



MINISTRY OF FINANCE

MACROECONOMIC  
MONITOR  
OF CYPRUS

AUG  
2023



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# MACROECONOMIC MONITOR OF CYPRUS

Updated on 18 August 2023

## Macro Economy

- In the 2nd quarter of 2023, GDP (in seasonally adjusted terms) recorded a positive rate of growth of 2.3%, compared with 3.2% in the 1st quarter of 2023 on an annual basis (see graphs 1.1-1.2). The positive growth rate is mainly attributed to the sectors: "Hotels and Restaurants", "Transport and Storage", "Information and Communication", "Wholesale and Retail Trade, Repair of Motor Vehicles", "Arts, Entertainment and Recreation", "Other Service Activities" (see graphs 2.1-2.4, 3.1-3.4 and 6.1-6.2).

- In July 2023, economic sentiment in Cyprus deteriorated, as the **Economic Sentiment Indicator (ESI- CypERC)** decreased by 2.7 points compared with June 2023 (see graph 1.3). The decrease in the ESI-CypERC was driven by weaker business confidence in services and, to a lesser degree, by lower consumer confidence.

- For the period of January-July 2023, **arrivals of tourists** totaled 2.137.408 compared to 1.676.039 in the corresponding period of 2022, recording an increase of 27.5% (see graph 6.3). Arrivals from the United Kingdom were the main source of tourism for July 2023, with a share of 33.6% of total arrivals, followed by Israel with 12.4%, Poland with 5.5%, Sweden with 4.4%, Germany with 3.6% and Greece with 3.1%.

- **Employment** developments reflect conditions of improved economic activity. Total employment increased by 2.1% in the 1st quarter of 2023 compared to the same quarter in 2022. The most significant percentage increases were observed in the economic activities of Accommodation and food service activities, Wholesale and Retail Trade, Information and communication, Manufacturing, Human health and social work activities and Professional, scientific and technical activities.

- **Labour Force Survey (LFS) unemployment**, in monthly seasonally adjusted terms, **decreased to 4.8% in June 2023 compared to 7.3% in June 2022** (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 10.8% in the 2nd quarter of 2023 from a peak of 40.7% in the 2nd quarter of 2013.

- **Compensation per employee recorded an increase of 4.8%** in the 1st quarter of 2023 compared with the same quarter in 2022 (see graphs 5.3-5.5).

- **Inflation (HICP)** in July 2023 recorded an increase of 2.4% compared to an increase of 2.8% in June 2023 (see graph 5.1) and for January-July 2023 it stands at 4.6%. Compared

to January-July 2022, the largest changes were noted in Food and Non-Alcoholic Beverages (9.1%), Housing, Water, Electricity, Gas and Other Fuels (7.8%) and Restaurants and Hotels (6.7%). Core HICP recorded an increase of 5.3% in January-July 2023 (see graph 5.2).

- **Imports of goods recorded an increase of 12.0%** in January-June 2023 compared to January-June 2022. Imports are affected by developments in imports of transport equipment (aircrafts and vessels). Imports of goods, excluding imports of aircrafts and vessels, exhibit an increase of 7.1%.

- **Exports of goods recorded an increase of 5.9%** in January-June 2023 compared to January-June 2022. Exports of goods, excluding exports of aircrafts and vessels, exhibit a decrease of 5.3%.

## External Sector

- The **current account (CA)** balance of Cyprus (see graph 6.4) recorded a deterioration, with the deficit increasing from €699.6 mn (2.6% of GDP) in 2022Q1, to €1,876.1 mn (6.5% of GDP), in 2023Q1. The increase resulted mainly from the deterioration of the deficit in Goods, which was due to the still high and persistent level of prices in 2023Q1 relative to 2022Q1, the increased demand for consumer goods as well as the registration of vessels. In addition, the deterioration of the surplus of Services, and to a lesser extent, the increase in the deficit of Primary Income, contributed to the widening of the deficit. The aforementioned developments were partly offset by the reduced deficit of Secondary Income. The resulting deficit adjusted for the impact of Special Purpose Entities (SPEs), that is, classifying SPEs as non-residents, stood at €1,242.3 mn (4.3% of GDP) in 2023Q1, compared with a deficit of €708.5 mn (2.6% of GDP) in 2022Q1.

- The **international investment position (IIP)** (see graph 6.5) recorded a deterioration in 2023Q1, presenting a net liability position of €29,019.6 mn, compared with a net liability position of €28,439.5 mn in 2022Q4. With the corresponding data being adjusted for the impact of SPEs, IIP recorded a net liability position of €10,901.1 mn in 2023Q1, compared with a net liability position of €11,037.3 mn, in 2022Q4.

- The **gross external debt** increased marginally to €167,702.7 mn in 2023Q1 from €167,649.7 mn in 2022Q4. The external assets in debt instruments decreased to

€150,312.6 mn, down from €152,293.4 mn in 2022Q4. Consequently, the net external debt increased by €2,033.7 mn to €17,390.0 mn in 2023Q1. Adjusted for the impact of SPEs, gross external debt reached €61,225.7 mn in 2023Q1, compared to €61,856.7 mn, in 2022Q4. The corresponding net external debt indicator increased slightly to -€10,203.2 mn in 2023Q1, compared with -€10,311.2 mn in 2022Q4.

## Public Finances

- **General government budget balance (GGBB)** recorded a surplus in January-June 2023, of the order of €155.5 mn (0.5% of GDP) compared to a deficit of €92.4 mn (0.3% of GDP) during the corresponding period the year before (see graph 9.1).
- **General government primary balance (GGPB)** recorded a surplus in January-June 2023, of the order of €385.3 mn (1.3% of GDP) compared to a surplus of €111.8 mn (0.4% of GDP) during the corresponding period the year before (see graphs 9.1-9.2).
- **Total expenditure** exhibited an increase of about 8.9%, reaching €5,313.1 mn in January-June 2023, compared to €4,880.6 mn during the corresponding period the year before (see graph 9.3).
- **Total revenue** exhibited an increase of about 14.2%, reaching €5,468.6 mn in January-June 2023, compared to €4,788.2 mn during the corresponding period the year before (see graph 9.3).

## Property Market

- Eurostat's **house price index** for Cyprus recorded an **increase of 2.0%** in the 1st quarter of 2023 compared to the 4th quarter of 2022 and an increase of 5.9% compared to the 1st quarter of 2022.
- The CBC's **residential property price index** recorded an **increase of 2.1%** in the 1st quarter of 2023 compared to the 4th quarter of 2022 and an increase of 7.7% compared to the 1st quarter of 2022. Cumulative from the 1st quarter of 2008 it has exhibited a decline of 14.9% (see graph 7.1), revealing an adjustment to the conditions of relatively lower demand.
- According to the Department of Lands and Surveys, **new sale contracts** were up by 21.0% while **transfers of property** were down by 4.4% in January-July 2023 compared with January-July 2022 (see graph 7.3).

