



MACROECONOMIC MONITOR OF CYPRUS

April 2018

MACROECONOMIC MONITOR OF CYPRUS

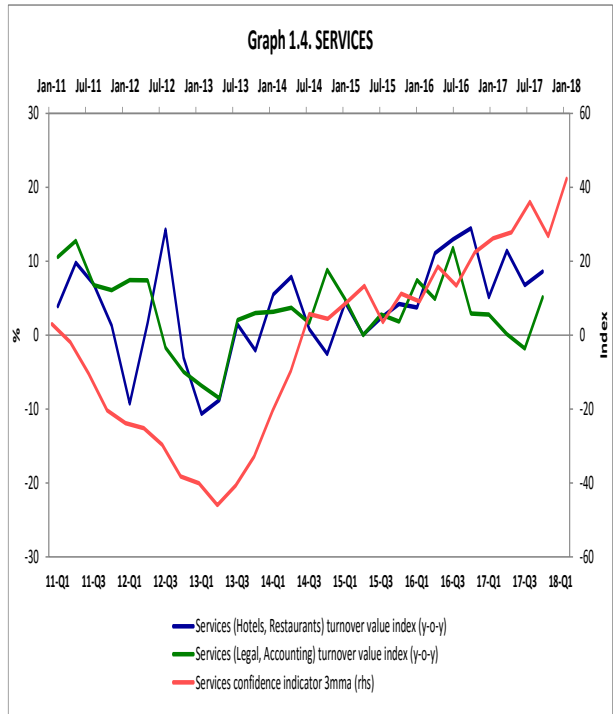
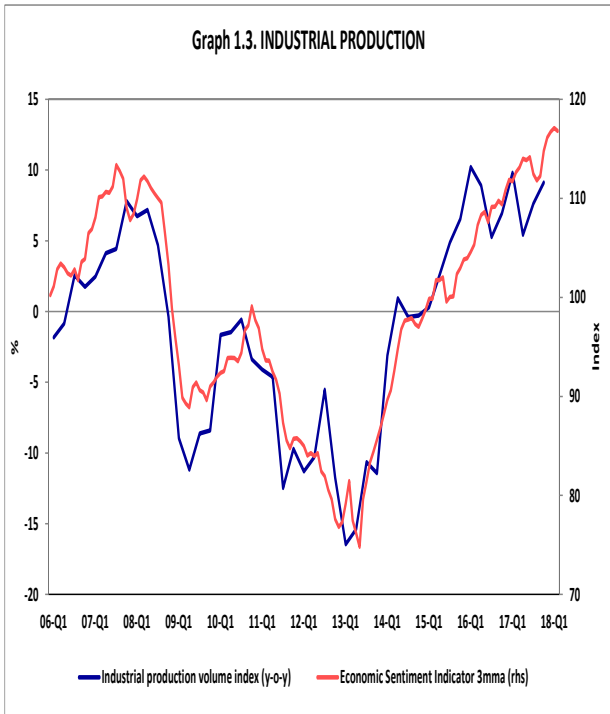
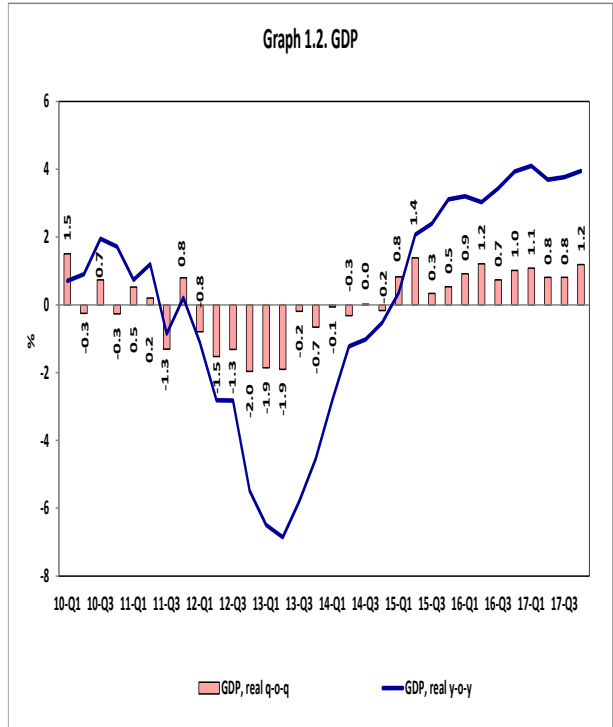
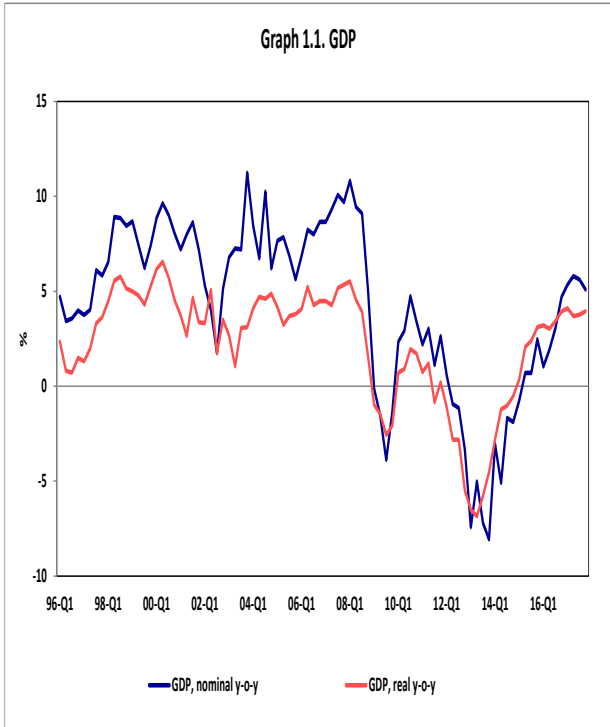
Updated on 18 April 2018

