



MACROECONOMIC MONITOR OF CYPRUS

June 2017

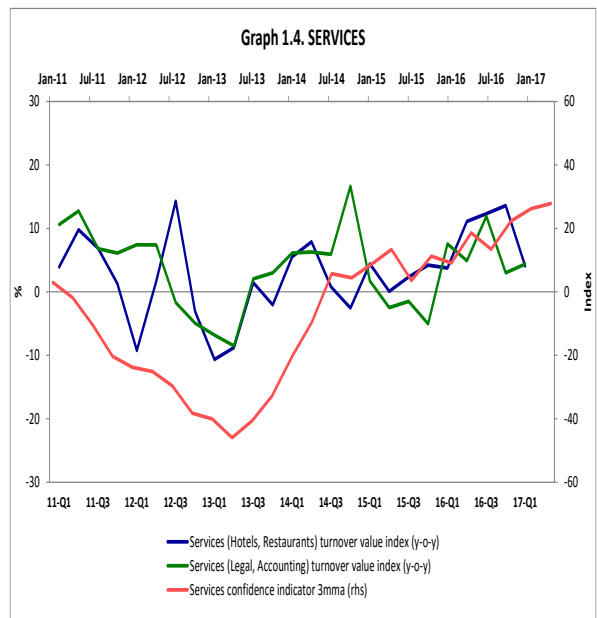
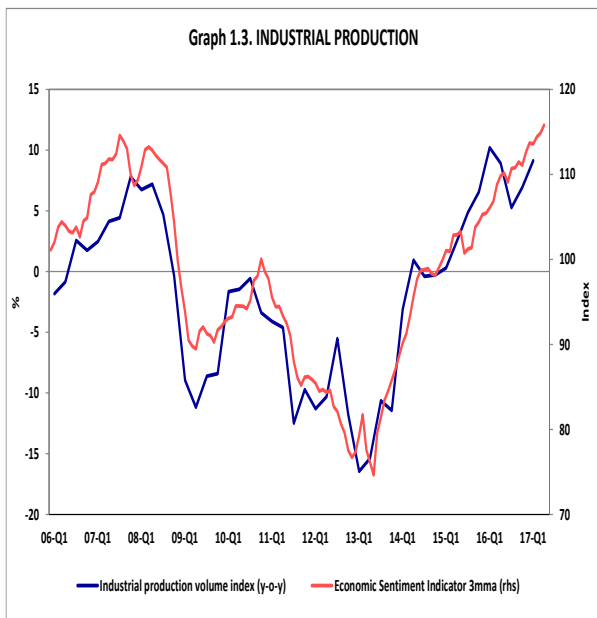
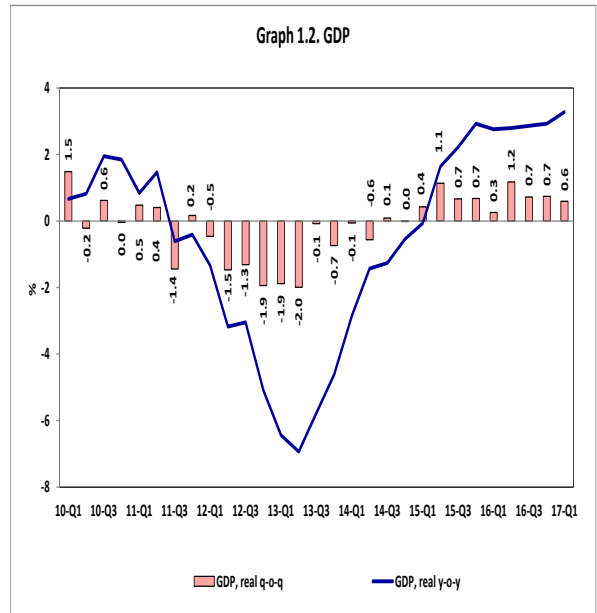
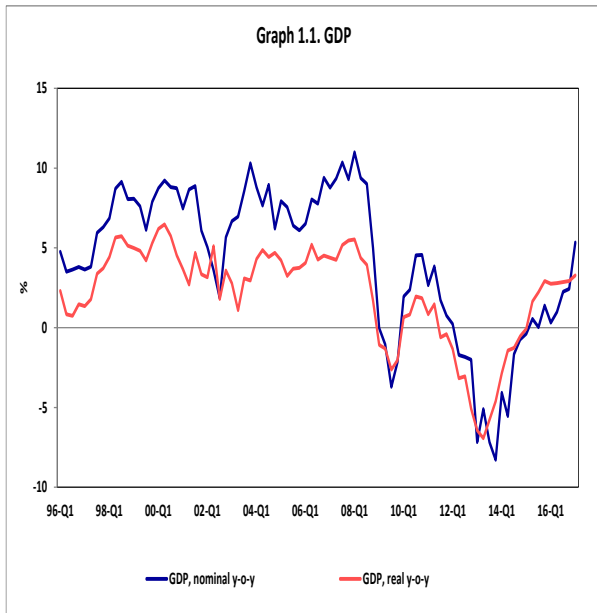
MACROECONOMIC MONITOR OF CYPRUS

Updated on 19 June 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 improving **private consumption and gross fixed capital formation** (see graphs 2.1-2.4).
- The economic sentiment indicator improved by 2.3 points in May 2017 compared to the preceding month (see graphs 1.3-1.4), driven by confidence improvements in services, retail trade and among consumers.
- During January-May 2017 **tourist arrivals increased at a rate of 17.6%** compared to the corresponding period of 2016 (see graph 6.3). An increase of 44% was recorded in tourist arrivals from Germany; an 18.2% increase was recorded from Russia, a 13.8% increase from the UK and a 5.5% increase from Greece.
- **Employment** adjusted 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 11.6% in April 2017 compared to 12.9% in April 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 29.6% in the 1st quarter of 2017 from the peak of 39.8% 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 May 2017 stood at 0.9% compared to 2.1% in April 2017 (see graph 5.1). For 2017 so far it stands at 1.3%. Core HICP inflation stood at -0.1% during January-May 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 35.8%** in January-April 2017 compared to January-April 2016. The increase in imports is influenced by imports of transport equipment (airplanes and vessels).
- **Exports of goods decreased by 26.8%** in January-April 2017 compared to January-April 2016 due to exports of transport equipment (vessels) occurred in the latter period.
- The **current account balance** in 2016 recorded a **deficit of €941.8 mn (-5.3% of GDP)** compared with a deficit of €514.0 mn (-2.9% of GDP) in 2015 (see graph 6.4) attributed solely to the income account as the trade balance was broadly balanced. Excluding the one-off transactions in imports and exports of goods and services of mobile transport equipment (one yacht) the current account balance deficit declines to about 2.1% of GDP in 2016.
- The **primary income** recorded a **deficit of €482.6 mn** in 2016 compared with a deficit of €62.5 mn in 2015 (see graph 6.4) mainly due to worsening of income from other investment.

