



MACROECONOMIC MONITOR OF CYPRUS

September 2017

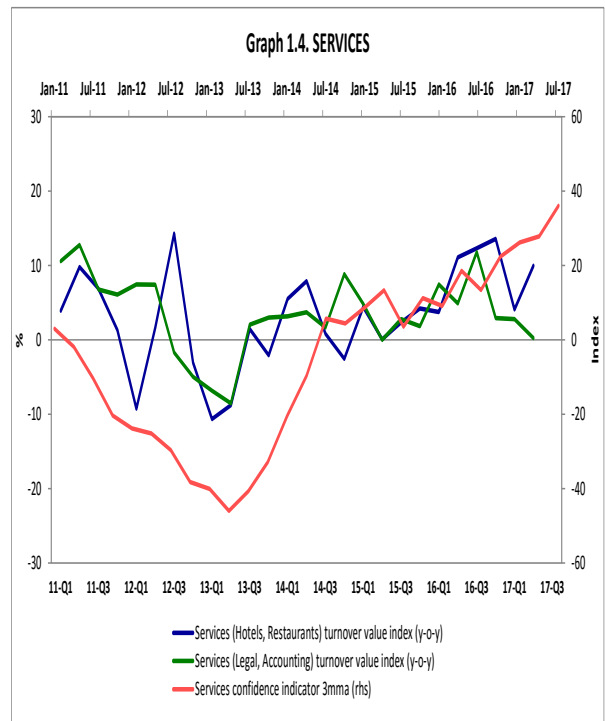
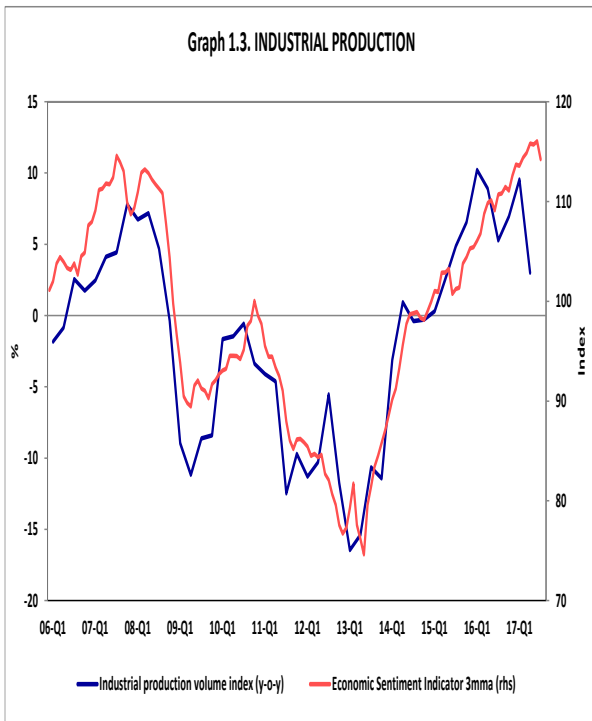
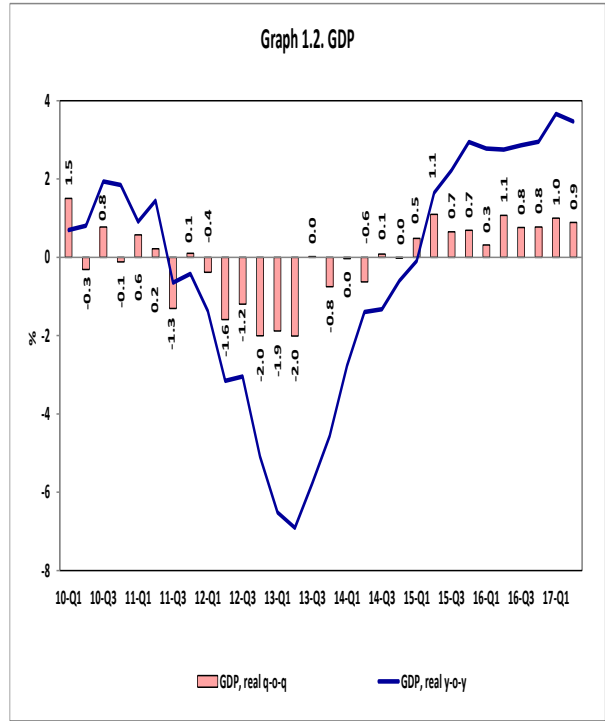
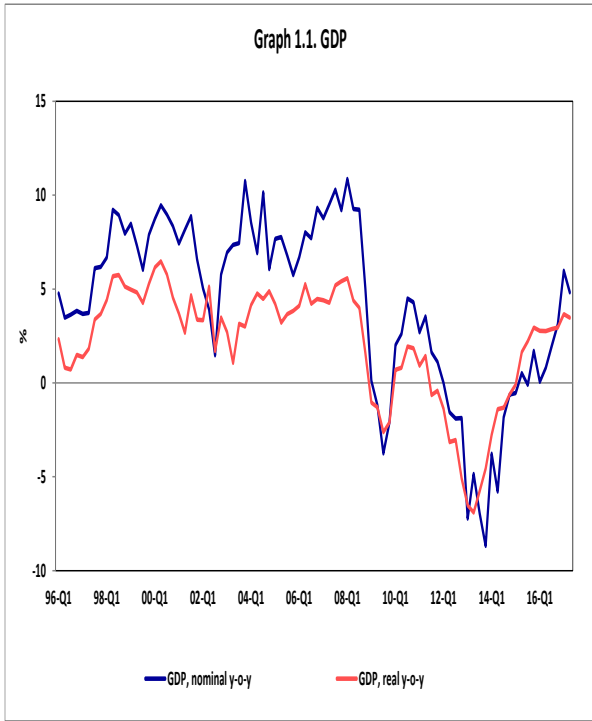
MACROECONOMIC MONITOR OF CYPRUS

