



MACROECONOMIC MONITOR OF CYPRUS

March 2018

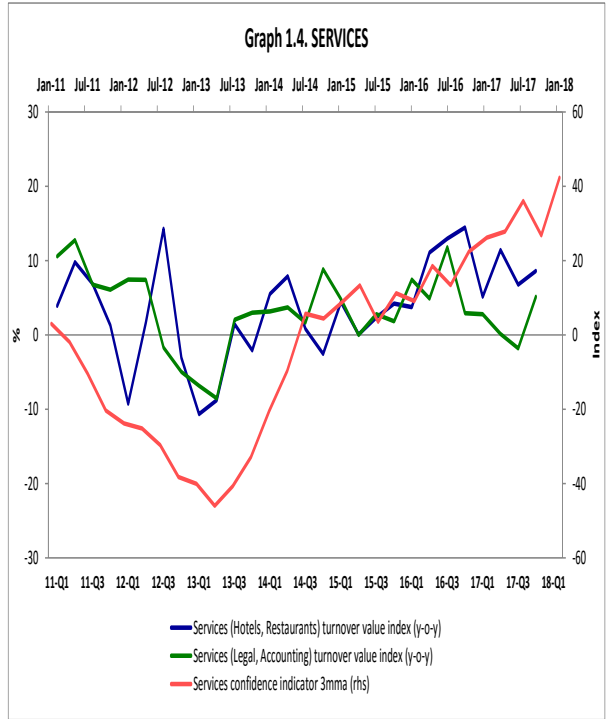
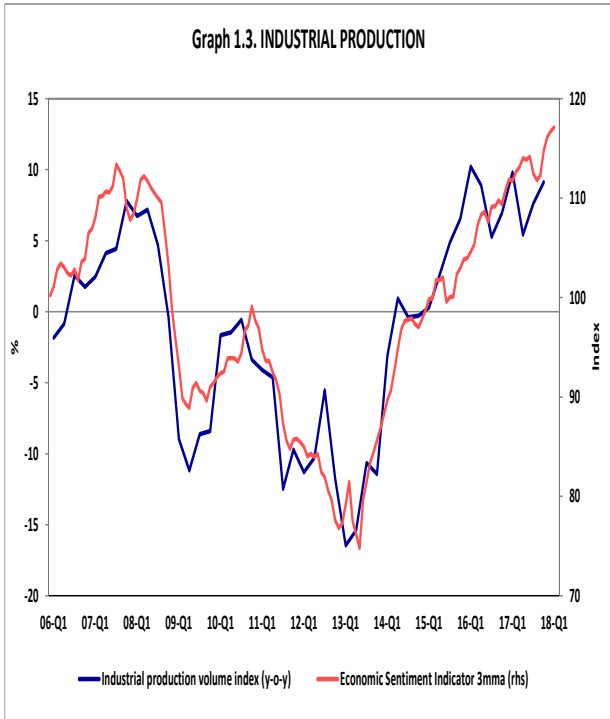
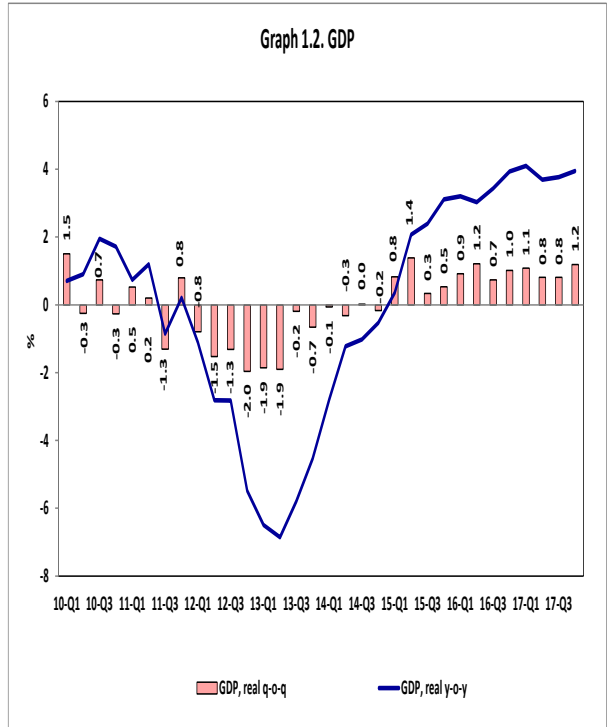
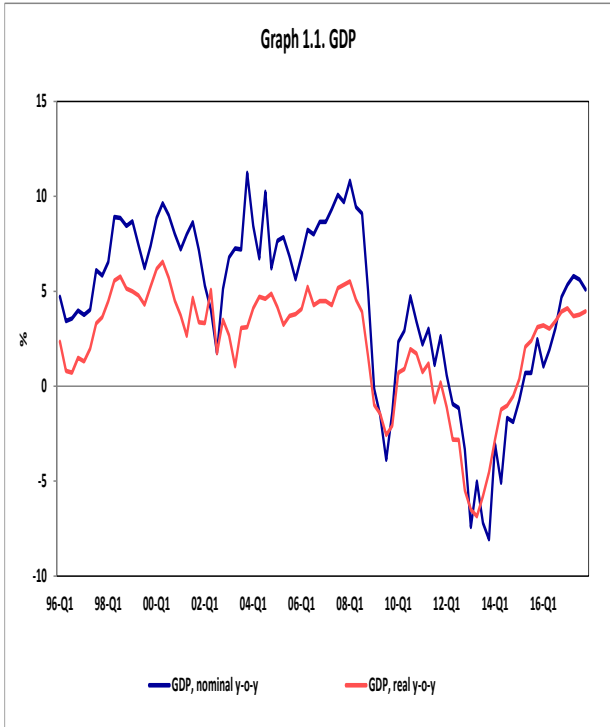
MACROECONOMIC MONITOR OF CYPRUS

