



MACROECONOMIC MONITOR OF CYPRUS

October 2019

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Updated on 25 October 2019

Macro economy

- **In the 2nd quarter of 2019, GDP** (in seasonally adjusted terms) **recorded a positive rate of growth of 3.2%, compared with 3.4% in the 1st quarter of 2019** on an annual basis (see graphs 1.1-1.2). The increased activity is mainly attributed to the sectors: construction, information and communication, professional, scientific and technical activities, administrative and support service activities and arts, entertainment and recreation. 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 **domestic demand (private consumption and GFCF)** (see graphs 2.1-2.4).
- The economic sentiment indicator (ESI-CypERC) improved in September 2019, it increased by 1.3 points compared to August 2019 (see graph 1.3). The increase resulted from stronger business confidence in services and industry as well as from confidence improvements among consumers.
- During January-September 2019 **tourist arrivals marginally increased at a rate of 0.6%** compared to January-September 2018 (see graph 6.3). An increase of 0.8% was recorded in tourist arrivals from the UK, a 19.1% increase from Israel, a 2.2% decrease from Russia, a 6.2% decrease from Greece and a 19.1% decrease from Germany.
- **Employment** developments reflect conditions of strong economic activity. Employment in persons recorded an **increase of 3.2%** in the 1st half of 2019 compared to the 1st half of 2018. Increases were recorded mainly in construction, hotels and restaurants, professional, scientific and technical activities, wholesale and retail trade, manufacturing and education.
- **Labour Force Survey (LFS) unemployment**, in monthly seasonally adjusted terms, **decreased to 6.8% in August 2019 compared to 8.2% in August 2018** (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 16.6% in 2019Q2 from a peak of 40.5% in the 3rd quarter of 2013.
- **Compensation per employee** recorded an increase of 3.2% in 1st half of 2019 compared to the 1st half of 2018 (see graphs 5.3-5.5).
- **Inflation (HICP)** in September 2019 recorded a decrease of 0.5% compared to an increase of 0.6% in August 2019 (see graph 5.1). For 2019 so far it stands at 0.7%. Core HICP stood at 0.6% in January-September 2019 (see graph 5.2). All subcategories of HICP presented an increase except categories clothing and footwear, health, transport and communication.
- **Imports of goods recorded a decrease of 8.6%** in January-August 2019 compared to January-August 2018. The decrease in imports is affected by developments in imports of transport equipment (aircrafts and vessels). Imports of goods, excluding imports of aircrafts and vessels, exhibit a decrease of 4.6%.
- **Exports of goods recorded a decrease of 35.5%** in January-August 2019 compared to January-August 2018 due to exports of transport equipment (aircrafts and vessels) occurring in 2018. Exports of goods, excluding exports of aircrafts and vessels, exhibit a decrease of 27.7%.

External Sector

- The **current account (CA)** balance (see graph 6.4) worsened in 2019Q2, recording a deficit of €203.6 mn, compared with a deficit of €88.4 mn in 2018Q2. This development was mainly attributed to the trade balance of goods and, to a much lesser extent, services. Primary and secondary income, on the other hand, recorded small increases, thus mitigating the abovementioned decreases. For 2019H1 the deficit is €791.5 mn (-3.6% of GDP), compared with a deficit of €77 mn (-0.4% of GDP) in 2018H1. Adjusted for SPEs, the deficit in 2019H1 is -3.9% of GDP compared with -2.4% of GDP in 2018H1.
- The **international investment position (IIP)** (see graph 6.5) recorded a marginal improvement in 2019Q2, showing a net liability position at €24,834.0 mn, compared with €24,888.2 mn in the previous quarter. This was mainly due to the increase recorded in the category “other investment” and to a much lesser extent in derivatives and reserves. This increase was mainly mitigated, by the decrease in foreign direct investment and, to a lesser extent, portfolio investment.
- The **gross external debt** reached €208,114.5 mn in 2019Q2, compared with €205,867.1 mn in 2019Q1. This worsening was mainly due to the increase in government debt and intercompany lending.
- The **net external debt** reached €87,449.5 mn in 2019Q2, compared with €86,932.7 mn in 2019Q1.

Public Finances

- **General government budget balance (GGBB)** continued to be in surplus in January-August 2019, of the order of €924.2 mn (4.3% of GDP) compared to a surplus of €732.6 mn (3.5% of GDP) during the corresponding period the year before (see graph 9.1).
- Correspondingly, **general government primary balance (GGPB)** recorded a surplus in January-August 2019, of the order of €1,279.5 mn (5.9% of GDP) compared to a surplus of €1,056.7 mn (5.1% 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 12%, reaching €5,874.0 mn in January-August 2019, compared to €5,245.7 mn during the corresponding period the year before (see graph 9.3).
- **Total expenditure** exhibited a positive rate of growth of about 9.7%, reaching €4,949.8 mn in January-August 2019, compared to €4,513.1 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 8%** in the **2nd quarter of 2019** compared to the 2nd quarter of 2018 and an increase of 4.2% compared to the 1st quarter of 2019.
- The CBC’s **residential property price index** recorded **an increase of 0.2%** in the **4th quarter of 2018** compared to the 3rd quarter of 2018 and an increase of 1.5% compared to the 4th quarter of 2017. Cumulative from the 1st quarter of 2008 it has exhibited a decline of 26.9% (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 15.4% while, transfers of property were down by 4% in January-September 2019 compared to January-September 2018 (see graph 7.3).
- MFI mortgage loans to domestic residents for housing increased with an annual rate of 0.4% in August 2019 (see graph 7.2).