Updated on 19 September 2017

- **In the 2nd quarter of 2017, GDP** (in seasonally adjusted terms) **recorded a positive rate of growth of 3.5% compared with 3.7% in the 1st quarter of 2017** 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, retail and wholesale trade, construction, and manufacturing. The sector financial and insurance activities sector was the only sector recording a negative growth rate (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 (ESI-CypERC) in August 2017 decreased by 7 points compared with July 2017 (see graphs 1.3-1.4). The decline resulted mainly from the weakening of business confidence in services. The deterioration in economic confidence in construction and industry as well as among consumers had a smaller impact on ESI-CypERC.
- During January-August 2017 **tourist arrivals increased at a rate of 14.7%** compared to the corresponding period of 2016 (see graph 6.3). An increase of 55.9% was recorded in tourist arrivals from Germany, an 8.6% increase from the UK, a 7.1% increase from Greece and a 4.7% increase from Russia.
- **Employment** is adjusting to conditions of improving economic activity (see graphs 4.1 and 4.4). Employment in persons **increased by 3.1%** in the 1st half of 2017 compared to the 1st half 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 10.8% in July 2017 compared to 13.0% in July 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 20.4% in the 2nd 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** increased by around 0.4% in the 1st half of 2017 compared to the 1st half of 2016 (see graphs 5.3-5.5). The observed benign wage adjustment is expected to help maintaining a downward trend in unemployment.
- **Inflation (HICP)** in August 2017 increased by 0.5% compared to a decrease of 0.1% in July 2017 (see graph 5.1). For 2017 so far it stands at 1.0%. Core HICP inflation stood at 0.1% during January-August 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 3.6%** in January-July 2017 compared to January-July 2016. The increase in imports is influenced by imports of transport equipment (airplanes and vessels). Imports of goods, excluding imports of transport equipment, exhibit an increase of 21.3%.
- **Exports of goods increased by 0.1%** in January-July 2017 compared to January-July 2016 due to exports of transport equipment (vessels) occurred in the latter period. Exports of goods, excluding exports of transport equipment, exhibit an increase of 32%.
- The **current account balance** in the 1st quarter of 2017 recorded a **deficit of €721.1 mn (-3.8% 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 deterioration in the trade balance of goods attributed to imports of transport equipment (airplanes and vessels). The current account balance, excluding imports and exports of transport equipment (airplanes and vessels) in the 1st quarter of 2017 exhibits a deficit of 2% of GDP compared to a deficit of around 1% of GDP in the 1st quarter of 2016. 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 the goods balance.

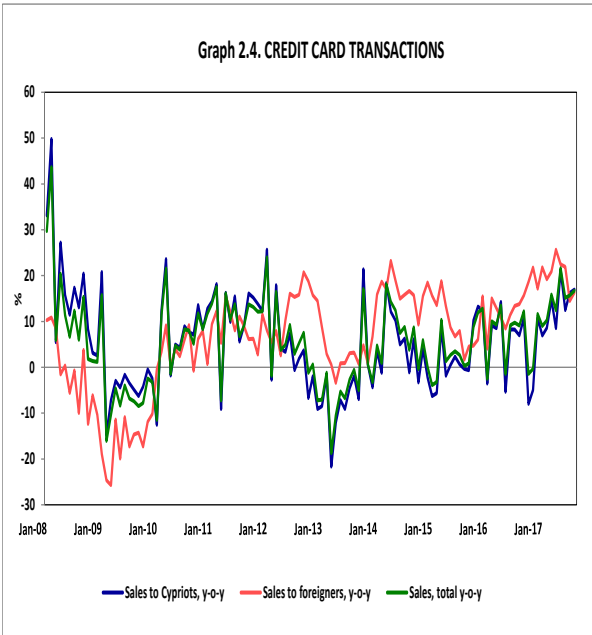
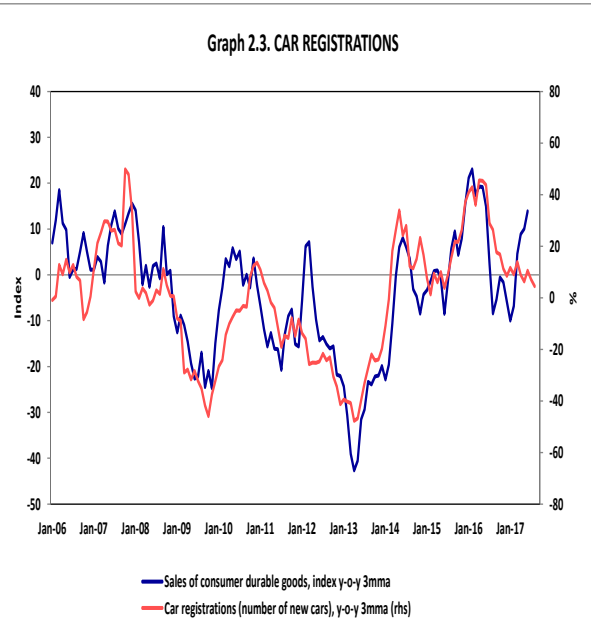
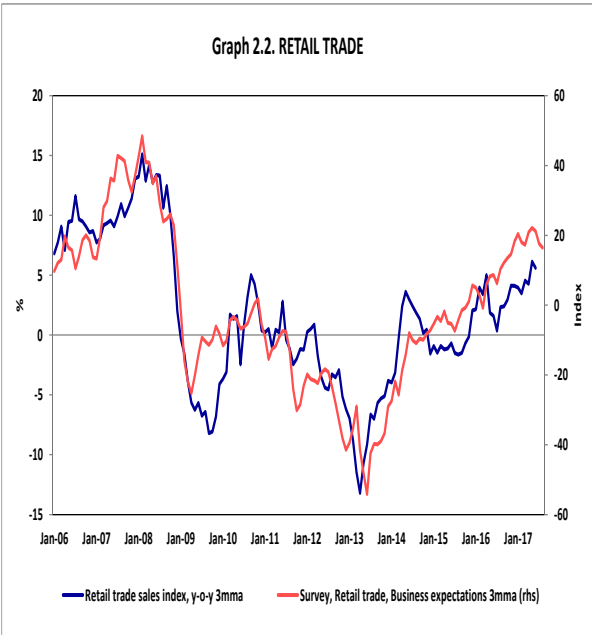
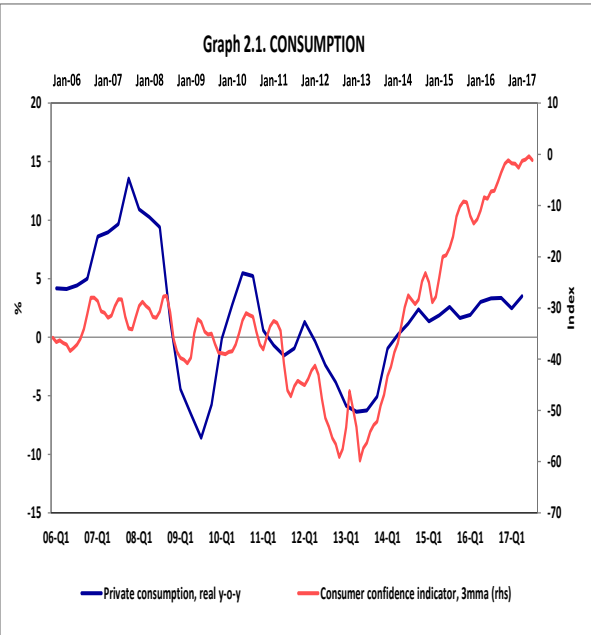
- The **primary income** recorded a **deficit of €139.6 mn** the 1st quarter of 2017 compared with a deficit of €158.0 mn the 1st quarter of 2016 (see graph 6.4).
- The **secondary income** recorded a **deficit of €89.5 mn** the 1st quarter of 2017 compared with a deficit of €109.8 mn the 1st quarter 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. Excluding ship-owning SPEs, the NIIP in 2016 improves by 79.2 p.p. of GDP and stands at -€8.3 bn or -46.2% of GDP.
- General government budget balance (GGBB) **was in surplus** during January-July 2017, of the order of **€215.2 mn (1.2% of GDP)** compared to a deficit of €91.2 mn (-0.5% of GDP) during the corresponding period the year before (see graph 9.1).
- General government **primary balance** (GGPB) **was in surplus** during January-July 2017, of the order of **€547.5 mn (2.9% of GDP)** compared to a surplus of €222.6 mn (1.2% 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 12%, reaching €4,125.8 mn during January-July 2017, compared to €3,684.5 mn during the corresponding period the year before (see graph 9.3).
- **Total expenditure** exhibited a positive rate of growth of about 3.6%, reaching €3,910.6 mn during January-July 2017, compared to €3,775.7 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 0.3%** in July 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 5.3%** in July 2017, reflecting the improving performance of the economy (see graph 8.1).
- Overall **lending and deposit interest rates** in Cyprus continue to decline, creating an environment conducive to growth (see graph 8.5). In July 2017, **deposit interest rates** for maturity of up to 1 year decreased 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 decreased. The interest rate for bank overdrafts to non-financial corporations remained unchanged. 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** increased by **0.2%** in the **1st quarter of 2017** compared to the 1st quarter of 2016. 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 20.4% while, transfers of property were up by 1.1% in January-August 2017 compared to January-August 2016 (see graph 7.3). MFI mortgage loans to domestic residents for housing declined with an annual rate of 0.8% in July 2017 (see graph 7.2).
- The Cyprus Government bond spread compared to the German Government bond, remained negative in mid-September 2017 compared to end August 2017 to around -29 basis points above the German bond from -14 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



