



# MACROECONOMIC MONITOR OF CYPRUS

May 2017

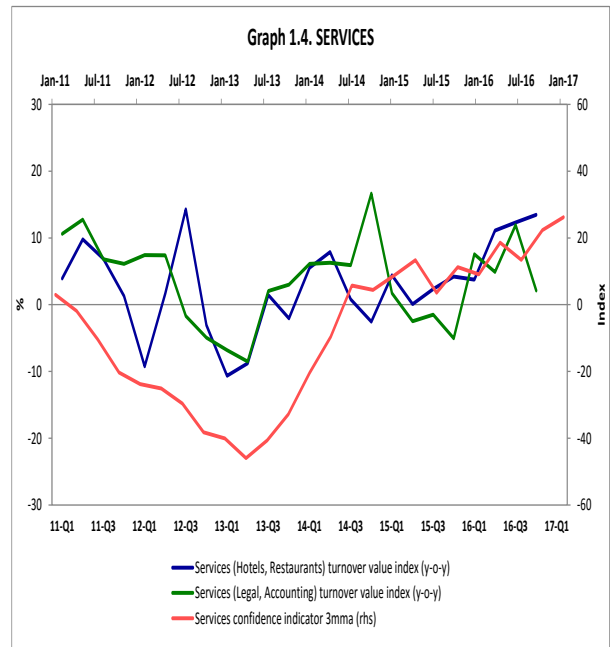
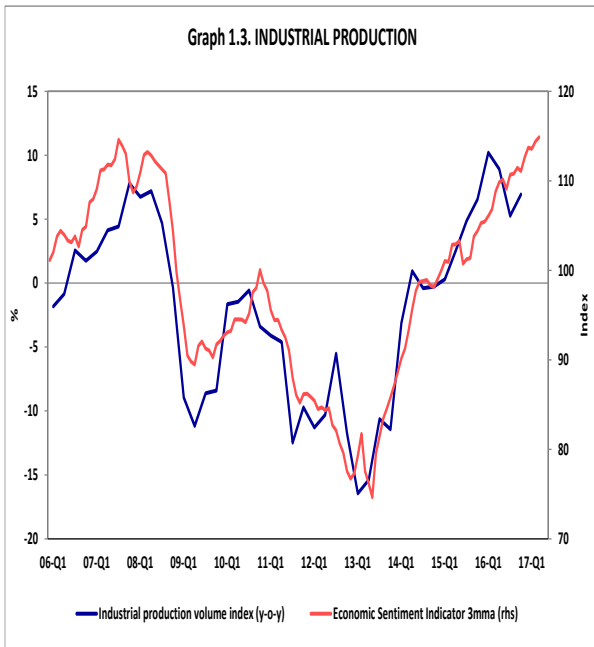
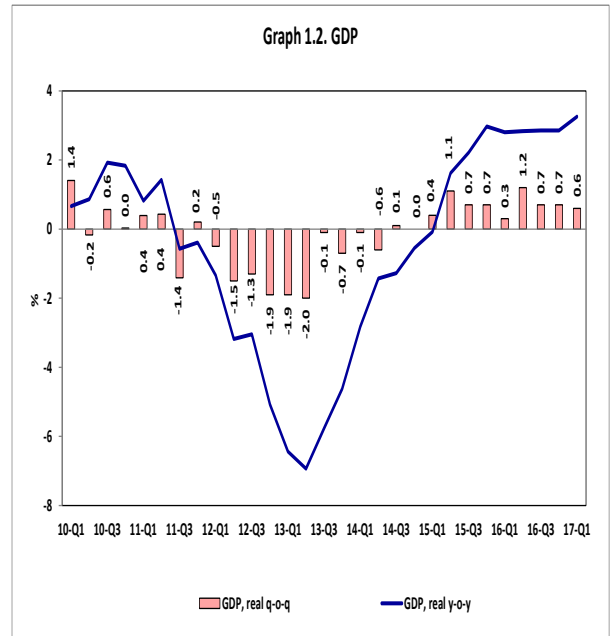
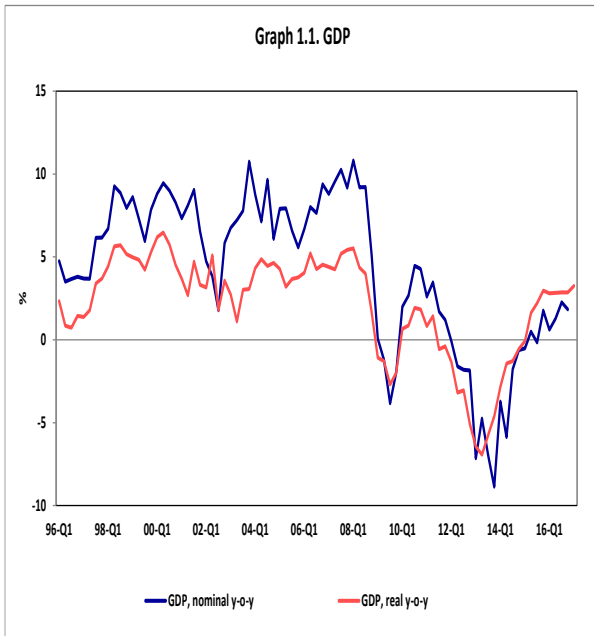
## MACROECONOMIC MONITOR OF CYPRUS