- Monetary Financial Institutions (MFI) **mortgage loans to domestic residents** for housing **increased by 2.9%** in June 2023 (see graph 7.2).

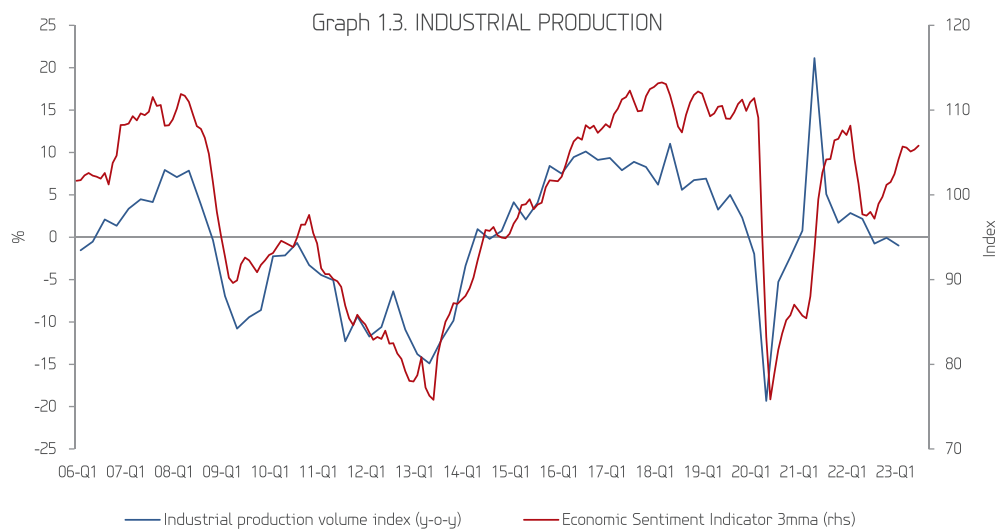
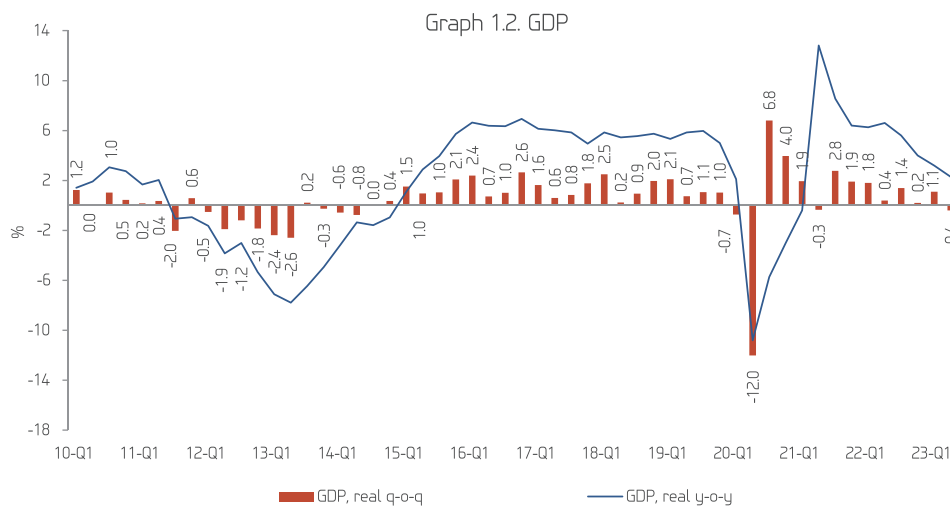
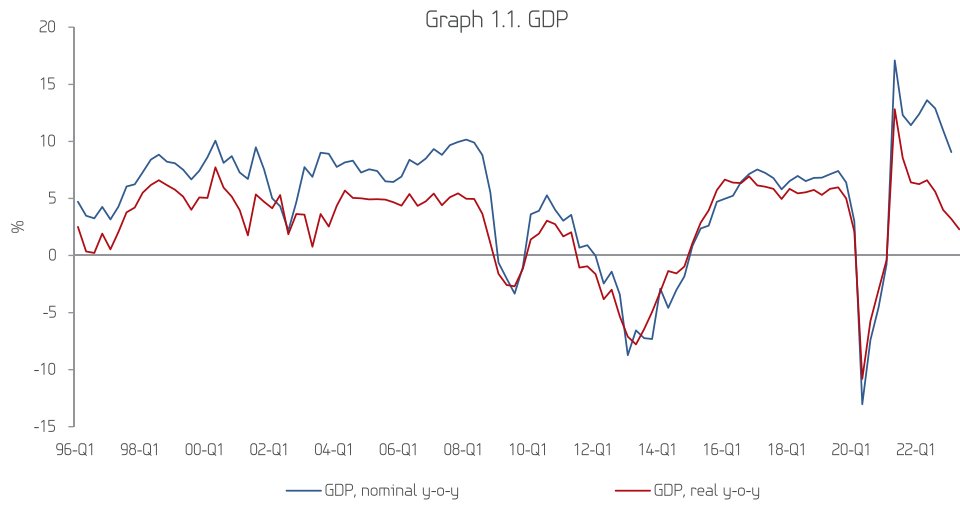
## Banking Sector Developments

- **MFI loans to domestic residents** (private sector) **decreased by 0.9%** in June 2023 (see graphs 8.2-8.4). Lending conditions remain tight (see graphs 8.6-8.7).
- **Deposits of domestic residents** held with MFIs (private sector) exhibited an **increase of 4.6%** in June 2023 (see graph 8.1).
- Overall **lending and deposit interest rates** in Cyprus are increasing following the ECB's decision to raise the three key ECB interest rates by 425 basis points (see graph 8.5). In June 2023, **deposit interest rates** for maturity of up to 1 year increased and of up to 3 months decreased 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 increased.
- **NPEs** in April 2023 decreased to €2.19 bn (9% on gross loans) compared to €2.30 bn (9.5% on gross loans) in December 2022. The gross loans decreased in the period from 1 January 2022 until 31 December 2022.
- The decrease for the year 2022 was due to debt to assets (swaps) and reclassified NPEs as performing facilities.
- **Accumulated provisions** increased to 49.4% in April 2023 compared to 47.5% in December 2022 compared to 43.4% of NPEs in December 2021 thus facilitating restructuring activity with a view to cure NPEs of viable customers.