- **In the 4th quarter of 2017, GDP** (in seasonally adjusted terms) **recorded a positive rate of growth of 3.9% compared to 3.8% in the 3rd 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 (see graphs 3.1-3.4 and 6.1-6.2).
- Developments are currently driven by increases in **gross fixed capital formation and private consumption** (see graphs 2.1-2.4).
- The economic sentiment indicator (ESI-CypERC) in March 2018 decreased by 1.6 points compared with February 2018; the decline resulted from a worsening of business confidence in services, industry, and among consumers.
- During the period January-March 2018 **tourist arrivals increased at a rate of 29.3%** compared to January-March 2017 (see graph 6.3). An increase of 24.3% was recorded in tourist arrivals from the UK, an 18.1% increase from Greece, an 88% increase from Germany, while a 5.4% decrease was recorded from Russia.
- **Employment** developments reflect conditions of strong economic activity (see graphs 4.1 and 4.4). Employment in persons **increased by 3.4%** in 2017 compared to 2016.
- **Labour Force Survey (LFS) unemployment**, in monthly seasonally adjusted terms, decreased to **9.6% in February 2018 compared to 12.6% in February 2017** (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 23.1% in 2017Q4 from the peak of 40.5% in the 3rd quarter of 2013. Particularly challenging is also the relatively high long-term unemployment.
- **Compensation per employee** increased by 0.7% in 2017 compared to 2016 (see graphs 5.3-5.5).
- **Inflation (HICP)** in March 2018 decreased by 0.4% compared to a decrease of 0.4% in February 2018 (see graph 5.1). For 2018 so far, it stands at -0.8%. Core HICP inflation was at -0.2% in January-March 2018 (see graph 5.2). All subcategories of HICP presented a decrease except categories of health, transport, education and restaurants and hotels.
- **Imports of goods increased by 5.3%** in January-February 2018 compared to January-February 2017.
- **Exports of goods increased by 10.4%** in January-February 2018 compared to January-February 2017.
- The **current account (CA)** balance deteriorated in 2017, recording a deficit of €1,291.0 mn (-6.7% of GDP) compared with a deficit of €888.8 mn (-4.9% of GDP) in 2016. The deterioration was mainly attributed to a deterioration of the trade balance in goods, with imports of goods, mostly ships and aircraft, being significantly higher in 2017 compared with 2016. The current account balance was, to a lesser extent, negatively affected by the deterioration recorded in primary income and, more specifically, portfolio income. In contrast, the services sector recorded an improvement, which occurred mainly in the travel and telecommunications, computer and information categories. Also, a small improvement was recorded in secondary income. The CA balance for 2017, adjusted to exclude imports/exports of Special Purpose Entities (SPEs) that primarily operate in the shipping industry (ship registration/deregistration) records a deficit of -1.5% of GDP compared to a deficit of -0.2% of GDP the year before.
- The **primary income** recorded a **deficit of €489.8 mn** in 2017 compared to a deficit of €284.9 mn in 2016 (see graph 6.4).
- The **secondary income** recorded a **deficit of €425.1 mn** in 2017 compared to a deficit of €462.4 mn in 2016 (see graph 6.4).
- The **international investment position (IIP)** (see graph 6.5) recorded a marginal improvement in 2017, showing a net liability position at €23,139 mn, compared with €23,167 mn in 2016. The decrease in Cyprus' net liabilities was mainly due to the improvement in portfolio investment and other

investments. Direct investment, in contrast, deteriorated in 2017 and outweighed to a large extent the aforementioned improvements.

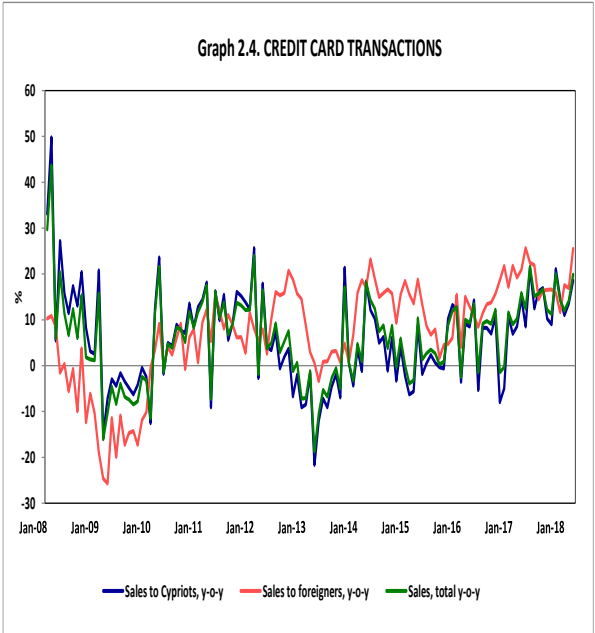
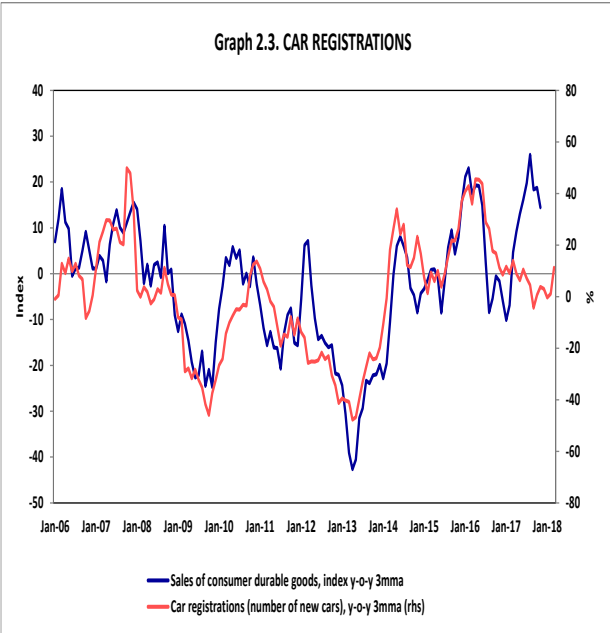
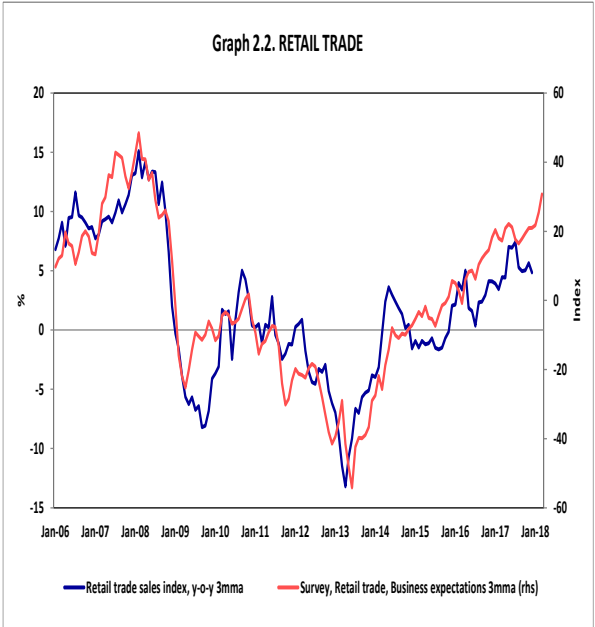
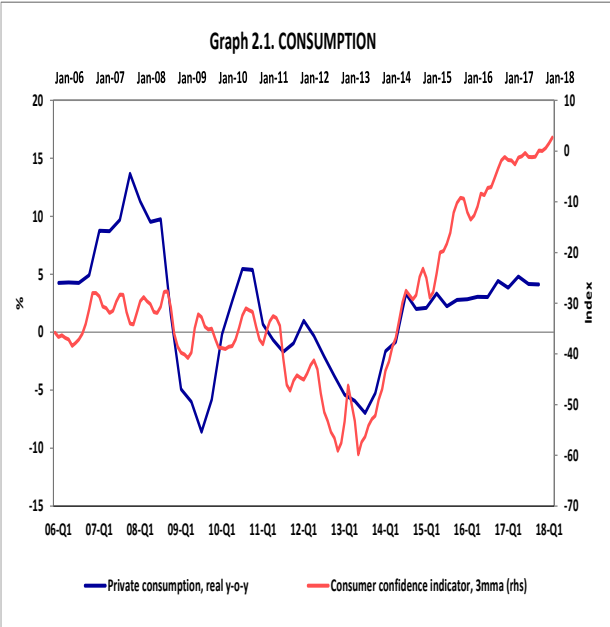
- The **gross external debt** reached €107,058 mn in 2017, compared with €107,284 mn in 2016. The small improvement was due to the decrease of debt in other sectors, which resulted from the decrease in loans and, to a lesser extent, the decrease in the debt of monetary financial institutions (excluding the CBC). Intercompany lending, on the other hand, recorded a deterioration which mitigated, to a large extent, the abovementioned decreases.
- General government budget balance (GGBB) was in surplus in January-February 2018, of the order of €250.6 mn (1.3% of GDP) compared to a surplus of €133.0 mn (0.7% of GDP) during the corresponding period the year before (see graph 9.1).
- General government primary balance (GGPB) was in surplus in January-February 2018, of the order of €303.8 mn (1.5% of GDP) compared to a surplus of €196.4 mn (1.1% 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 13.2%, reaching €1,258.8 mn in January-February 2018, compared to €1,112.3 mn during the corresponding period the year before (see graph 9.3).
- Total expenditure exhibited a positive rate of growth of about 3%, reaching €1,008.2 mn in January-February 2018, compared to €979.3 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 0.8%** in February 2018, 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 3.0%** in February 2018, 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 February 2018, **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 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 recorded a decrease of **3.0%** in the **4th quarter of 2017** compared to the 3rd quarter of 2017 and an increase of 2.4% compared to the 4th quarter of 2016.
- The CBC's **residential property price index** recorded an increase of **0.4%** in the **3rd quarter of 2017** compared to the 2nd quarter of 2017 and an increase of 1.4% compared to the 3rd quarter of 2016. Cumulative from the 1st quarter of 2008 it has declined by 28.2% (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 41.5% while, transfers of property were up by 33.8% in January-March 2018 compared to January-March 2017 (see graph 7.3). MFI mortgage loans to domestic residents for housing declined with an annual rate of 0.7% in February 2018 (see graph 7.2).
- The Cyprus Government bond yield was below the respective German Government bond yield (see graph 8.6, yields refer to the bonds maturing in 2020).
- In November 2017 the government of the Republic of Cyprus made an early partial repayment of the loan to the Central Bank of Cyprus. This early repayment amounted to €621.2 mn and represents a reduction of the Public Debt to GDP ratio by 3.2 percentage points.

