



MACROECONOMIC MONITOR OF CYPRUS

September 2019

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Updated on 20 September 2019

Macro economy

- **In the 2nd quarter of 2019, GDP** (in seasonally adjusted terms) **recorded a positive rate of growth of 3.2%, the same as 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 August 2019, it increased by 3.6 points compared to July 2019 (see graph 1.3). The increase resulted from stronger business confidence in the service sector and, to a lesser extent, from confidence gains in the retail trade and construction sectors.
- During January-August 2019 **tourist arrivals marginally increased at a rate of 0.6%** compared to January-August 2018 (see graph 6.3). An increase of 1.5% was recorded in tourist arrivals from the UK, a 20.5% increase from Israel, a 3.2% decrease from Russia, an 7.5% decrease from Greece and a 17.9% 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, wholesale and retail trade professional, scientific and technical activities, manufacturing, hotels and restaurants and education.
- **Labour Force Survey (LFS) unemployment**, in monthly seasonally adjusted terms, **decreased to 7.0% in July 2019 compared to 8.3% in July 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 17.1% in 2019Q1 from a peak of 40.5% in the 3rd quarter of 2013.
- **Compensation per employee** recorded an increase of 3.3% in 1st half of 2019 compared to the 1st half of 2018 (see graphs 5.3-5.5).
- **Inflation (HICP)** in August 2019 recorded an increase of 0.6% compared to an increase of 0.1% in July 2019 (see graph 5.1). For 2019 so far it stands at 0.8%. Core HICP stood at 0.7% in January-August 2019 (see graph 5.2). All subcategories of HICP presented an increase except categories clothing, health, transport and communication.
- **Imports of goods recorded a decrease of 9.5%** in January-July 2019 compared to January-July 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 2%.
- **Exports of goods recorded a decrease of 35.9%** in January-July 2019 compared to January-July 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 24.9%.

External Sector

- The **current account (CA)** balance (see graph 6.4) worsened in 2019Q1, recording a deficit of €591.3 mn, (2.7% of GDP) compared with a deficit of €148.8 mn (0.7% of GDP) in 2018Q1. This development was mainly attributed to the trade balance of goods and, to a lesser extent, services. Primary and secondary income, on the other hand, recorded increases, therefore mitigating the abovementioned deterioration. It is noted that the improvement in primary income is related with the deterioration in services. The CA balance for 2019Q1 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, recorded a deficit of 3.3% of GDP compared to a deficit of 2.4% of GDP in 2018Q1.
- The **international investment position (IIP)** (see graph 6.5) recorded a small improvement in 2019Q1, showing a net liability position of €23,372.1 mn, compared to €23,774.2 mn the previous quarter. Foreign direct investment, other investment and reserves recorded increases in 2019Q1 compared with 2018Q4 while portfolio investment and derivatives decreased, thus mitigating the abovementioned increase.
- The **gross external debt** declined to €101,906.1 mn in 2019Q1, compared with €102,533.2 mn in 2018Q4. This improvement was mainly due to the debt decrease of monetary financial institutions (excluding the CBC) which was mitigated by the increase in government external debt.
- The **net external debt** reached €22,228.9 mn in 2019Q1, compared with €21,935.7 mn in 2018Q4.

Public Finances

- **General government budget balance (GGBB)** continued to be in surplus in January-July 2019, of the order of €695.8 mn (3.2% of GDP) compared to a surplus of €488.5 mn (2.4% of GDP) during the corresponding period the year before (see graph 9.1).
- **General government primary balance (GGPB)** also recorded a surplus in January-July 2019, of the order of €1,041.0 mn (4.8% of GDP) compared to a surplus of €801.9 mn (3.9% 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 12.4%, reaching €5,028.0 mn in January-July 2019, compared to €4,474.8 mn during the corresponding period the year before (see graph 9.3).
- **Total expenditure** exhibited a positive rate of growth of about 8.7%, reaching €4,332.2 mn in January-July 2019, compared to €3,986.3 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 4.3% in the 1st quarter of 2019 compared to the 1st quarter of 2018.
- 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 17% while, transfers of property were down by 6.4% in January-August 2019 compared to January-August 2018 (see graph 7.3).
- MFI mortgage loans to domestic residents for housing increased with an annual rate of 0.3% in July 2019 (see graph 7.2).

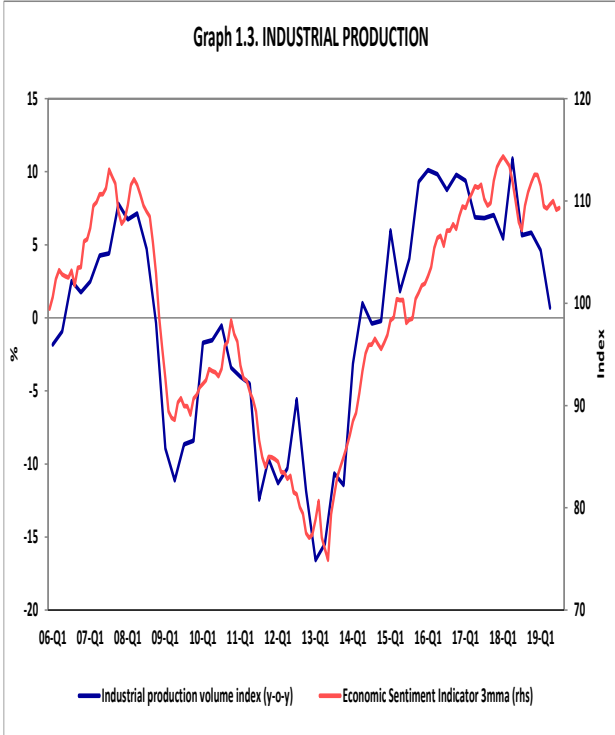
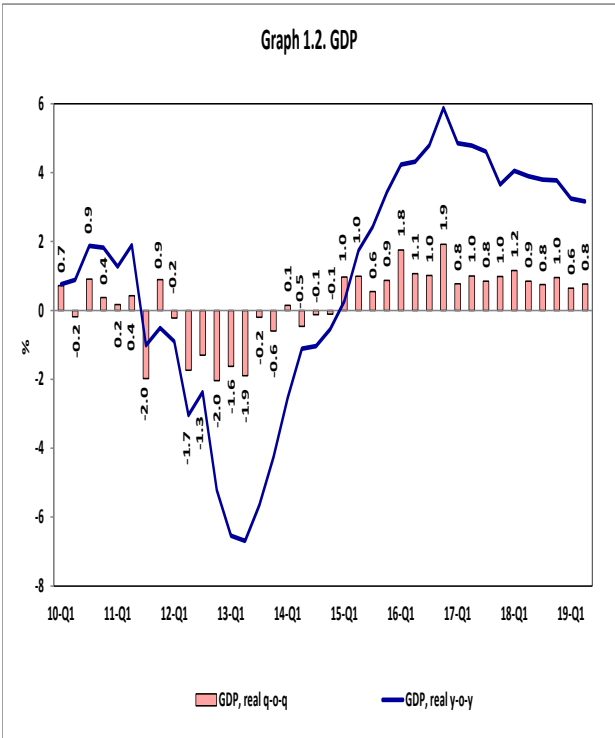
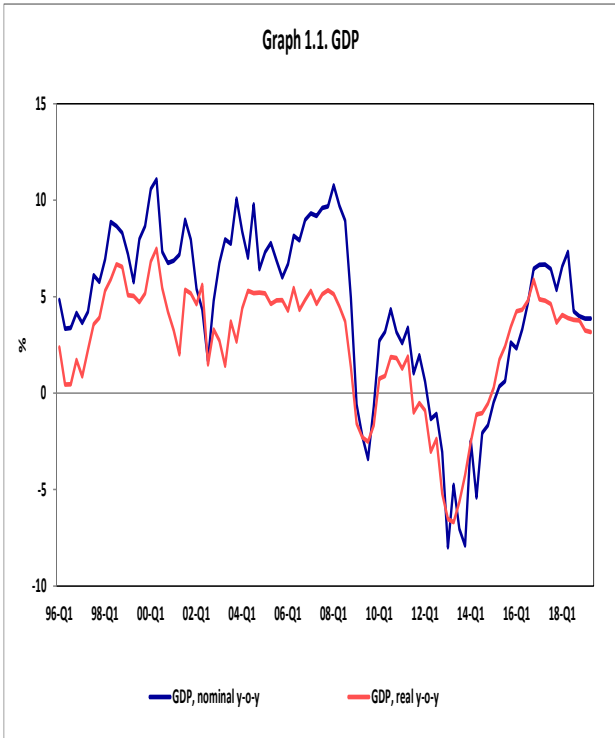
Banking Sector Developments