*Updated on 22 May 2017*

- **In the 1<sup>st</sup> quarter of 2017, GDP** (in seasonally adjusted terms) **recorded a positive rate of growth of 3.3% compared with 2.9% in the 4<sup>th</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, 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 1.3 points in April 2017** compared to the preceding month (see graphs 1.3-1.4), driven by confidence improvements in services, construction and retail trade sectors.
- In January-April 2017 **tourist arrivals increased at a rate of 19.9%** compared to January-April 2016 (see graph 6.3). An increase of 48.3% was recorded in tourist arrivals from Russia, a 38.6% increase from Germany, a 9.8% increase from the UK and a 9.6% increase from Greece.
- **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 12.5% in March 2017 compared to 13.3% in March 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 3<sup>rd</sup> quarter of 2013 falling to 30.3% in the 1<sup>st</sup> quarter of 2017 from the peak of 39.8% in the 2<sup>nd</sup> 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 April 2017 stood at 2.1% compared to 1.5% in March 2017 (see graph 5.1). For 2017 so far it stands at 1.4%. Core HICP inflation stood at 0.0% in January-April 2017 (see graph 5.2). All subcategories of HICP presented an increase except categories of alcoholic beverages and tobacco, clothing and footwear, furnishings, household equipment and supplies and communication.
- **Imports of goods increased by 35.2%** in January-March 2017 compared to January-March 2016. The increase in imports is influenced by imports of transport equipment (airplanes).
- **Exports of goods decreased by 33.5%** in January-March 2017 compared to January-March 2016 due to exports of transport equipment (vessels) occurred in the latter period.
- The **current account balance** in 2016 recorded a **deficit of €941.8 mn (-5.3% of GDP)** compared with a deficit of €514.0 mn (-2.9% of GDP) in 2015 (see graph 6.4) attributed solely to the income account as the trade balance was broadly balanced. Excluding the one-off transactions in imports and exports of goods and services of mobile transport equipment (one yacht) the current account balance deficit declines to 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.

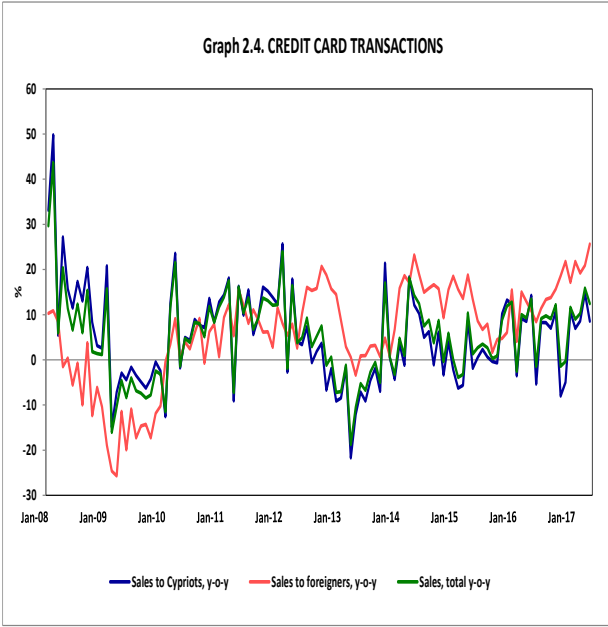
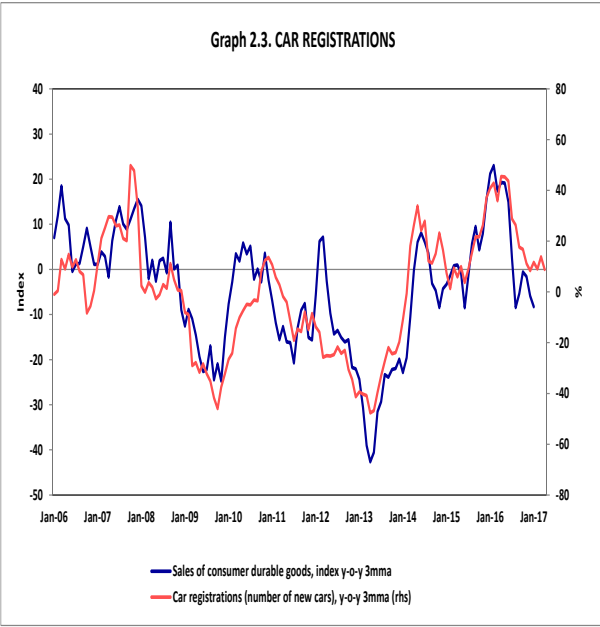
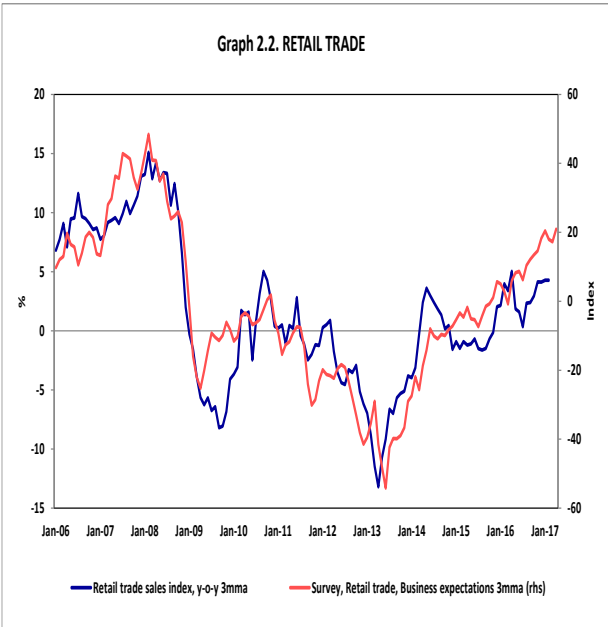
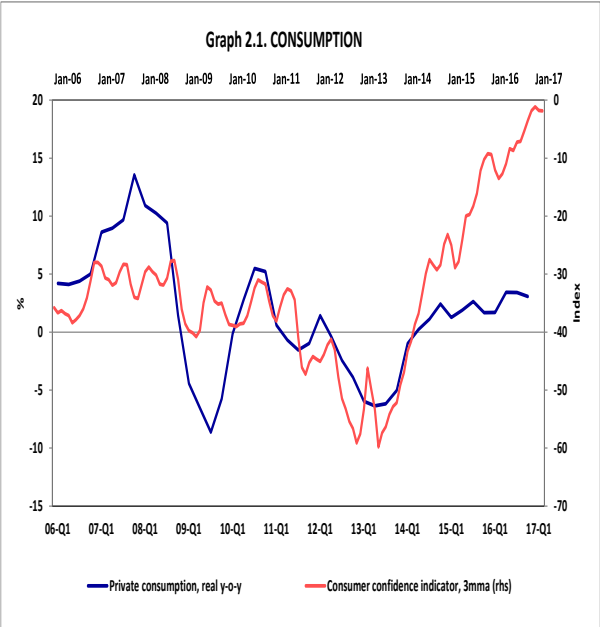
- General government budget balance (GGBB) **was in surplus** in January-March 2017, of the order of **€200.9 mn (1.1% of GDP)** compared to a surplus of €146.3 mn (0.8% of GDP) during the corresponding period the year before (see graph 9.1).
- General government **primary balance** (GGPB) **was in surplus** in January-March 2017, of the order of **€295.4 mn (1.6% of GDP)** compared to a surplus of €237.3 mn (1.3% 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 4.9%, reaching to €1,716.1 mn in January-March 2017, compared to €1,636.6 mn during the corresponding period the year before (see graph 9.3).
- **Total expenditure** exhibited a positive rate of growth of about 1.7%, reaching to €1,515.2 mn in January-March 2017, compared to €1,490.3 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 1.0%** in March 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 6.4%** in March 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 March 2017, **deposit interest rates** for maturity of up to 1 year and up to 3 months increased compared with the preceding month. The **lending interest rates** to households for primary residence and the rate for other loans up to €1 mn for businesses decreased. The interest rate for bank overdrafts to non-financial corporations also 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 **4<sup>th</sup> quarter of 2016** compared to the 3<sup>rd</sup> quarter of 2016 and increased by 2.8% compared to the 4<sup>th</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 6.9% while, transfers of property were down by 5.2% in January-April 2017 compared to January-April 2016 (see graph 7.3). MFI mortgage loans to domestic residents for housing declined with an annual rate of 0.7% in March 2017 (see graph 7.2).
- The Cyprus Government bond spread compared to the German Government bond, decreased in mid-May 2017 compared to end April 2017 to around 56 basis points above the German bond from 78 basis points (see graph 8.6, yields refer to the bonds maturing in 2020).

