



# MACROECONOMIC MONITOR OF CYPRUS

January 2018

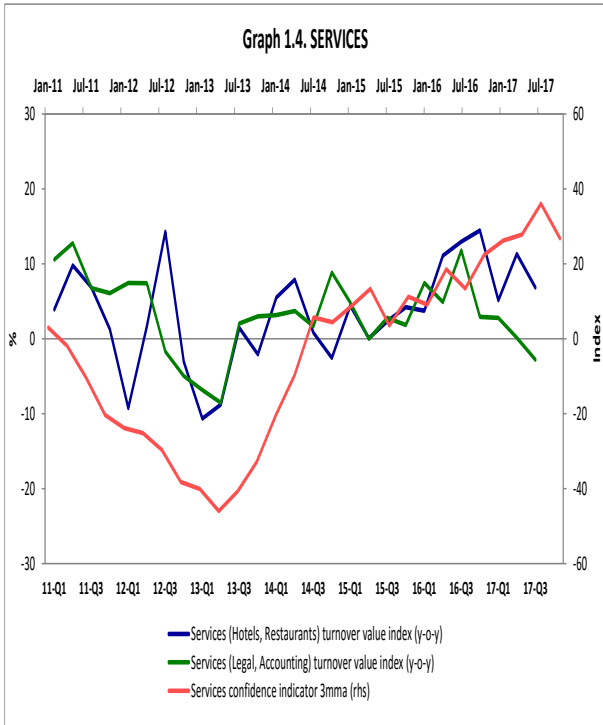
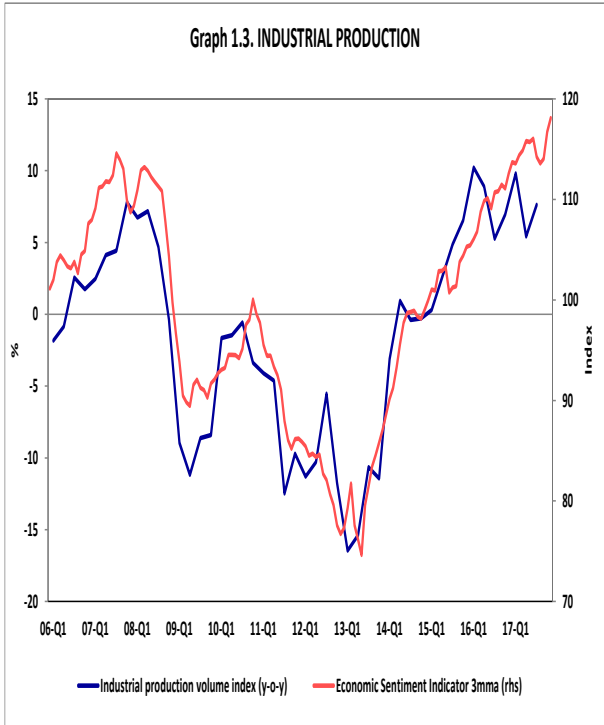
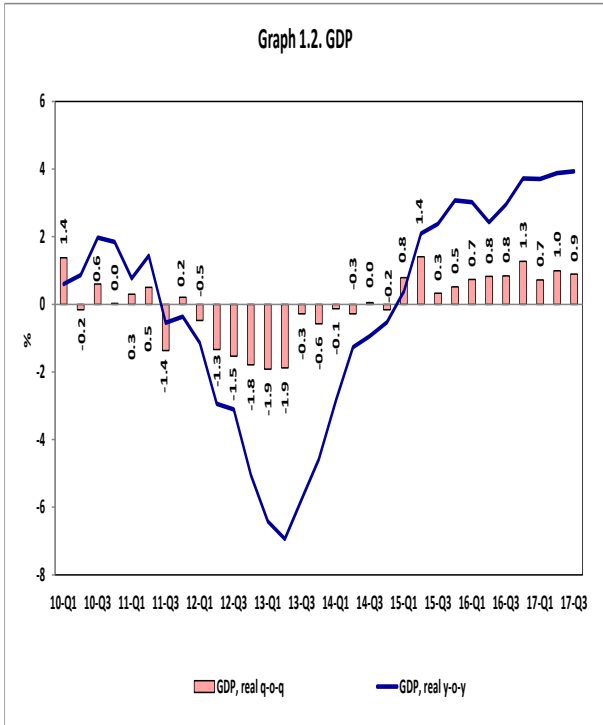
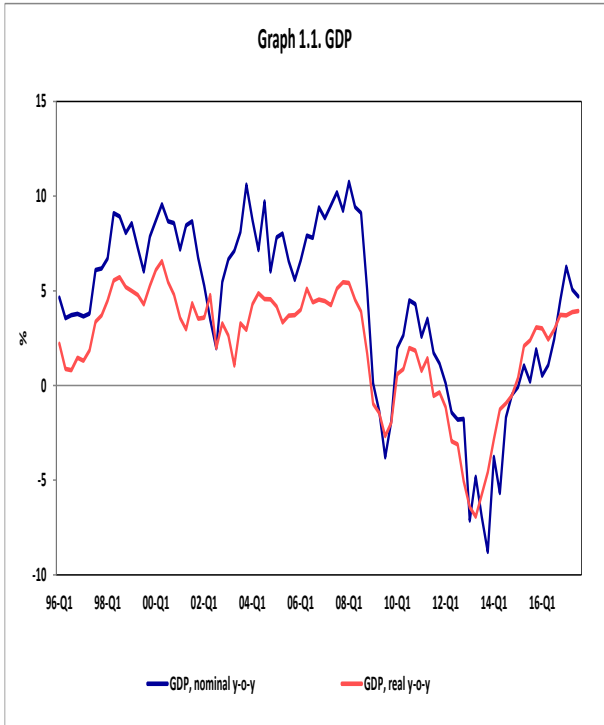
## MACROECONOMIC MONITOR OF CYPRUS

