



# MACROECONOMIC MONITOR OF CYPRUS

February 2017

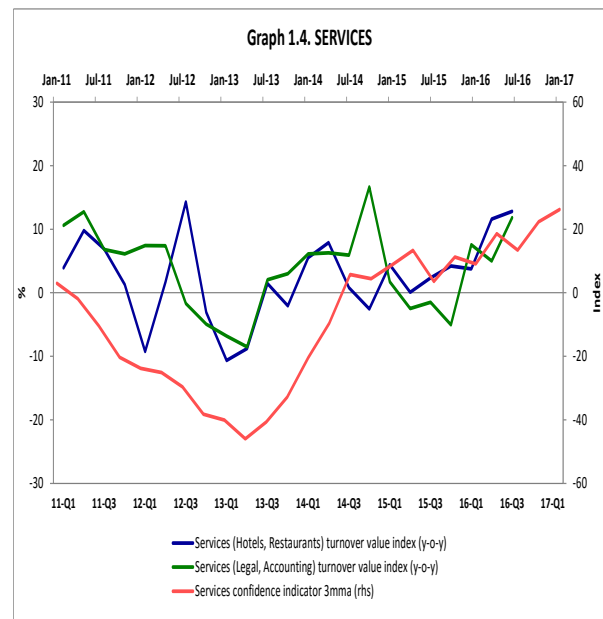
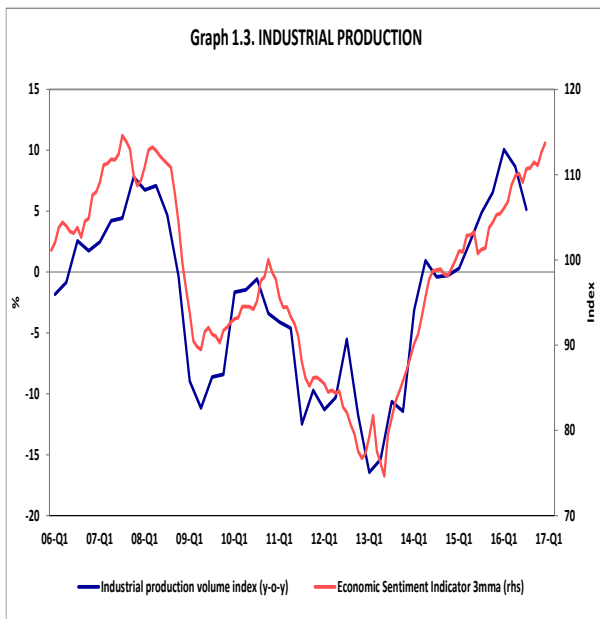
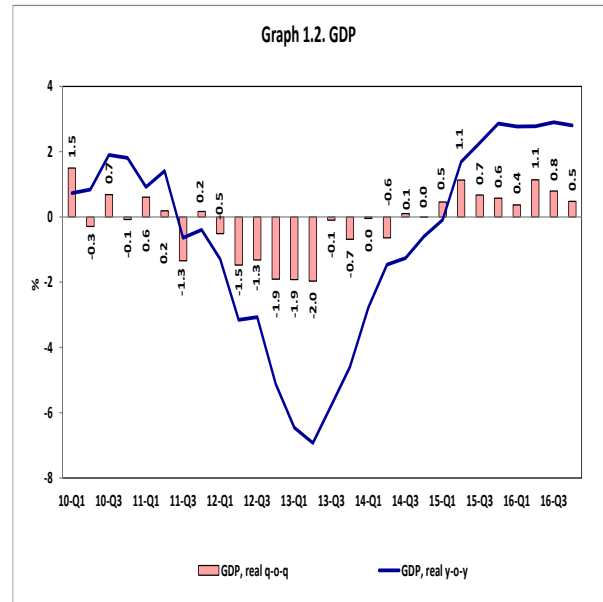
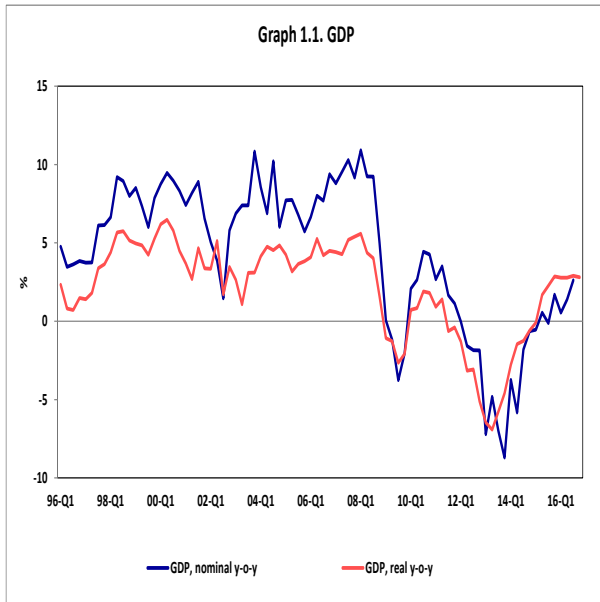
## MACROECONOMIC MONITOR OF CYPRUS

*Updated on 23 February 2017*

- **In the 4<sup>th</sup> quarter of 2016, GDP** (in seasonally adjusted terms) **recorded a positive rate of growth of 2.8% compared to 2.9% in the 3<sup>rd</sup> 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 0.4 points in January 2017** compared to the preceding month (see graphs 1.3-1.4) driven by confidence improvements in services and construction.
- In January 2017 **tourist arrivals increased at a rate of 28.8%** compared to January 2016 (see graph 6.3). An increase of 157.9% was recorded in tourist arrivals from Russia, a 19.6% increase from the UK, a 19.1% increase from Greece and a 3.8% increase from Germany.
- **Employment** adjusted to conditions of improving economic activity (see graphs 4.1 and 4.4). Employment in persons **increased by 2.6%** in the first nine months of 2016 compared to the first nine months of 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** developments exhibited **considerable flexibility**. This led to a decrease 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, **increased to 14.3% in December 2016 compared to 13.1% in December 2015** (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 last quarter of 2013 falling to 32.8% in the 4<sup>th</sup> quarter of 2016 from the peak of 40.2% in the 2<sup>nd</sup> quarter of 2013. Particularly challenging is also the relatively high long-term unemployed.
- **Compensation per employee** in the first nine months of 2016 marginally decreased by around 0.1% compared to the first nine months of 2015 (see graphs 5.3-5.5). The observed wage adjustment is expected to help maintaining a downward trend in unemployment.
- **Inflation (HICP)** for January 2017 stood at 0.7% compared to 0.1% in December 2016 (see graph 5.1). Core HICP inflation stood at -0.1% in January 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.
- **Exports of goods decreased by 0.9%** in January-December 2016 compared to January-December 2015, mainly due to the transfer of economic ownership of mobile transport equipment that was recorded as exports, with total value of €158.6 mn in January 2015. Excluding this one-off transaction exports of goods exhibited an **increase of 9%**.
- **Imports of goods increased by 14.9%** in January-December 2016 compared to January-December 2015 mainly due to the transfer of economic ownership of mobile transport equipment, with total value of €563.4 mn in May 2016 recorded as imports. Excluding this one-off transaction imports of goods and services exhibited an **increase of 3.9%**.
- The **current account balance** in the first nine months of 2016 recorded a **deficit of €78.2 mn (-0.4% of GDP)** compared with a deficit of €316.3 mn (-1.8% of GDP) in the first nine of 2015 (see graph 6.4) mainly due to improvement in the services balance. Excluding the one-off transactions in imports and exports of goods and services of mobile transport equipment the current account balance recorded a surplus of €485.2 mn (2.7% of GDP) during the reference period of 2016 compared with a deficit of €474.9 mn (-2.7% of GDP) during the corresponding period of 2015.