1. OUTPUT



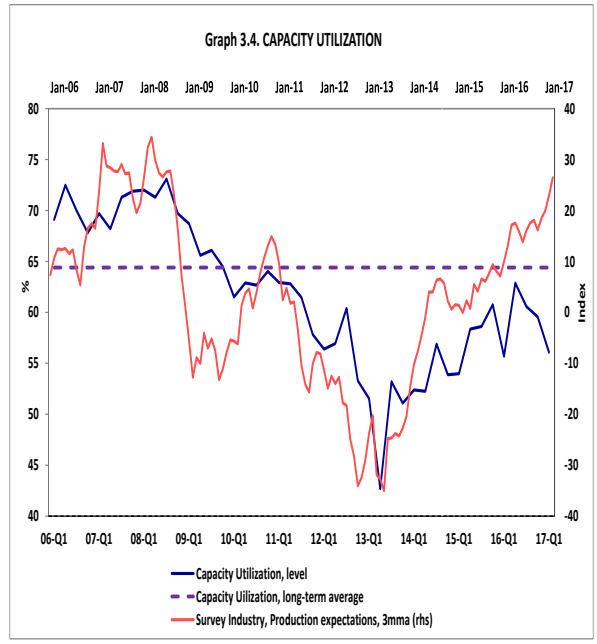
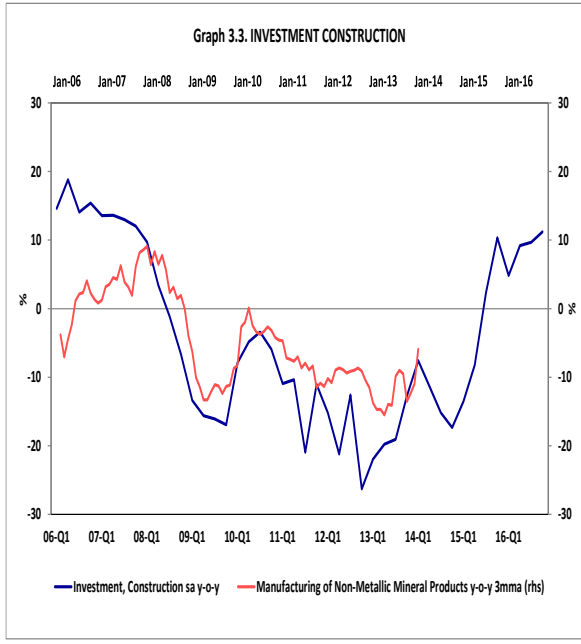
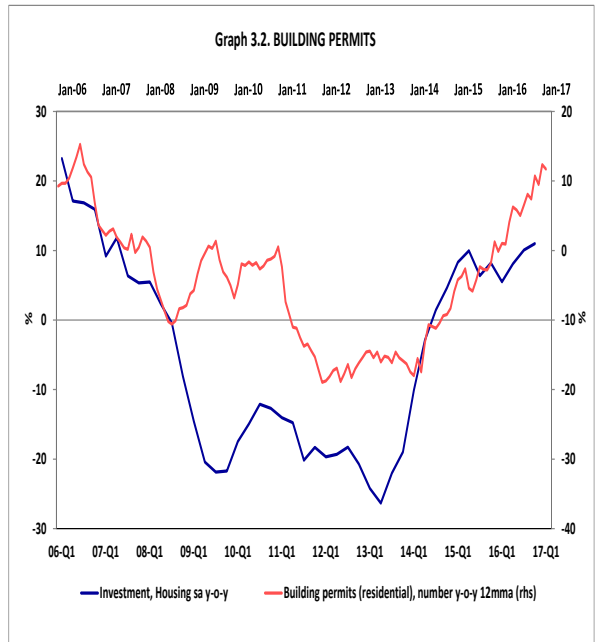
Sources: Eurostat, DG ECFIN, Cystat

