



# MACROECONOMIC MONITOR OF CYPRUS

November 2018

## MACROECONOMIC MONITOR OF CYPRUS

*Updated on 23 November 2018*

### Macro economy

- **In the 3<sup>rd</sup> quarter of 2018, GDP** (in seasonally adjusted terms) **recorded a positive rate of growth of 3.6%, compared to 4.0% in the 2<sup>nd</sup> quarter of 2018** on an annual basis (see graphs 1.1-1.2). The increased activity is mainly attributed to the sectors: hotels and restaurants, retail and wholesale trade, construction, manufacturing, transport and storage, professional, scientific and technical activities and administrative and support service activities. Negative growth rate was recorded by the sector financial and insurance activities (see graphs 3.1-3.4 and 6.1-6.2).
- Developments are currently driven by increases in **private consumption and net exports** (see graphs 2.1-2.4).
- The economic sentiment indicator (ESI-CypERC) in October 2018 decreased by 2.4 points compared with September 2018 (see graph 1.3). The decline was mainly driven by confidence losses in services. Economic confidence in industry, construction, retail trade and among consumers changed only marginally in October.
- During the period January-October 2018 **tourist arrivals increased at a rate of 7.8%** compared to January-October 2017 (see graph 6.3). An increase of 9% was recorded in tourist arrivals from Greece, a 6.1% increase from the UK, while a 1.8% decrease was recorded from Germany and a 4.9% decrease was recorded from Russia.
- **Employment** developments reflect conditions of strong economic activity (see graphs 4.1 and 4.4). Employment in persons recorded an **increase of 4.3%** in the 1<sup>st</sup> half of 2018 compared to the 1<sup>st</sup> half of 2017. Increases were recorded mainly in construction, accommodation and food service activities, wholesale and retail trade, manufacturing and professional, scientific and technical activities.
- **Labour Force Survey (LFS) unemployment**, in monthly seasonally adjusted terms, **decreased to 7.4% in September 2018 compared to 10.2% in September 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 3<sup>rd</sup> quarter of 2013 falling to 19.0% in 2018Q2 from the peak of 40.4% in the 3<sup>rd</sup> quarter of 2013. Particularly challenging is also the relatively high long-term unemployment.
- **Compensation per employee** recorded an increase of 1.4% in the 1<sup>st</sup> half of 2018 compared to the 1<sup>st</sup> half of 2017 (see graphs 5.3-5.5).
- **Inflation (HICP)** in October 2018 recorded an increase of 1.9% compared to an increase of 1.7% in September 2018 (see graph 5.1). For the period January-October 2018, the HICP increase stood at 0.7% compared to the corresponding period of the previous year. Core HICP inflation remained close to zero in January-October 2018 (see graph 5.2). All subcategories of HICP presented a decrease except categories of food, housing, health, transport, education and restaurants and hotels.
- **Imports of goods increased by 18.5%** in January-September 2018 compared to January-September 2017. The increase in imports is affected by developments in imports of transport equipment (aircrafts and vessels). Imports of goods, excluding imports of aircrafts and vessels, exhibit an increase of 17.8%.
- **Exports of goods increased by 52.2%** in January-September 2018 compared to January-September 2017 due to exports of transport equipment (aircrafts and vessels) occurring in 2018. Exports of goods, excluding exports of aircrafts and vessels, exhibit an increase of 36.2%.

## External Sector

- The **current account (CA)** balance (see graph 6.4) recorded an improvement in 2018H1, with the deficit declining to €391.2 mn (1.9% of GDP), from €707.8 mn in 2017H1 (3.6% of GDP). This development is mainly attributed to an improvement in the trade balance, which recorded a surplus in 2108H1 of €85.1 mn (0.4% of GDP) compared to a deficit of €316 mn (1.6% of GDP) in 2017H1. Primary and secondary income accounts contributed to the current account deficit by 2.3% of GDP in 2018H1 compared to 2% of GDP in 2017H1. The CA balance for 2018H1, adjusted to exclude imports/exports of Special Purpose Entities (SPEs) that primarily operate in the shipping industry (ship registration/deregistration) with a small footprint on the economy, records a deficit of 2.3% of GDP compared to a deficit of 2.4% of GDP the same period the year before.
- The **international investment position (IIP)** (see graph 6.5) improved in 2018Q2, showing a net liability position at €22,582.7 mn, compared with €23,004.4 mn the previous quarter. The decrease in Cyprus' net liabilities was due to the improvement in other investment. This was mitigated by the worsening recorded in direct investment, portfolio investment and derivatives.
- The **gross external debt** reached €101,246.8 mn in 2018Q2, compared with €106,775.7 mn in 2018Q1. The big improvement was due to the decrease in the intercompany lending and debt of monetary financial institutions (excluding the CBC). Moreover, the debt of other sectors and the general government recorded small decreases, thereby contributing to the improvement of gross external debt. The debt of the CBC, on the other hand, recorded a small increase.

## Public Finances

- **General government budget balance (GGBB)** was in surplus in January-September 2018, of the order of €769.7 mn (3.7% of GDP) compared to a surplus of €431.2 mn (2.2% of GDP) during the corresponding period the year before (see graph 9.1).
- **General government primary balance (GGPB)** was in surplus in January-September 2018, of the order of €1,125.3 mn (5.4% of GDP) compared to a surplus of €824.6 mn (4.3% 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 8.5%, reaching €5,826.3 mn in January-September 2018, compared to €5,370.6 mn during the corresponding period the year before (see graph 9.3).
- **Total expenditure** exhibited a positive rate of growth of about 2.4%, reaching €5,056.6 mn in January-September 2018, compared to €4,939.4 mn during the corresponding period the year before (see graph 9.3).

## Property Market

- Eurostat's **house price index** for Cyprus recorded an increase of **1.2%** in the **2<sup>nd</sup> quarter of 2018** compared to the 2<sup>nd</sup> quarter of 2017.
- The CBC's **residential property price index** recorded an increase of **0.3%** in the **2<sup>nd</sup> quarter of 2018** compared to the 1<sup>st</sup> quarter of 2018 and an increase of 1.7% compared to the 2<sup>nd</sup> quarter of 2017. Cumulative from the 1<sup>st</sup> quarter of 2008 it has exhibited a decline of 27.3% (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 19.5% while, transfers of property were up by 16.6% in January-October 2018 compared to January-October 2017

(see graph 7.3). MFI mortgage loans to domestic residents for housing declined with an annual rate of 0.1% in September 2018 (see graph 7.2).