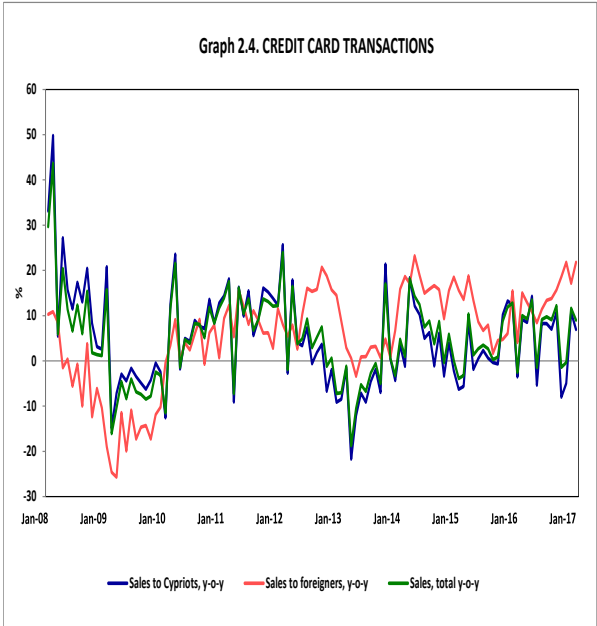
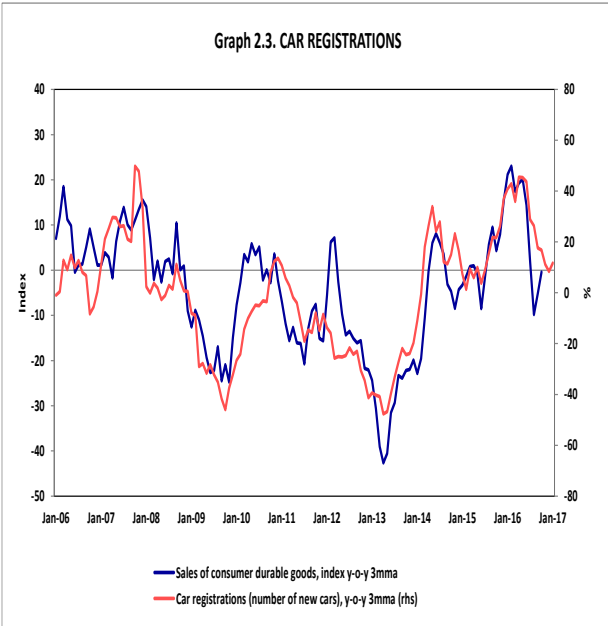
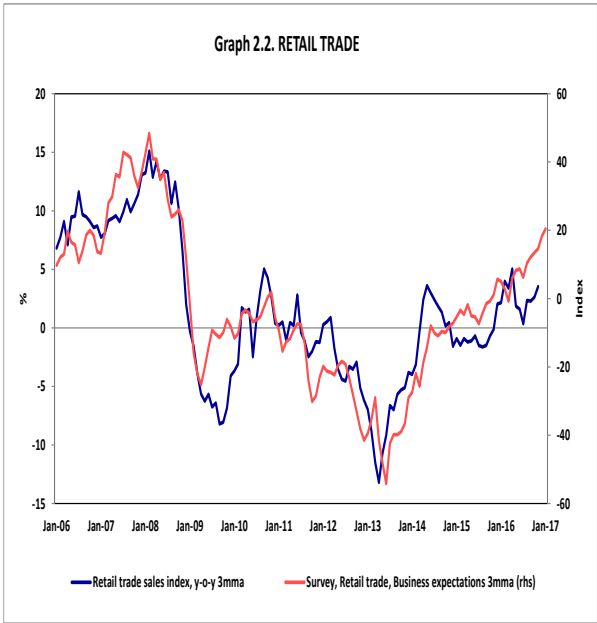
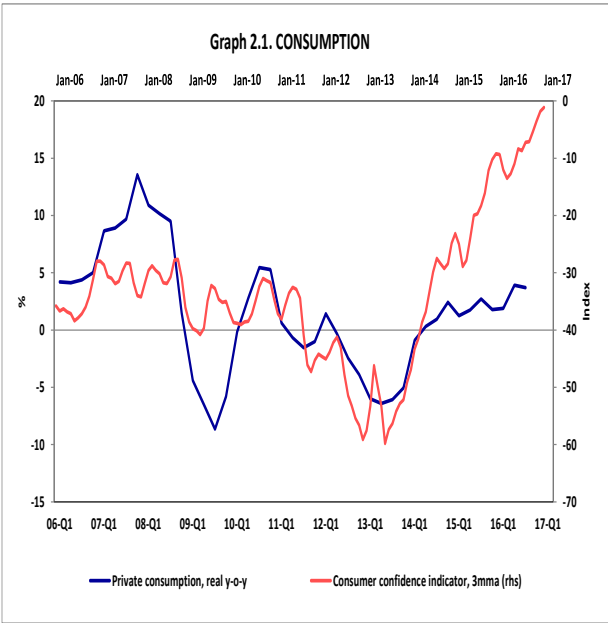
- The **primary income** recorded a **deficit of €433.3 mn** in the first nine months of 2016 compared with a deficit of €93.3 mn in the first nine months of 2015 (see graph 6.4) mainly due to worsening of investment income.
- The international investment position of Cyprus (see graph 6.5) recorded an improvement in September 2016 reaching -€21,095.1 mn compared with -€21,488.5 mn in June 2016.
- General government budget balance (GGBB) **was in surplus** in January-December 2016, of the order of **€9.1 mn (0.1% of GDP)** compared to a deficit of €196.4 mn (-1.1% of GDP) during the corresponding period the year before (see graph 9.1).
- General government **primary balance** (GGPB) **was in surplus** in January-December 2016, of the order of **€473.8 mn (2.6% of GDP)** compared to a surplus of €299.0 mn (1.7% 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 0.5%, reaching to €6,919.9 mn in January-December 2016, compared to €6,883.3 mn during the corresponding period the year before (see graph 9.3).
- **Total expenditure** exhibited a decrease of about 2.4%, reaching to €6,910.8 mn in January-December 2016, compared to €7,079.7 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 8.5%** in December 2016, 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 8%** in December 2016, 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 December 2016, **deposit interest rates** for maturity of up to 1 year marginally increased and 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. 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 **0.2%** in the **3<sup>rd</sup> quarter of 2016** compared to the 2<sup>nd</sup> quarter of 2016 and decreased by 3.3% compared to the 3<sup>rd</sup> quarter of 2015.
- The CBC's residential property price index declined by 1.3% in the 3<sup>rd</sup> quarter of 2016 compared to the 3<sup>rd</sup> quarter of 2015. Cumulative from the 1<sup>st</sup> 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 29.4% while, transfers of property were up by 26.8% in January 2017 compared to January 2016 (see graph 7.3). MFI mortgage loans to domestic residents for housing declined with an annual rate of 1.1% in December 2016 (see graph 7.2).
- The Cyprus Government bond spread compared to the German Government bond, increased in mid-February 2017 compared to end January 2017 to around 134 basis points above the German bond from 123 basis points (see graph 8.6, yields refer to the bonds maturing in 2020).