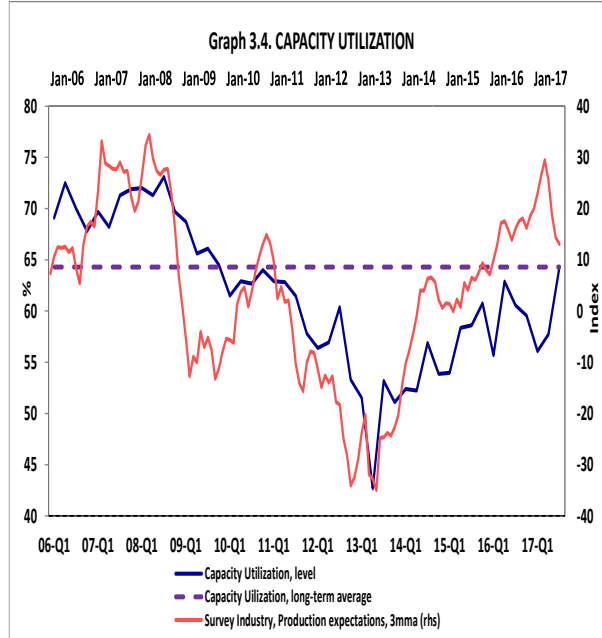
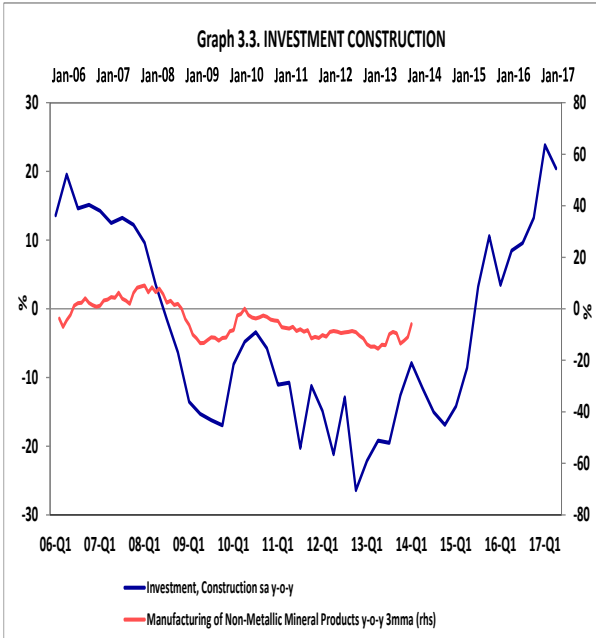
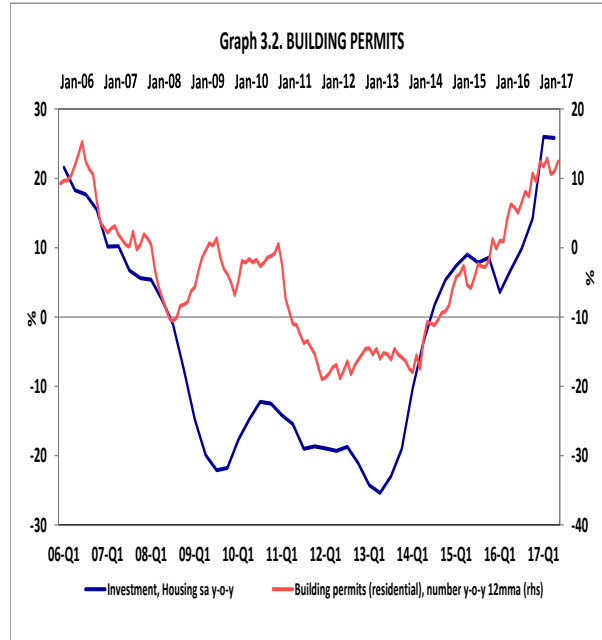
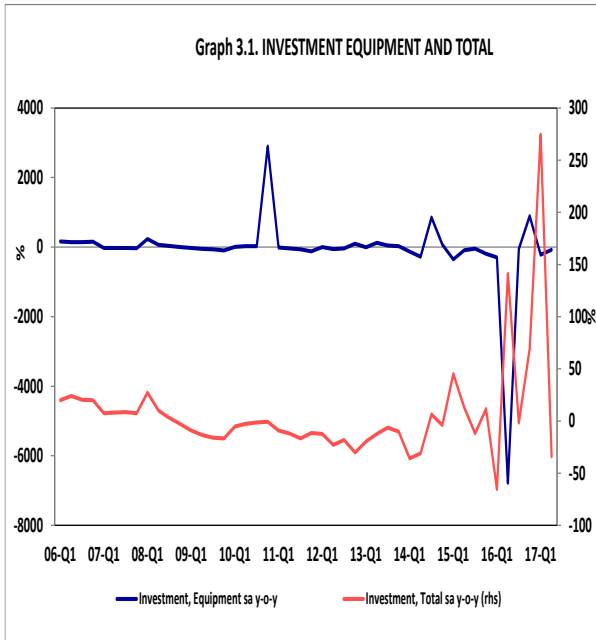
Sources: Eurostat, DG ECFIN, Cystat