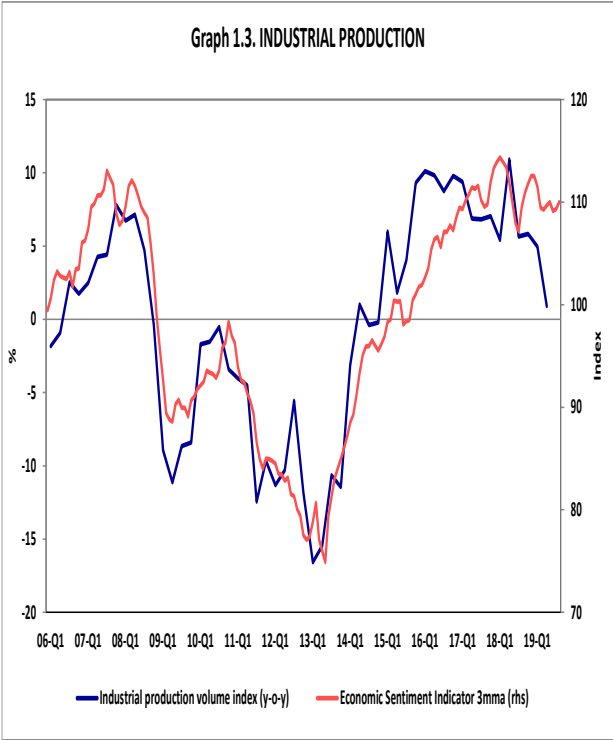
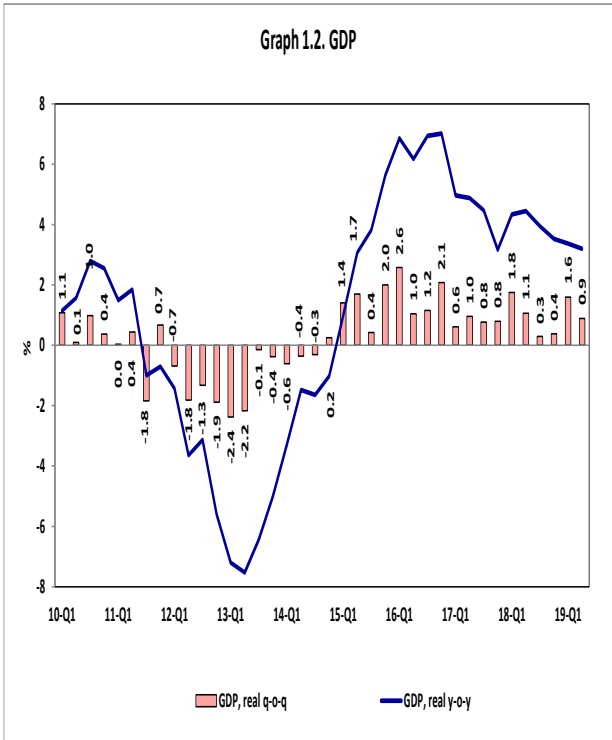
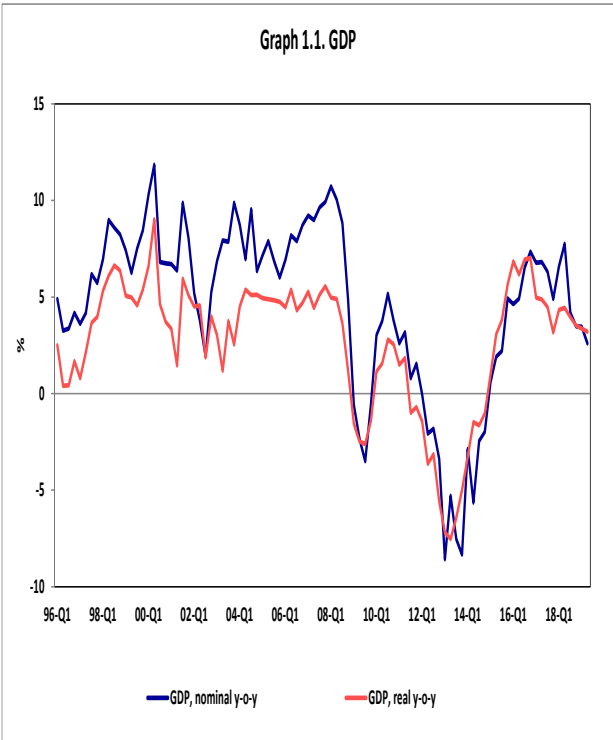
Banking Sector Developments

- Monetary Financial Institutions (MFI) **loans to domestic residents** (private sector), **increased by 1.0%** in August 2019, (see graphs 8.2-8.4). This reflects the still tight lending conditions (see graphs 8.6-8.7).
- **Deposits of domestic** residents held with MFIs (private sector) exhibited an **increase of 3.6%** in August 2019 (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 August 2019, **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 increased and the rate for other loans up to €1 mn for businesses decreased. The interest rate for bank overdrafts to non-financial corporations decreased.
- NPEs in absolute terms fell to €10.3 bn in May 2019, exhibiting a reduction of 1.1 % compared to the December 2018 or by €118 mn in absolute terms.
- The significant decrease of NPEs in 2018, is mainly attributed to the transfer of €5.7 bn NPEs of former CCB to a state - owned Asset Management Company (KEDIPEs) and the sale of NPE portfolios (including the sale of €2.7 bn NPEs by Bank of Cyprus in June 2018 to Apollo Fund), as well as increased repayments, loan restructurings successfully completed and reclassified as performing facilities, write-offs and settlement of debt through swaps with immovable property.
- NPEs are classified based on the harmonised definition of the European Banking Authority, which includes loans that have been restructured and, even despite meeting their revised repayment schedule, retain the NPE status for at least 12 months after restructuring before being reclassified as performing.
- Accumulated provisions rose to 52.6% of NPEs in May 2019 (49.2% in May 2018), compared to 51.4% as at the end of 2018, thus facilitating restructuring activity with a view to cure NPEs of viable customers.