1. OUTPUT



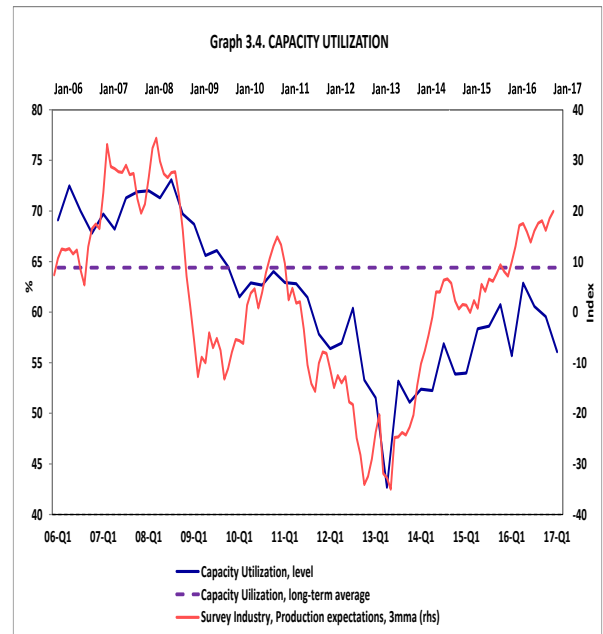
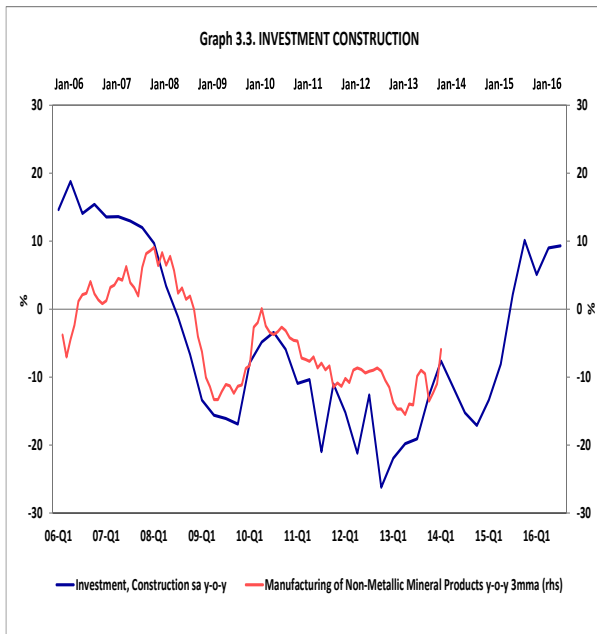
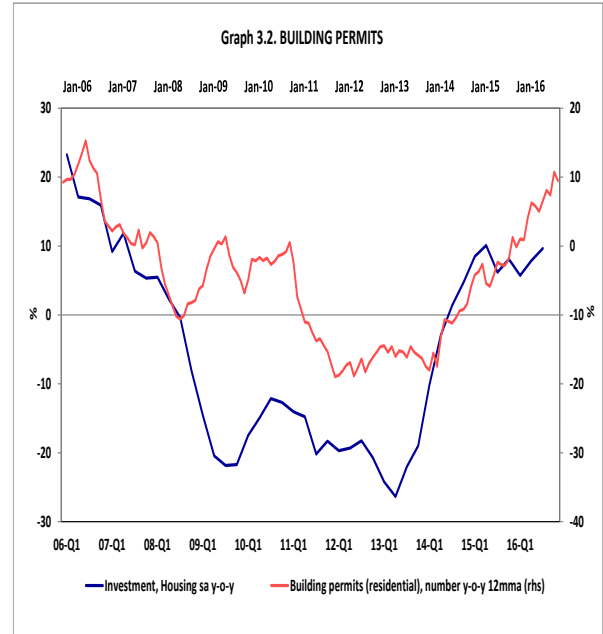
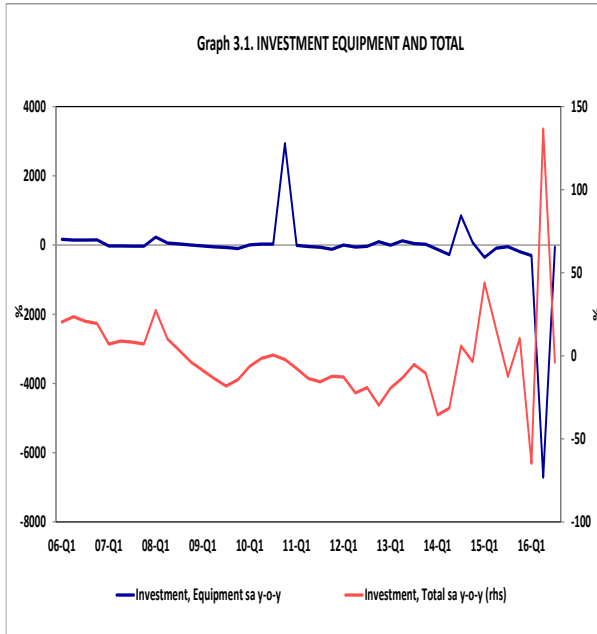
Sources: Eurostat, DG ECFIN, Cystat

