



MACROECONOMIC MONITOR OF CYPRUS

September 2018

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Updated on 24 September 2018

Macro economy

- **In the 2nd quarter of 2018, GDP** (in seasonally adjusted terms) **recorded a positive rate of growth of 3.9%, compared to 4.1% in the 1st quarter of 2018** on an annual basis (see graphs 1.1-1.2). The increased activity is mainly attributed to the sectors: hotels and restaurants, retail and wholesale trade, construction, manufacturing, professional, scientific and technical activities and administrative and support service activities while negative growth rate was recorded by the sector financial and insurance activities (see graphs 3.1-3.4 and 6.1-6.2).
- Developments are currently driven by increases in **private consumption and net exports** (see graphs 2.1-2.4).
- The economic sentiment in August 2018 improved slightly as the Economic Sentiment Indicator (ESI-CypERC) increased by 0.5 points compared with July 2018 (see graph 1.3). The increase was driven by stronger confidence in retail trade, industry and among consumers. Compared with August 2017, the indicator was higher by 2.5 points.
- During the period January-August 2018 **tourist arrivals increased at a rate of 8%** compared to January-August 2017 (see graph 6.3). An increase of 10.8% was recorded in tourist arrivals from Greece, a 5.3% increase from the UK, a 1.9% increase from Germany, while a 5.1% 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 4.3%** in the 1st half of 2018 compared to the 1st half of 2017. Increases were recorded mainly in the sectors of construction, accommodation and food service activities, wholesale and retail trade, manufacturing and professional, scientific and technical activities.
- **Labour Force Survey (LFS) unemployment**, in monthly seasonally adjusted terms, **decreased to 7.7% in July 2018 compared to 10.7% in July 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 22.4% in 2018Q1 from the peak of 40.4% in the 3rd quarter of 2013. Particularly challenging is also the relatively high long-term unemployment.
- **Compensation per employee** increased by 1.4% in the 1st half of 2018 compared to the 1st half of 2017 (see graphs 5.3-5.5).
- **Inflation (HICP)** in August 2018 recorded an increase of 1.7% compared to an increase of 1.4% in July 2018 (see graph 5.1). For the period January-August 2018, the HICP increase stood at 0.4% compared to the corresponding period of the previous year. Core HICP inflation remained close to zero in January-August 2018 (see graph 5.2). All subcategories of HICP presented a decrease except categories of food, housing, health, transport, education and restaurants and hotels.
- **Imports of goods increased by 18.2%** in January-July 2018 compared to January-July 2017. The increase in imports is affected by developments in imports of transport equipment (aircrafts and vessels). Imports of goods, excluding imports of aircrafts and vessels, exhibit an increase of 15.4%.
- **Exports of goods increased by 53.5%** in January-July 2018 compared to January-July 2017 due to exports of transport equipment (aircrafts and vessels) occurred in 2018. Exports of goods, excluding exports of aircrafts and vessels, exhibit an increase of 31.5%.

External Sector

- The **current account (CA)** balance (see graph 6.4) improved in the 1st quarter of 2018, recording a deficit of €86.3 mn (-0.4% of GDP), compared with a deficit of €738.3 mn (-3.8% of GDP) in the 1st quarter of 2017. This improvement was mainly due to the trade balance of goods, with exports of goods, mostly ships, recording very large increases compared with 2017Q1. The current account balance was, to a much lesser extent, positively affected by the improvement in services while both, primary and secondary income, recorded deterioration. The CA balance for 2018Q1, adjusted to exclude imports/exports of Special Purpose Entities (SPEs) that primarily operate in the shipping industry (ship registration/deregistration) with a small footprint on the economy, records a deficit of 2.1% of GDP compared to a deficit of 2.3% of GDP the same quarter the year before.
- The **trade balance** improved in the 1st quarter of 2018, recording a surplus of €153.9 mn (0.7% of GDP), compared with a deficit of €587.6 mn (-3% of GDP) in the 1st quarter of 2017.
- The **primary income** recorded a **deficit of €128.2** mn in the 1st quarter of 2018 compared to a deficit of €60.6 mn in the 1st quarter of 2017 (see graph 6.4).
- The **secondary income** recorded a **deficit of €112.0** mn in the 1st quarter of 2018 compared to a deficit of €90.1 mn in the 1st quarter of 2017 (see graph 6.4).
- The **international investment position (IIP)** (see graph 6.5) recorded a small improvement in the 1st quarter of 2018, showing a net liability position at €22,867.6 mn, compared with €23,139.4 mn the previous quarter. The decrease in Cyprus' net liabilities was mainly due to the improvement in direct investment and, to a lesser extent, portfolio investment and financial derivatives. Other investment, in contrast, worsened.
- The **gross external debt** reached €105,756.2 mn in the 1st quarter of 2018, compared with €107,058.5 mn in 2017Q4. The improvement was mainly due to the decrease in the debt of monetary financial institutions (excluding the CBC) and, to a lesser extent, the decrease in the debt of the government and intercompany lending. The debt of other sectors, on the other hand, recorded an increase, which mitigated the above improvements.

Public Finances

- **General government budget balance (GGBB)** was in surplus in January-July 2018, of the order of €514.7 mn (2.6% of GDP) compared to a surplus of €217.2 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-July 2018, of the order of €828.1 mn (4.1% of GDP) compared to a surplus of €547.5 mn (3.0% 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 €4,501.0 mn in January-July 2018, compared to €4,126.3 mn during the corresponding period the year before (see graph 9.3).
- **Total expenditure** exhibited a positive rate of growth of about 2%, reaching €3,986.2 mn in January-July 2018, compared to €3,909.1 mn during the corresponding period the year before (see graph 9.3).
- The Cyprus Government bond yield was below the respective German Government bond yield by 52 basis points on 24/09/2018 (see graph 8.6, yields refer to the bonds maturing in 2020).