## Credit Ratings

- On 16/06/2023, Fitch Ratings affirmed Cyprus's Long-Term Foreign-Currency Issuer Default Rating (IDR) to 'BBB'. The outlook is stable.
- On 31/03/2023, DBRS Ratings confirmed the Republic of Cyprus's Long-Term Foreign and Local Currency - Issuer Ratings at BBB and the trend to stable.
- On 02/09/2022, Standard & Poor's Ratings raised its long- and short-term foreign and local currency sovereign credit ratings on Cyprus to 'BBB/A-2' from 'BBB-/A-3'. The outlook is stable.
- On 19/08/2022, Moody's Investors Service affirmed Cyprus' Ba1 ratings and changed the outlook to positive from stable.

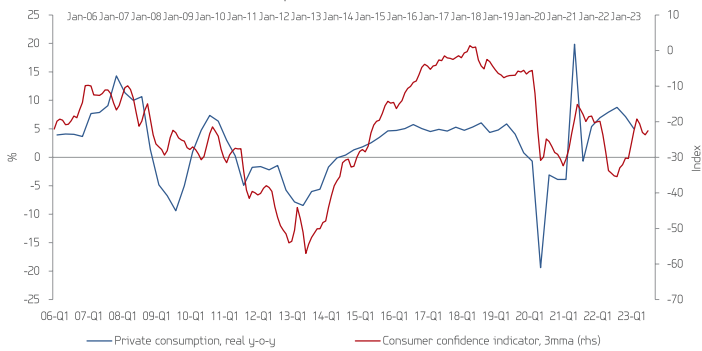
# 1. OUTPUT



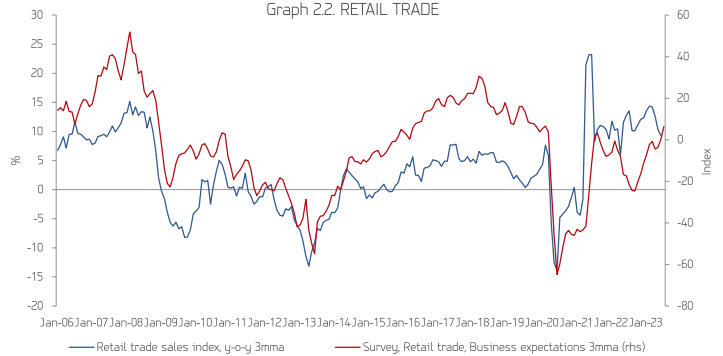
Sources: Eurostat, DG ECFIN, Cystat

## 2. CONSUMPTION

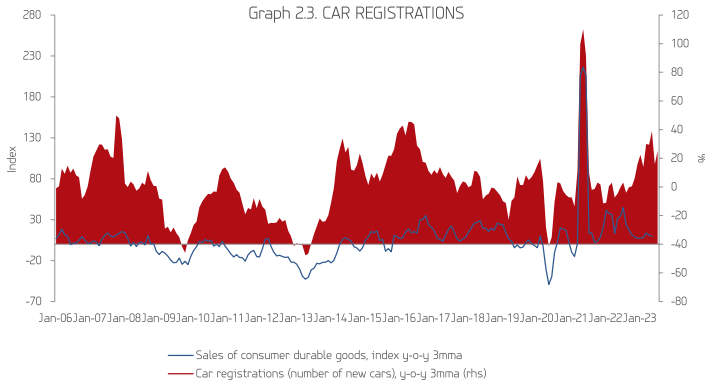
Graph 2.1. CONSUMPTION



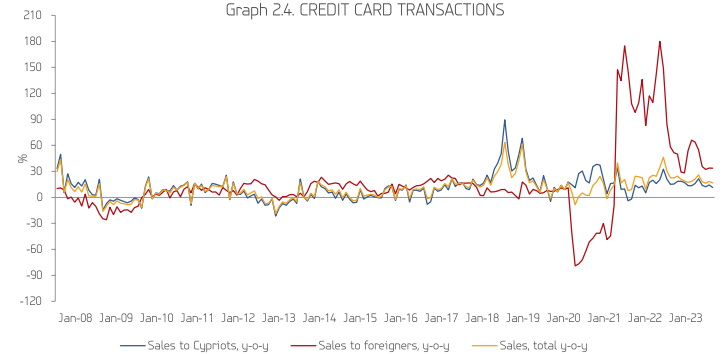
Graph 2.2. RETAIL TRADE



Graph 2.3. CAR REGISTRATIONS



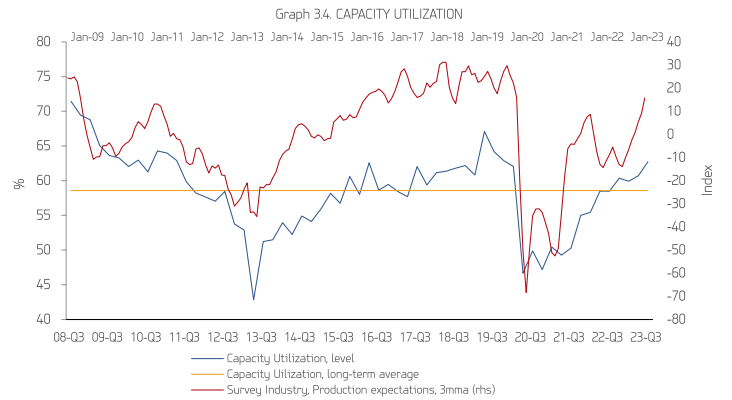
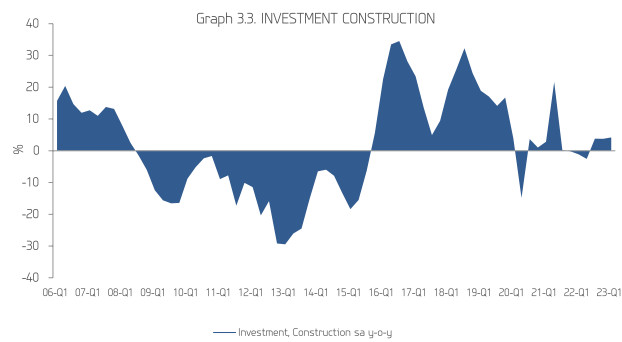
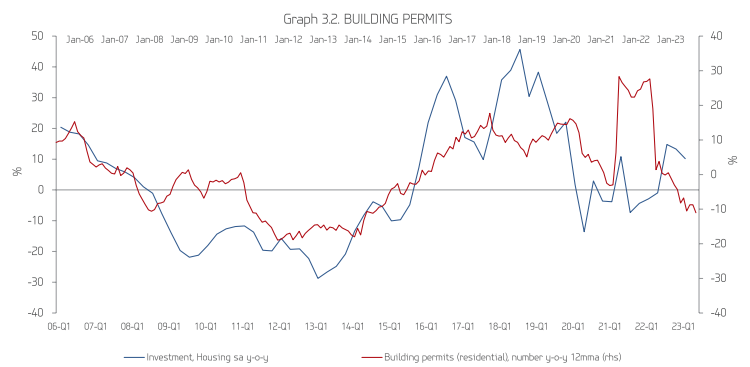
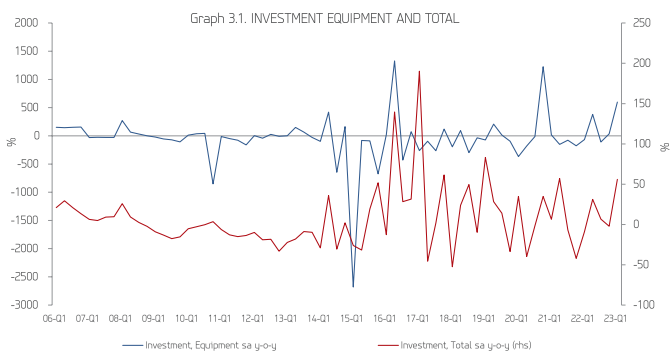
Graph 2.4. CREDIT CARD TRANSACTIONS