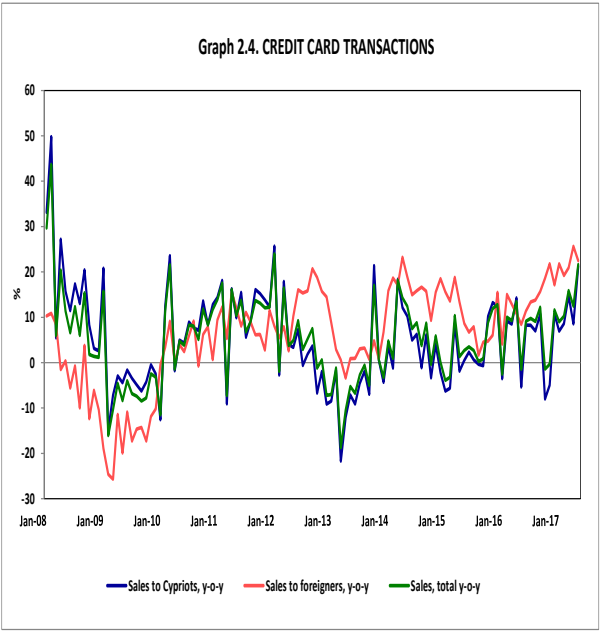
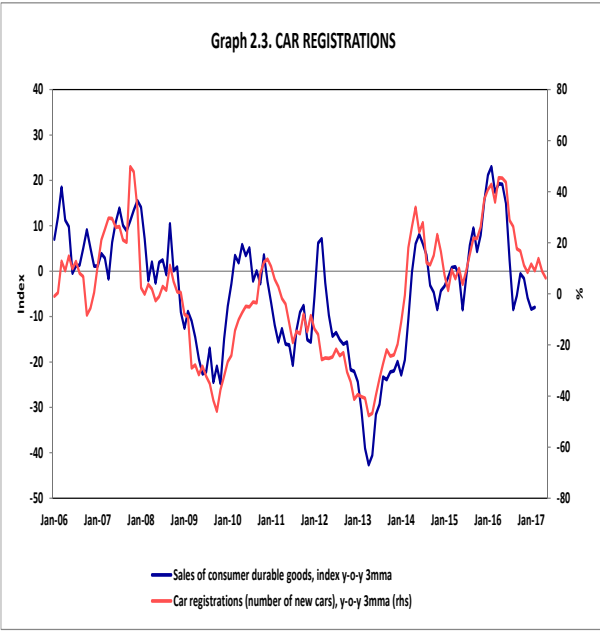
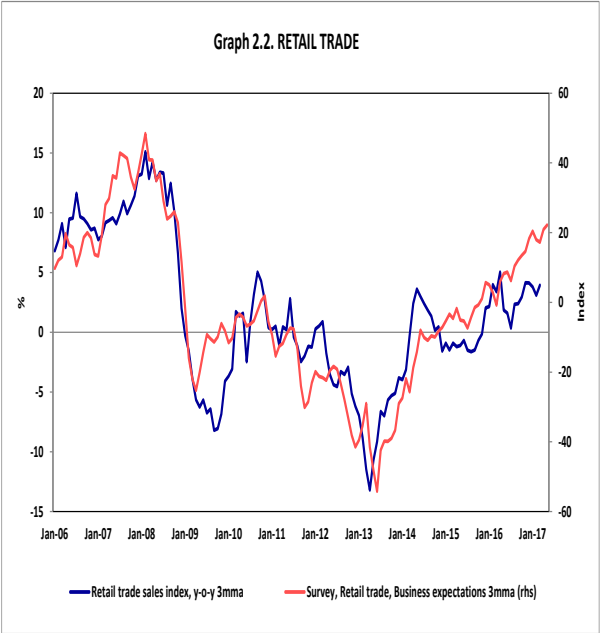
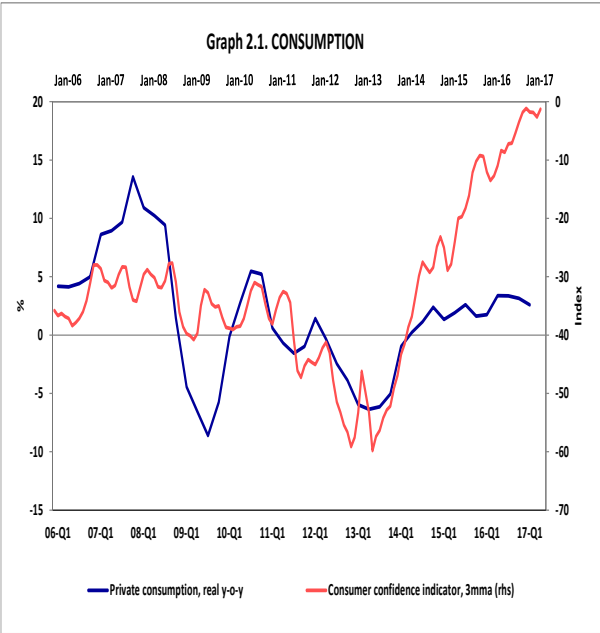
- The **secondary income** recorded a **deficit of €459.6 mn** in 2016 compared with a deficit of €510.6 mn in 2015 (see graph 6.4).
- The international investment position of Cyprus (see graph 6.5) recorded an improvement in 2016 reaching -€22,452.7 mn compared with -€22,985.2 mn in 2015.
- General government budget balance (GGBB) **was in surplus** during January-April 2017, of the order of **€189.9 mn (1% of GDP)** compared to a surplus of €99.4 mn (0.6% of GDP) during the corresponding period the year before (see graph 9.1).
- General government **primary balance** (GGPB) **was in surplus** during January-April 2017, of the order of **€292.5 mn (1.6% of GDP)** compared to a surplus of €200 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 5%, reaching €2,209.3 mn during January-April 2017, compared to €2,103.9 mn during the corresponding period the year before (see graph 9.3).
- **Total expenditure** exhibited a positive rate of growth of about 0.7%, reaching €2,019.4 mn during January-April 2017, compared to €2,004.5 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 1.0%** in April 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 5.9%** in April 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 April 2017, **deposit interest rates** for maturity of up to 1 year increased and of up to 3 months remained unchanged 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 increased. The interest 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 increased by **3.1%** in the **4th quarter of 2016** compared to the 3rd quarter of 2016 and increased by 2.8% compared to the 4th quarter of 2015.
- 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 17.5% while, transfers of property were down by 0.3% in January-May 2017 compared to January-May 2016 (see graph 7.3). MFI mortgage loans to domestic residents for housing declined with an annual rate of 0.6% in April 2017 (see graph 7.2).
- The Cyprus Government bond spread compared to the German Government bond, marginally increased in mid-June 2017 compared to end May 2017 to around 51 basis points above the German bond from 49 basis points (see graph 8.6, yields refer to the bonds maturing in 2020).