- Monetary Financial Institutions (MFI) **loans to domestic residents** (private sector), **increased by 0.7%** in July 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 4.1%** in July 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 July 2019, **deposit interest rates** for maturity of up to 1 year and of up to 3 months decreased 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 remained unchanged.
- NPEs in absolute terms fell to €10.3 bn in April 2019, exhibiting a reduction of 1% compared to the December 2018 or by €106.7 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 April 2019 (49.1% in April 2018), compared to 51.4% as at the end of 2018, thus facilitating restructuring activity with a view to cure NPEs of viable customers.
- On 24/01/2019, Moody's upgraded Bank of Cyprus and Hellenic Bank Public long-term deposit ratings to B3 from Caa1, and their long-term Counterparty Risk Ratings (CRRs) to B1 from B2. At the same time, Hellenic Bank's baseline credit assessment (BCA) and adjusted BCA were upgraded to caa1 from caa2, and its long-term Counterparty Risk Assessment (CRA) to B1(cr) from B2(cr). The outlook on both banks' long-term deposit ratings is positive.

Credit ratings

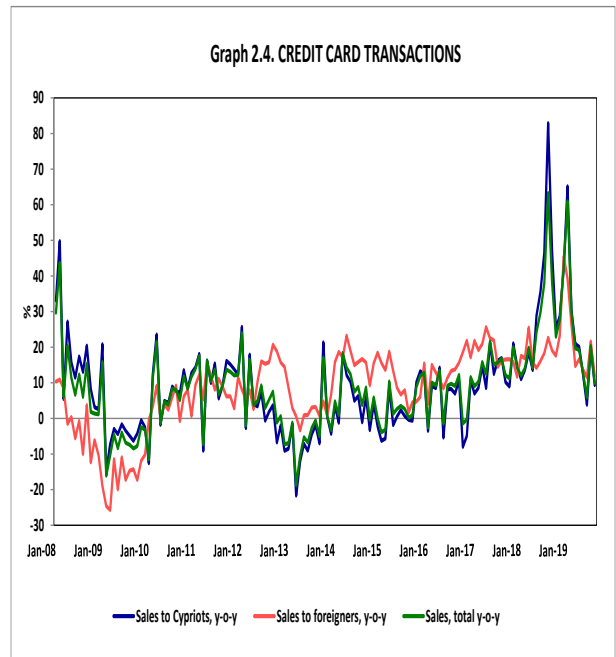
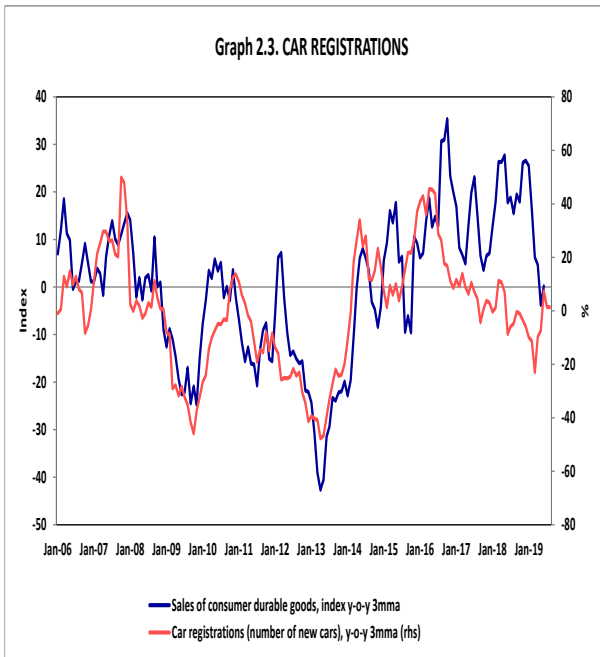
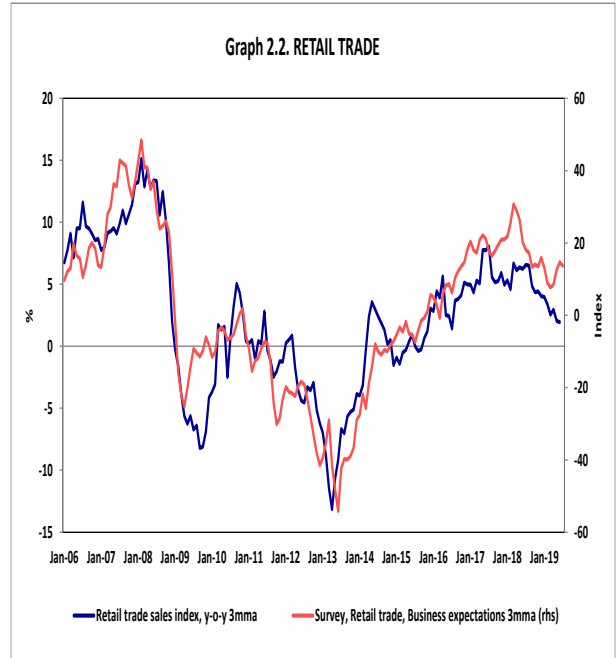
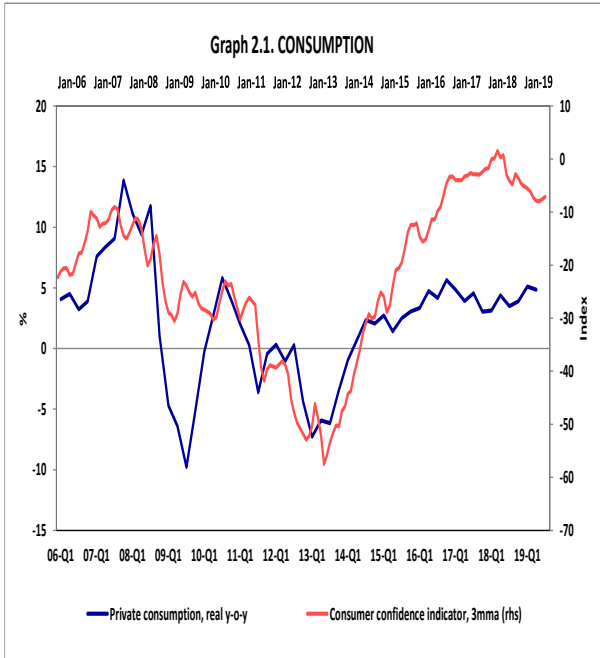
- On 20/09/2019, Moody's Investors Service changed the outlook on the Government of Cyprus's Ba2 ratings to positive from stable. Concurrently, Moody's has affirmed the Ba2 long-term issuer and senior unsecured ratings, and the (P)Ba2 programme ratings. Cyprus's short-term ratings have also been affirmed 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.
- 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



