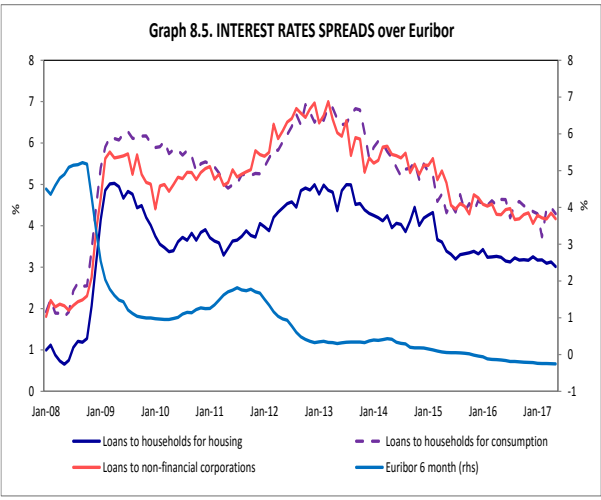
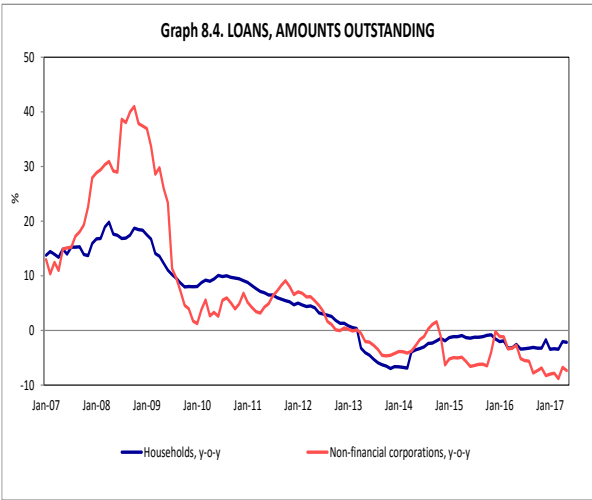
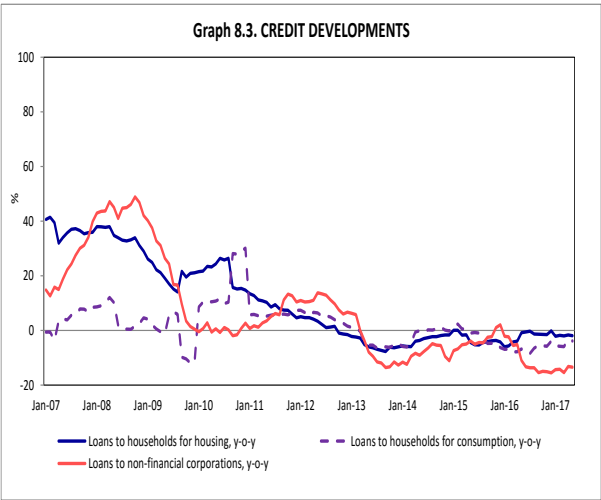
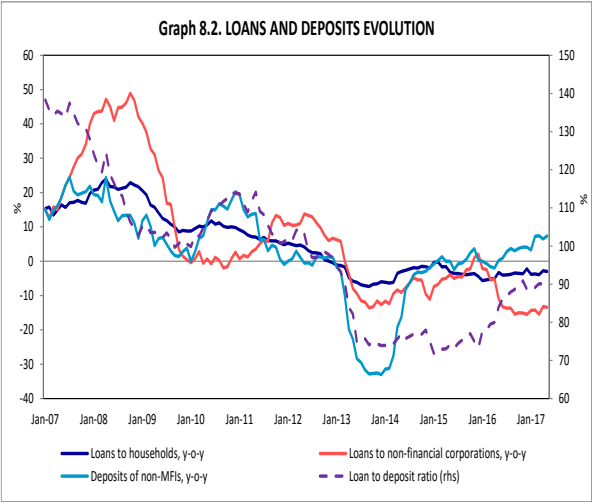
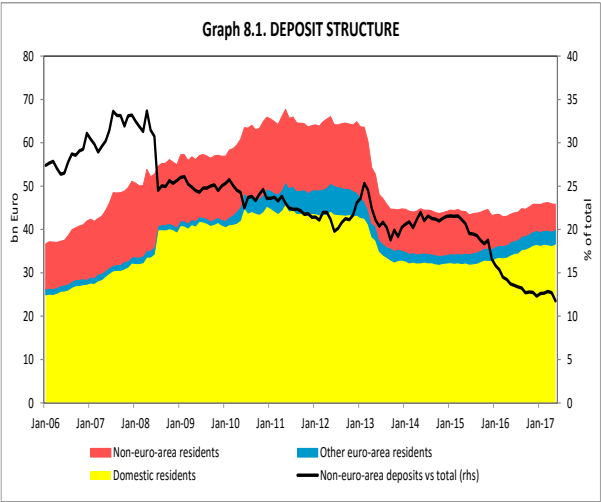
Sources: Eurostat, Cystat, ECB, CBC