2. CONSUMPTION



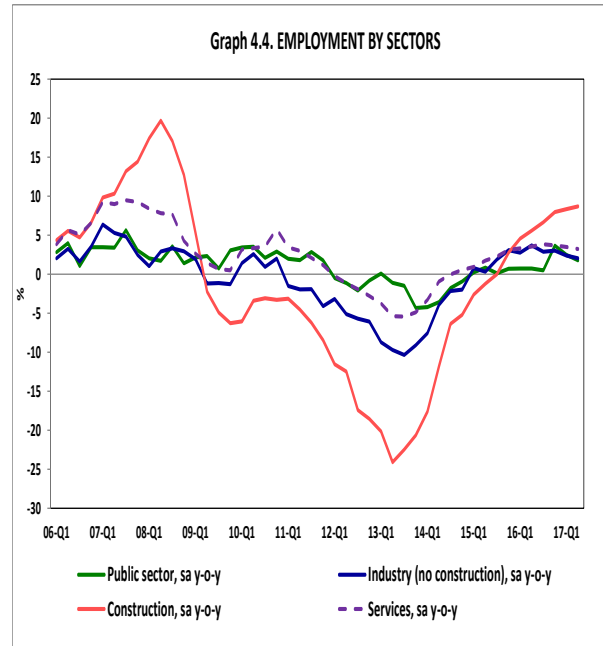
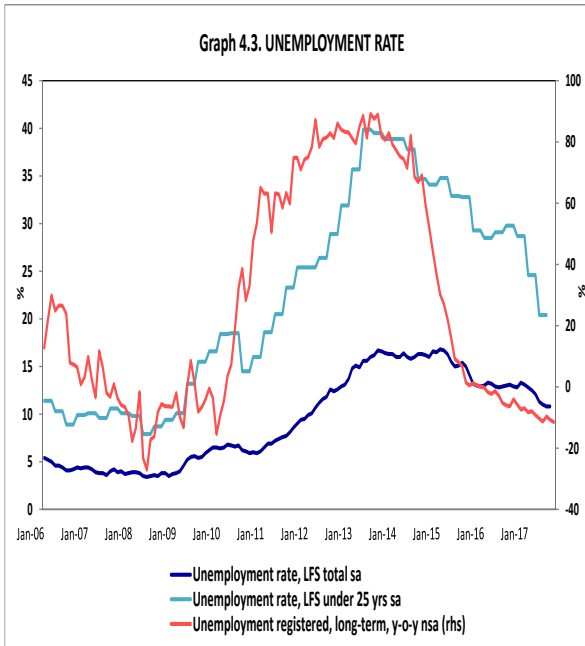
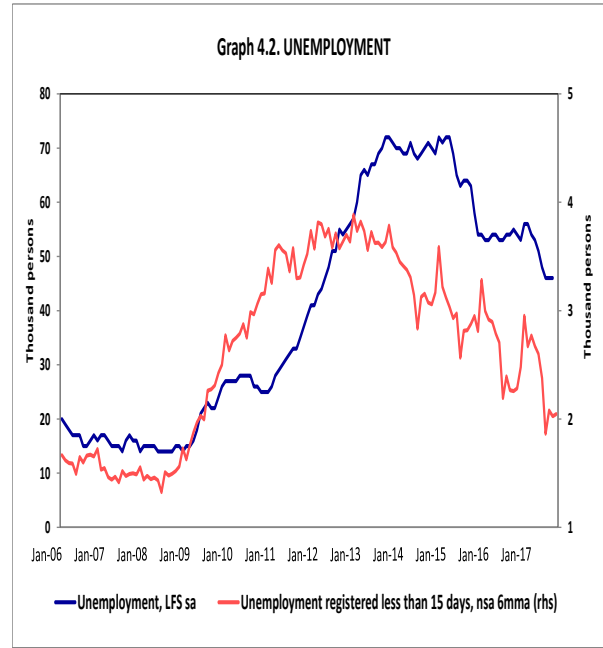
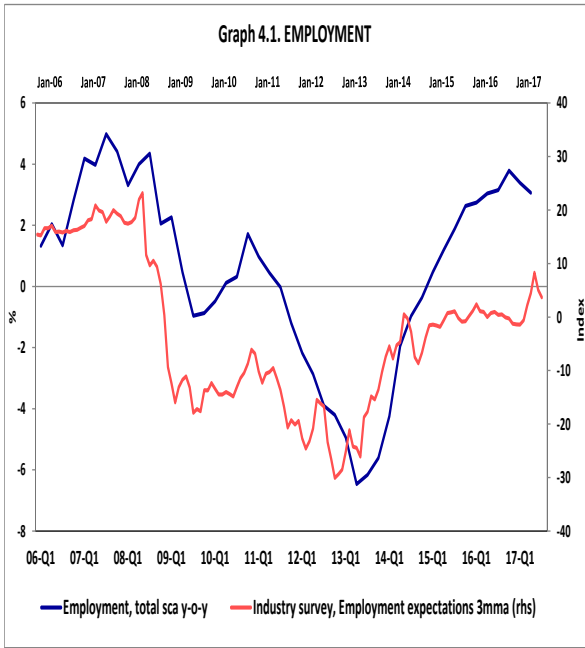
Sources: Eurostat, DG ECFIN, Cystat, JCC Payment Systems Ltd