2. CONSUMPTION



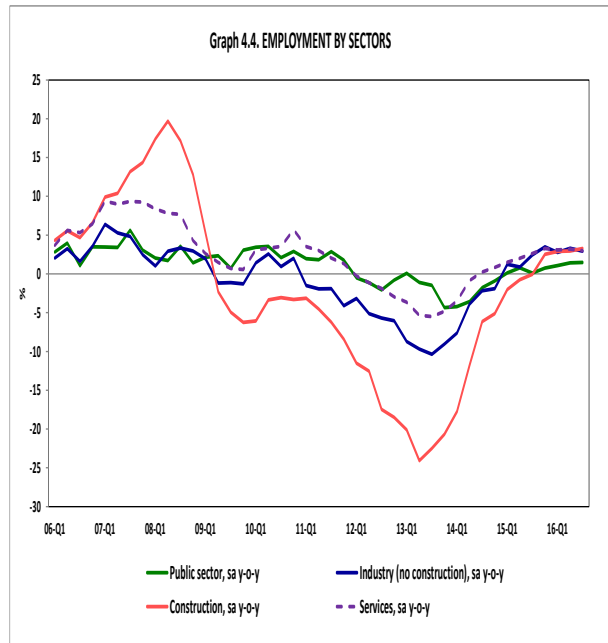
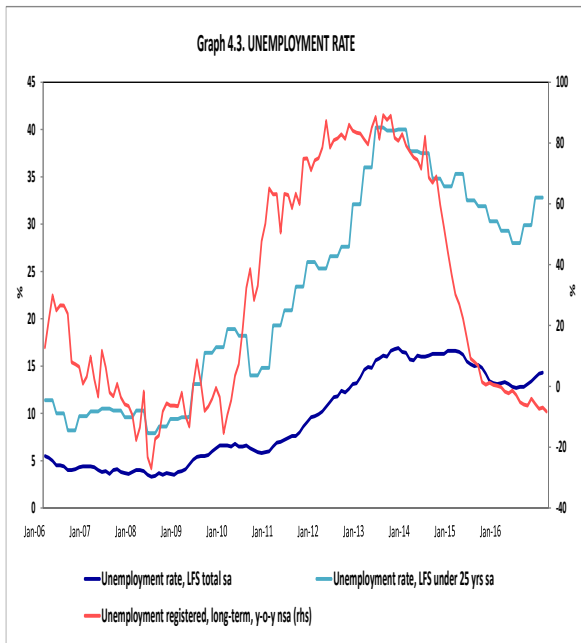
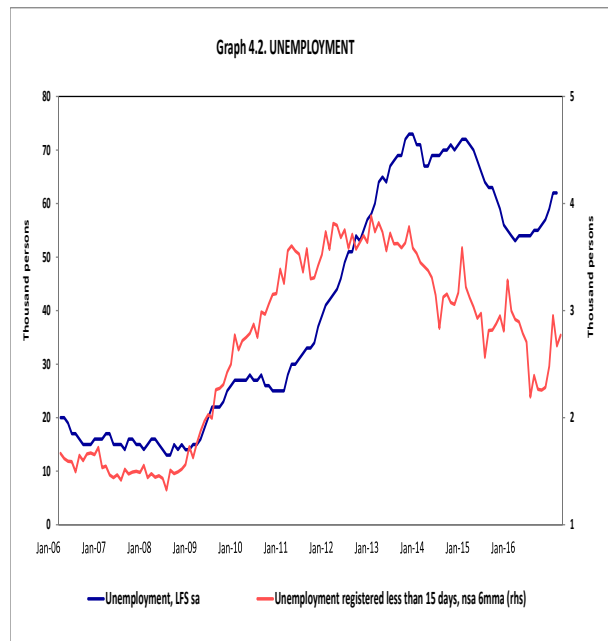
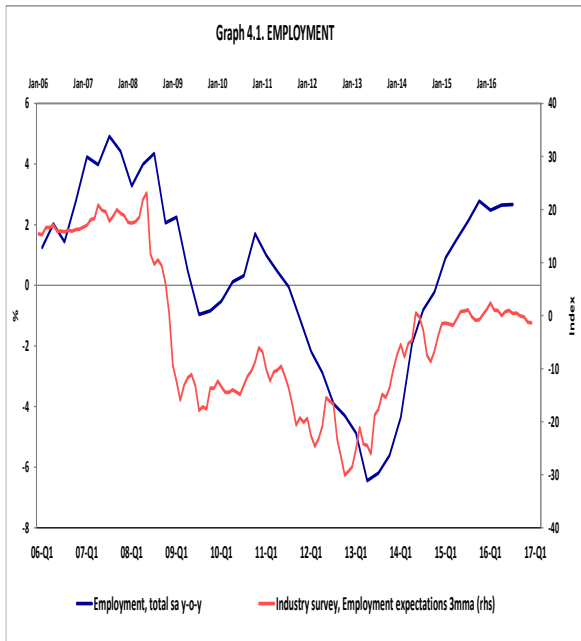
Sources: Eurostat, DG ECFIN, Cystat, JCC Payment Systems Ltd