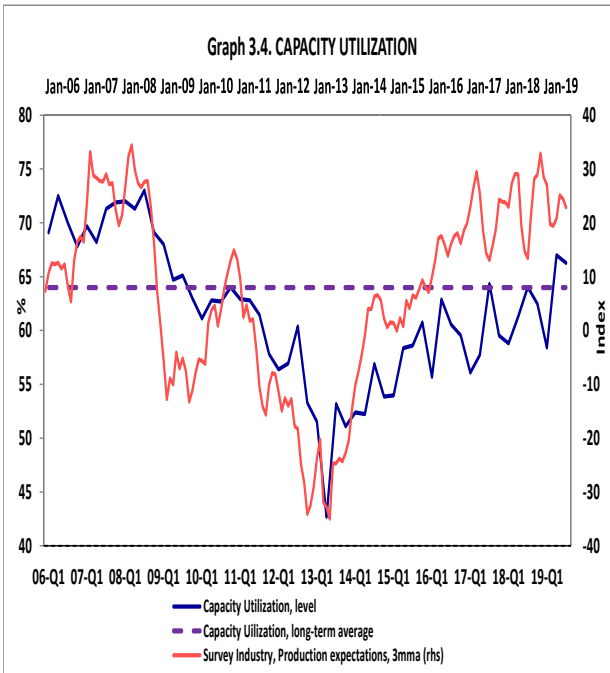
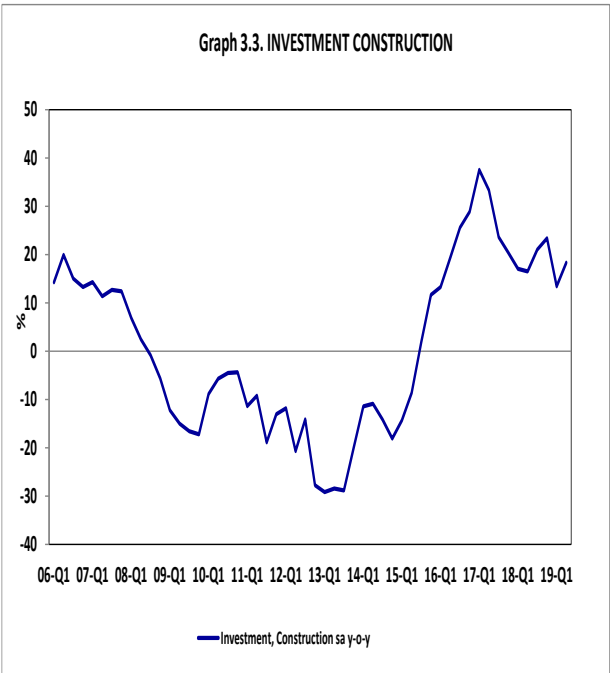
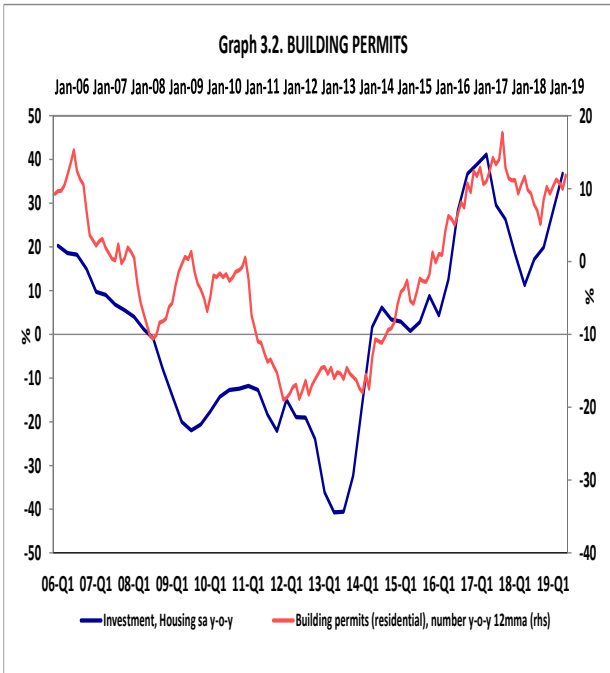
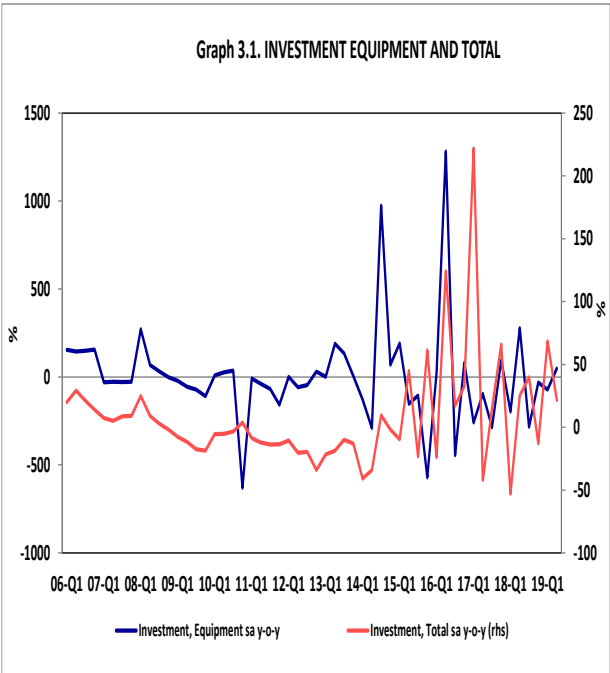
Sources: Eurostat, DG ECFIN, Cystat