Credit ratings

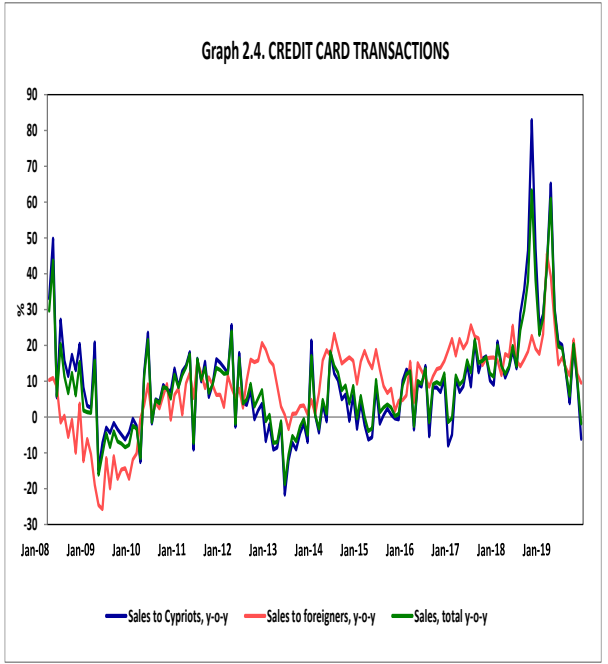
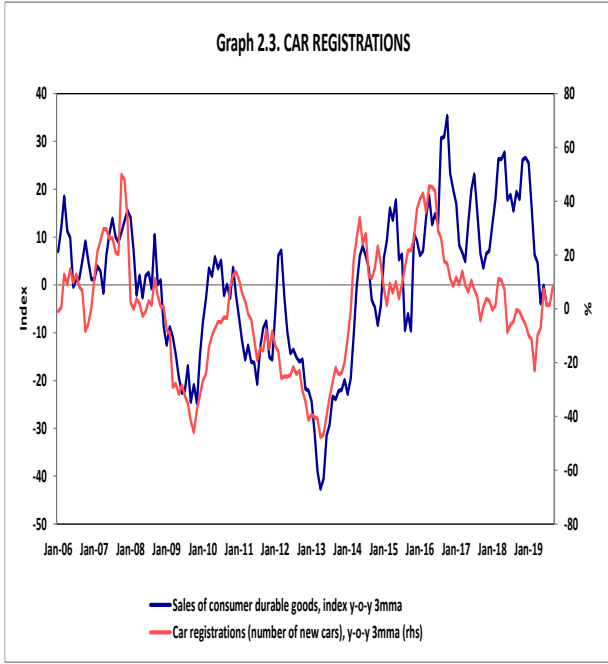
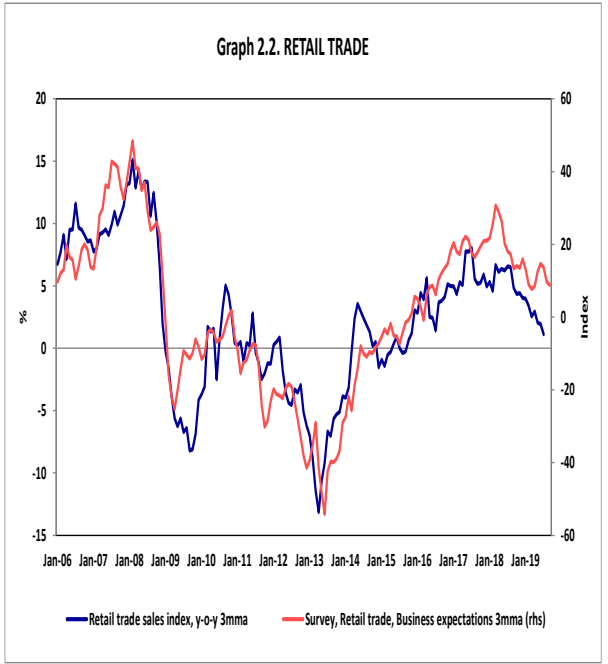
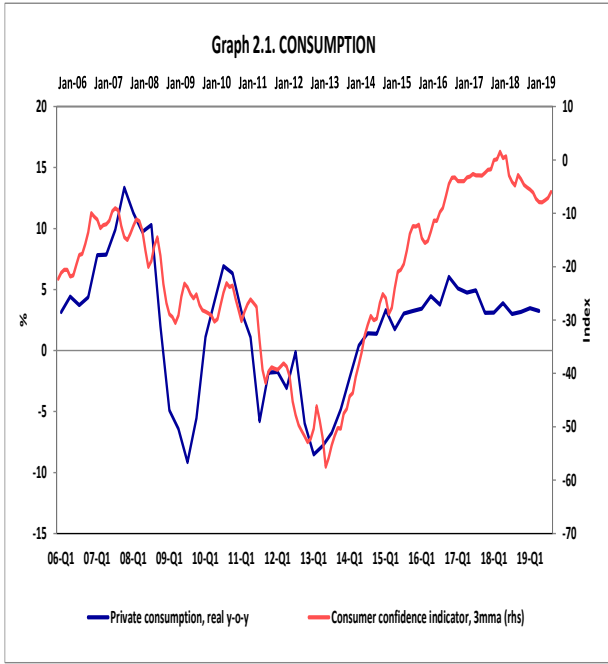
- On 11/10/2019, Fitch Ratings has revised the Outlook on Cyprus's Long-Term Foreign-Currency Issuer Default Rating (IDR) to Positive from Stable and affirmed the IDR at BBB-.
- Additionally, on 20/09/2019, Moody's Investors Service changed the outlook on the Government of Cyprus's Ba2 ratings to positive from stable. Concurrently, Moody's has affirmed the Ba2 long-term issuer and senior unsecured ratings, and the (P)Ba2 programme ratings. Cyprus's short-term ratings have also been affirmed at Not Prime (NP) and (P)NP.
- 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.
- 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



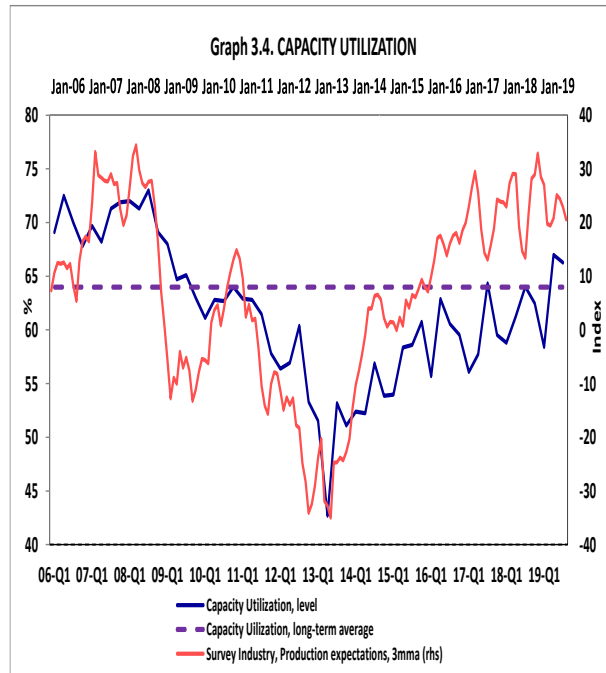
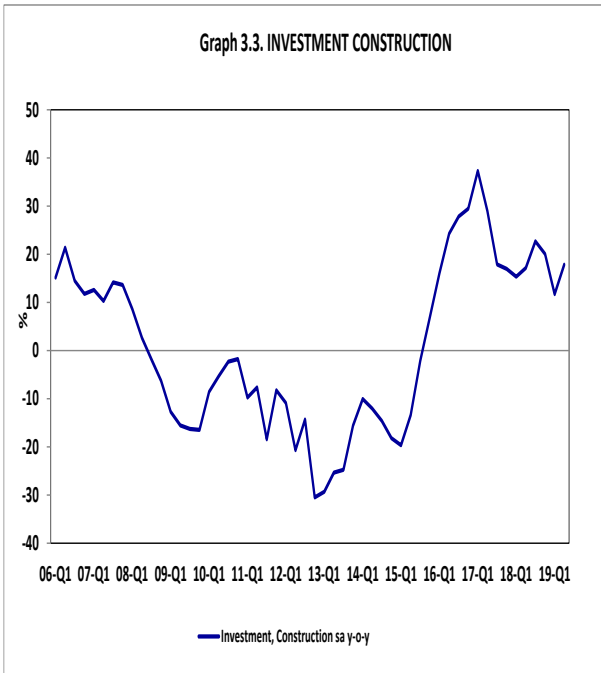
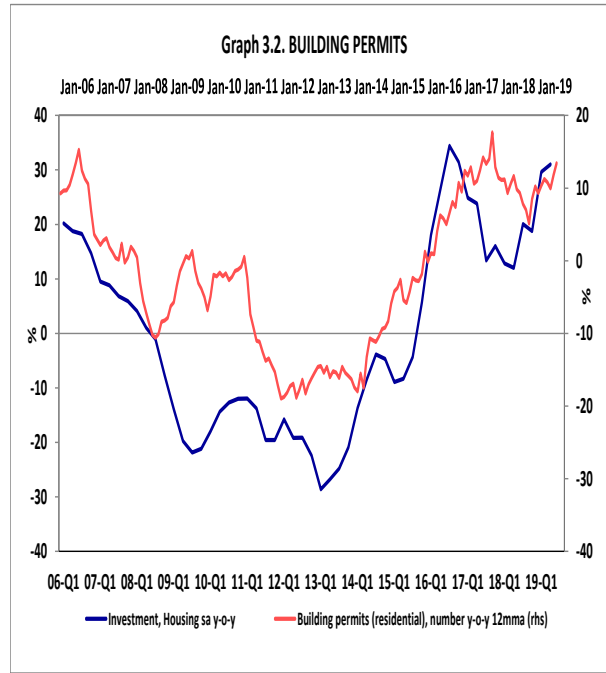
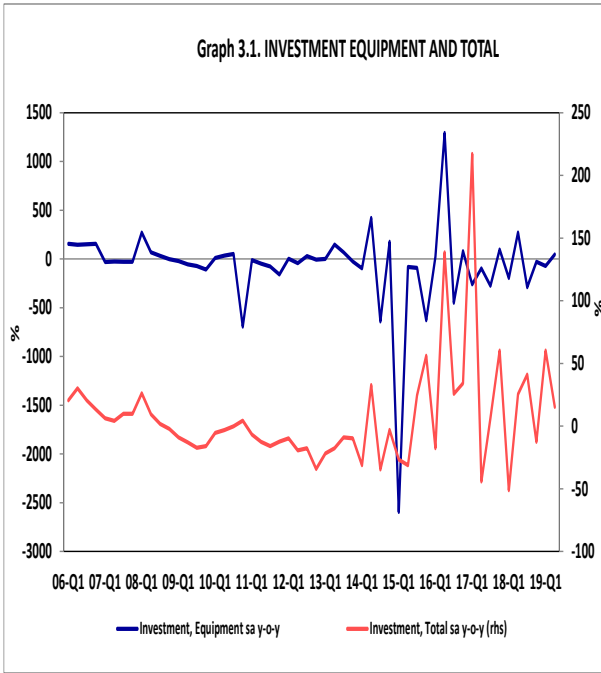
Sources: Eurostat, DG ECFIN, Cystat

