

Macroeconomic Outlook

September 2022

Ministry of Finance



OUTLINE

- 01/** *Main messages*
- 02/** *Current situation*
- 03/** *Medium-term framework*
- 04/** *Risks to the outlook*
- 05/** *Russia's war on Ukraine and sanctions*
- 06/** *Policy challenges – Structural reforms*
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MAIN MESSAGES

- *Economic activity in 2021 recovered following the COVID-19 pandemic, and GDP growth is estimated at 5.5%.*
- *Labour market developments show resilience and flexibility, conditions improved.*
- *Inflation increased due to higher energy prices.*
- *The economic outlook for 2022 is surrounded by uncertainty, due to the Russia/Ukraine crisis.*



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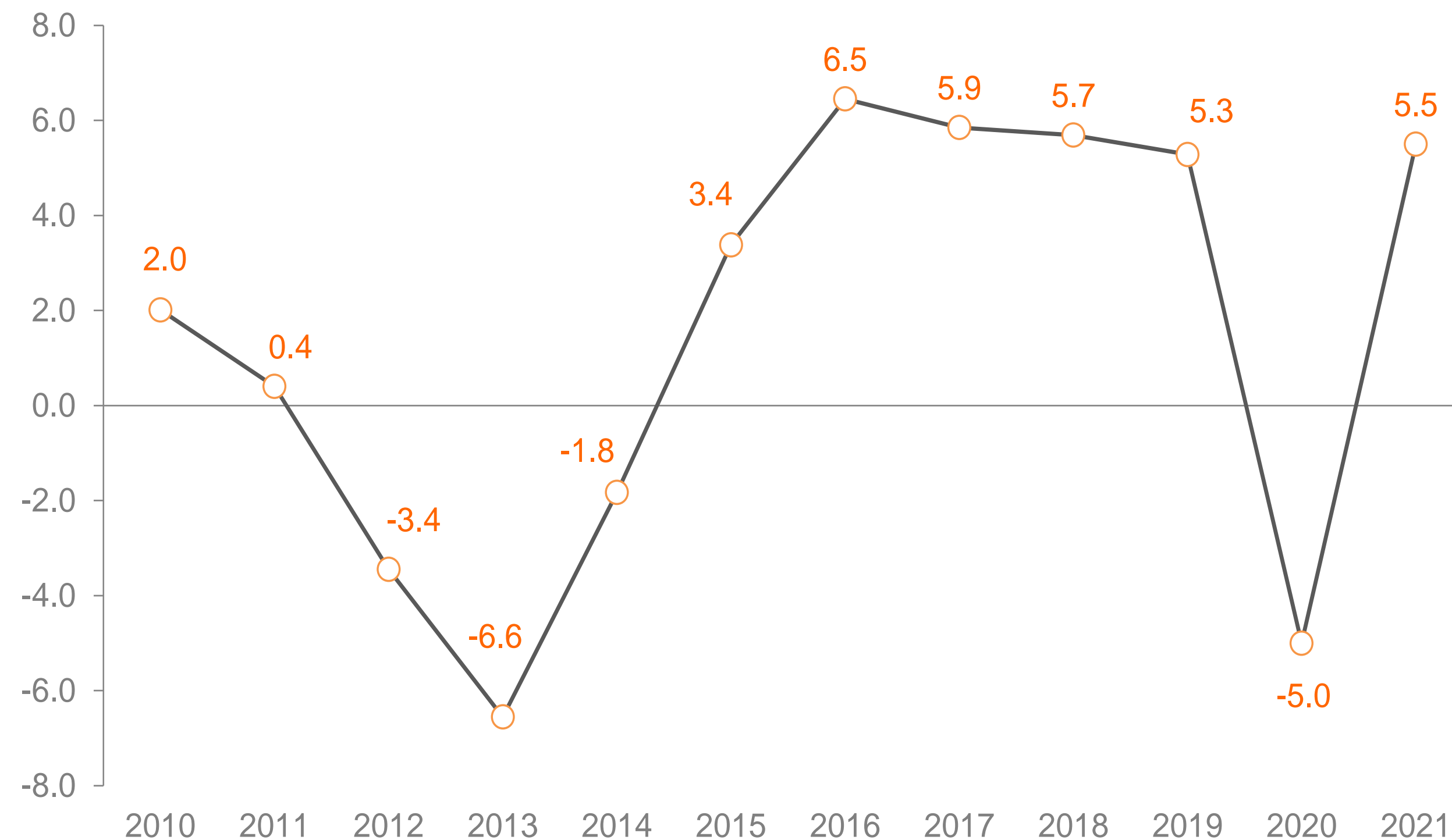
CYPRUS ECONOMY IN 2021



From the expenditure side, growth was mainly driven by increases in exports and consumption.

From the production side, all sectors recorded positive growth rates. Growth is mainly attributed to the sectors: Hotels and Restaurants, Wholesale and Retail Trade, Repair of Motor Vehicles, Transport, Storage and Communication, Information and Communication and Manufacturing.

Real GDP 2010-2021 (%)



Source: Cystat

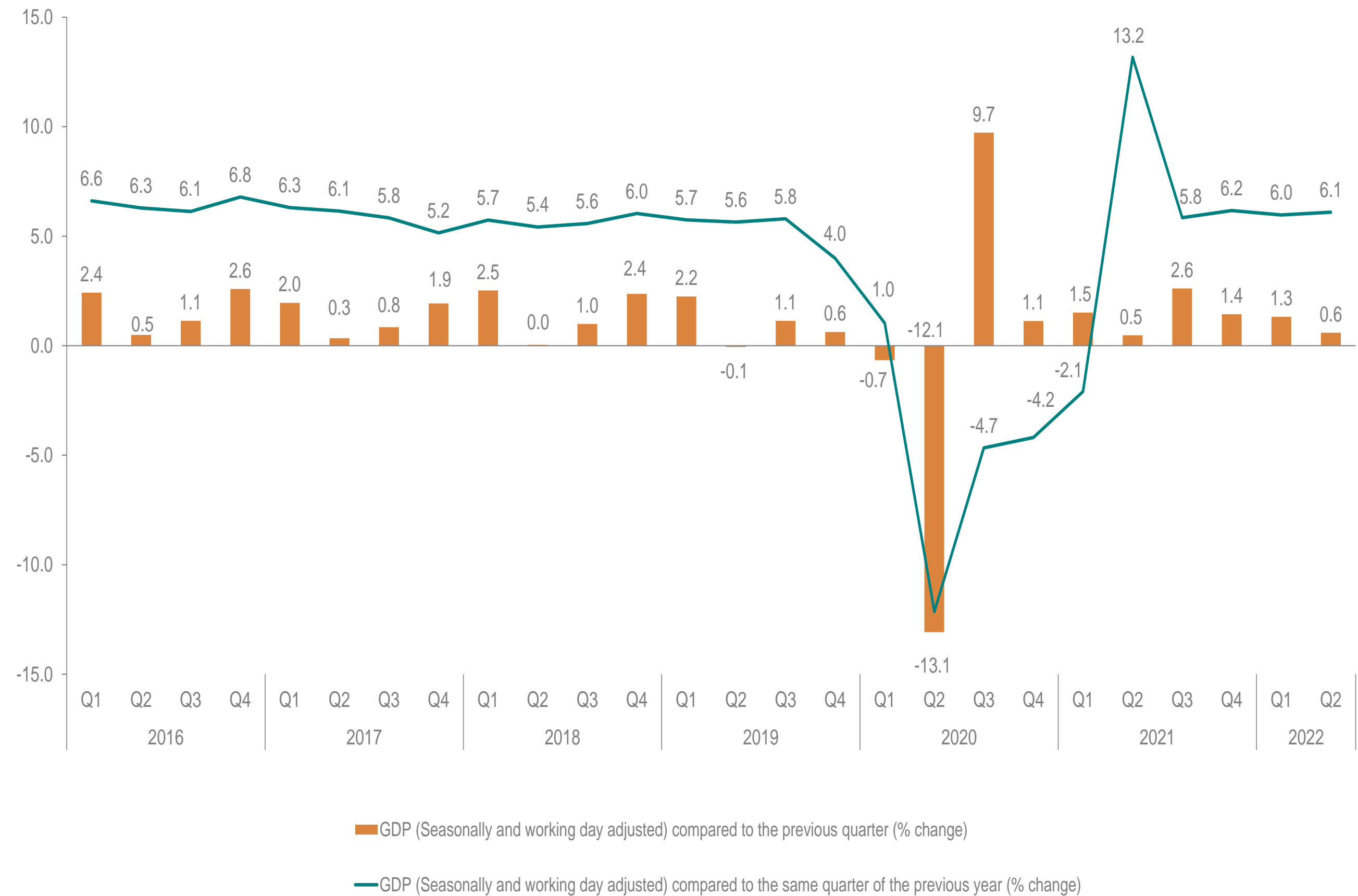


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FACTORS AFFECTING THE ECONOMY

- *Positive developments: restoration of confidence, tourism recovery*
- *Negative developments: Russia/Ukraine crisis, covid-19 and its continuing challenges to the economy, challenges in the financial sector albeit ameliorating following recent developments, bank deleveraging, geopolitical*

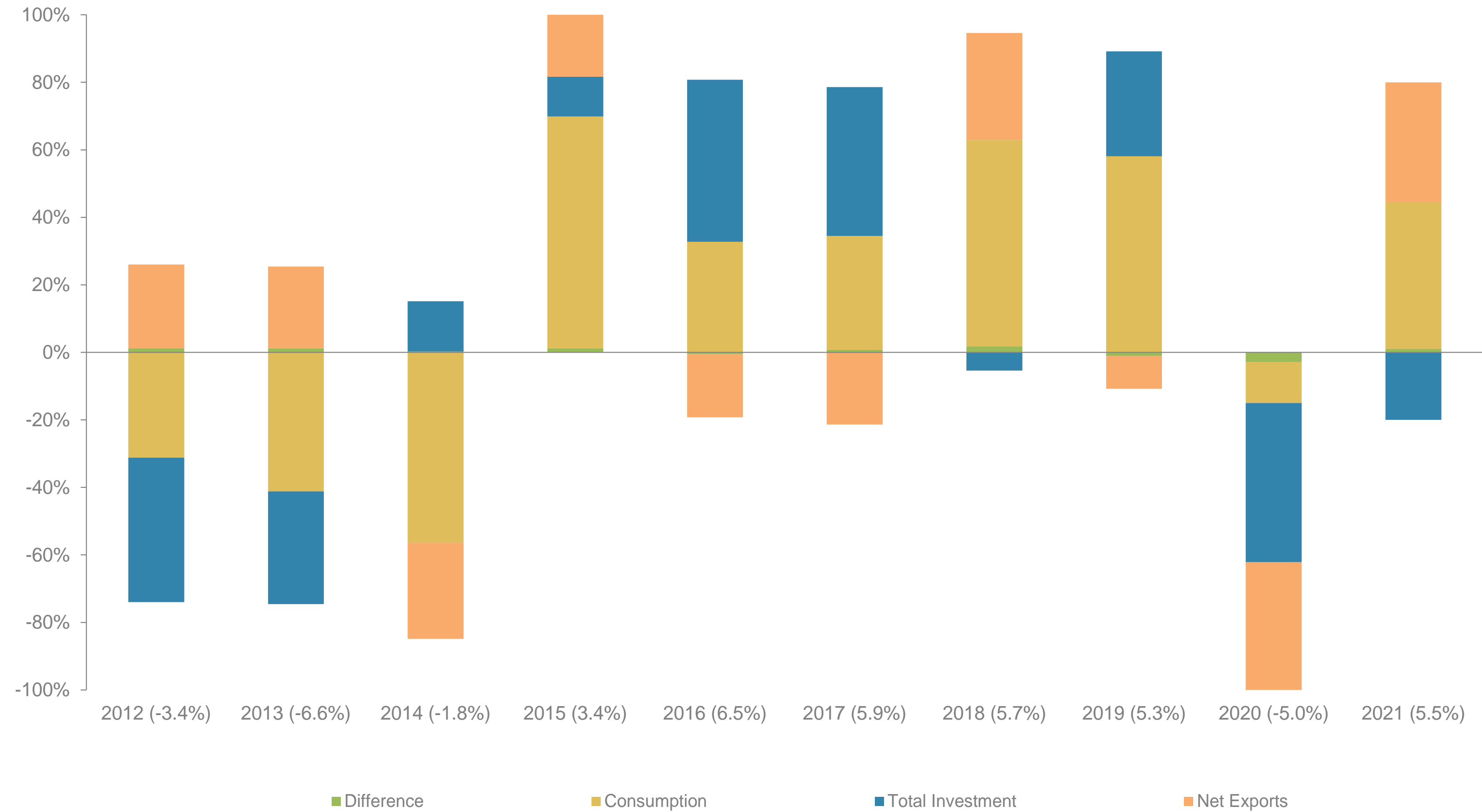
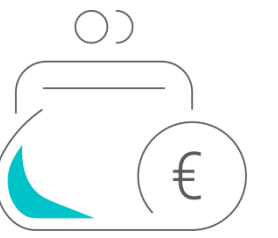


Source: Cystat



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Contribution to growth by category of expenditure, in p.p.



Source: Cystat



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HICP INFLATION

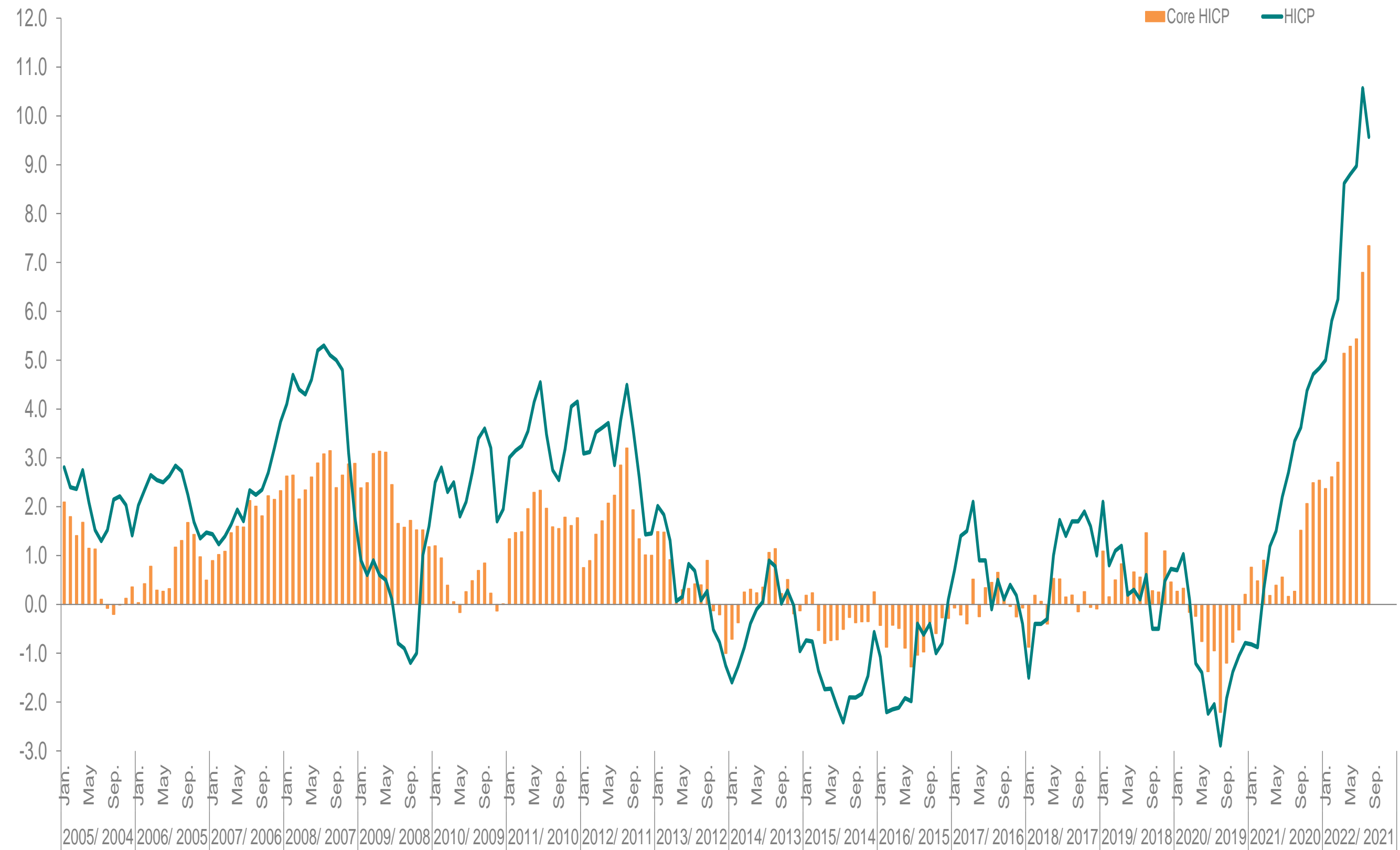
(annual change %)

- Normal adjustment of prices given recession.