2. CONSUMPTION



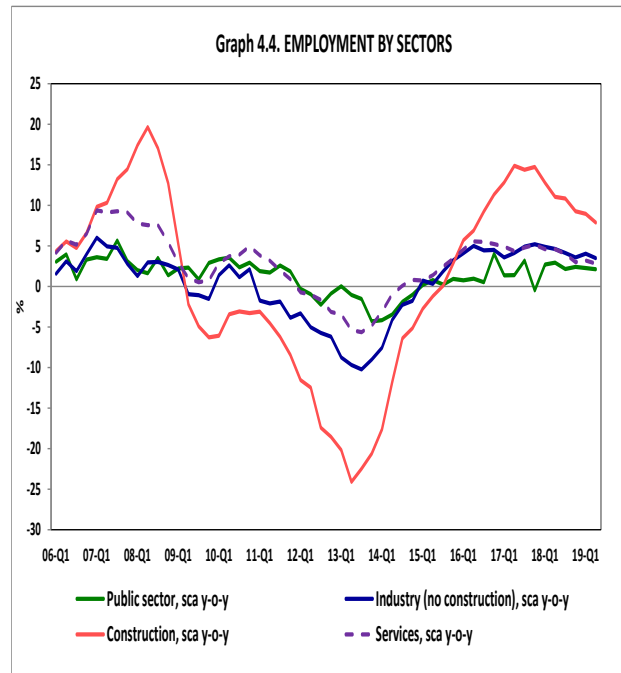
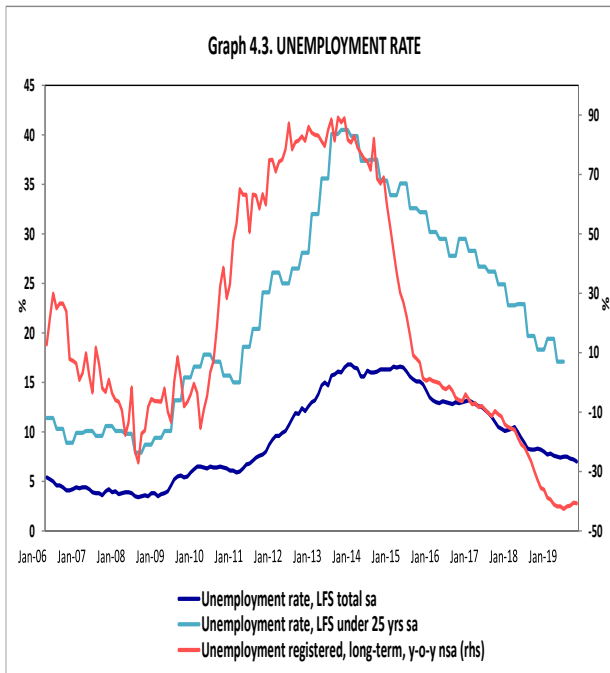
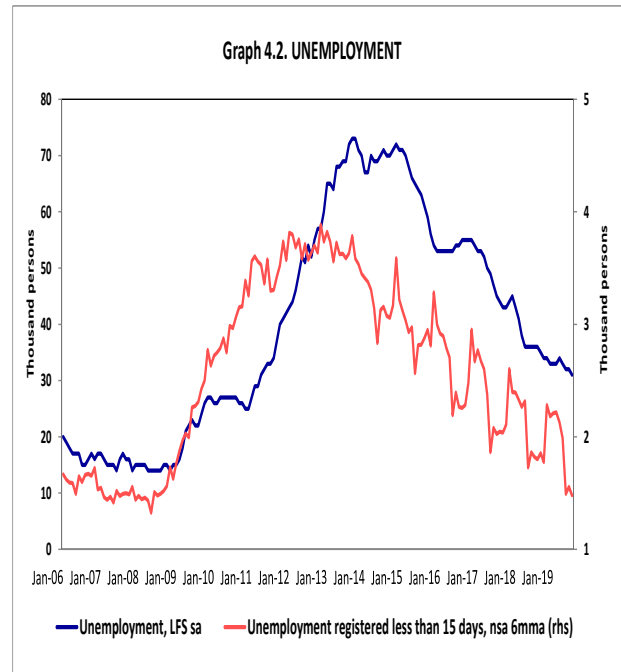
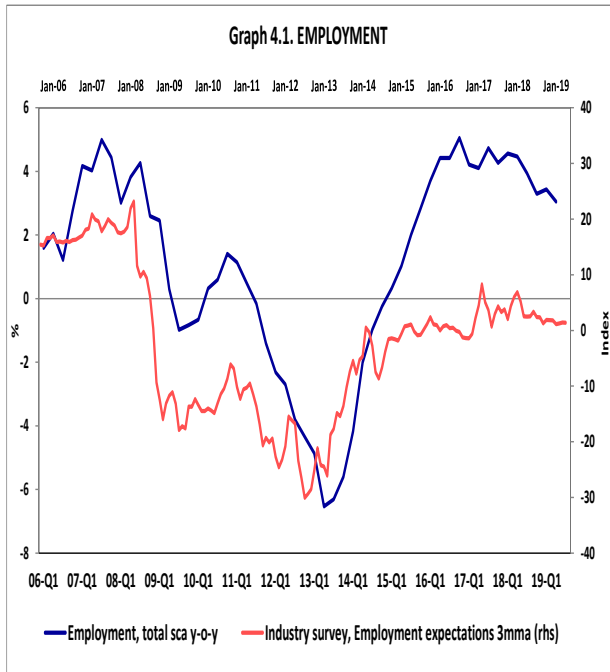
Sources: Eurostat, DG ECFIN, Cystat, JCC Payment Systems Ltd