2. CONSUMPTION



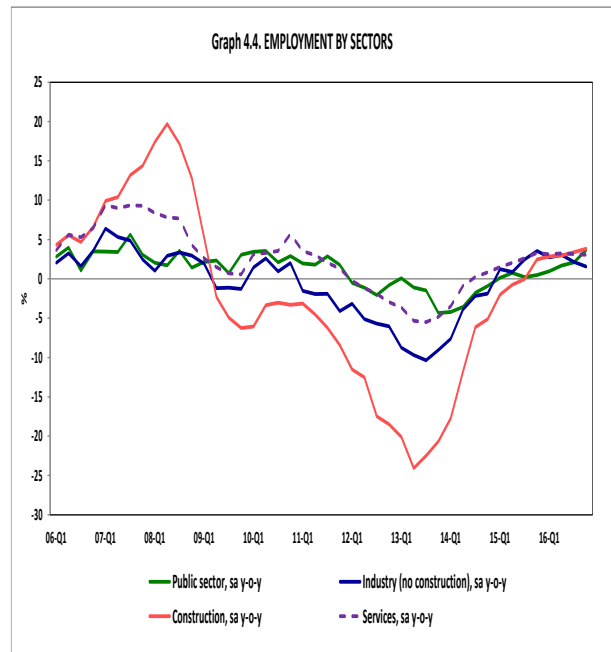
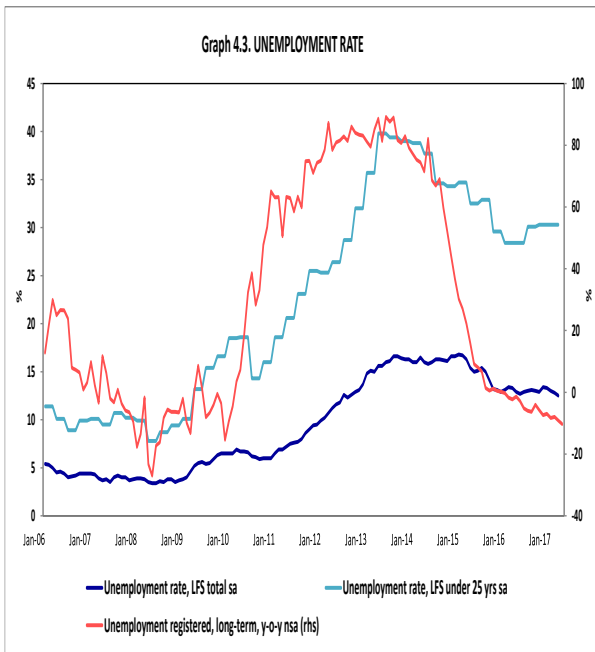
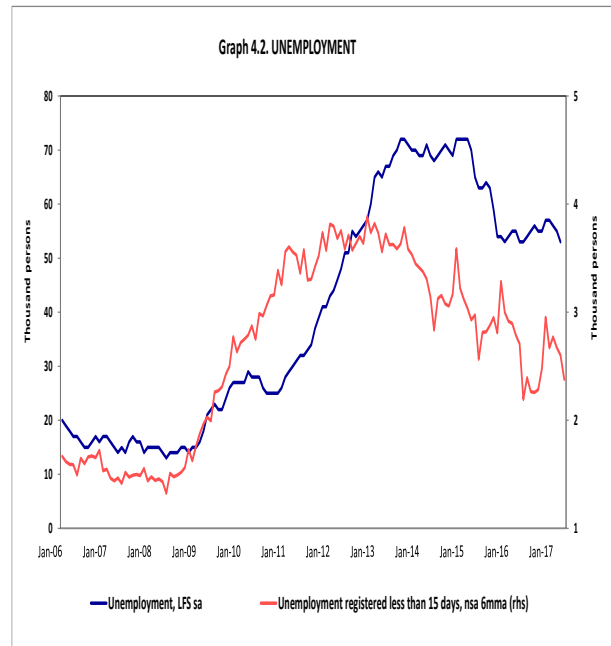
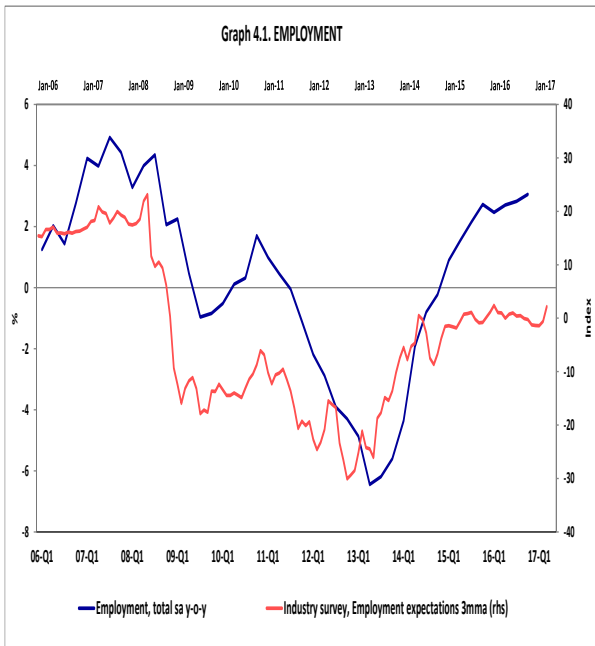
Sources: Eurostat, DG ECFIN, Cystat, JCC Payment Systems Ltd