- In January-December 2020, HICP decreased by 1.1% and core HICP decreased by 0.6%.

- In January-December 2021, HICP increased by 2.3% and core HICP increased by 1.0%.

- In January-August 2022, HICP increased by 8.0% and core HICP increased by 4.8%.



Sources: Cystat and Eurostat



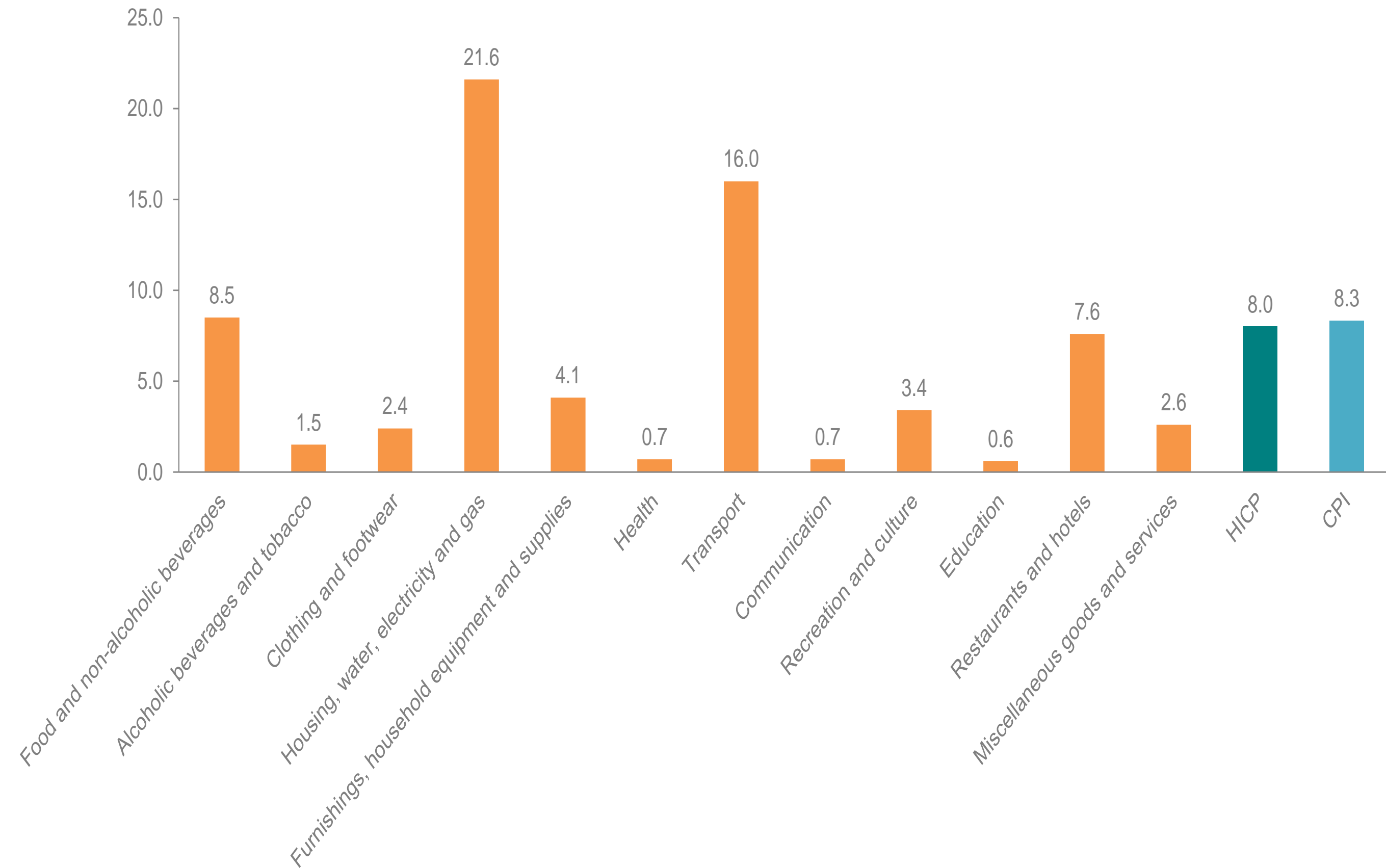
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HICP by category, %

-For the period January-December 2020, compared to the corresponding period of the previous year, the largest changes were noted in Transport and Housing, Water, Electricity, Gas and Other Fuels.

-For the period January-December 2021, compared to the corresponding period of the previous year, the largest positive change was noted in Transport (8.6%).

-For the period January-August 2022, compared to the corresponding period of the previous year, the largest changes were noted in Housing, Water, Electricity, Gas and Other Fuels (21.6%) and Transport (16.0%).

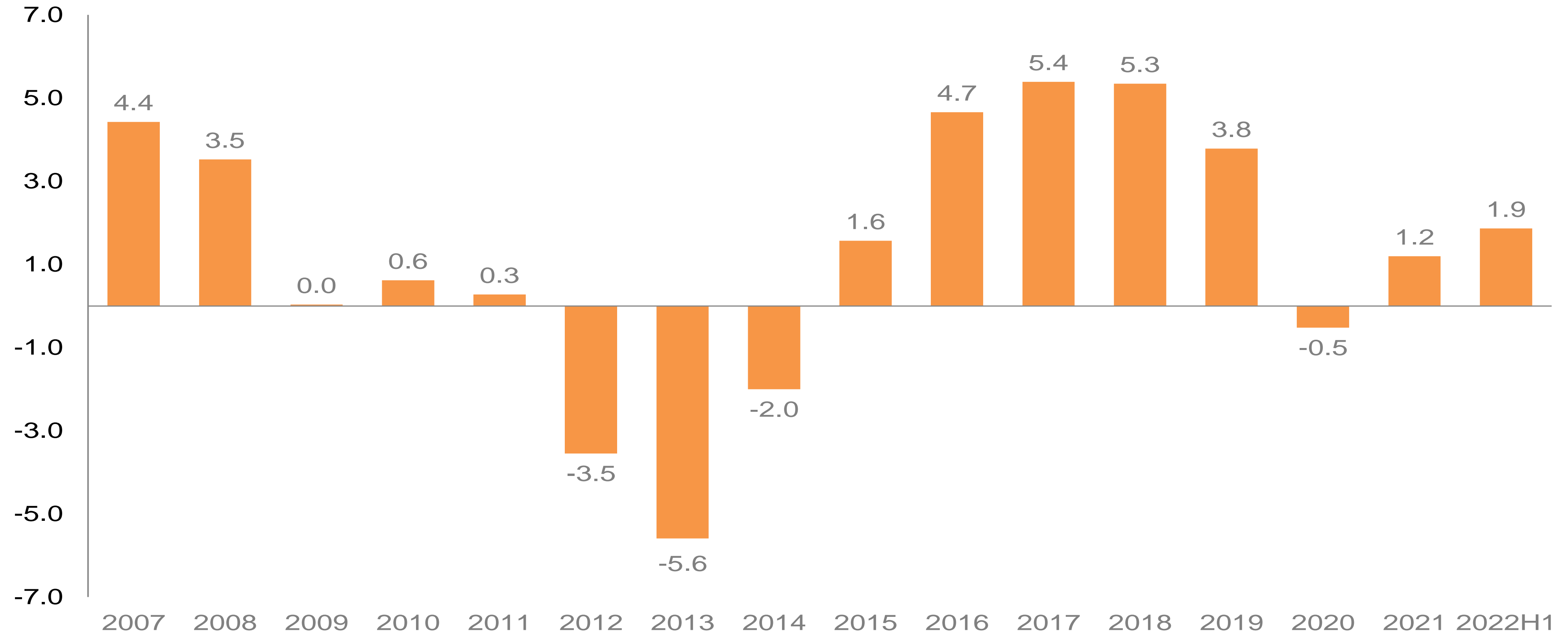


Source: Cystat



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Employment, persons NA (% change)



Source: Cystat



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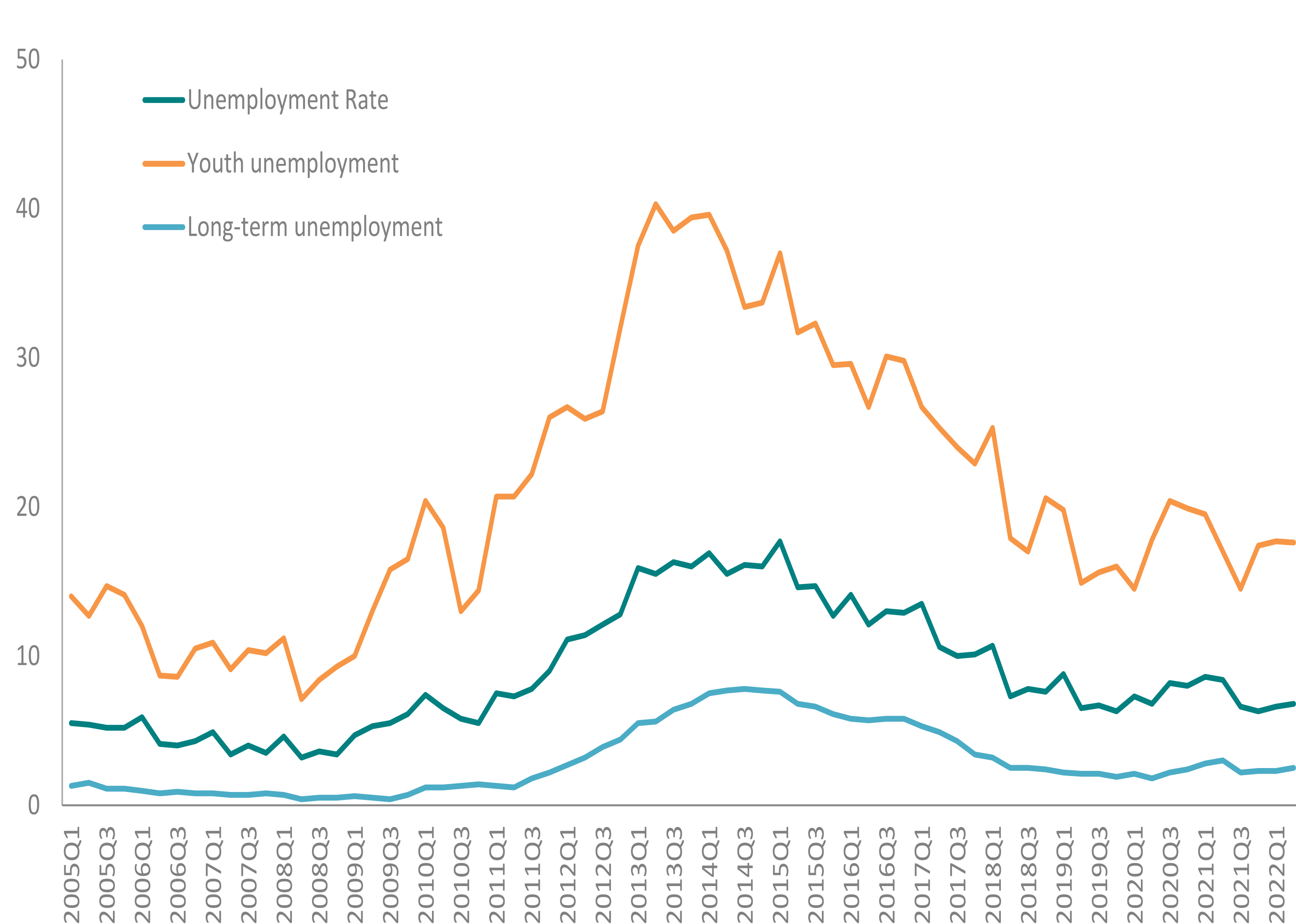
LFS Unemployment - %

-In 2020, unemployment rate increased to 7.6%, youth unemployment stood at 18.2%, and long-term at 2.1%.

-In 2021, the unemployment rate stood at 7.5%, youth unemployment stood at 17.1%, and long-term unemployment at 2.6%.

-In 2022H1, the unemployment rate stood at 6.7%, youth unemployment at 17.7%, and long-term unemployment at 2.4%.

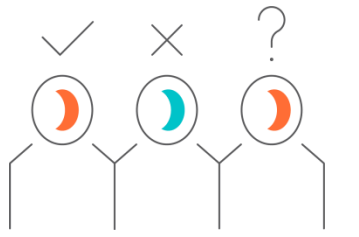
-Signs that the labour market returns to pre-COVID period via increasing reduction in inactivity rate and higher vacancy rates.



