



MACROECONOMIC MONITOR OF CYPRUS

November 2017

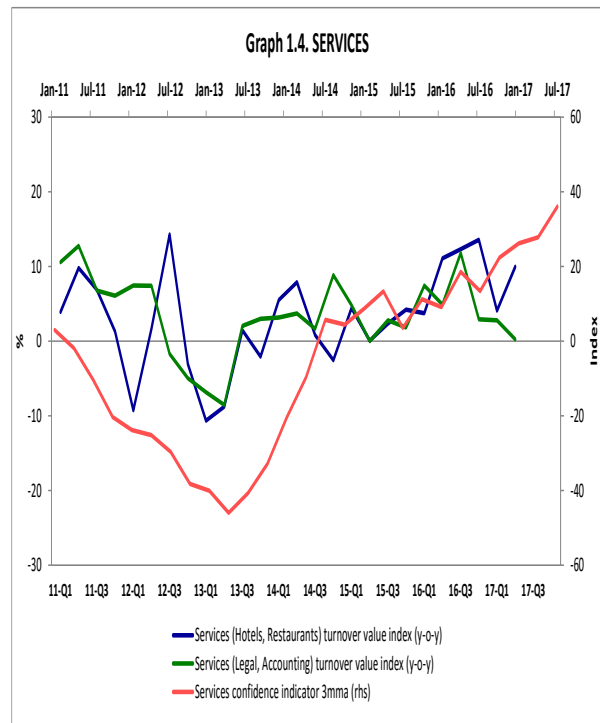
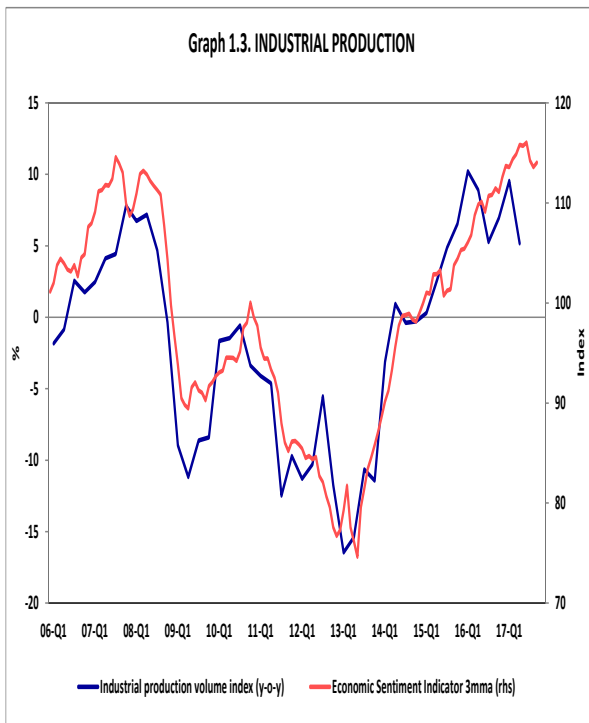
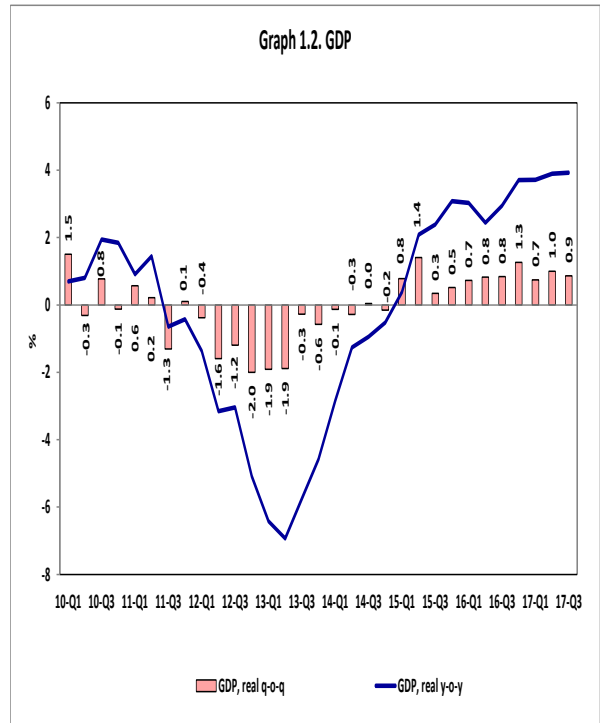
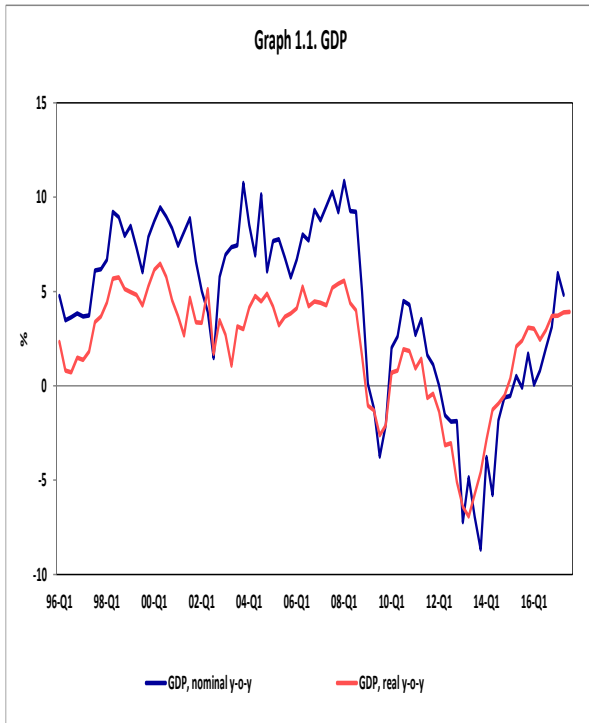
MACROECONOMIC MONITOR OF CYPRUS