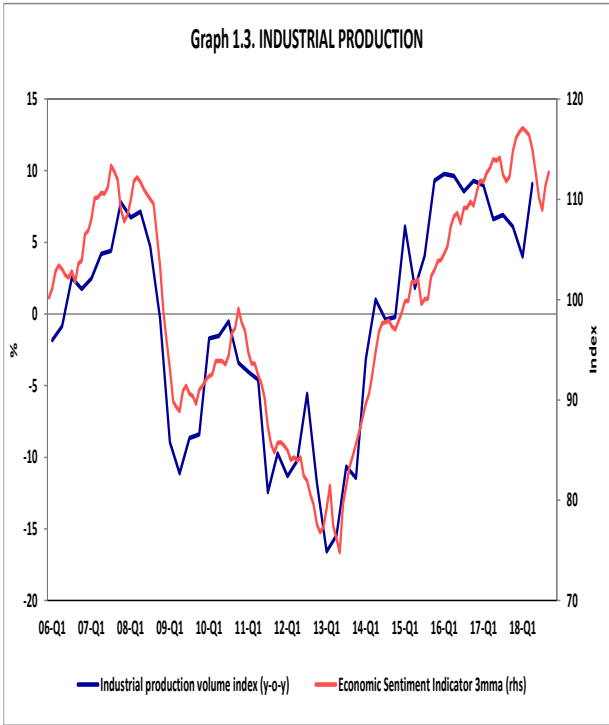
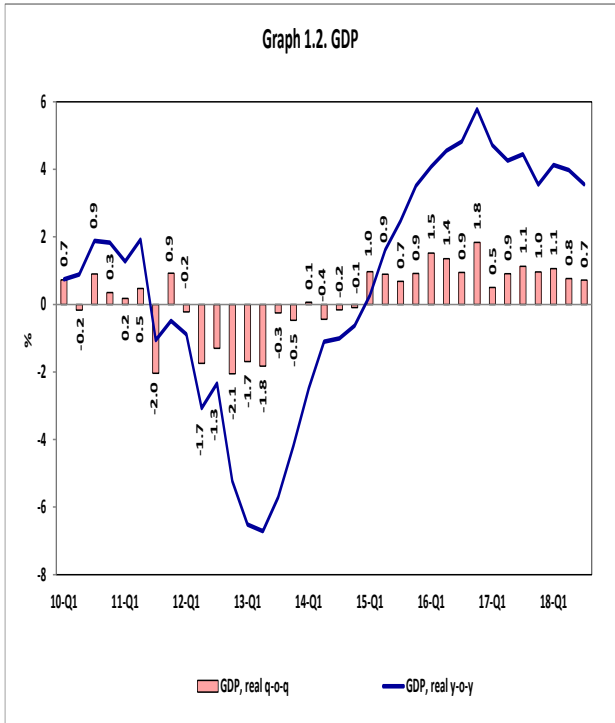
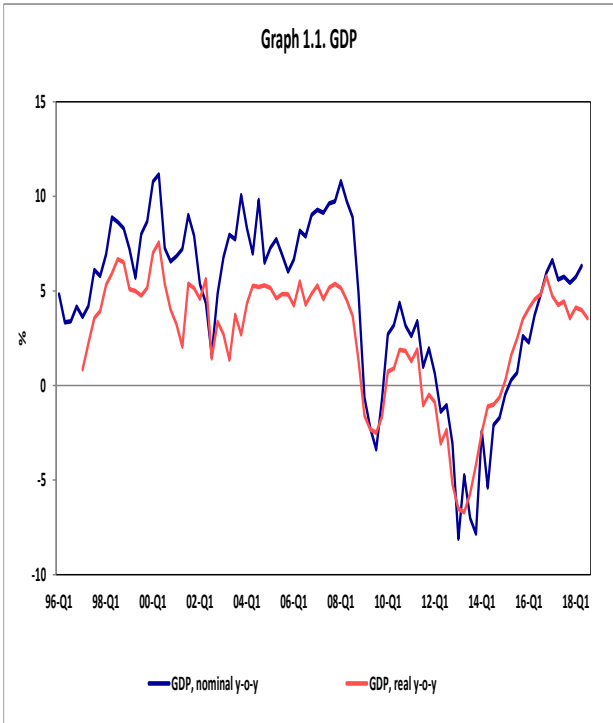
### Banking Sector Developments

- Monetary Financial Institutions (MFI) **loans to domestic residents** (private sector), **increased at an annual rate of 0.3%** in September 2018, (see graphs 8.2-8.4). This reflects the tight lending conditions (see graphs 8.6-8.7).
- **Deposits of domestic** residents held with MFIs (private sector) exhibited an increase with an **annual rate of 0.3%** in September 2018 (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 September 2018, **deposit interest rates** for maturity of up to 1 year decreased and of up to 3 months marginally increased compared with the preceding month. The **lending interest rates** to households for primary residence decreased and the rate for other loans up to €1 mn for businesses increased. The interest rate for bank overdrafts to non-financial corporations decreased.
- NPEs represent the remaining legacy challenge currently faced by the Cyprus economy, amounting to approximately 38.9% of total lending in July 2018 compared to 42.5% in December 2017 and 46.4% at the end of 2016, whereas NPEs over 90 days past due amounted to approximately 30.5% of total lending in July 2018 compared to 32.6% in December 2017 and 34.0% at the end of 2016.
- NPEs in absolute terms are generally exhibiting a downward trend, reaching €16.8 bn in July 2018, down from €27.3 bn in 2015. It is noted that BoC €2.8 bn NPEs portfolio sold and Alpha Bank €0.4 bn loans transferred to Parent in Greece, were reflected in June 2018 figures. CCB carve out of NPEs, following CCB's partial sale to Hellenic Bank, will be recorded in September 2018 data.
- NPEs are classified based on the harmonised definition of the European Banking Authority which includes loans that have been restructured and, even though meet the revised repayment program, retain the NPE status for at least 12 months after restructuring before being reclassified as performing. The downward trend in NPEs can be attributed to increased repayments, restructurings successfully completed and reclassified as performing facilities, write-offs and settlement of debt through swaps with immovable property.
- Accumulated provisions on lending represented 48.4% of NPEs in July 2018, a significant increase compared to 47.3% as at end 2017 and 42.4% as at the end of 2016, thus facilitating restructuring activity with a view to cure NPEs of viable customers.