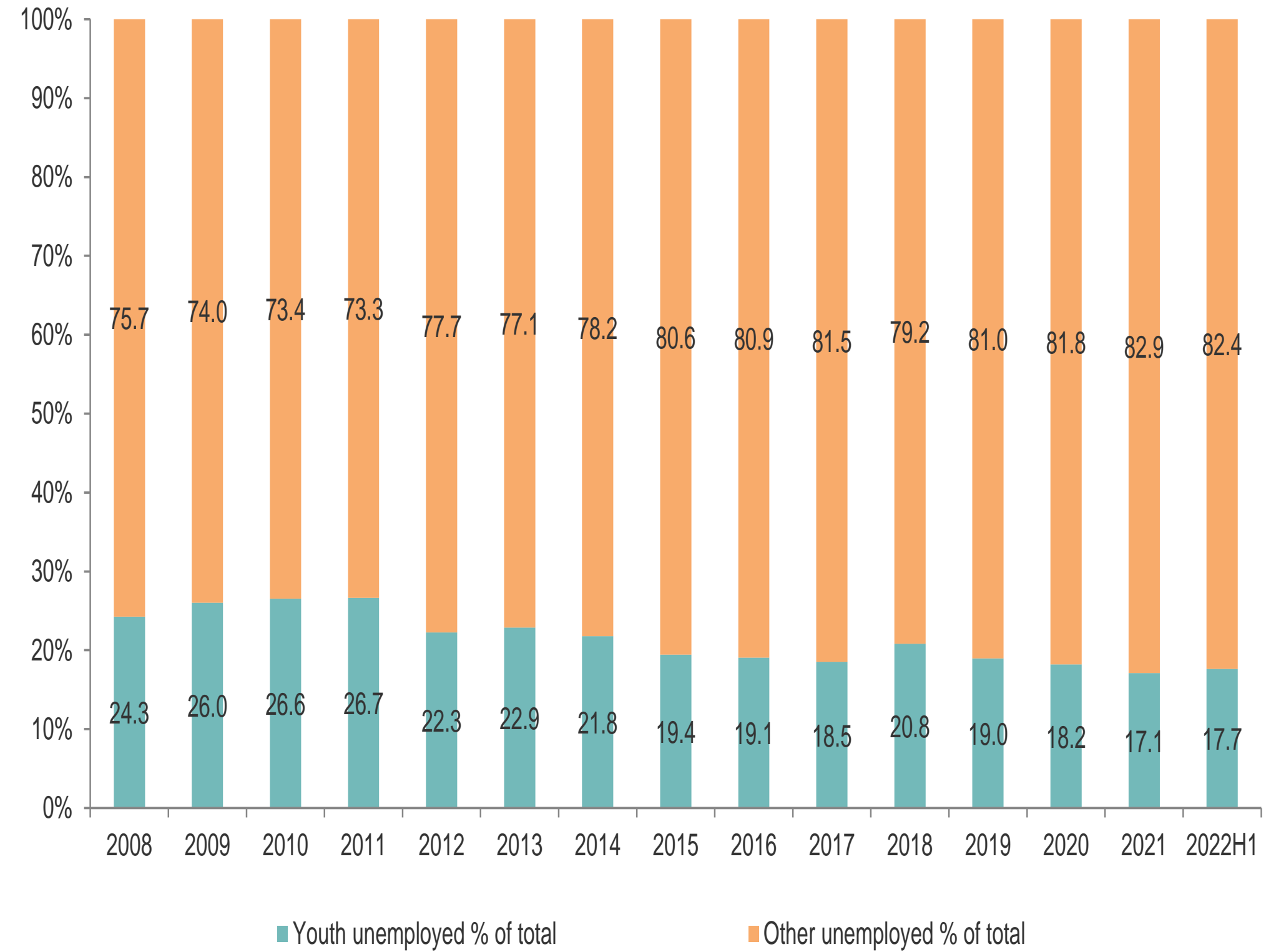
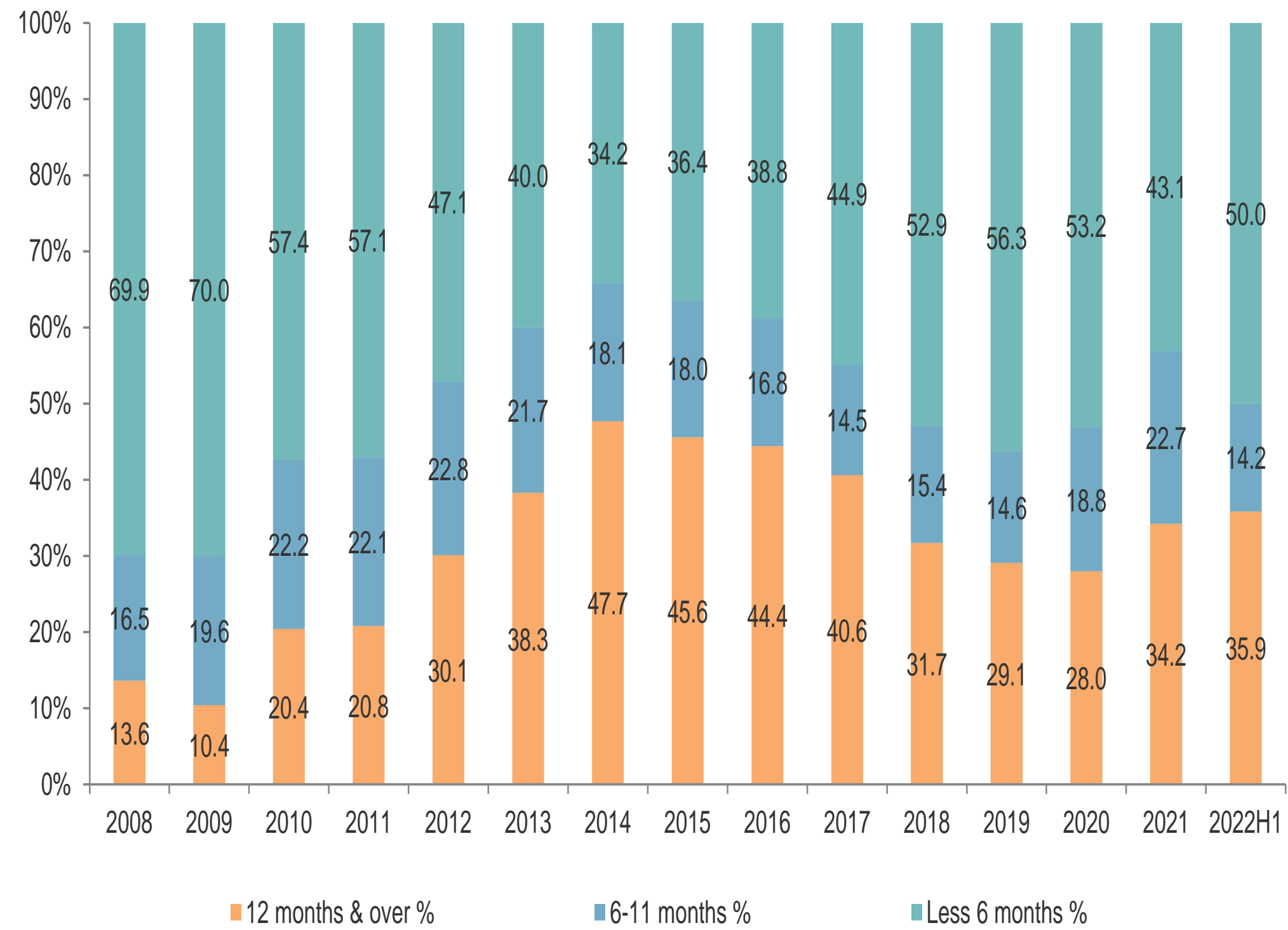
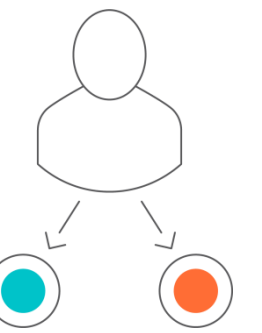
Source: Cystat



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Unemployed by duration and age, %



Source: Cystat



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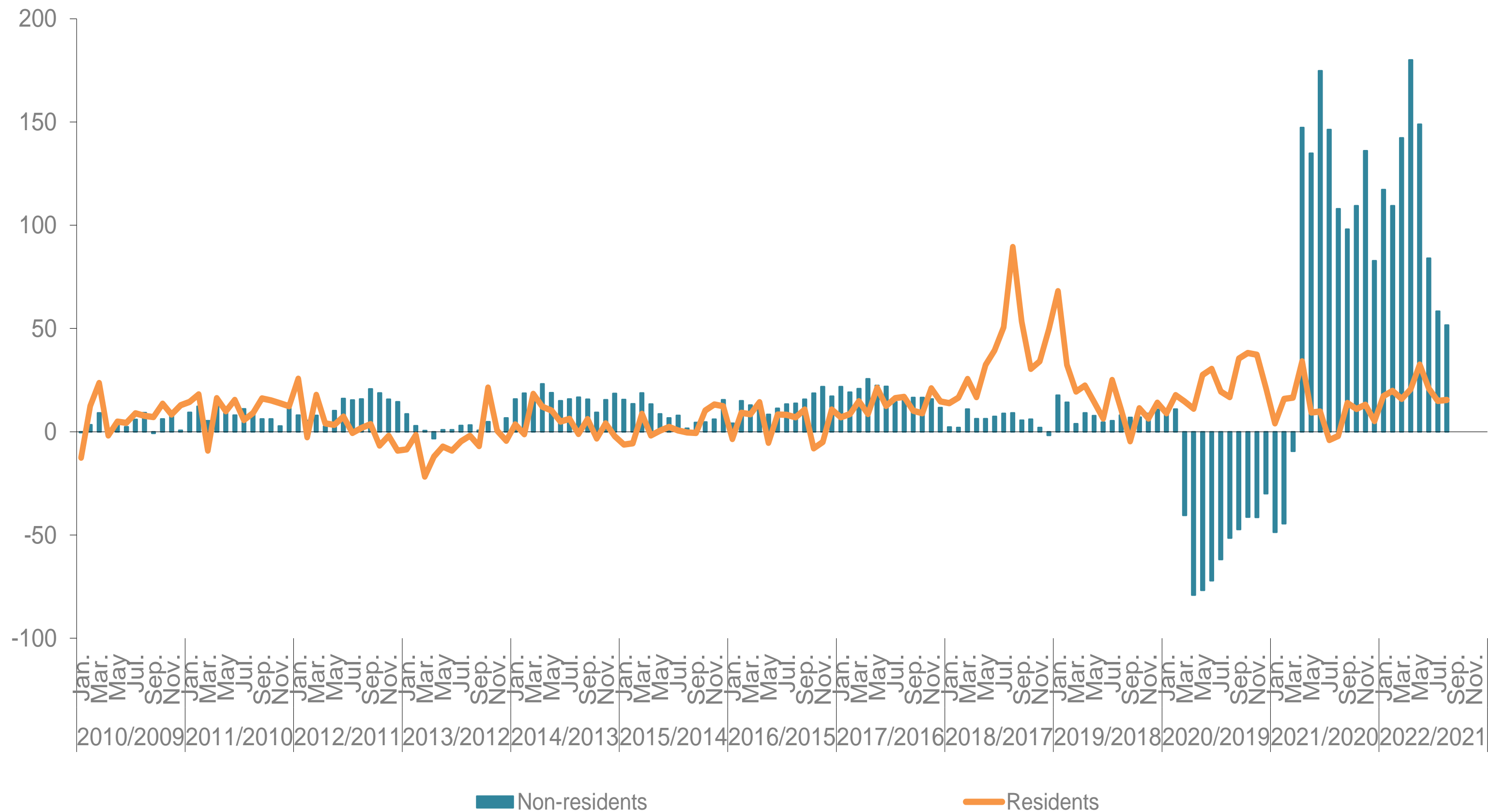
Credit cards (annual change):

-Increase of credit card transactions domestically.

-In January-December 2020 increased by 8.7% in credit card total sales (22.6% increase in domestic and 50.1% decrease in foreign).

- In January-December 2021 increased by 15.3% in credit card total sales (9.2% increase in domestic and 78.9% increase in foreign).

-In January-August 2022 increased by 28.2% in credit card total sales (19.4% increase in domestic and 92.0% increase in foreign).



Source: JCC



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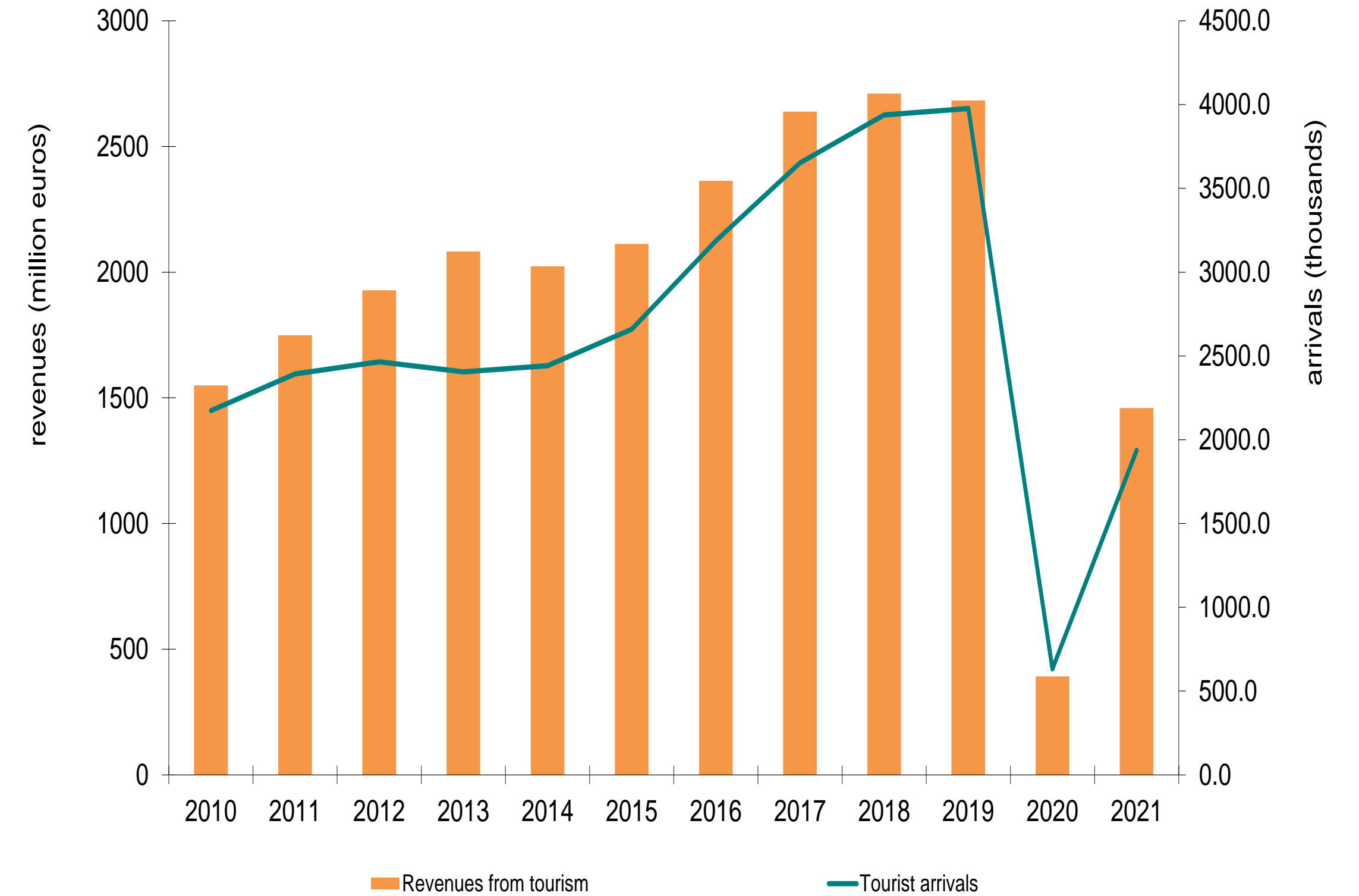
Tourist Arrivals

-In 2020 tourist arrivals decreased by 84.1% and revenues decreased by 85.4%.

-In January-December 2021 tourist arrivals increased by 206.7% and revenues from tourism increased by 286.1%.

-In January-August 2022, arrivals of tourists totaled 2.127.172 compared to 960.150 in the corresponding period of 2021. In January-June 2022, revenue from tourism is estimated at €835.7 mn compared to €258.8 mn in the corresponding period of 2021.