1. OUTPUT



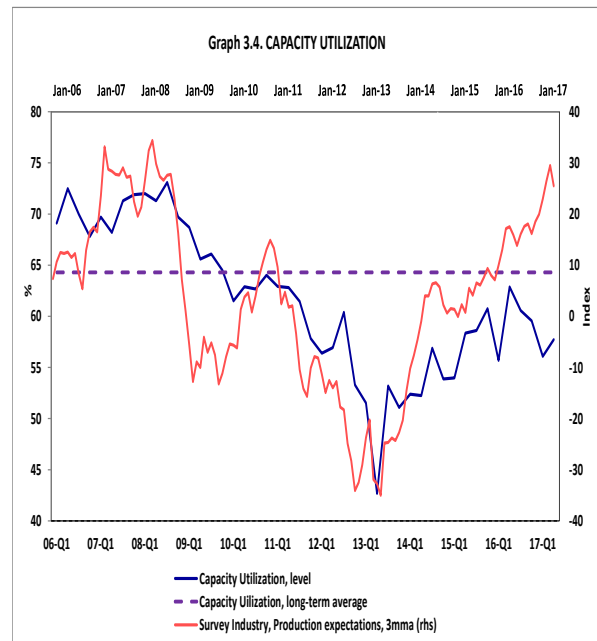
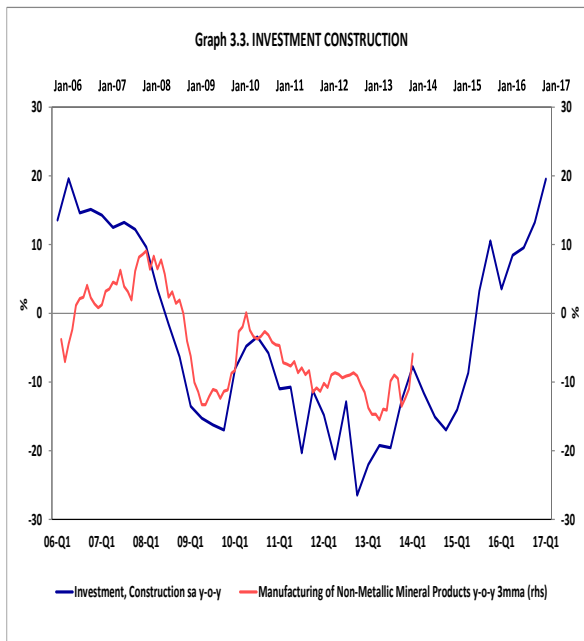
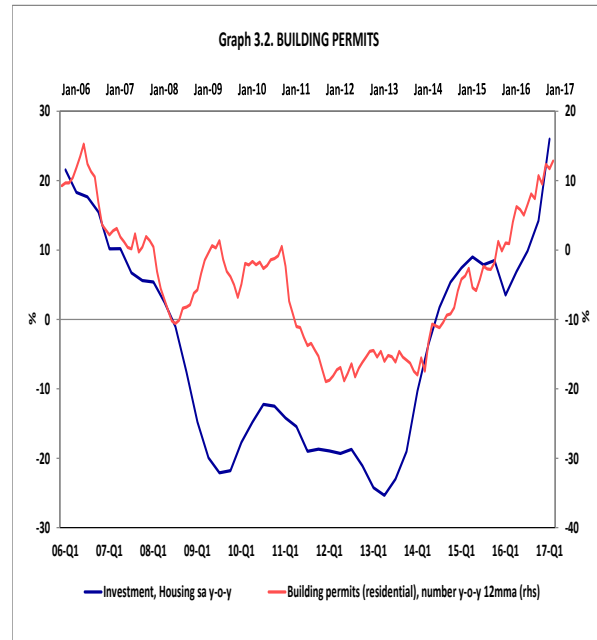
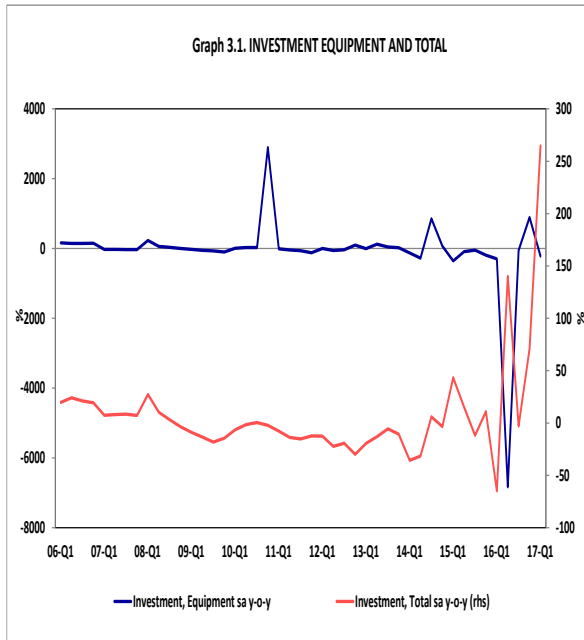
Sources: Eurostat, DG ECFIN, Cystat