*Updated on 23 January 2018*

- **In the 3<sup>rd</sup> quarter of 2017, GDP** (in seasonally adjusted terms) **recorded a positive rate of growth of 3.9% same as in the 2<sup>nd</sup> 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 mainly driven by increases in **private consumption and gross fixed capital formation** (see graphs 2.1-2.4).
- The economic sentiment indicator (ESI-CypERC) in December 2017 decreased by 3.4 points compared with November 2017; the decline resulted from the worsening of business confidence in services and construction, and the weakening of consumer confidence.
- In January-December 2017 **tourist arrivals increased at a rate of 14.6%** compared to 2016 (see graph 6.3). An increase of 52.2% was recorded in tourist arrivals from Germany, an 8.3% increase from the UK, a 5.9% increase from Greece and a 5.5% increase from Russia.
- **Employment** developments reflect conditions of an improving economic activity (see graphs 4.1 and 4.4). Employment in persons **increased by 3.2%** in the first nine months of 2017 compared to the first nine months of 2016. The increase was mainly recorded in the sectors of construction, accommodation and food service activities, professional, scientific and technical activities, wholesale and retail trade and manufacturing.
- **Labour Force Survey (LFS) unemployment**, in monthly seasonally adjusted terms, **decreased to 11.0% in November 2017 compared to 13.1% in November 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 3<sup>rd</sup> quarter of 2013 falling to 24.9% in September 2017 from the peak of 40.3% in the 3<sup>rd</sup> quarter of 2013. Particularly challenging is also the relatively high long-term unemployment.
- **Compensation per employee** increased by 0.4% in the first nine months of 2017 compared to the first nine months of 2016 (see graphs 5.3-5.5).
- **Inflation** (HICP) in December 2017 decreased by 0.4% compared to an increase of 0.2% in November 2017 (see graph 5.1). For 2017 it averaged at 0.7%. Core HICP inflation stood at 0.1% during 2017 (see graph 5.2). All subcategories of HICP presented an increase except categories of food and non-alcoholic beverages, alcoholic beverages and tobacco, clothing and footwear, furnishings, household equipment and supplies, communication and recreation and culture.
- **Imports of goods increased by 13.7%** in January-November 2017 compared to January-November 2016. The increase in imports is affected by developments in imports of transport equipment (airplanes and vessels). Imports of goods, excluding imports of transport equipment, exhibit an increase of 17.2%.
- **Exports of goods increased by 6.6%** in January-November 2017 compared to January-November 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 20.9%.
- The **current account (CA)** balance (see graph 6.4) worsened in the 3<sup>rd</sup> quarter of 2017, recording a surplus of **€321.0 mn**, compared with a surplus of **€405.9 mn** in the 3<sup>rd</sup> quarter of 2016. This development was mainly due to the worsening recorded in primary income as a result of investment income decrease, and, to a lesser extent, the deterioration in goods. On the other hand, services recorded a considerable increase due to the improvement in travel and financial services. For the first nine months of 2017 the deficit was **€399.2 mn (-2.1% of GDP)** compared with a surplus of **€13.7 mn (0.1% of GDP)** in the first nine months of 2016. The CA balance for the first nine months of 2017, excluding SPEs records a deficit of -0.4% of GDP compared to a surplus of 2.5% of GDP during the corresponding period of the year before.
- The **primary income** recorded a **deficit of €424.6 mn** the first nine months of 2017 compared to a deficit of €175.6 mn the first nine months of 2016 (see graph 6.4).
- The **secondary income** recorded a **deficit of €308.3 mn** the first nine months of 2017 compared to a deficit of €308.2 mn the first nine months of 2016 (see graph 6.4).

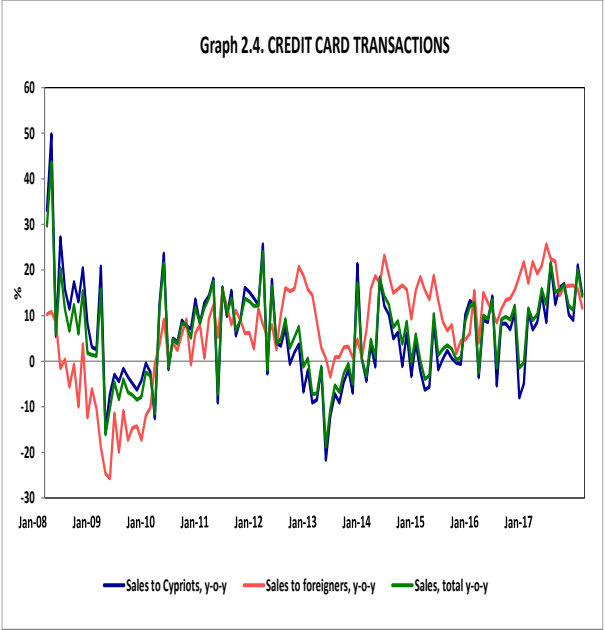
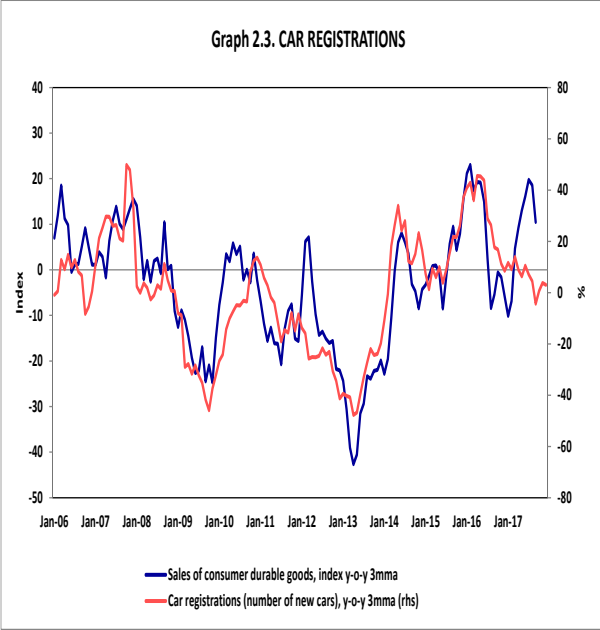
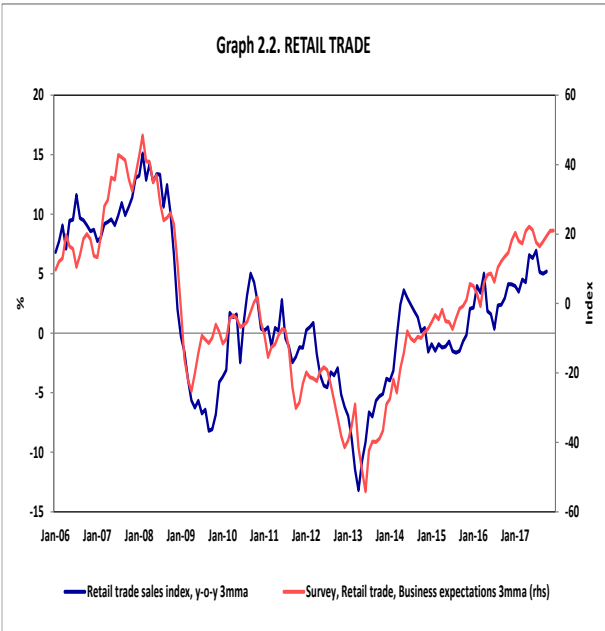
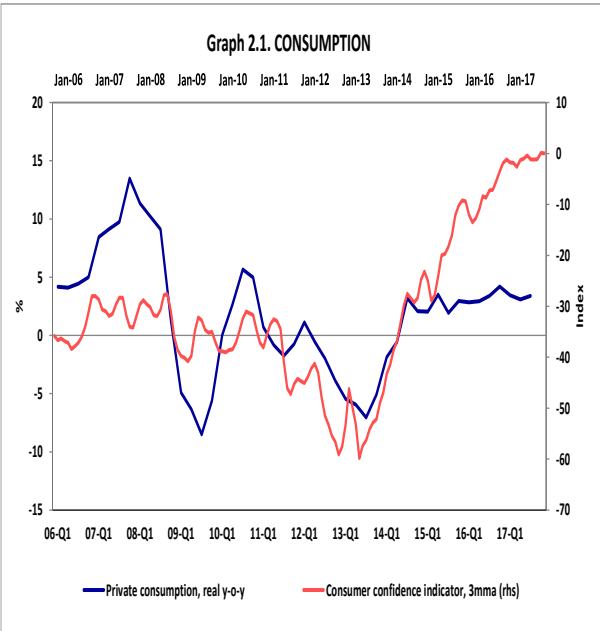
- The **international investment position** (IIP) (see graph 6.5) improved in the 3<sup>rd</sup> quarter of 2017, showing a net liability position at €22,737.8 mn, compared with €23,557.4 mn in the previous quarter. The decrease in net liabilities was mainly due to the improvement recorded in other investment, despite the deterioration in the category of direct investment. It should be noted that the IIP is skewed negatively by the liabilities of SPEs which have a small footprint in the Cyprus economy. Excluding SPEs, the IIP in the 3<sup>rd</sup> quarter of 2017 was at -€8,322.2 mn (-43.8% of GDP).
- The **gross external debt** reached €107,298.0 mn in the 3<sup>rd</sup> quarter of 2017, compared with €108,844.4 mn in the 2<sup>nd</sup> quarter of 2017. The deterioration was mainly due to the debt decrease of other sectors and, to a lesser extent, monetary financial institutions (excl. the CBC). Intercompany lending, on the other hand, recorded a considerable increase.
- General government budget balance (GGBB) **was in surplus** during January-November 2017, of the order of **€482.1 mn (2.6% of GDP)** compared to a surplus of €88.5 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-November 2017, of the order of **€941.4 mn (4.9% of GDP)** compared to a surplus of €525.2 mn (2.9% 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 9.5%, reaching €6,549.4 mn during January-November 2017, compared to €5,980.9 mn during the corresponding period the year before (see graph 9.3).
- **Total expenditure** exhibited a positive rate of growth of about 3%, reaching €6,067.3 mn during January-November 2017, compared to €5,892.4 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 0.9%** in November 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 3.7%** in November 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 November 2017, **deposit interest rates** for maturity of up to 1 year increased and of up to 3 months marginally decreased 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 also decreased. A significant deviation of the Cypriot interest rates, compared to the euro area average still prevails.
- Eurostat's **house price index** for Cyprus recorded a decrease of **-0.3%** in the **3<sup>rd</sup> quarter of 2017** compared to the 2<sup>nd</sup> quarter of 2017 and an increase of 0.6% compared to the 3<sup>rd</sup> quarter of 2016.
- The CBC's **residential property price index** recorded an increase of **0.5%** in the **2<sup>nd</sup> quarter of 2017** compared to the 1<sup>st</sup> quarter of 2017 and an increase of 1.1% compared to the 2<sup>nd</sup> quarter of 2016. Cumulative from the 1<sup>st</sup> quarter of 2008 it has declined by 28.5% (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 23.7% while, transfers of property were up by 4.5% in 2017 compared to 2016 (see graph 7.3). MFI mortgage loans to domestic residents for housing declined with an annual rate of 0.7% in November 2017 (see graph 7.2).
- The Cyprus Government bond yield was below the respective German Government bond yield (see graph 8.6, yields refer to the bonds maturing in 2020).
- In November 2017 the government of the Republic of Cyprus repaid part of a 3.00% loan held by the Central Bank of Cyprus. This early repayment amounts to €614.9 mn plus €6.3 mn accrued interest and represents a projected reduction of the Public Debt to GDP ratio of 3.2 percentage points.