Updated on 17 November 2017

- **In the 3rd quarter of 2017, GDP** (in seasonally adjusted terms) **recorded a positive rate of growth of 3.9% same as in the 2nd quarter of 2017** on an annual basis (see graphs 1.1-1.2). The increased activity was broad based and is mainly attributed to sectors: hotels and restaurants, retail and wholesale trade, construction, and manufacturing. The sector financial and insurance activities sector was the only sector recording a negative growth rate (see graphs 3.1-3.4 and 6.1-6.2).
- Developments are currently driven by increases in **private consumption and gross fixed capital formation** (see graphs 2.1-2.4).
- The economic sentiment indicator (ESI-CypERC) in October 2017 increased by 4.5 points compared with September 2017 (see graphs 1.3-1.4). The increase was driven by confidence improvements in services, retail trade and industry.
- During January-October 2017 **tourist arrivals increased at a rate of 14.6%** compared to the corresponding period of 2016 (see graph 6.3). An increase of 60% was recorded in tourist arrivals from Germany, a 7.9% increase from the UK, a 7.1% increase from Greece and a 5.2% increase from Russia.
- **Employment** developments reflect conditions of improving economic activity (see graphs 4.1 and 4.4). Employment in persons **increased by 3.1%** in the 1st half of 2017 compared to the 1st half of 2016. The increase was mainly recorded in the sectors of education, wholesale and retail trade, transport and storage, and information and communication.
- **Labour Force Survey (LFS) unemployment**, in monthly seasonally adjusted terms, **decreased to 10.3% in September 2017 compared to 13.0% in September 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 25.5% in September 2017 from the peak of 40.1% in the 3rd quarter of 2013. Particularly challenging is also the relatively high long-term unemployed.
- **Compensation per employee** increased by around 0.4% in the 1st half of 2017 compared to the 1st half of 2016 (see graphs 5.3-5.5). The observed benign wage adjustment is expected to support the downward trend in unemployment.
- **Inflation (HICP)** in October 2017 increased by 0.4% compared to an increase of 0.1% in September 2017 (see graph 5.1). For 2017 so far it stands at 0.8%. Core HICP inflation stood at 0.1% during January-October 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, communication and recreation and culture.
- **Imports of goods increased by 6.9%** in January-September 2017 compared to January-September 2016. The increase in imports is affected by developments in imports of transport equipment (airplanes and vessels). Imports of goods, excluding imports of transport equipment, exhibit an increase of 19%.
- **Exports of goods increased by 9%** in January-September 2017 compared to January-September 2016 due to exports of transport equipment (vessels) occurred in the latter period. Exports of goods, excluding exports of transport equipment, exhibit an increase of 25.9%.
- The current account (CA) balance (see graph 6.4) improved in the 2nd quarter of 2017, recording a deficit of €7.4 mn compared with a deficit of €472.2 mn in the 2nd quarter of 2016. This improvement was mainly due to the trade balance of goods. More specifically: (i) Exports of goods recorded an increase, mainly due to higher exports of ships in the 2nd quarter of 2017, while imports of goods decreased considerably, mainly due to the worsening of the category “transport equipment”, which resulted from reduced imports of ships and aircraft. (ii) As regards the remaining categories of the CA, services recorded an increase due to the improvement in the travel category, while both primary and secondary income recorded decreases. For the 1st half of 2017 the deficit was €720.2 mn (-3.8% of GDP) compared with a deficit of €392.2 mn (-2.2% of GDP) in the 1st half of 2016. The CA balance for the 1st half of 2017, excluding SPEs records a deficit of -1.9% of GDP compared to a surplus of 0.4% of GDP during the corresponding period of the year before.
- The **primary income** recorded a **deficit of €202.1 mn** the 1st half of 2017 compared with a deficit of €112.7 mn the 1st half of 2016 (see graph 6.4).

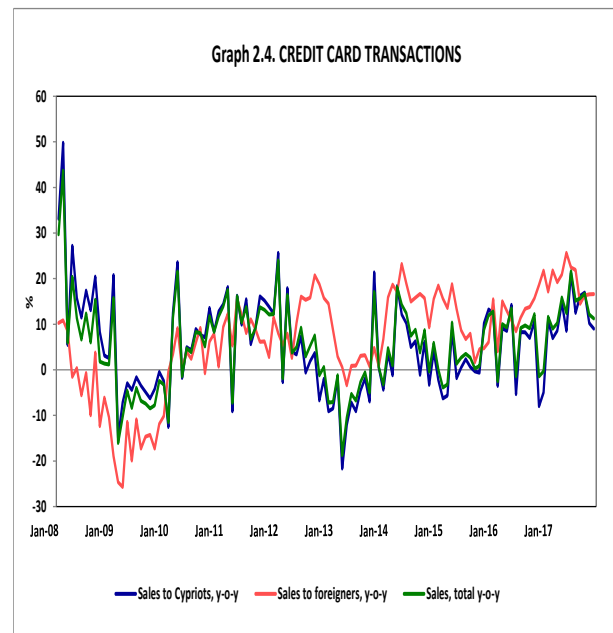
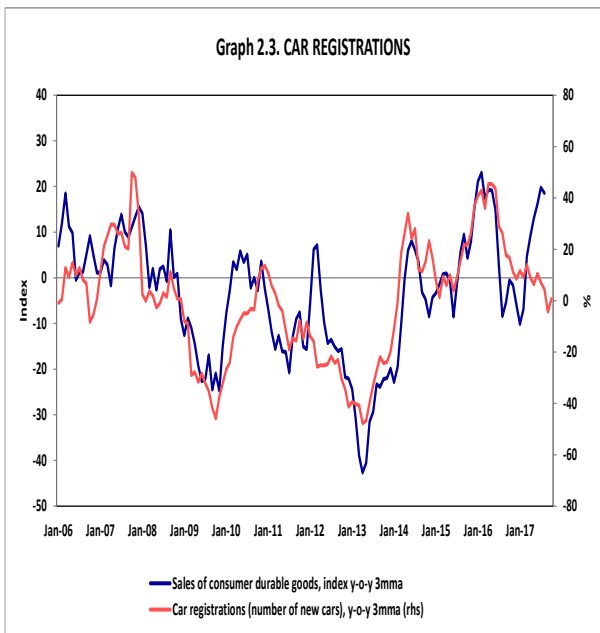
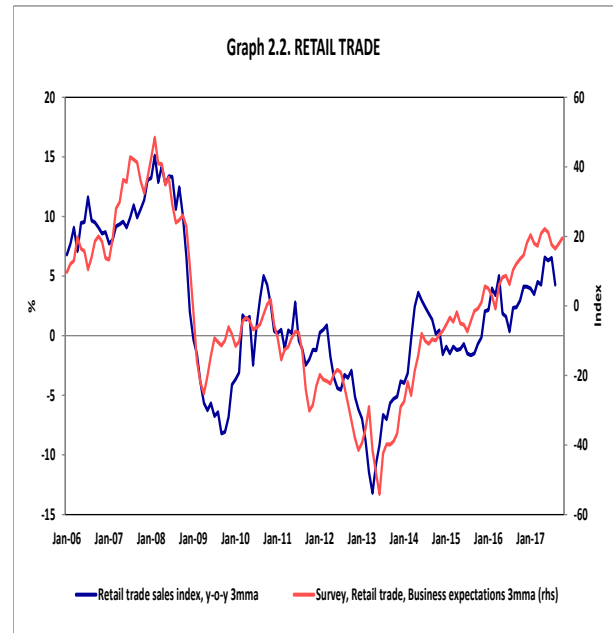
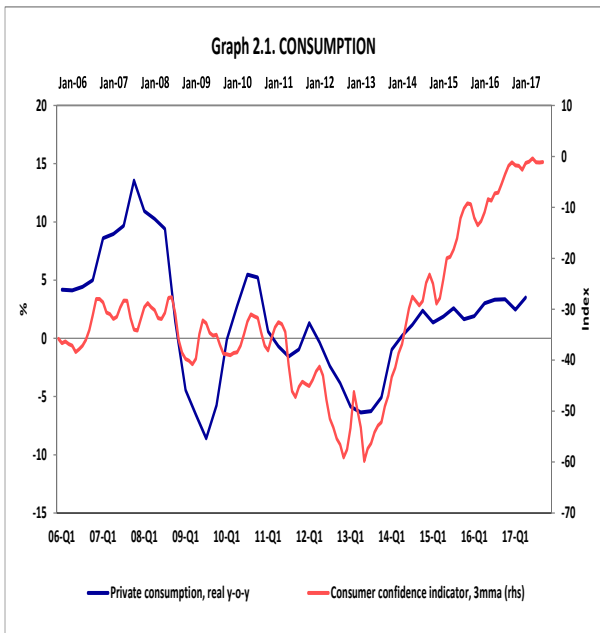
- The **secondary income** recorded a **deficit of €212 mn** the 1st half of 2017 compared with a deficit of €204.9 mn the 1st half of 2016 (see graph 6.4).
- The **international investment position** (IIP) (see graph 6.5) recorded a small improvement in the 2nd quarter of 2017, showing a net liability position at €23,557 mn (-124% of GDP) compared with €23,890 mn (-125.7% of GDP) in the previous quarter. The decrease in net liabilities was mainly due to the improvement recorded in direct investment, despite the deterioration in the remaining categories of the IIP. Excluding SPEs, the IIP in the 2nd quarter of 2017 was at -€9,197 mn (-48.4% of GDP).
- General government budget balance (GGBB) **was in surplus** during January-September 2017, of the order of **€429.2 mn (2.3% of GDP)** compared to a surplus of €143.4 mn (0.8% of GDP) during the corresponding period the year before (see graph 9.1).
- General government **primary balance** (GGPB) **was in surplus** during January-September 2017, of the order of **€824.6 mn (4.3% of GDP)** compared to a surplus of €518.9 mn (2.9% 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 9.3%, reaching €5,372.3 mn during January-September 2017, compared to €4,917.3 mn during the corresponding period the year before (see graph 9.3).
- **Total expenditure** exhibited a positive rate of growth of about 3.5%, reaching €4,943.1 mn during January-September 2017, compared to €4,773.9 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%** in September 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 5.2%** in September 2017, reflecting the improving performance of the economy (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 September 2017, **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 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 **2nd quarter of 2017** compared to the 1st quarter of 2017 and increased by 3.6% compared to the 2nd quarter of 2016.
- The CBC's **residential property price index** increased by **0.5%** in the **2nd quarter of 2017** compared to the 1st quarter of 2017 and increased by 1.1% compared to the 2nd quarter of 2016. Cumulative from the 1st quarter of 2008 it has declined by 28.5% (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 19.2% while, transfers of property were up by 3.7% in January-October 2017 compared to January-October 2016 (see graph 7.3). MFI mortgage loans to domestic residents for housing declined with an annual rate of 0.6% in September 2017 (see graph 7.2).
- The Cyprus Government bond spread compared to the German Government bond, in mid-November 2017 compared to end October 2017 had an almost zero difference from the German bond from -9 basis points respectively (see graph 8.6, yields refer to the bonds maturing in 2020).
- In June Cyprus issued a new 7-year 2.75% **benchmark bond** of €0.85 bn with a simultaneous offer for switch or sale of outstanding international bonds due in 2019 and 2020. A nominal amount of €515 mn or 37% of the outstanding bonds was switched.
- In July Cyprus proceeded with partial early repayment of the **loan by the IMF** which had been granted in the period of the economic adjustment programme (2013-2016). The prepayment of the order of €0.3 bn reduced the outstanding balance of the loan to €0.7 bn. The prepayment related to tranches carrying a higher interest rate than the current market rates.