Updated on 23 March 2018

- In the 4th quarter of 2017, GDP (in seasonally adjusted terms) recorded a positive rate of growth of 3.9% compared to 3.8% in the 3rd 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 (see graphs 3.1-3.4 and 6.1-6.2).
- Developments are currently mainly driven by increases in **gross fixed capital formation and private consumption** (see graphs 2.1-2.4).
- The economic sentiment indicator (ESI-CypERC) decreased in February 2018 by 0.7 points compared with January 2018; the decline resulted from a worsening of business confidence in services.
- In January-February 2018 **tourist arrivals increased at a rate of 22.5%** compared to January-February 2017 (see graph 6.3). An increase of 23.8% was recorded in tourist arrivals from the UK, a 21.8% increase from Greece, a 55% increase from Germany, while an 18.9% decrease was recorded from Russia.
- **Employment** developments reflect conditions of an improving economic activity (see graphs 4.1 and 4.4). Employment in persons **increased by 3.4%** in 2017 compared to 2016.
- **Labour Force Survey (LFS) unemployment**, in monthly seasonally adjusted terms, decreased to **9.8% in January 2018 compared to 12.6% in January 2017** (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 23.9% in 2017Q3 from the peak of 40.2% in the 3rd quarter of 2013. Particularly challenging is also the relatively high long-term unemployment.
- **Compensation per employee** increased by 0.7% in 2017 compared to 2016 (see graphs 5.3-5.5).
- **Inflation (HICP)** in February 2018 decreased by 0.4% compared to a decrease of 1.5% in January 2018 (see graph 5.1). For 2018 so far, it stands at -0.9%. Core HICP inflation was at -0.3% in January-February 2018 (see graph 5.2). All subcategories of HICP presented a decrease except categories of housing, water, electricity and gas, health, education and restaurants and hotels.
- **Imports of goods decreased by 3.6%** in January 2018 compared to January 2017.
- **Exports of goods increased by 12.1%** in January 2018 compared to January 2017.
- The **current account (CA)** balance in the 3rd quarter of 2017, recorded a surplus of **€321.0 mn**, compared with a surplus of **€405.9 mn** in the 3rd quarter of 2016. This development was mainly due to a worsening recorded in primary income balance as a result of a decline in investment income, and, to a lesser extent, deterioration in the goods balance. Services balance recorded a considerable improvement due to the performance of travel and financial services. For the first three quarters of 2017 the CA balance recorded a deficit of **€399.2 mn (-2.1% of GDP)** compared to a surplus of **€13.7 mn (0.1% of GDP)** in the corresponding period of 2016. The CA balance for the first three quarters 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 three quarters of 2017 compared to a deficit of €175.6 mn the first three quarters of 2016 (see graph 6.4).
- The **secondary income** recorded a **deficit of €308.3 mn** the first three quarters of 2017 compared to a deficit of €308.2 mn the first three quarters of 2016 (see graph 6.4).
- The **international investment position (IIP)** (see graph 6.5) improved in the 3rd 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 3rd quarter of 2017 was at -€8,322.2 mn (-43.3% of GDP).
- The **gross external debt** reached €107,298.0 mn in the 3rd quarter of 2017, compared with €108,844.4 mn in the 2nd quarter of 2017. The decline 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.

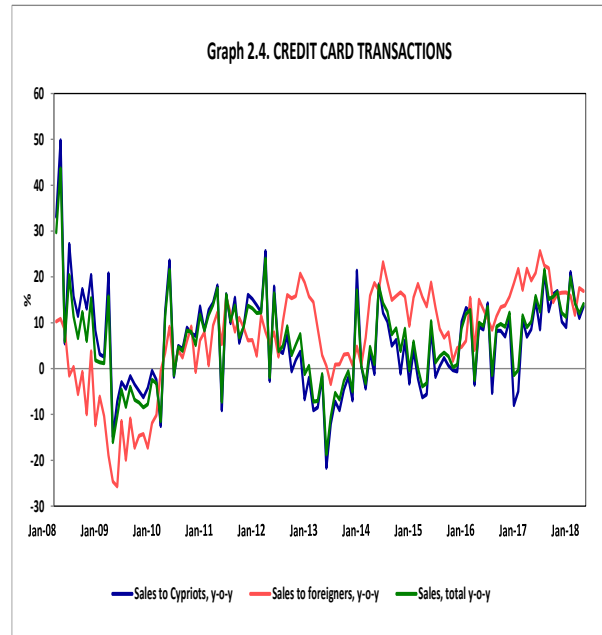
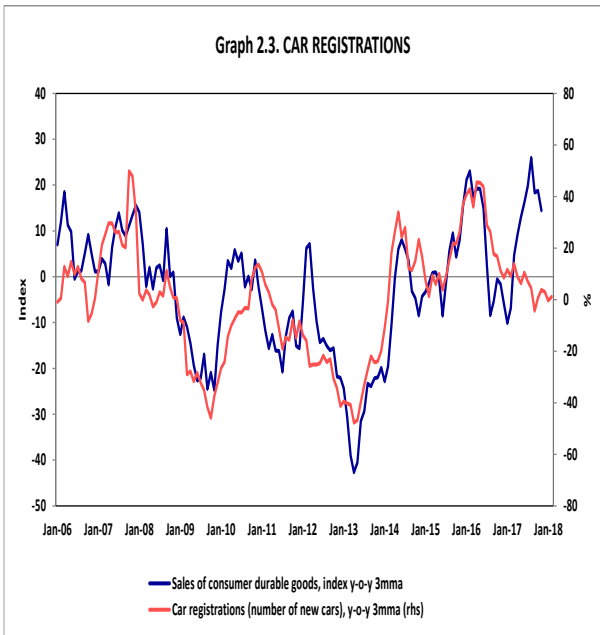
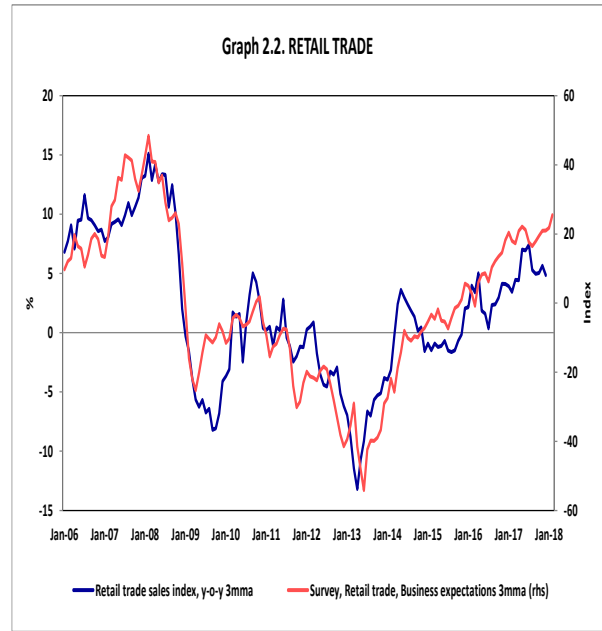
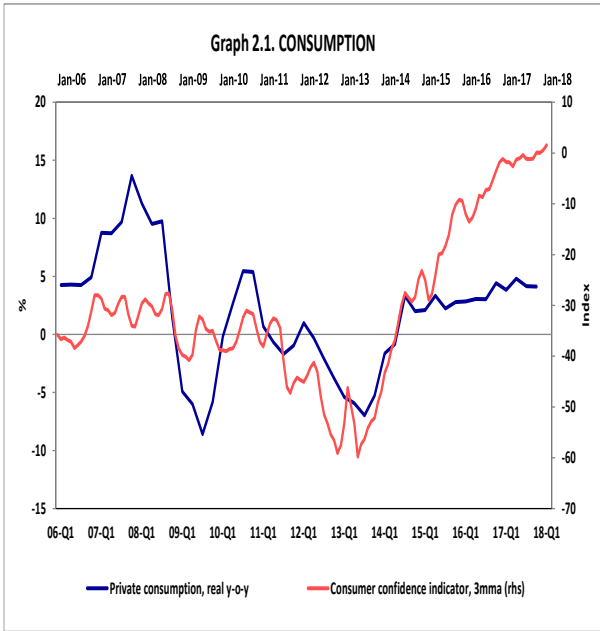
- General government budget balance (GGBB) was in surplus in January 2018, of the order of €255.2 mn (1.3% of GDP) compared to a surplus of €167.8 mn (0.9% of GDP) during the corresponding month the year before (see graph 9.1).
- General government primary balance (GGPB) was in surplus in January 2018, of the order of €279.2 mn (1.5% of GDP) compared to a surplus of €185.3 mn (1.0% of GDP) during the corresponding month the year before (see graphs 9.1-9.2).
- Total revenue exhibited a positive rate of growth of about 20.3%, reaching €765.4 mn in January 2018, compared to €636.0 mn during the corresponding month the year before (see graph 9.3).
- Total expenditure exhibited a positive rate of growth of about 9%, reaching €510.2 mn in January 2018, compared to €468.2 mn during the corresponding month the year before (see graph 9.3).
- Monetary Financial Institutions (MFI) **loans to domestic residents** (private sector), **decreased** with an **annual rate of 0.2%** in January 2018, 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 3.6%** in January 2018, 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 January 2018, **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 increased. 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 recorded a decrease of **-0.3%** in the **3rd quarter of 2017** compared to the 2nd quarter of 2017 and an increase of 0.6% compared to the 3rd quarter of 2016.
- The CBC's **residential property price index** recorded an increase of **0.4%** in the **3rd quarter of 2017** compared to the 2nd quarter of 2017 and an increase of 1.4% compared to the 3rd quarter of 2016. Cumulative from the 1st quarter of 2008 it has declined by 28.2% (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 54.8% while, transfers of property were up by 34.6% in January-February 2018 compared to January-February 2017 (see graph 7.3). MFI mortgage loans to domestic residents for housing declined with an annual rate of 0.8% in January 2018 (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 made an early partial repayment of the loan to the Central Bank of Cyprus. This early repayment amounted to €621.2 mn and represents a reduction of the Public Debt to GDP ratio by 3.2 percentage points.