2. CONSUMPTION



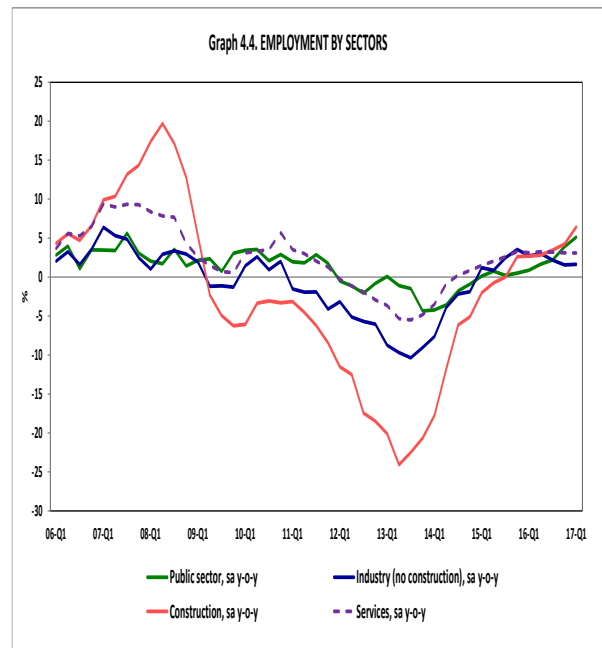
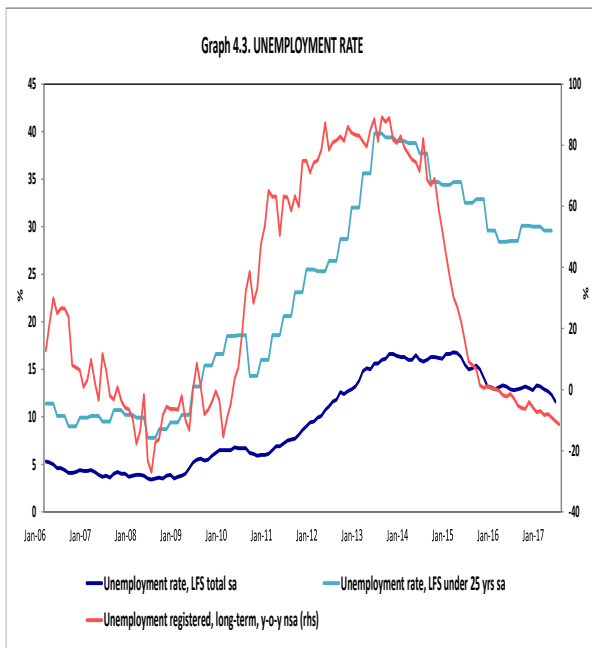
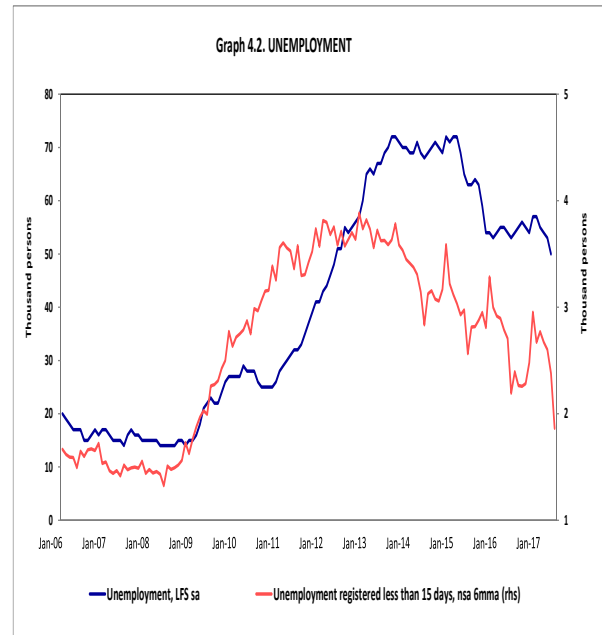
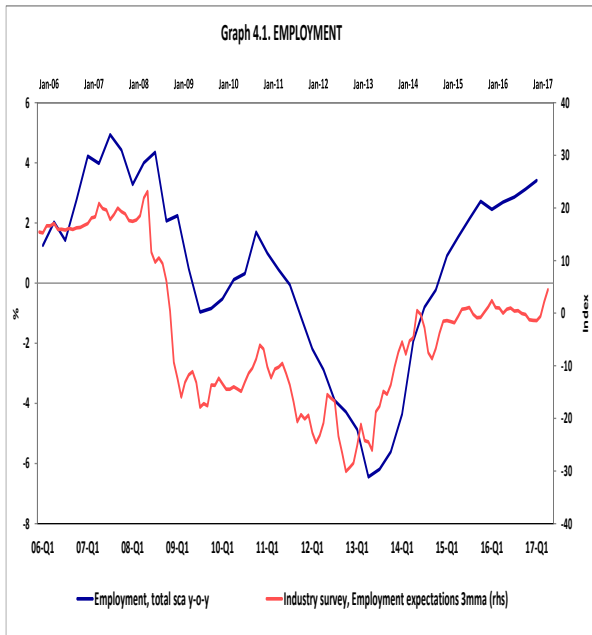
Sources: Eurostat, DG ECFIN, Cystat, JCC Payment Systems Ltd