Tourism %	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total	+ 1.5	+ 10.1	+3.0	-2.4	+1.5	+8.9	+19.8	+14.6	+7.8	+1.0	-84.1	+206.7
United Kingdom	-6.8	+2.5	-6.0	-7.1	-2.2	+19.5	+11.2	+8.3	+5.9	+0.2	-82.9	+71.3
Russia	+50.5	+49.2	+42.0	+28.3	+4.6	-17.6	+48.9	+5.5	-5.0	-0.2	-96.5	+1771.6
Germany	+6.1	+13.4	-8.5	-31.5	-12.7	+29.9	+10.5	+52.2	+0.2	-19.9	-60.1	+54.0
Israel	+20.8	-15.8	+23.5	+10.7	+57.6	+43.3	+50.9	+76.1	-11.2	+26.3	-90.7	+201.0
Greece	-3.2	+8.7	-4.1	-21.1	-3.8	+38.2	+14.8	+5.9	+9.8	-8.0	-63.4	+74.2

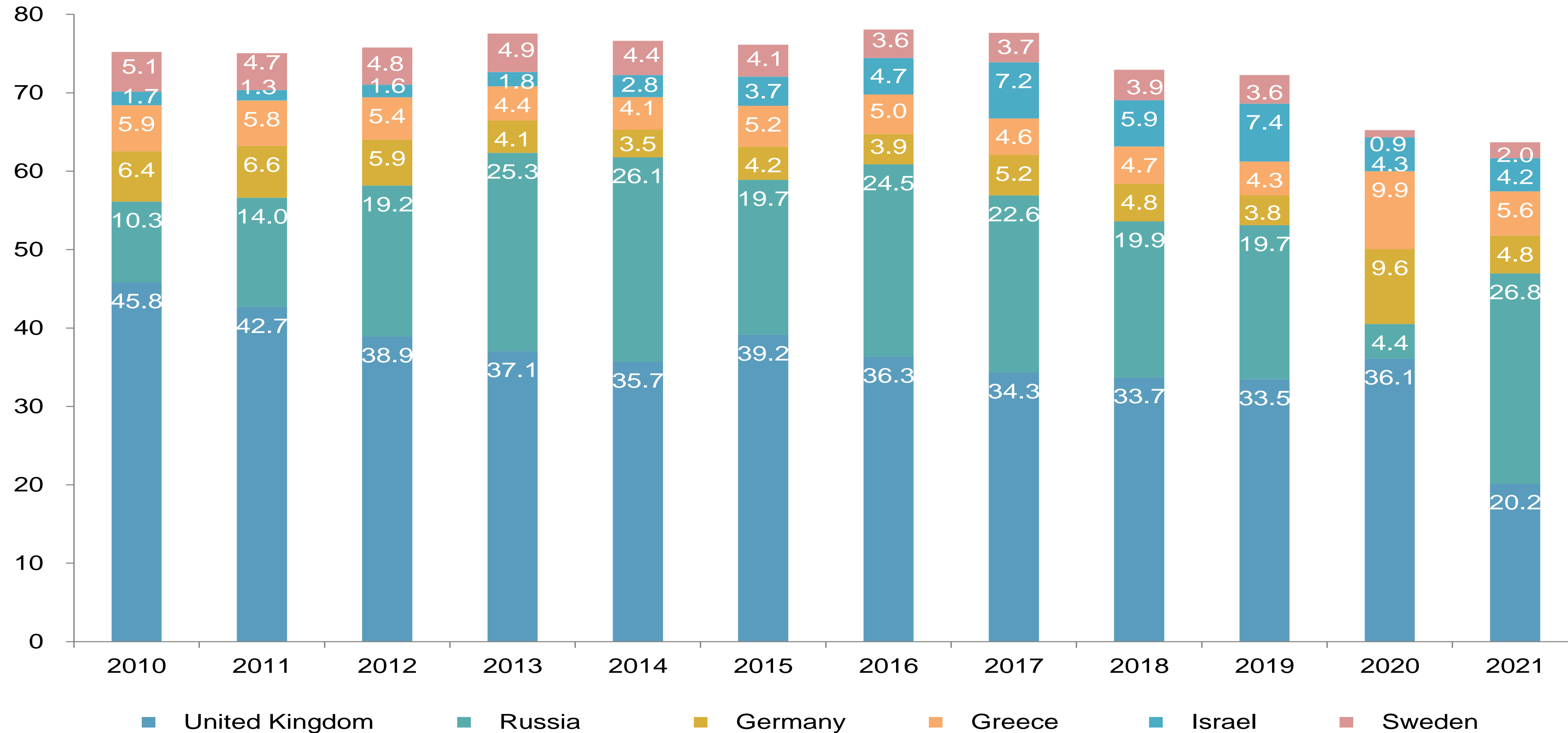


Source: Cystat



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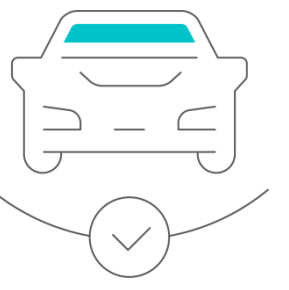
Tourist Arrivals – Share to total



Source: Cystat



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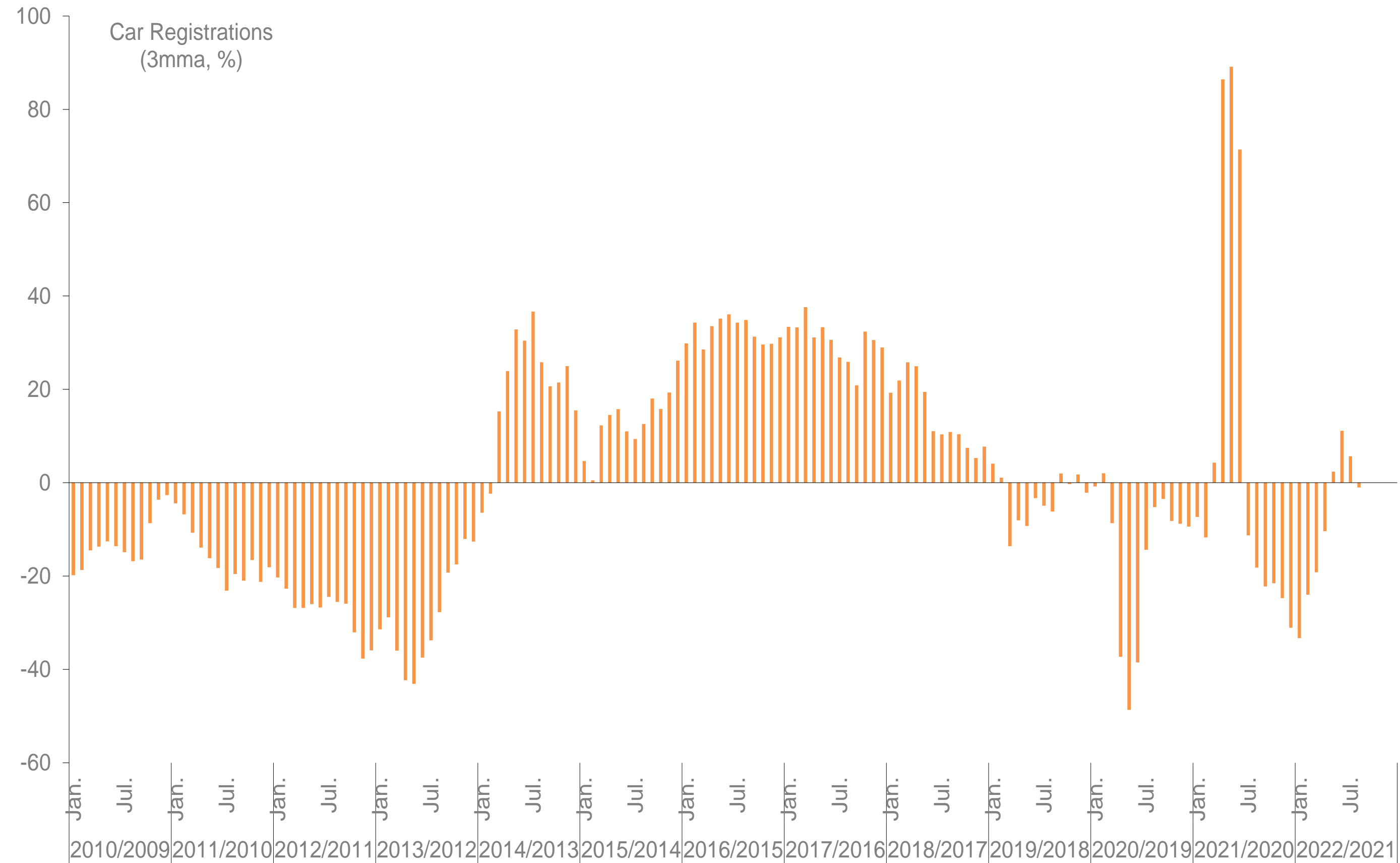
Car registrations (3 mma, % change)

-Positive rate of growth in car registrations since 2014, following growth rates in the negative territory for 21 quarters.

-In January-December 2019 they decreased by 5.2% and in January-December 2020 they decreased by 16.1%.

-In January-December 2021, compared to the year before, they decreased by 11.8%.

- In January-August 2022, compared to January-August 2021, they decreased by 4.9%.

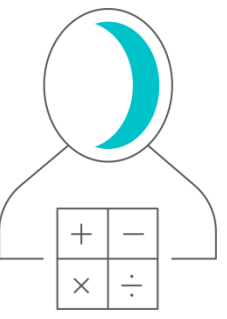


Source: Cystat



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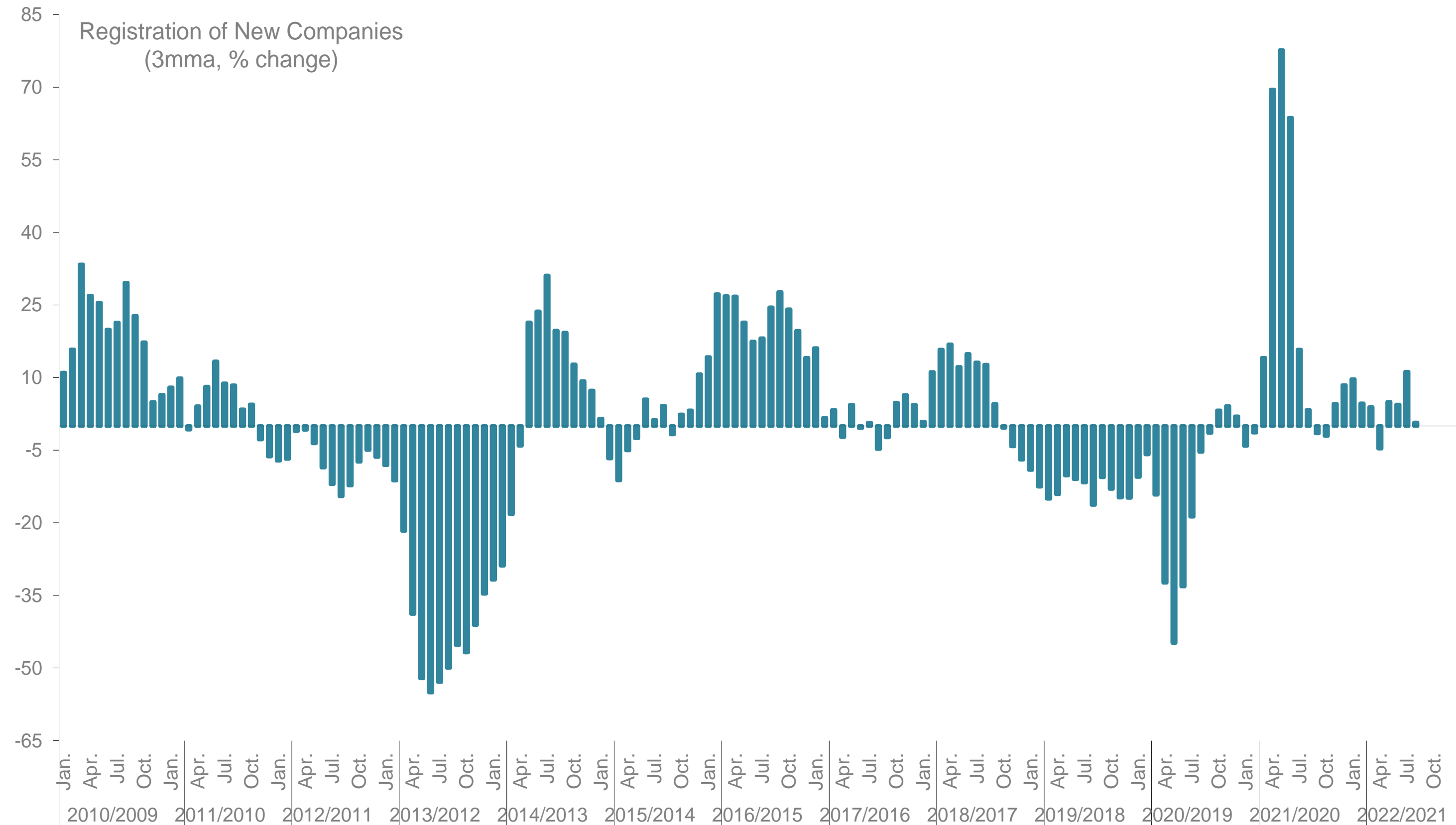
Registration of new companies (3mma, % change)

-High number of companies registration during 2014-2018.

-In 2019-2020 lower number of companies registration.

-In January-December 2021, 12.532 companies were registered compared to 11.029 companies in January-December 2020 recording an increase of 13.6%.

-In January-August 2022, 8.225 companies were registered compared to 8.029 companies in January-August 2021, recording a increase of 2.4%.

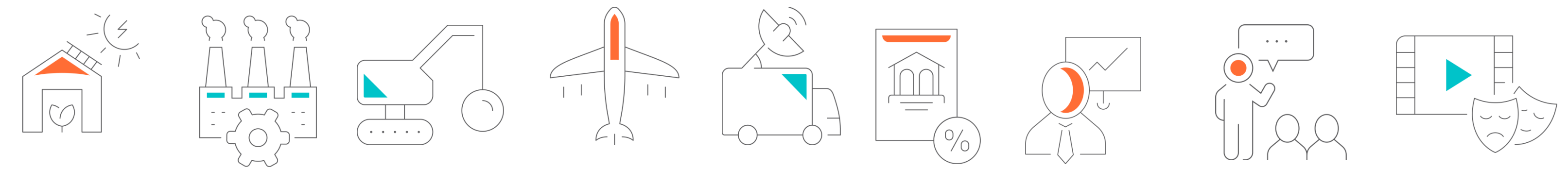
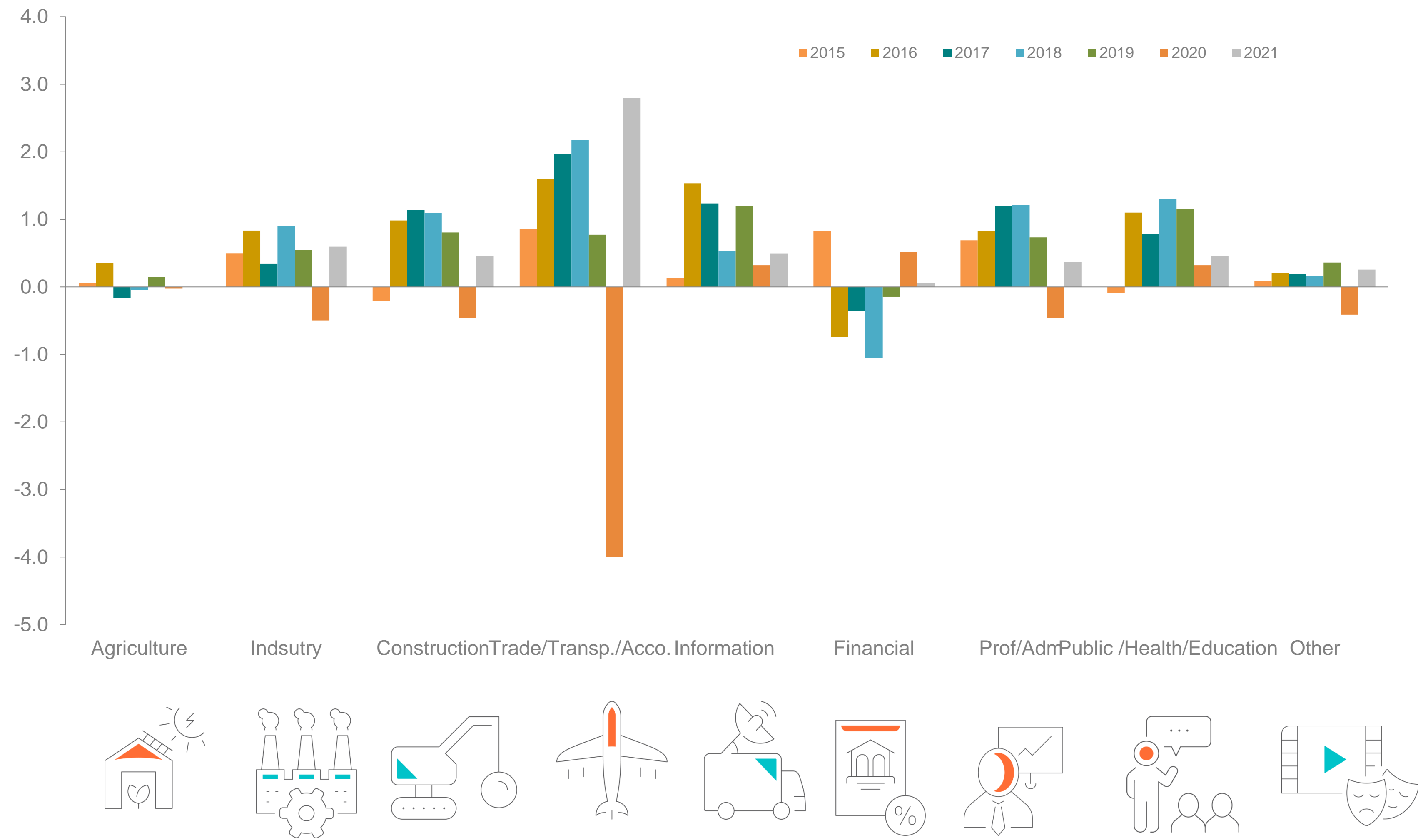
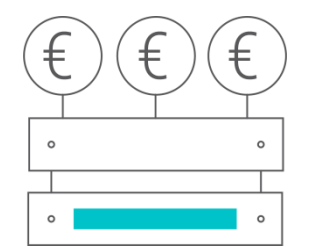


Source: Department of Registrar of Companies and Official Receiver



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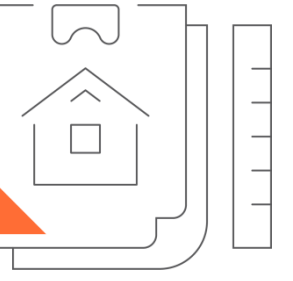
Contribution to growth, production, in p.p.