3. INVESTMENT



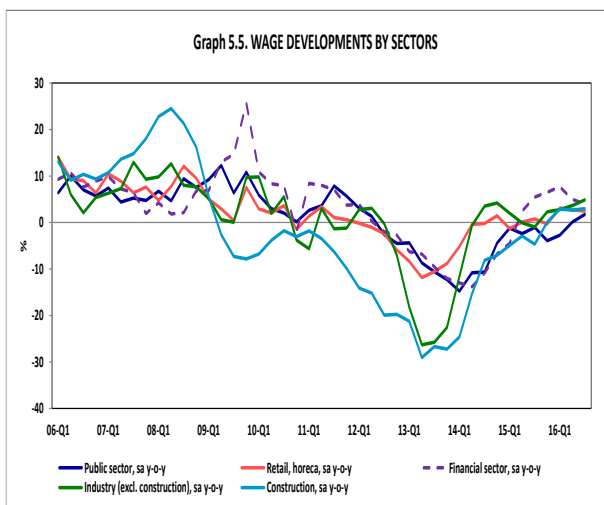
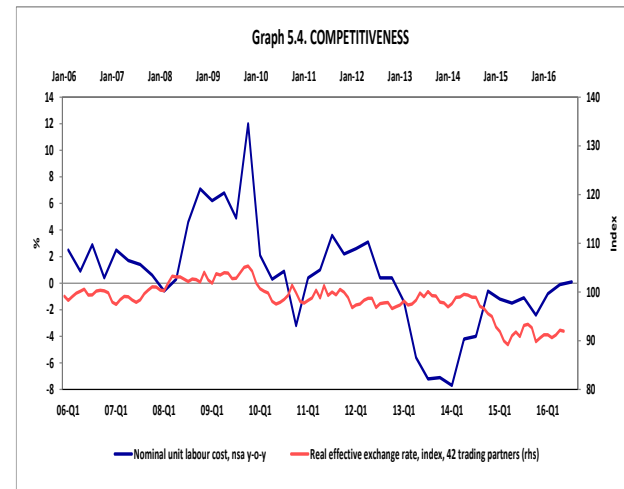
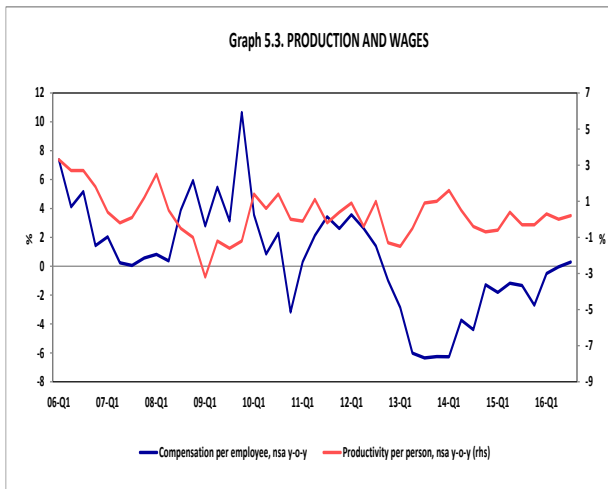
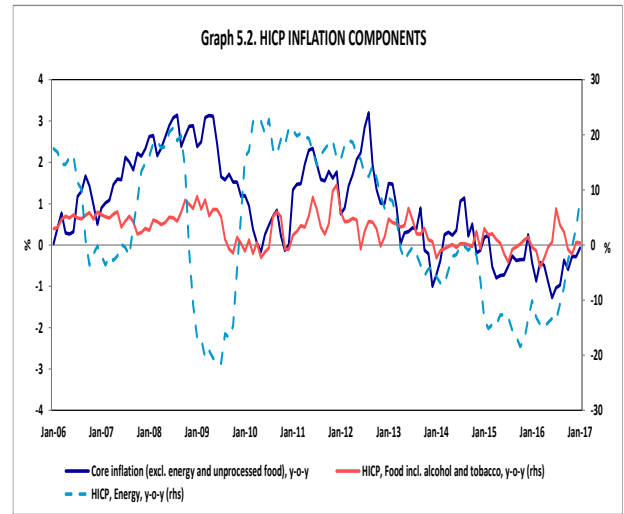
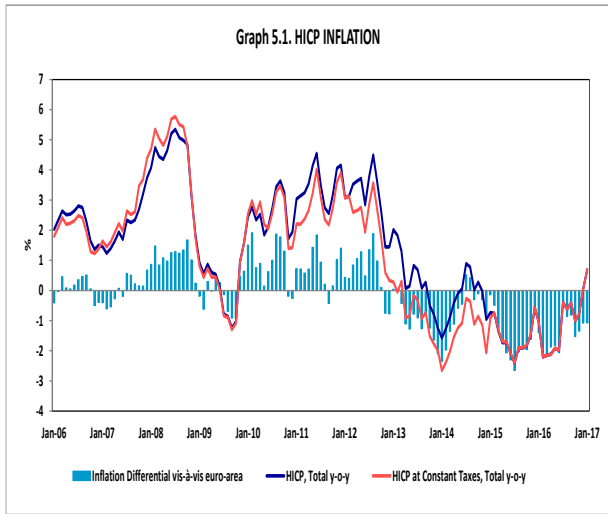
Sources: Eurostat, DG ECFIN, Cystat