2. CONSUMPTION



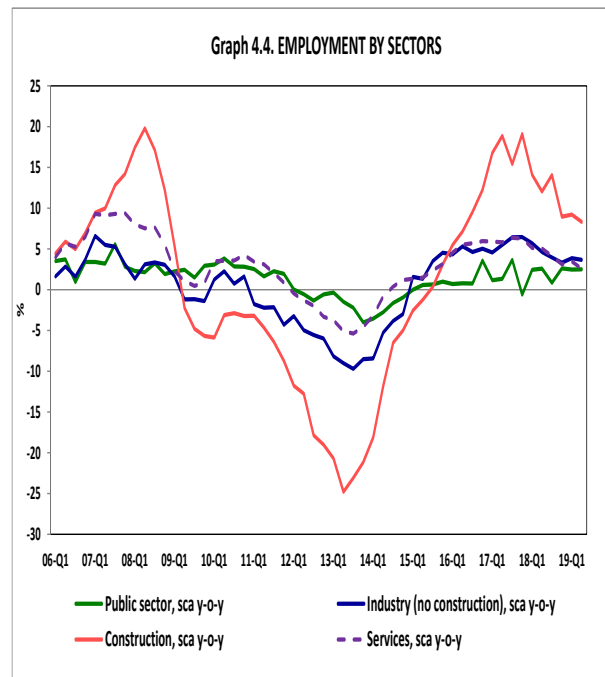
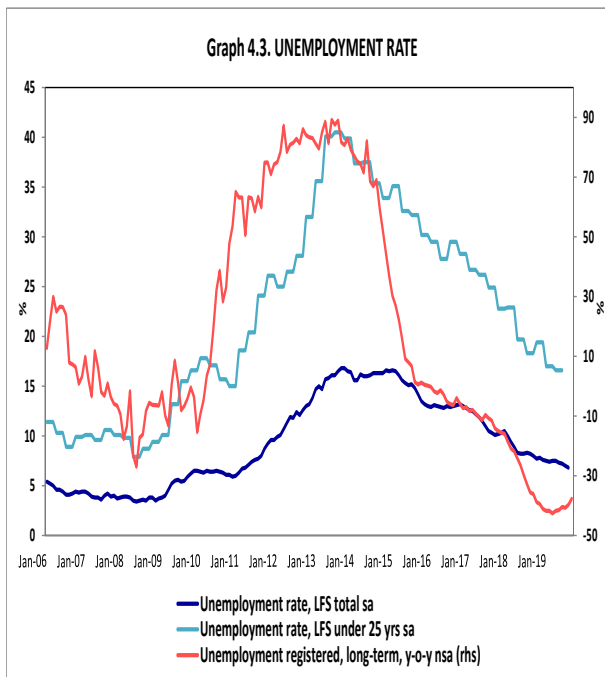
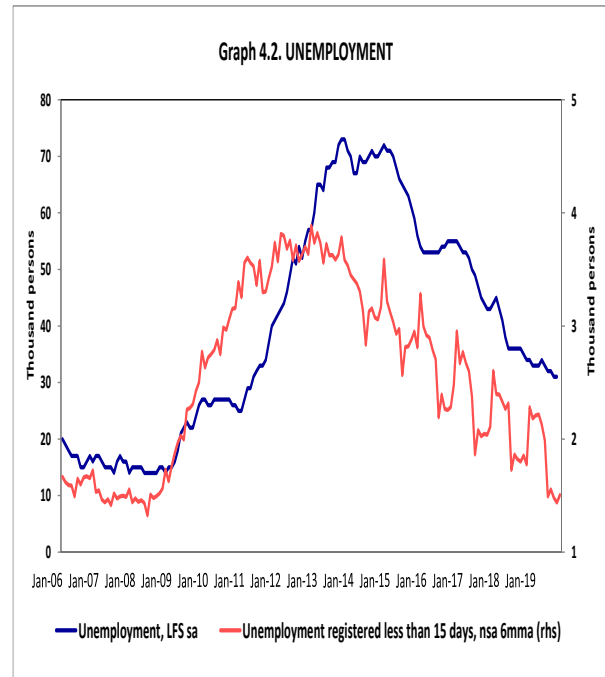
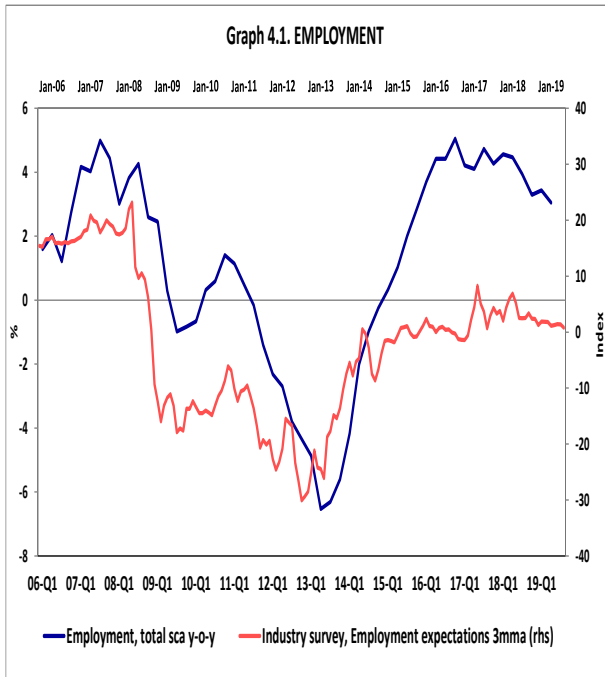
Sources: Eurostat, DG ECFIN, Cystat, JCC Payment Systems Ltd