Note: Data for credit card transactions from 2018 onwards were revised based on reclassification of some foreign cards to local cards, thus data are not comparable with the data of the previous years.

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

# 3. INVESTMENT

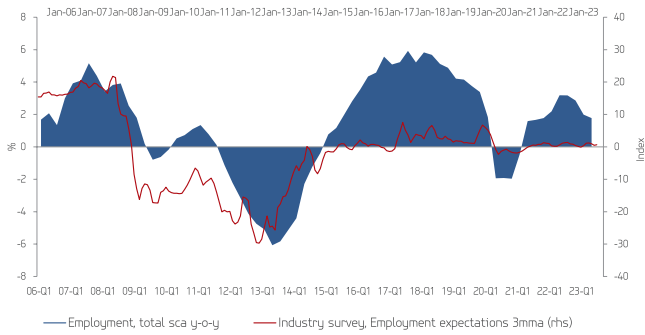


Sources: Cystat, DG ECFIN, CypERC

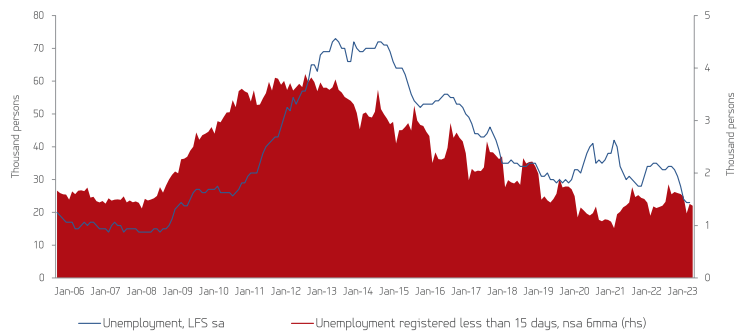