3. INVESTMENT



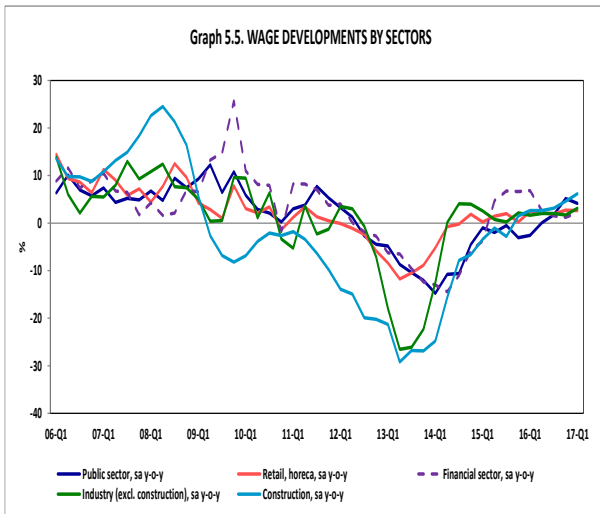
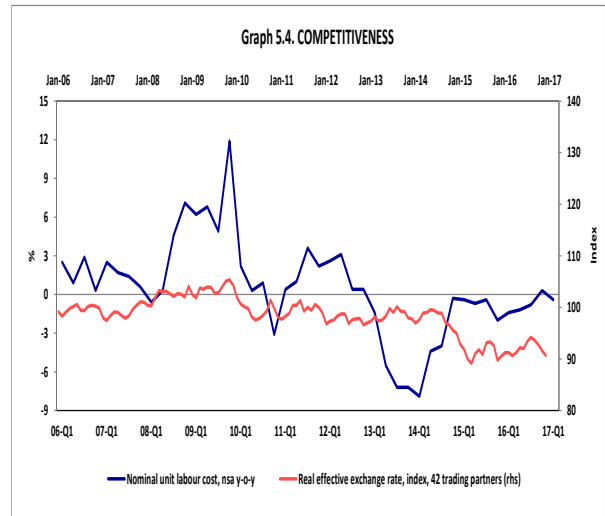
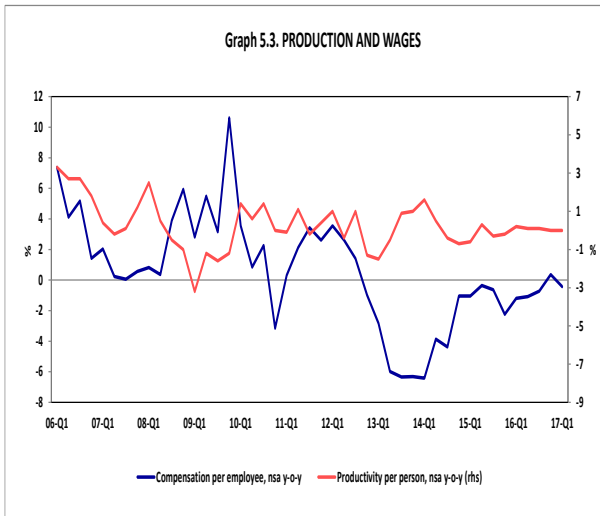
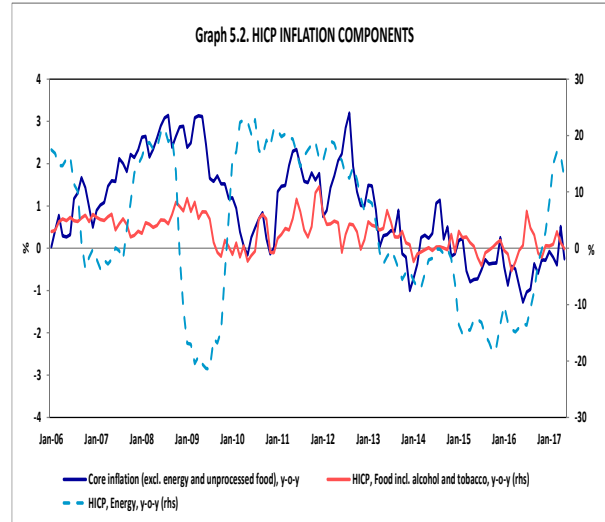
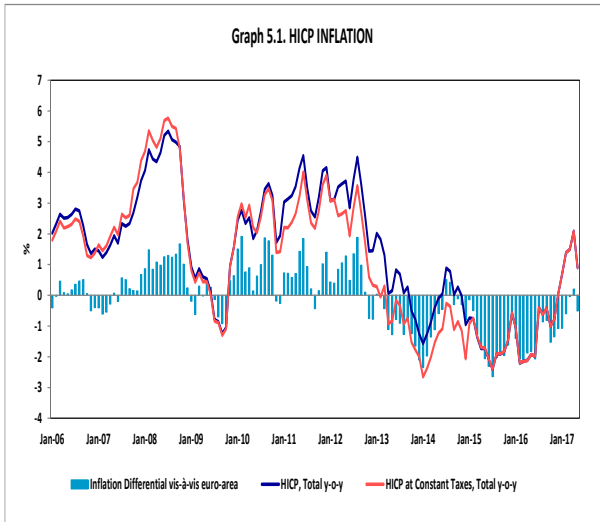
Sources: Eurostat, DG ECFIN, Cystat

4. LABOUR MARKET



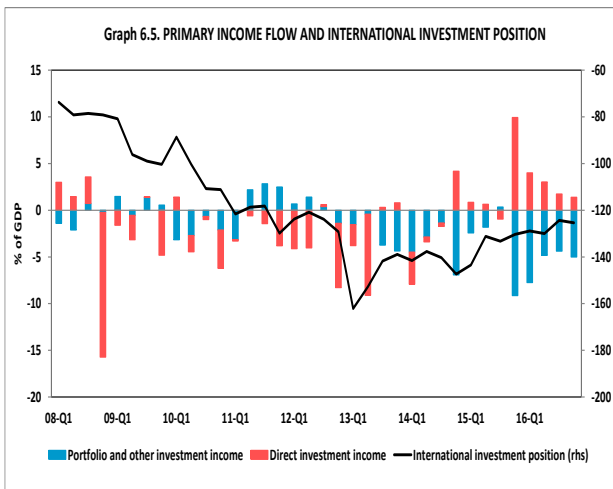
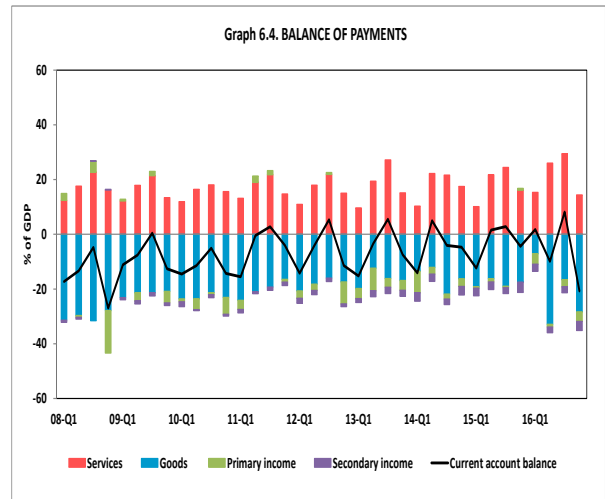
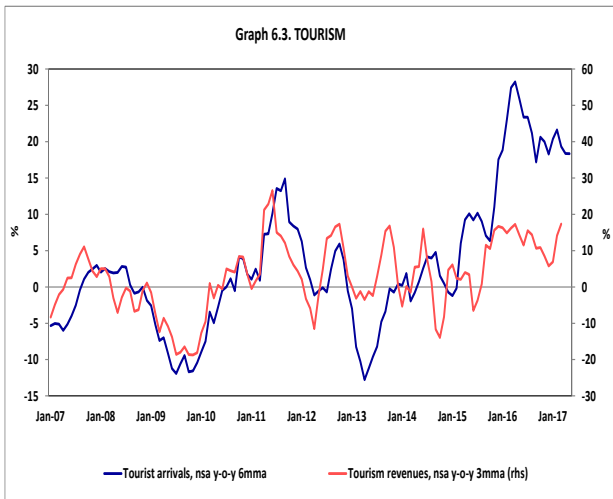
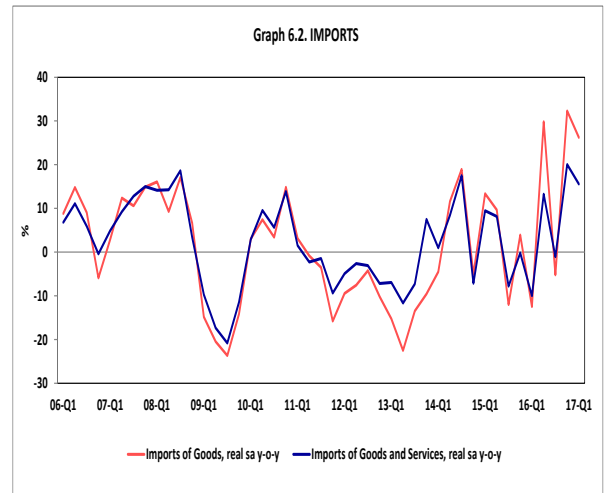
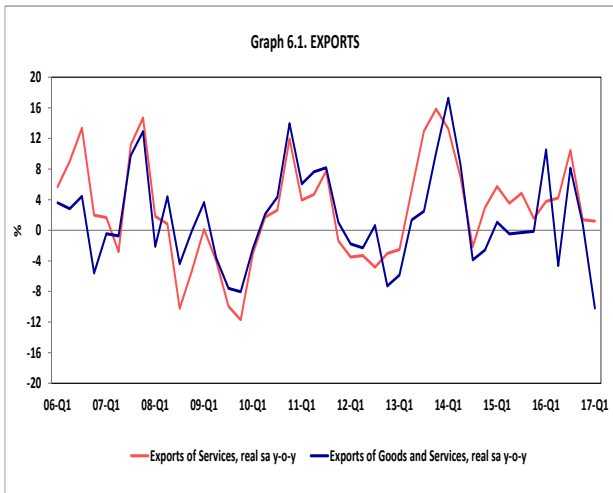
Sources: Eurostat, DG ECFIN, Cystat

