



MACROECONOMIC MONITOR OF CYPRUS

April 2017

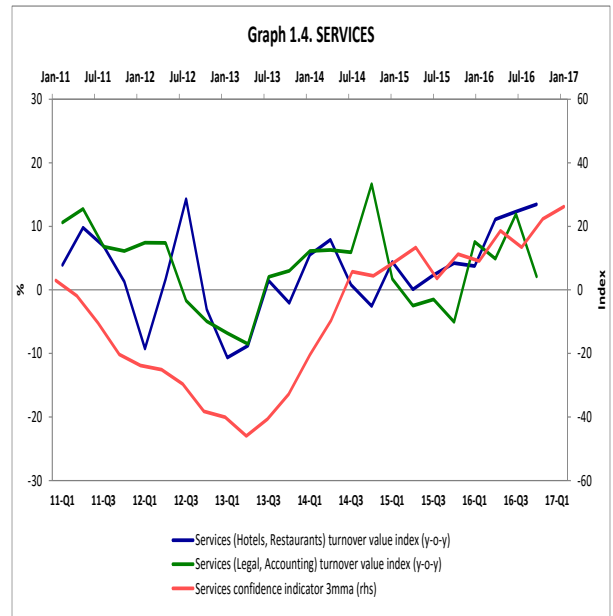
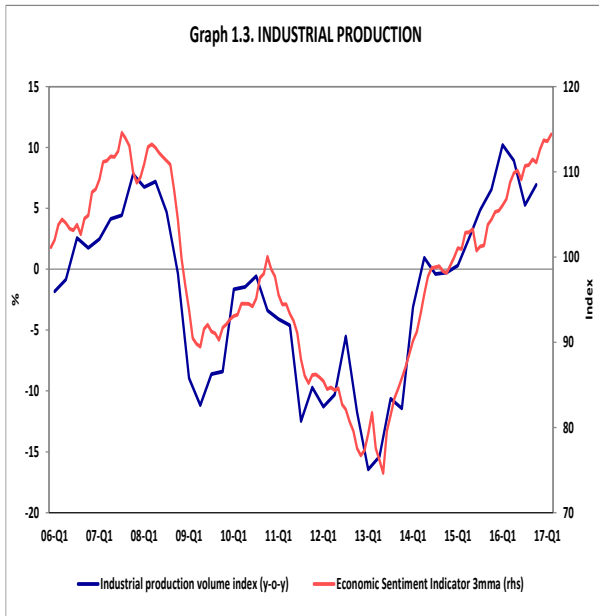
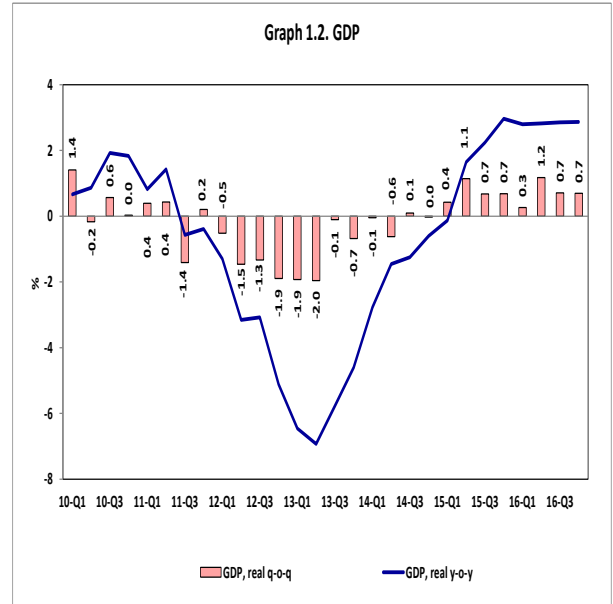
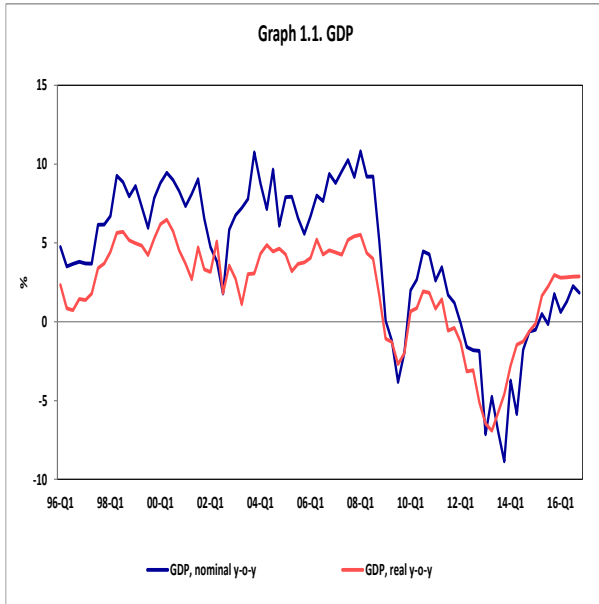
MACROECONOMIC MONITOR OF CYPRUS