1. OUTPUT



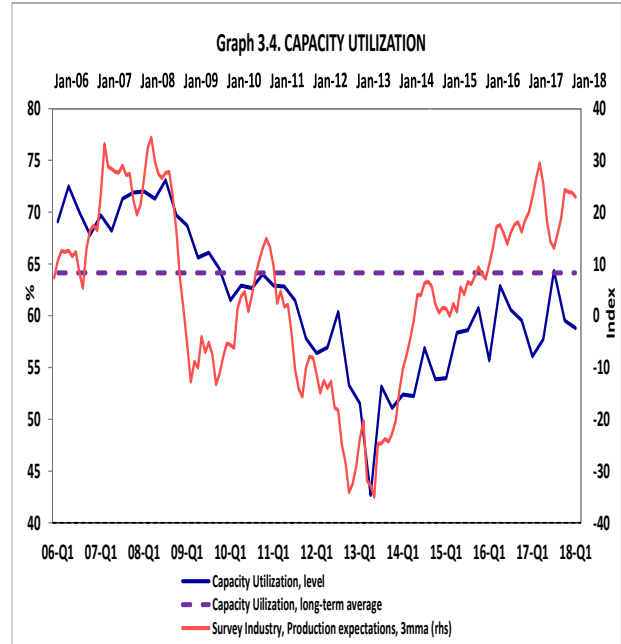
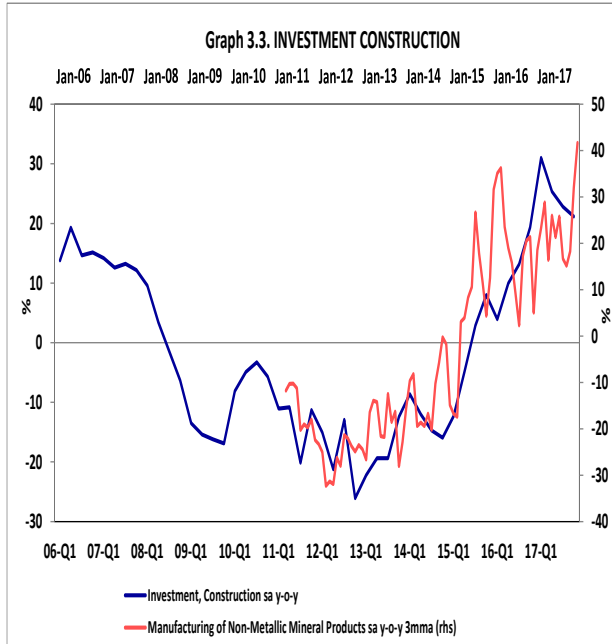
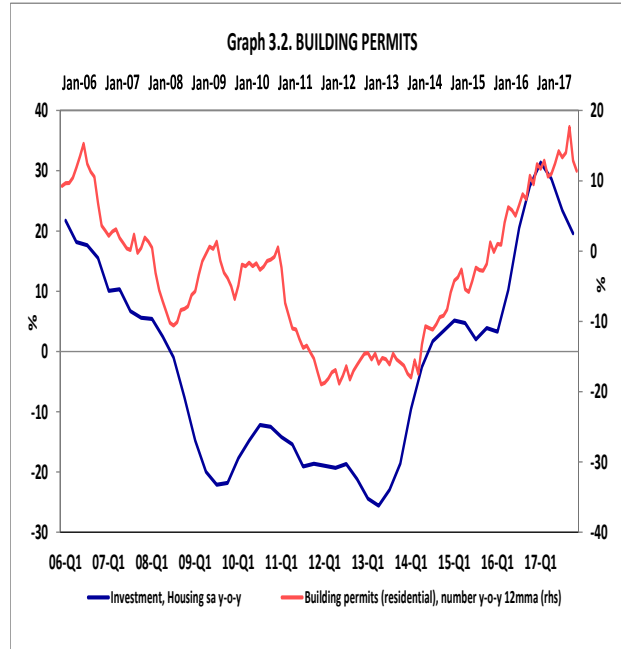
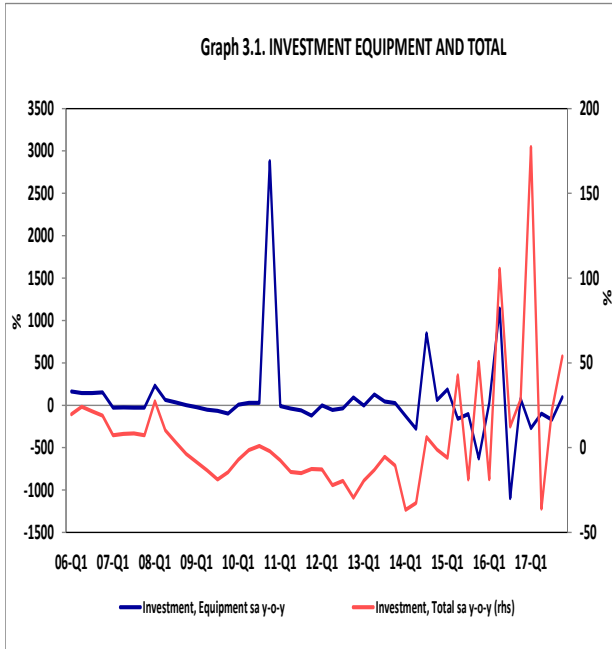
Sources: Eurostat, DG ECFIN, Cystat