3. INVESTMENT



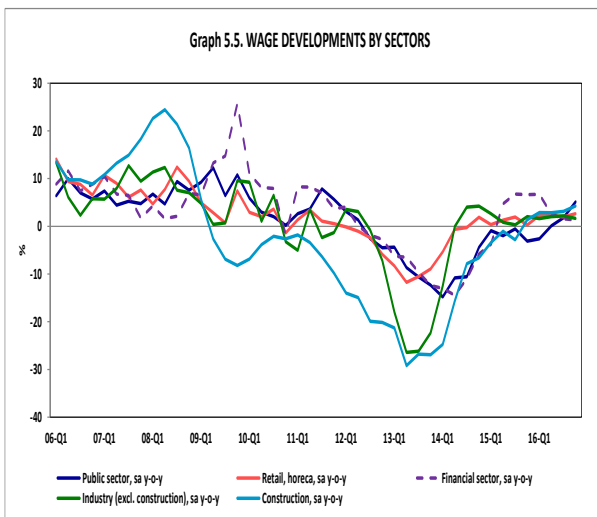
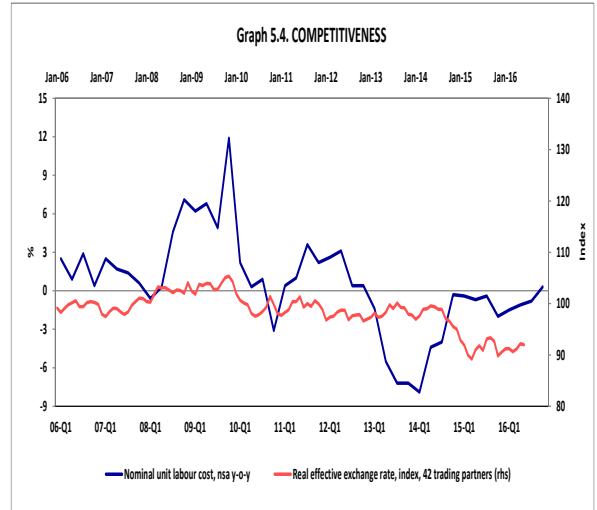
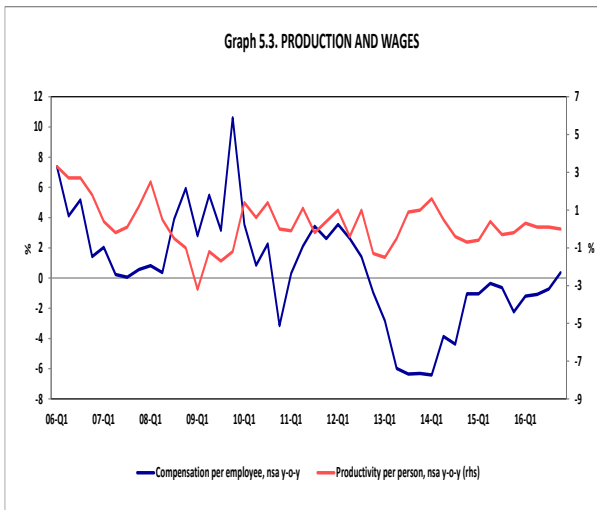
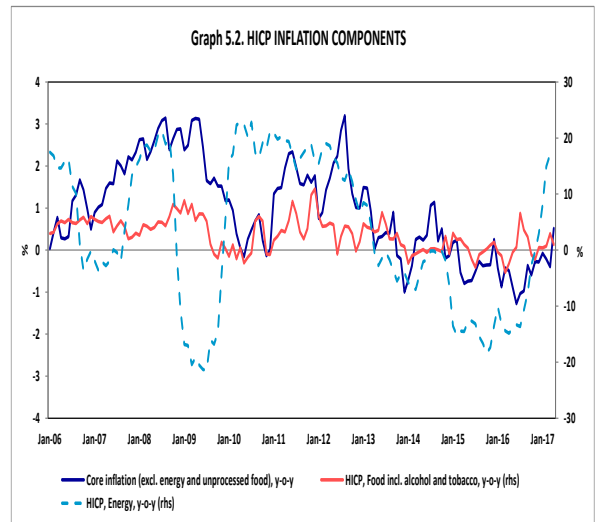
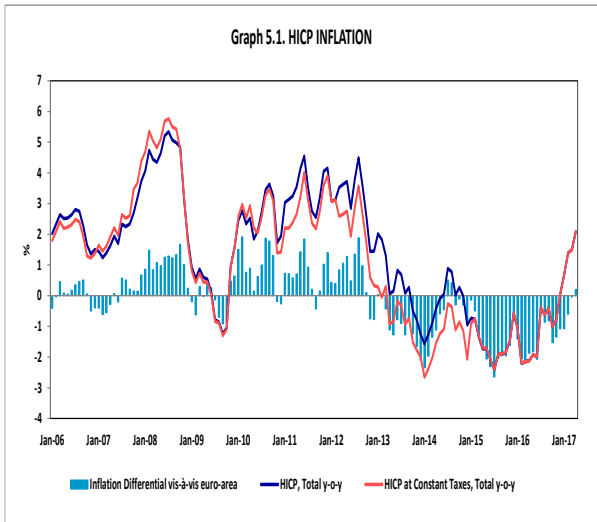
Sources: Eurostat, DG ECFIN, Cystat

4. LABOUR MARKET



Sources: Eurostat, DG ECFIN, Cystat

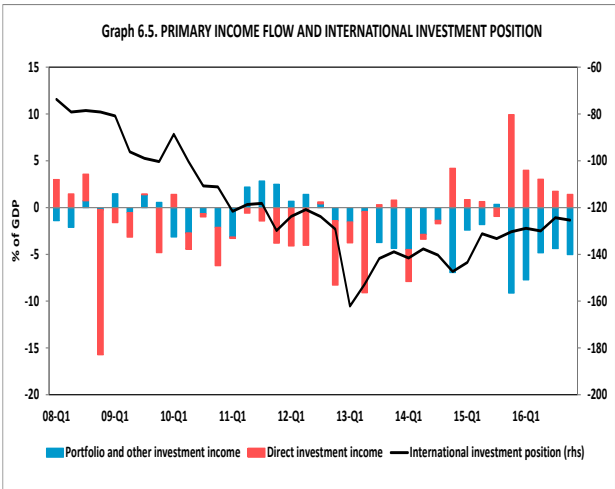
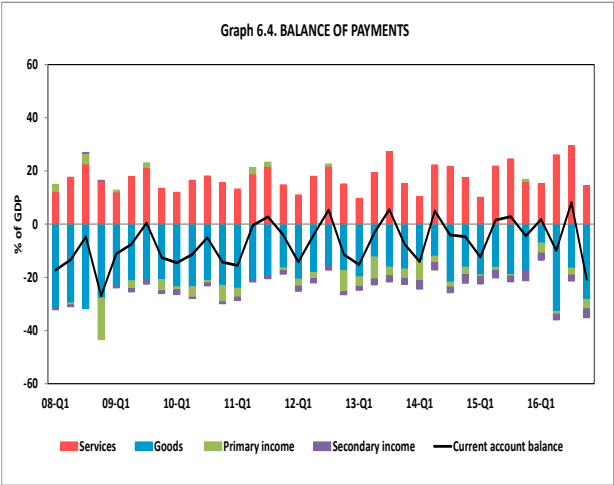
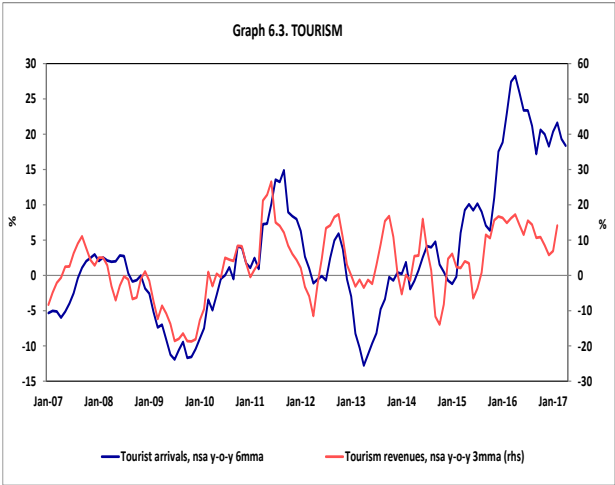
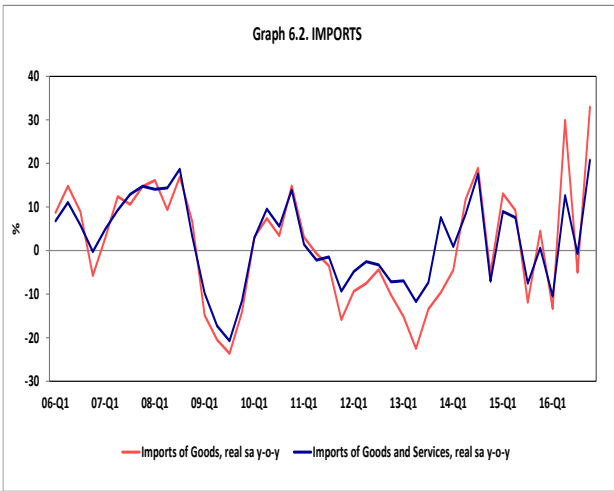
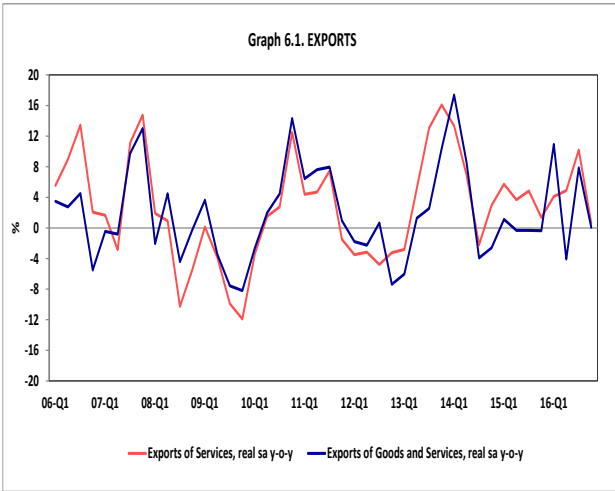
5. INFLATION, WAGES