Updated on 24 April 2017

- **In the 4th quarter of 2016, GDP** (in seasonally adjusted terms) **recorded a positive rate of growth of 2.9% as in the 3rd quarter of 2016** on an annual basis (see graphs 1.1-1.2). The GDP increase is broad based and is mainly attributed to sectors: hotels and restaurants, professional, scientific and technical activities, retail and wholesale trade, manufacturing and construction. Negative growth rate was recorded in the financial services sector (see graphs 3.1-3.4 and 6.1-6.2).
- Developments are currently driven by improving **private consumption and gross fixed capital formation** (see graphs 2.1-2.4).
- The **economic sentiment indicator** by CypERC **increased by 0.6 points in March 2017** compared to the preceding month (see graphs 1.3-1.4), driven by confidence improvements in the industry sector and among consumers.
- In January-March 2017 **tourist arrivals increased at a rate of 13.5%** compared to January-March 2016 (see graph 6.3). An increase of 88.4% was recorded in tourist arrivals from Russia, a 3.6% increase from the UK, a 16.9% increase from Greece while a 21.4% decrease was recorded from Germany.
- **Employment** adjusted to conditions of improving economic activity (see graphs 4.1 and 4.4). Employment in persons **increased by 2.7%** in 2016 compared to 2015. The increase was mainly in the sectors of accommodation and food service activities, wholesale and retail trade, professional, scientific and technical activities and manufacturing.
- **Labour market is characterised by considerable flexibility.** This led to a reduction in labour costs fueling decreases in the marginal costs of businesses and improved profitability and at the same time this allowed businesses to provide goods and services at reduced prices.
- **Labour Force Survey (LFS) unemployment**, in monthly seasonally adjusted terms, **decreased to 12.9% in February 2017 compared to 13.4% in February 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 3rd quarter of 2013 falling to 30.4% in the 4th quarter of 2016 from the peak of 39.8% in the 2nd quarter of 2013. Particularly challenging is also the relatively high long-term unemployed.
- **Compensation per employee** in 2016 decreased by around 0.6% compared to 2015 (see graphs 5.3-5.5). The observed wage adjustment is expected to help maintaining a downward trend in unemployment.
- **Inflation** (HICP) for March 2017 stood at 1.5% compared to 1.4% in February 2017 (see graph 5.1). For 2017 so far it stands at 1.2%. Core HICP inflation stood at -0.2% in January-March 2017 (see graph 5.2). All subcategories of HICP presented an increase except categories of alcoholic beverages and tobacco, furnishings, household equipment and supplies and communication.
- **Imports of goods increased by 37%** in January-February 2017 compared to January-February 2016. The increase in imports is influenced by imports of transport equipment (airplanes).
- **Exports of goods decreased by 34.2%** in January-February 2017 compared to January-February 2016 due to exports of transport equipment (vessels).
- The **current account balance** in 2016 recorded a **deficit of €941.8 mn (-5.3% of GDP)** compared with a deficit of €514 mn (-2.9% of GDP) in 2015 (see graph 6.4) solely due to the income account. Excluding the one-off transactions in imports and exports of goods and services of mobile transport equipment (one yacht) the current account balance recorded a deficit of about 2.1% of GDP in 2016.
- The **primary income** recorded a **deficit of €482.6 mn** in 2016 compared with a deficit of €62.5 mn in 2015 (see graph 6.4) mainly due to worsening of income from other investment.
- The **secondary income** recorded a **deficit of €459.6 mn** in 2016 compared with a deficit of €510.6 mn in 2015 (see graph 6.4).
- The international investment position of Cyprus (see graph 6.5) recorded an improvement in 2016 reaching -€22,452.7 mn compared with -€22,985.2 mn in 2015.

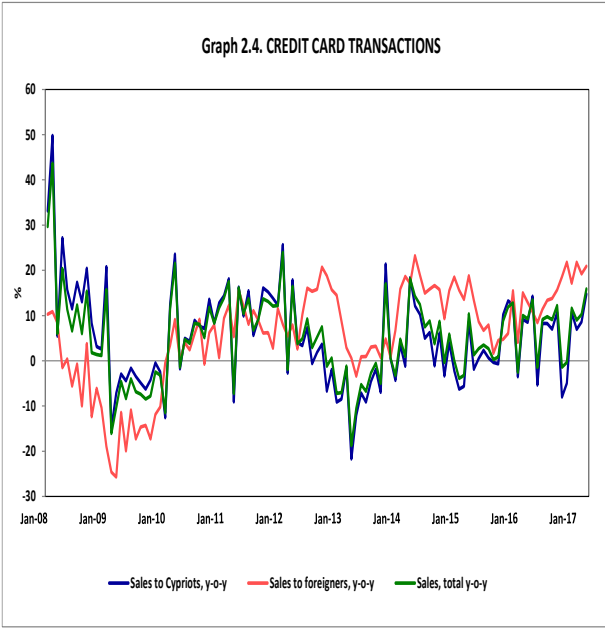
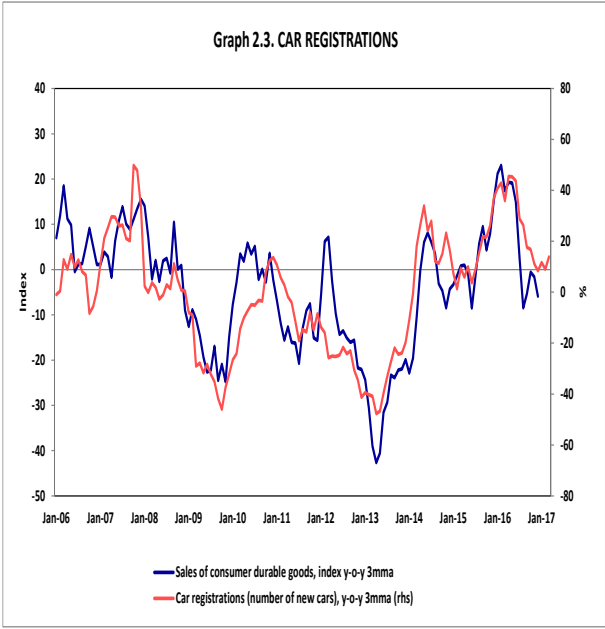
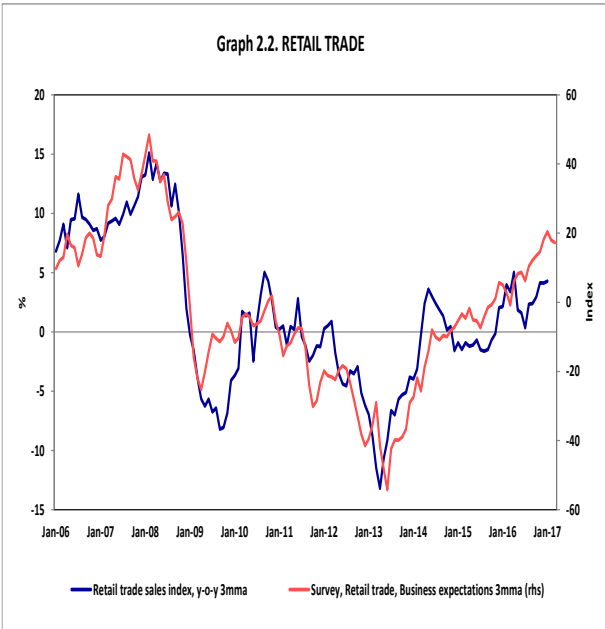
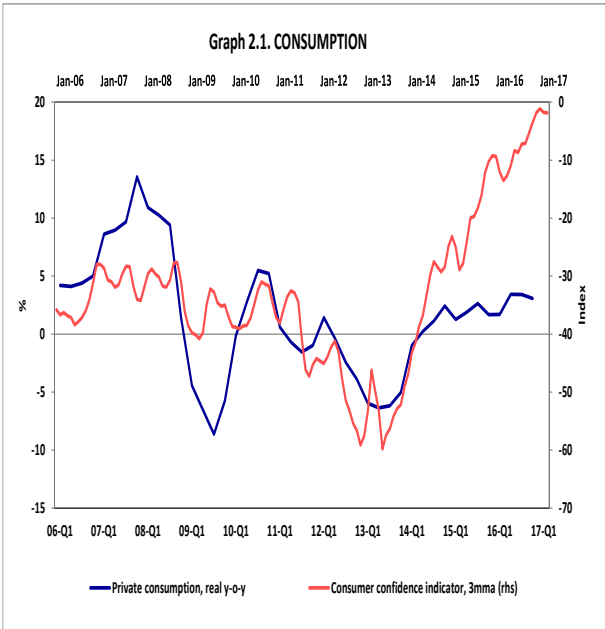
- General government budget balance (GGBB) **was in surplus** in January-February 2017, of the order of **€133 mn (0.7% of GDP)** compared to a surplus of €38.6 mn (0.2% of GDP) during the corresponding period the year before (see graph 9.1).
- General government **primary balance** (GGPB) **was in surplus** in January-February 2017, of the order of **€196.4 mn (1.1% of GDP)** compared to a surplus of €93.5 mn (0.5% 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 9.1%, reaching to €1,112.3 mn in January-February 2017, compared to €1,019.8 mn during the corresponding period the year before (see graph 9.3).
- **Total expenditure** exhibited a marginal decrease of about 0.2%, reaching to €979.3 mn in January-February 2017, compared to €981.2 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 2.1%** in February 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 6.8%** in February 2017, reflecting the improving performance of the economy (see graph 8.1).
- Overall **lending and deposit interest rates** in Cyprus have declined, however, the decline in deposit rates is much bigger than the decline in lending rates (see graph 8.5). In February 2017, **deposit interest rates** for maturity of up to 1 year and up to 3 months decreased compared with the preceding month. The **lending interest rates** to households for primary residence remained unchanged and the rate for other loans up to €1 mn for businesses decreased. The interest rate for bank overdrafts to non-financial corporations decreased. A significant deviation of the Cypriot interest rates, compared to the euro area average still prevails.
- Eurostat's **house price index** for Cyprus increased by **3.1%** in the **4th quarter of 2016** compared to the 3rd quarter of 2016 and increased by 2.8% compared to the 4th quarter of 2015.
- The CBC's residential property price index declined by 1.3% in the 3rd quarter of 2016 compared to the 3rd quarter of 2015. Cumulative from the 1st quarter of 2008 it has declined by 29.8% (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 10.1% while, transfers of property were up by 3.1% in January-March 2017 compared to January-March 2016 (see graph 7.3). MFI mortgage loans to domestic residents for housing declined with an annual rate of 1.0% in February 2017 (see graph 7.2).
- The Cyprus Government bond spread compared to the German Government bond, marginally increased in mid-April 2017 compared to end March 2017 to around 103 basis points above the German bond from 101 basis points (see graph 8.6, yields refer to the bonds maturing in 2020).