### Credit ratings

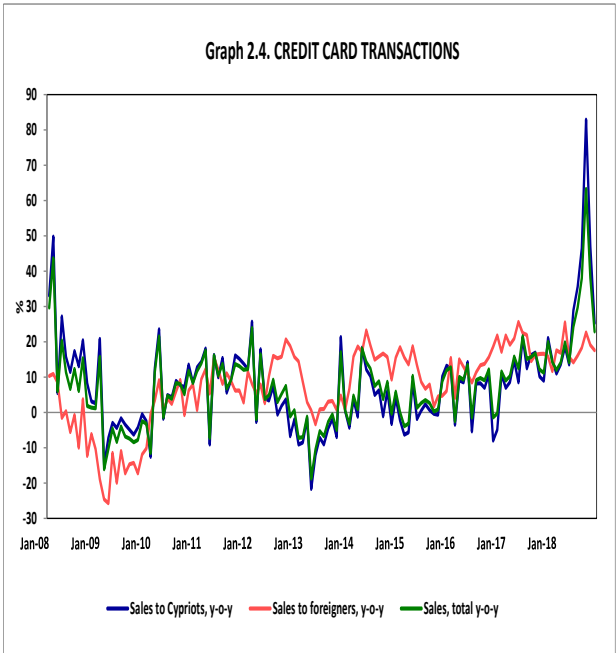
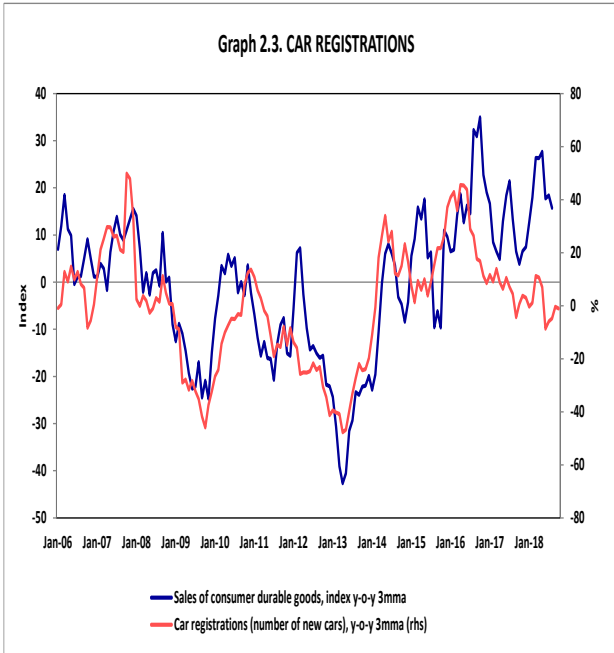
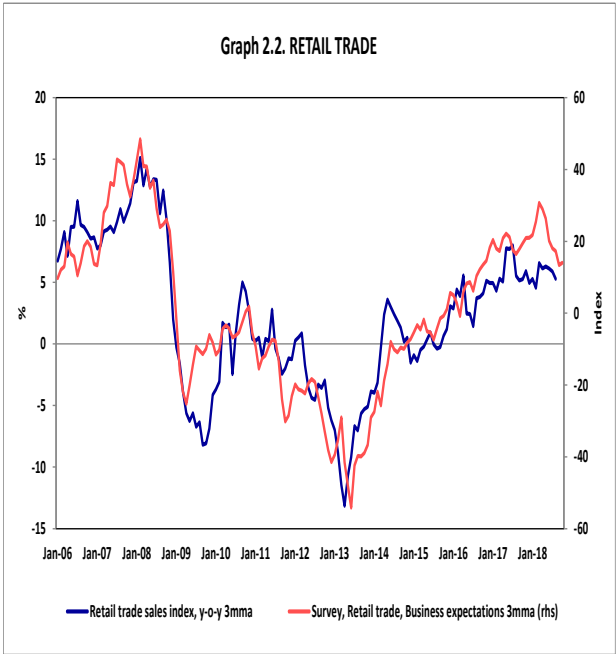
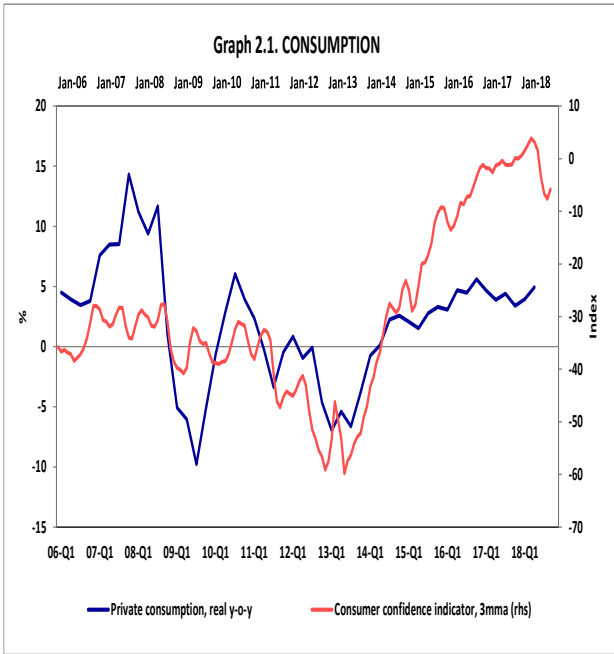
- On 14/09/2018, S&P Global Ratings raised Cyprus long- and short-term foreign and local currency sovereign credit ratings on Cyprus to 'BBB-/A-3' from 'BB+/B' placing it back to investment grade with a stable outlook.
- As a result of this upgrading, Cyprus government bonds are again accepted as collateral for Eurosystem credit operations. At the same time, they are again eligible under the Public Sector Purchase Program (PSPP) for the procurement of public sector assets in the secondary markets.
- Furthermore, on 19/10/2018 Fitch Ratings upgraded Cyprus's Long-Term Foreign-Currency Issuer Default Rating (IDR) to 'BBB-' from 'BB+' placing it back to investment grade with a stable outlook.
- Additionally, on 23/11/2018, DBRS Ratings upgraded Cyprus's Long-Term Foreign and Local Currency-Issuer Ratings from 'BB' to 'BBB (low)' placing it to investment grade with a stable outlook.