## 4. LABOUR MARKET

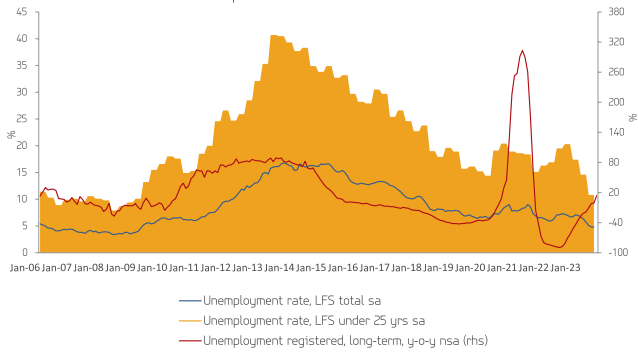
Graph 4.1. EMPLOYMENT



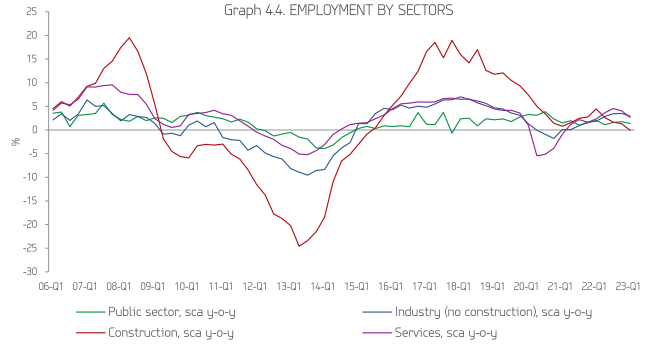
Graph 4.2. UNEMPLOYMENT



Graph 4.3. UNEMPLOYMENT RATE

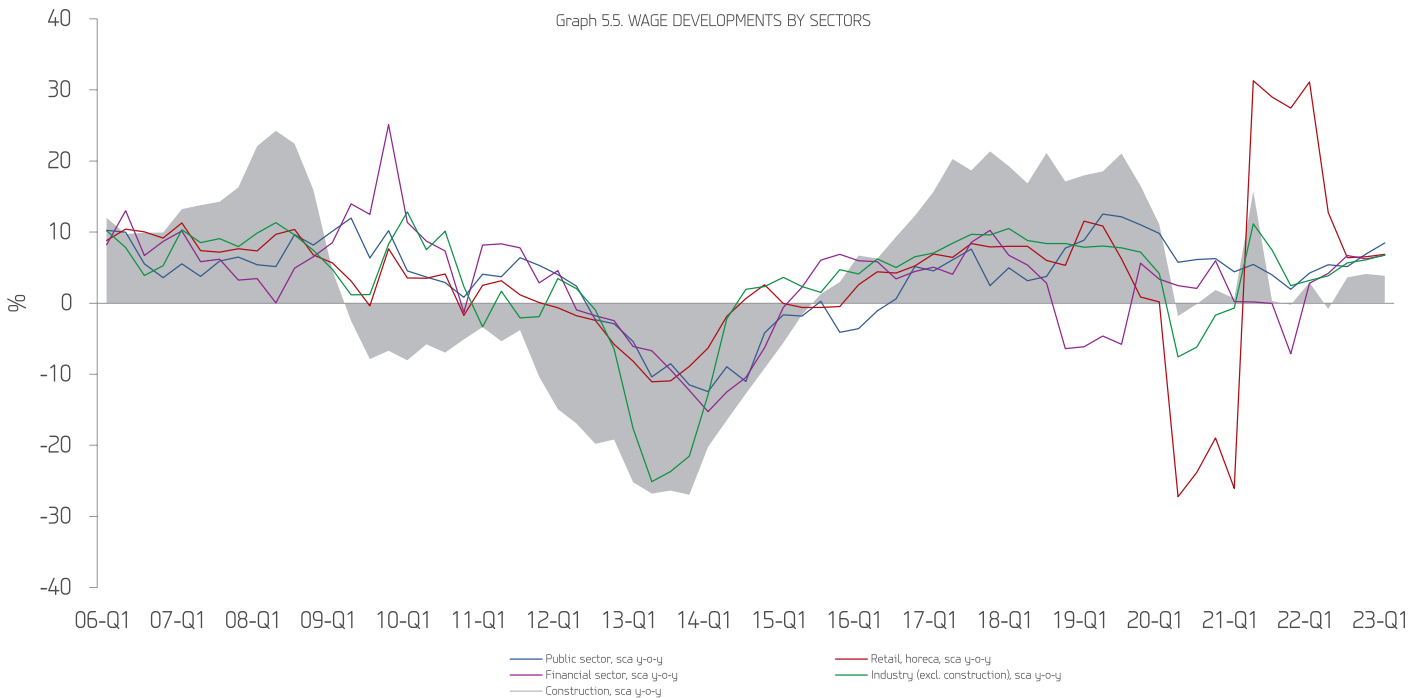
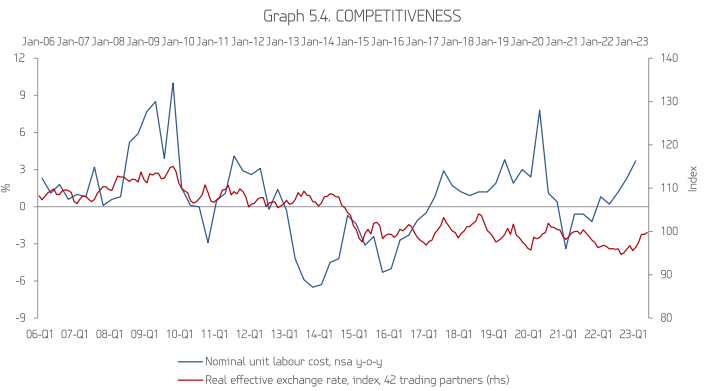
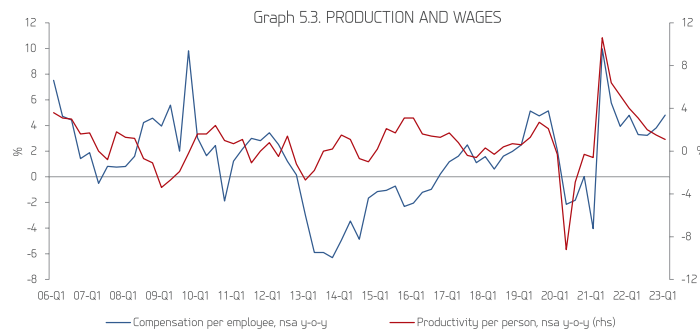
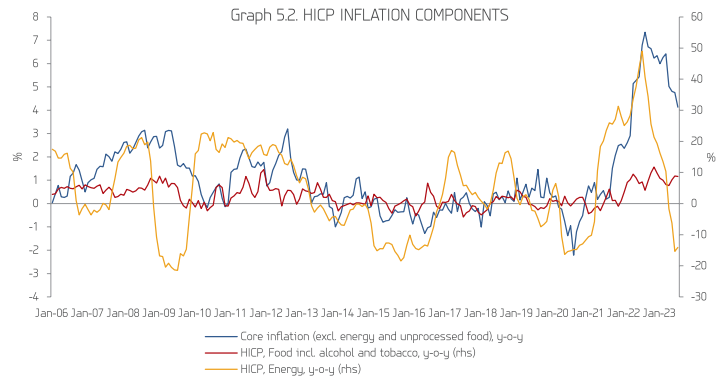
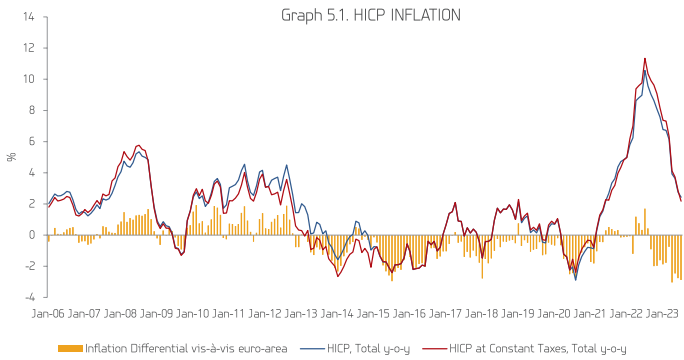