5. INFLATION, WAGES



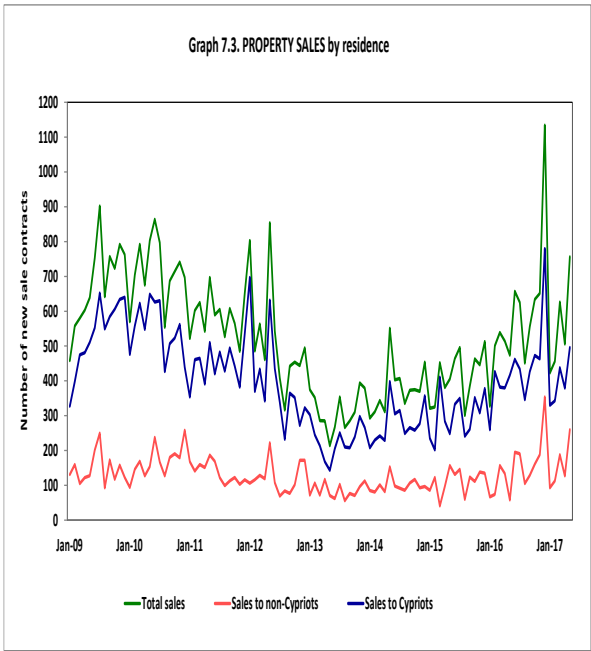
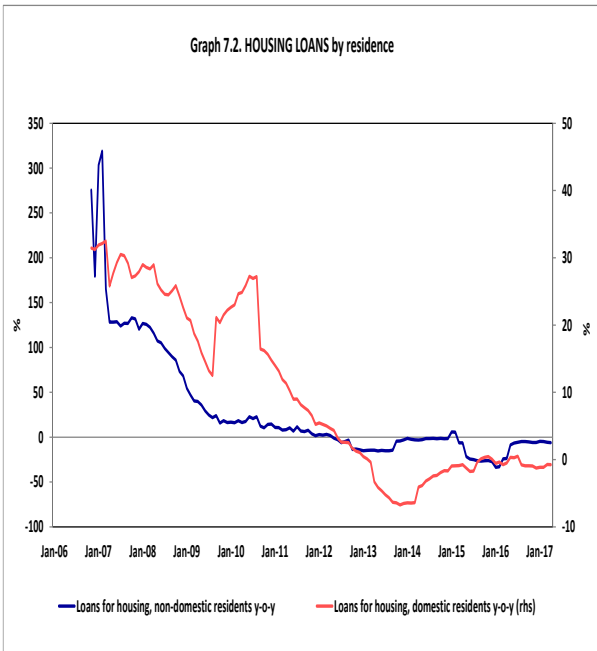
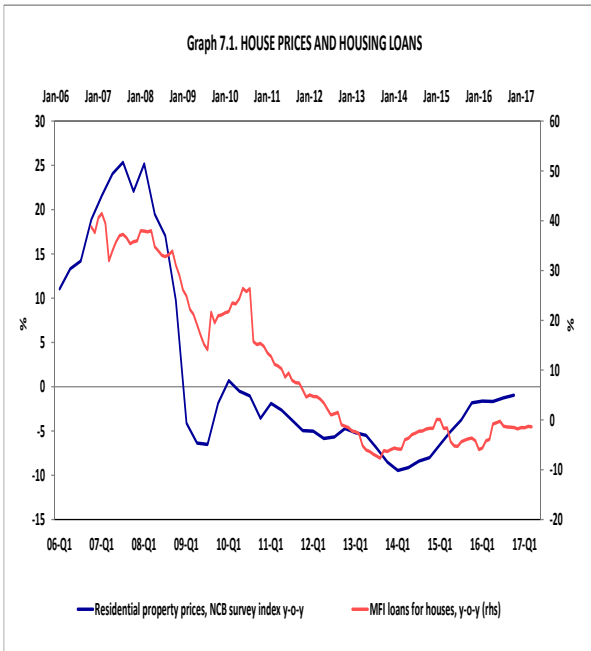
Source: Eurostat