1. OUTPUT



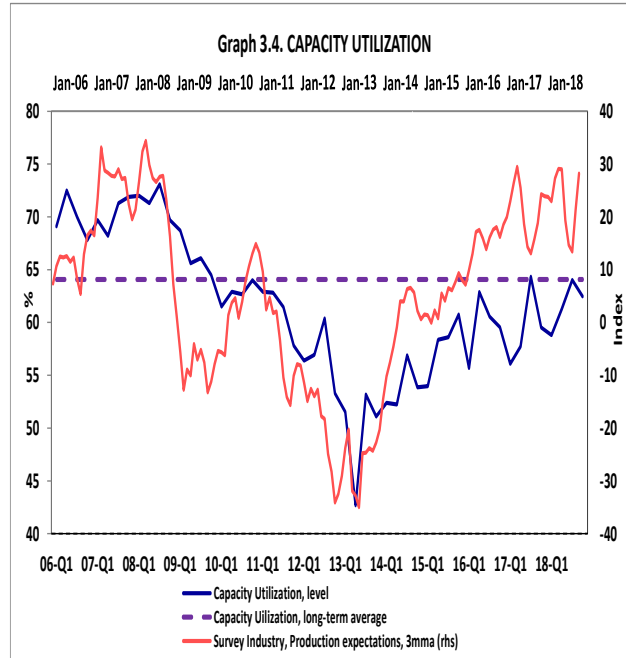
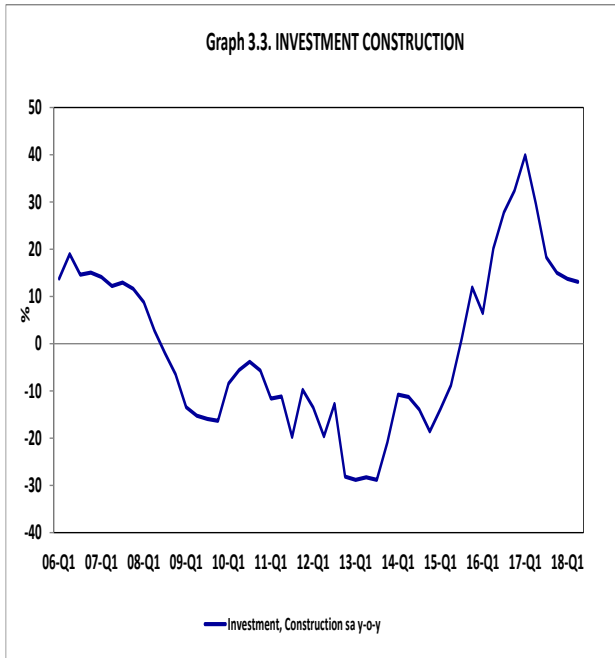
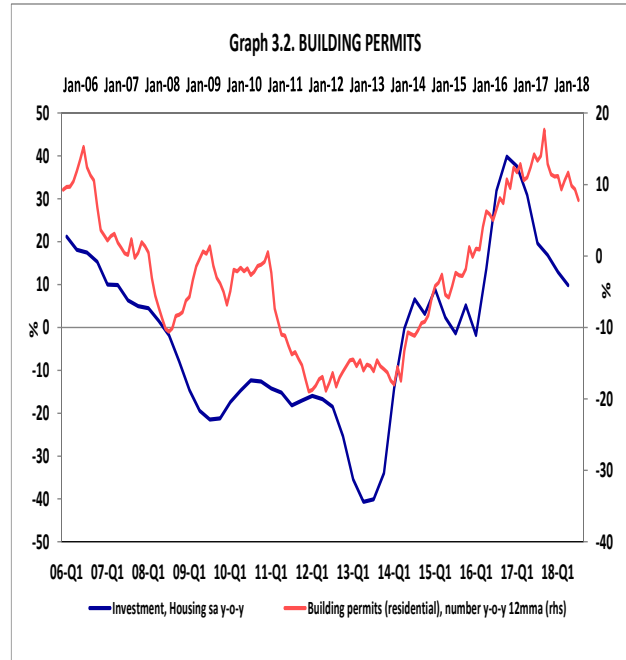
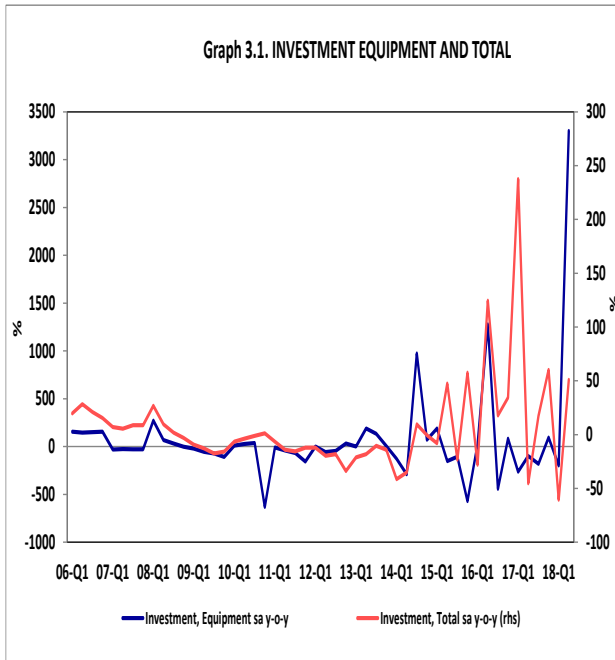
Sources: Eurostat, DG ECFIN, Cystat

**2. CONSUMPTION**



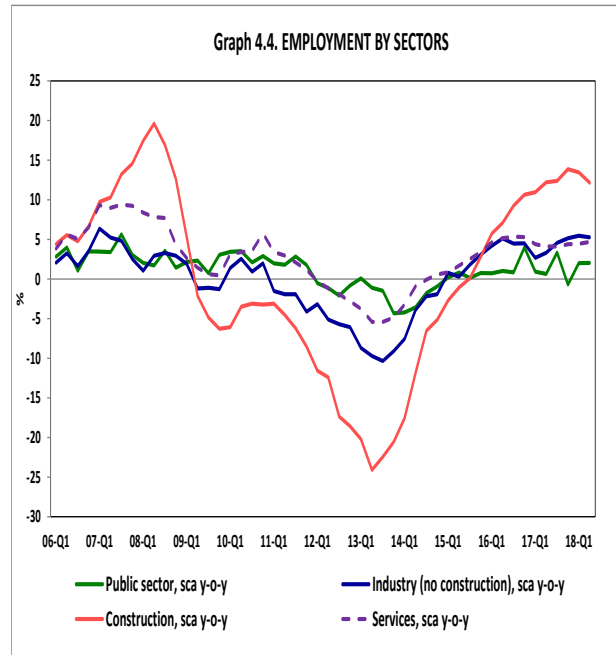
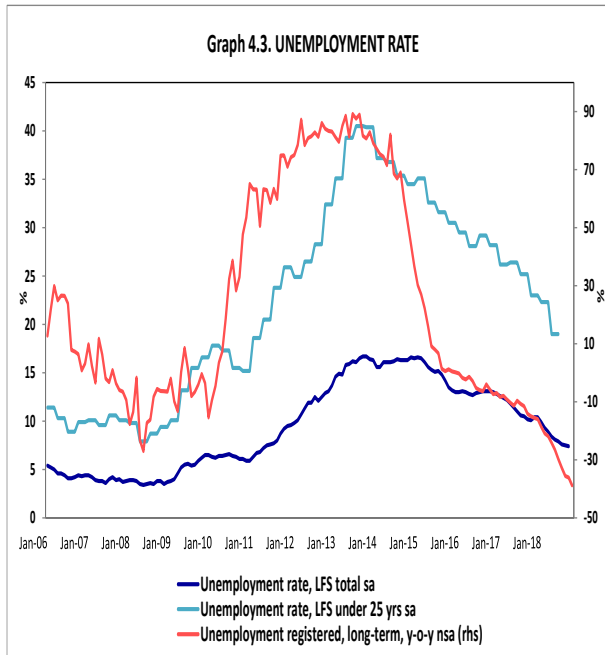
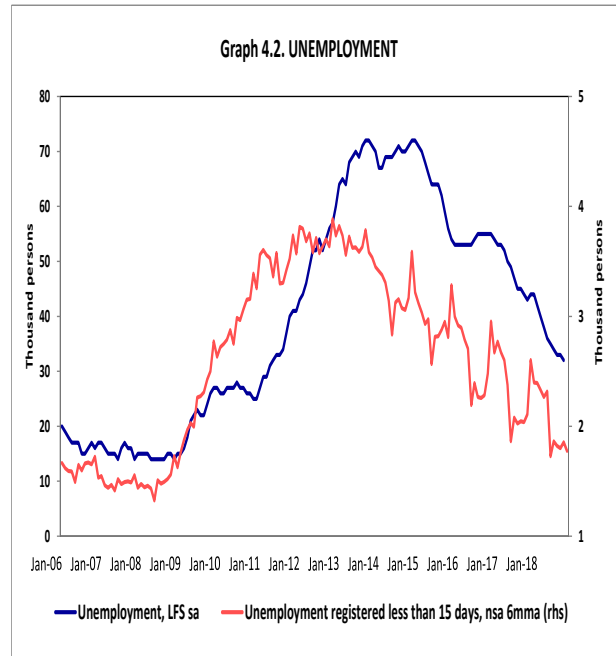
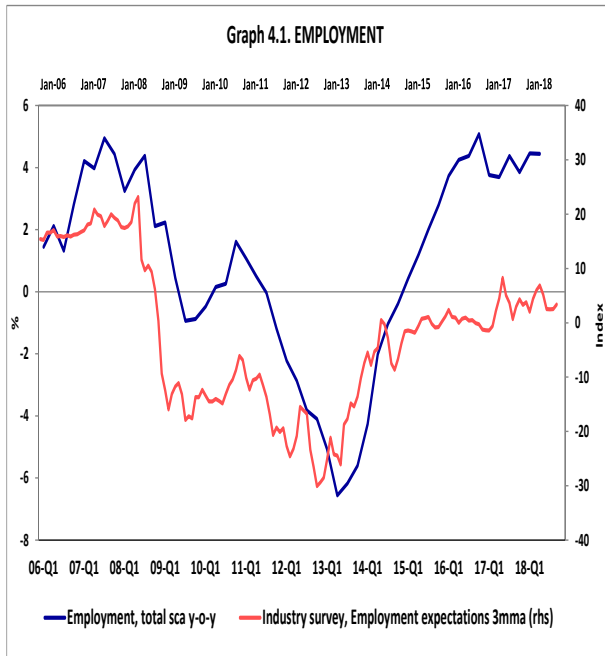
Sources: Eurostat, DG ECFIN, Cystat, JCC Payment Systems Ltd