4. LABOUR MARKET



Sources: Eurostat, DG ECFIN, Cystat

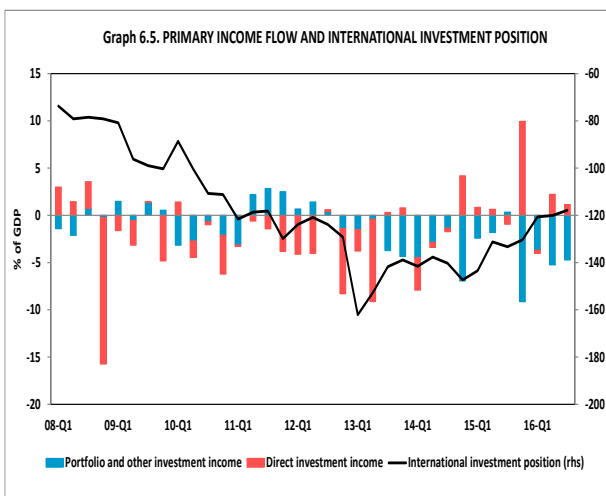
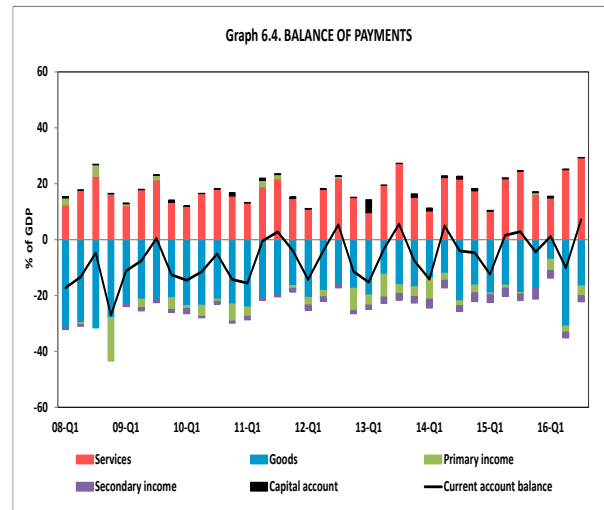
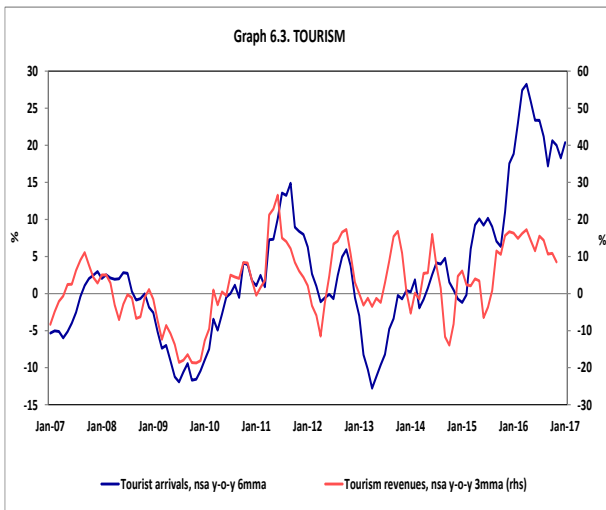
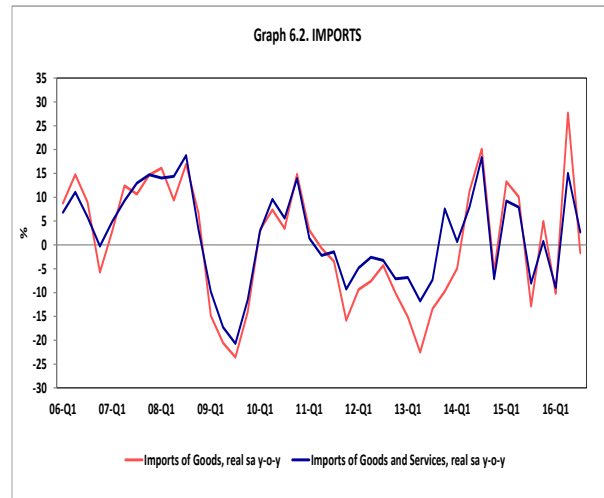
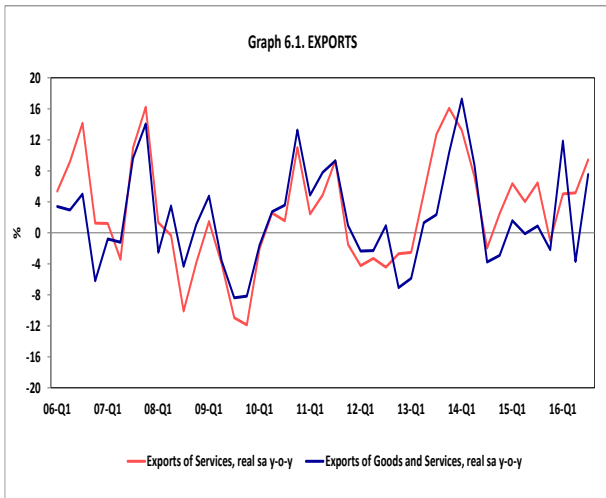
5. INFLATION, WAGES



Source: Eurostat

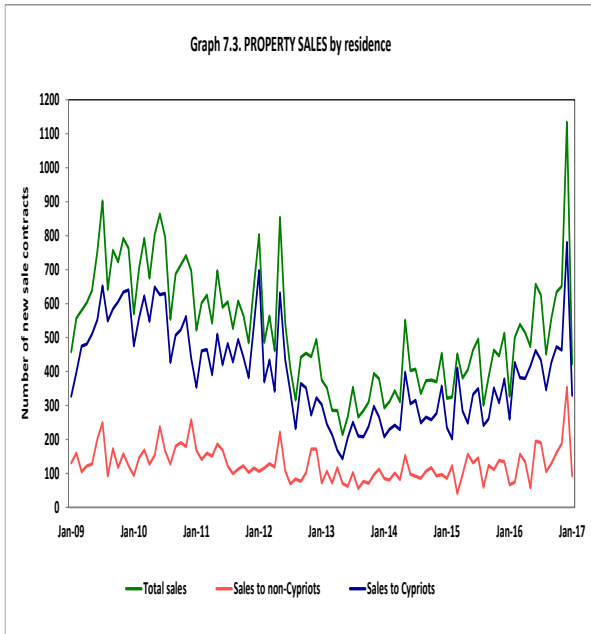
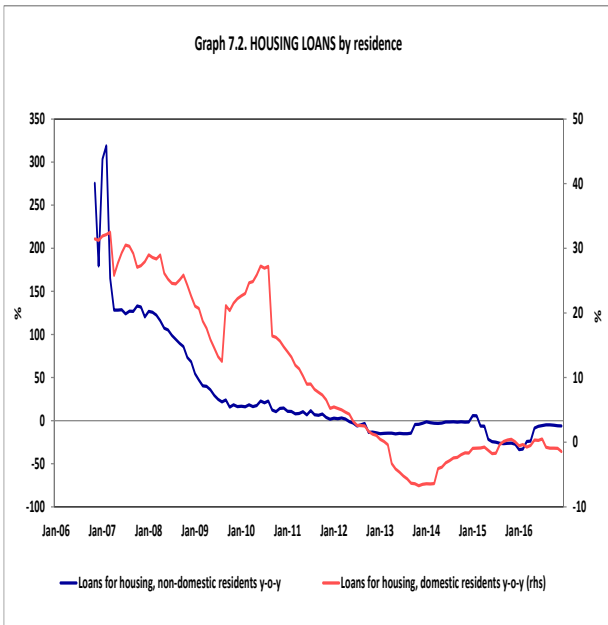
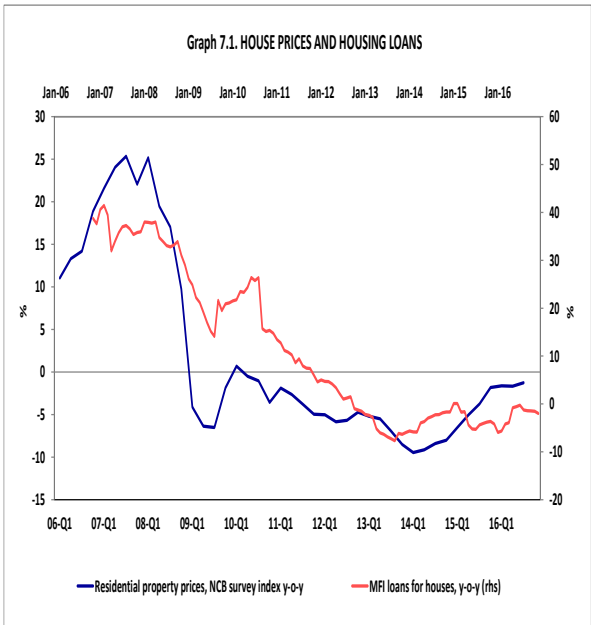