Source: Cystat



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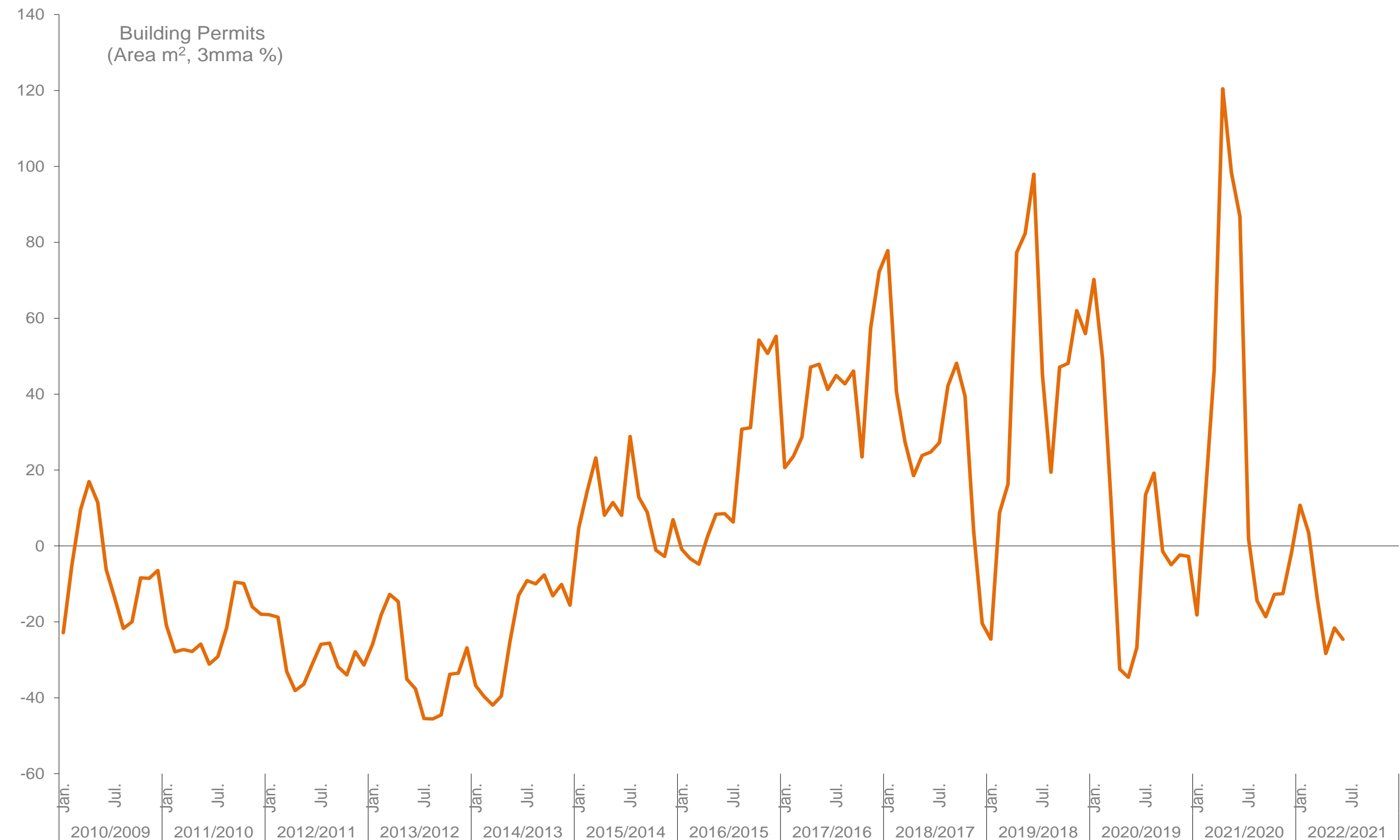


Building Permits (area m², 3mma %)

-Following a long period (8-years) of negative growth in 2015 signs of pick up in the construction sector brought by major investment projects.

-During the period January-December 2021, 8.164 building permits were issued compared to 7.023 in the corresponding period of the previous year, recording an increase of 16.2%. The total value of these permits decreased by -7.8% and the total area increased by 3.8%. The number of dwelling units recorded an increase of 13.1%.

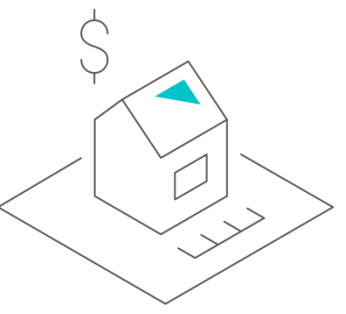
-During the period January-June 2022, 3.898 building permits were issued compared to 3.990 in the corresponding period of the previous year, recording a decrease of 2.3%. The total value of these permits decreased by 9.1% and the total area by 12.4%. The number of dwelling units recorded a decrease of 5.0%.



Source: Cystat



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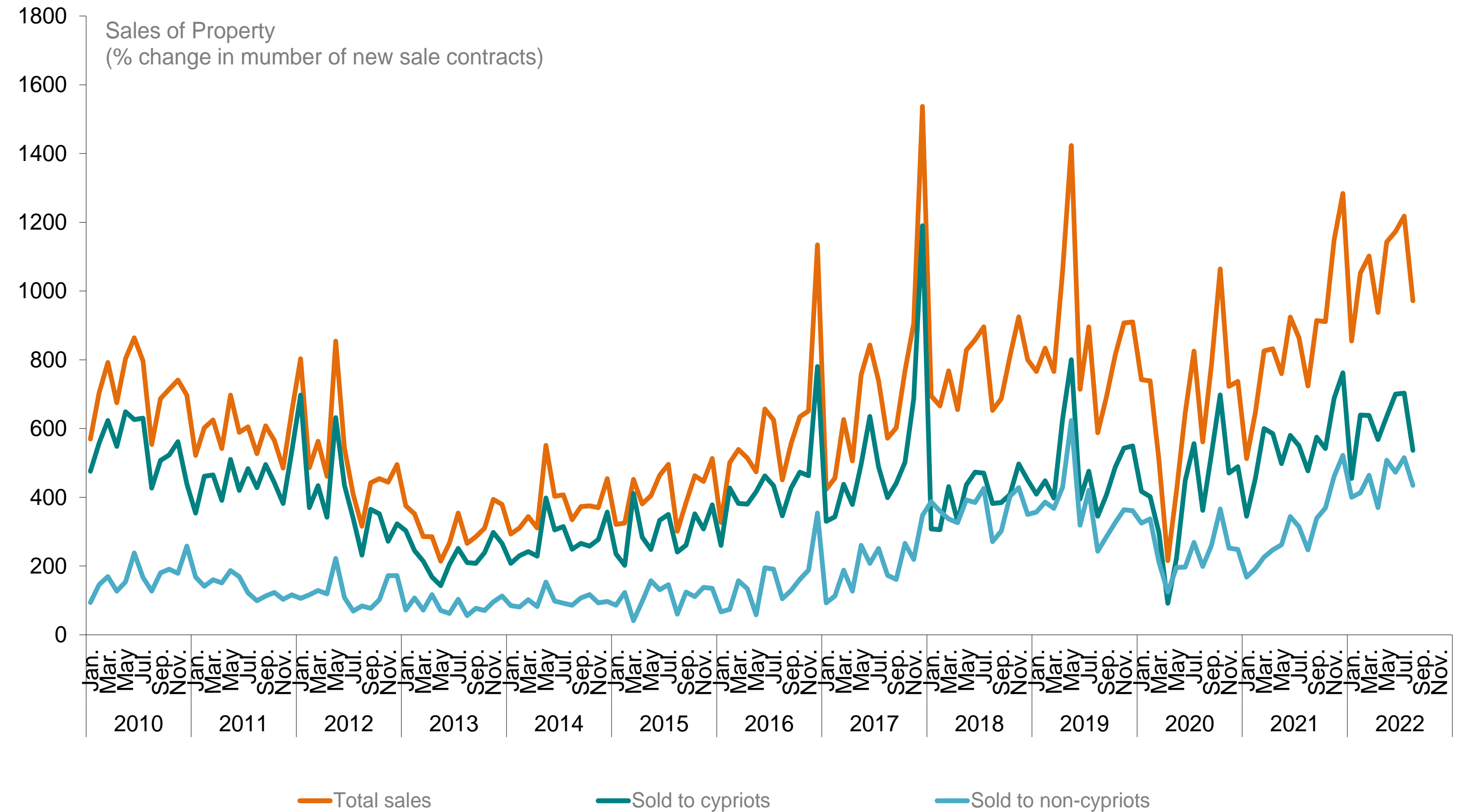


Sales of Property

-New sale contracts up by 5.8% in 2018, up by 12.2% in 2019 and down by 23.1% in 2020.

-New sale contracts up by 29.9% in January-December 2021.

- New sale contracts up by 38.8% in January-August 2022 compared with January-August 2021.



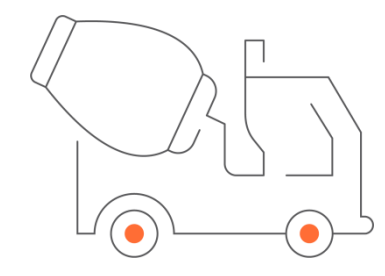
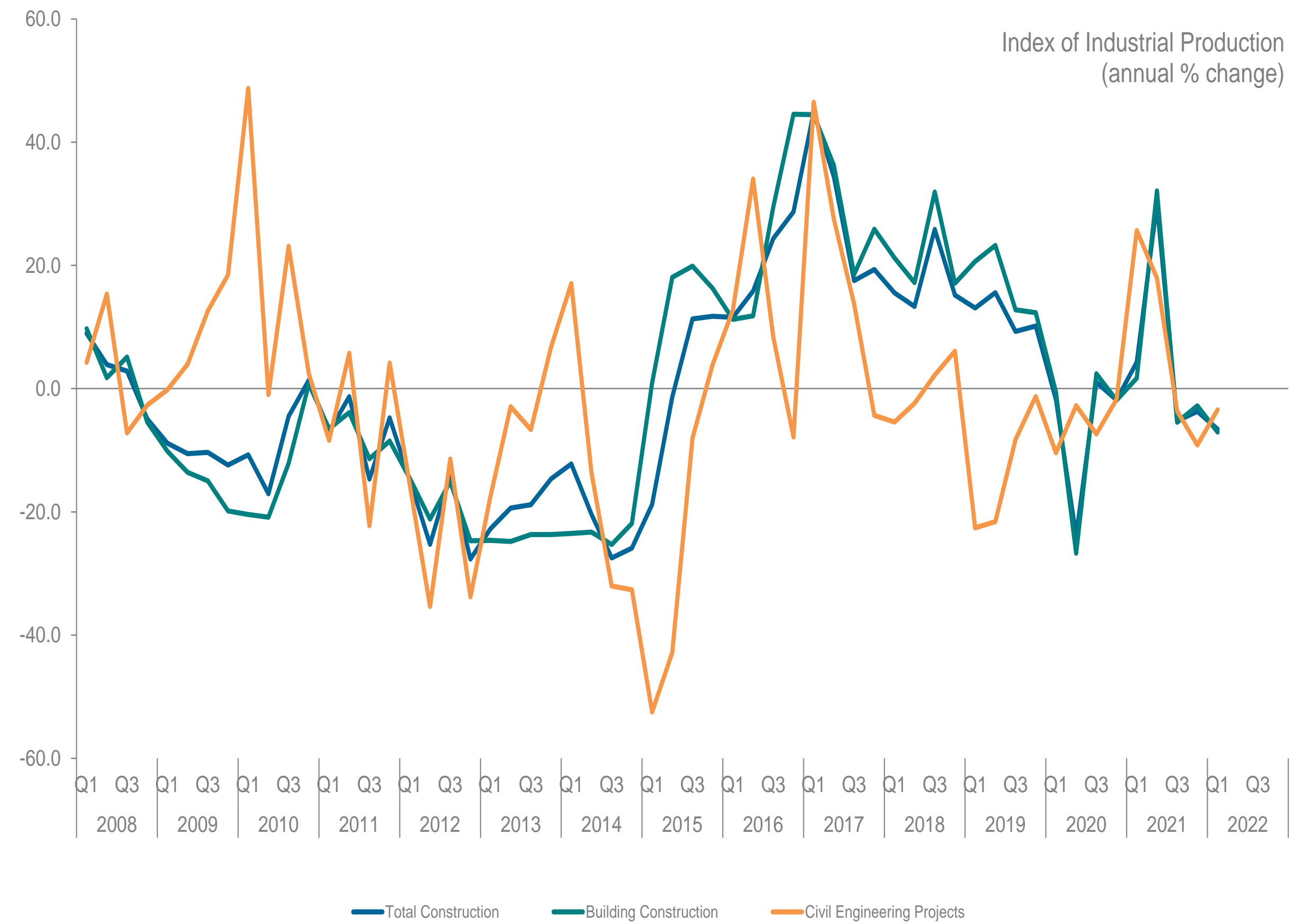
Source: Department of Lands and Surveys



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INDEX OF PRODUCTION IN CONSTRUCTION

- For the period January-December 2021, the overall index registered an increase of 4.7% over the corresponding period of 2020. An increase of 4.6% was recorded in the index for buildings and of 5.3% in the index for civil engineering projects.
- The Index of Production in Construction during the first quarter of 2022 compared to the corresponding quarter of 2021 reached 175.4 units (base year 2015=100,0), recording a decrease of 6.6% over the first quarter of 2021. By type of project, a decrease of 7.1% was observed for buildings and of 3.4% for civil engineering projects.