3. INVESTMENT



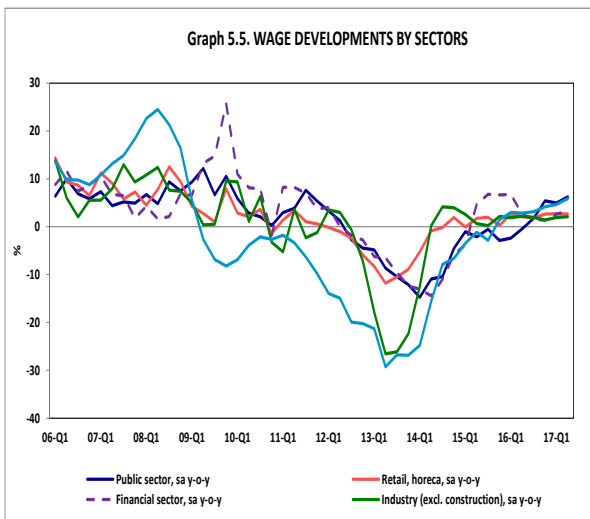
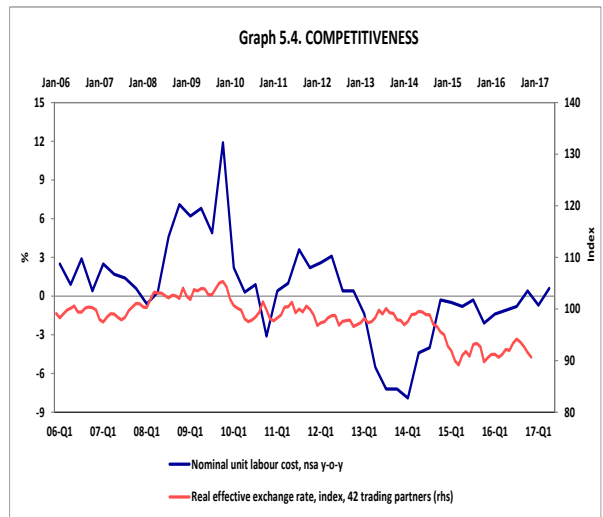
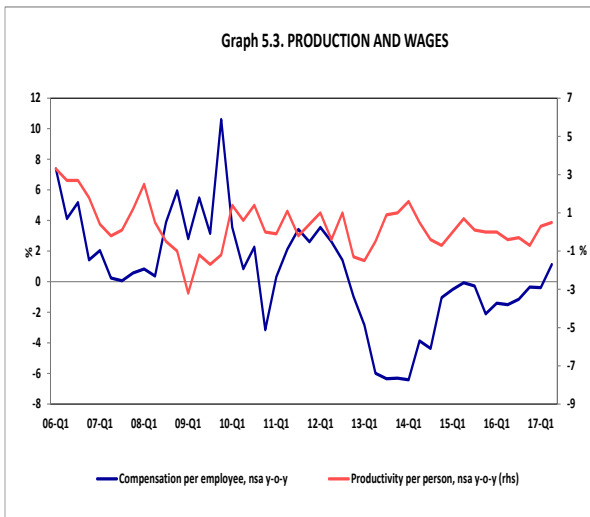
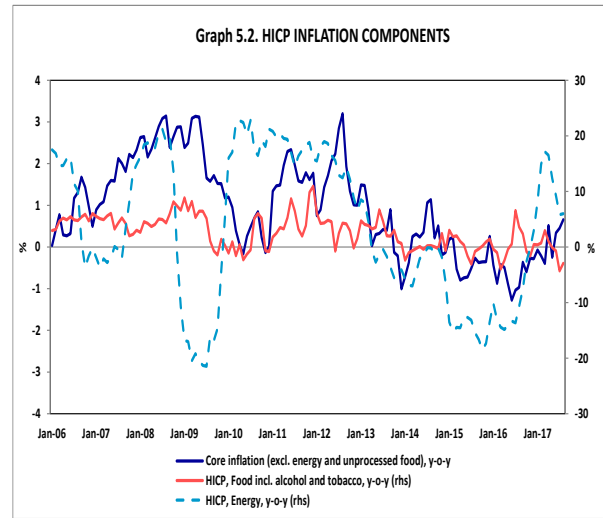
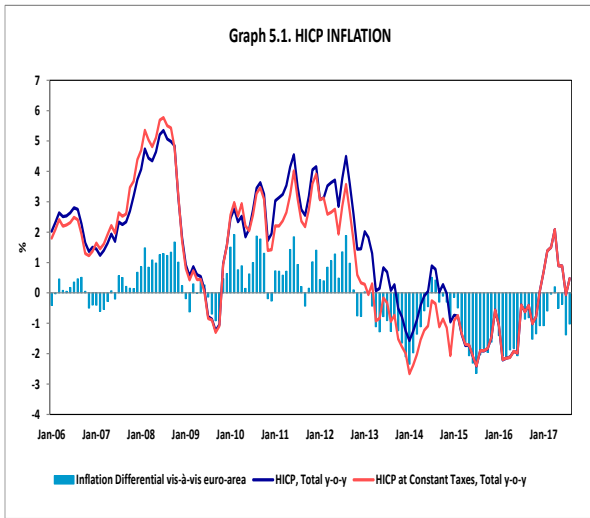
Sources: Eurostat, DG ECFIN, Cystat