6. EXTERNAL SECTOR



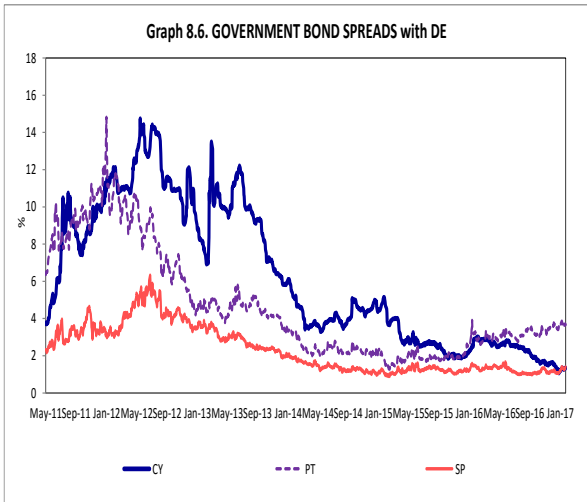
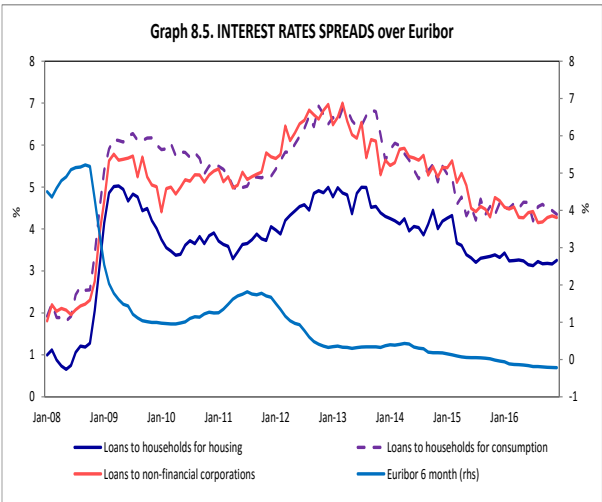
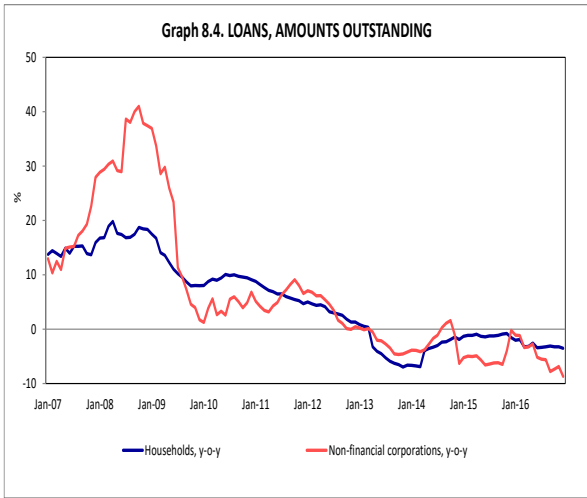
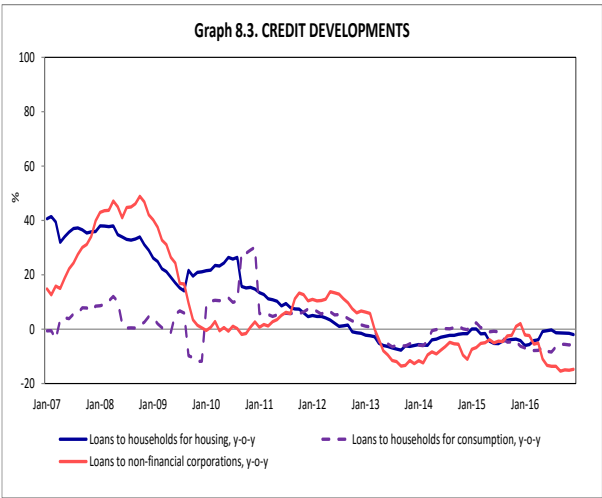
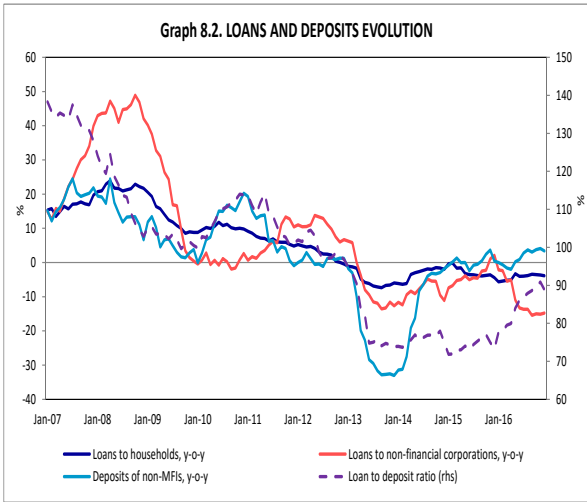
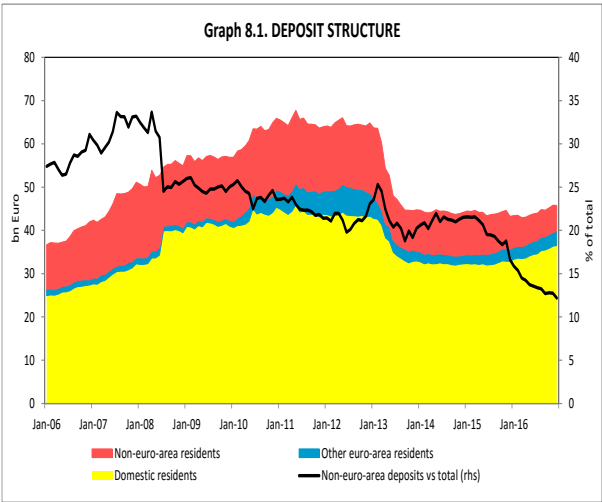
Sources: Eurostat, Cystat, ECB, CBC