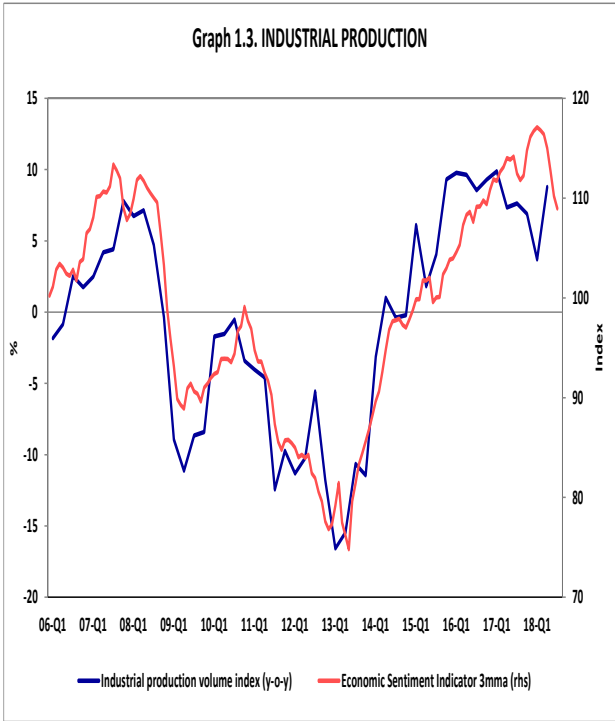
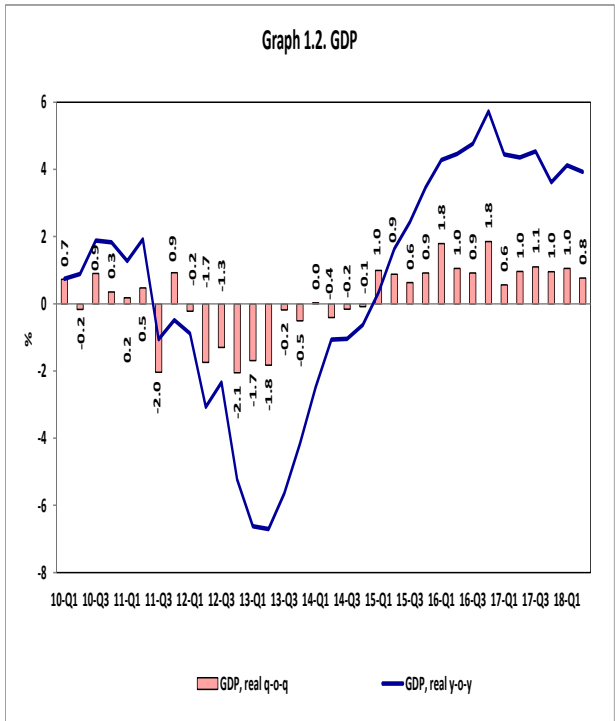
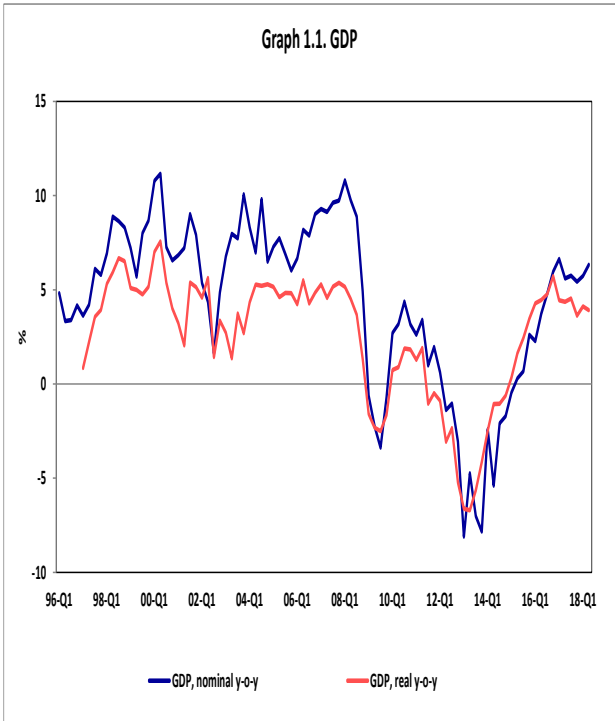
Property Market

- Eurostat's **house price index** for Cyprus recorded an **increase of 3.7%** in the **1st quarter of 2018** compared to the 1st quarter of 2017.
- The CBC's **residential property price index** recorded an **increase of 0.6%** in the 1st quarter of 2018 compared to the 4th quarter of 2017 and an increase of 1.8% compared to the 1st quarter of 2017. Cumulative from the 1st quarter of 2008 it has declined by 27.5% (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 22.3% while, transfers of property were up by 24.1% in January-August 2018 compared to January-August 2017 (see graph 7.3). MFI mortgage loans to domestic residents for housing declined with an annual rate of 0.2% in July 2018 (see graph 7.2).