1. OUTPUT



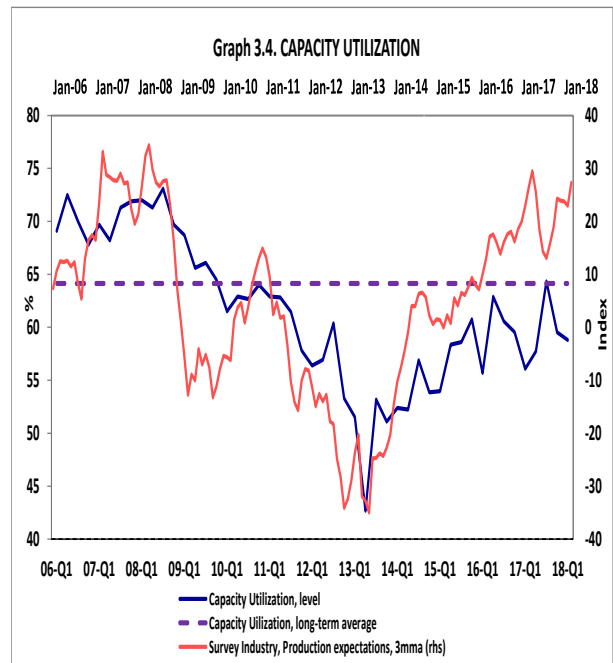
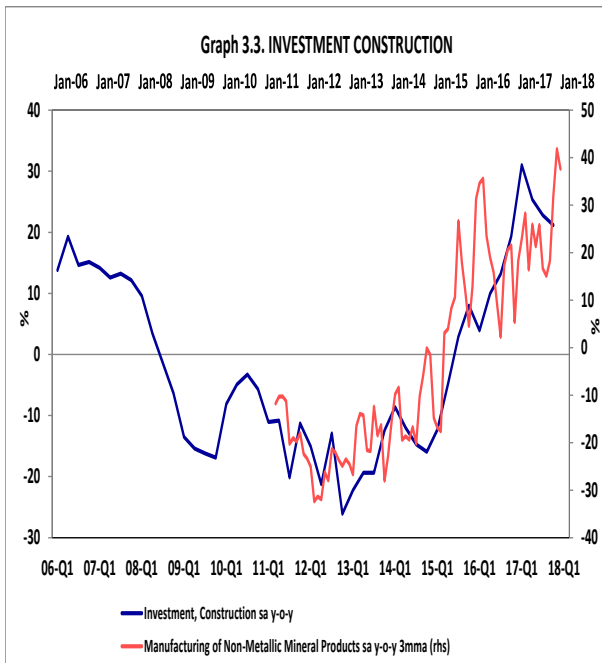
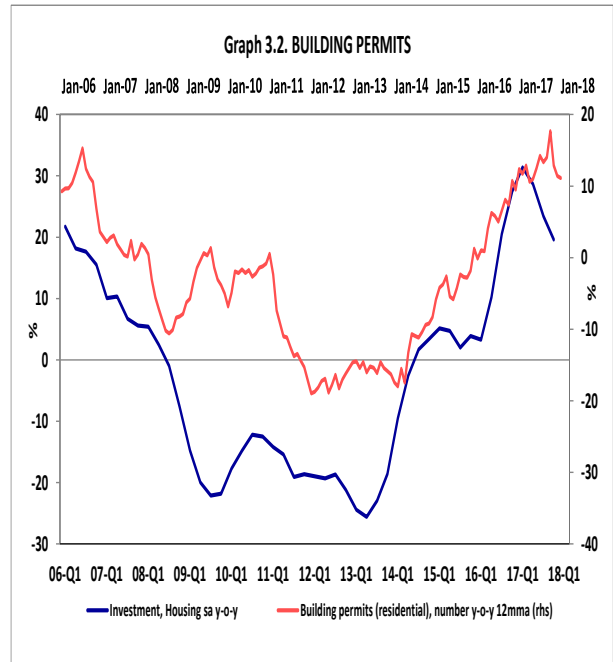
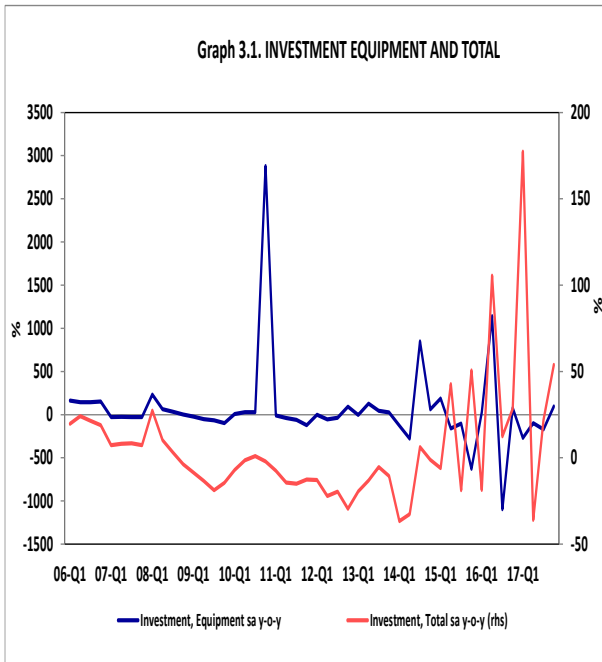
Sources: Eurostat, DG ECFIN, Cystat