3. INVESTMENT



Sources: Eurostat, DG ECFIN, Cystat

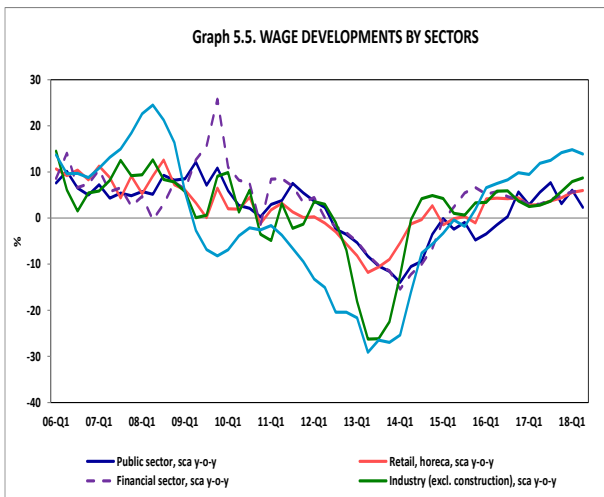
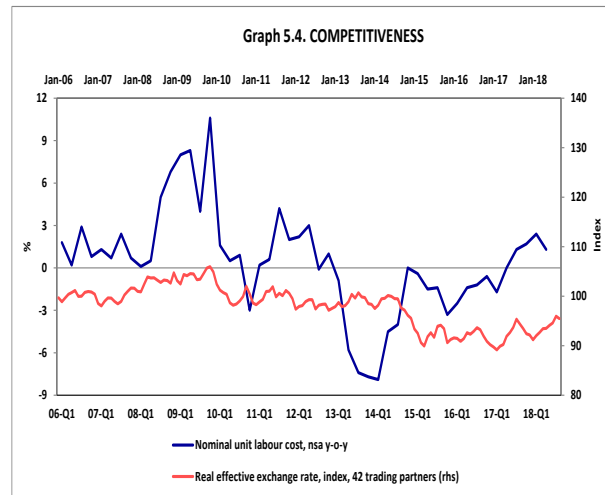
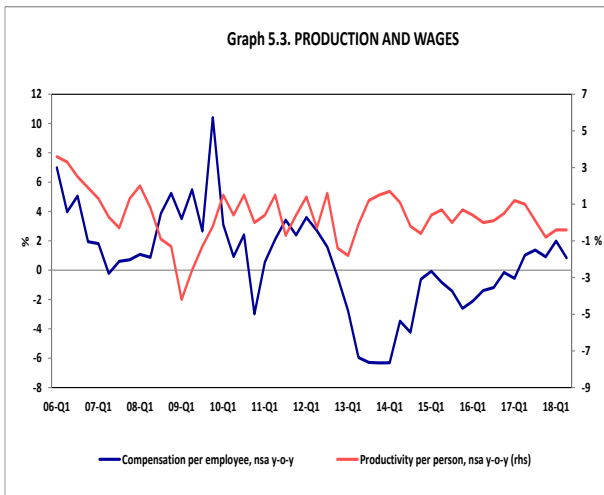
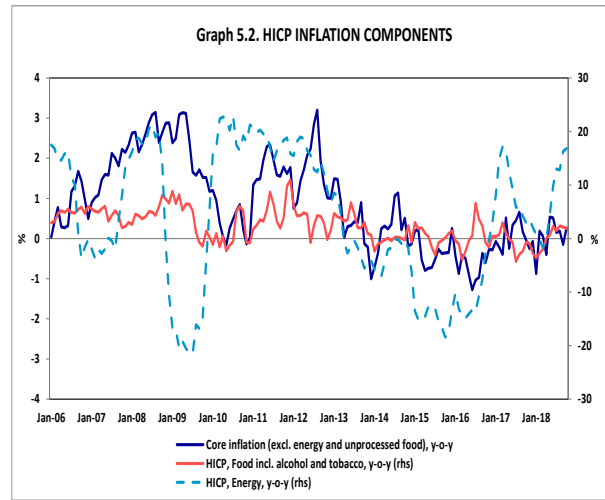
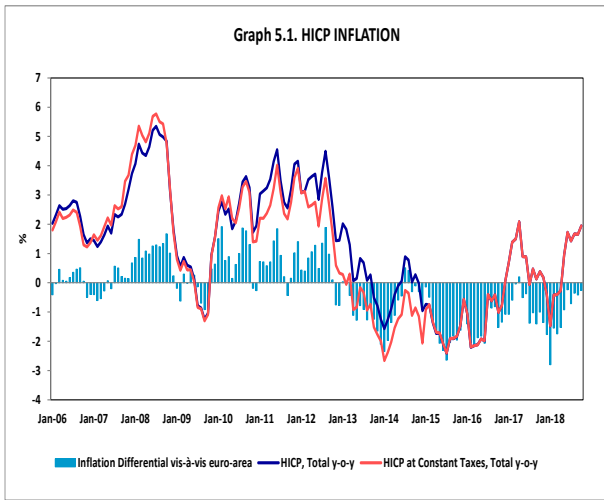
**4. LABOUR MARKET**