3. INVESTMENT



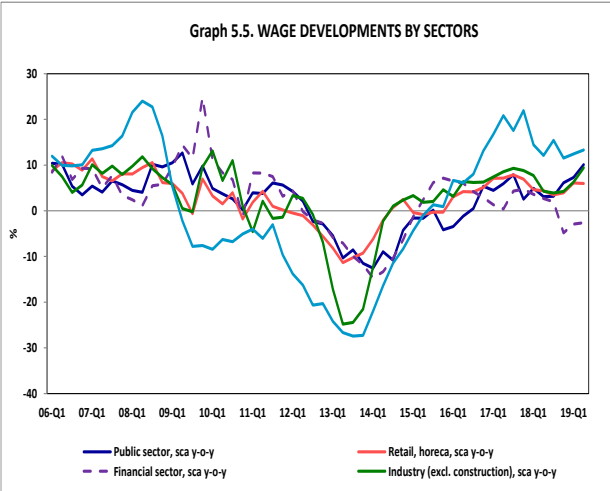
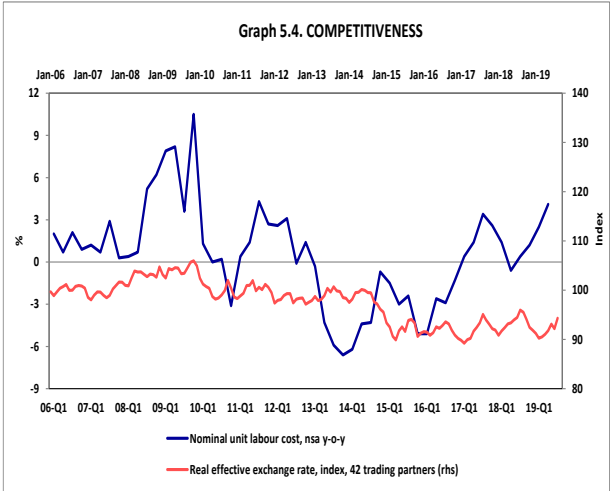
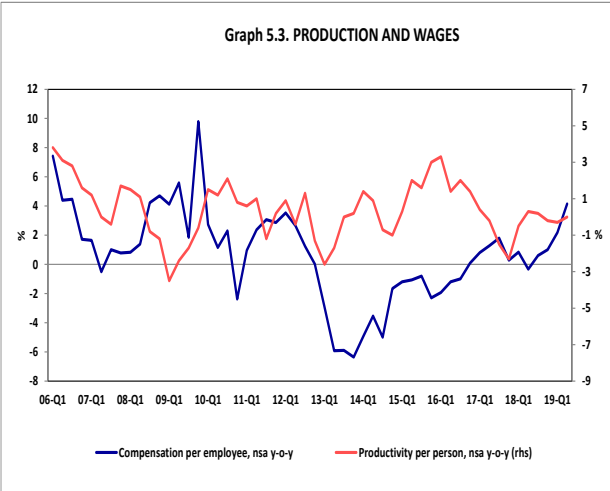
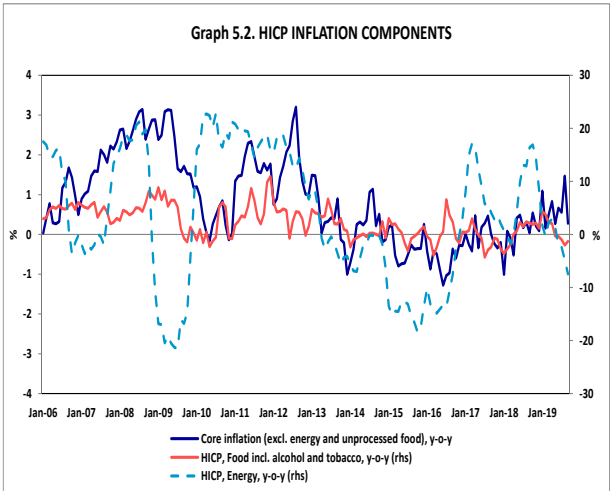
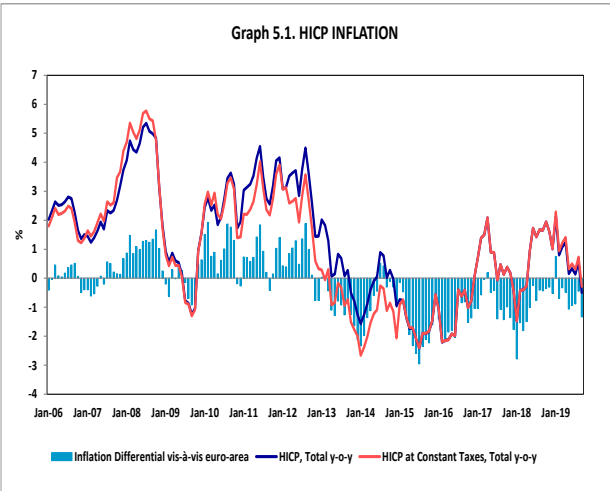
Sources: Eurostat, DG ECFIN, Cystat