1. OUTPUT



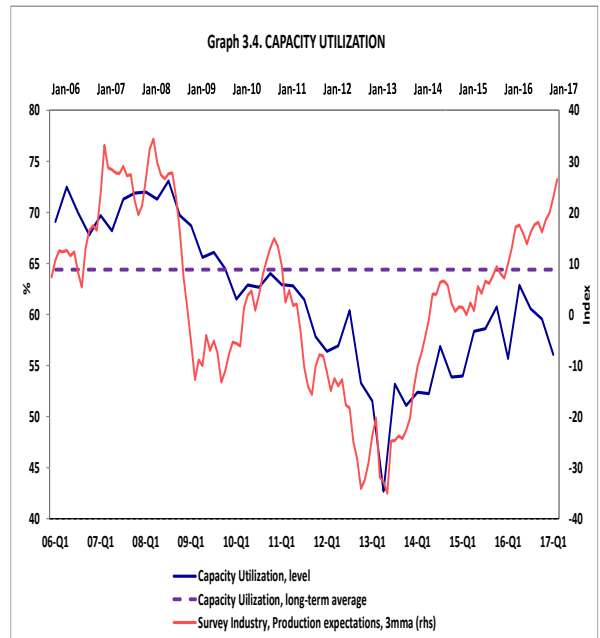
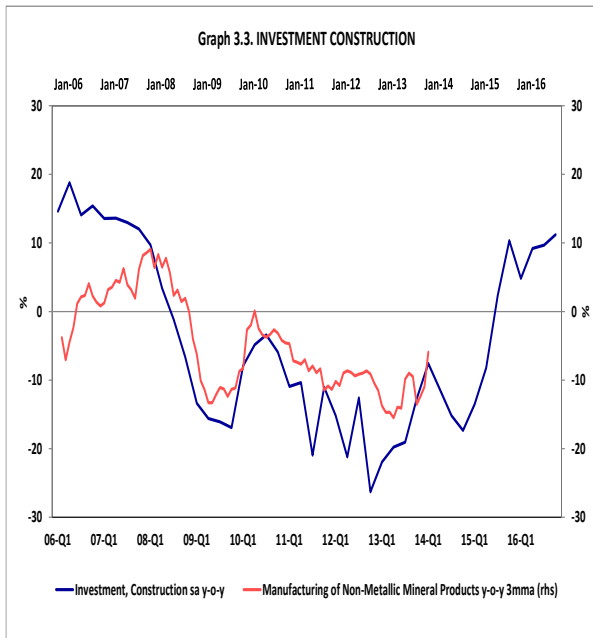
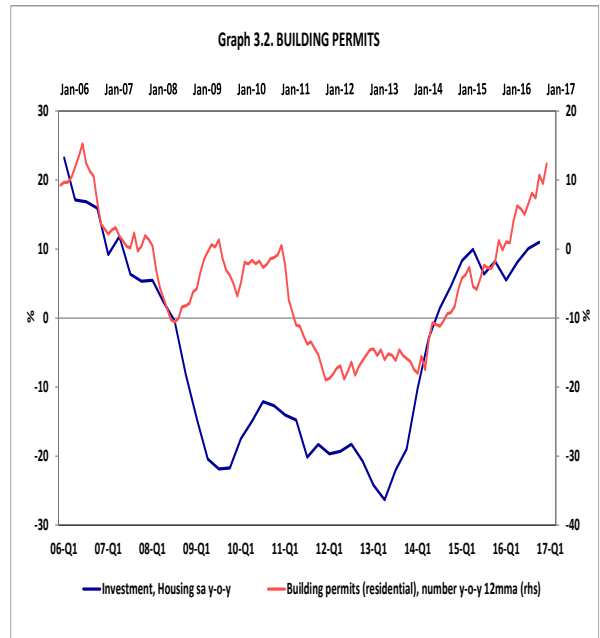
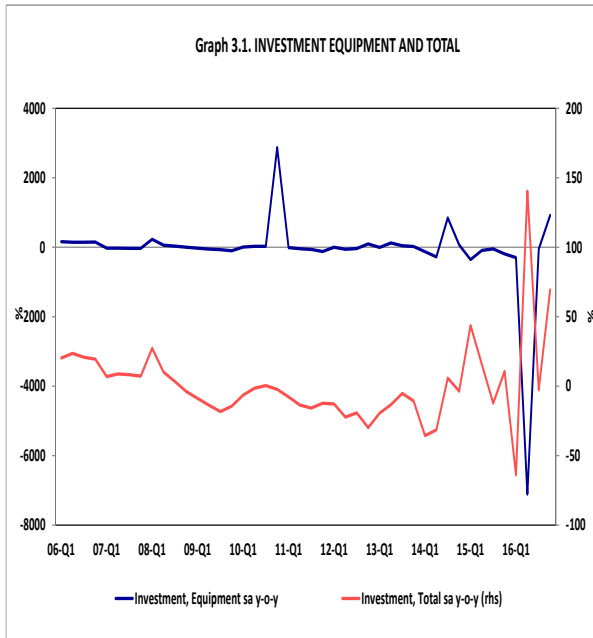
Sources: Eurostat, DG ECFIN, Cystat