2. CONSUMPTION



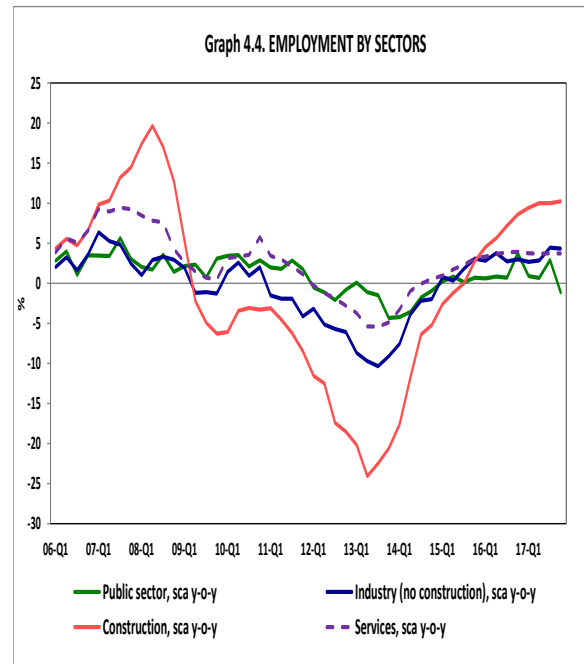
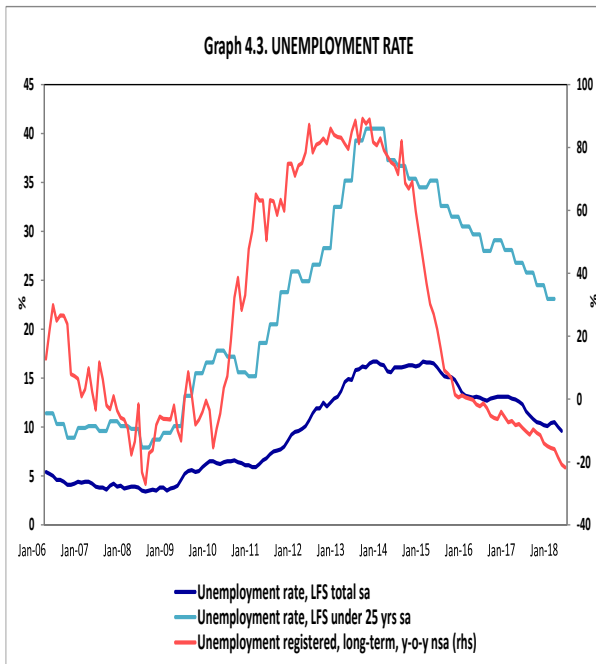
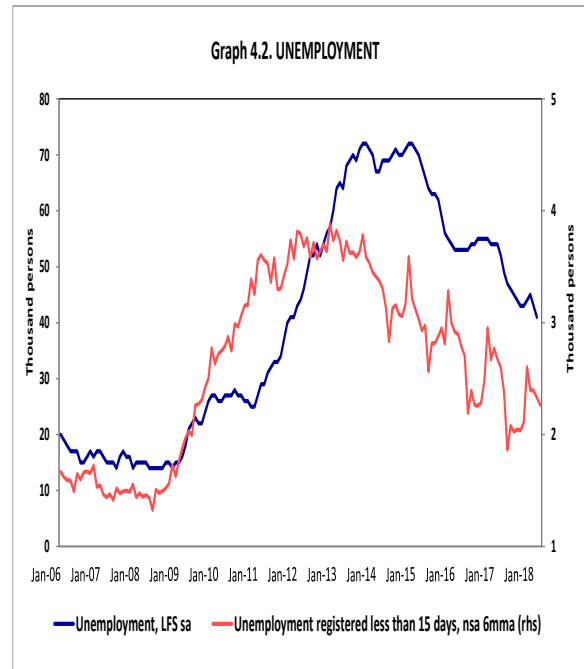
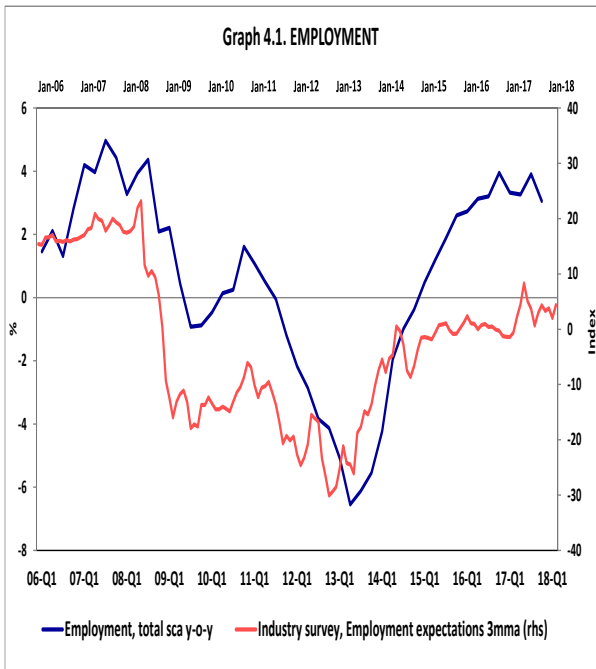
Sources: Eurostat, DG ECFIN, Cystat, JCC Payment Systems Ltd