4. LABOUR MARKET



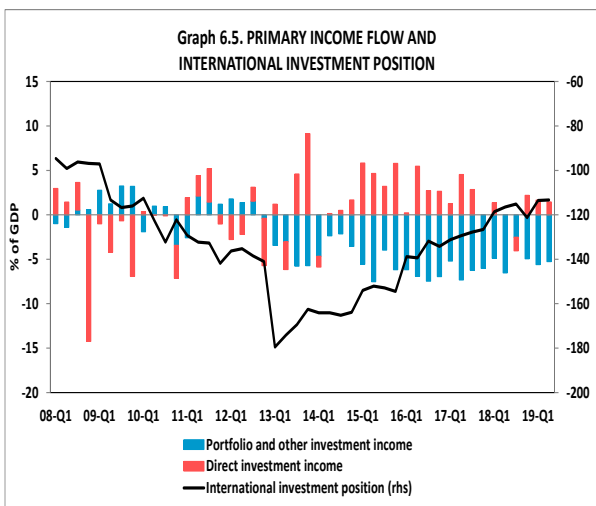
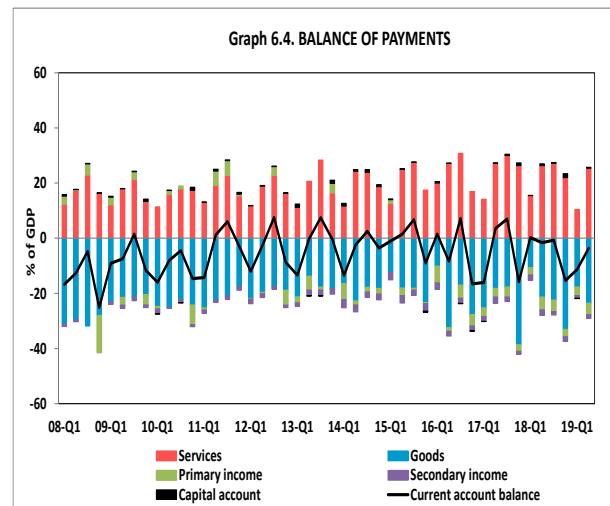
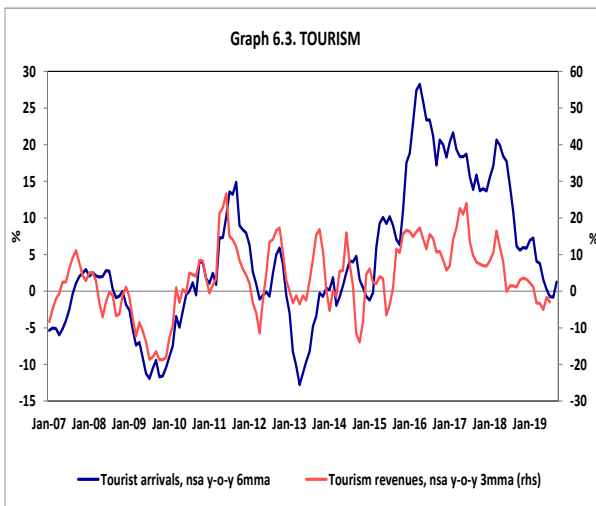
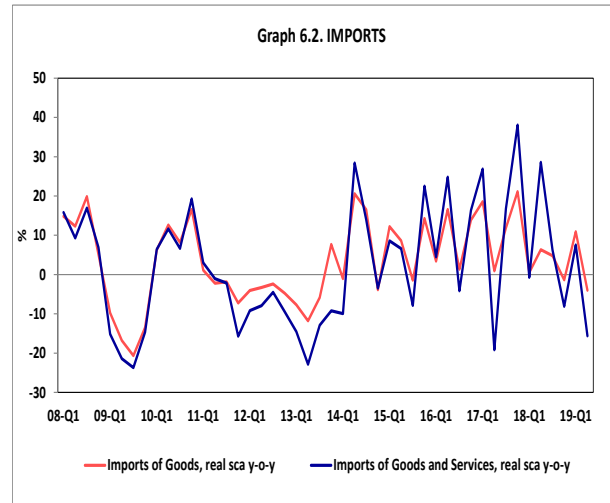
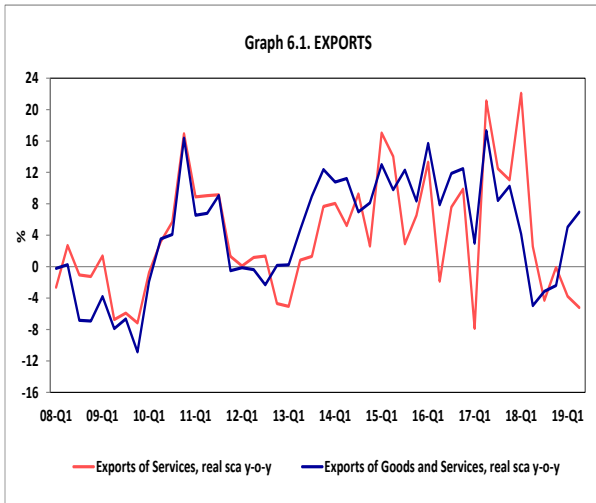
Sources: Eurostat, DG ECFIN, Cystat

5. INFLATION, WAGES



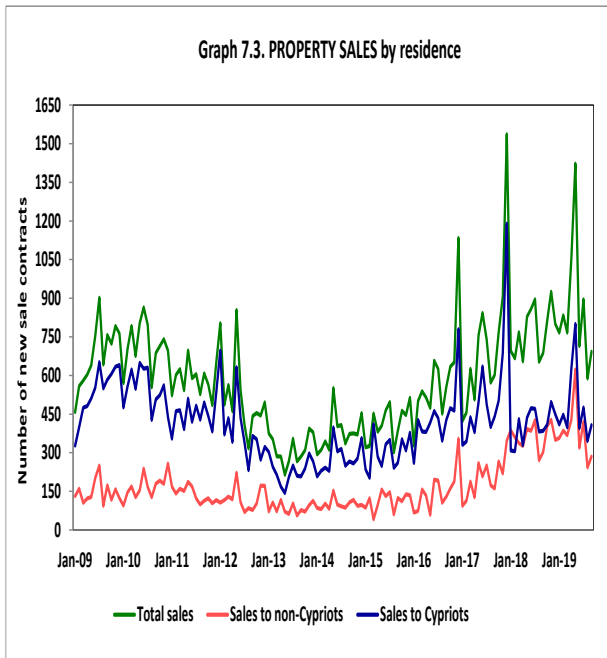
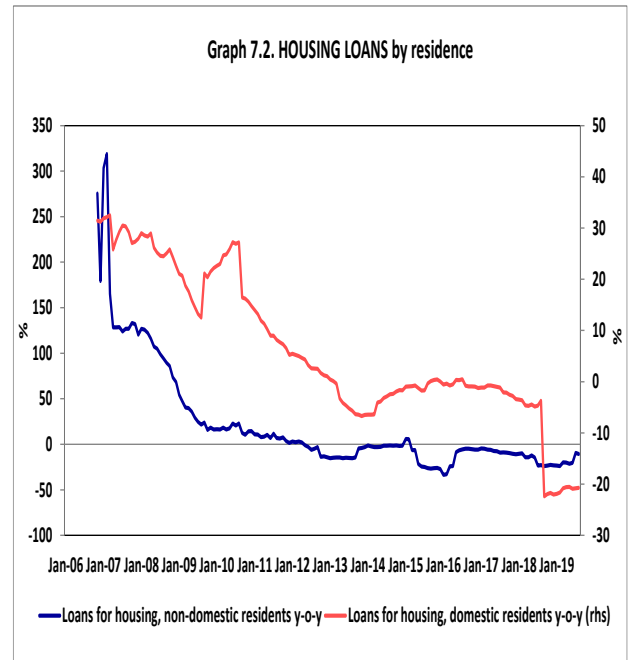
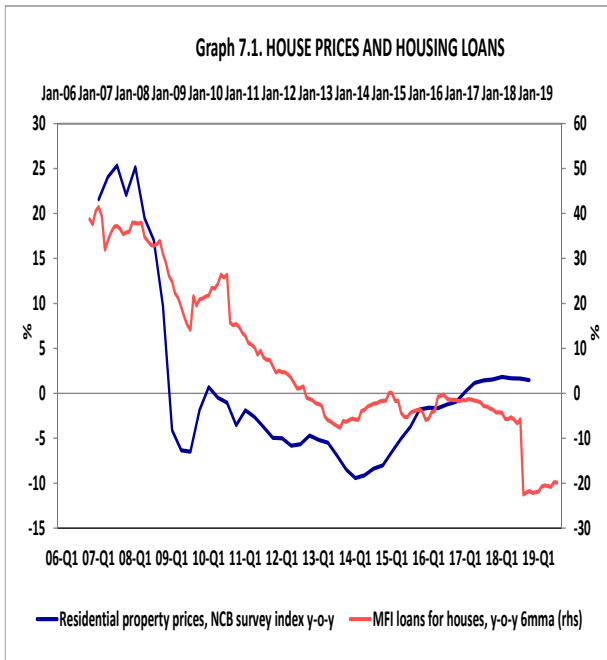
Source: Eurostat