1. OUTPUT



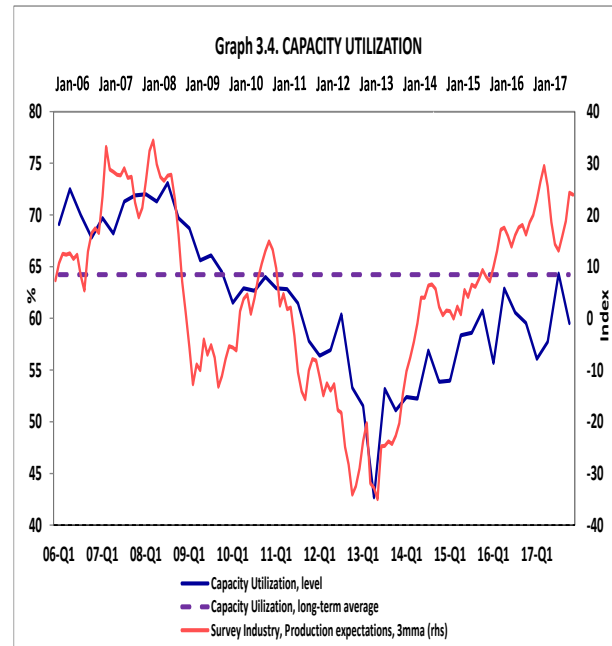
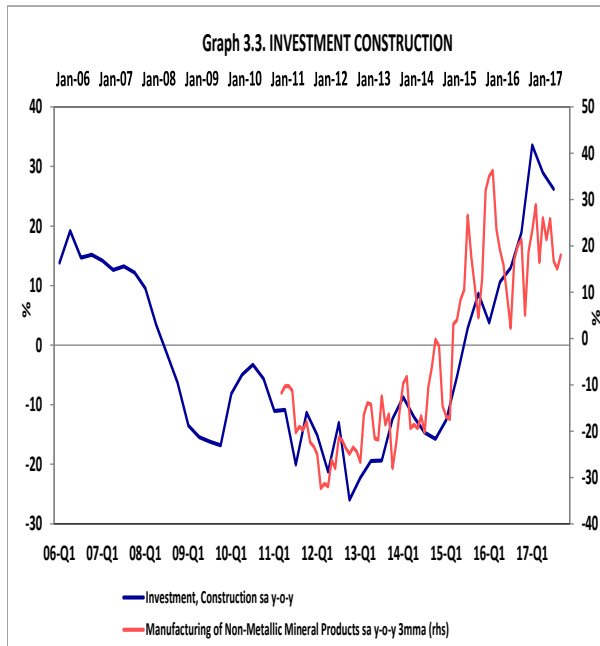
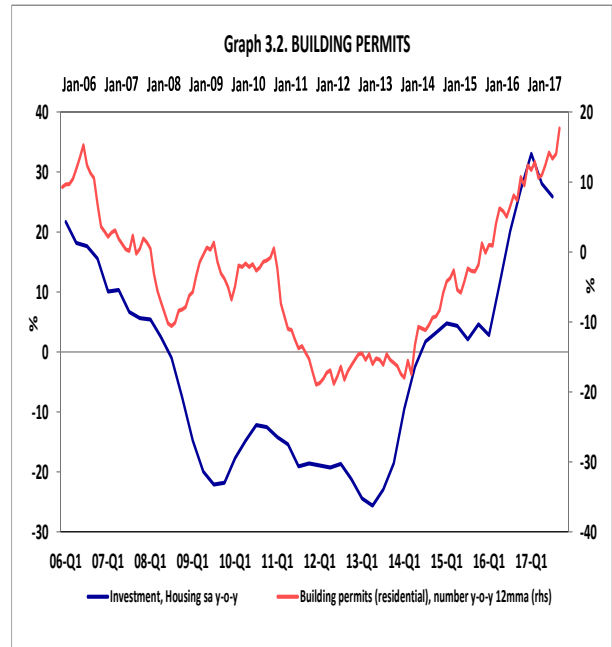
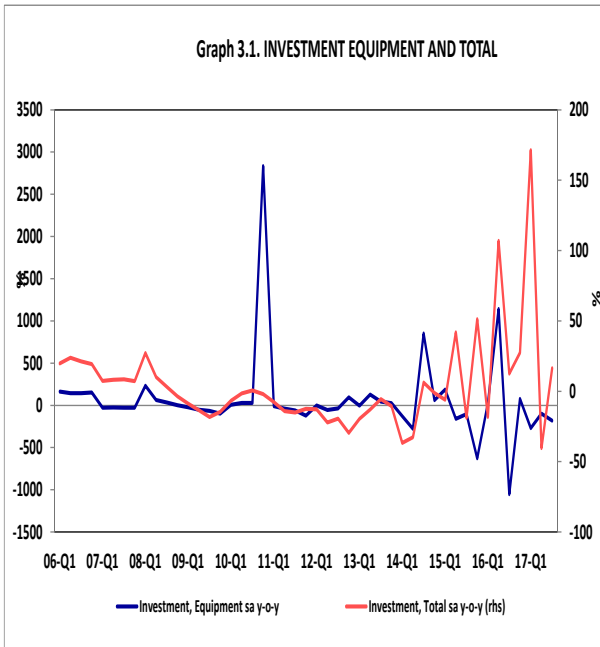
Sources: Eurostat, DG ECFIN, Cystat