3. INVESTMENT



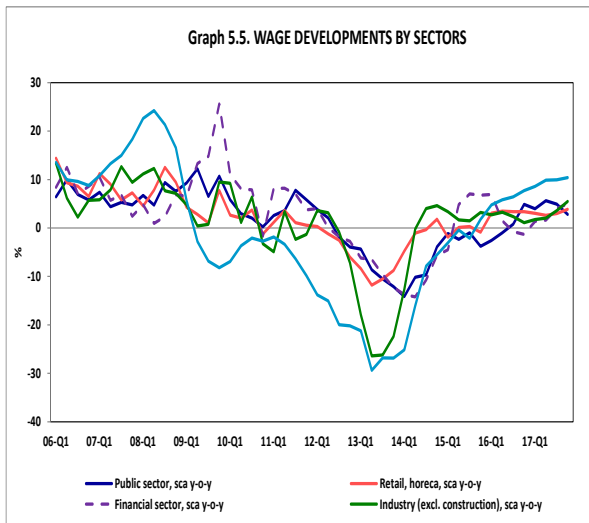
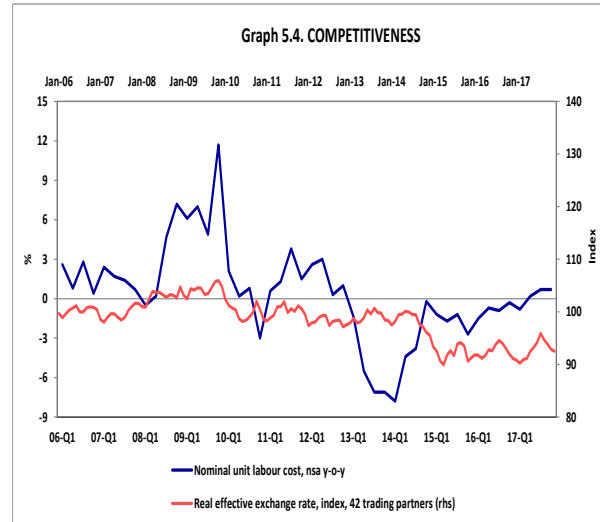
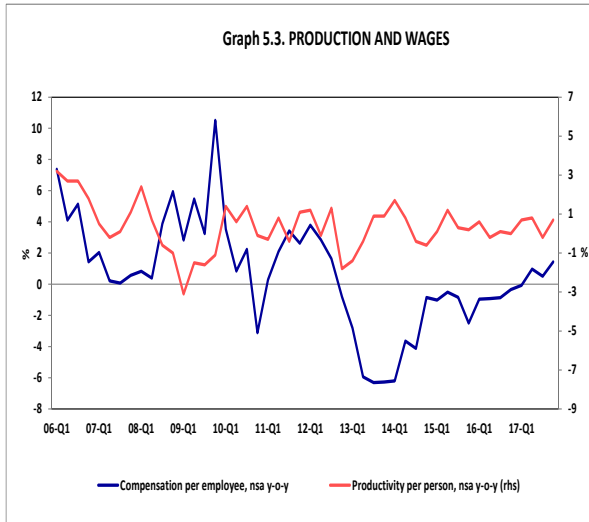
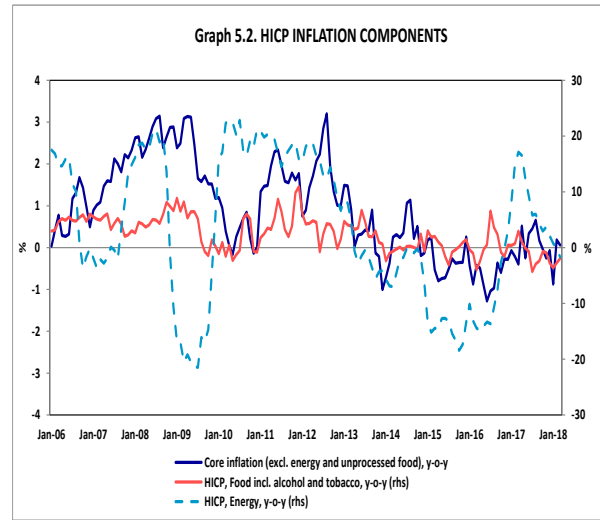
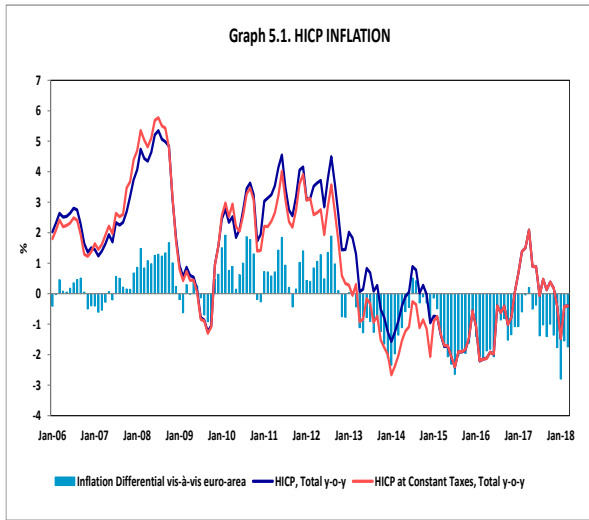
Sources: Eurostat, DG ECFIN, Cystat