7. HOUSING



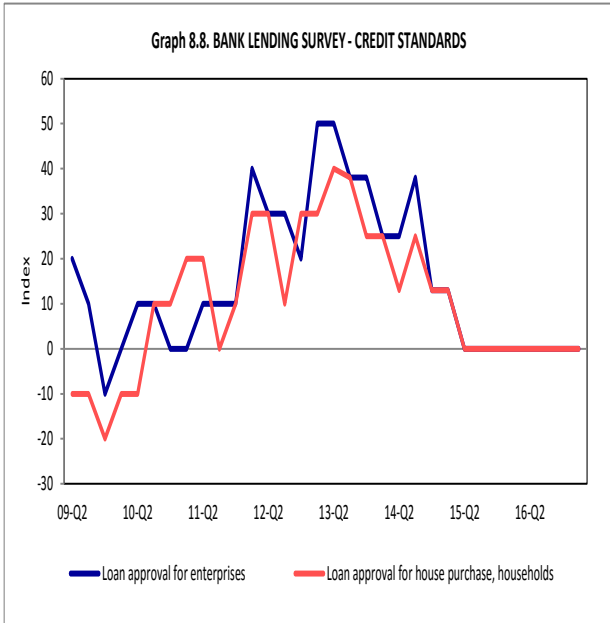
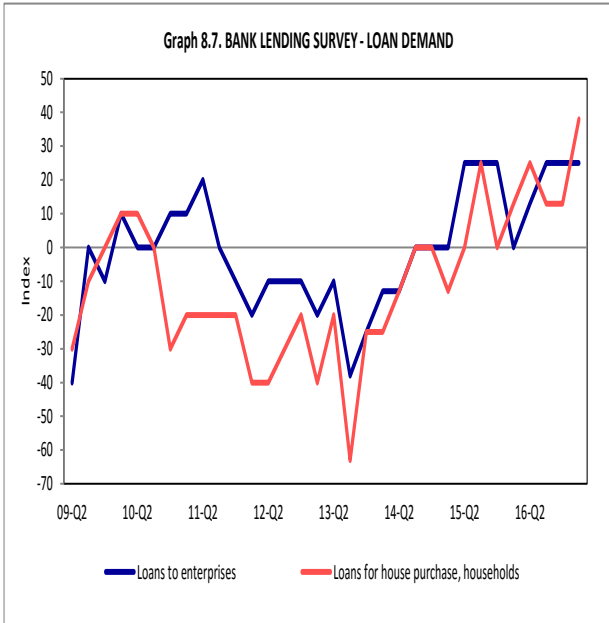
Sources: ECB, CBC, Dep. of Lands and Surveys

8. FINANCIAL SECTOR



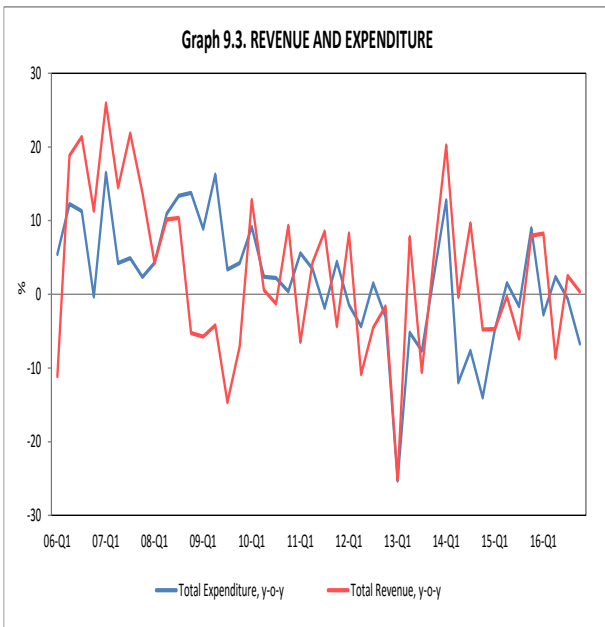
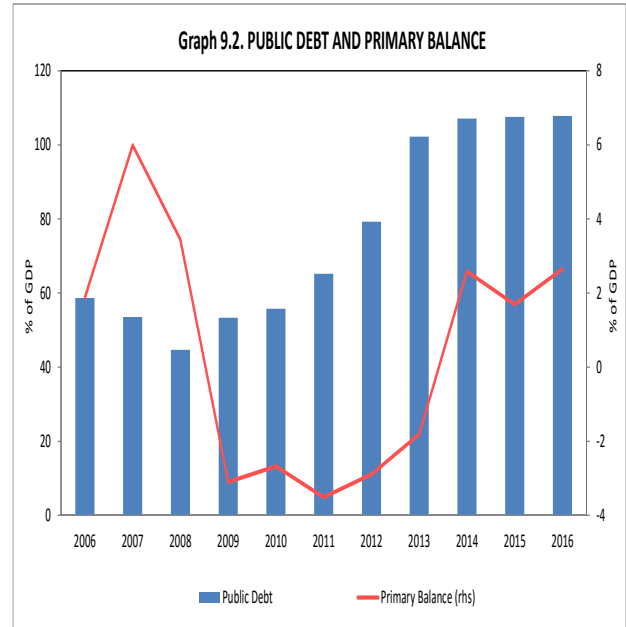
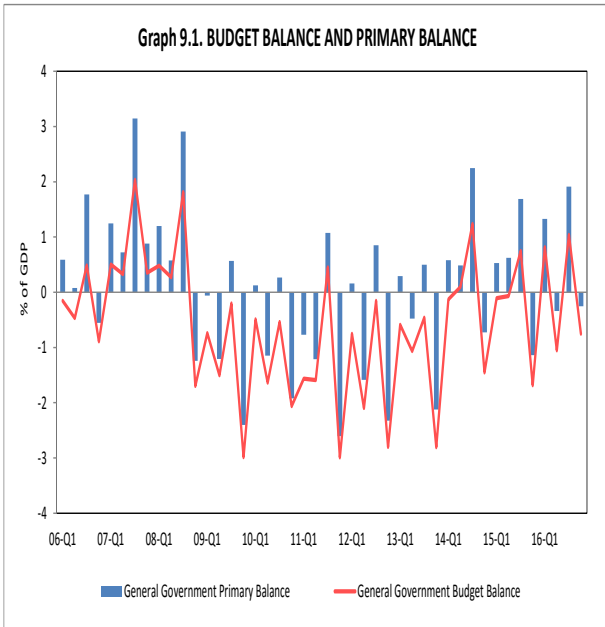
Sources: ECB, CBC, Bloomberg

8. FINANCIAL SECTOR – CONT.



Source: ECB

9. PUBLIC SECTOR



Sources: Ministry of Finance, Cystat