2. CONSUMPTION



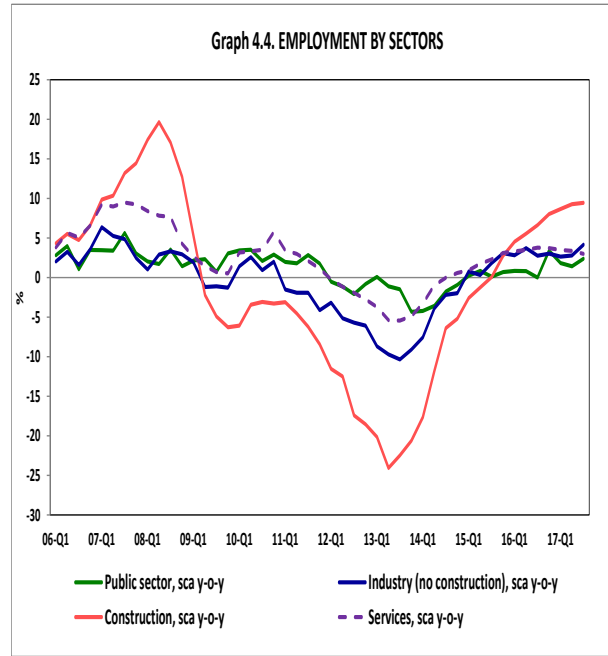
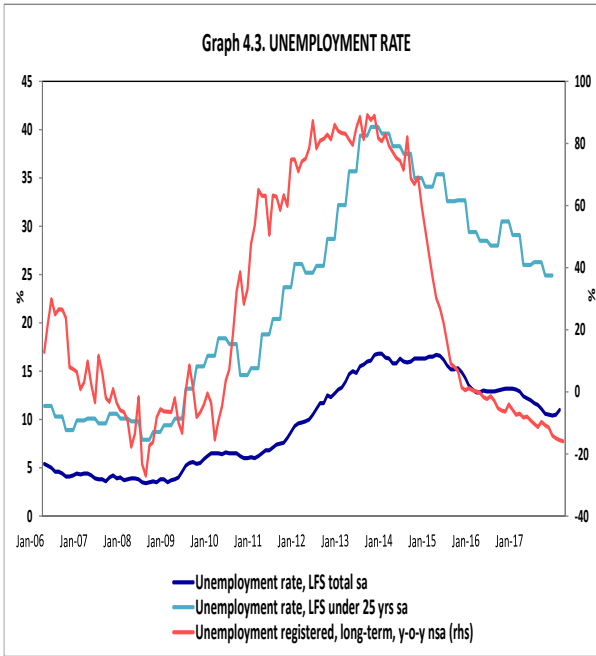
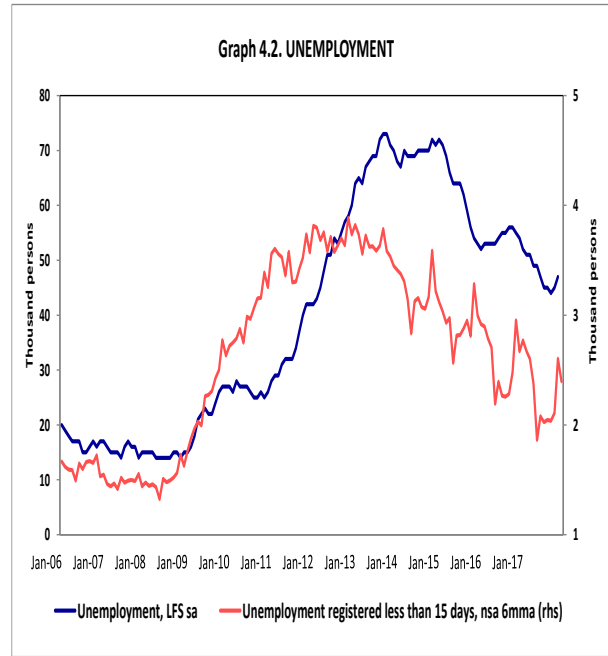
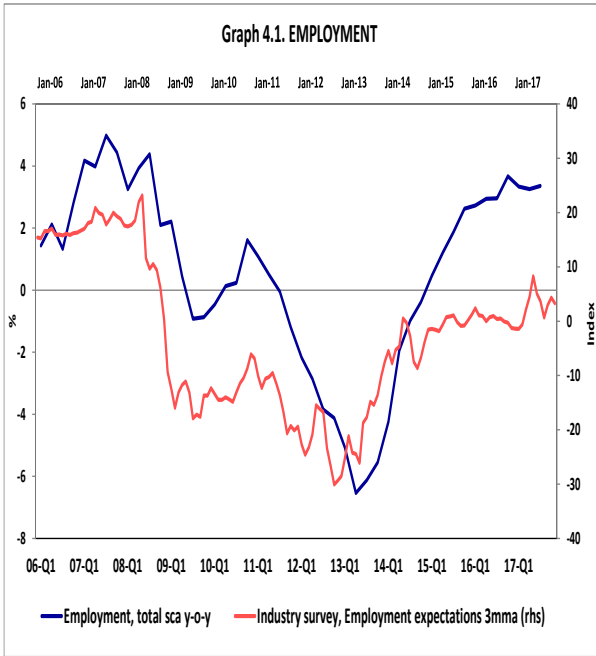
Sources: Eurostat, DG ECFIN, Cystat, JCC Payment Systems Ltd