6. EXTERNAL SECTOR



Sources: Eurostat, Cystat, ECB, CBC

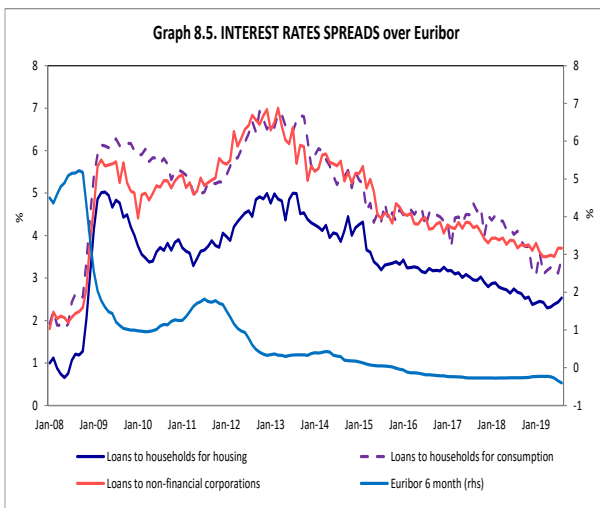
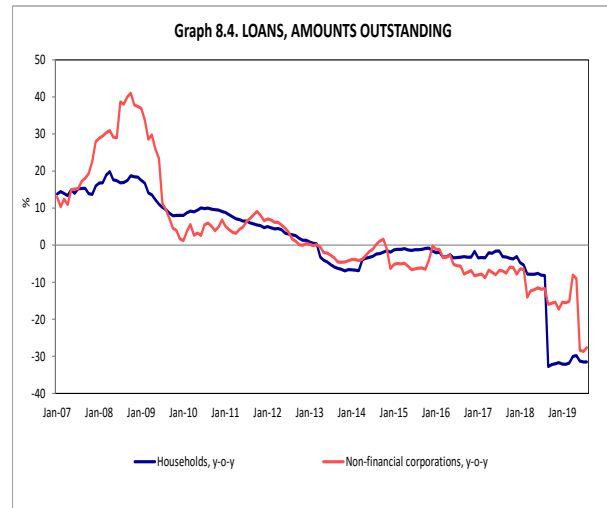
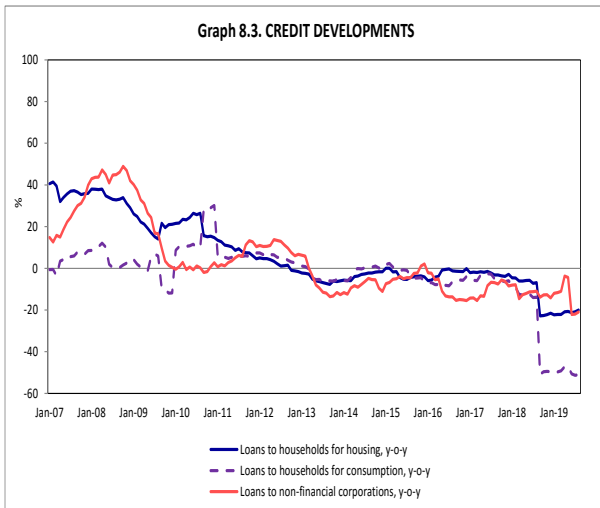
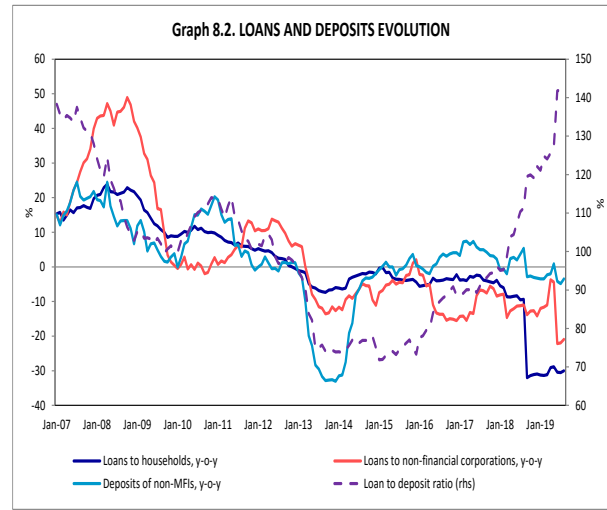
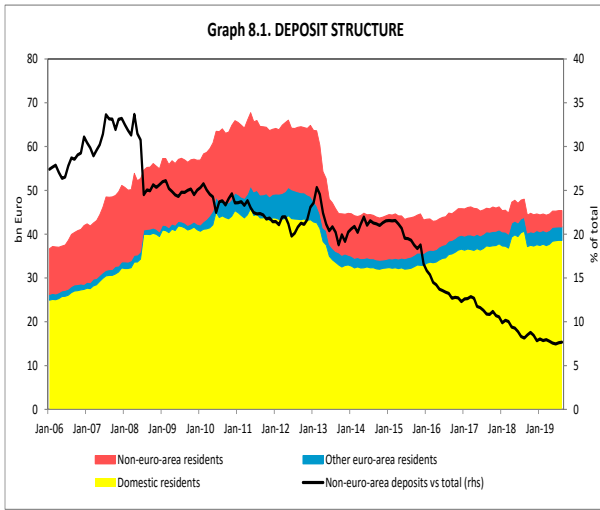
7. HOUSING



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.