Source: Eurostat

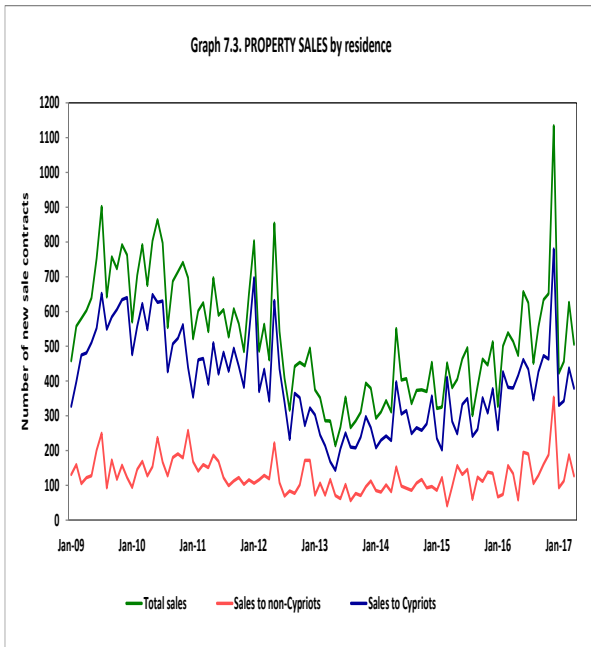
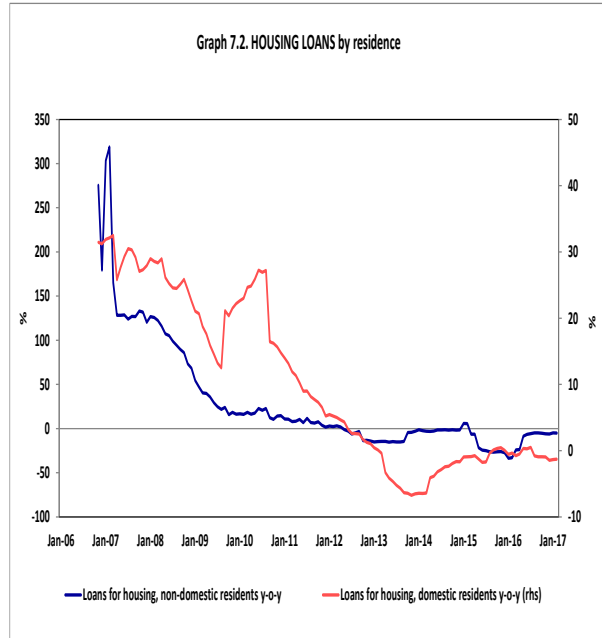
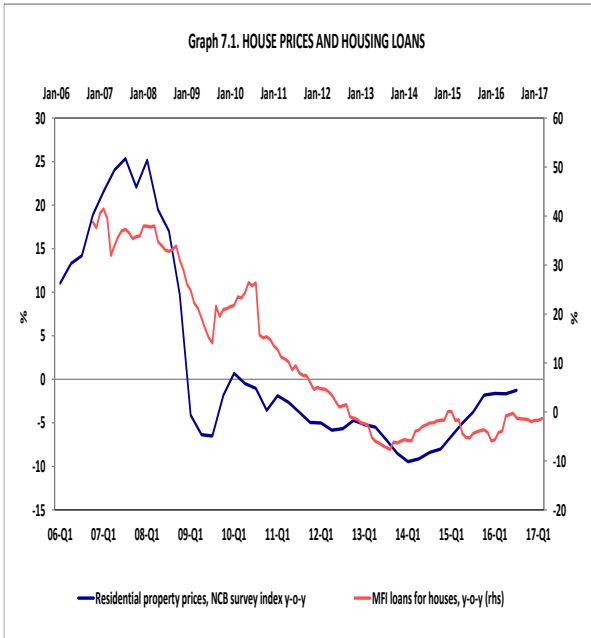