3. INVESTMENT



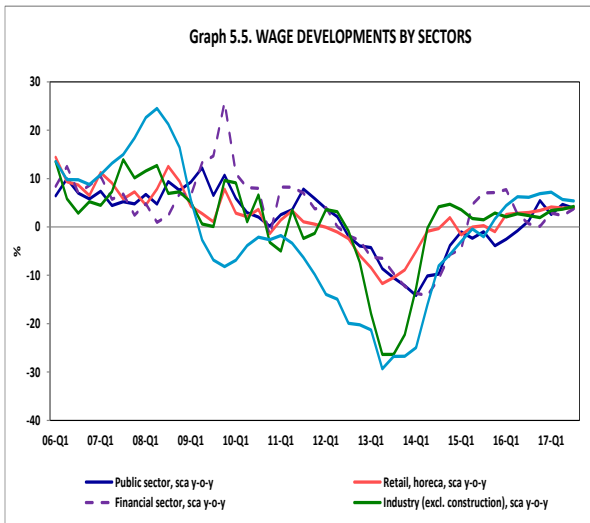
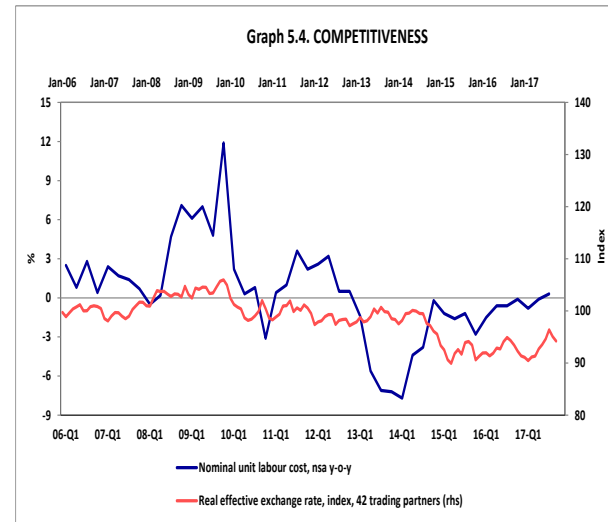
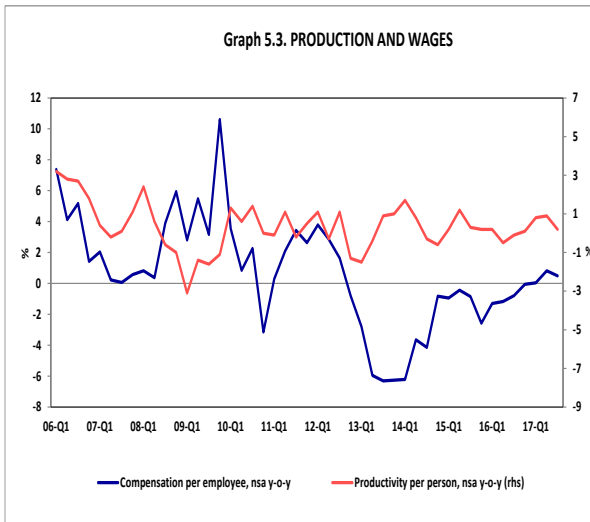
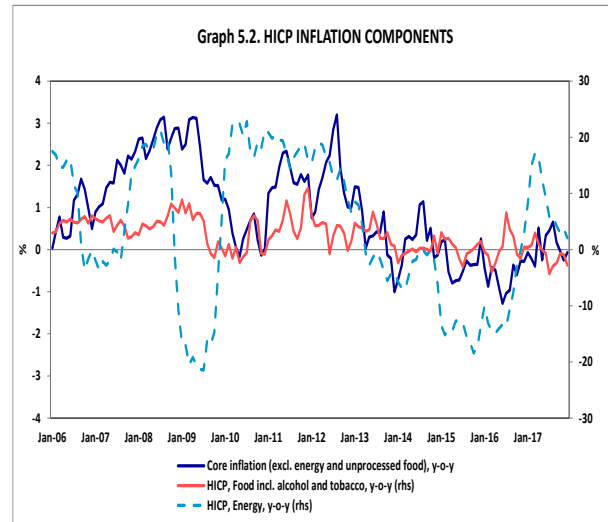
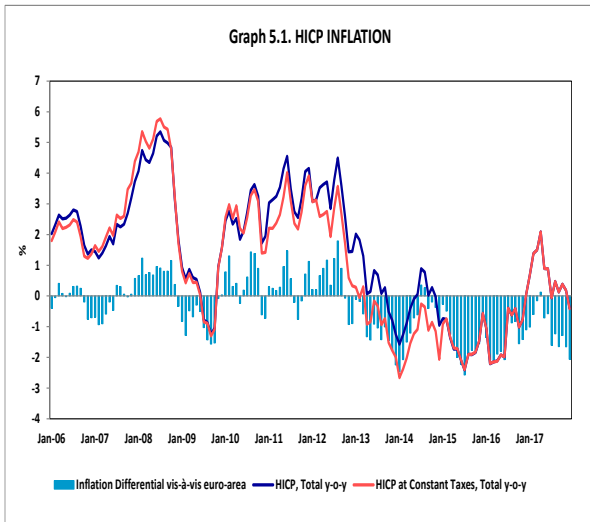
Sources: Eurostat, DG ECFIN, Cystat