2. CONSUMPTION



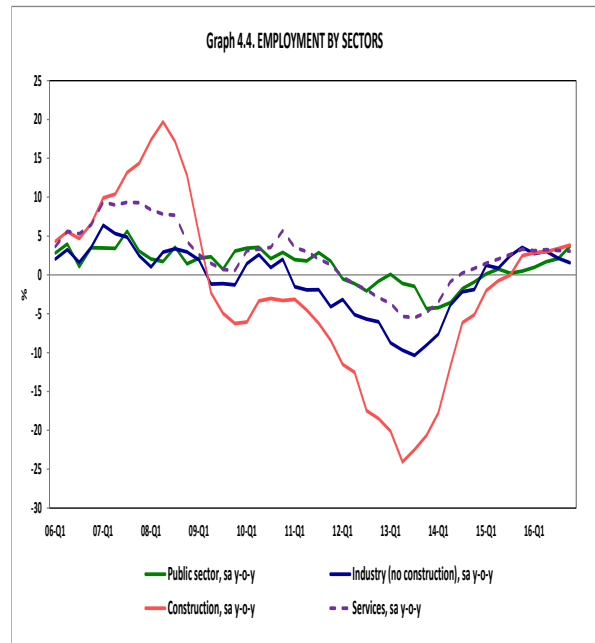
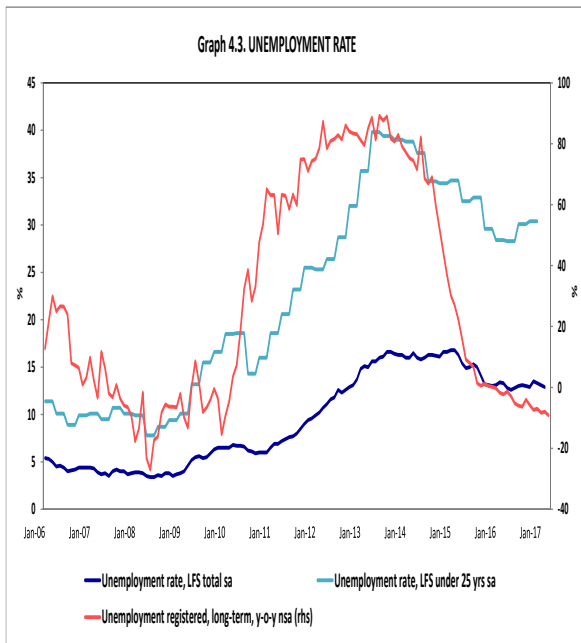
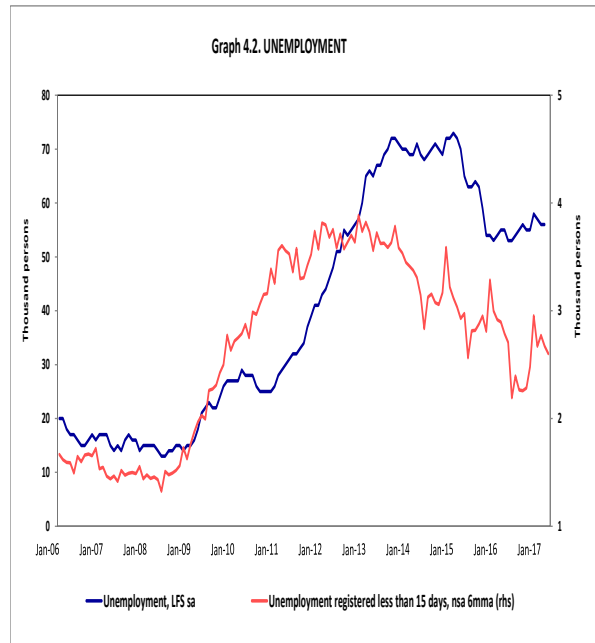
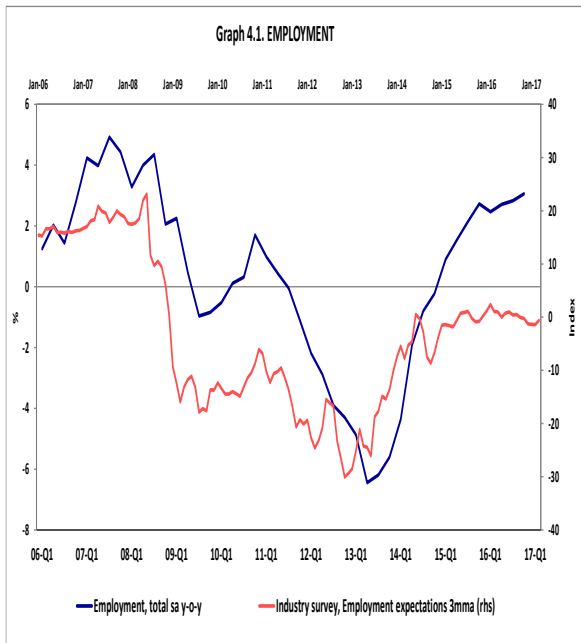
Sources: Eurostat, DG ECFIN, Cystat, JCC Payment Systems Ltd