Banking Sector Developments

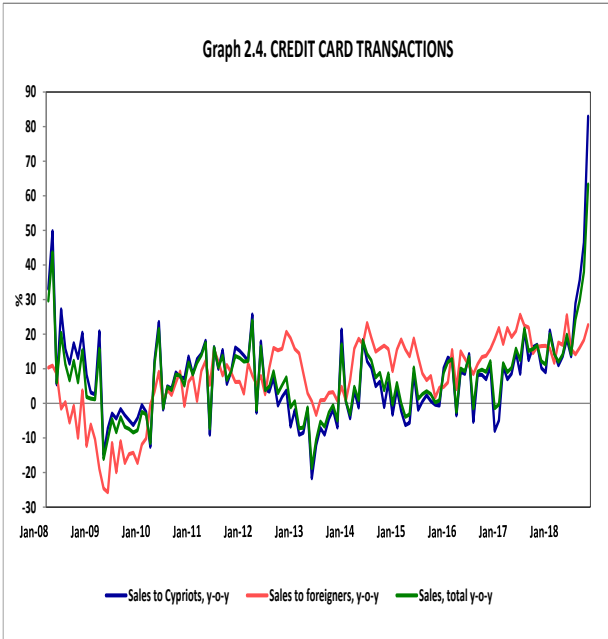
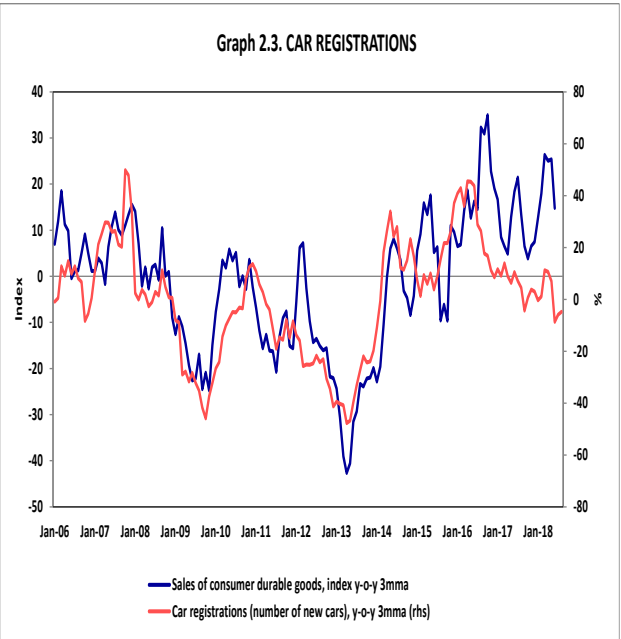
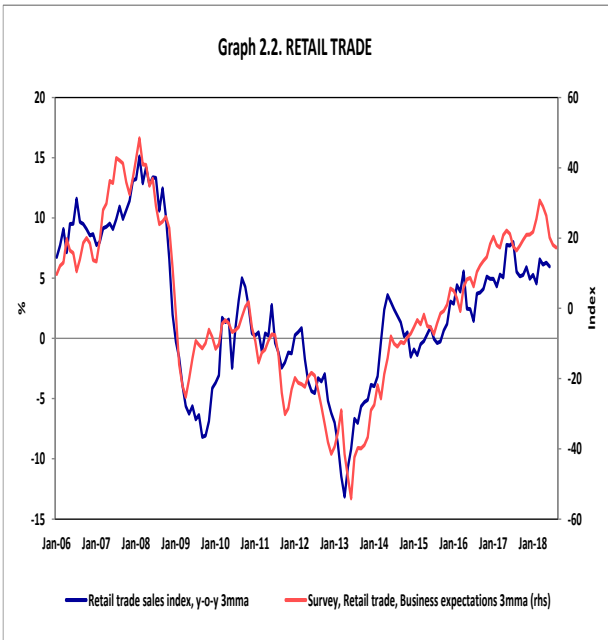
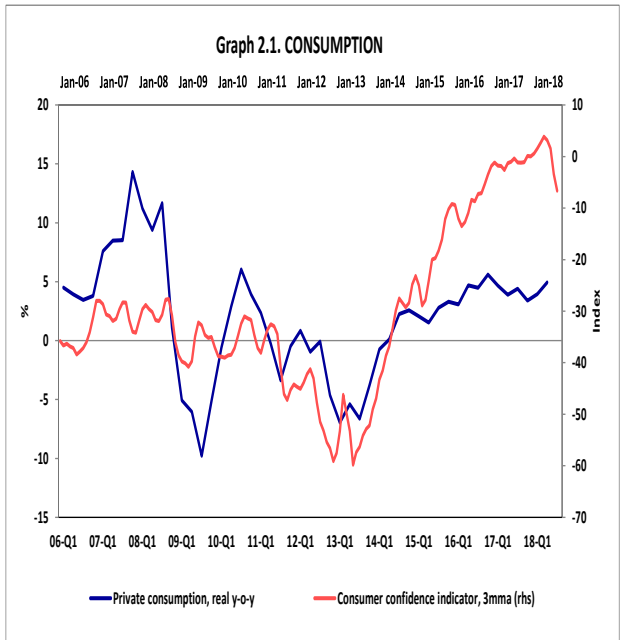
- Monetary Financial Institutions (MFI) **loans to domestic residents** (private sector), **increased with an annual rate of 0.2%** in July 2018, (see graphs 8.2-8.4). This reflects the tight lending conditions (see graphs 8.7-8.8).
- **Deposits of domestic** residents held with MFIs (private sector) exhibited an increase translating into an **annual rate of 1.1%** in July 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 July 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 increased. A significant deviation of the Cypriot interest rates, compared to the euro area average still prevails.
- **Capital ratios** have improved since 2013, with the aggregate banking sector having a CET1 of 14.1% at 31 March 2018. The CET1 ratios of the 2 largest banks at 30 June 2018 were 13.6% for BoC and 12.8% for Hellenic Bank
- **NPE levels** as at May 2018, dropped to €20.3 bn or 49.2% of total loans, compared to €27.3 bn in December 2015. As of September, when the sale of €2.7bn NPEs by BoC and the carve-out of €5.9 bn of CCB's NPEs would be incorporated in the figures, the NPE levels are expected to fall below 30% of total loans, at around €12 bn, with their provisioning coverage remaining around 50%. Further decrease is expected in the next months, following the implementation of the ESTIA scheme, which aims to assist vulnerable borrowers.

1. OUTPUT



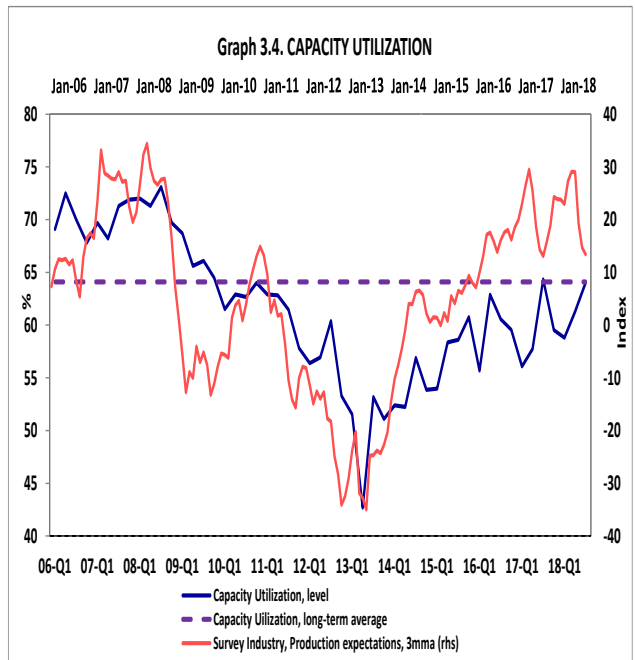
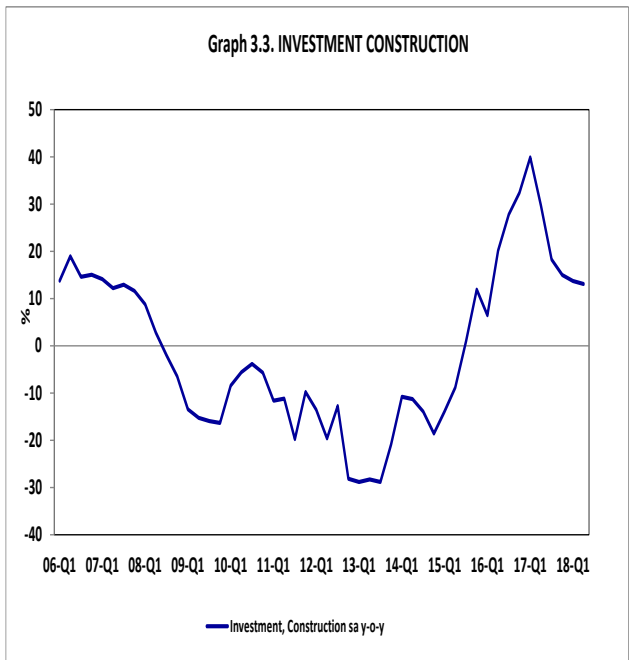
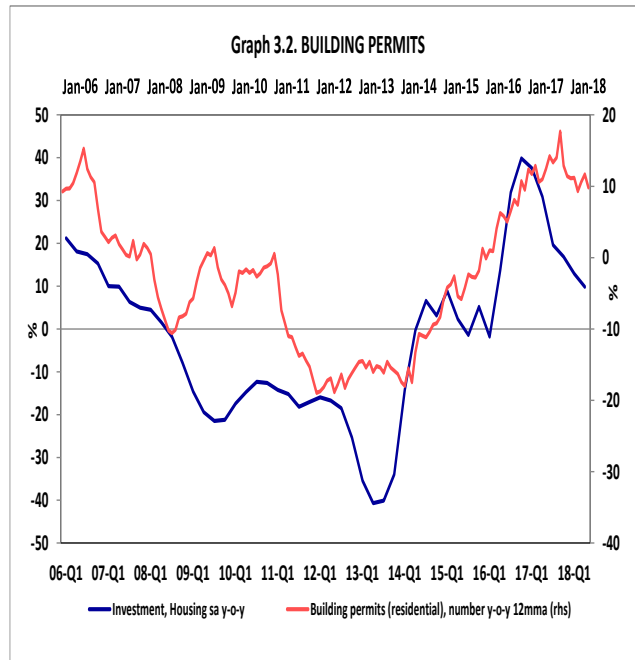
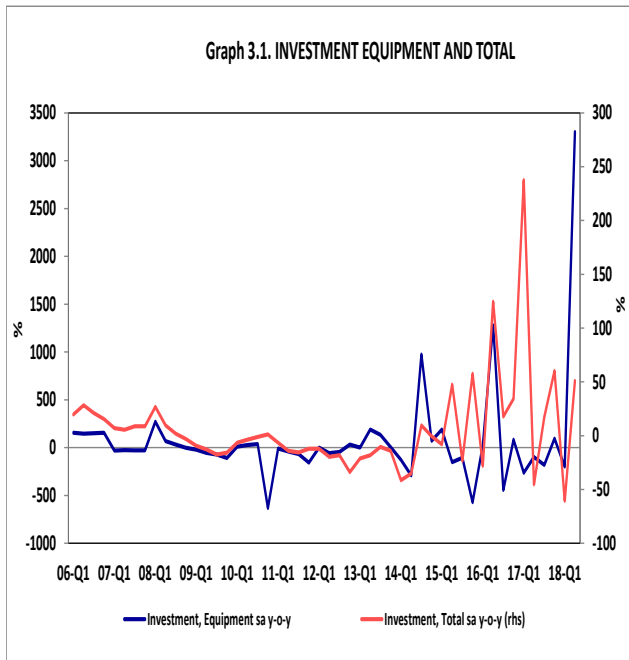
Sources: Eurostat, DG ECFIN, Cystat