4. LABOUR MARKET



Sources: Eurostat, DG ECFIN, Cystat

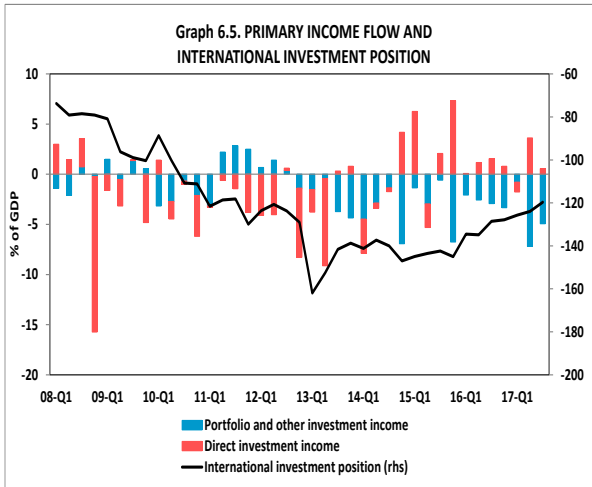
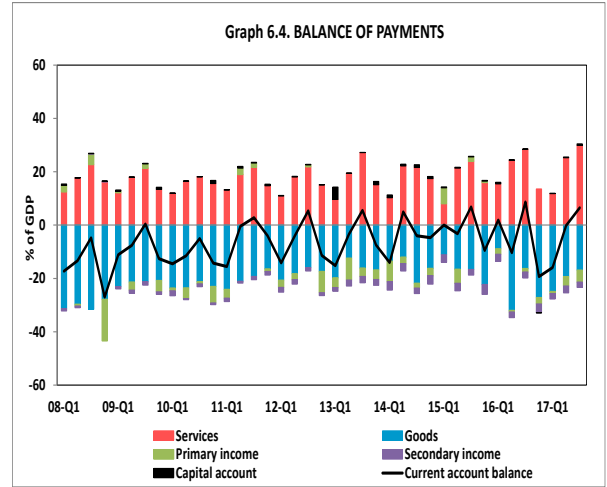
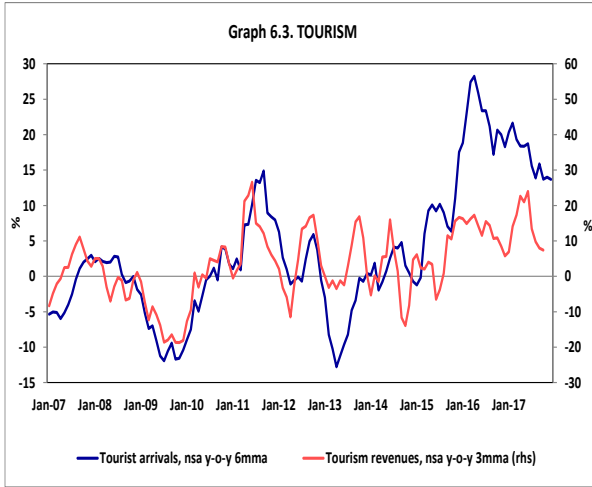
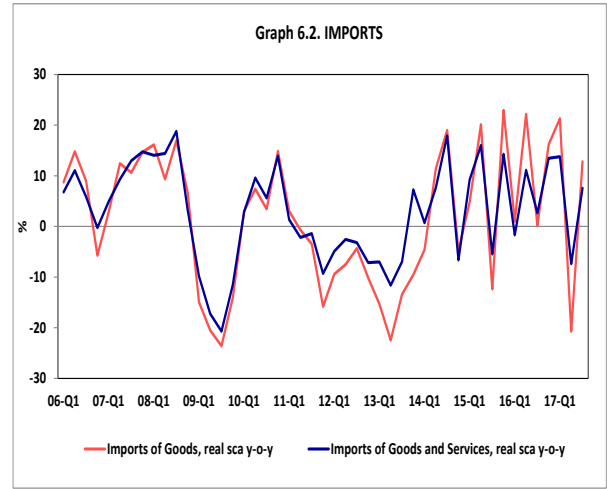
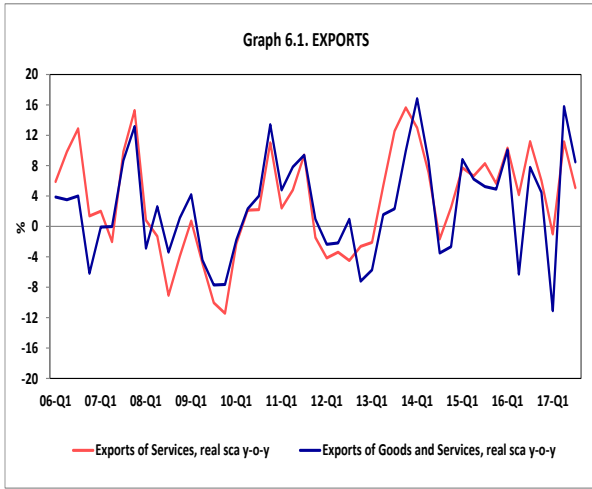
5. INFLATION, WAGES



Source: Eurostat

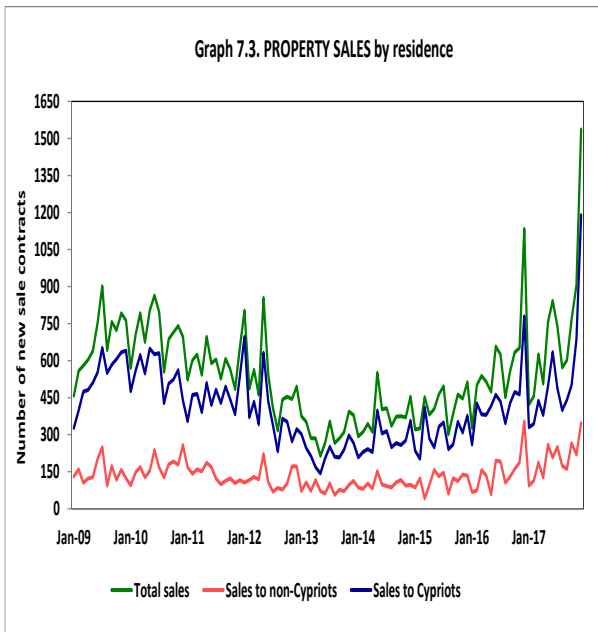
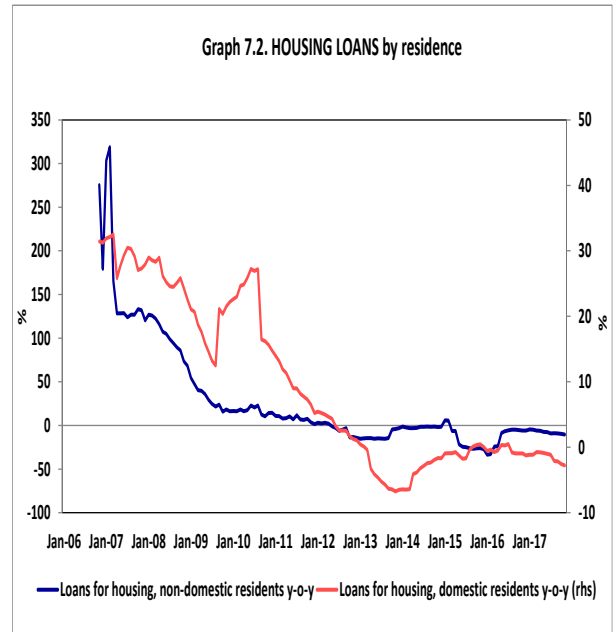
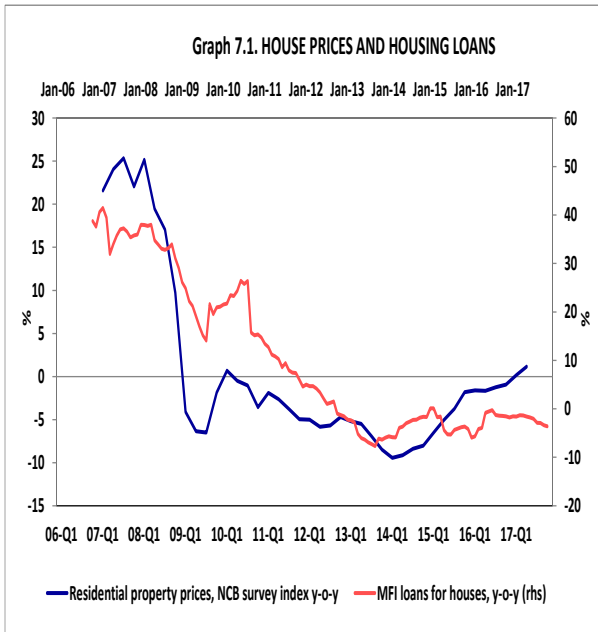