3. INVESTMENT



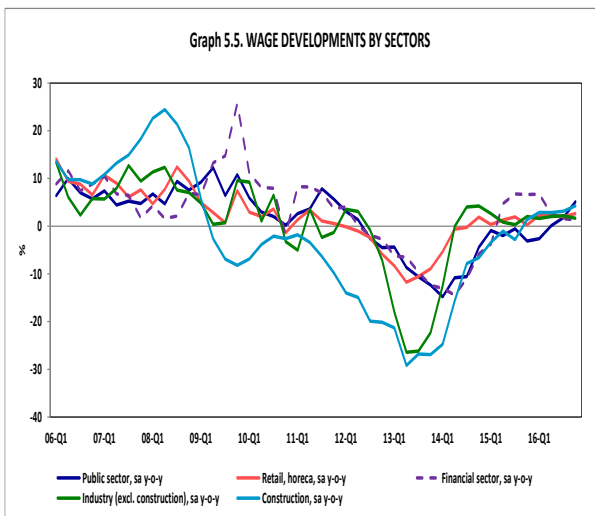
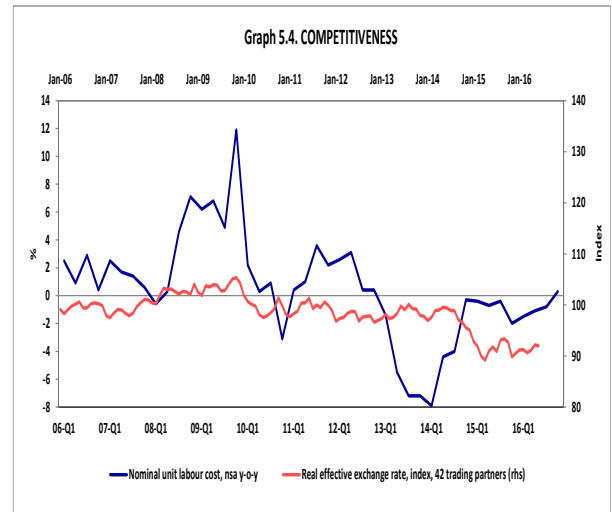
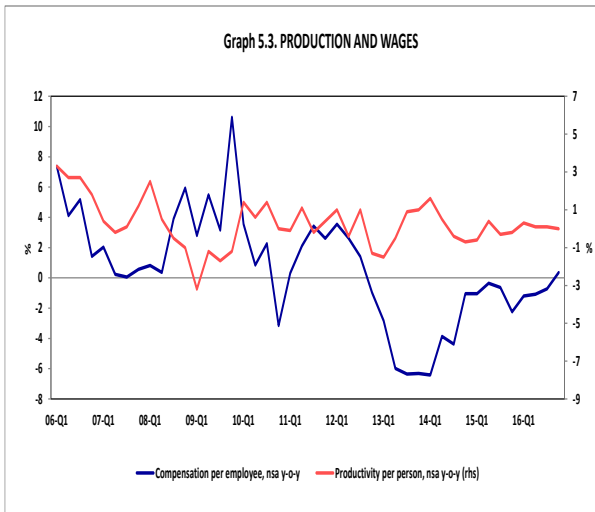
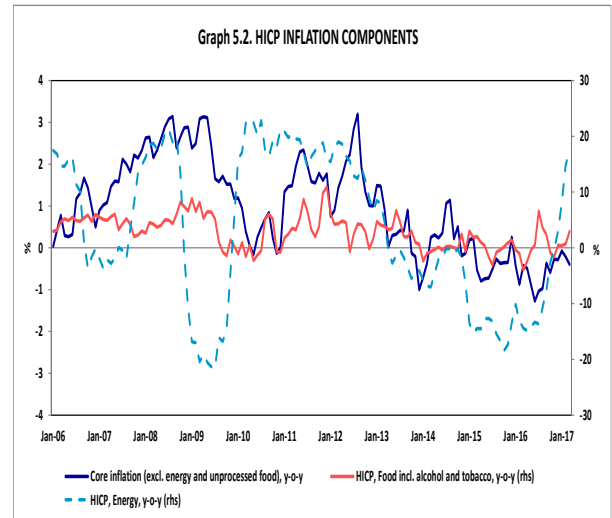
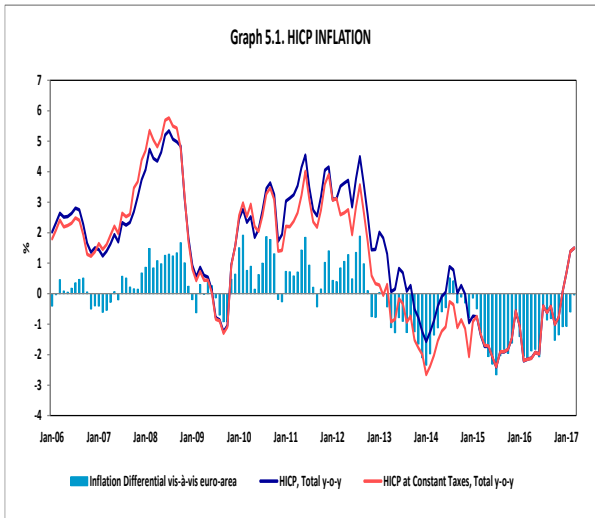
Sources: Eurostat, DG ECFIN, Cystat