Source: Cystat



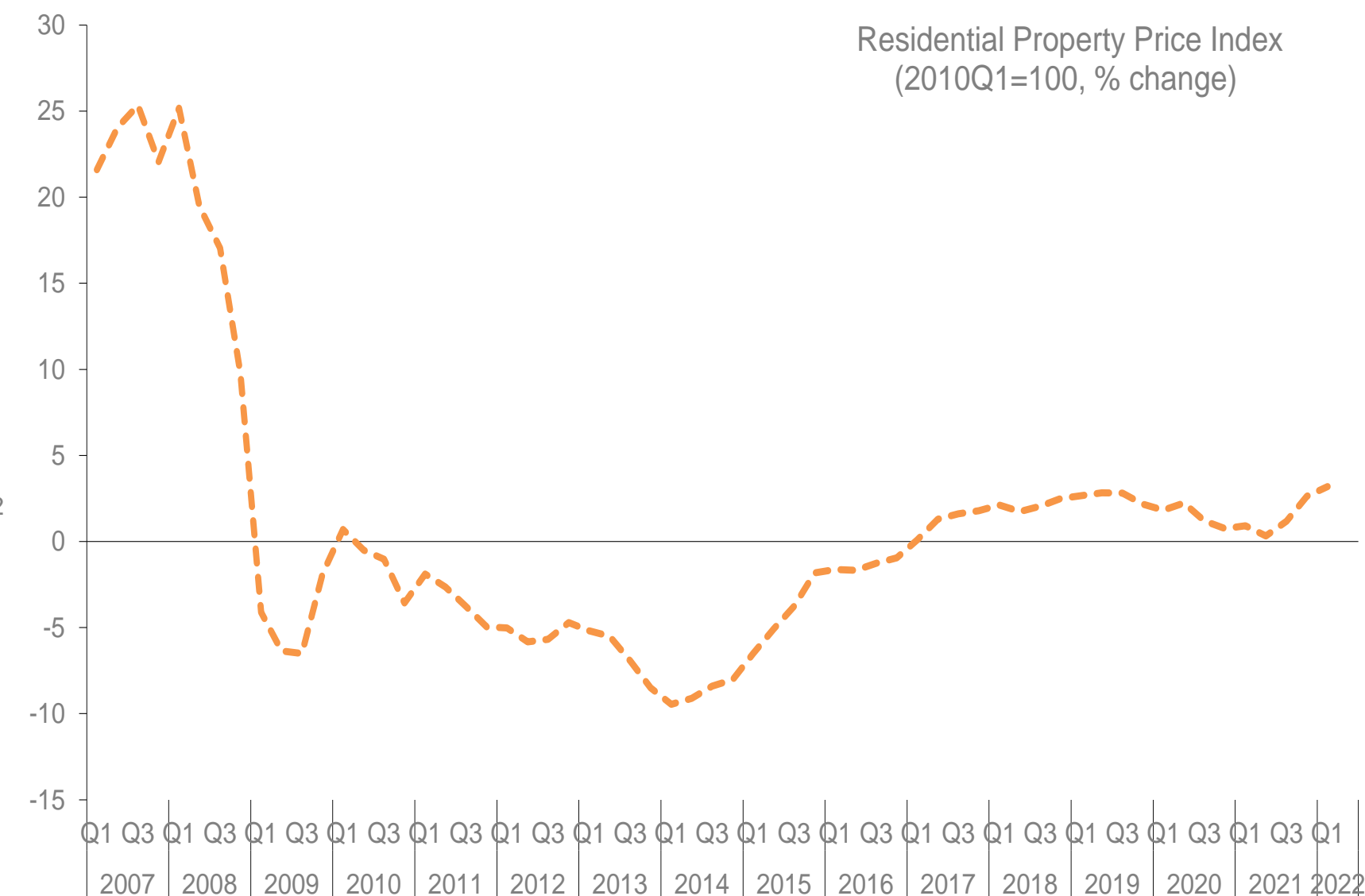
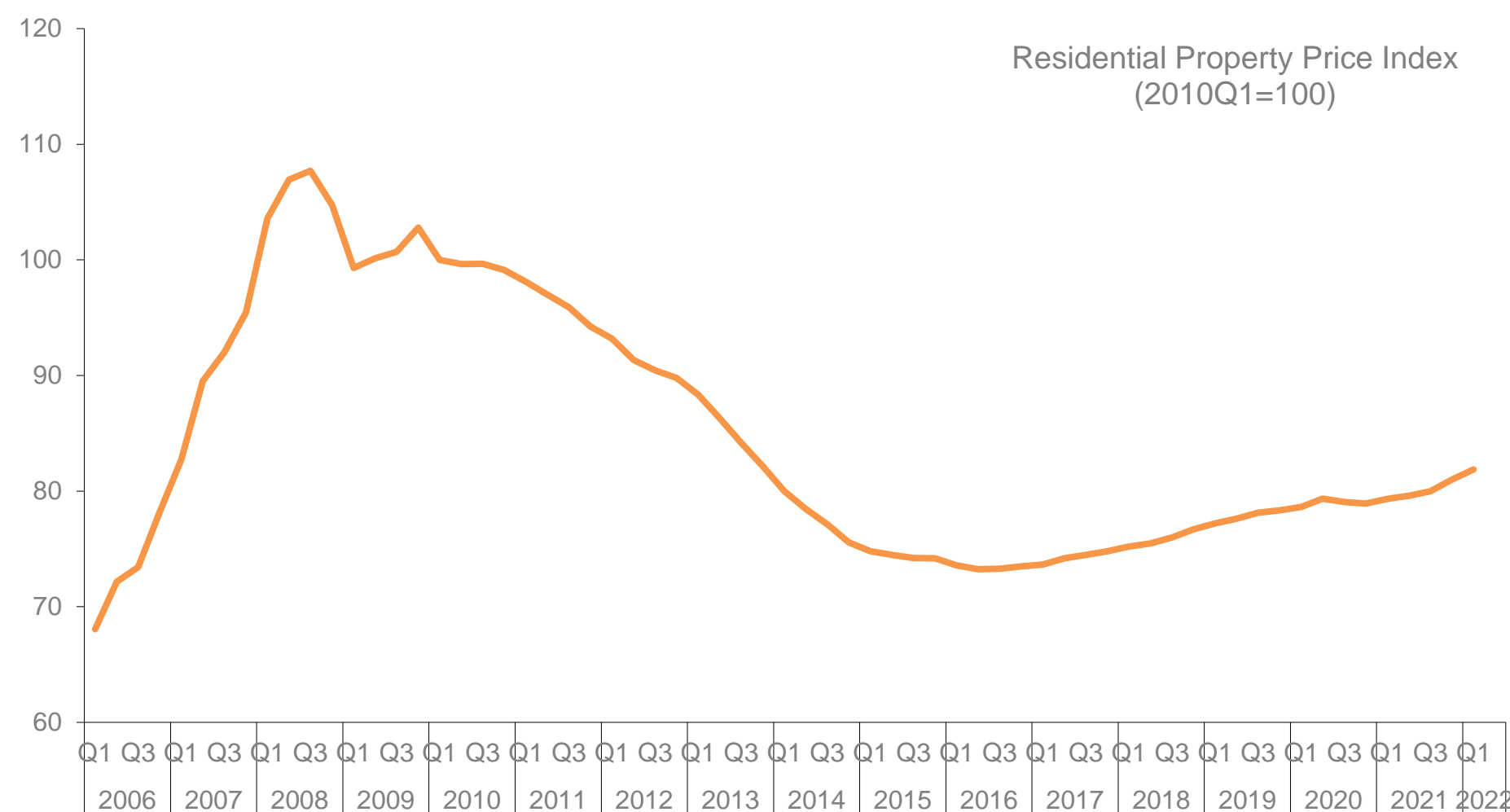
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HOUSE PRICE INDEX

- Signs of stabilization in property prices. Prices adjust to demand conditions but in a relatively moderate way.

- Continued increase in property prices the 4th quarter of 2021, which is mainly supported by the purchase of apartments.

- Total adjustment from peak (2008Q4) is -24%.

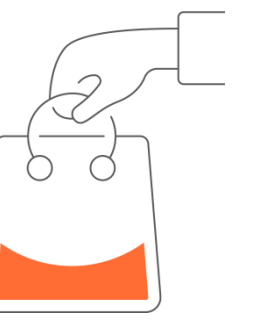


Overview	2021Q2	2021Q3	2021Q4	2022Q1
Quarterly index (2010 Q1=100)	79.5	80.0	81.0	81.9
Quarterly change	0.3%	0.6%	1.3%	1.1%
Annual change	0.2%	1.2%	2.6%	3.2%

Source: CBC



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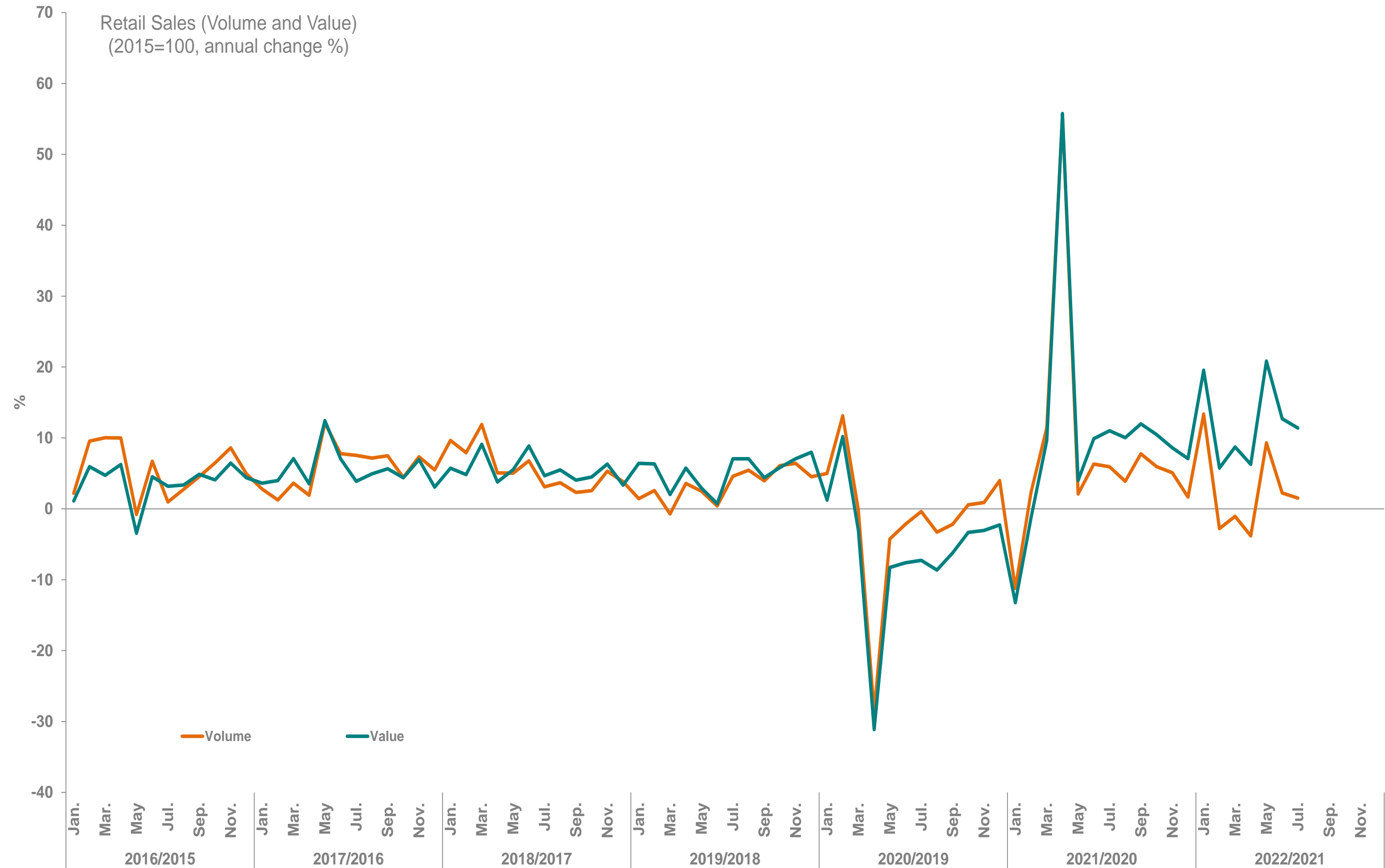
RETAIL

-Growth reached 2% and 3.5% in 2014 and 2015 respectively (2010=100).

-Improvement continued in 2016-2017 with increases 5.3% and 6% respectively.

-In 2018 it increased by 5.4% and in 2019 it increased further by 3.5%. Due to the crisis, in 2020 it recorded a decrease of 1.5%.

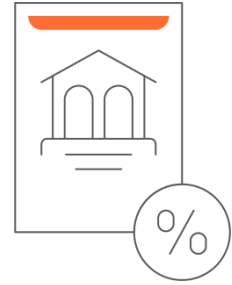
-In January-December 2021 it increased by 6.9% while in January-July 2022 it increased by 2.3%.