3. INVESTMENT



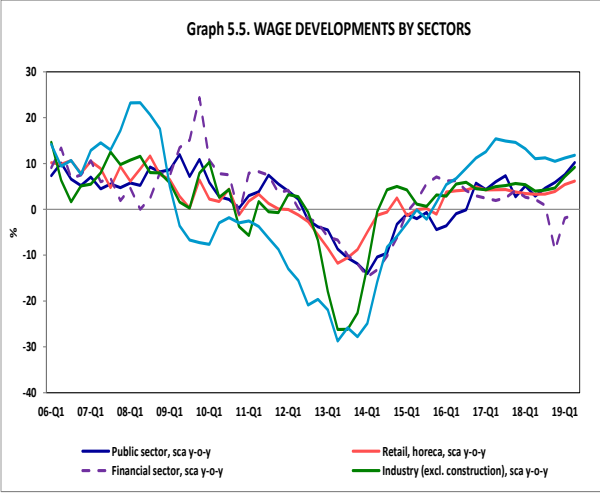
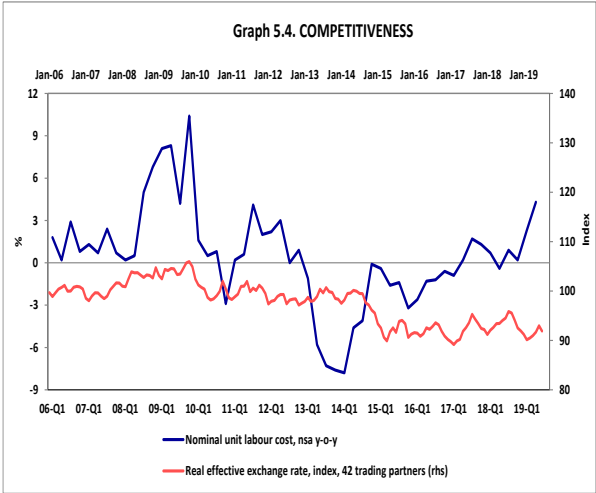
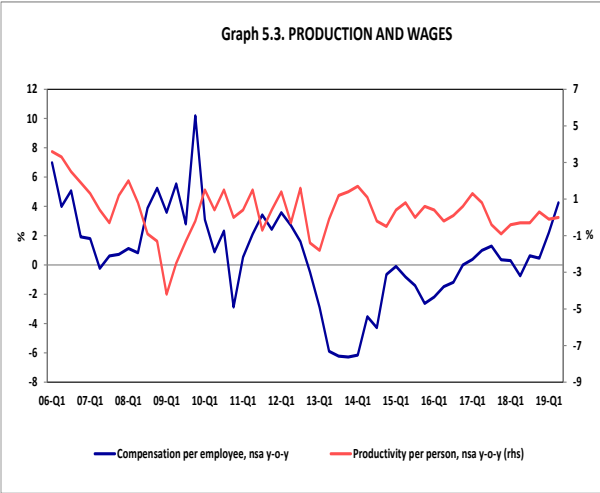
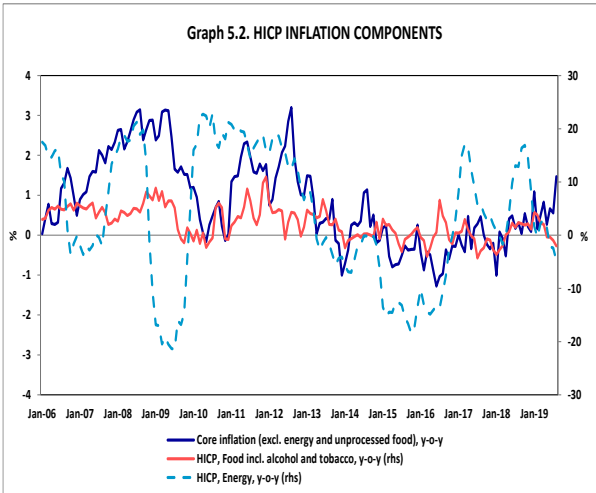
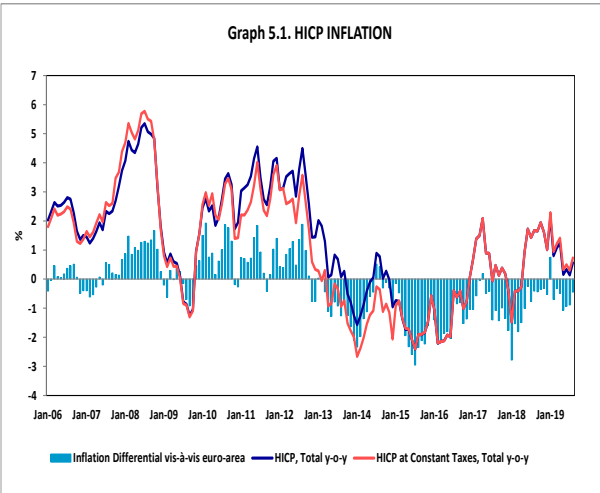
Sources: Eurostat, DG ECFIN, Cystat