4. LABOUR MARKET



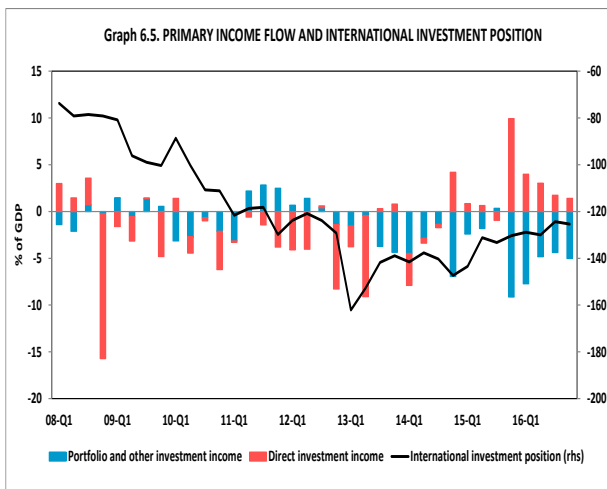
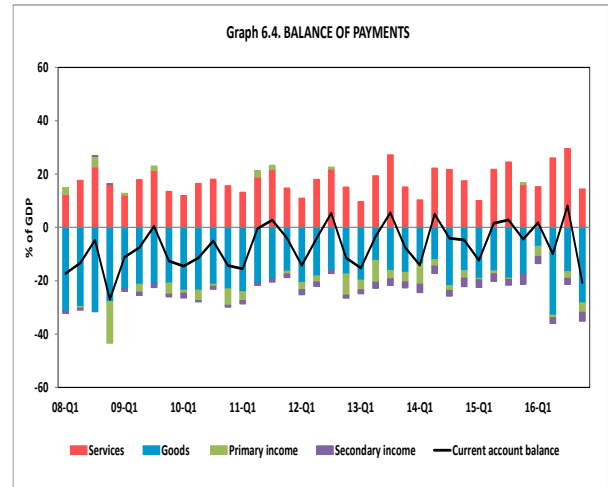
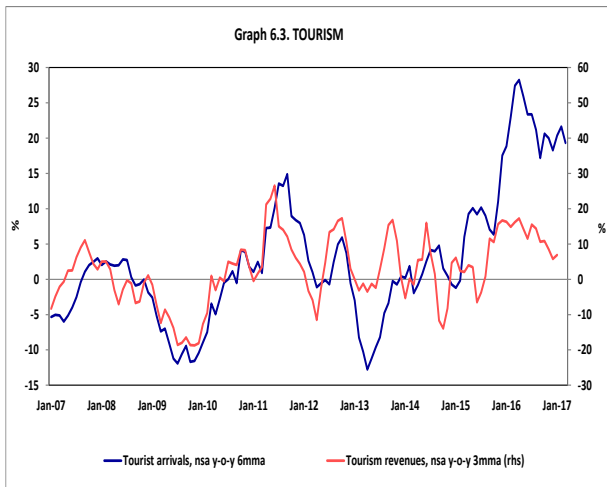
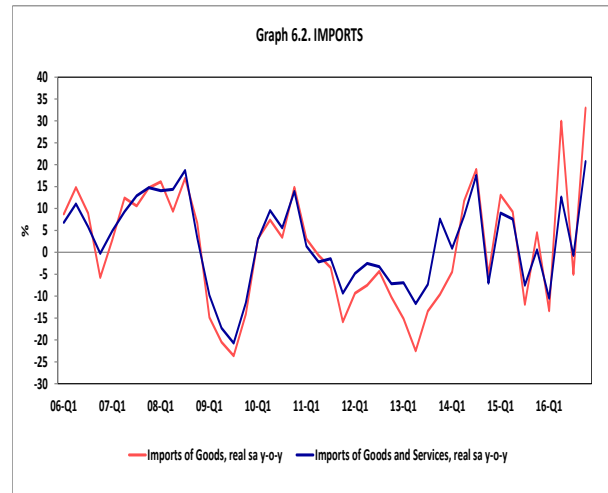
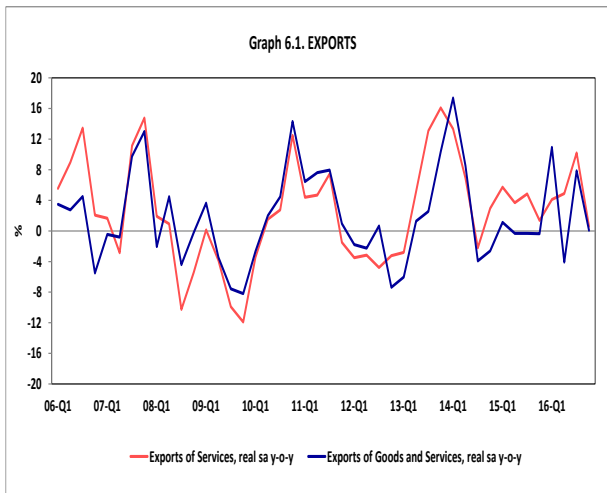
Sources: Eurostat, DG ECFIN, Cystat

5. INFLATION, WAGES



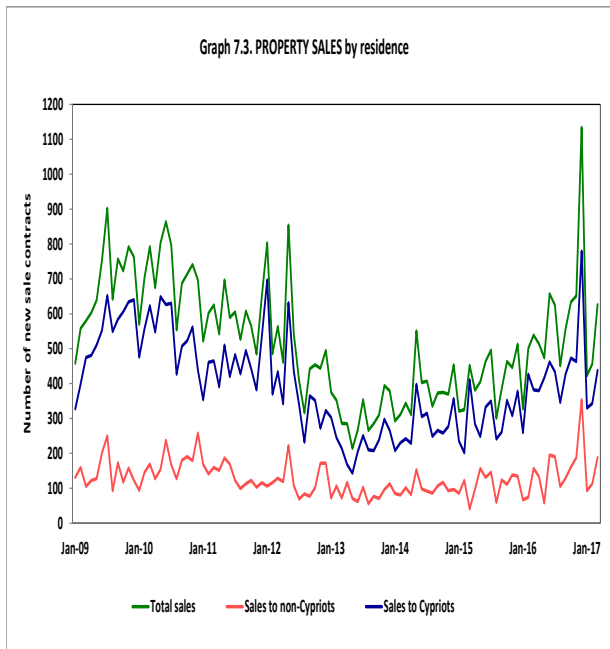
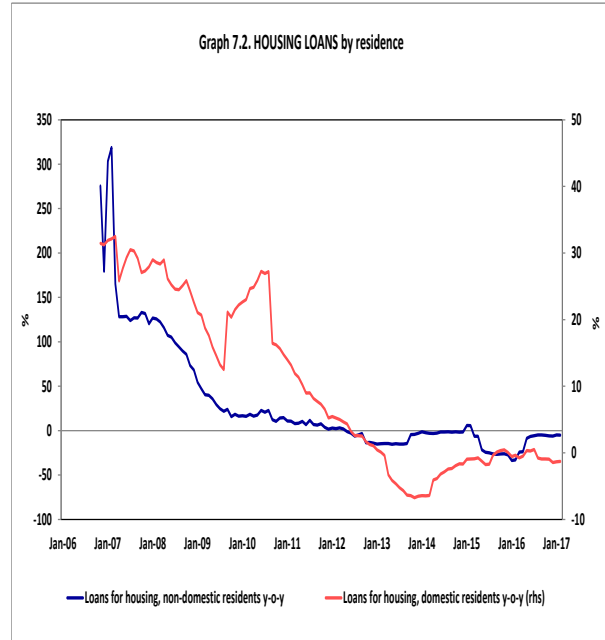
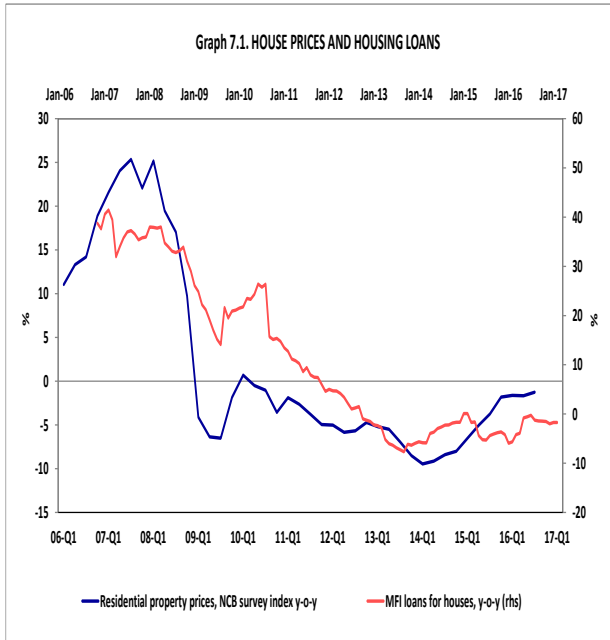
Source: Eurostat