2. CONSUMPTION



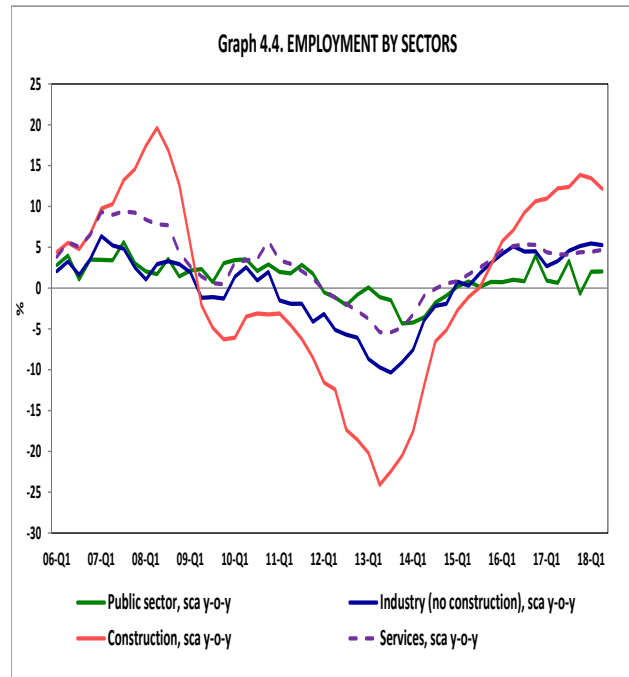
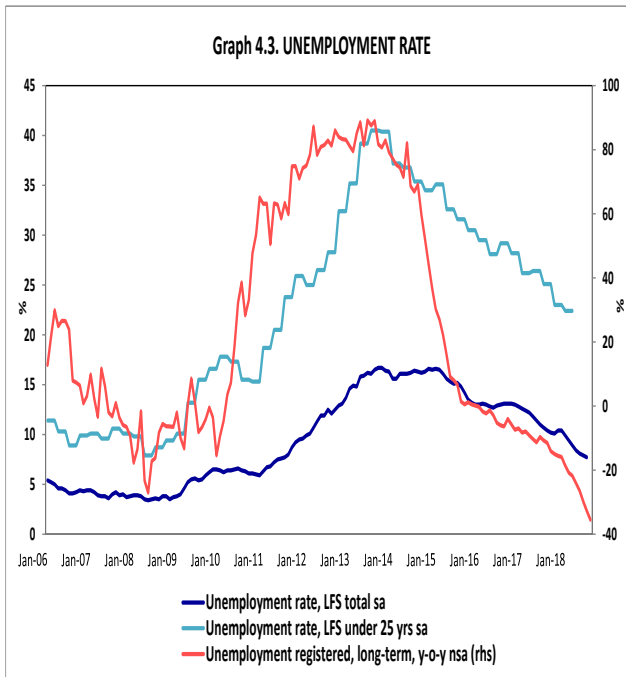
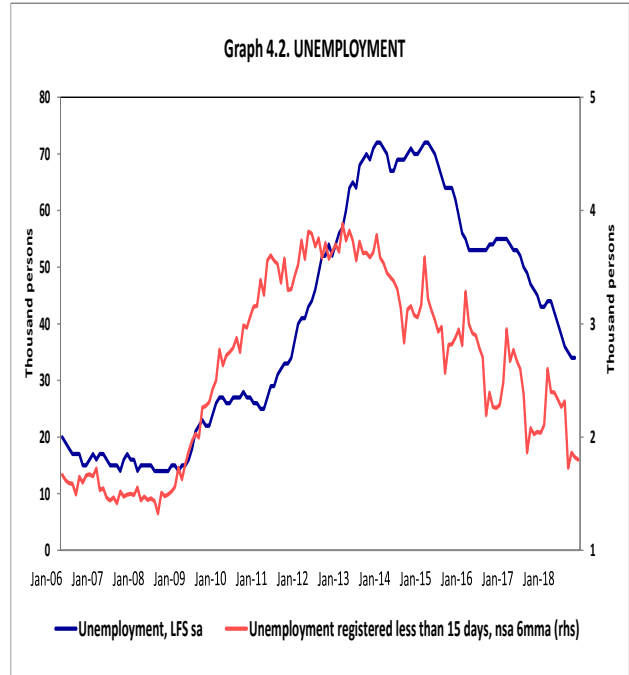
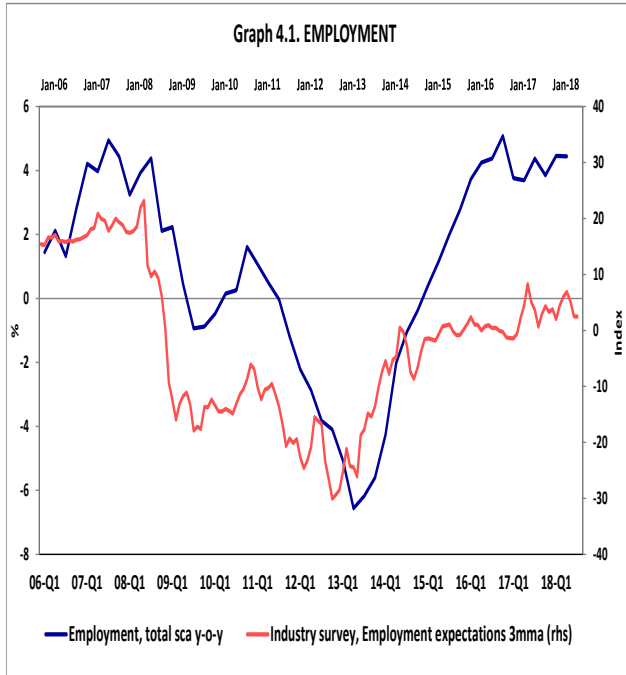
Sources: Eurostat, DG ECFIN, Cystat, JCC Payment Systems Ltd