7. HOUSING



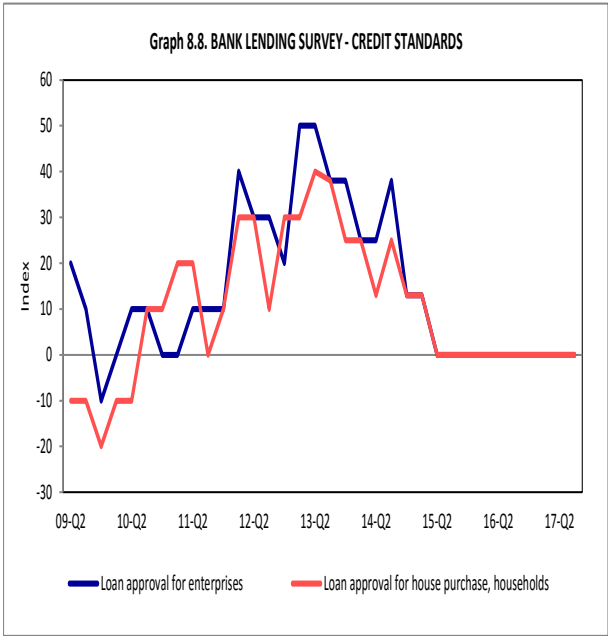
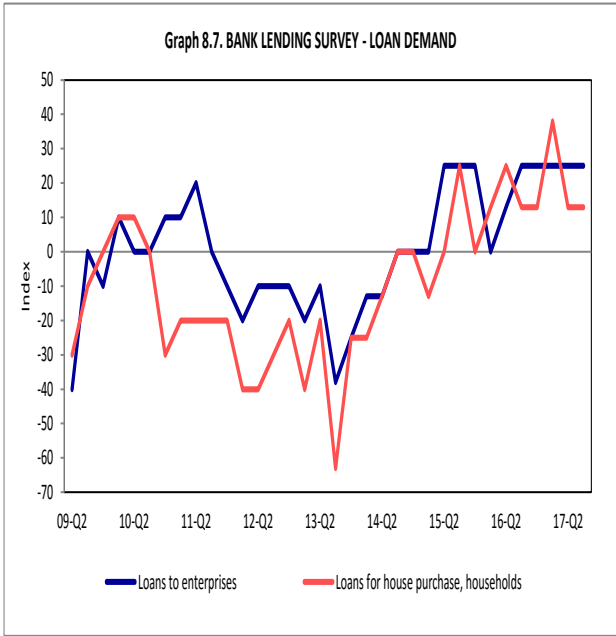
Sources: ECB, CBC, Dep. of Lands and Surveys