Sources: Eurostat, DG ECFIN, Cystat

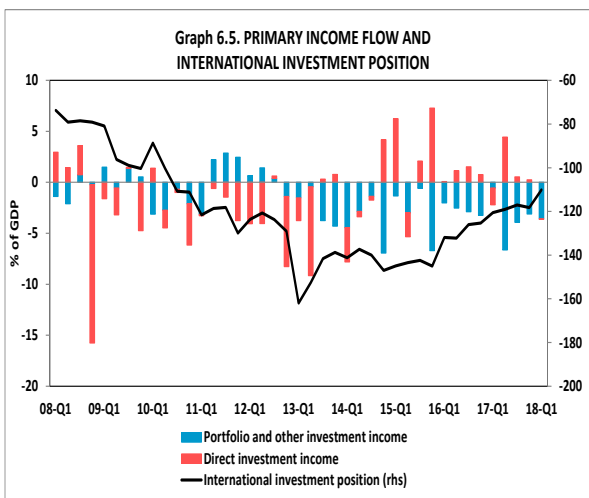
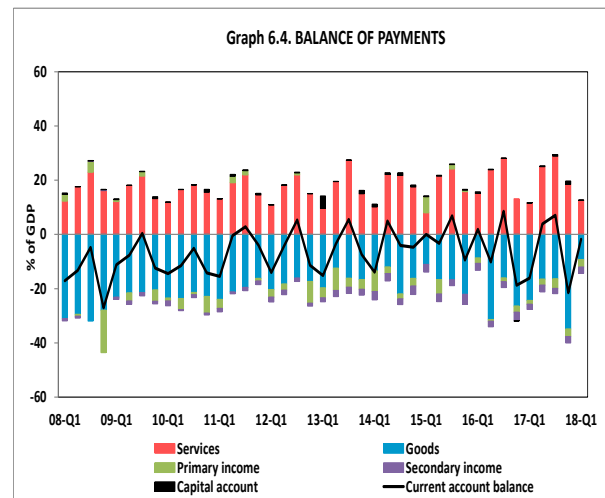
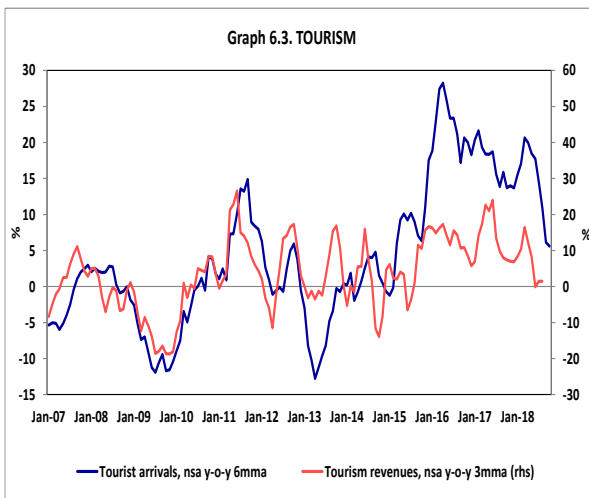
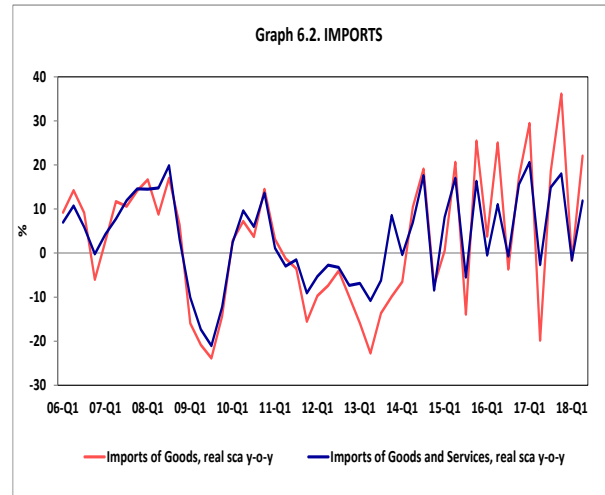
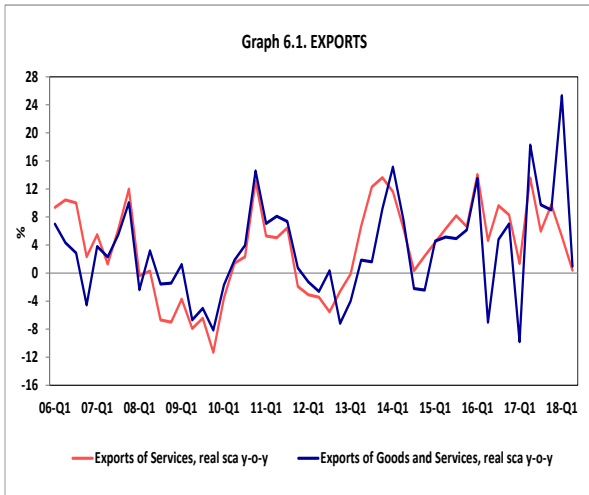


5. INFLATION, WAGES



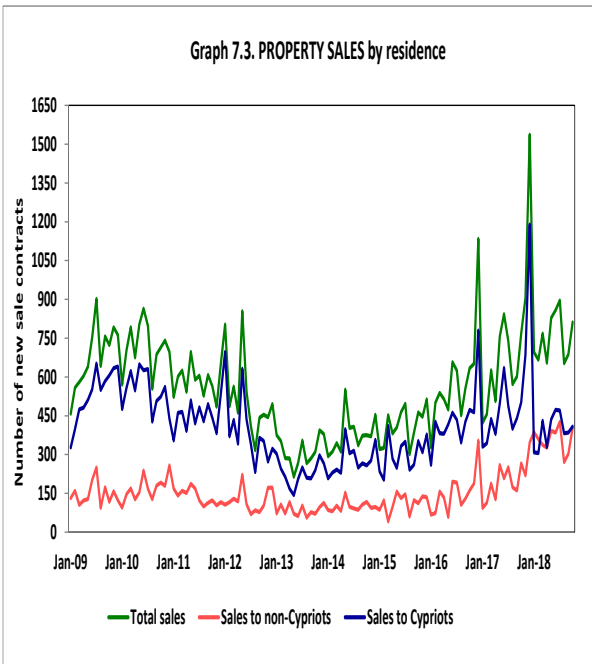
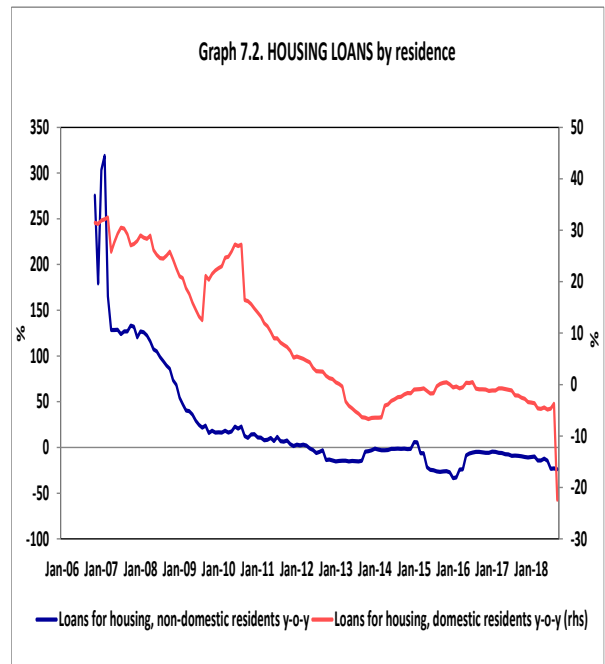
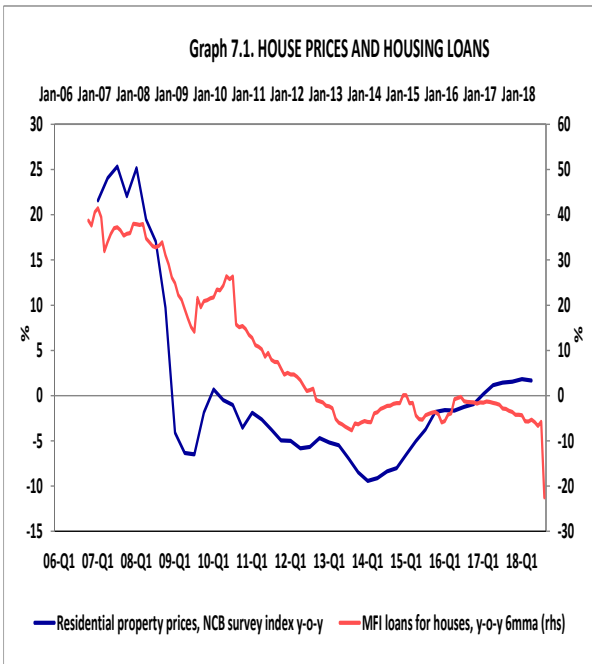
Source: Eurostat