6. EXTERNAL SECTOR



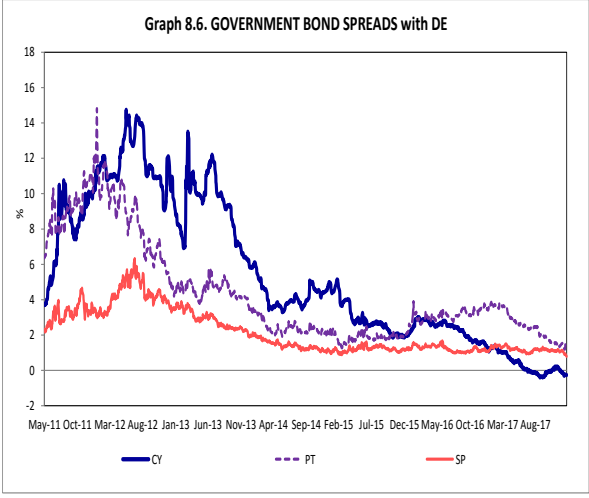
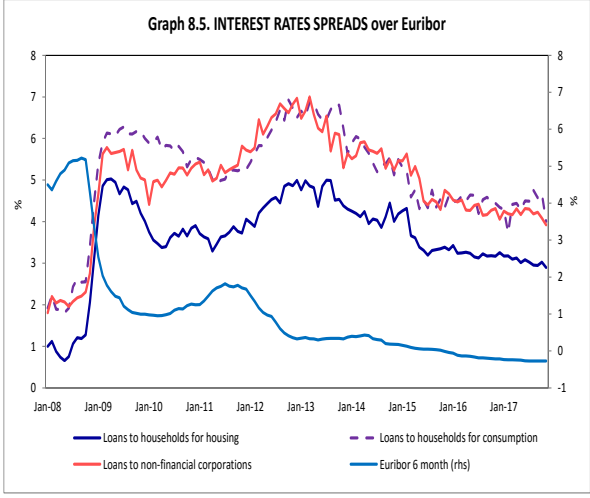
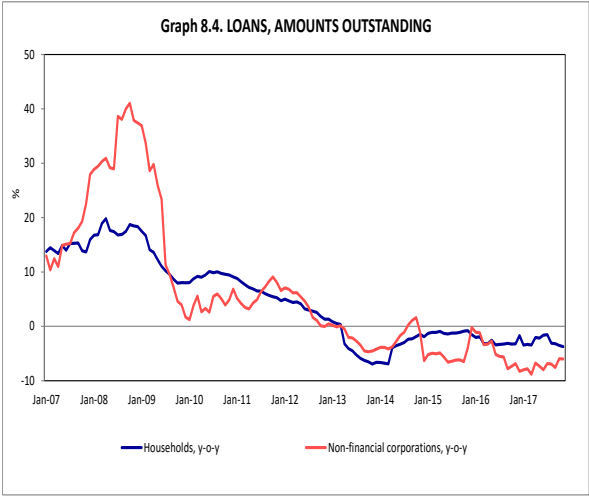
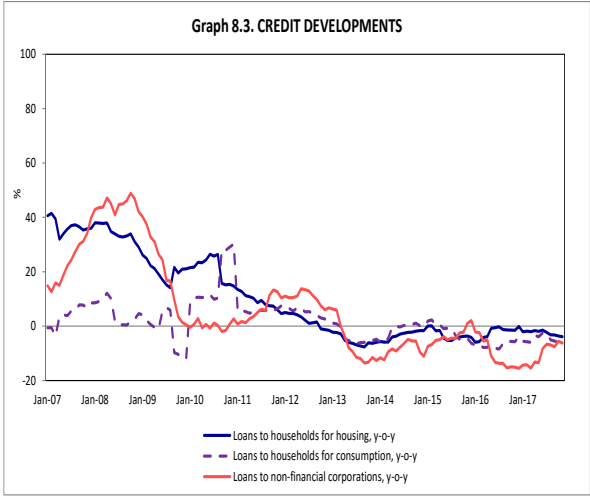
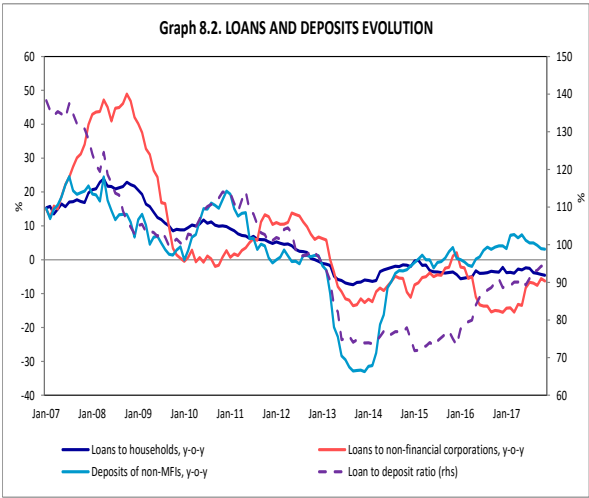
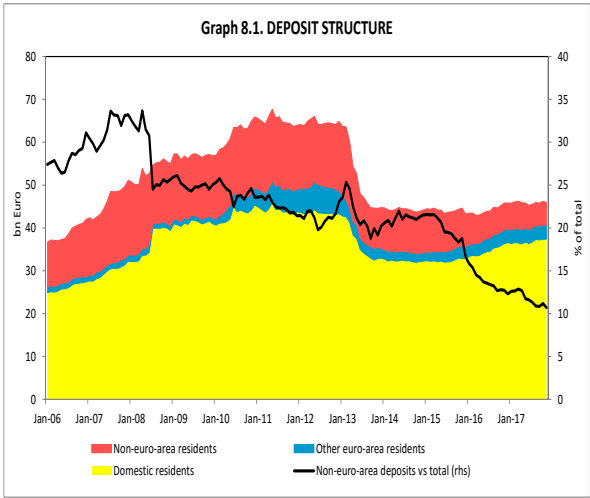
Sources: Eurostat, Cystat, ECB, CBC