2. CONSUMPTION



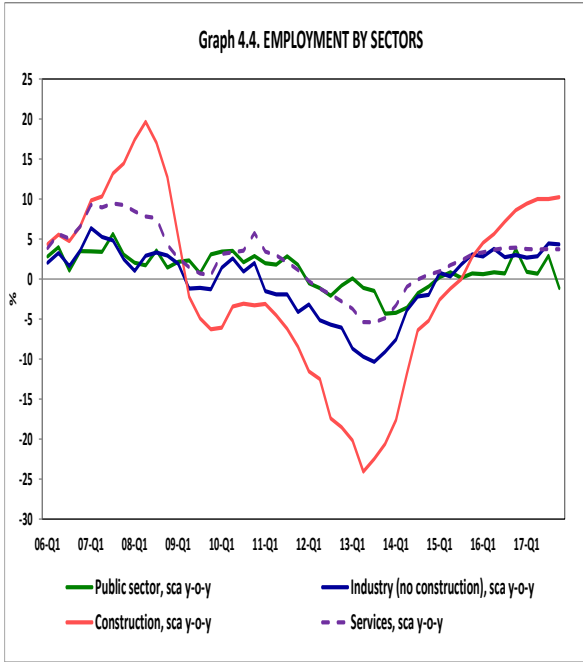
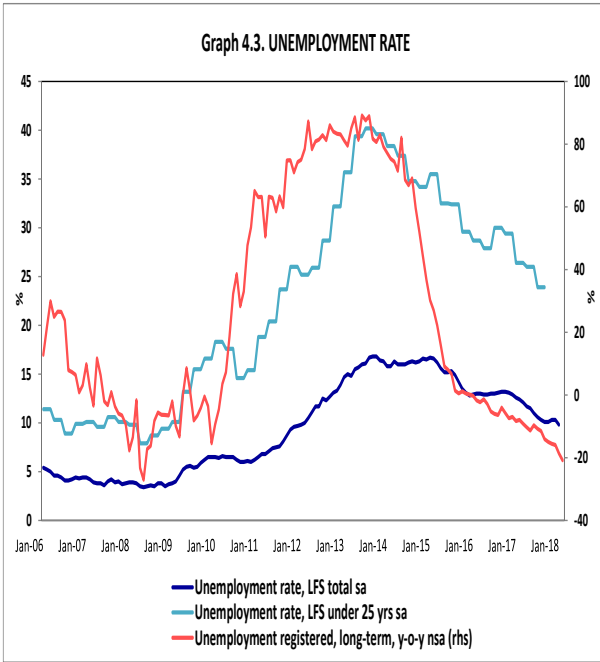
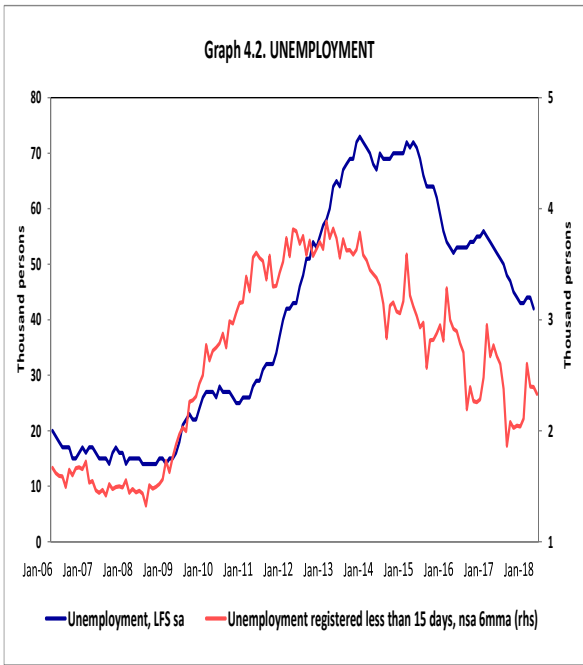
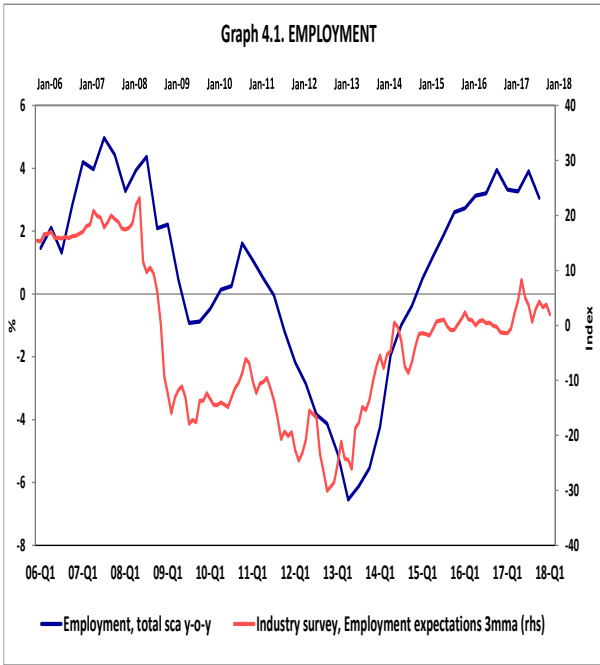
Sources: Eurostat, DG ECFIN, Cystat, JCC Payment Systems Ltd