4. LABOUR MARKET



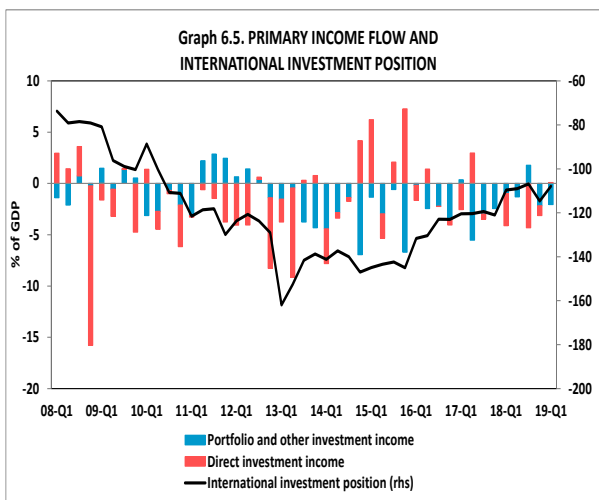
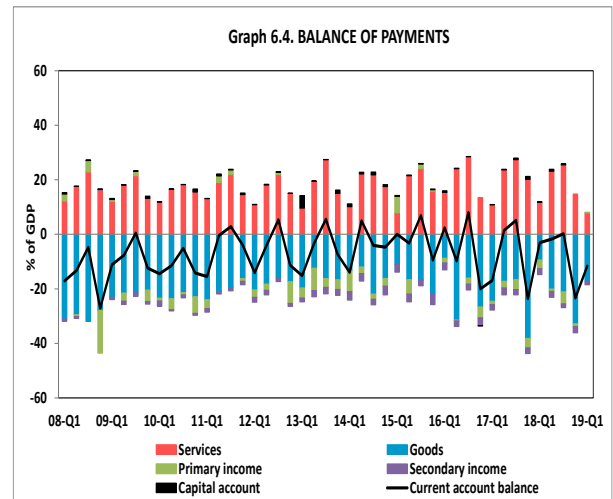
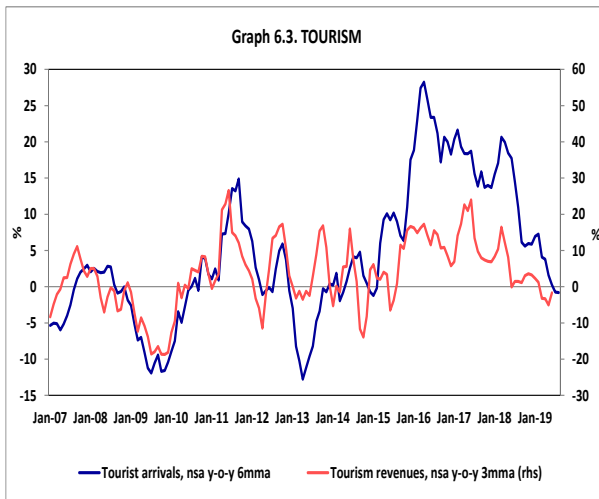
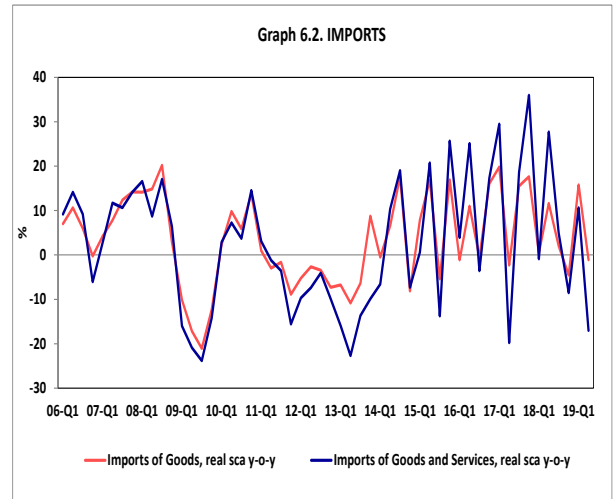
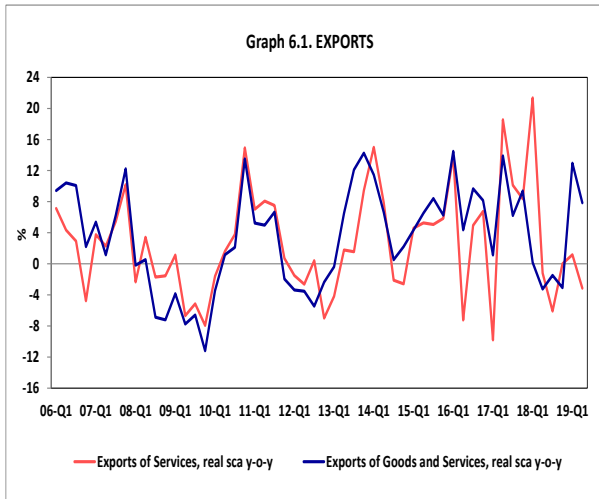
Sources: Eurostat, DG ECFIN, Cystat

5. INFLATION, WAGES



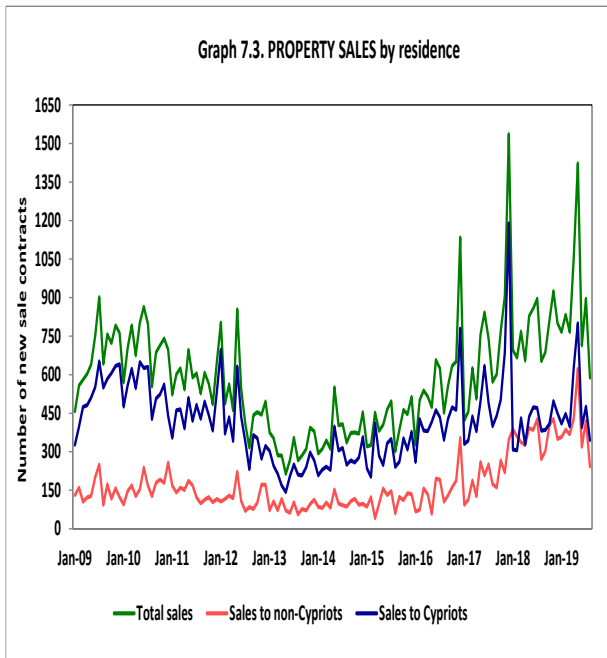
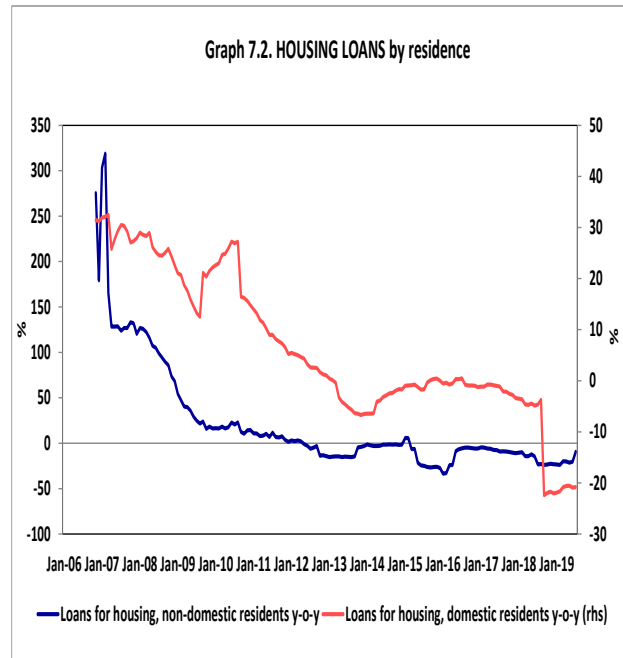
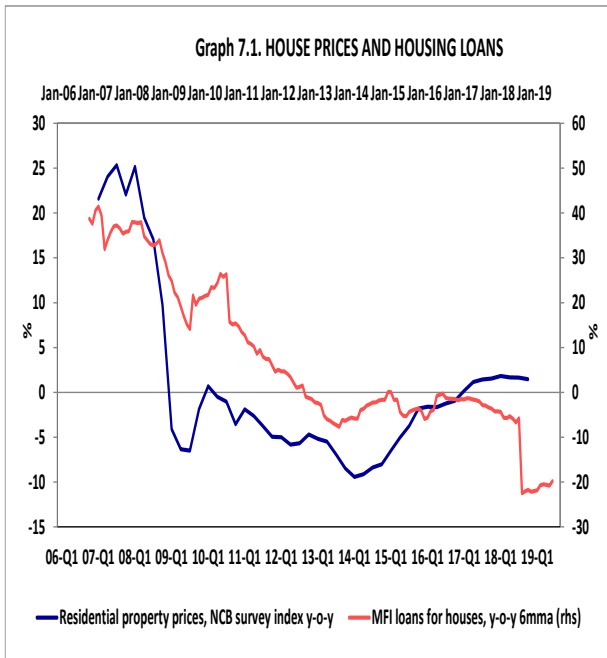
Source: Eurostat