4. LABOUR MARKET



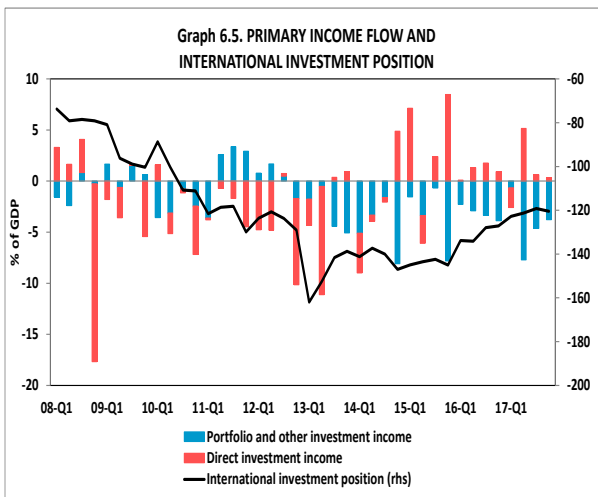
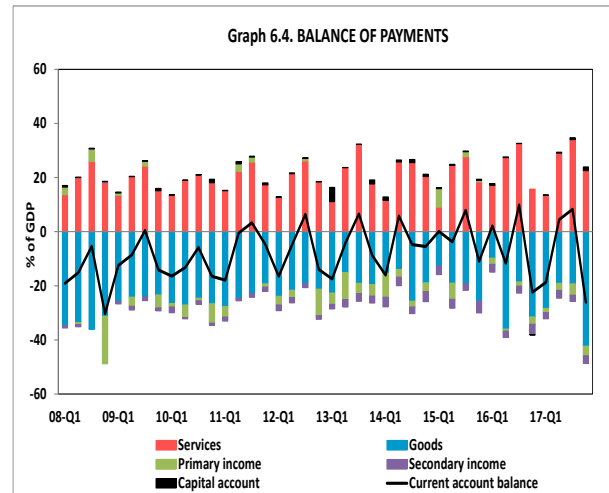
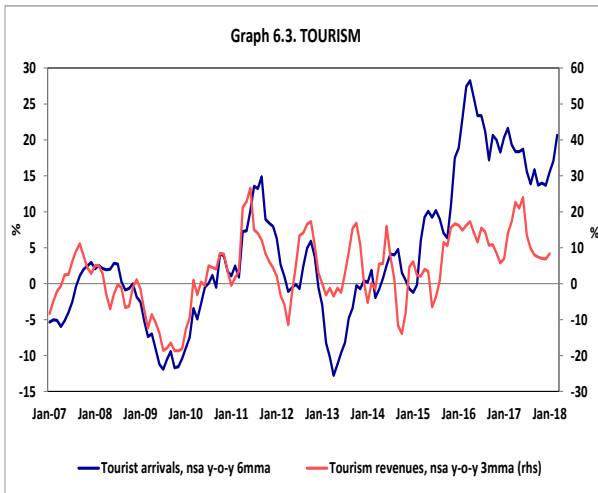
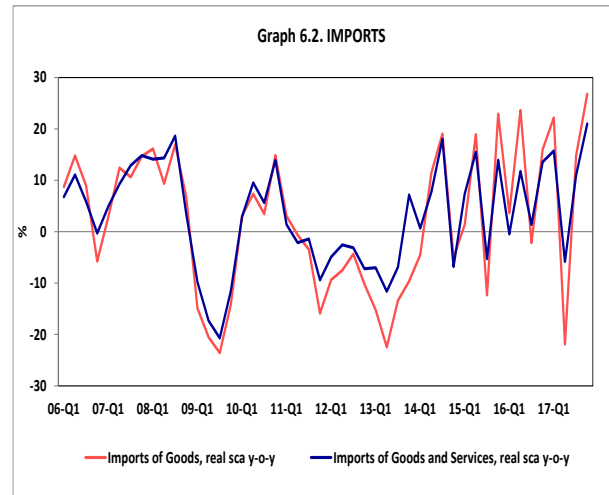
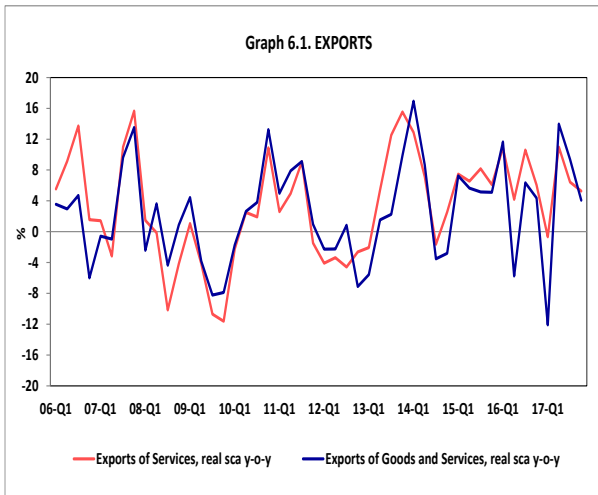
Sources: Eurostat, DG ECFIN, Cystat

5. INFLATION, WAGES



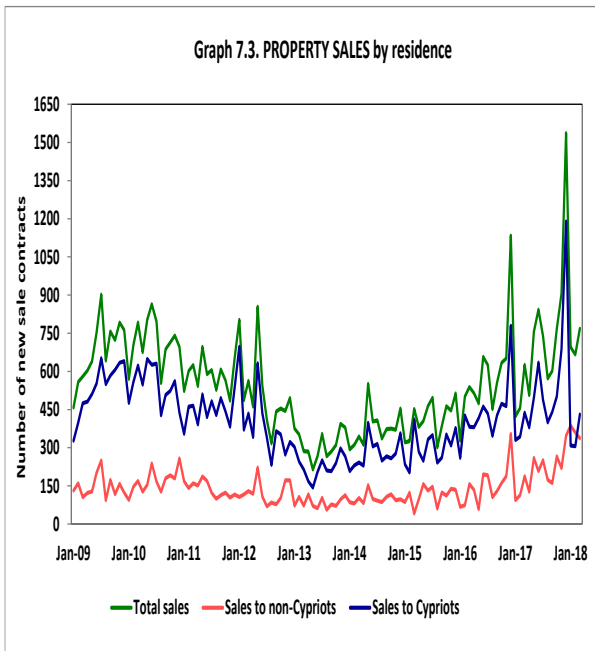
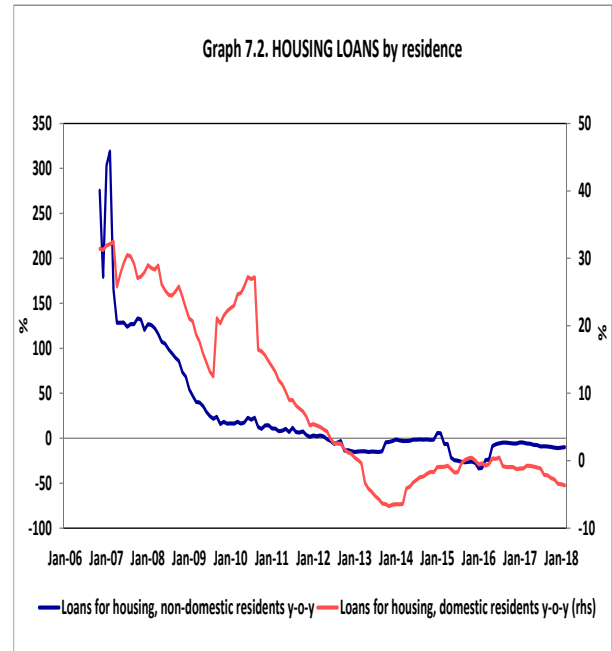
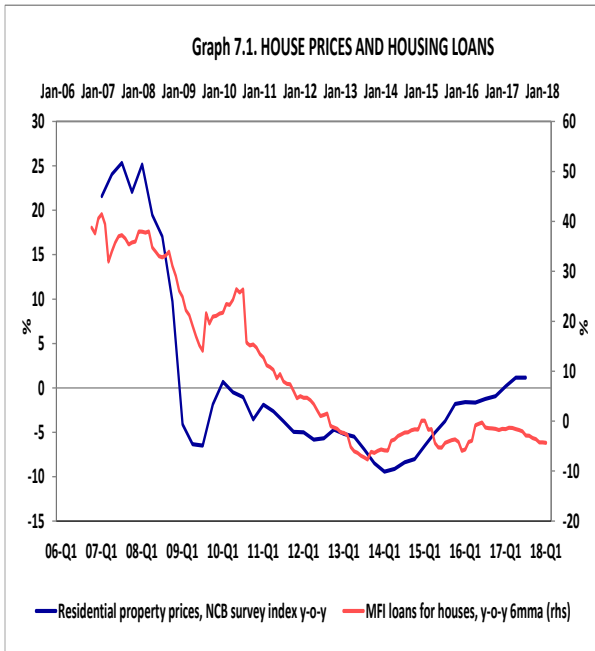
Source: Eurostat