4. LABOUR MARKET



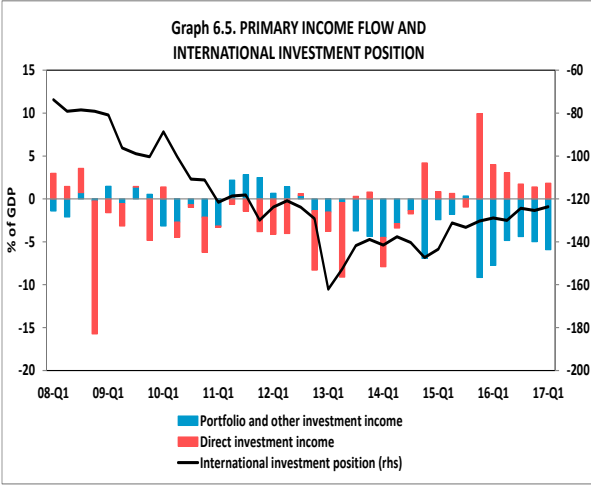
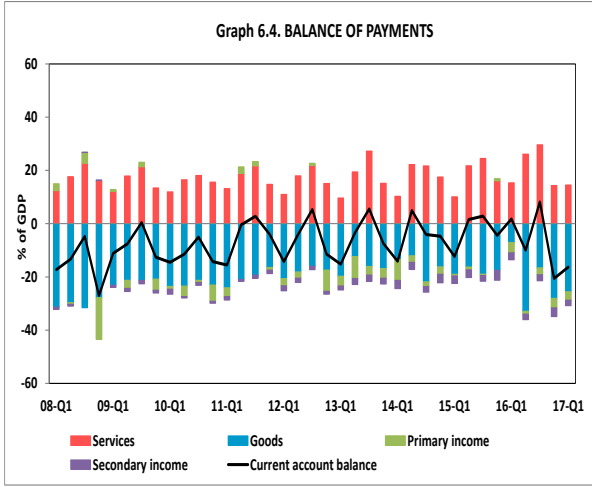
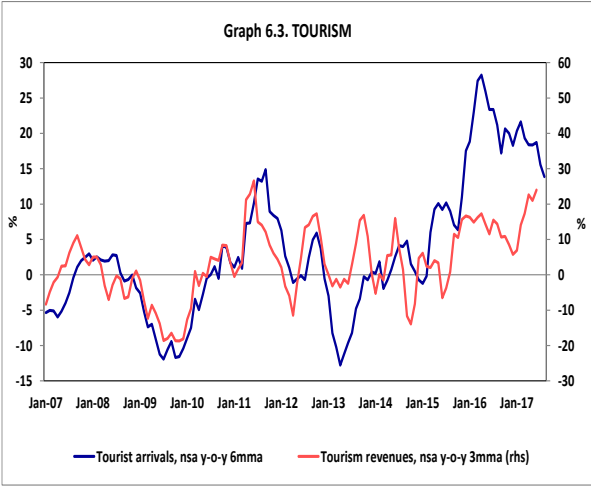
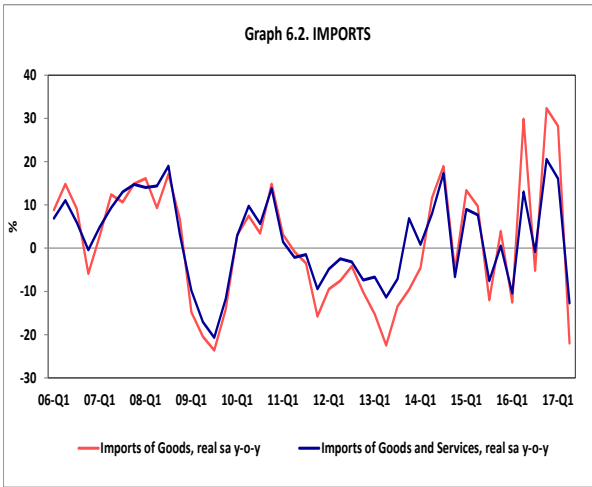
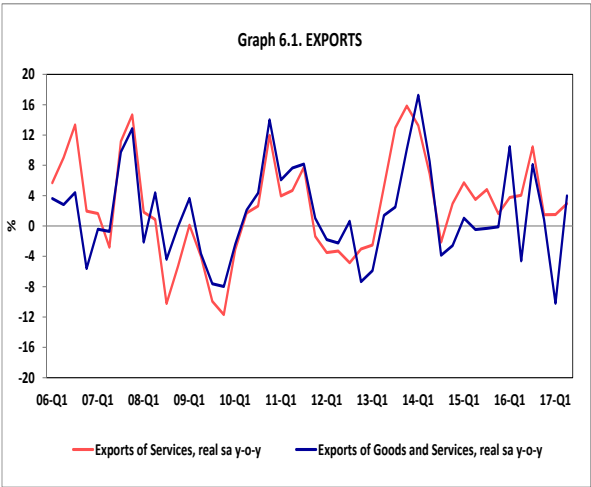
Sources: Eurostat, DG ECFIN, Cystat

5. INFLATION, WAGES



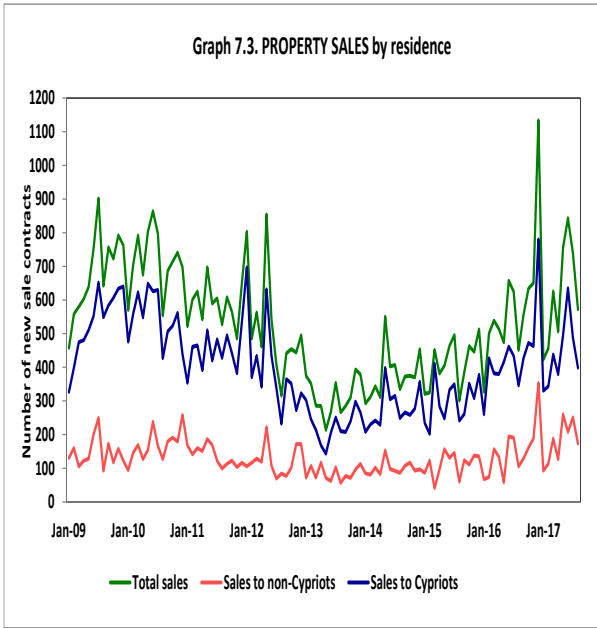
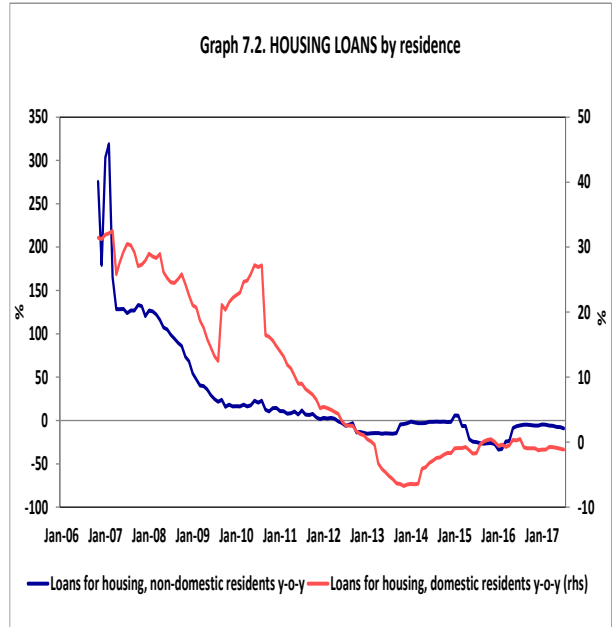
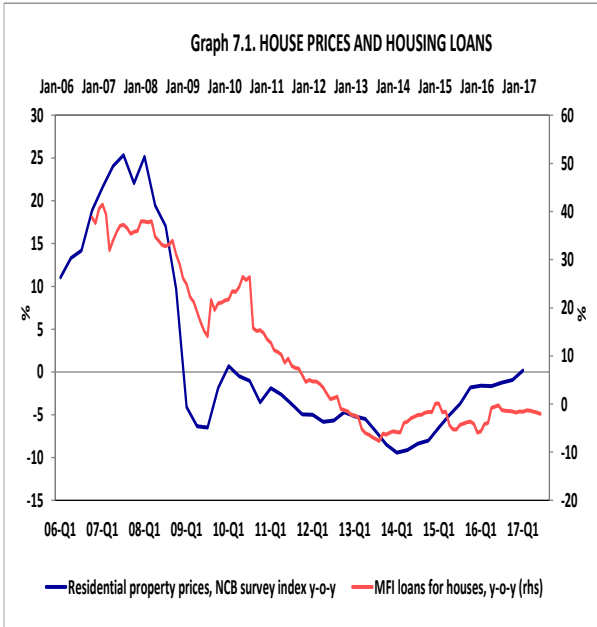
Source: Eurostat