1. OUTPUT



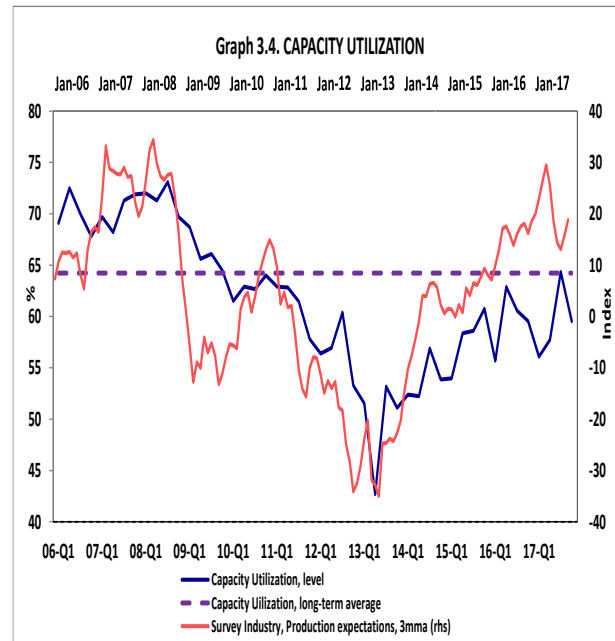
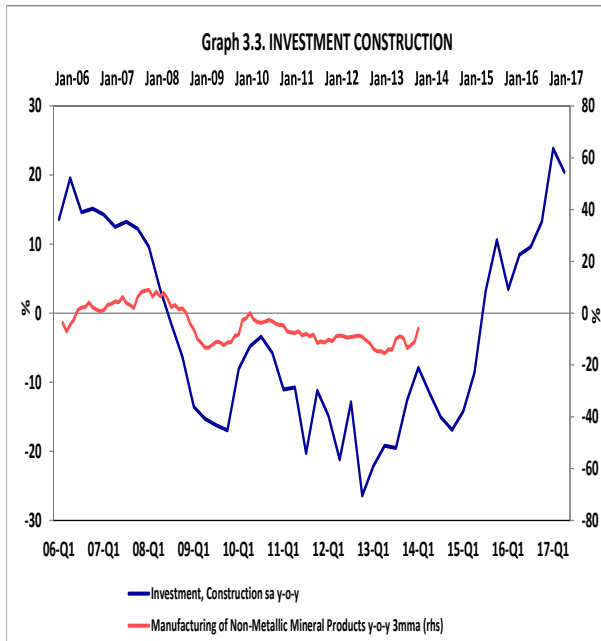
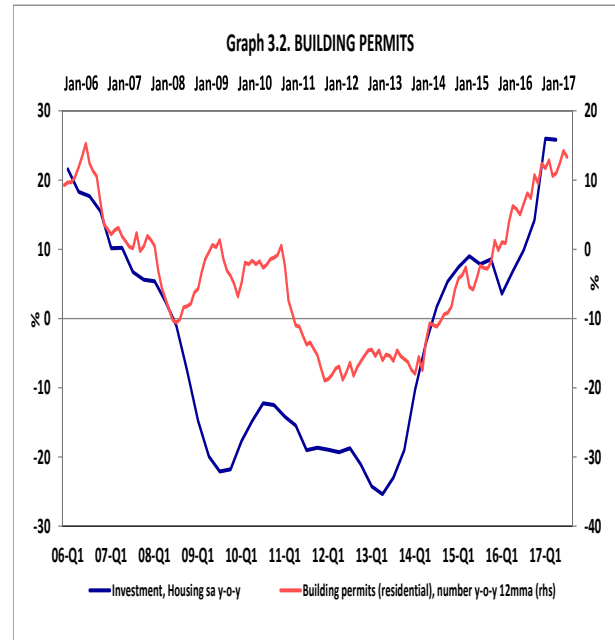
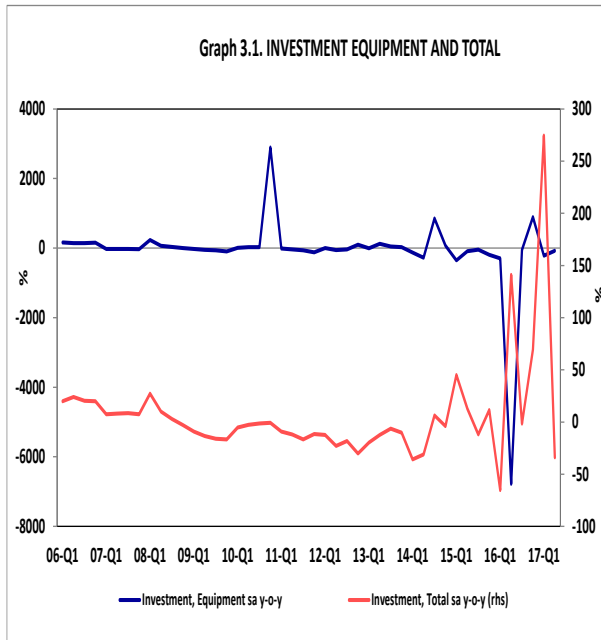
Sources: Eurostat, DG ECFIN, Cystat