6. EXTERNAL SECTOR



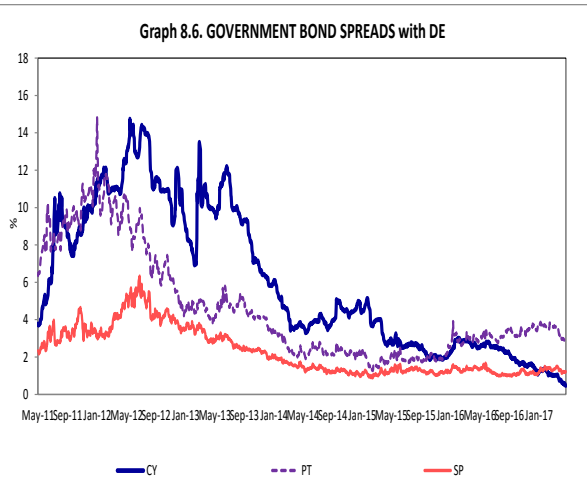
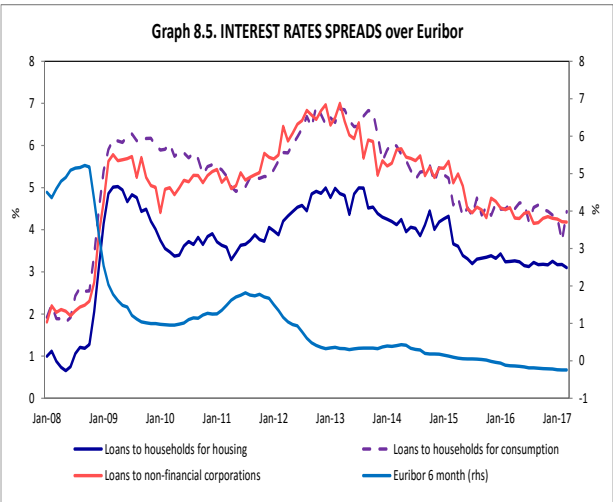
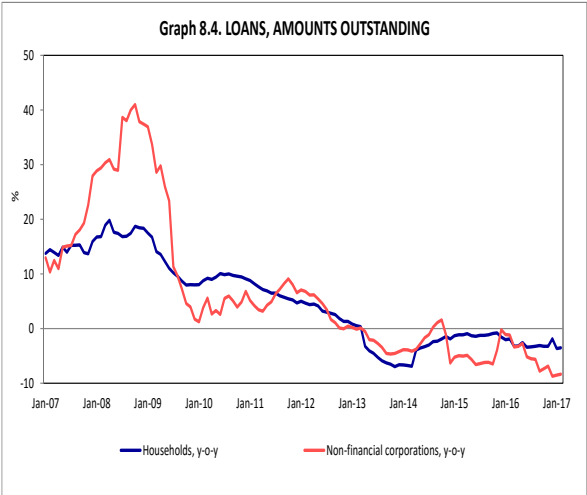
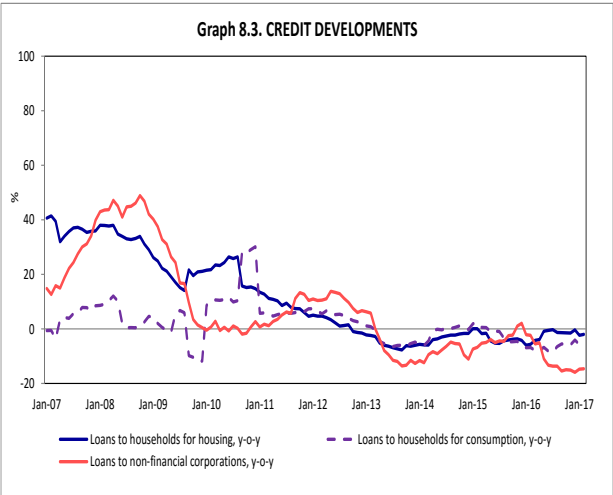
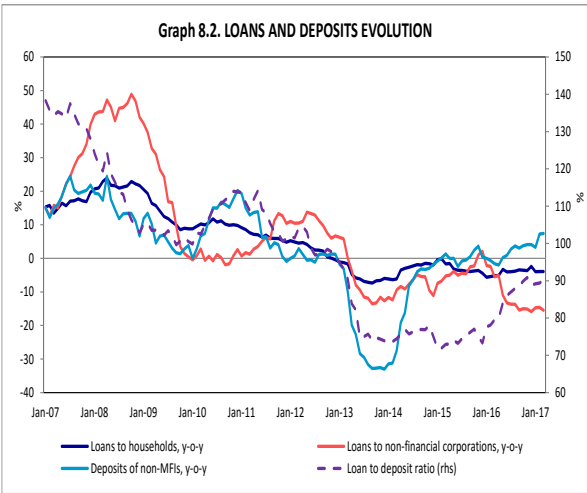
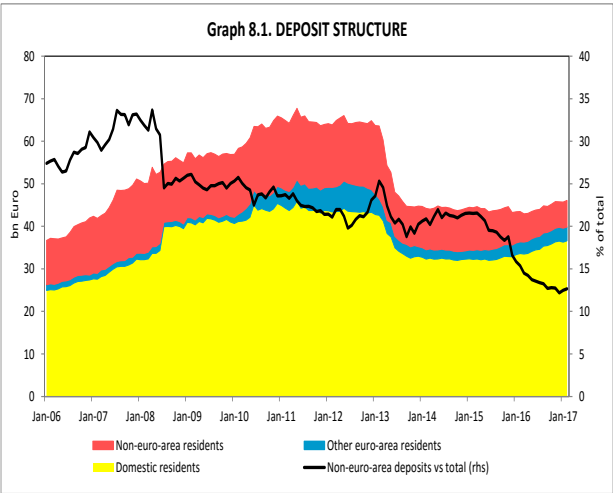
Sources: Eurostat, Cystat, ECB, CBC