3. INVESTMENT



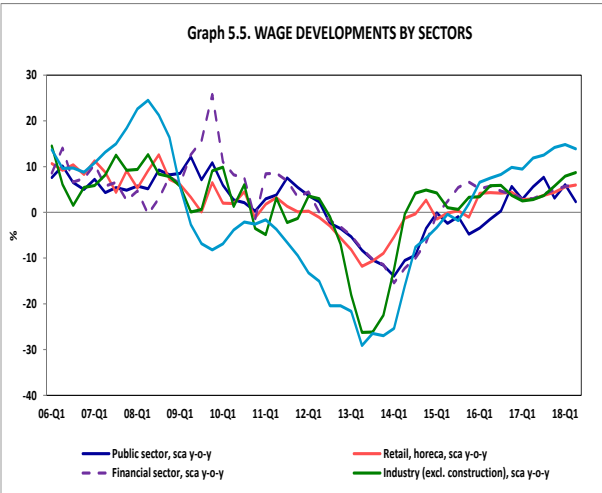
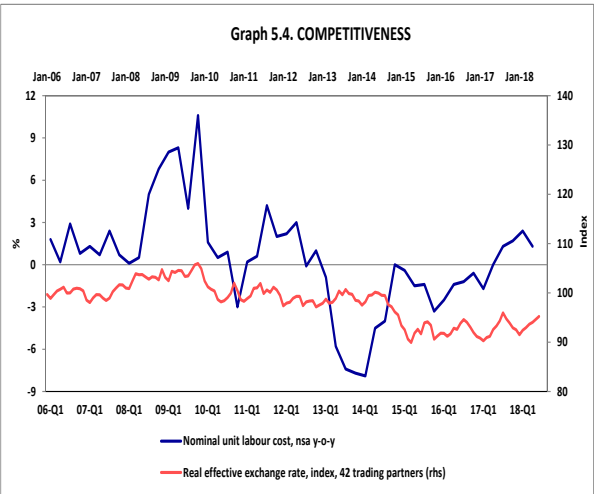
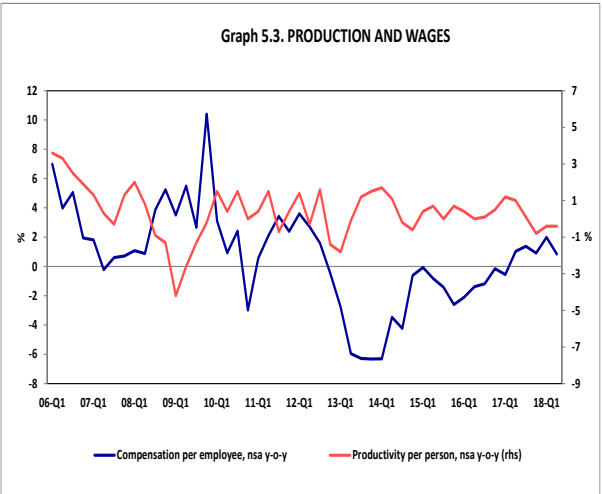
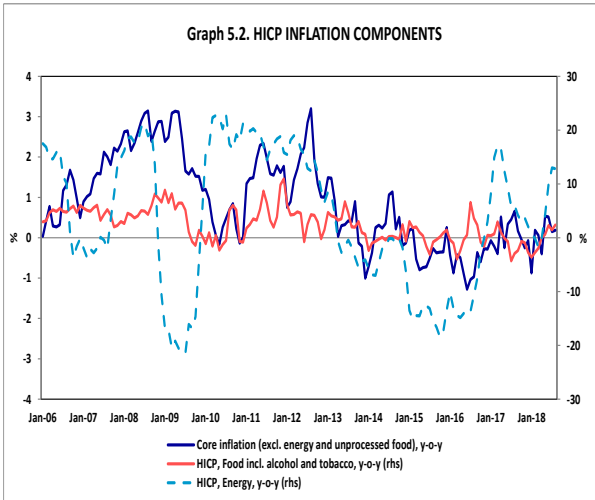
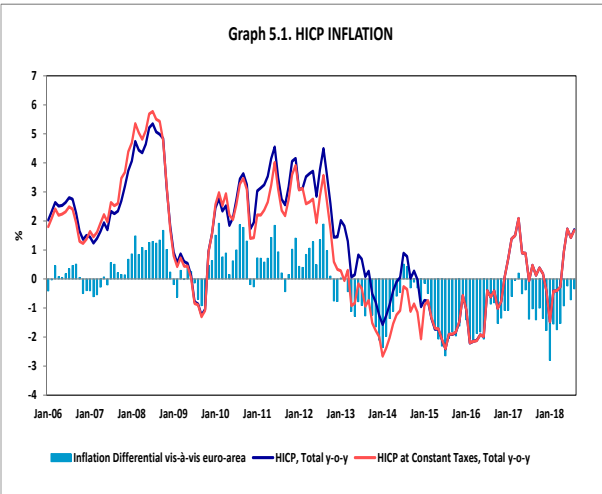
Sources: Eurostat, DG ECFIN, Cystat