**7. HOUSING**



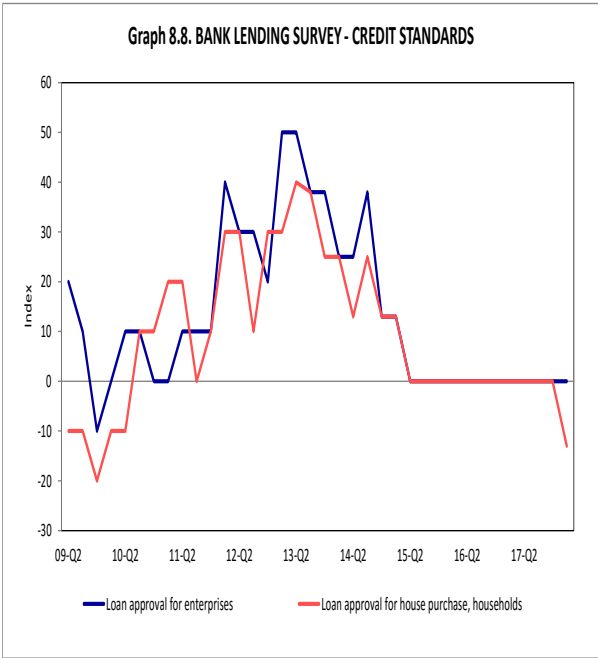
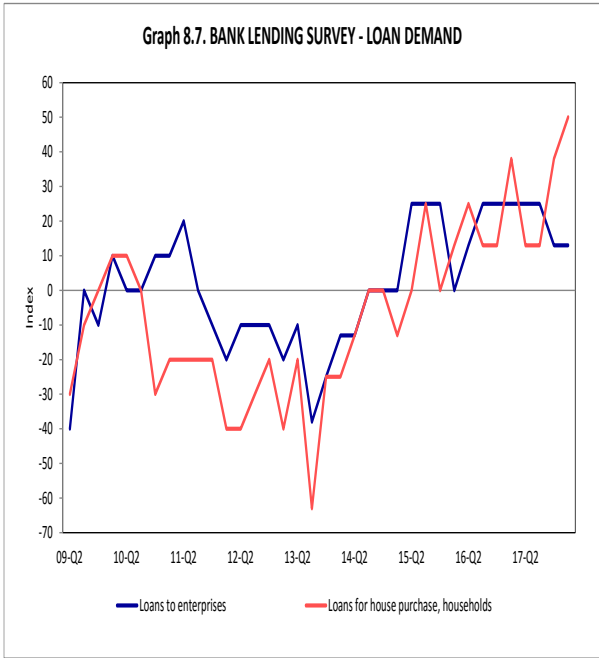
Sources: ECB, CBC, Dep. of Lands and Surveys

8. FINANCIAL SECTOR



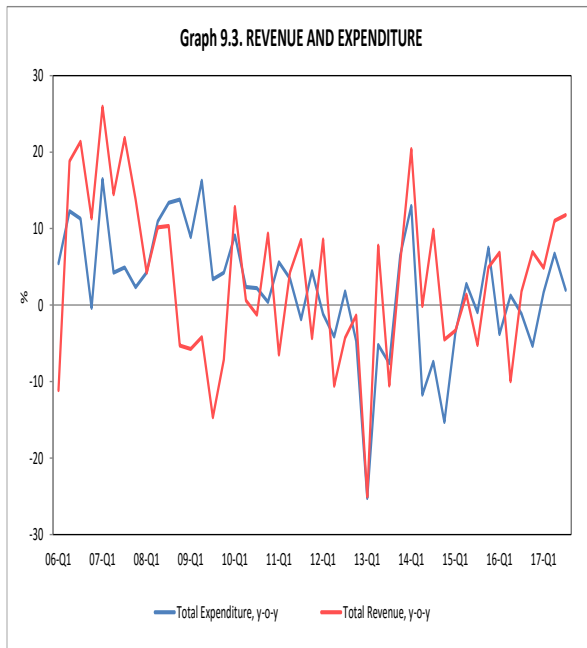
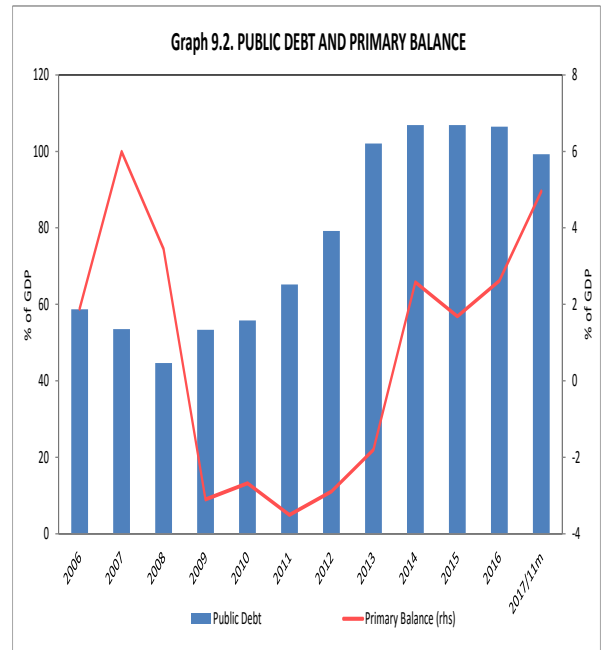
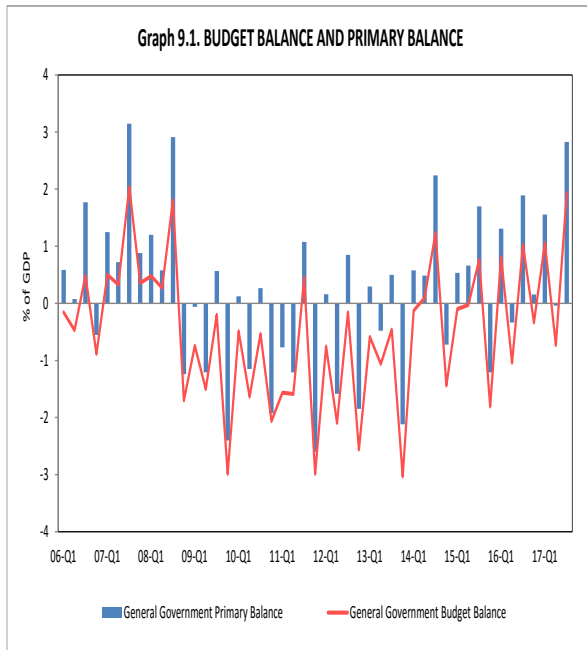
Sources: ECB, CBC, Bloomberg

8. FINANCIAL SECTOR – CONT.



Source: ECB

9. PUBLIC SECTOR



Sources: Ministry of Finance, Cystat