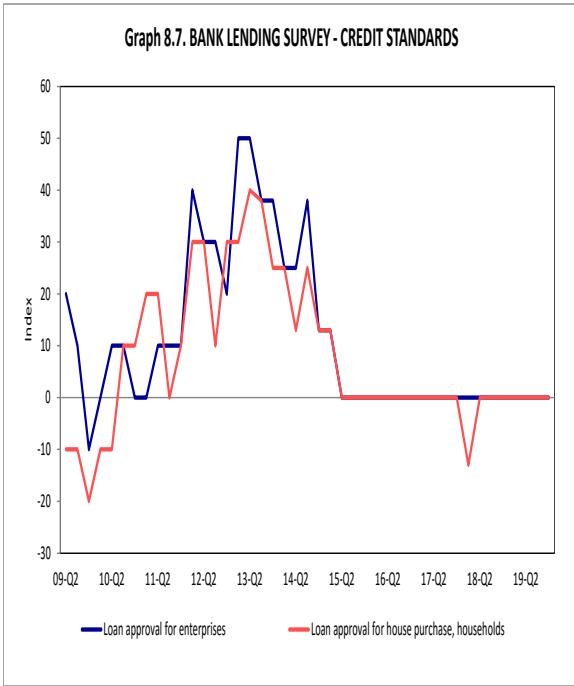
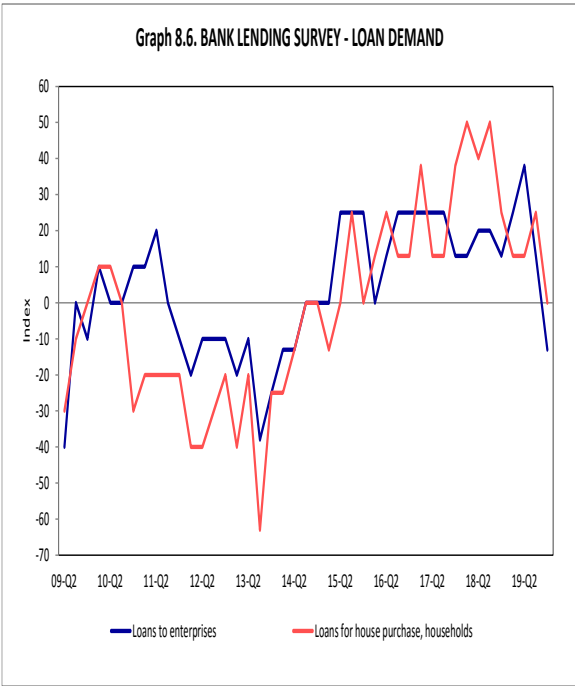
Sources: ECB, CBC, Dep. of Lands and Surveys

8. FINANCIAL SECTOR



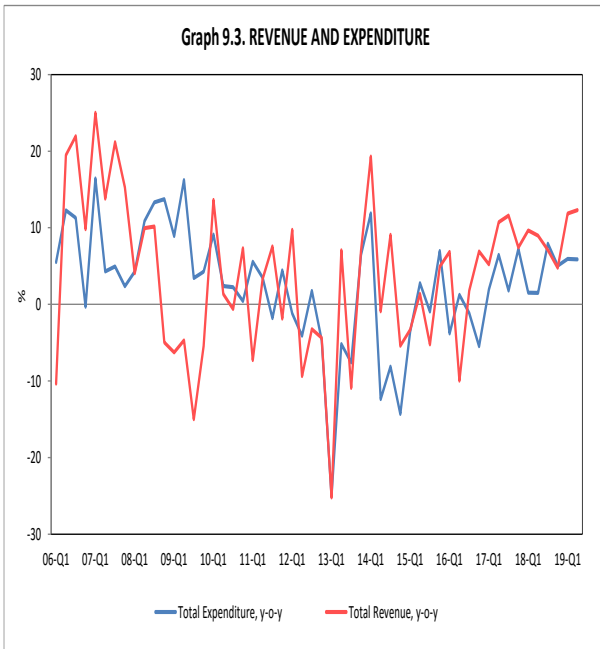
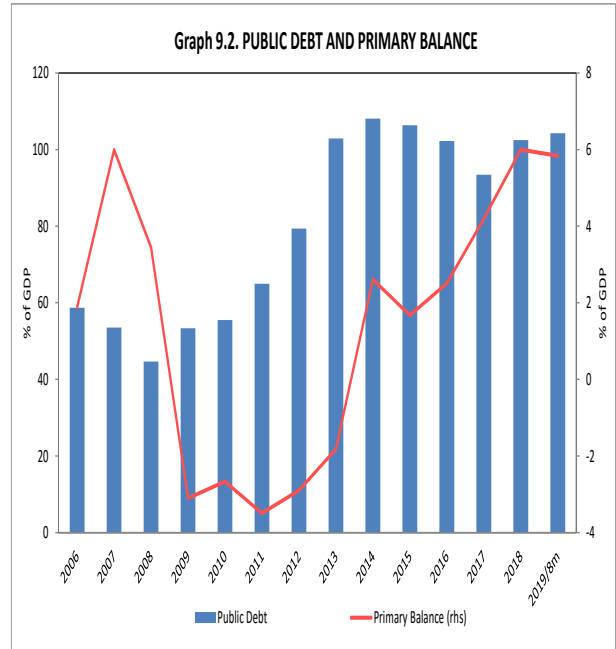
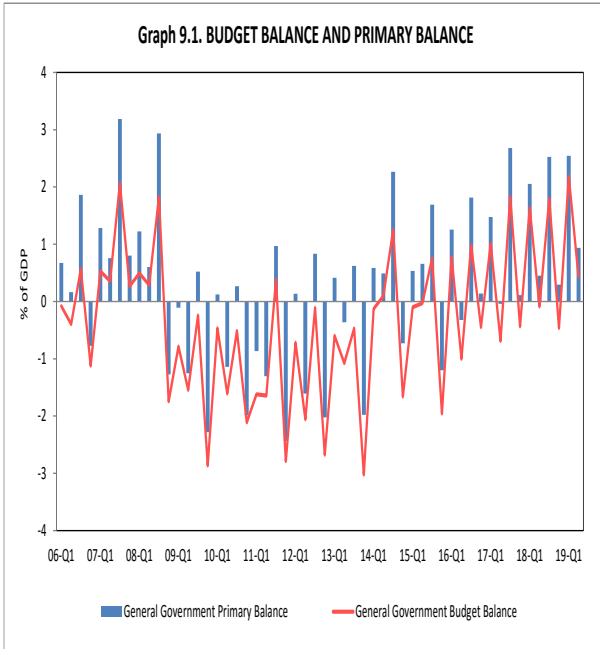
Sources: ECB, CBC, Bloomberg

8. FINANCIAL SECTOR – CONT.



Source: ECB

9. PUBLIC SECTOR



Sources: Ministry of Finance, Cystat