4. LABOUR MARKET



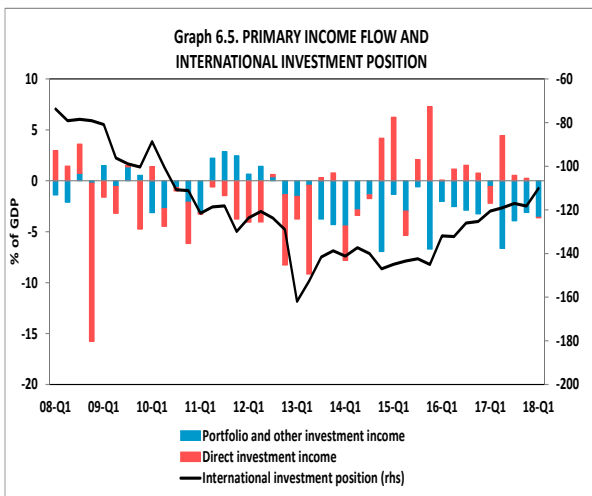
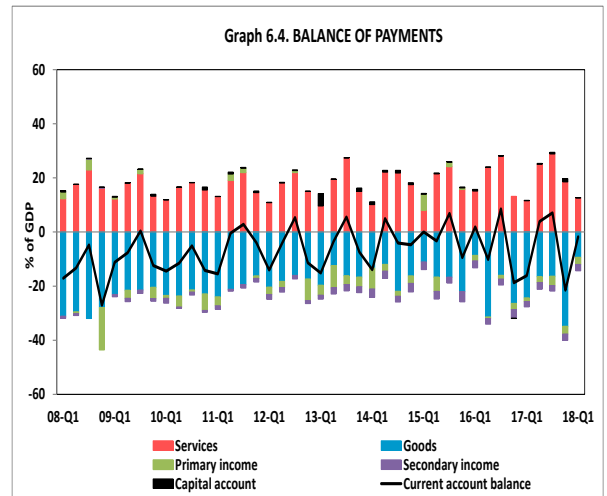
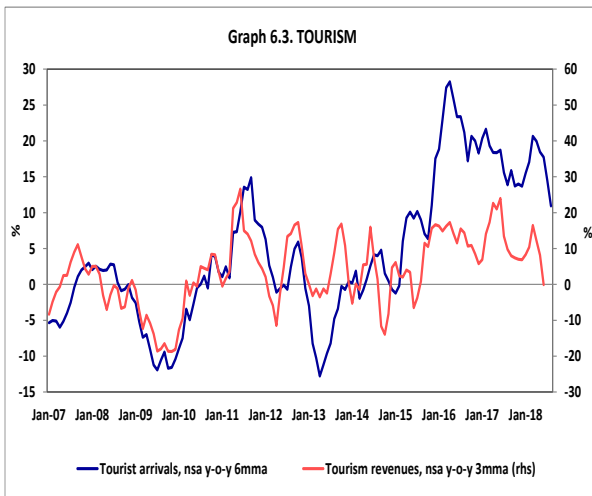
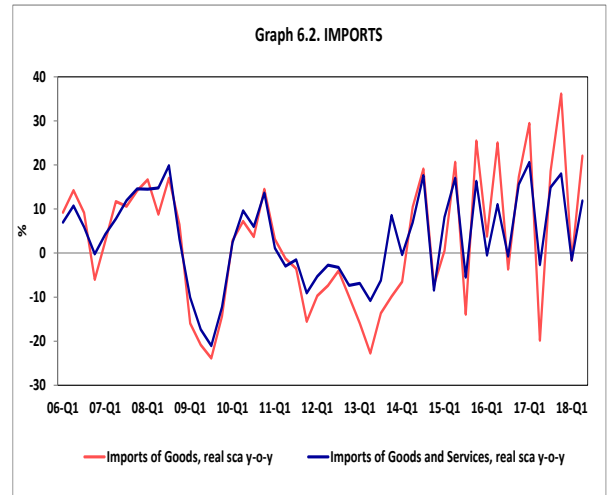
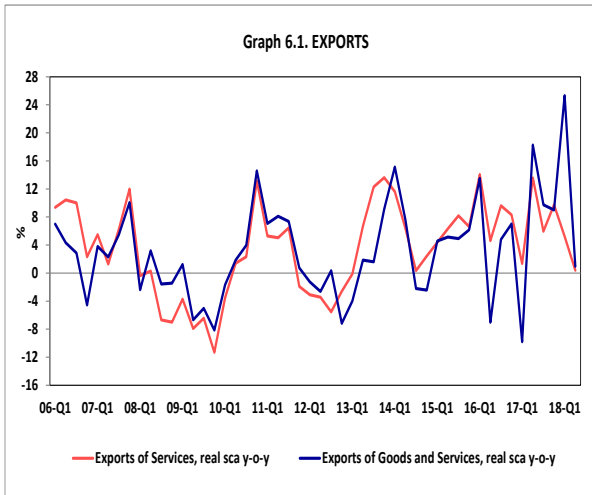
Sources: Eurostat, DG ECFIN, Cystat

5. INFLATION, WAGES



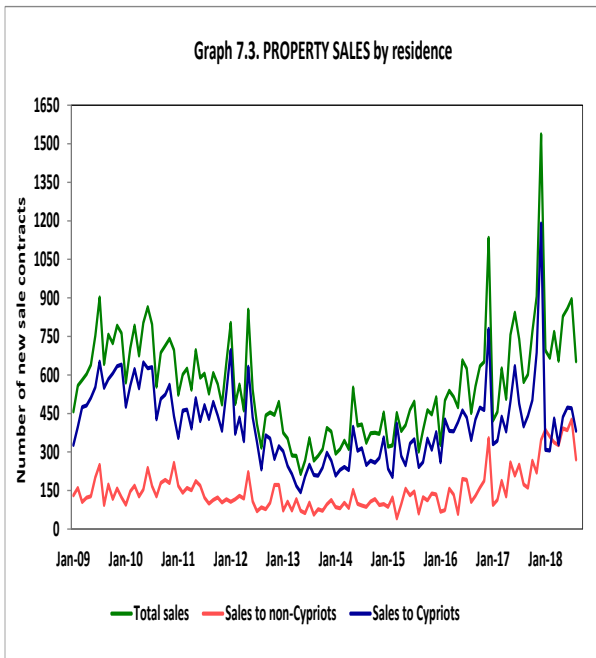
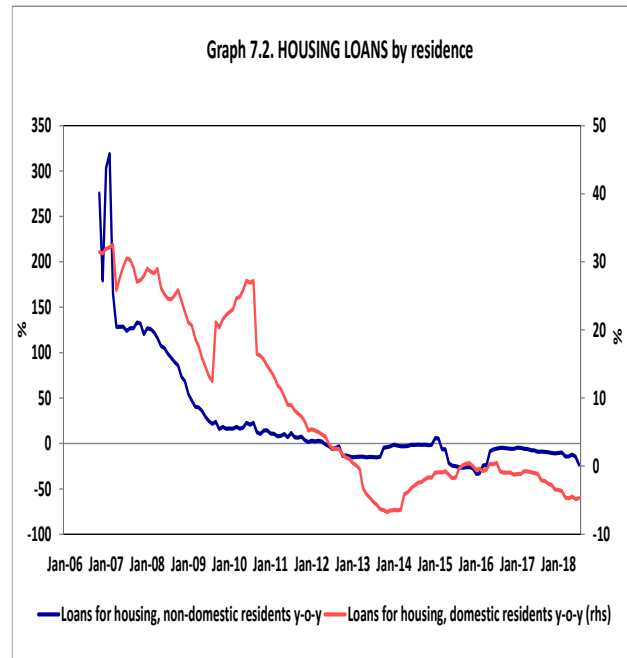
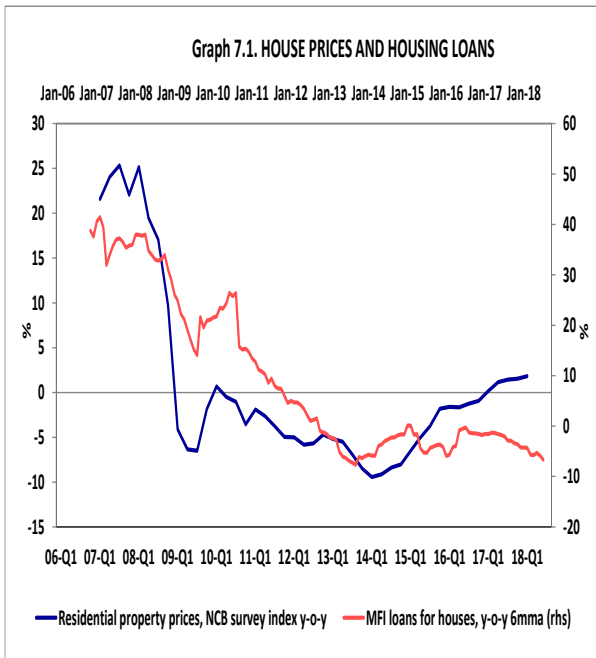
Source: Eurostat