2. CONSUMPTION



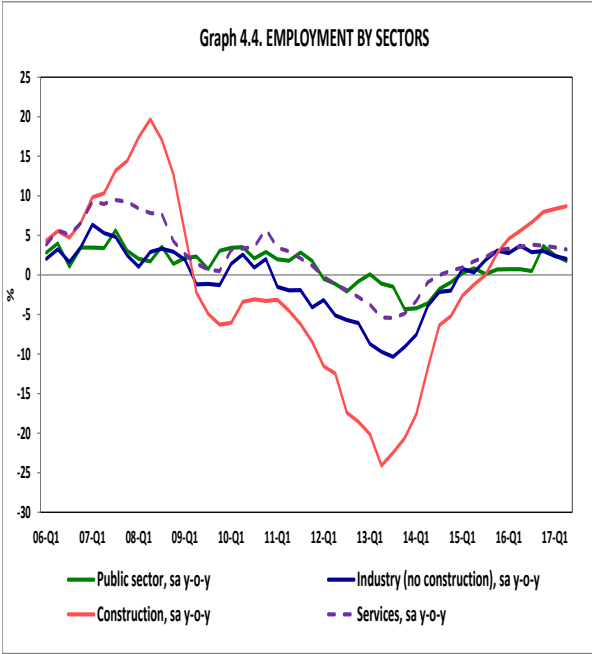
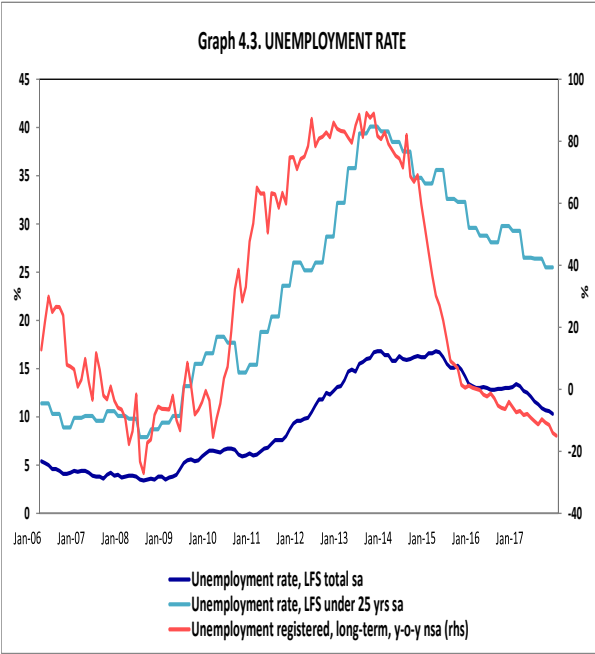
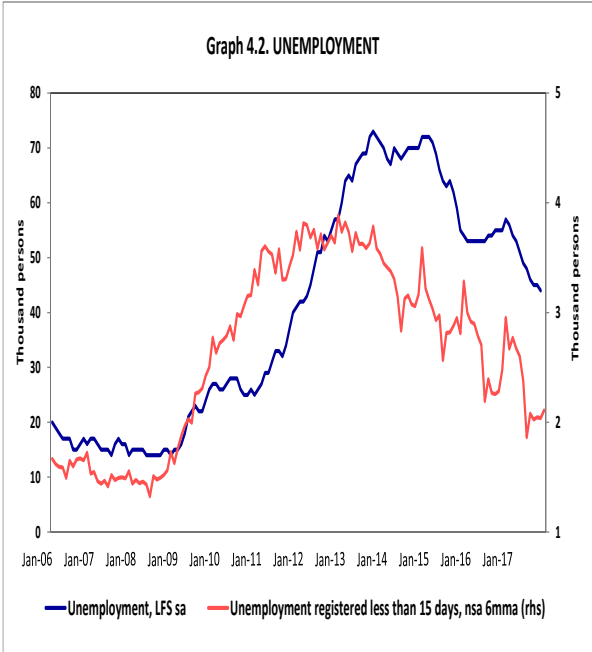
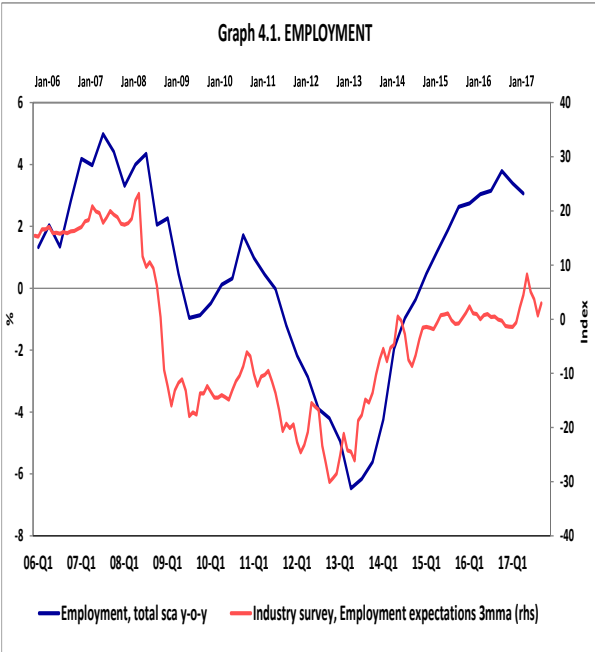
Sources: Eurostat, DG ECFIN, Cystat, JCC Payment Systems Ltd