3. INVESTMENT



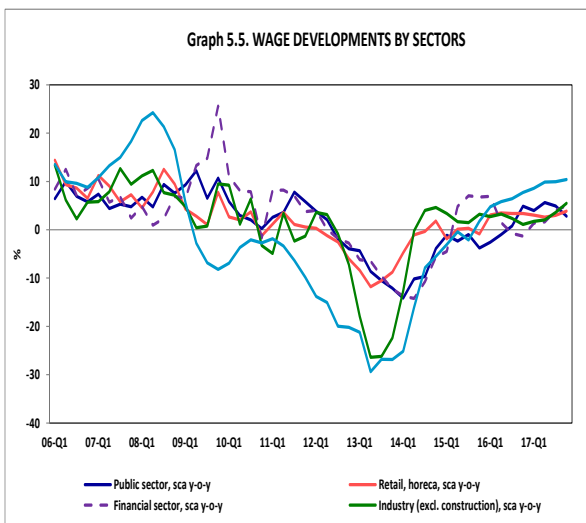
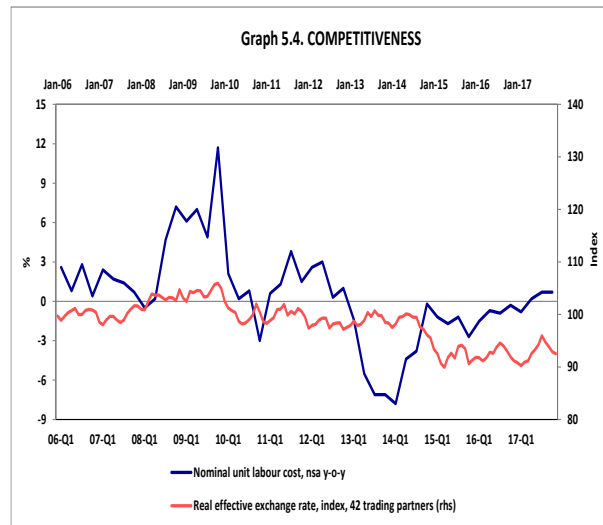
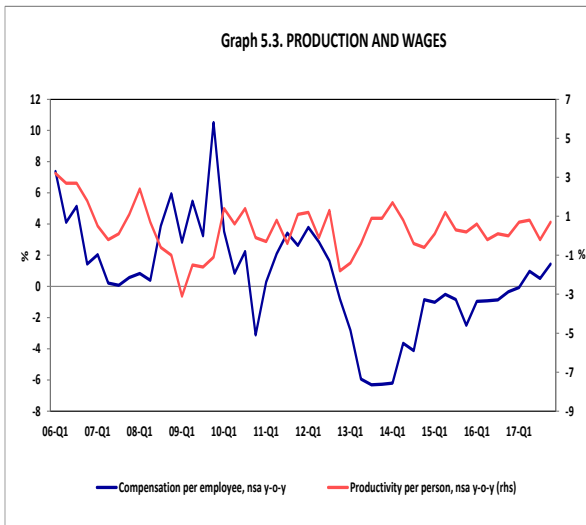
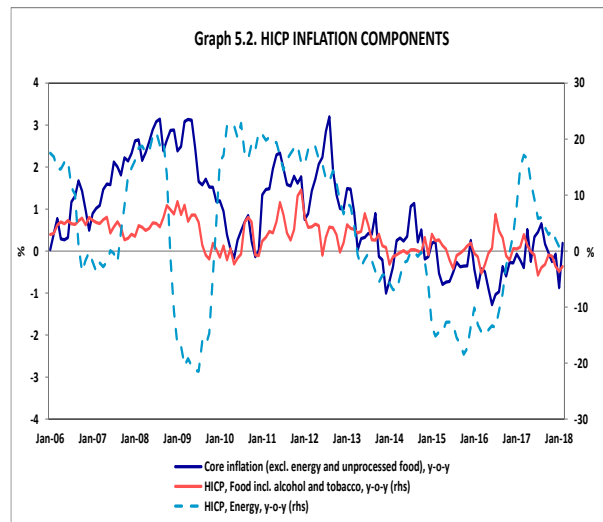
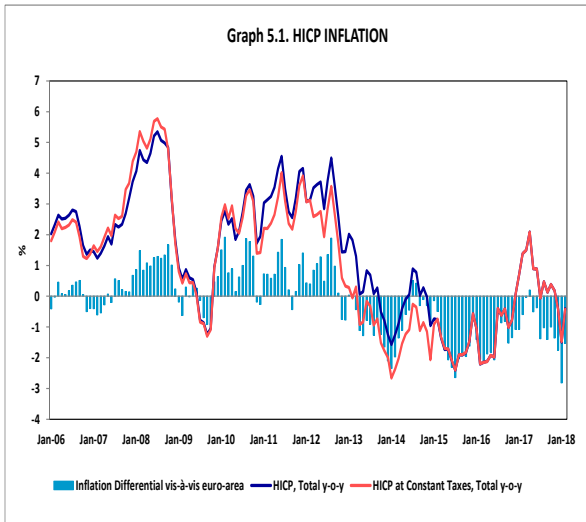
Sources: Eurostat, DG ECFIN, Cystat