6. EXTERNAL SECTOR



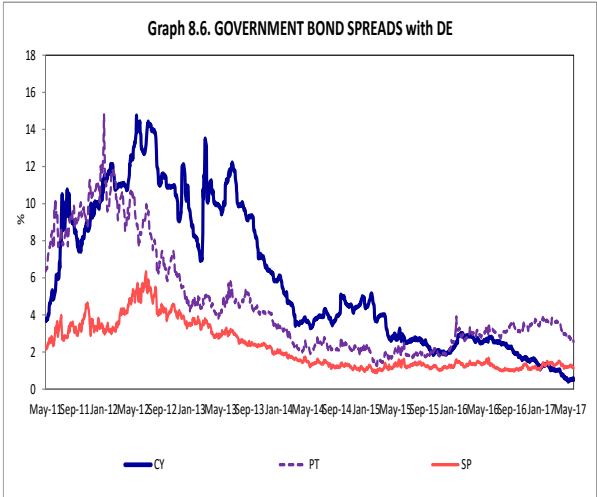
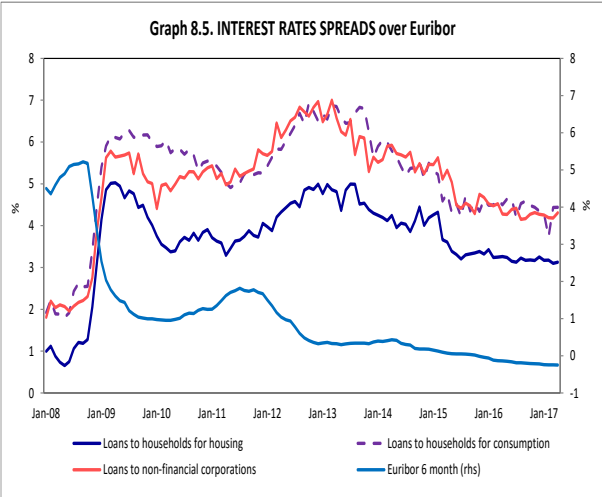
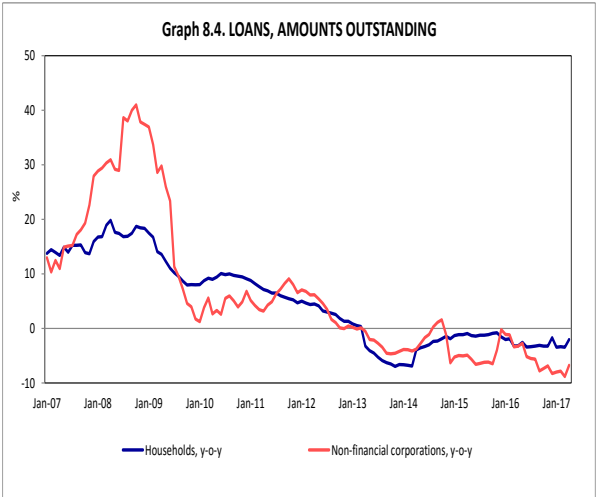
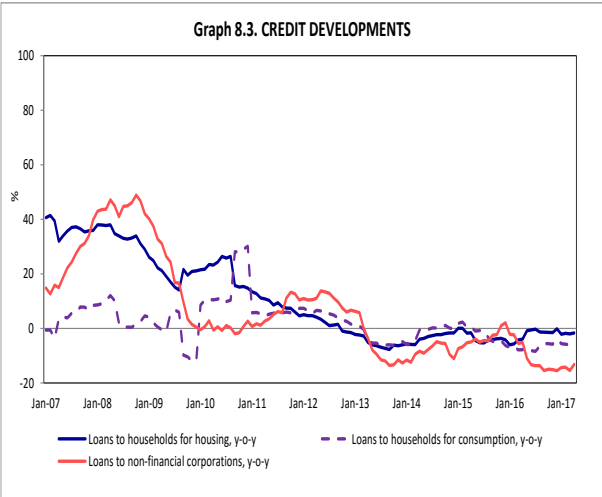
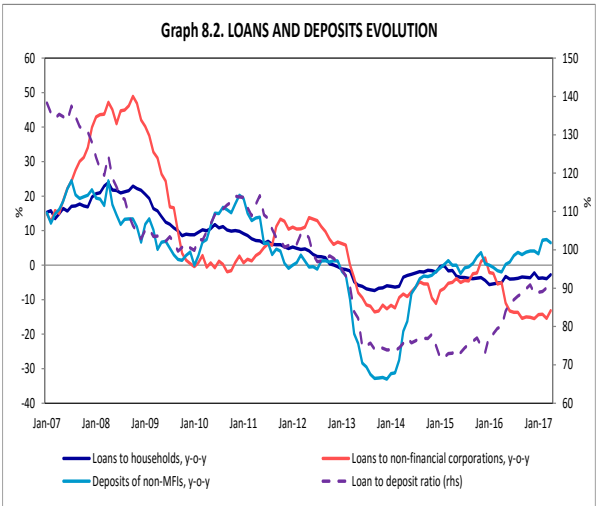
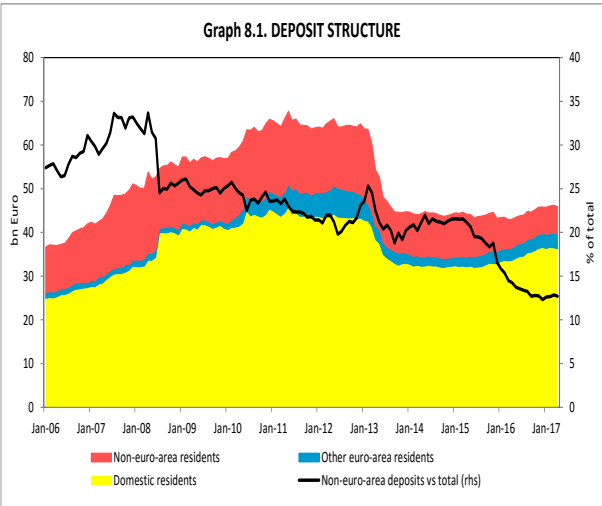
Sources: Eurostat, Cystat, ECB, CBC