3. INVESTMENT



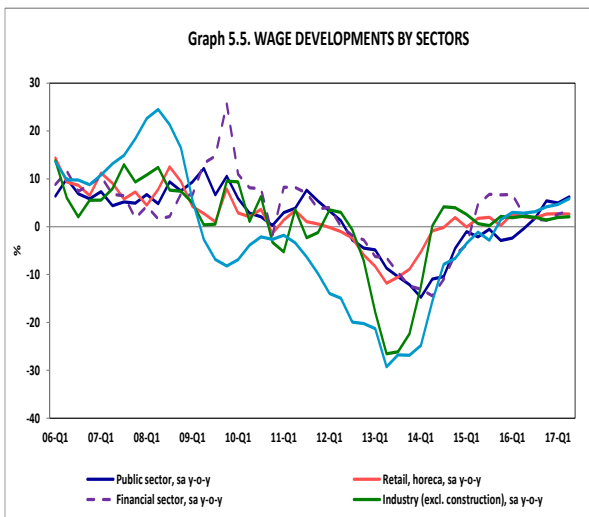
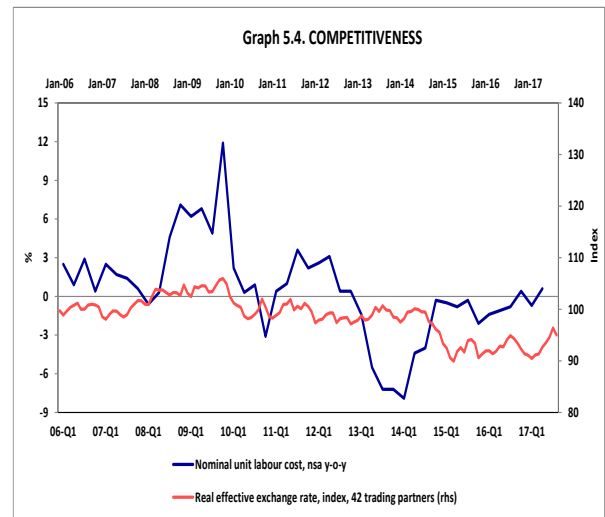
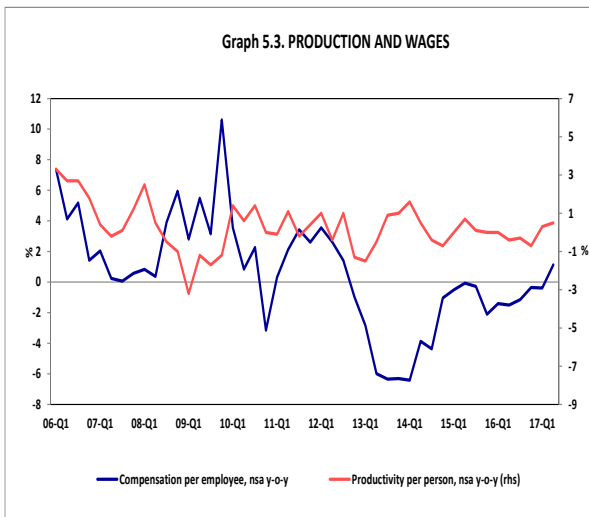
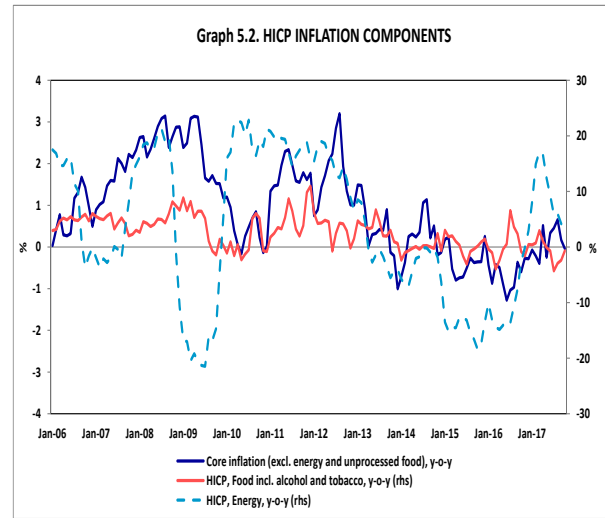
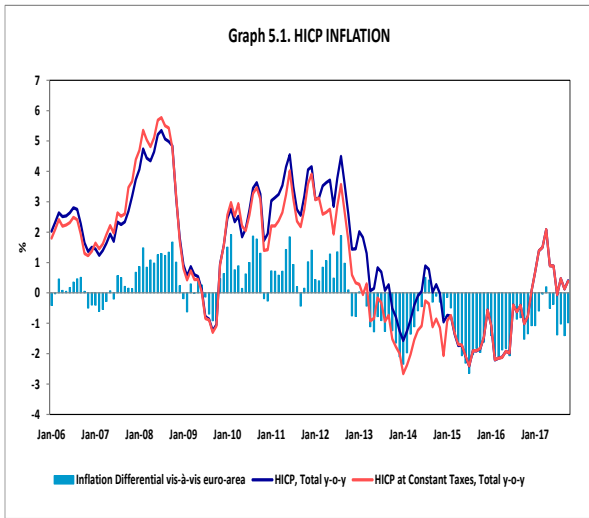
Sources: Eurostat, DG ECFIN, Cystat