7. HOUSING



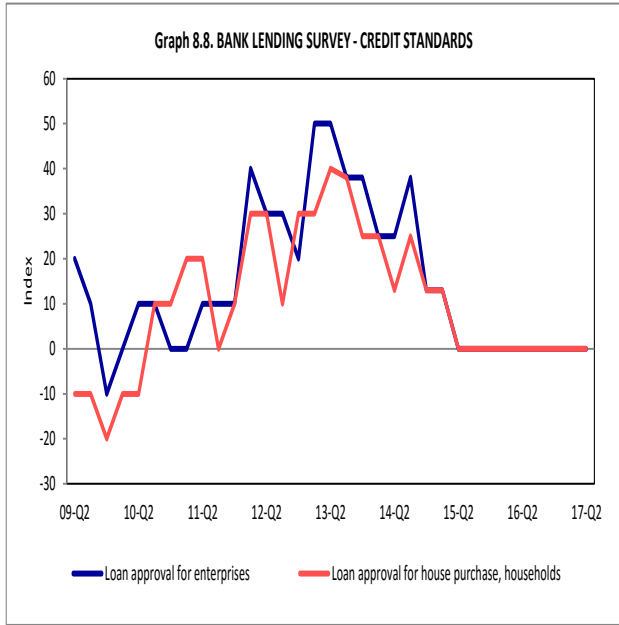
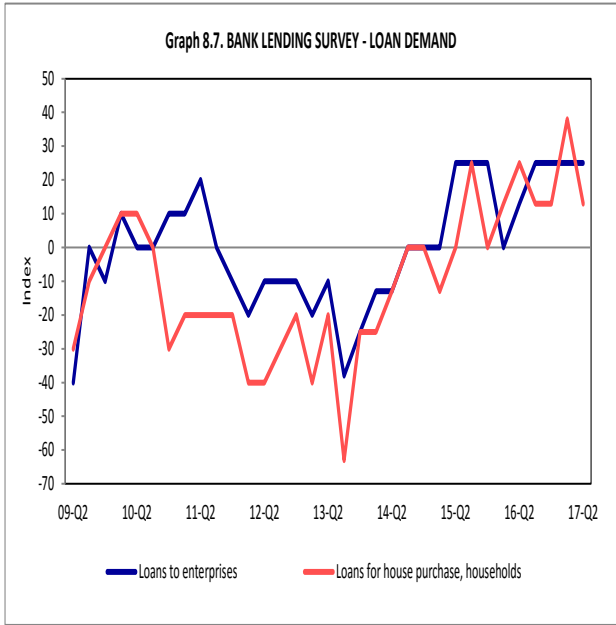
Sources: ECB, CBC, Dep. of Lands and Surveys

8. FINANCIAL SECTOR



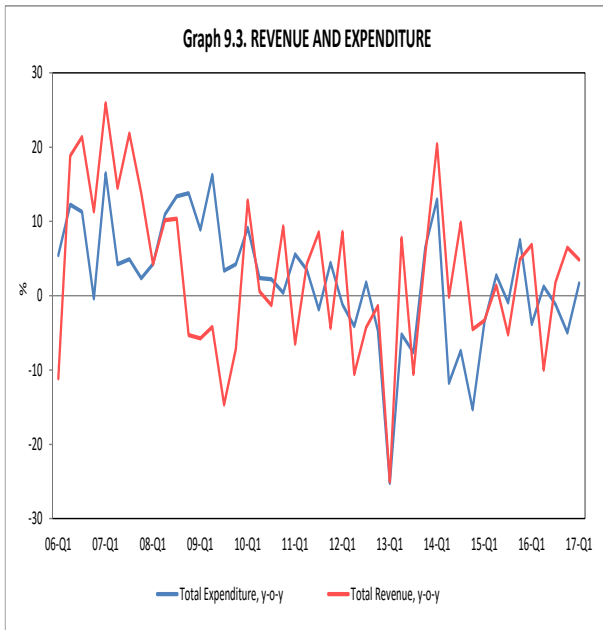
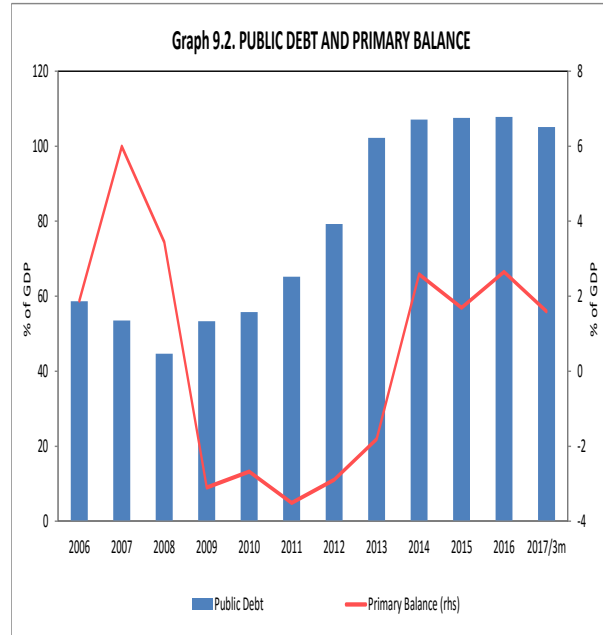
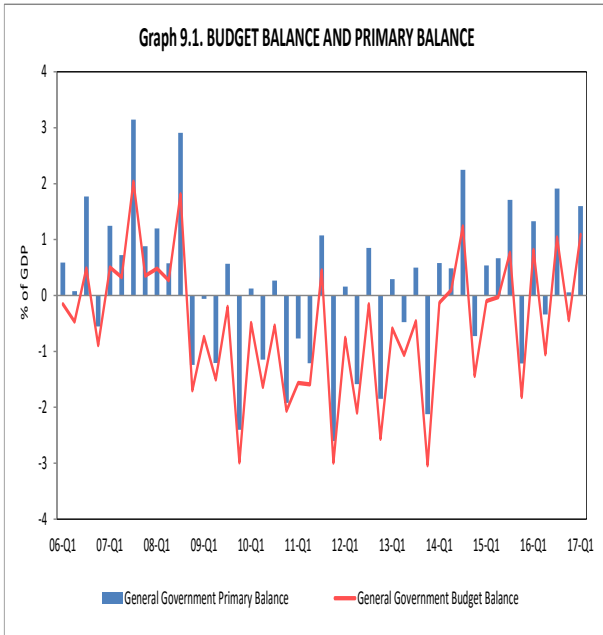
Sources: ECB, CBC, Bloomberg

8. FINANCIAL SECTOR – CONT.



Source: ECB

9. PUBLIC SECTOR



Sources: Ministry of Finance, Cystat