6. EXTERNAL SECTOR



Sources: Eurostat, Cystat, ECB, CBC

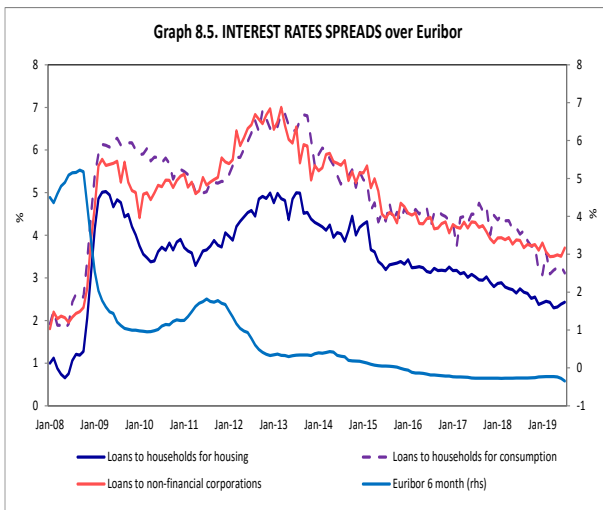
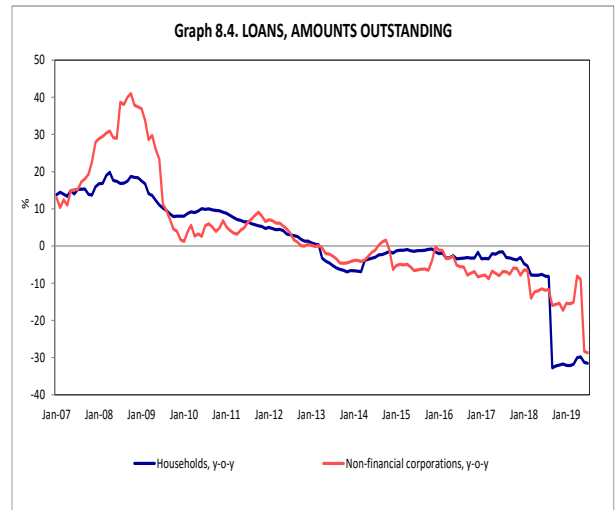
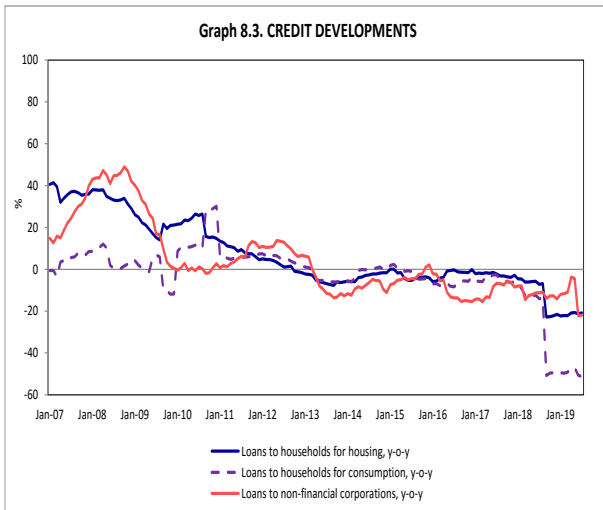
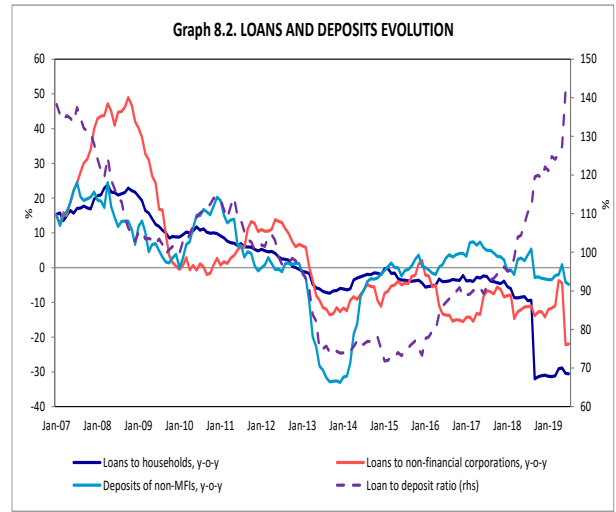
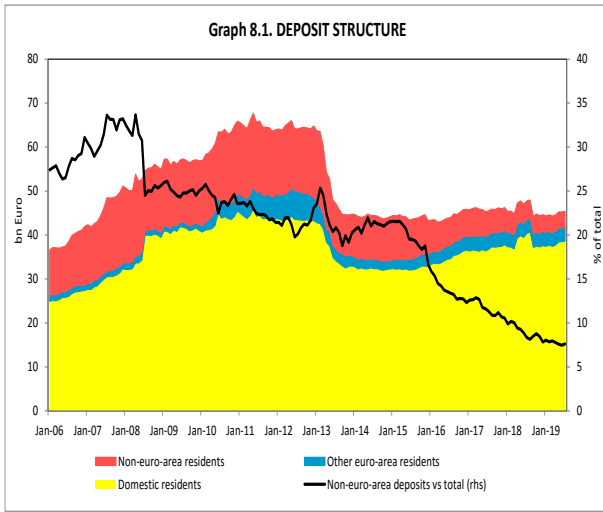
7. HOUSING



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.