4. LABOUR MARKET



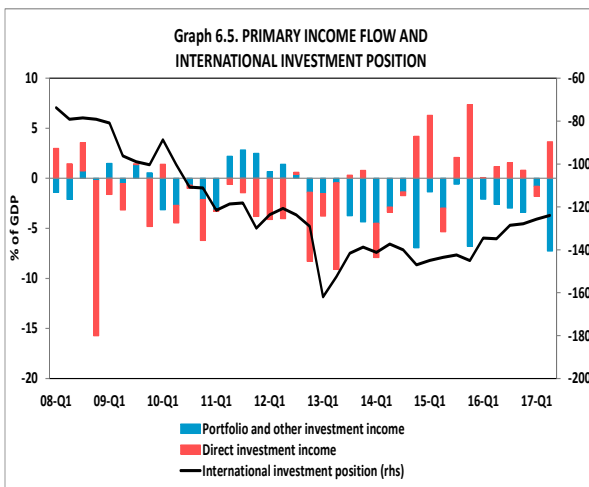
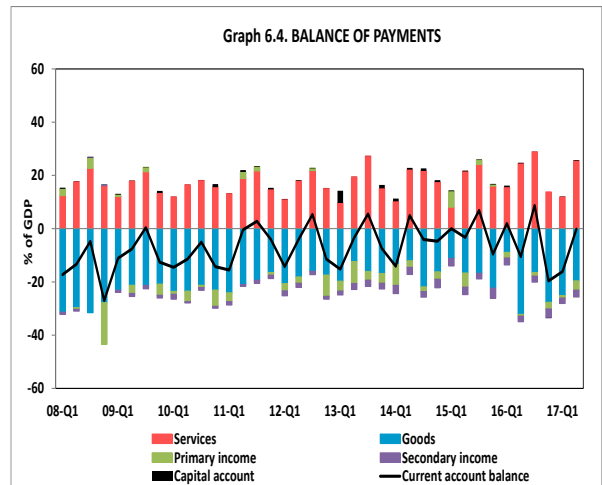
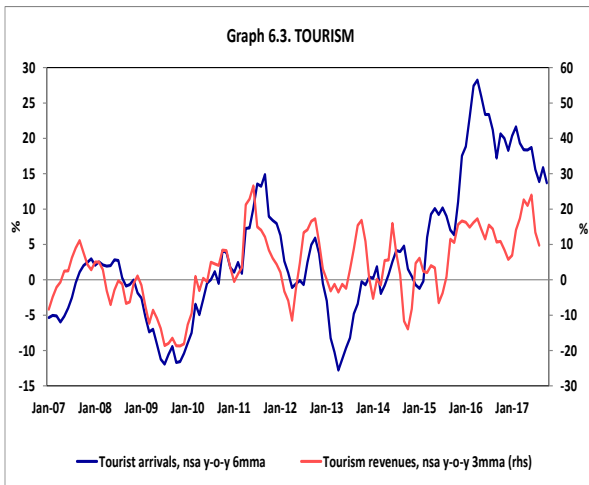
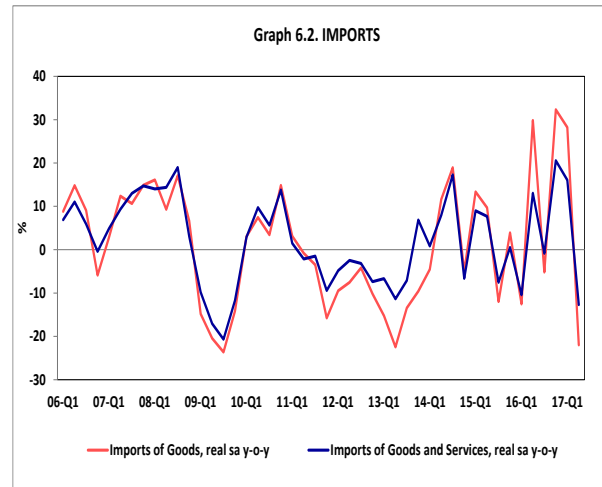
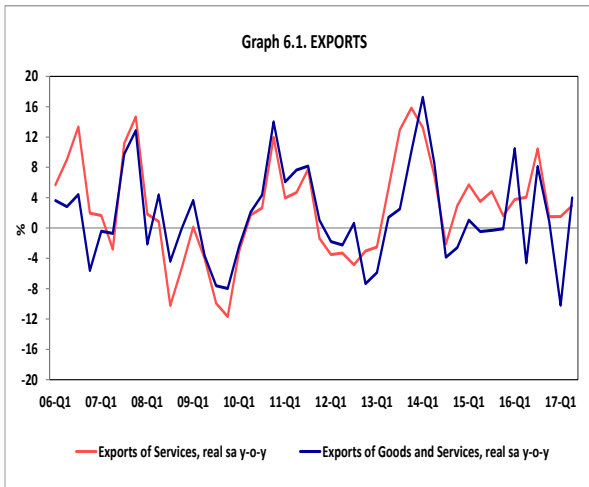
Sources: Eurostat, DG ECFIN, Cystat

5. INFLATION, WAGES



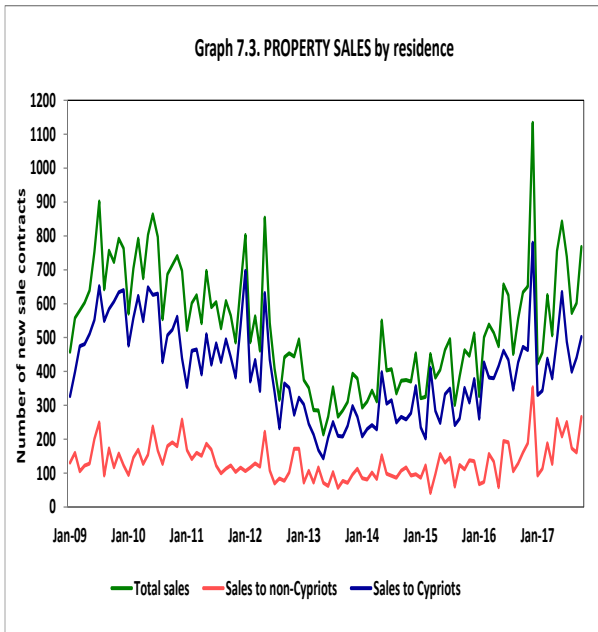
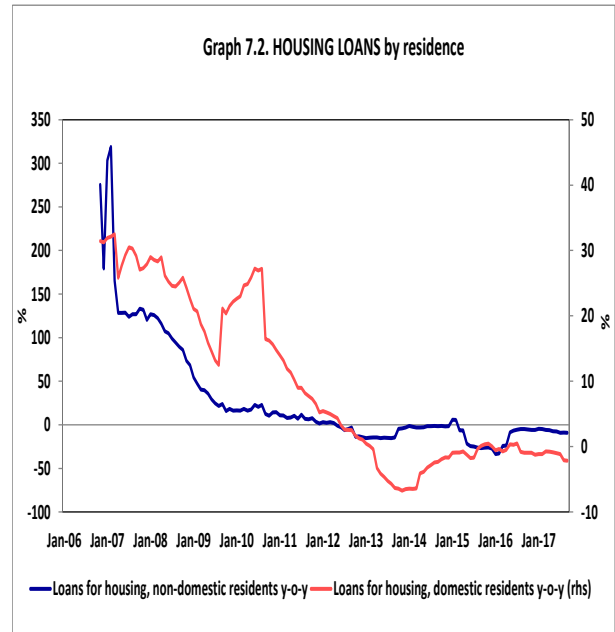
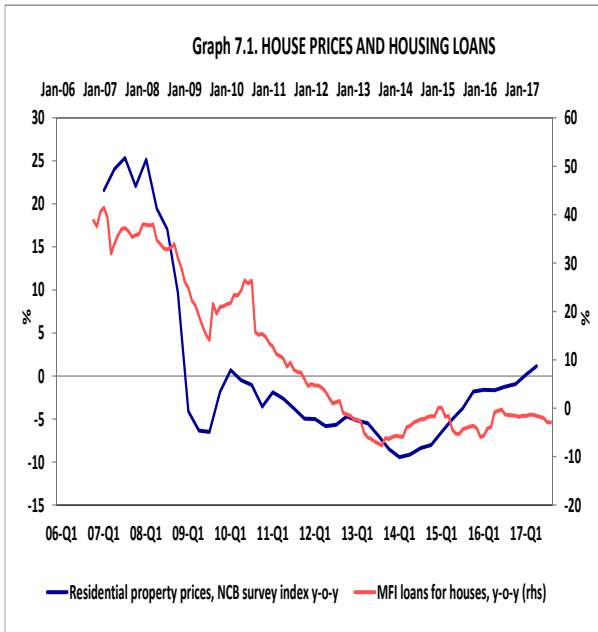
Source: Eurostat