Graph 4.4. EMPLOYMENT BY SECTORS



Sources: Eurostat, DG ECFIN, Cystat

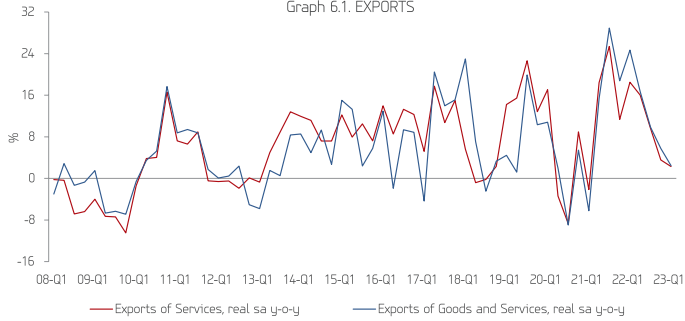
## 5. INFLATION / WAGES



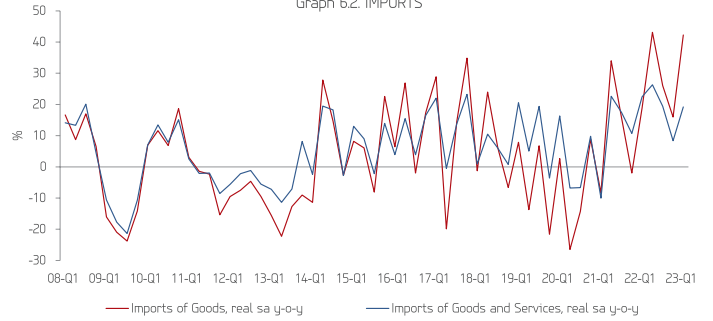
Source: Eurostat

## 6. EXTERNAL SECTOR

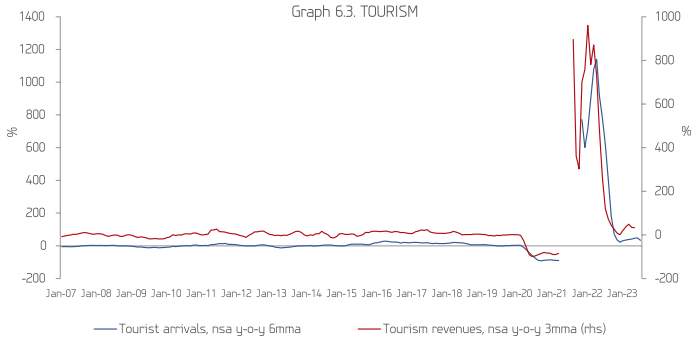
Graph 6.1. EXPORTS



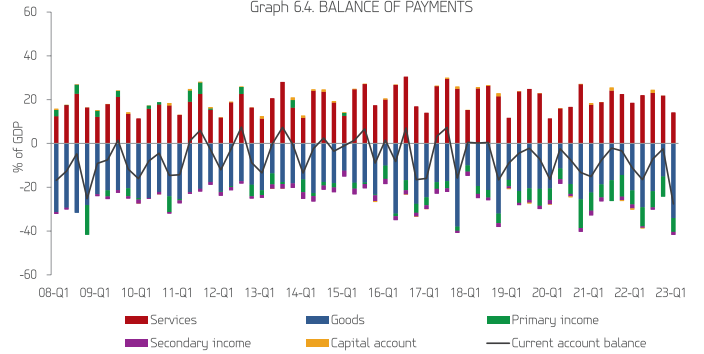
Graph 6.2. IMPORTS



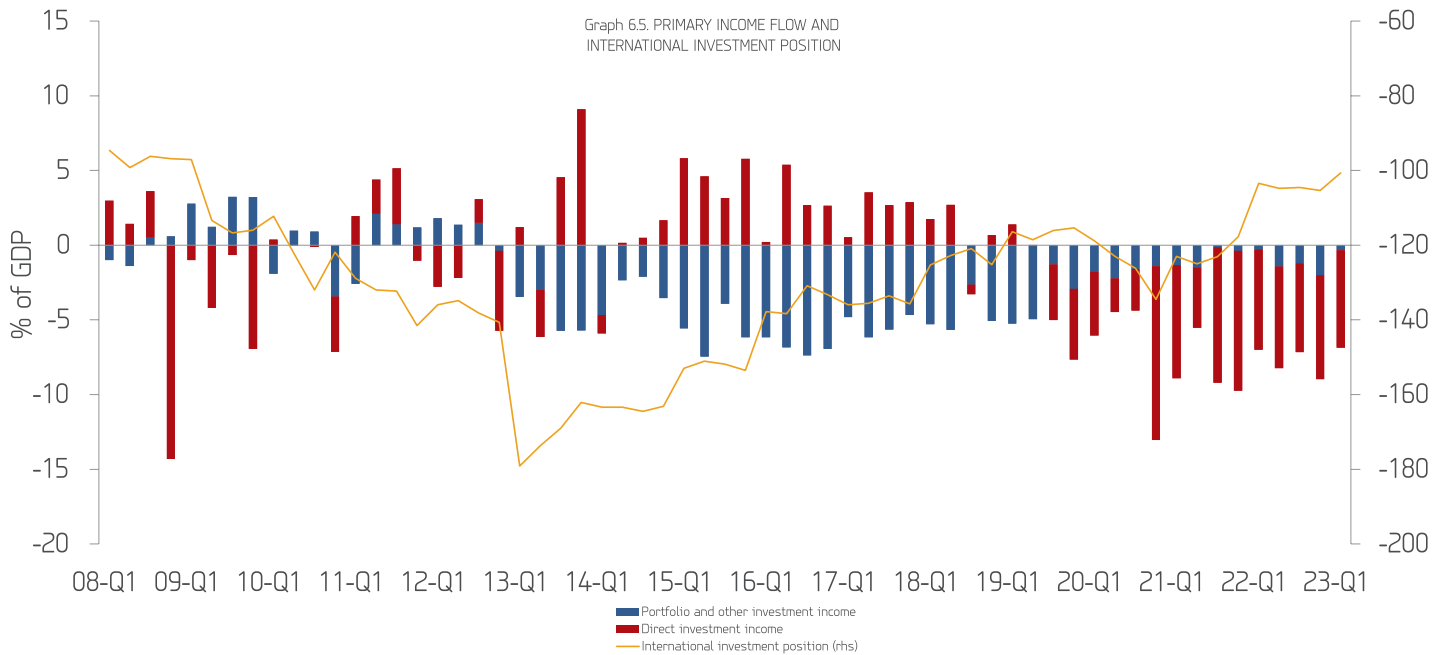
Graph 6.3. TOURISM



Graph 6.4. BALANCE OF PAYMENTS



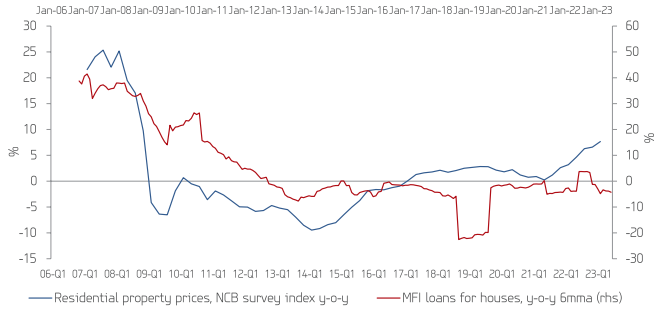
Graph 6.5. PRIMARY INCOME FLOW AND INTERNATIONAL INVESTMENT POSITION



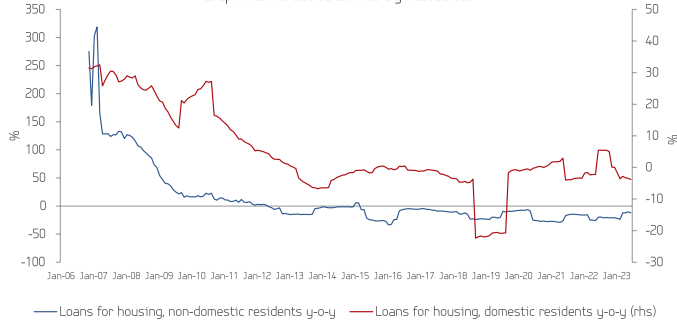
Sources: Cystat, CBC

## 7. HOUSING

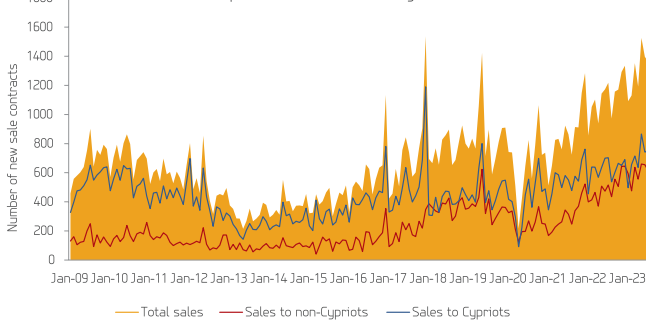
Graph 7.1. HOUSE PRICES AND HOUSING LOANS



Graph 7.2. HOUSING LOANS by residence



Graph 7.3. PROPERTY SALES by residence