4. LABOUR MARKET



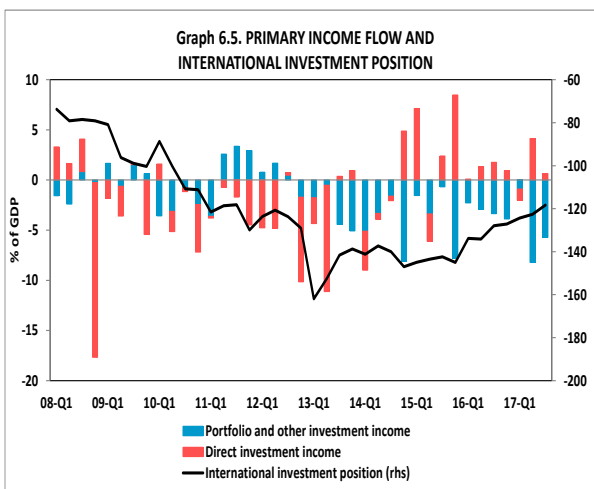
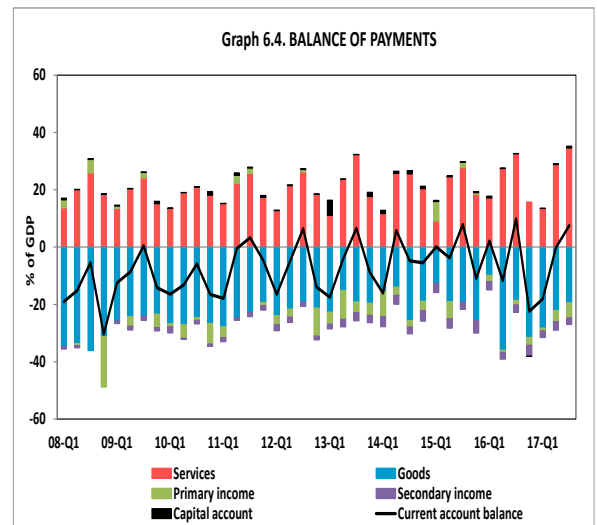
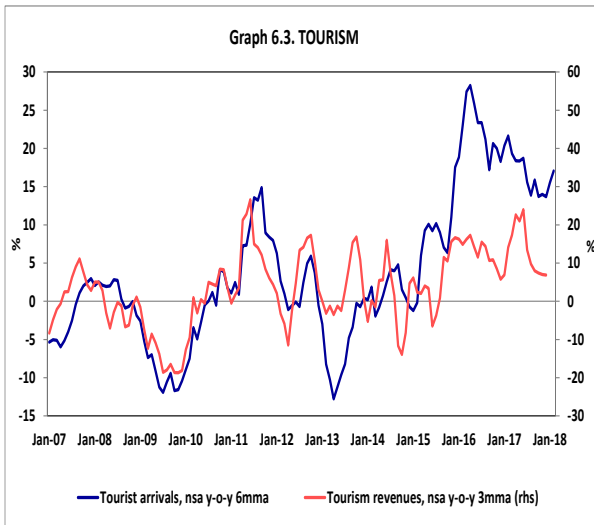
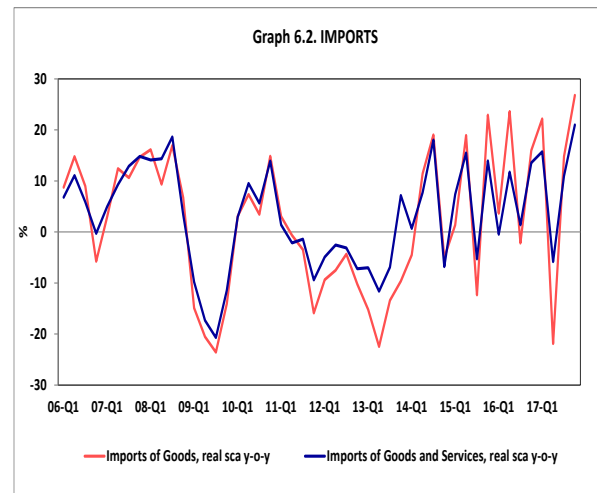
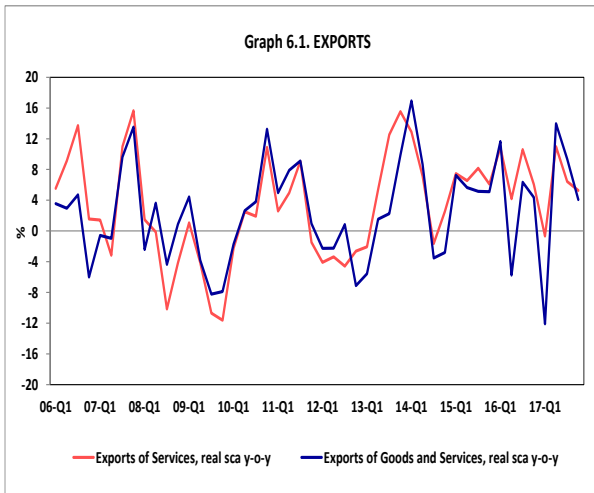
Sources: Eurostat, DG ECFIN, Cystat

5. INFLATION, WAGES



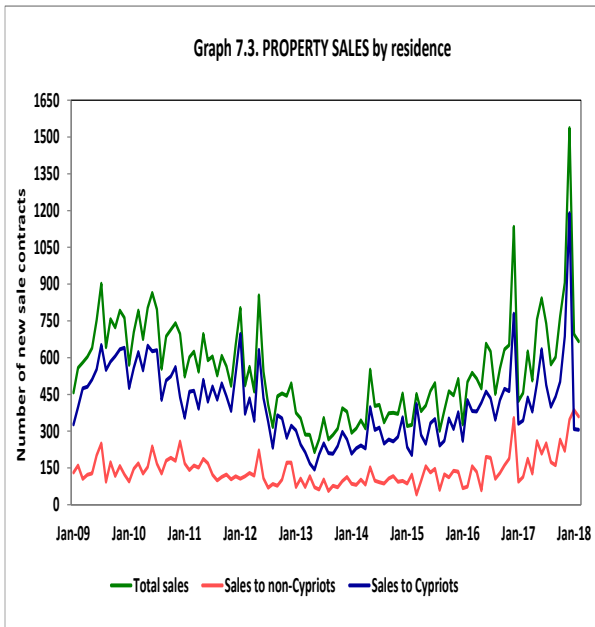
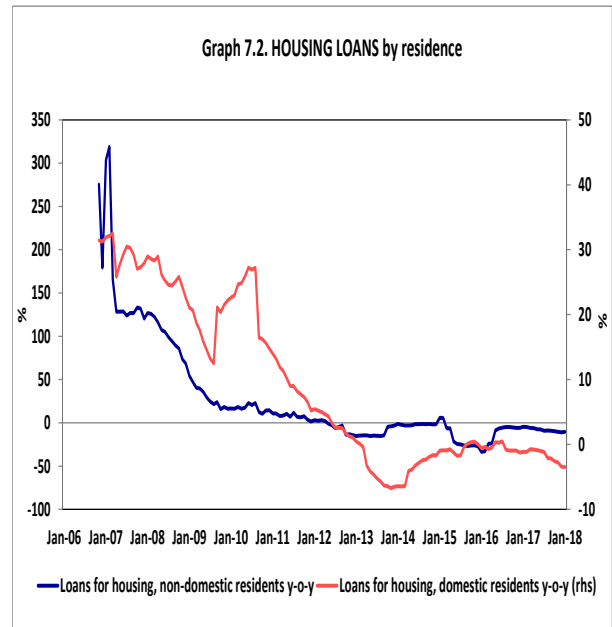
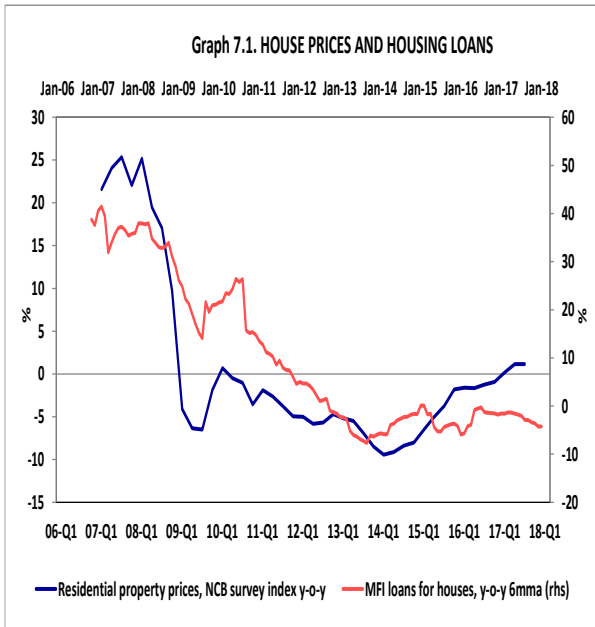
Source: Eurostat