6. EXTERNAL SECTOR



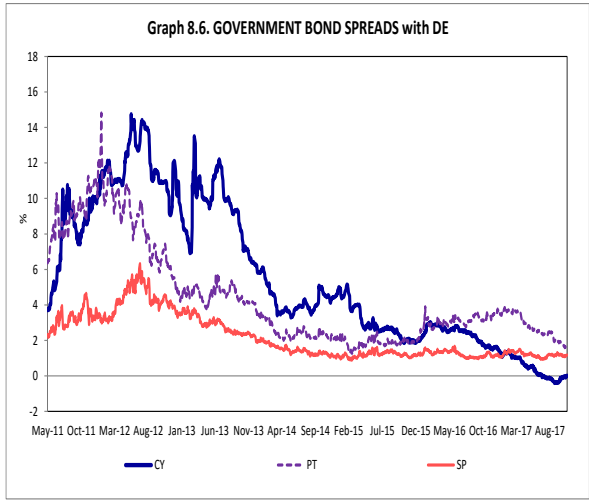
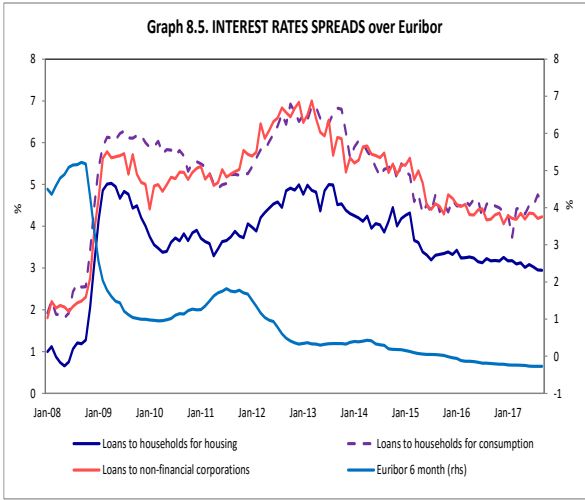
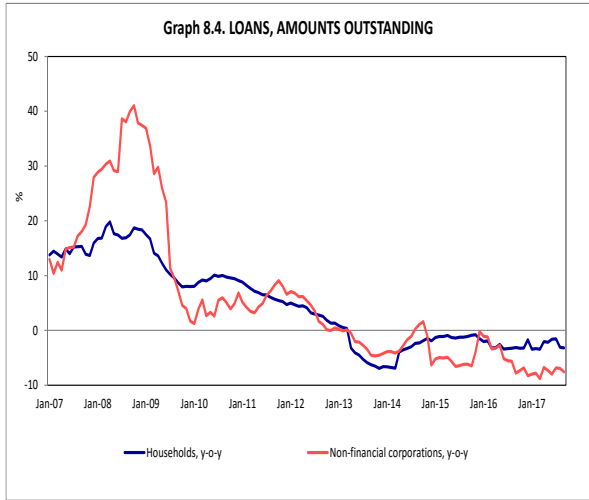
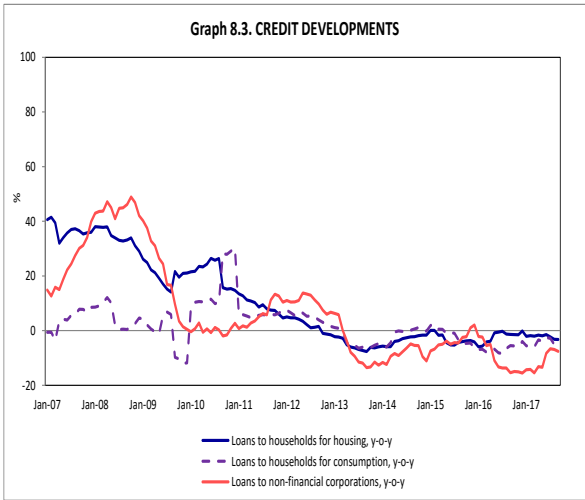
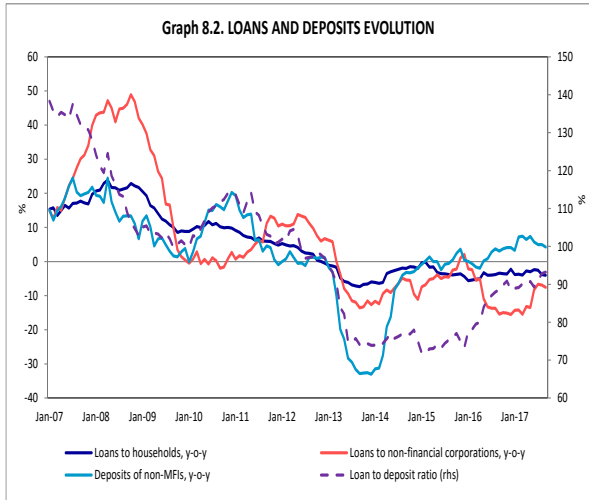
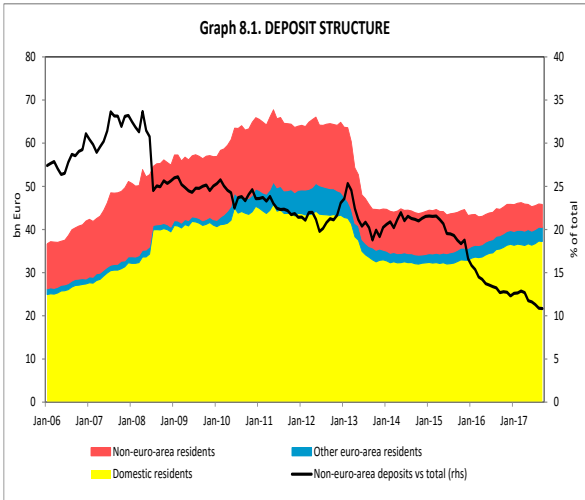
Sources: Eurostat, Cystat, ECB, CBC