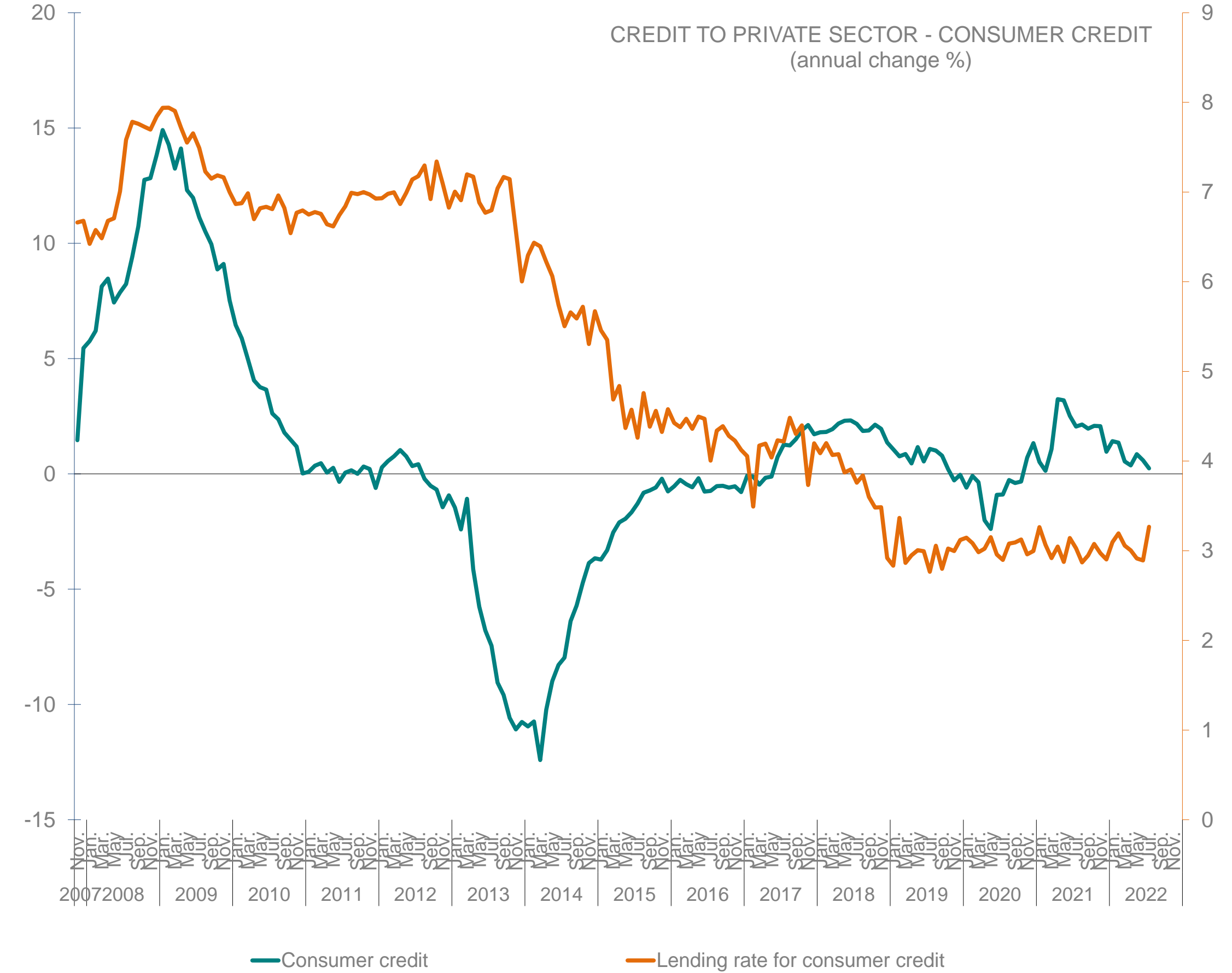
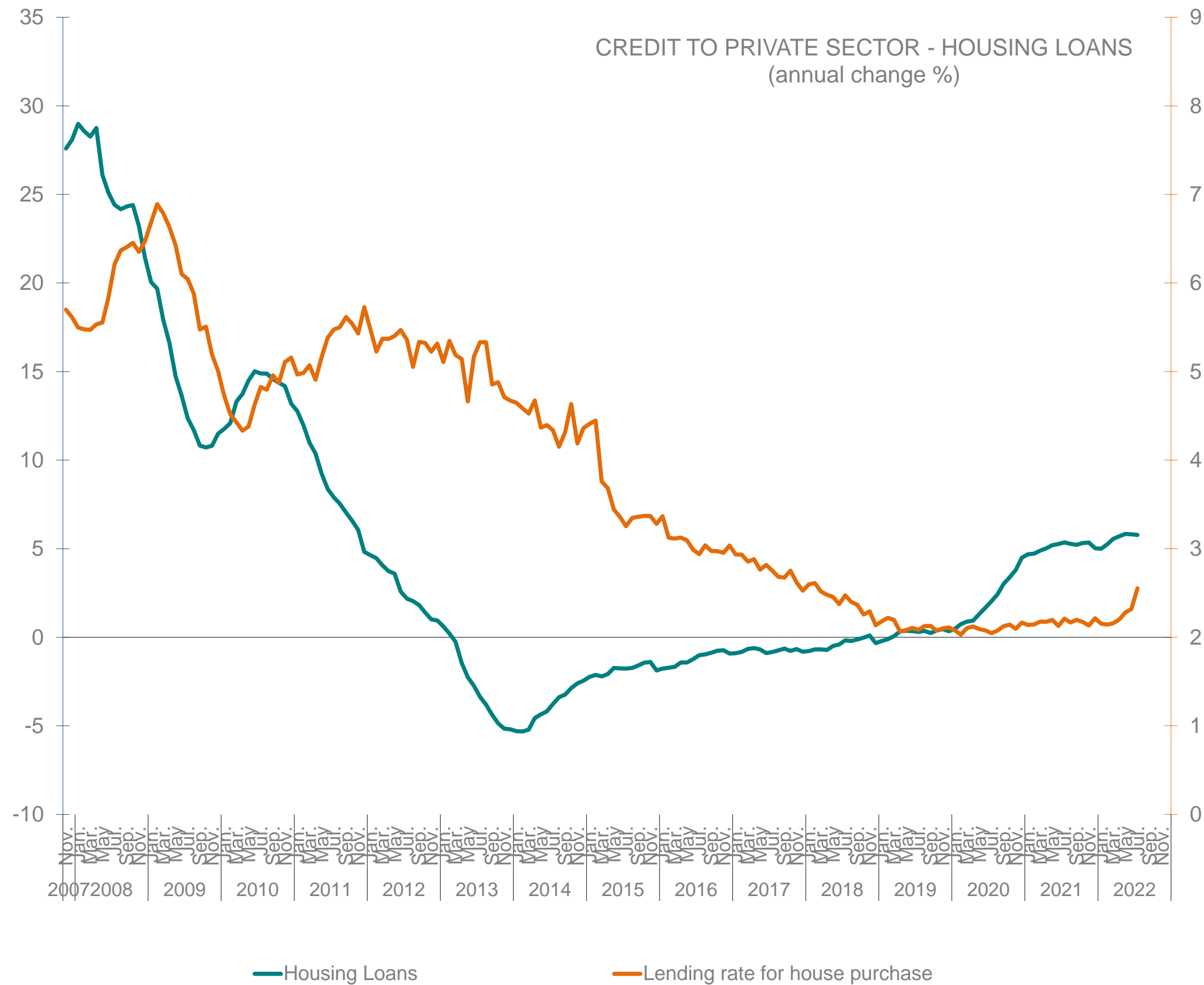
Source: Cystat



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Credit: Housing Loans & Consumer credit



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MFI¹⁾ Volumes of PURE NEW LOANS (euro-denominated)²⁾³⁾ to Euro area residents (€ mln)						
	Households⁴⁾			Non-financial corporations	Total	
	Consumer credit	Housing loans	Other lending			
2015						
Total	534.8	83.1	271.1	180.6	1152.4	1687.2
Average	44.6	6.9	22.6	15.1	96.0	140.6
2016						
Total	867.5	119.4	546.5	201.6	1491.3	2358.7
Average	72.3	10.0	45.5	16.8	124.3	196.6
2017						
Total	1087.4	170.7	721.0	195.7	2141.2	3228.7
Average	90.6	14.2	60.1	16.3	178.4	269.1
2018						
Total	1214.2	161.8	868.5	184.0	1928.7	3142.9
Average	101.2	13.5	72.4	15.3	160.7	261.9
2019						
Total	1219.5	161.2	876.4	181.9	1983.7	3203.2
Average	101.6	13.4	73.0	15.2	165.3	266.9
2020						
Total	1074.0	149.3	783.4	141.4	1330.0	2404.0
Average	89.5	12.4	65.3	11.8	110.8	200.3
2021						
Total	1394.5	149.2	1121.2	124.2	1544.3	2938.8
Average	116.2	12.4	93.4	10.3	128.7	244.9
Jan-July 2021						
Total	790.6	89.2	622.0	79.4	849.8	1640.4
Average	112.9	12.7	88.9	11.3	121.4	234.3
Jan-July 2022						
Total	909.0	91.2	771.0	46.7	1023.8	1932.8
Average	129.9	13.0	110.1	6.7	146.3	276.1

1) Monetary Financial Institutions (MFIs) sector excluding the Central Bank of Cyprus (CBC).

2) It includes loan transfers between CY MFIs.

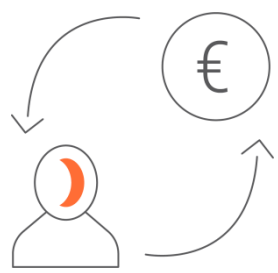
3) Excluding revolving loans and overdrafts, convenience and extended credit.

4) Including non-profit institutions serving households.

Source: CBC

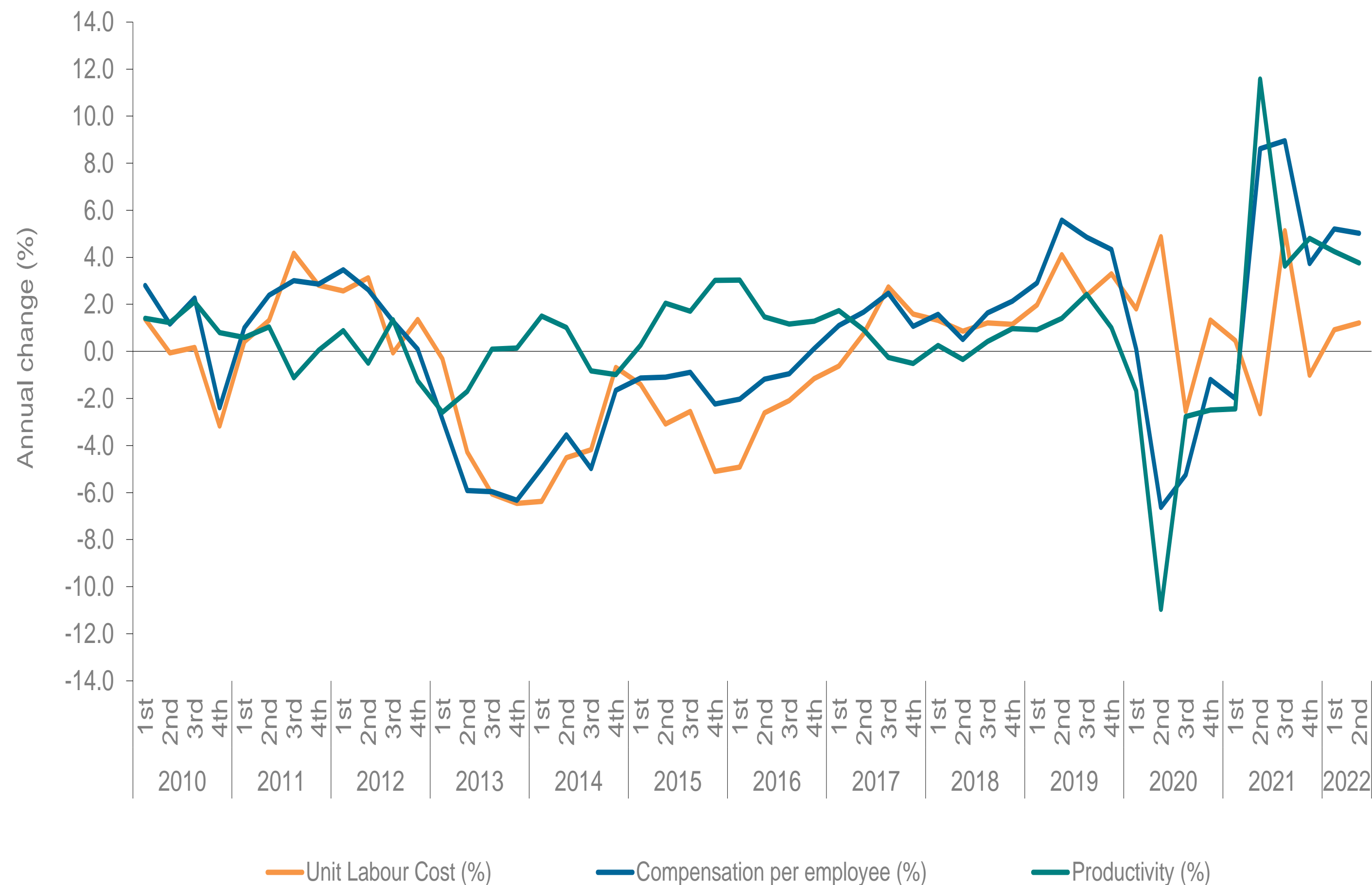


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WAGE DEVELOPMENTS

- Compensation per employee decreased by 3.2% in 2020 and in 2021 it increased by 4.7%.
- Sectoral variations exist replicating the state of relative growth in each sector of economic activity.
- Contribution of foreign workers continues to be significant in controlling wage costs.
- Labour productivity in persons in 2020 decreased by 4.5% and in 2021 it increased by 4.3%.
- For 2022H1, compensation per employee increased by 5.1%, productivity increased by 4.0% and thus ULC increased by 1.1%.



Source: Cystat

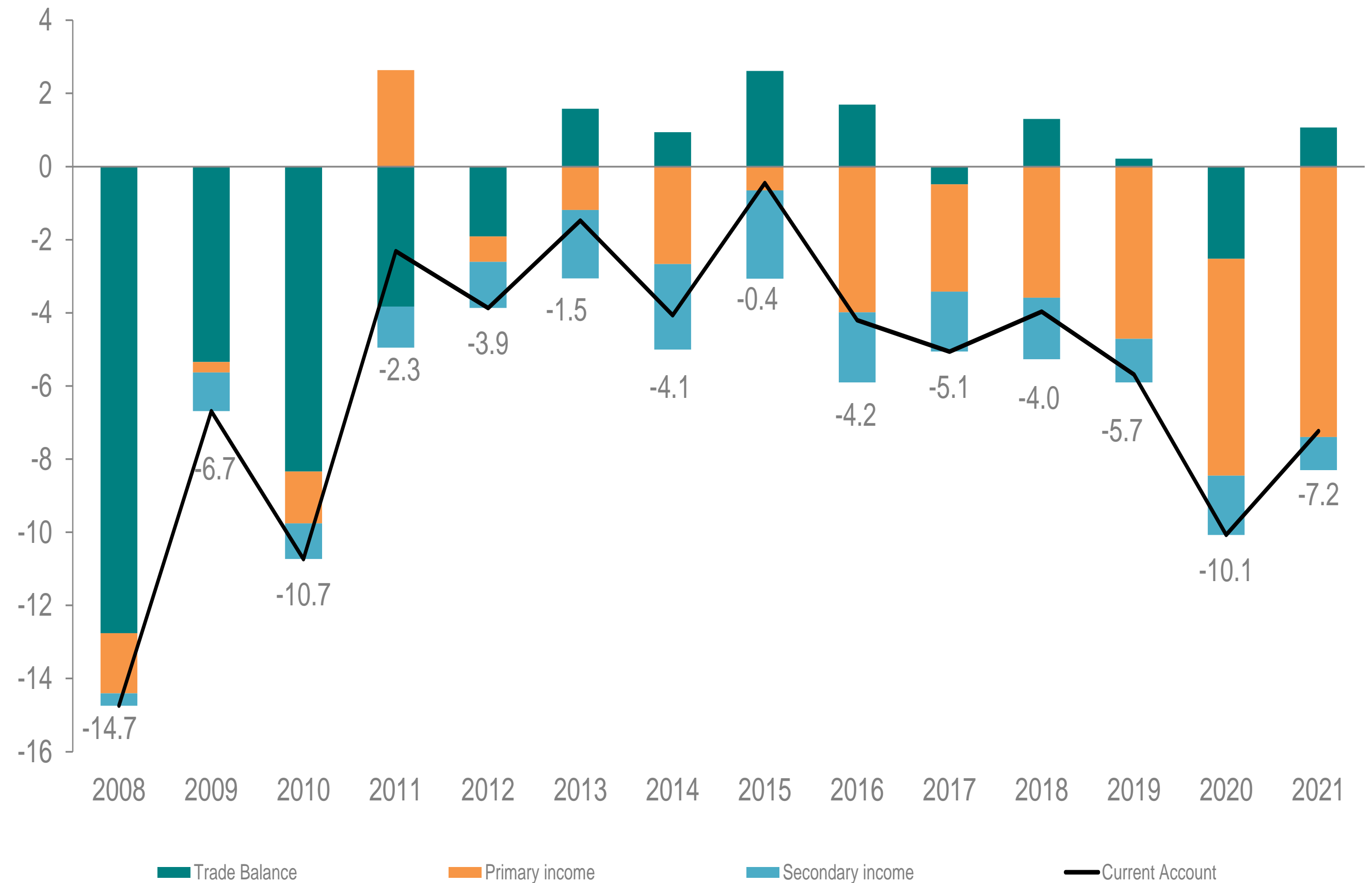


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CURRENT ACCOUNT

- The current account (CA) balance recorded a deterioration, with the deficit increasing from €865.9 million (-3.7% of GDP) in 2021Q1, to €1,061.8 million (-4.1% of GDP), in 2022Q1.
- The increase in the current account deficit resulted mainly from the increase in goods deficit, the increase in secondary income deficit and the decrease in services surplus. The aforementioned adverse developments were partly offset by the decrease in primary income deficit.
- The resulting deficit when adjusting the data for the impact of Special Purpose Entities (SPEs), that is, classifying SPEs as non-residents, stood at €1,018.8 million (-3.9% of GDP) in 2022Q1, compared with a deficit of €682.7 million (-2.9% of GDP) in 2021Q1.