6. EXTERNAL SECTOR



Sources: Eurostat, Cystat, ECB, CBC

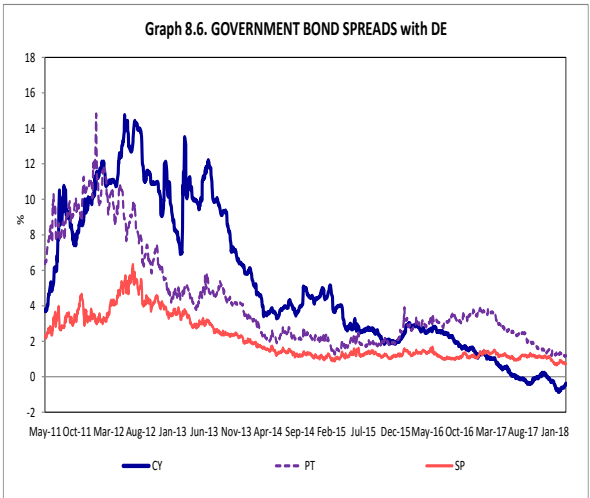
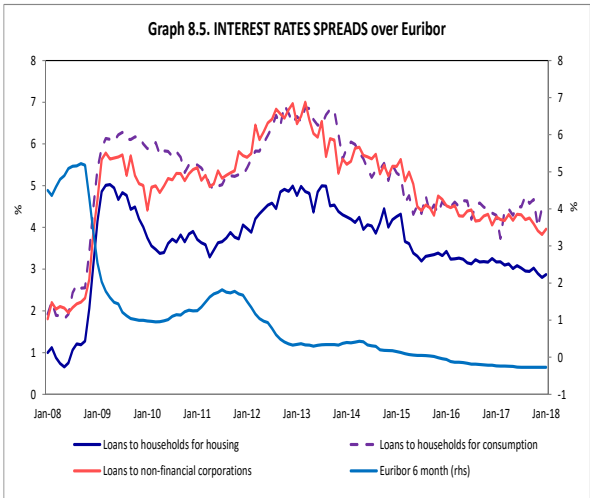
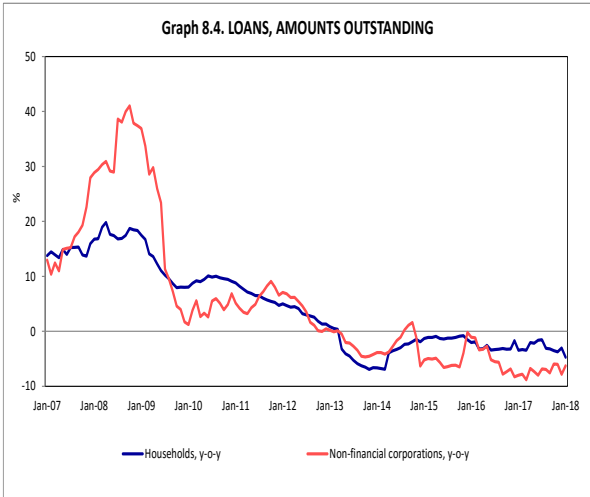
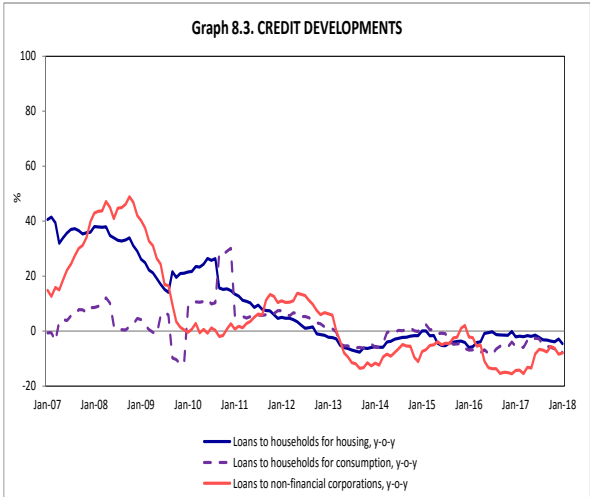
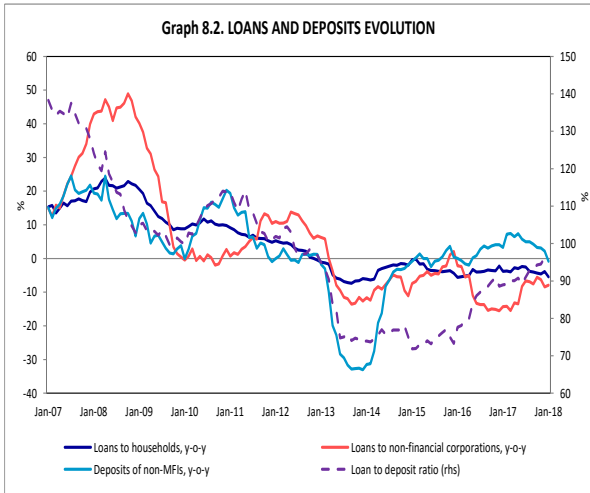
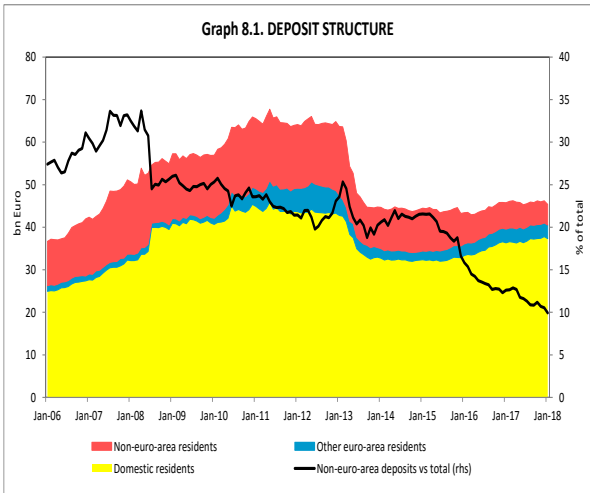
7. HOUSING



Note: According to the relevant modifications to the codification of the term "Alien" in the Land Information System, the way the statistics are presented has been modified. Therefore, the suggestion of the Department of Lands and Surveys is to avoid the comparison of the specific data from 2018 onwards, with the data of the previous years.