6. EXTERNAL SECTOR



Sources: Eurostat, Cystat, ECB, CBC

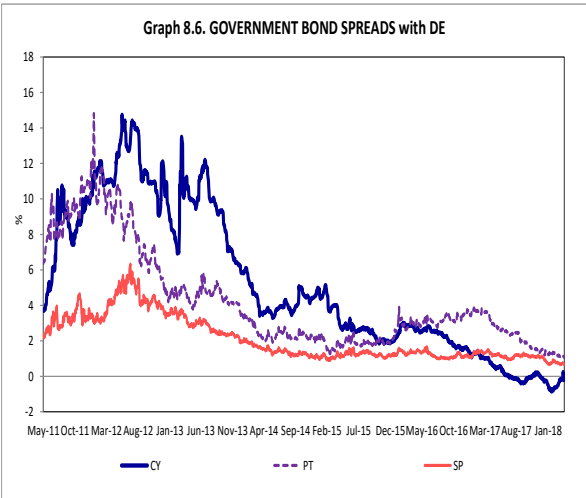
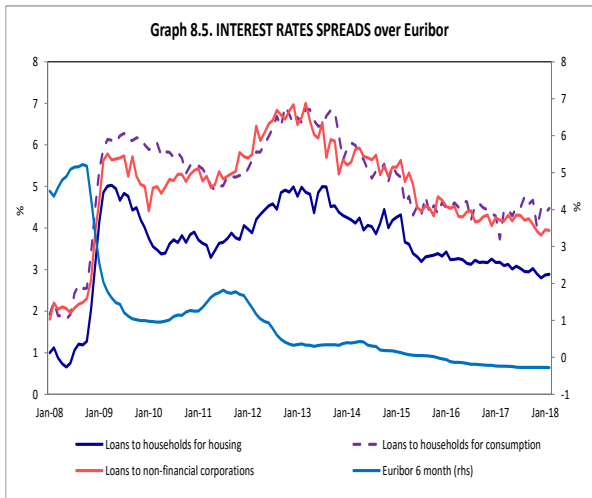
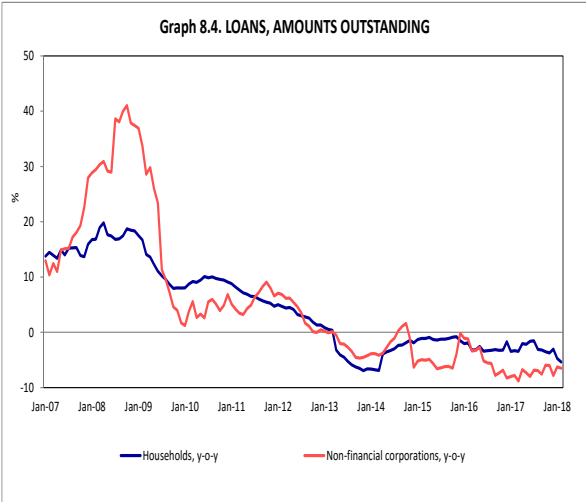
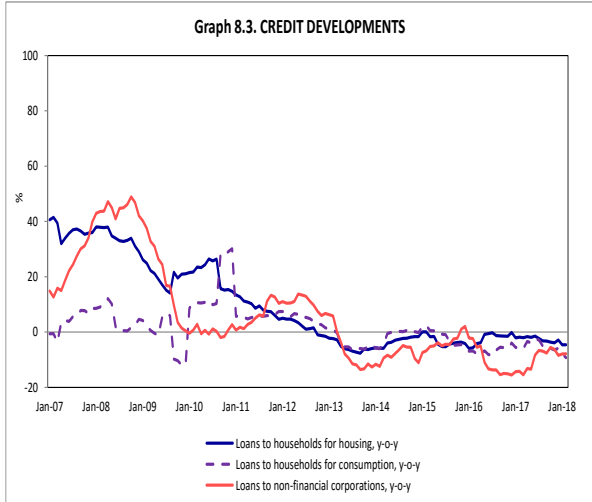
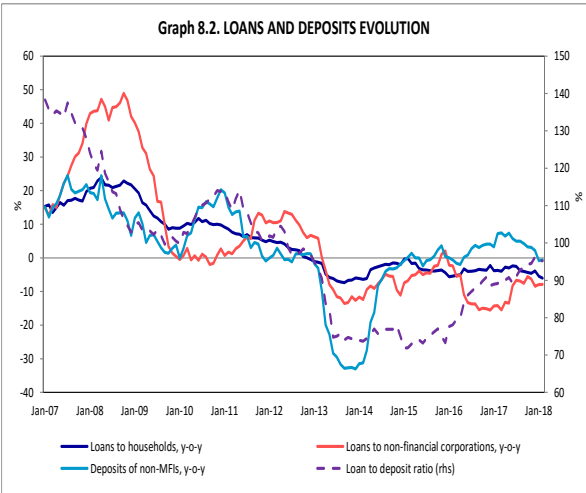
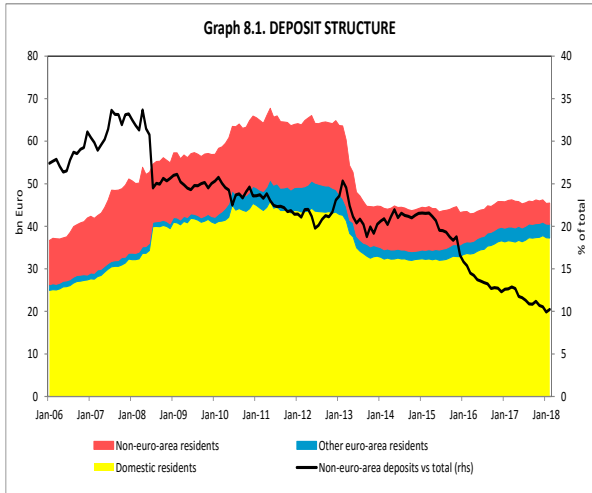
7. HOUSING



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.