6. EXTERNAL SECTOR



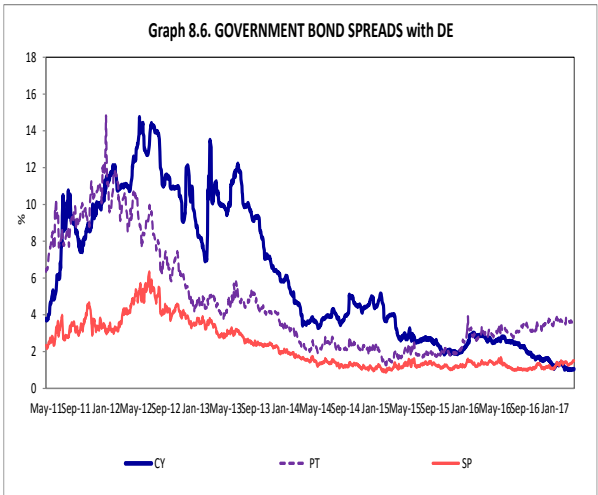
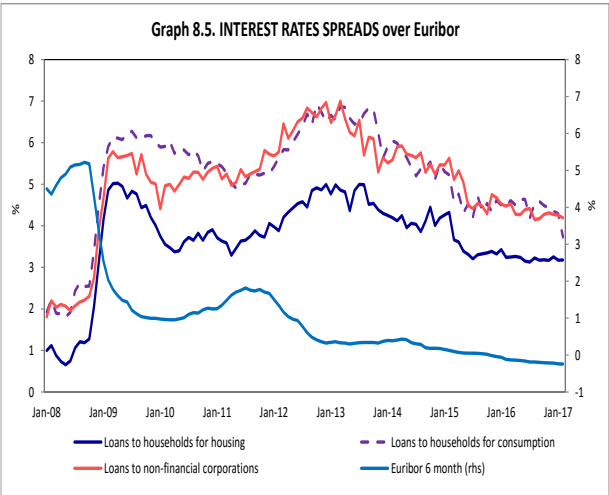
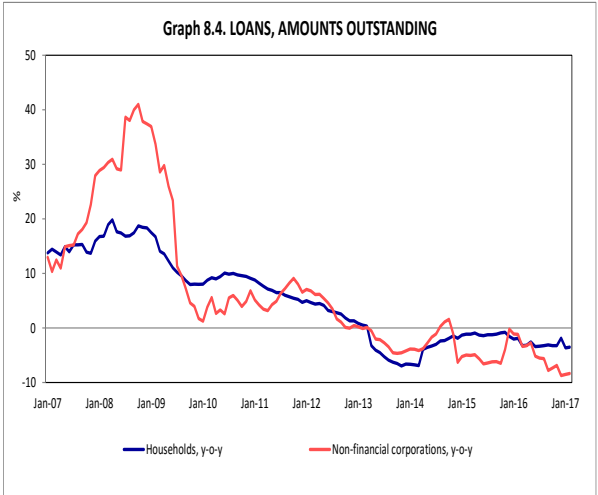
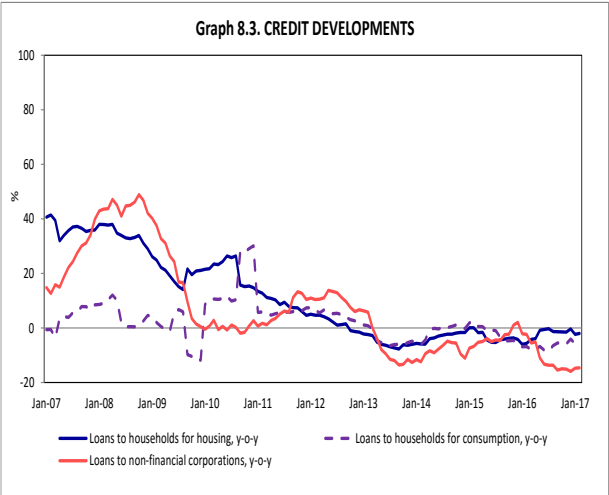
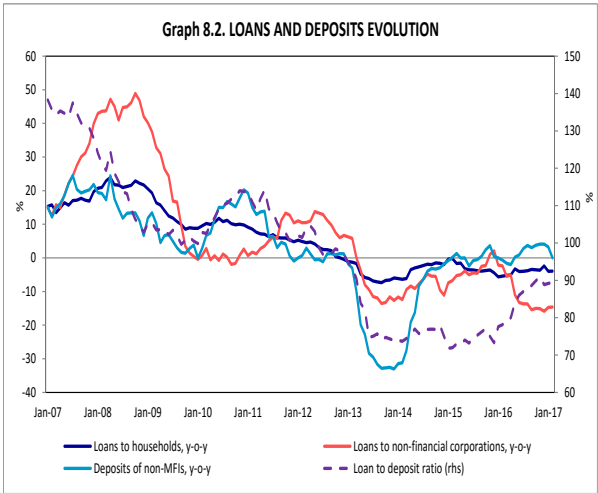
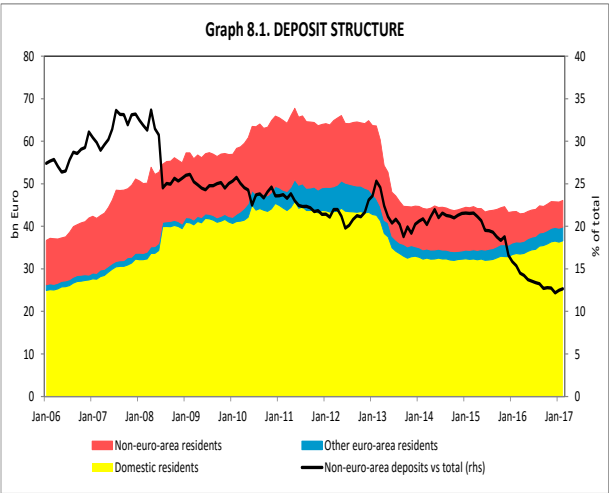
Sources: Eurostat, Cystat, ECB, CBC