6. EXTERNAL SECTOR



Sources: Eurostat, Cystat, ECB, CBC

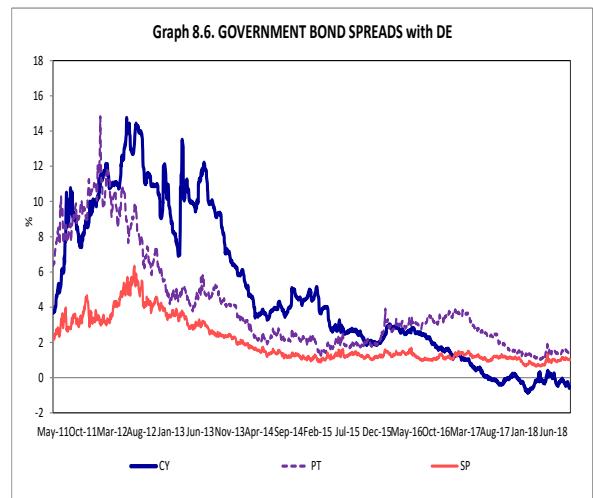
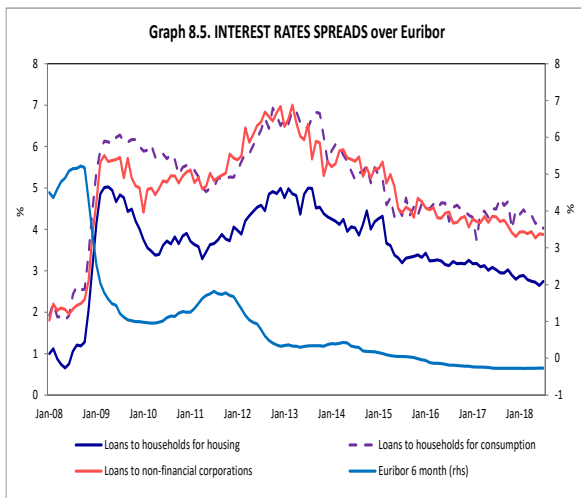
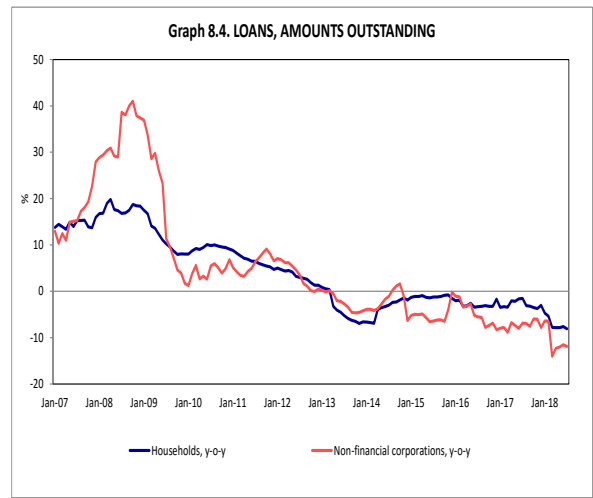
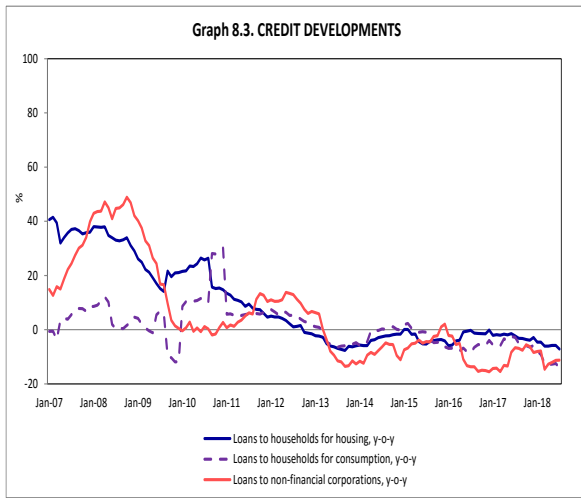
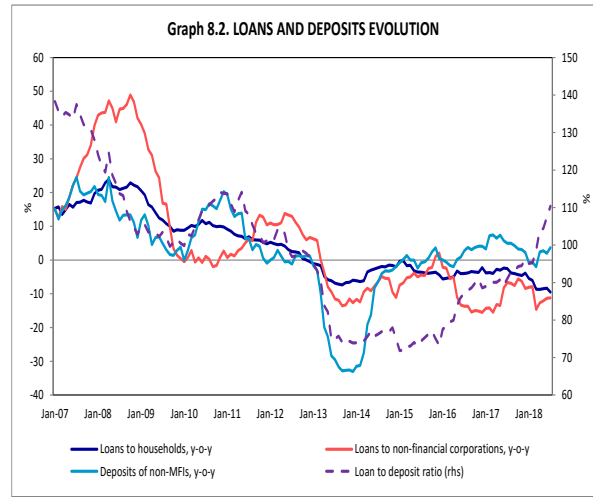
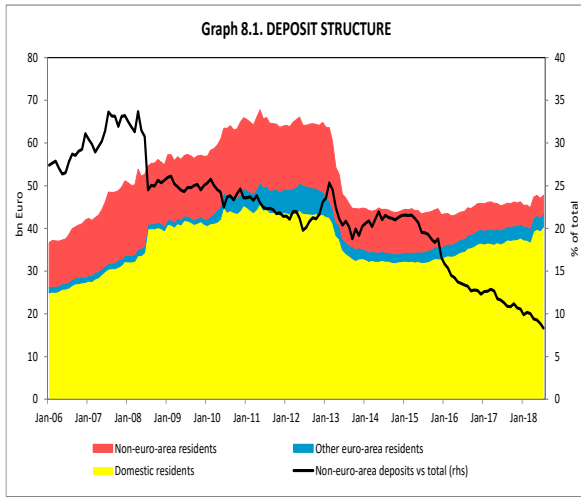
7. HOUSING



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.