7. HOUSING



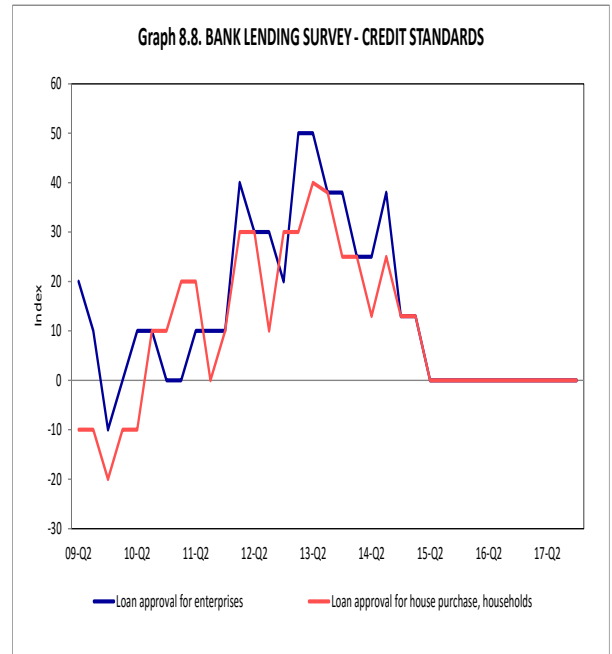
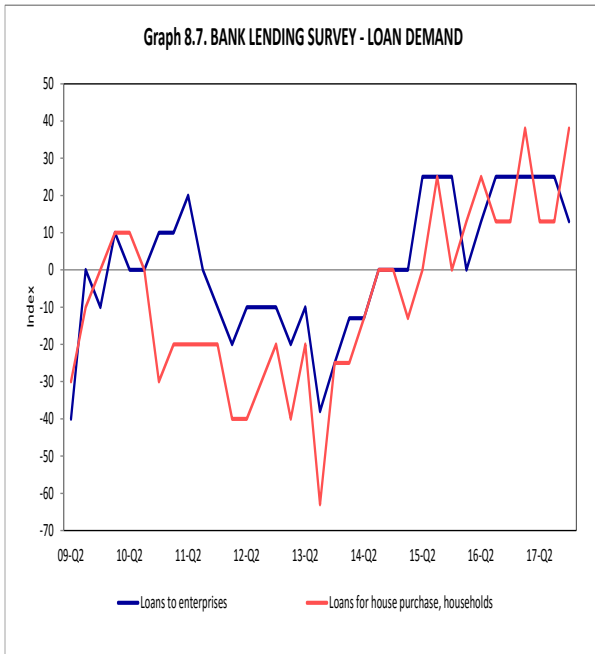
Sources: ECB, CBC, Dep. of Lands and Surveys

8. FINANCIAL SECTOR



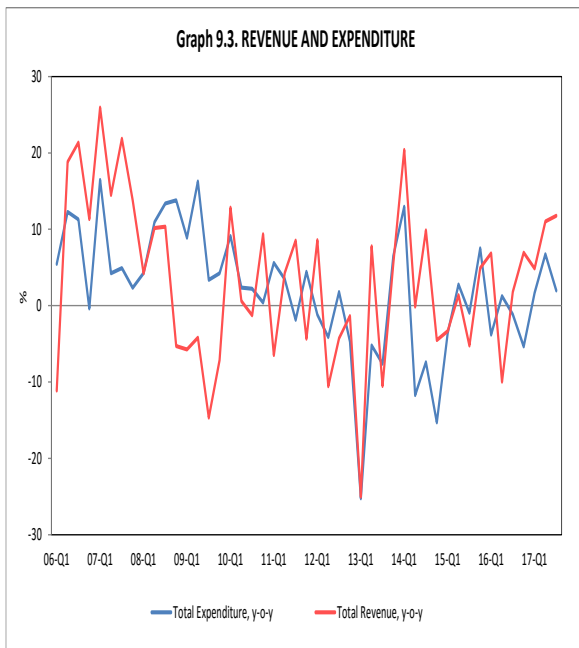
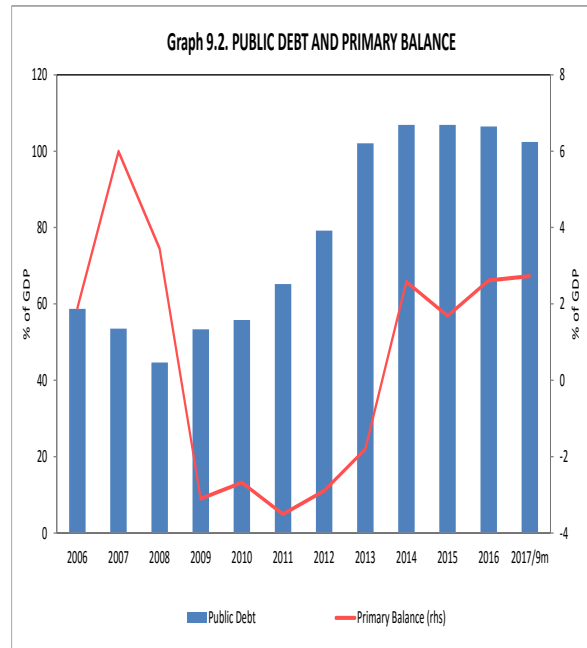
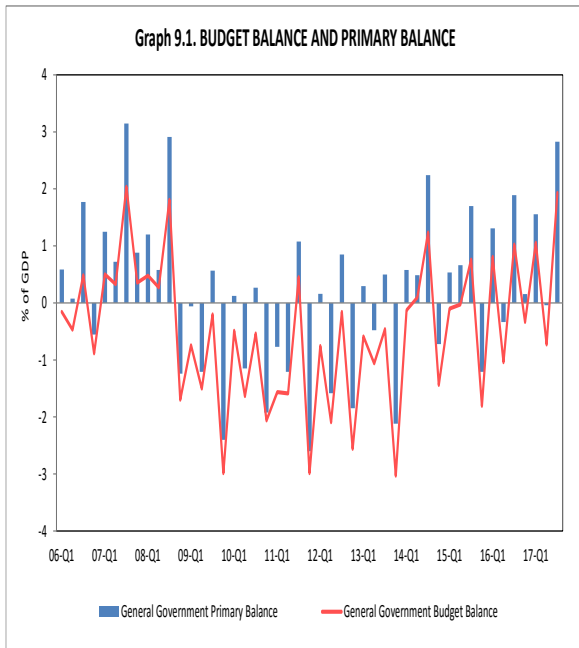
Sources: ECB, CBC, Bloomberg

8. FINANCIAL SECTOR – CONT.



Source: ECB

9. PUBLIC SECTOR



Sources: Ministry of Finance, Cystat