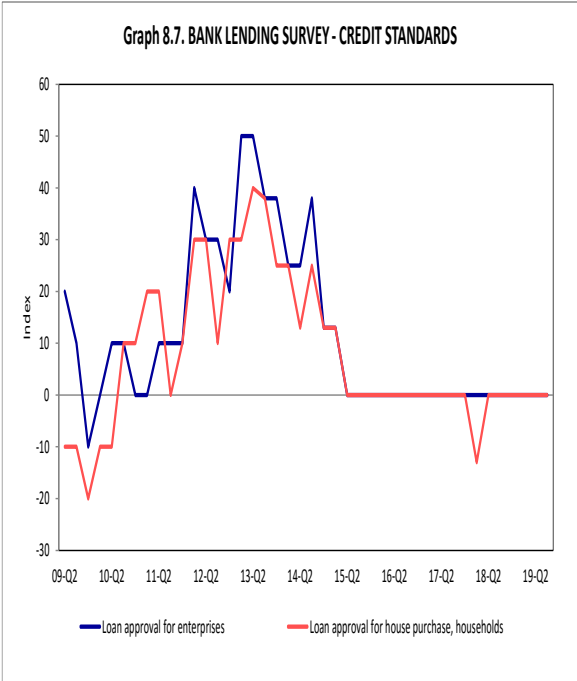
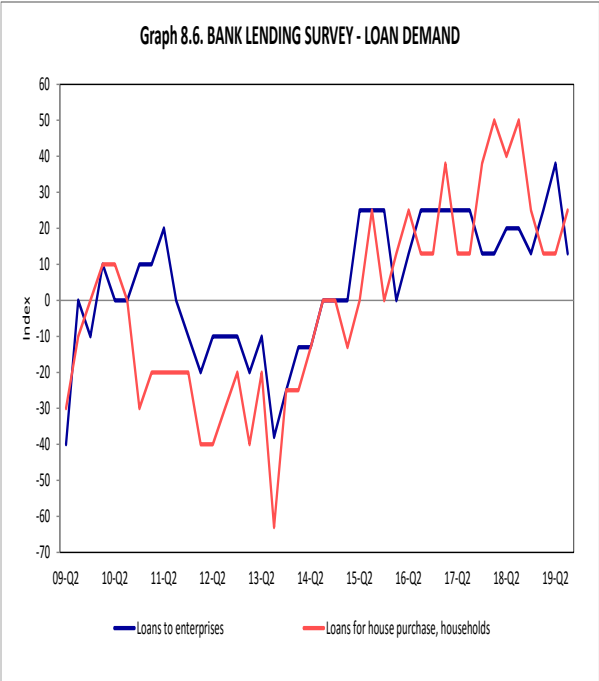
Sources: ECB, CBC, Dep. of Lands and Surveys

8. FINANCIAL SECTOR



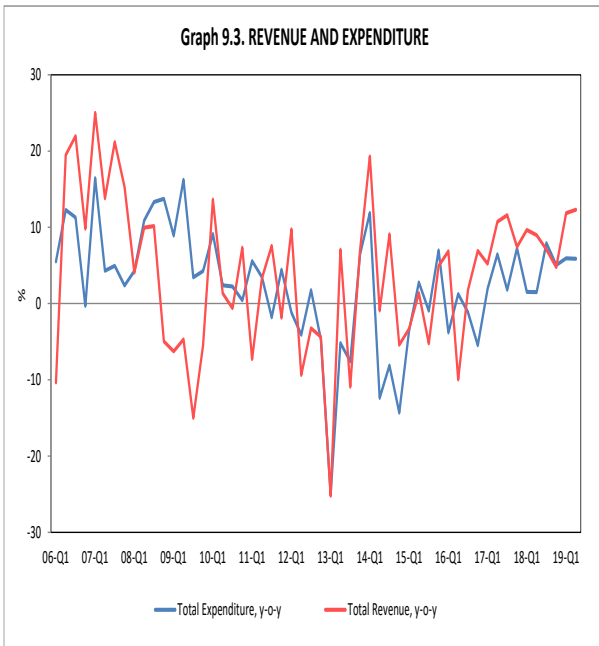
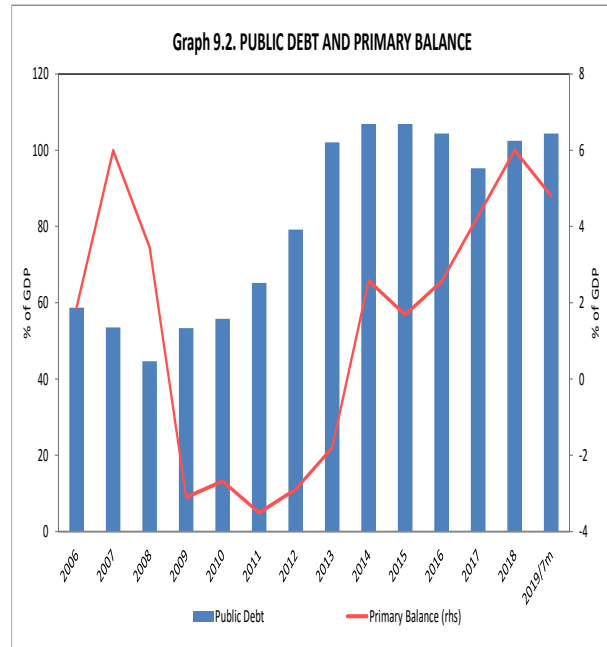
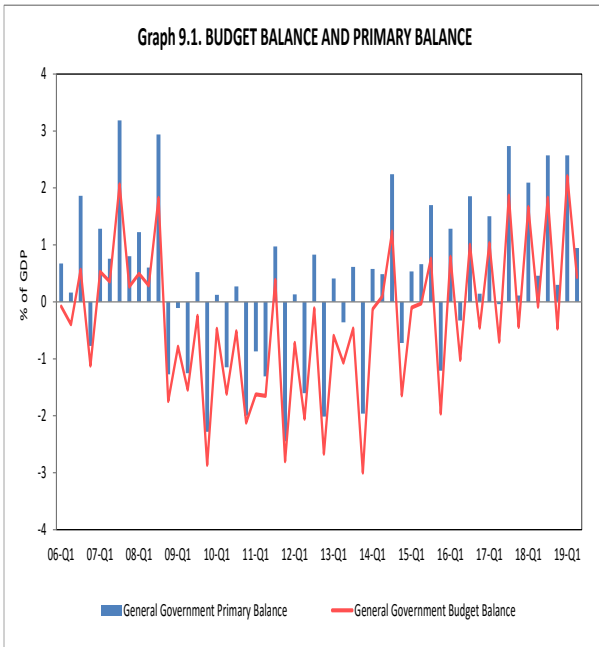
Sources: ECB, CBC, Bloomberg

8. FINANCIAL SECTOR – CONT.



Source: ECB

9. PUBLIC SECTOR



Sources: Ministry of Finance, Cystat