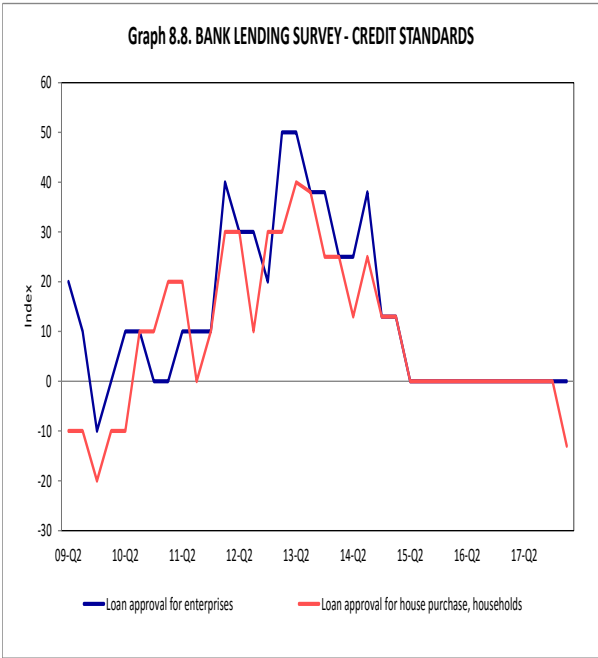
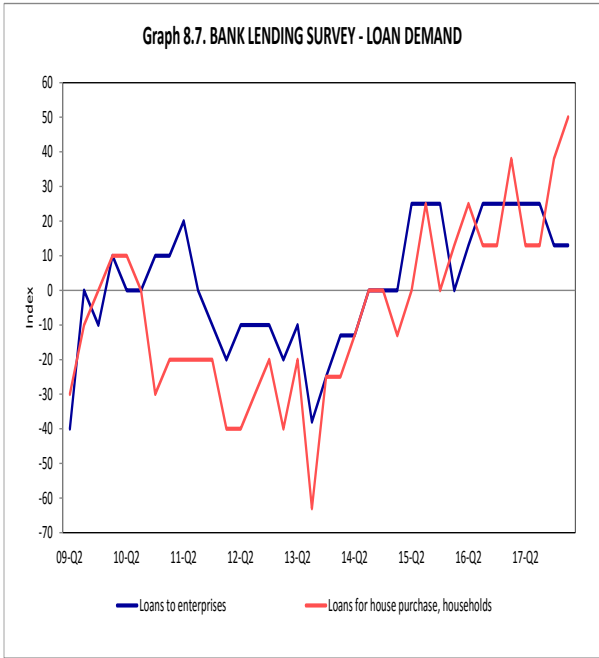
Sources: ECB, CBC, Dep. of Lands and Surveys

8. FINANCIAL SECTOR



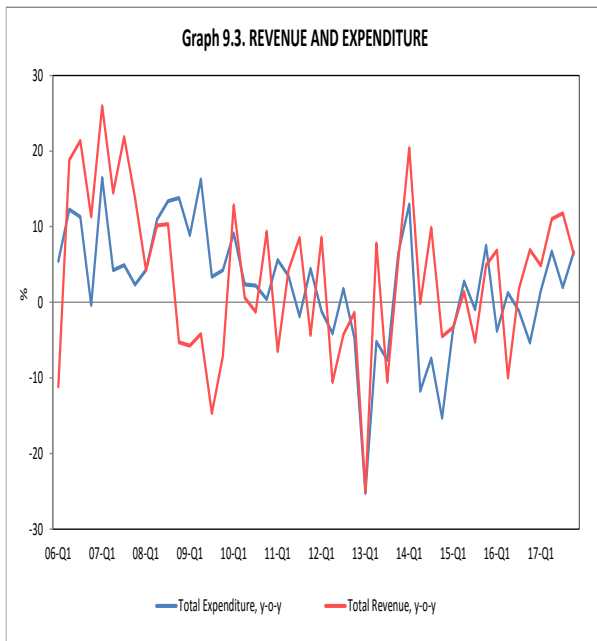
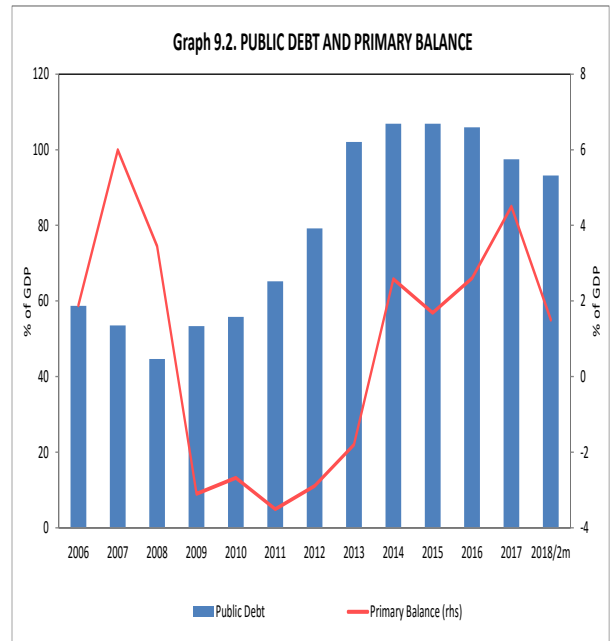
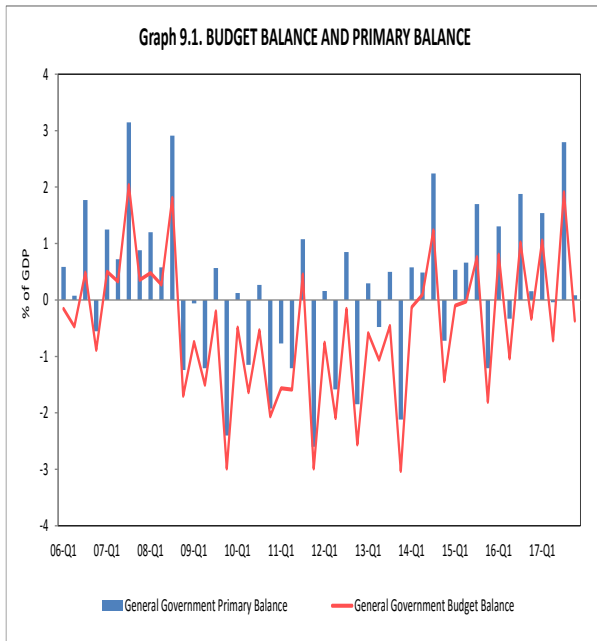
Sources: ECB, CBC, Bloomberg

8. FINANCIAL SECTOR – CONT.



Source: ECB

9. PUBLIC SECTOR



Sources: Ministry of Finance, Cystat