6. EXTERNAL SECTOR



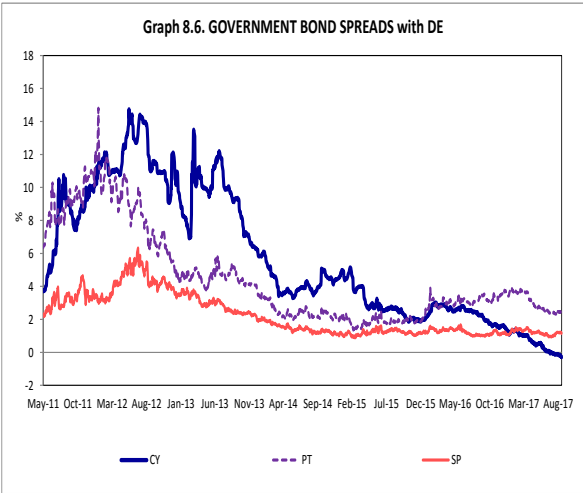
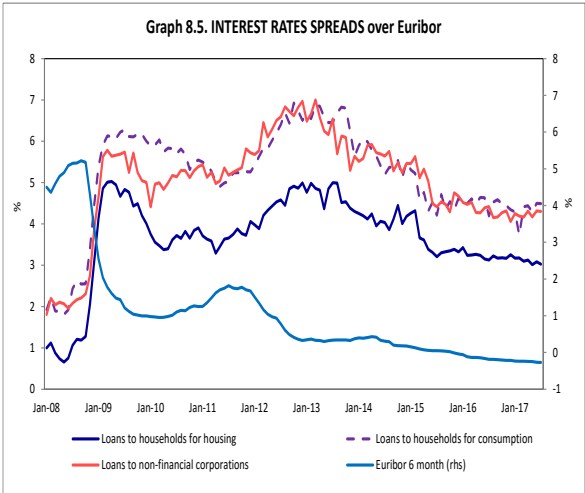
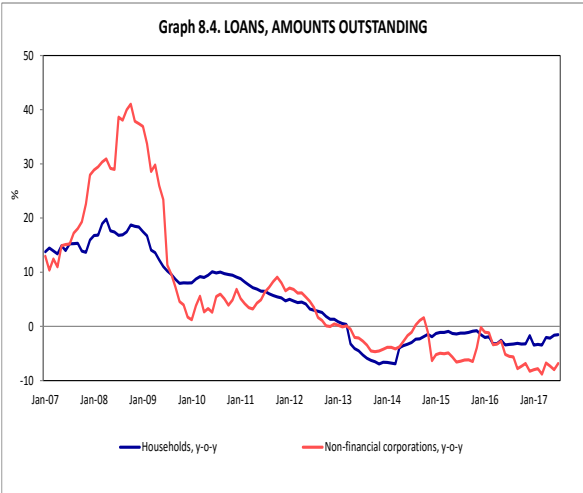
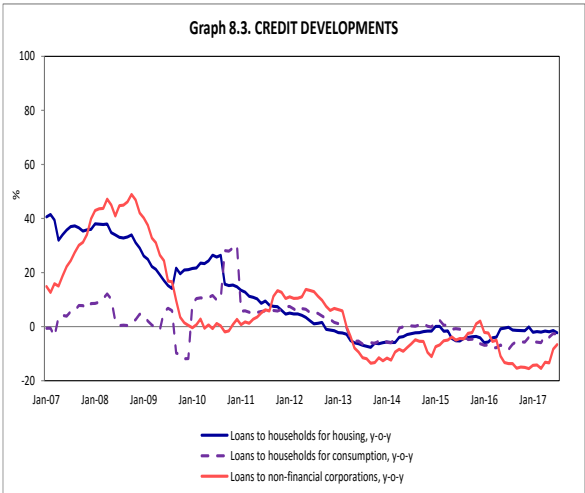
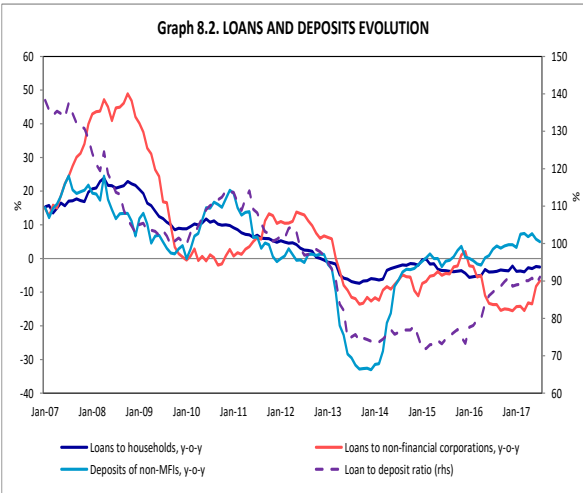
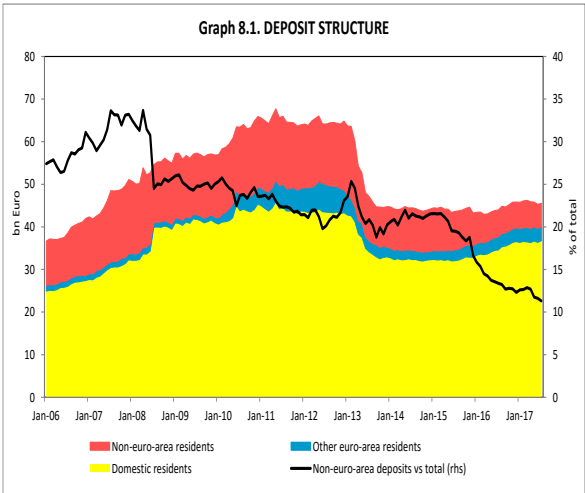
Sources: Eurostat, Cystat, ECB, CBC