8. FINANCIAL SECTOR



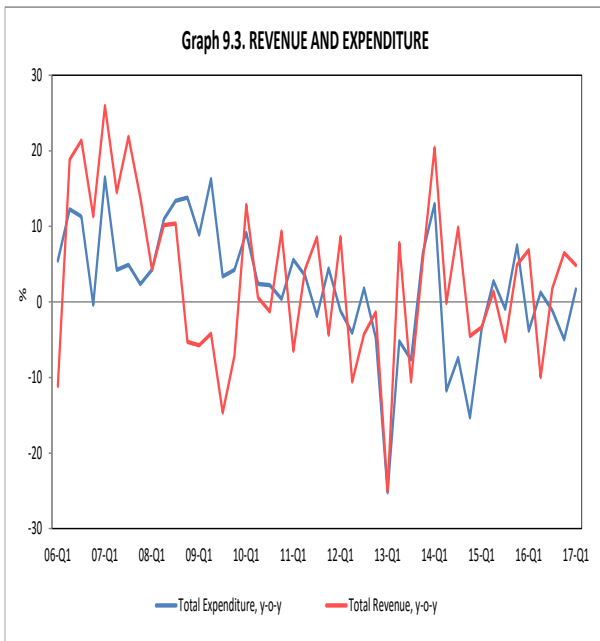
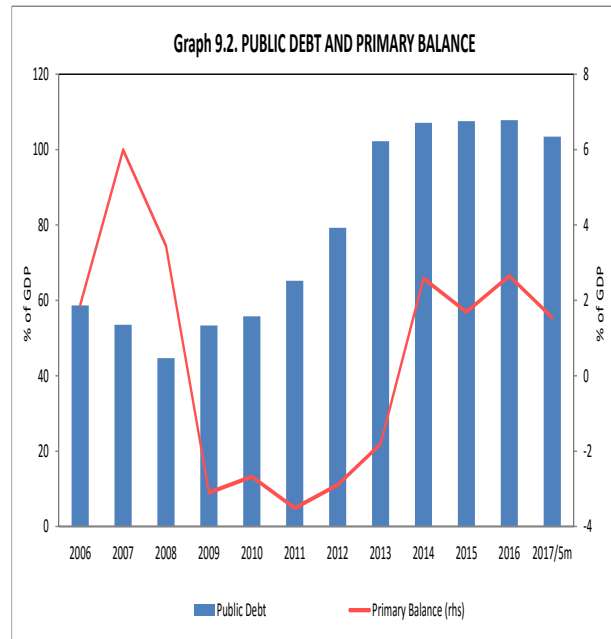
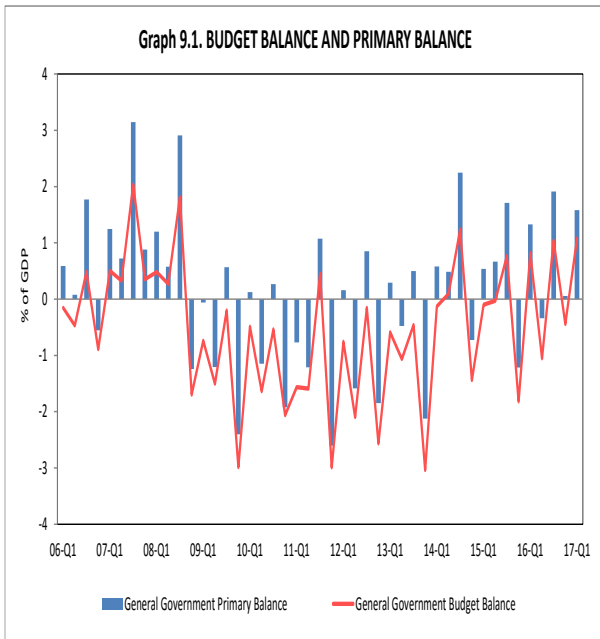
Sources: ECB, CBC, Bloomberg

8. FINANCIAL SECTOR – CONT.



Source: ECB

9. PUBLIC SECTOR



Sources: Ministry of Finance, Cystat