6. EXTERNAL SECTOR



Sources: Eurostat, Cystat, ECB, CBC

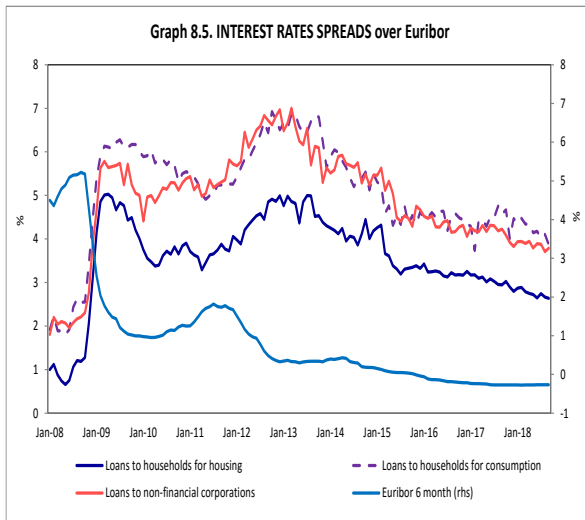
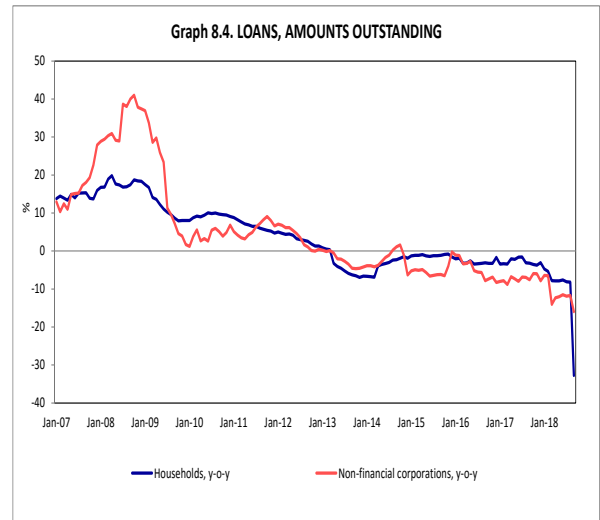
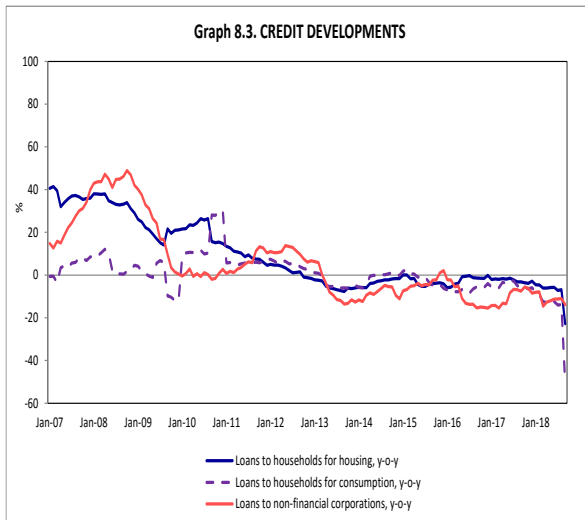
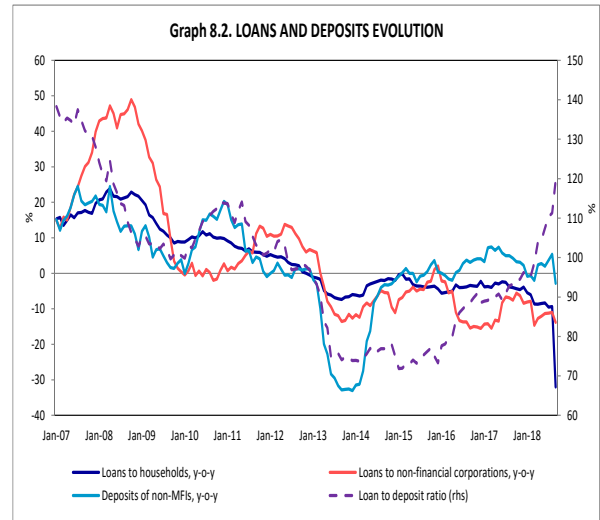
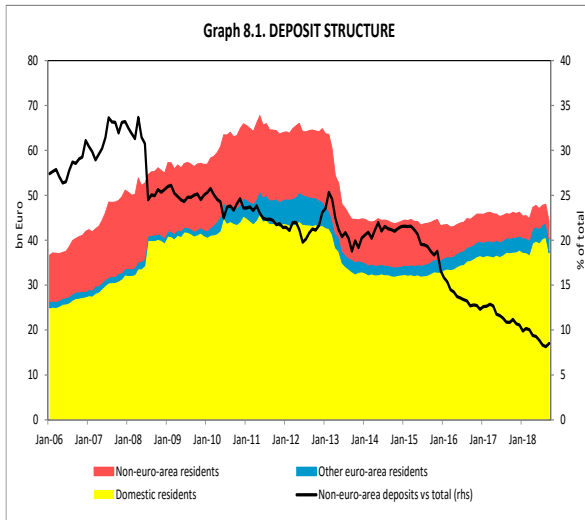
7. HOUSING