7. HOUSING



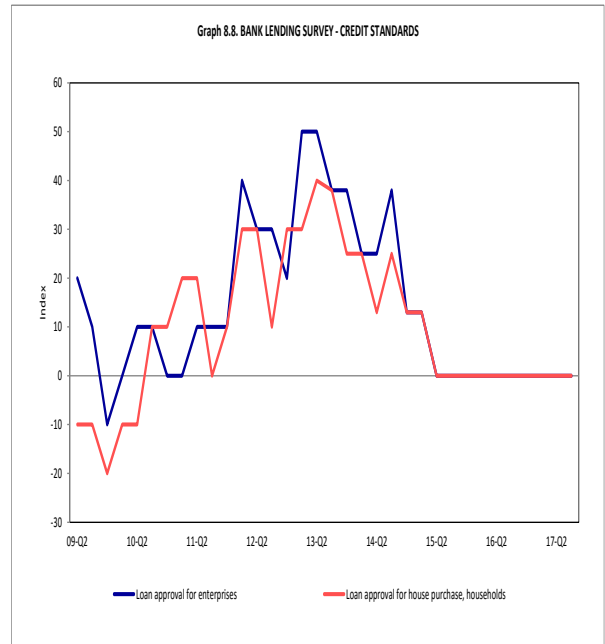
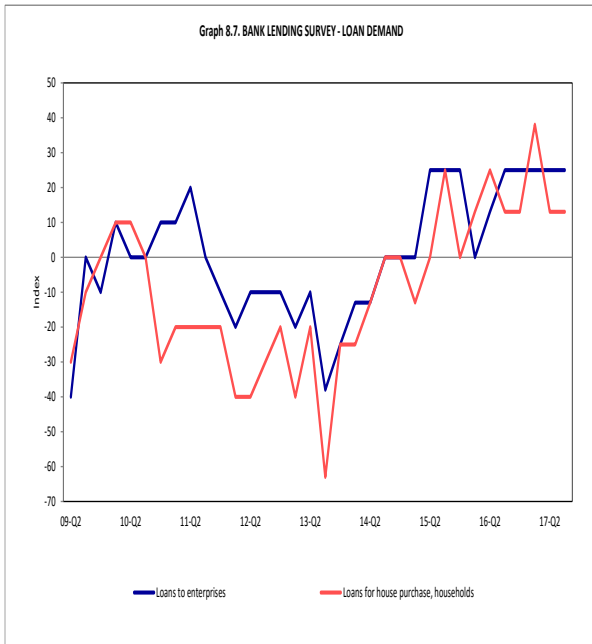
Sources: ECB, CBC, Dep. of Lands and Surveys

8. FINANCIAL SECTOR



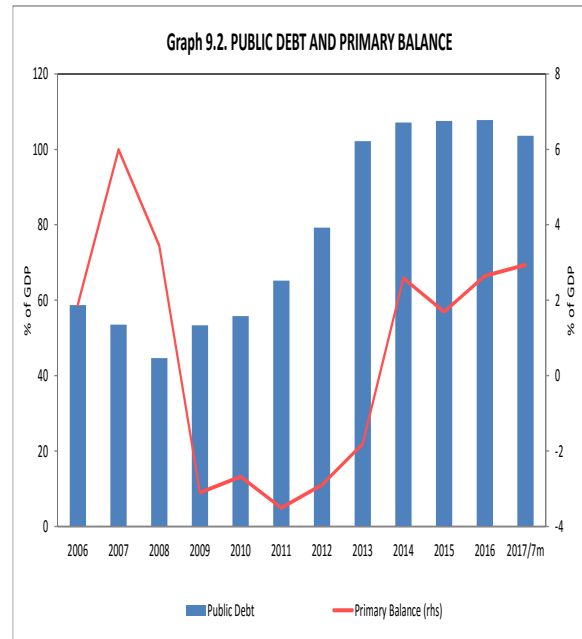
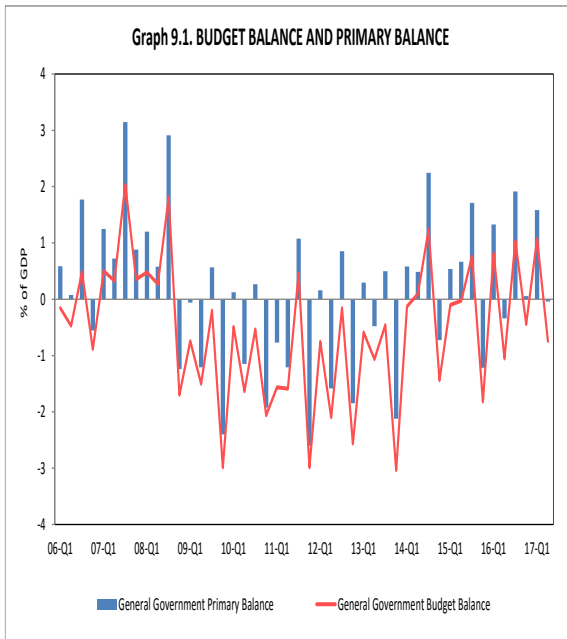
Sources: ECB, CBC, Bloomberg

8. FINANCIAL SECTOR – CONT.



Source: ECB

9. PUBLIC SECTOR



Sources: Ministry of Finance, Cystat