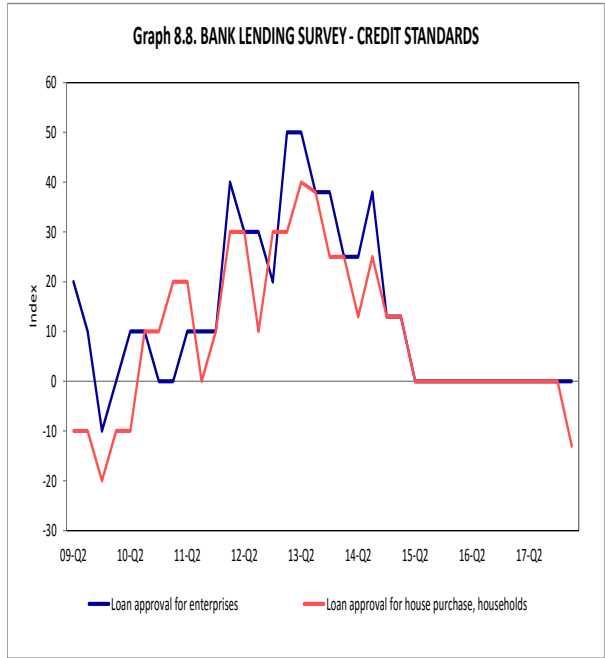
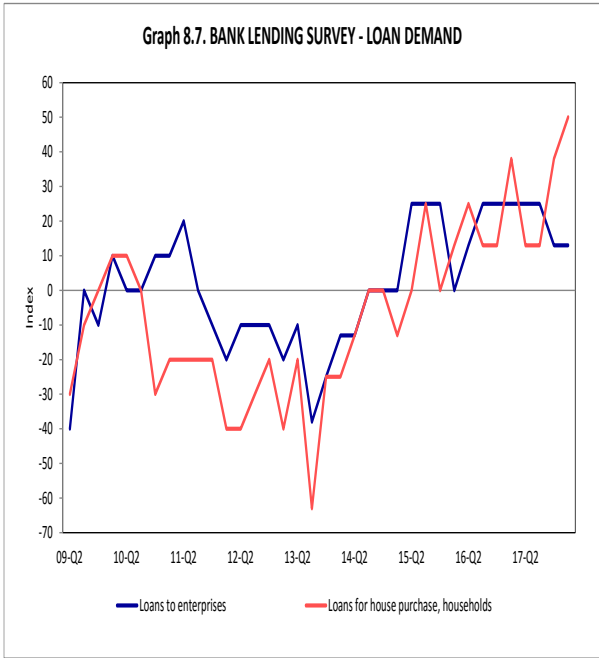
Sources: ECB, CBC, Dep. of Lands and Surveys

8. FINANCIAL SECTOR



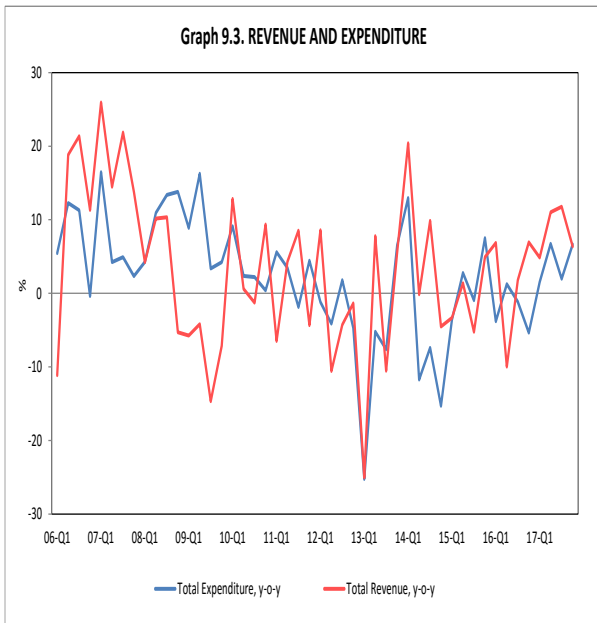
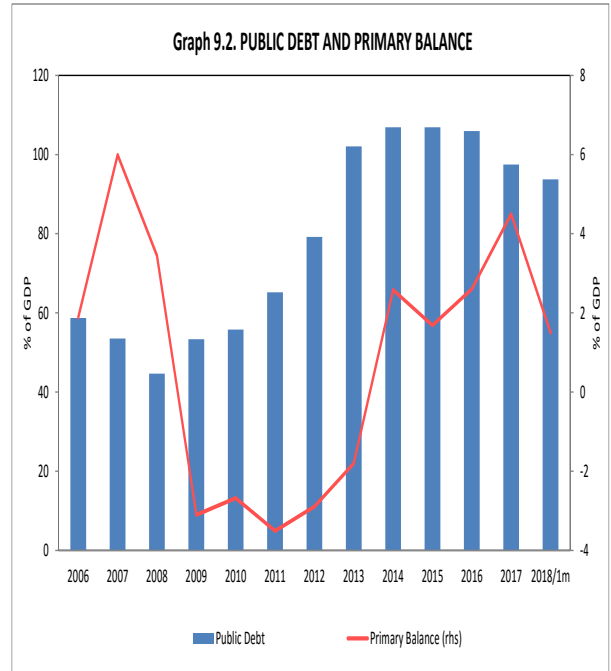
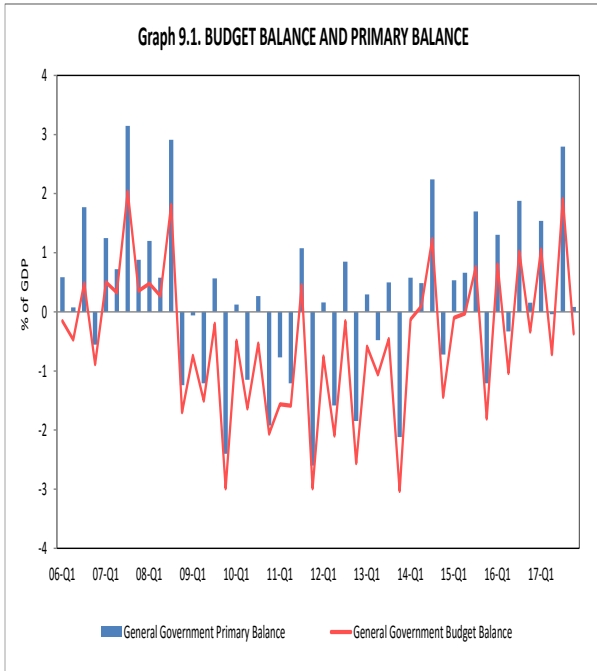
Sources: ECB, CBC, Bloomberg

8. FINANCIAL SECTOR – CONT.



Source: ECB

9. PUBLIC SECTOR



Sources: Ministry of Finance, Cystat