7. HOUSING



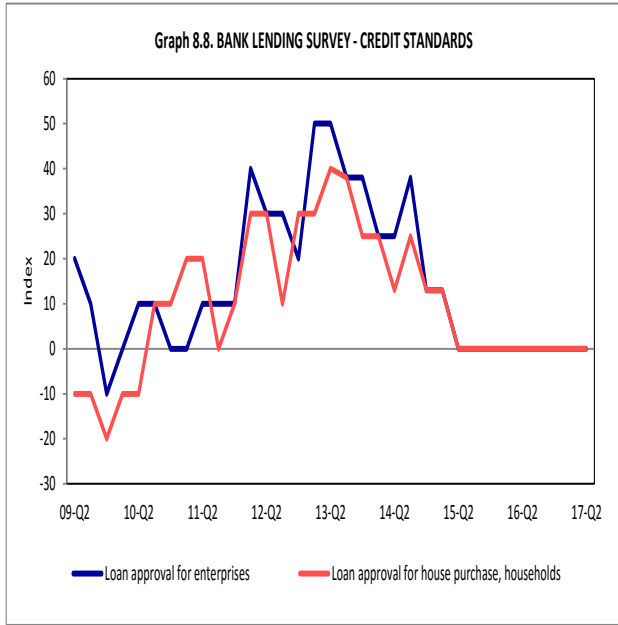
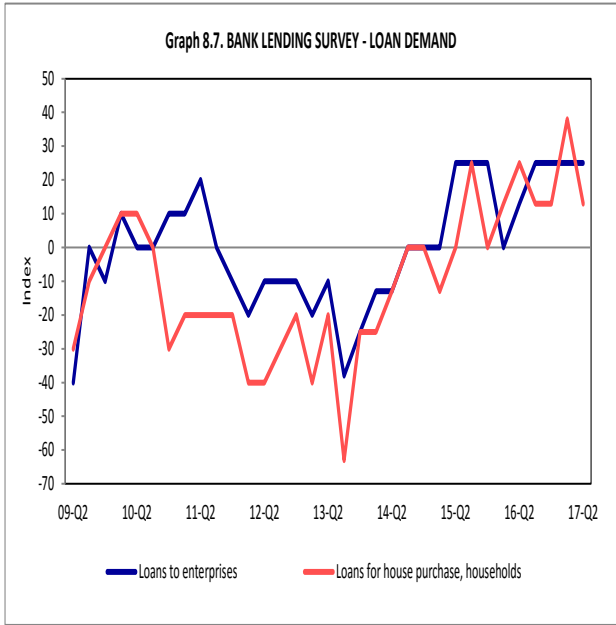
Sources: ECB, CBC, Dep. of Lands and Surveys

8. FINANCIAL SECTOR



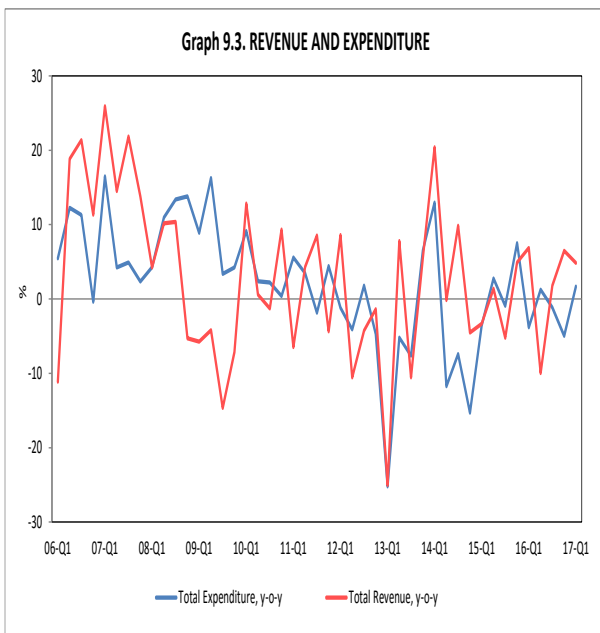
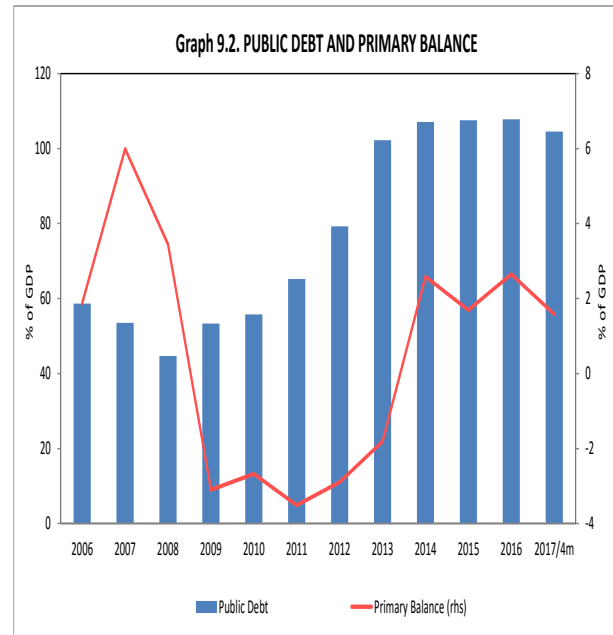
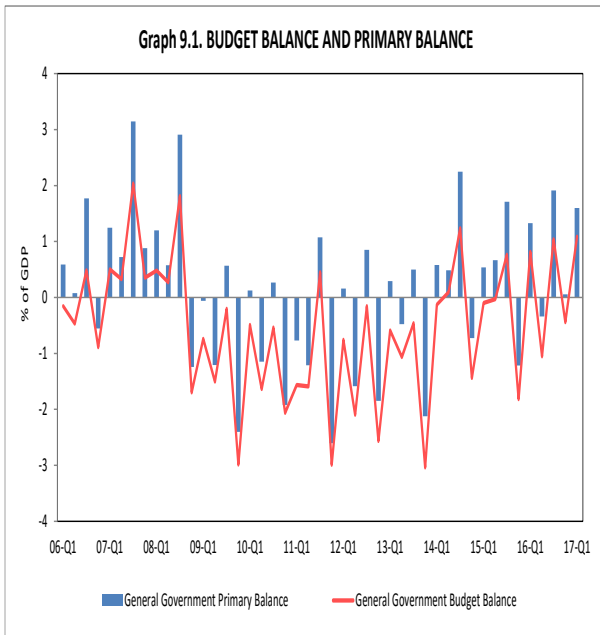
Sources: ECB, CBC, Bloomberg

8. FINANCIAL SECTOR – CONT.



Source: ECB

9. PUBLIC SECTOR



Sources: Ministry of Finance, Cystat