7. HOUSING



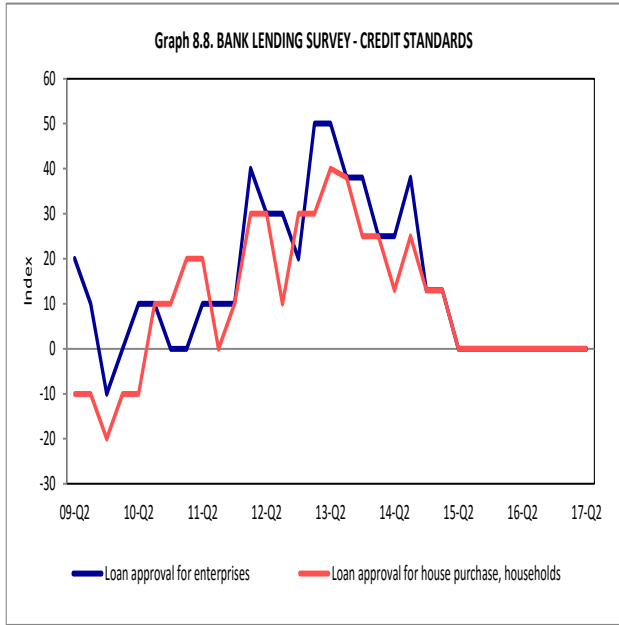
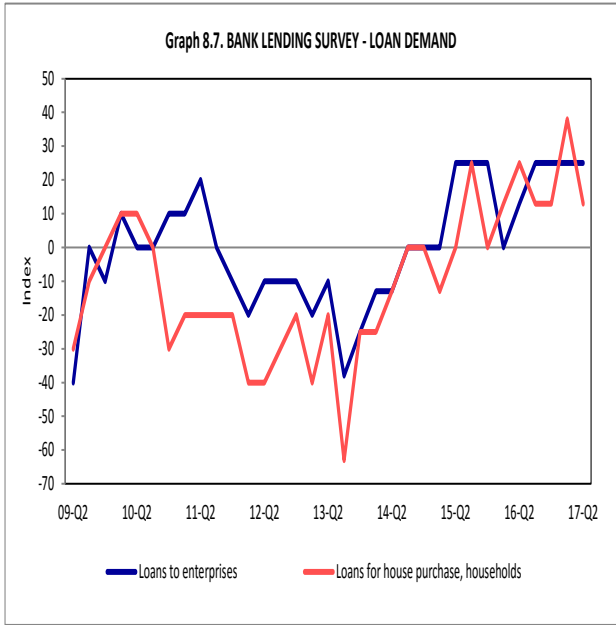
Sources: ECB, CBC, Dep. of Lands and Surveys

8. FINANCIAL SECTOR



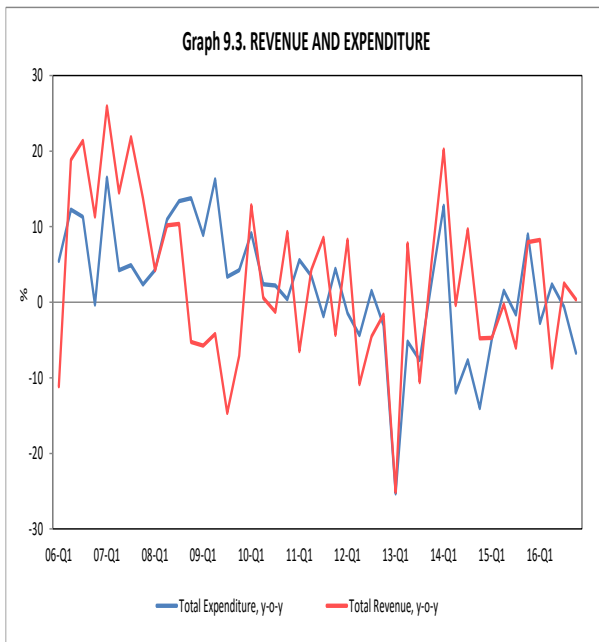
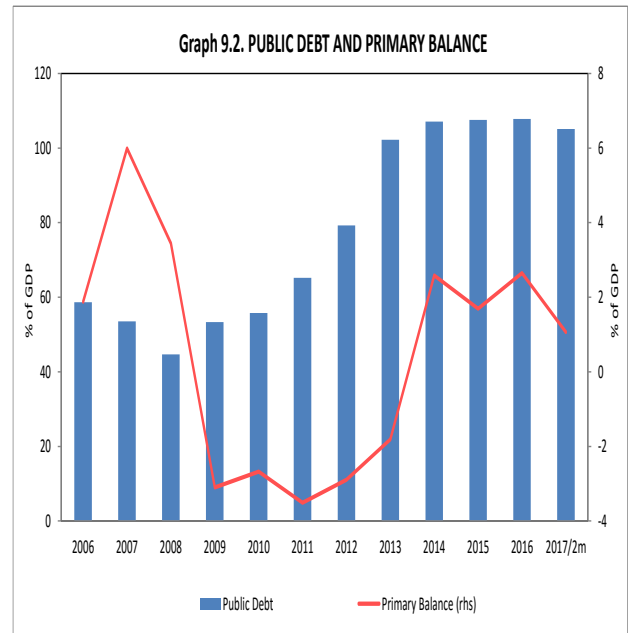
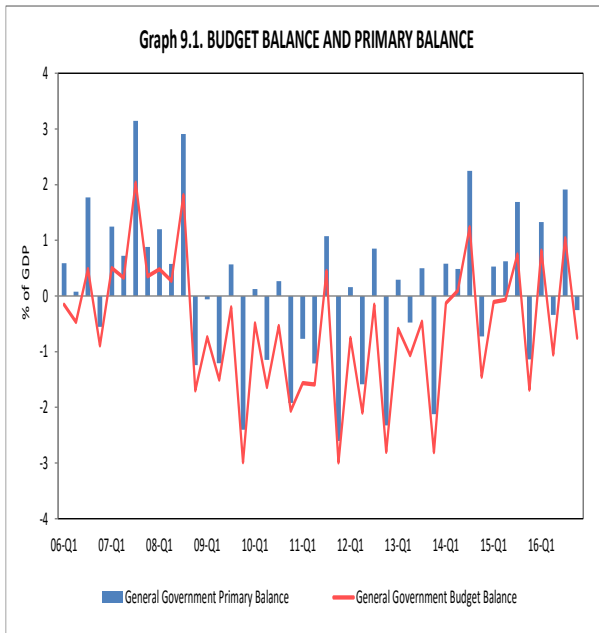
Sources: ECB, CBC, Bloomberg

8. FINANCIAL SECTOR – CONT.



Source: ECB

9. PUBLIC SECTOR



Sources: Ministry of Finance, Cystat