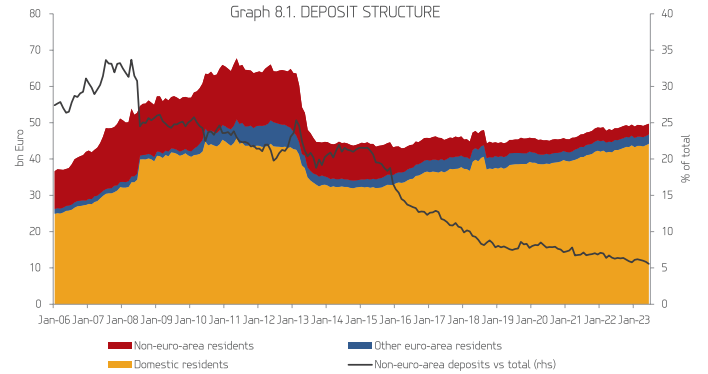


Note: According to the relevant modifications to the codification of the term “Alien” in the Land Information System, the way the statistics are presented has been modified. Therefore, the suggestion of the Department of Lands and Surveys is to avoid the comparison of the specific data from 2018 onwards, with the data of the previous years.

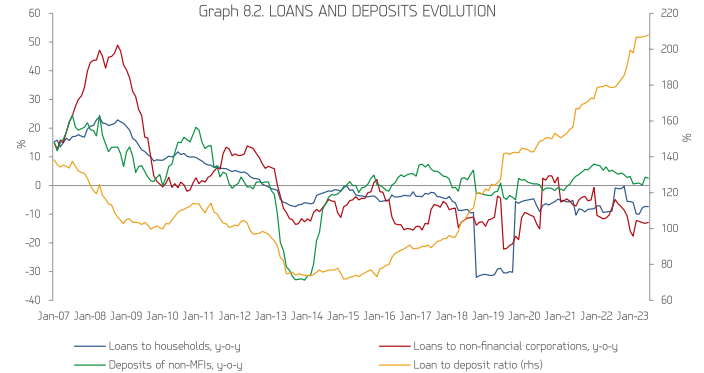
Sources: CBC, Dep. of Lands and Surveys

## 8. FINANCIAL SECTOR

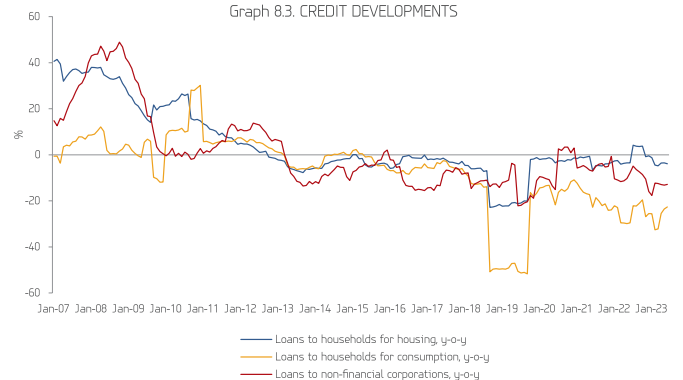
Graph 8.1. DEPOSIT STRUCTURE



Graph 8.2. LOANS AND DEPOSITS EVOLUTION

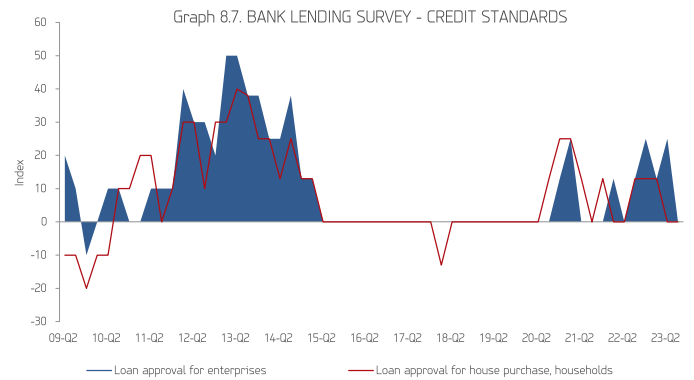
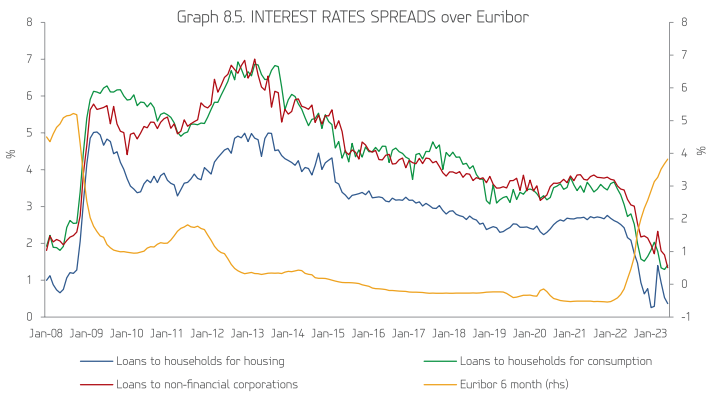
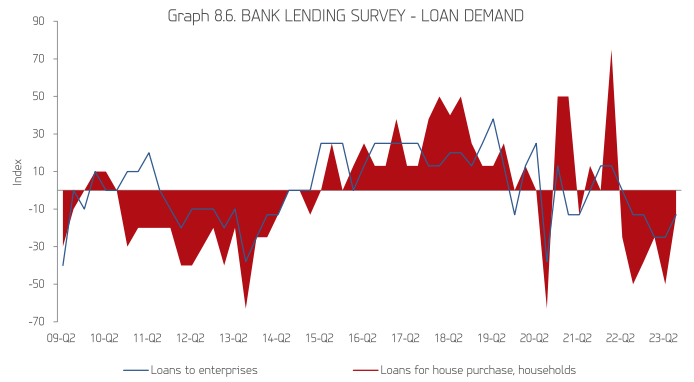
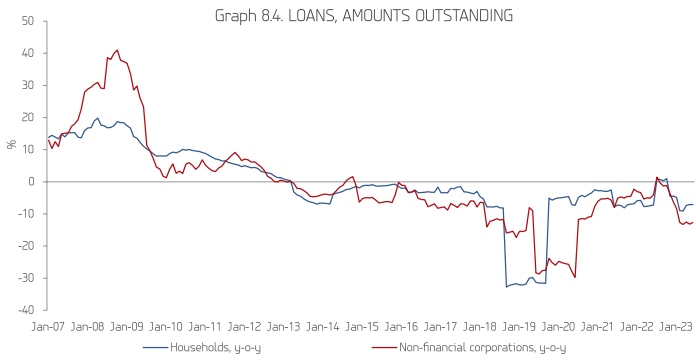