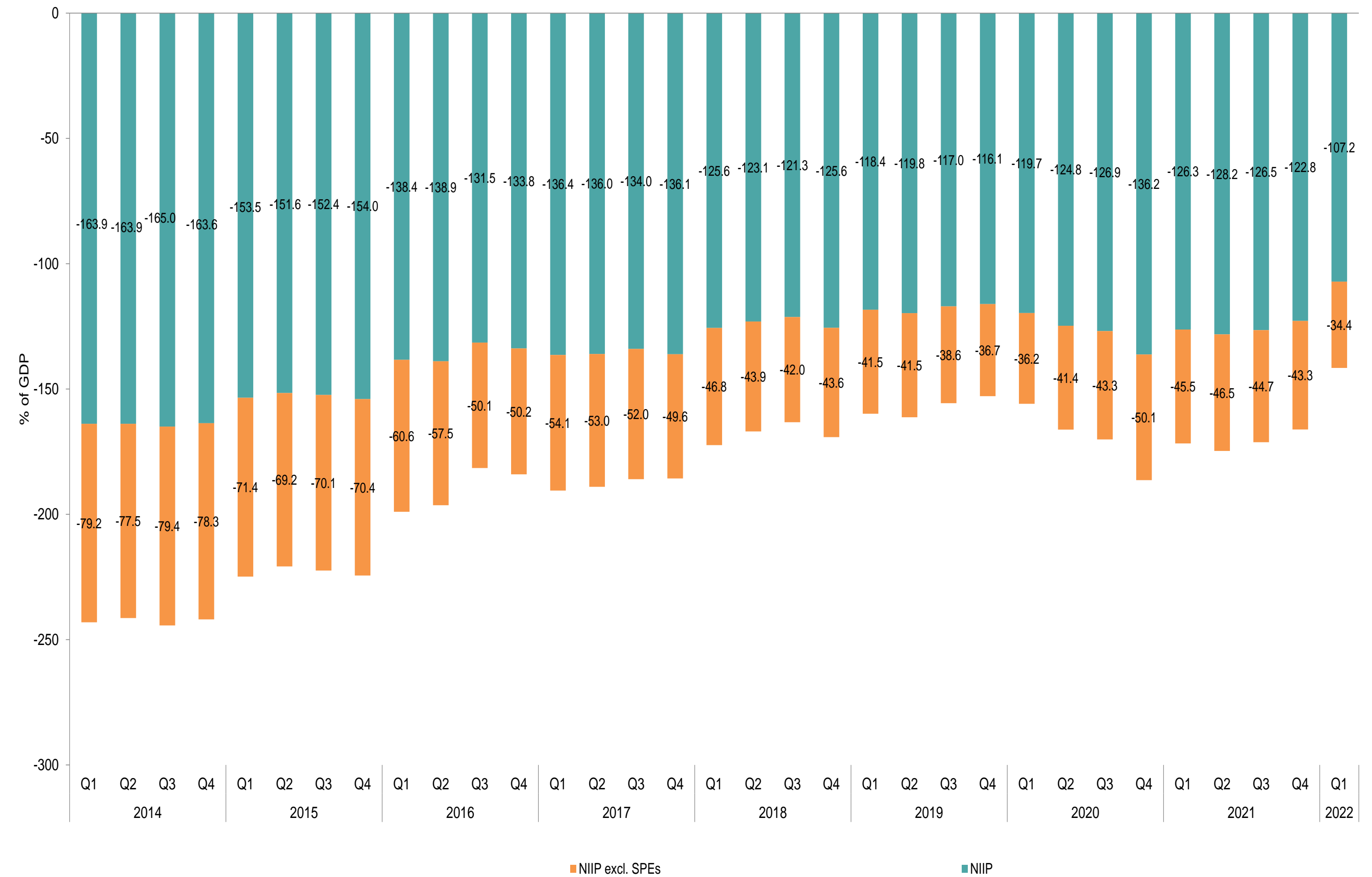
Source: CBC



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INTERNATIONAL INVESTMENT POSITION

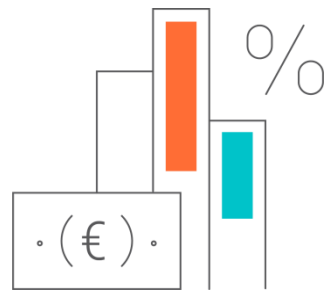
- The international investment position (IIP) recorded a small improvement at the end of 2022Q1, presenting a net liability position of €28,008.9 million (-107.2% of GDP), compared with a net liability position of €28,786.8 million (-122.8% of GDP) in 2021Q4.
- With the corresponding data being adjusted for the impact of SPEs, IIP recorded a net liability position of €8,999.2 million (-34.4% of GDP) at the end of 2022Q1, compared with a net liability position of €10,150.0 million (-43.3% of GDP), at the end of the previous quarter.



Source: CBC



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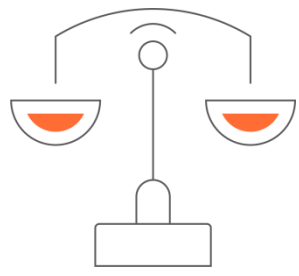
MEDIUM-TERM FRAMEWORK

	2019	2020	2021	2022 ^f	2023 ^f	2024 ^f	2025 ^f
Real GDP (%)	5.3	-5.0	5.5	5.7	3.0	3.3	3.2
Unemployment rate	7.1	7.6	7.5	7.0	6.4	5.7	5.0
Inflation rate (HICP)	0.5	-1.1	2.3	7.7	3.0	2.0	2.0

f = MoF (Budget 2023)



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RISKS TO THE OUTLOOK

- *Russia's war on Ukraine and sanctions*
- *Possible COVID-19 new wave / vaccination programme*
- *Banking sector (sector consolidation, NPL portfolio sales) +/-*
- *Adverse developments in the external environment*
- *Confidence effects +/-*
- *GHS public health expenses, if not spent efficiently then risk of derailment of public finances*



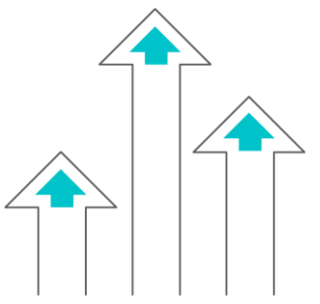
Russia's invasion on Ukraine and sanctions

Possible effects

- *Cyprus' real economy can be affected via the following channels:*
 - *Russian's market purchasing power – this mainly affects exports of services, and less imports of services, due to their size/significance (tourism/trade)*
 - *Imported inflation (energy and grain/wheat prices)*
- *Leads to an increase in basic interest rates – Cost of borrowing*
- *Additionally, the crisis along with the sanctions on natural and legal persons affect the:*
 - *Financial Sector*
 - *Business Services*
 - *Slowdown of growth*



The magnitude of the impact of the sanctions will largely depend on their duration, but also on the possibility of new, stricter sanctions

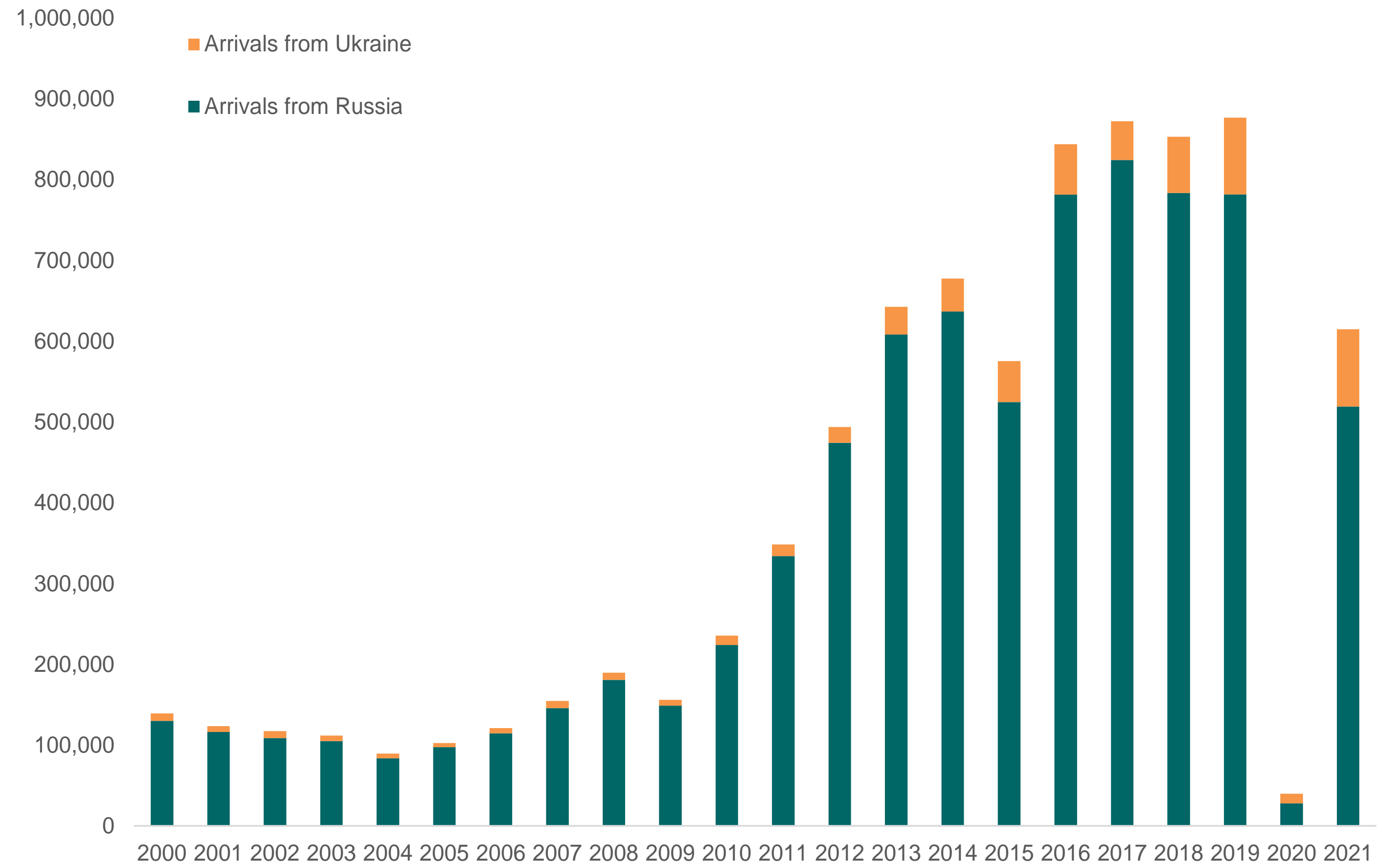




Tourism

-Russia has been the second largest tourist destination in Cyprus since 2007, after the United Kingdom, with a share of around 20% from 2013 onwards. The per capita expenditure from Russia is, quite high compared to other countries

-The prohibition on the use of EU airspace from Russia and vice versa, is expected to have a significant impact on tourism in Cyprus (for 2022 were expected at 800,000 arrivals)



Source: Cystat

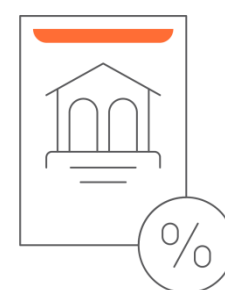


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Inflation – Energy and grain/wheat prices

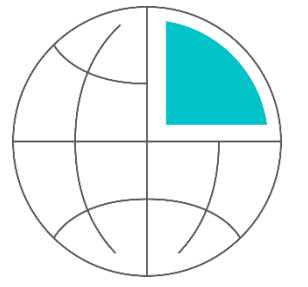
- *Significant increase in energy prices*
- *The possibility of new increases in case of new sanctions by the US- EU is not ruled out or countermeasures by Russia in the energy field*
- *Ukraine - Russia major countries for production and export of grain/wheat (about 25% of world production) – grain/wheat account for about 34% of total Cypriot imports from Ukraine - increase in the prices*
- *Rising cost of electricity generation - is expected to affect the economy as a whole*
- *Possible transfer of the increased costs to goods / services in a period of already high inflation - impact on consumer's disposable income / business profits*



Interest Rates – Borrowing Cost

- *Rising inflation accelerated ECB's monetary policy decisions by raising key interest rates*
- *Increased interests rates will affect*
 - (a) *increased borrowing costs*
 - (b) *increased costs in consumption / investment*
 - (c) *reduction in disposable income of existing borrowers*
 - (d) *new generation of non-performing loans*
 - (e) *growth/jobs*





Foreign Trade

Ukraine

Imports of goods

- cereals
- animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal or vegetable waxes
- residues and waste from the food industries; prepared animal fodder
- iron and steel
- aircraft, spacecraft, and parts thereof

Exports of goods

- miscellaneous edible preparations
- pharmaceutical products

Russia – Imports of Goods

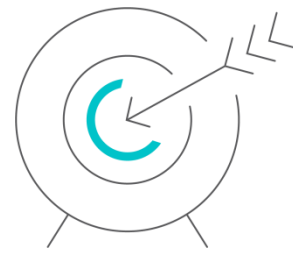
- cereals
- residues and waste from the food industries; prepared animal fodder
- mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes
- wood and articles of wood; wood charcoal
- copper and articles thereof
- electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles
- ships, boats and floating structures

Russia – Exports of Goods

- pharmaceutical products
- aircraft, spacecraft, and parts thereof
- ships, boats and floating structures



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POLICY CHALLENGES – STRUCTURAL REFORMS

- *NPLs*
- *Judicial reform*
- *Public Administration reform – organizational streamlining*
- *Local Authorities reform*



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APPENDIX

<i>annual % change</i>	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022Q1	2022Q2
GDP growth (constant prices)*	2.0	0.4	-3.4	-6.6	-1.8	3.4	6.5	5.9	5.7	5.3	-5.0	5.5	6.2	5.8
<i>Government consumption</i>	0.7	1.6	-2.4	-4.8	-7.5	1.4	0.2	1.8	3.6	12.7	15.0	8.0	1.7	1.0
<i>Private consumption</i>	4.6	-0.9	-2.8	-7.0	-0.1	3.1	5.1	4.8	5.1	3.0	-5.0	3.7	7.9	7.5
<i>Gross fixed capital formation</i>	-1.4	-11.7	-19.7	-15.6	-7.4	-1.8	49.5	21.2	-4.9	2.9	0.0	-6.3	-11.2	31.8
<i>Exports</i>	6.1	7.0	-0.5	1.2	6.2	8.9	7.1	11.2	7.3	7.5	-5.1	14.0	14.6	19.2
<i>Imports</i>	10.8	-2.6	-3.6	-4.6	7.7	8.1	10.2	14.3	4.3	8.3	-2.5	9.2	9.7	23.2
<i>GDP deflator</i>	1.9	1.6	1.7	-0.9	-1.3	-0.8	-0.6	1.0	1.0	1.1	-1.1	2.7	4.4	6.6
Tourist arrivals (000's)	2,173.0	2,392.2	2,464.9	2,405.4	2,441.2	2,659.4	3,186.5	3,652.1	3,938.6	3,976.8	631.6	1,936.9	244.7	976.7
Tourist arrivals (%)	1.5	10.1	3.0	-2.4	1.5	8.9	19.8	14.6	7.8	1.0	-84.1	206.7	1278.9	202.2
HICP (%)	2.6	3.5	3.1	0.4	-0.3	-1.5	-1.2	0.7	0.8	0.5	-1.1	2.3	5.7	8.8
Productivity growth	1.4	0.1	0.1	-1.0	0.2	1.8	1.7	0.4	0.3	1.4	-4.5	4.3	4.2	3.8
Employment growth (persons, %)	0.6	0.3	-3.5	-5.6	-2.0	1.6	4.7	5.4	5.3	3.8	-0.5	1.2	1.9	1.9
Compensation per employee (%)	0.8	2.3	1.7	-5.3	-3.7	-1.4	-0.9	1.5	1.5	4.4	-3.2	4.7	5.2	5.0
Unemployment rate (Labour Force Survey)	6.3	7.9	11.8	15.9	16.1	14.9	12.9	11.1	8.4	7.1	7.6	7.5	6.6	6.8
Resource Balance (% of GDP)	-8.3	-3.8	-1.9	1.6	0.9	2.6	1.7	-0.5	1.3	0.2	-2.5	1.1	-2.5	...
Current Account Balance (% of GDP)	-10.7	-2.3	-3.9	-1.5	-4.1	-0.4	-4.2	-5.1	-4.0	-5.7	-10.1	-7.2	-4.1	...
Credit to private sector (end of period, %)	7.4	6.7	1.6	-6.2	0.2	-1.5	-8.2	-0.4	0.4	0.3	3.3	1.7	3.2	3.3

*GDP data for 2022Q1/Q2 are NSA



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Thank you

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