*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.*

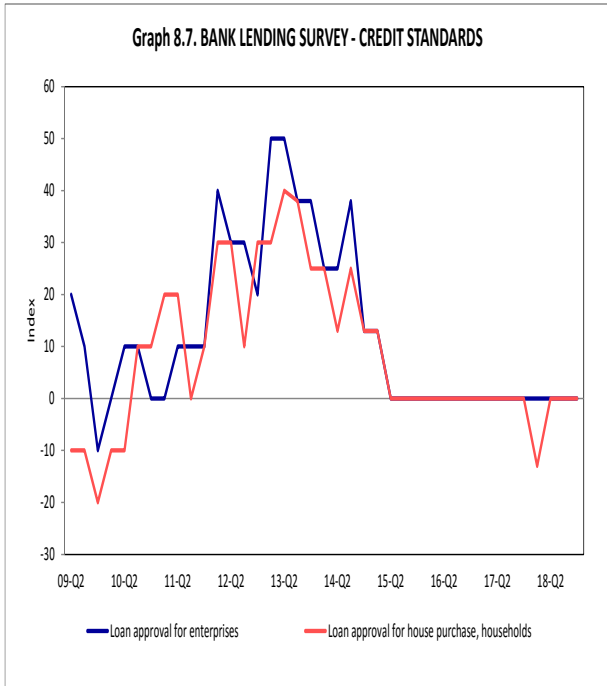
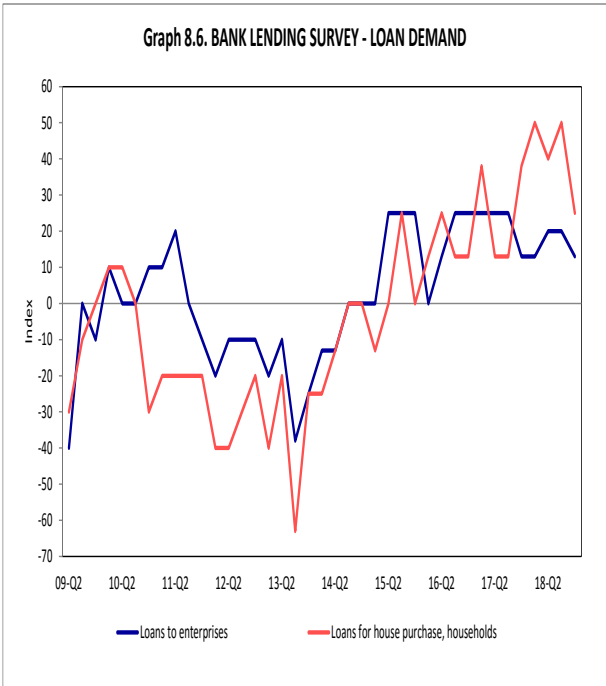
Sources: ECB, CBC, Dep. of Lands and Surveys

8. FINANCIAL SECTOR



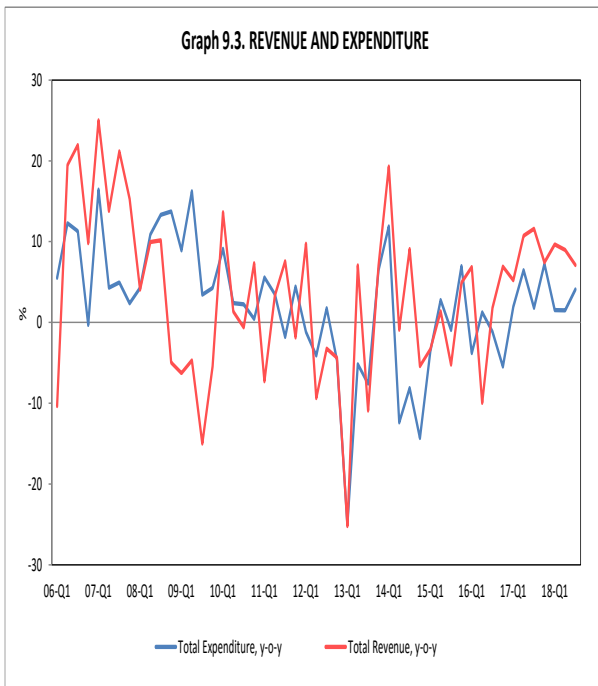
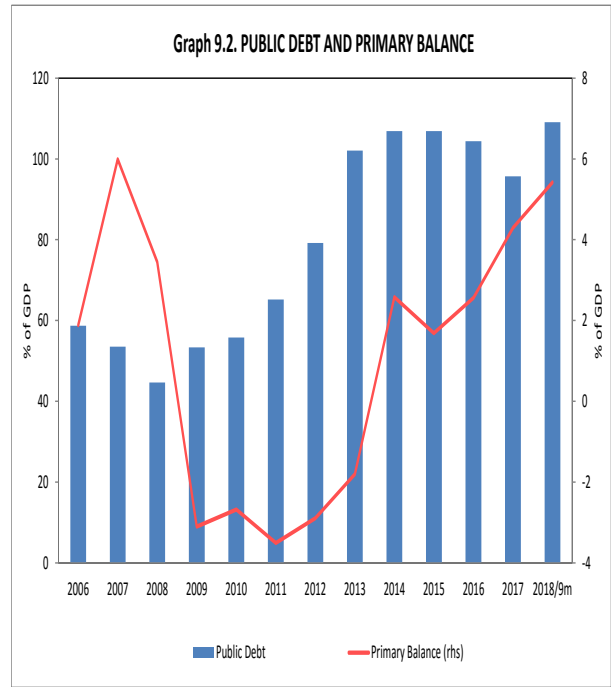
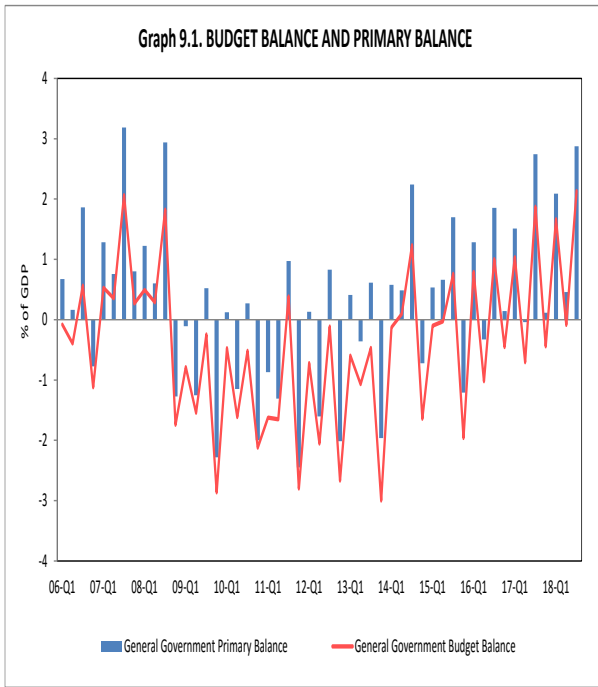
Sources: ECB, CBC, Bloomberg

8. FINANCIAL SECTOR – CONT.



Source: ECB

9. PUBLIC SECTOR



Sources: Ministry of Finance, Cystat