Graph 8.3. CREDIT DEVELOPMENTS



Source: CBC, EMMI

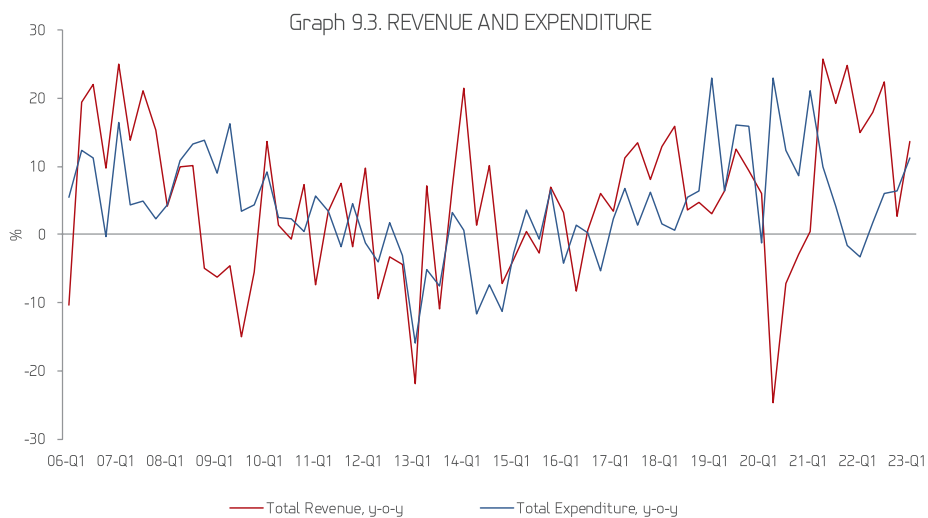
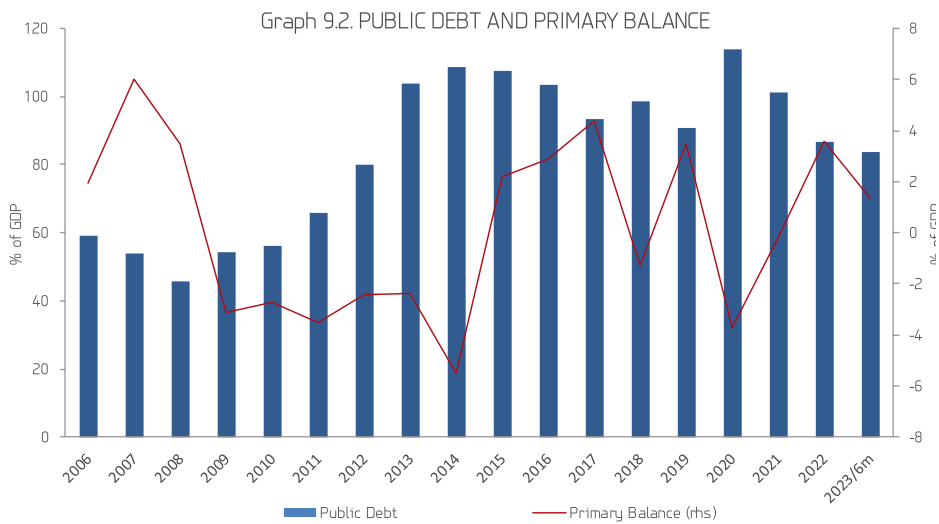
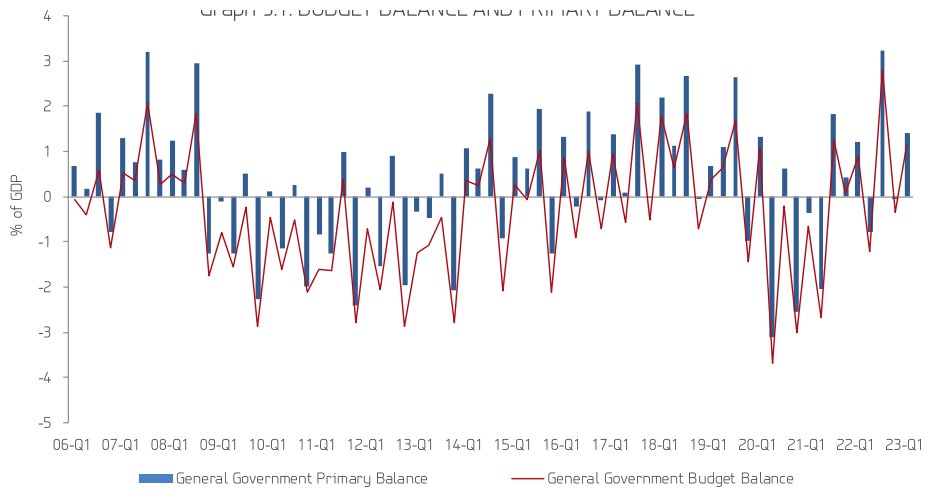
## 8. FINANCIAL SECTOR



Sources: CBC, EMMI

Source: ECB

## 9. PUBLIC SECTOR



Sources: Ministry of Finance, Cystat