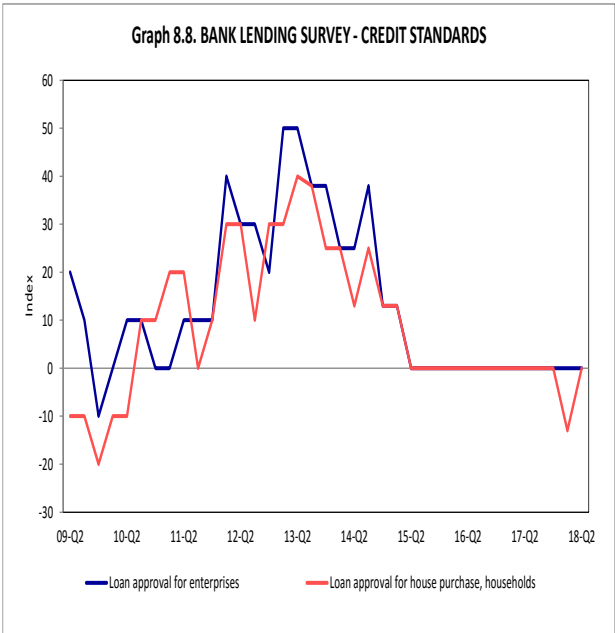
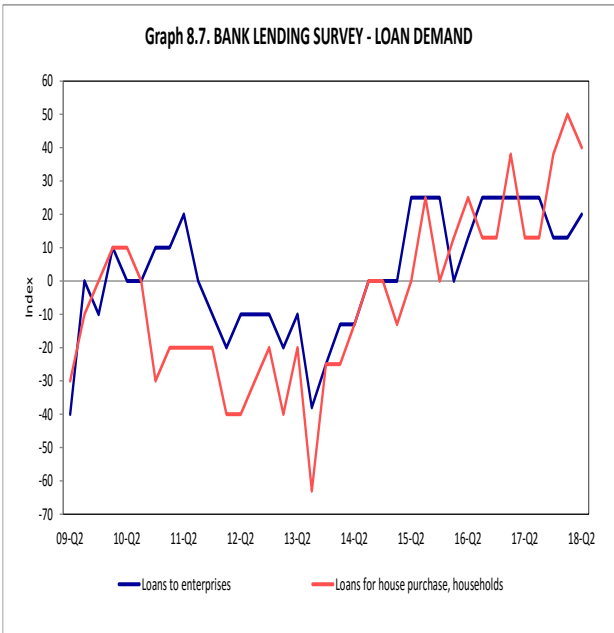
Sources: ECB, CBC, Dep. of Lands and Surveys

8. FINANCIAL SECTOR



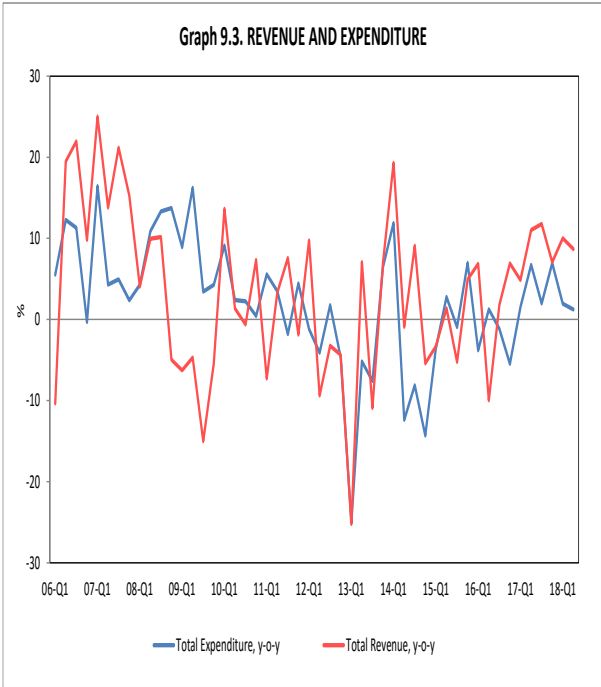
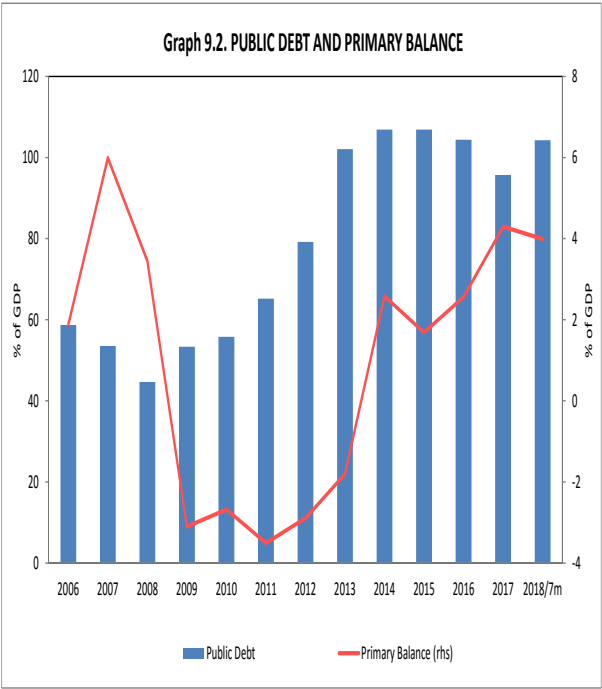
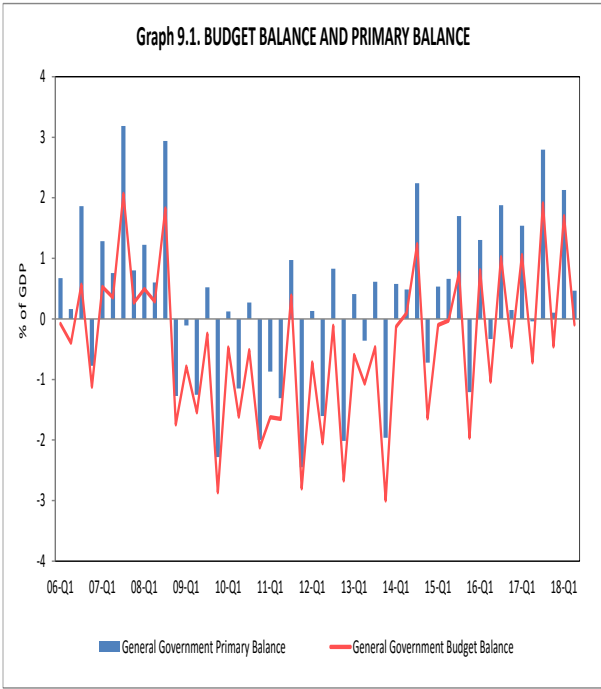
Sources: ECB, CBC, Bloomberg

8. FINANCIAL SECTOR – CONT.



Source: ECB

9. PUBLIC SECTOR



Sources: Ministry of Finance, Cystat