



MINISTRY OF FINANCE

MACROECONOMIC
MONITOR
OF CYPRUS

JUL
2023



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MACROECONOMIC MONITOR OF CYPRUS

Updated on 19 July 2023

Macro Economy

- In the 1st quarter of 2023, GDP (in seasonally adjusted terms) recorded a positive rate of growth of 3.4%, compared with 4.4% in the 4th quarter of 2022 on an annual basis (see graphs 1.1-1.2). The positive growth rate is mainly attributed to the sectors: "Hotels and Restaurants", "Wholesale and Retail Trade, Repair of Motor Vehicles", "Transportation and Storage", "Information and Communication" and "Financial and insurance Activities" (see graphs 3.1-3.4 and 6.1-6.2).

- Developments (in seasonally adjusted terms) currently driven mainly by increases in gross fixed capital formation and private consumption (see graphs 2.1-2.4).

- In June 2023, economic sentiment in Cyprus improved, as the Economic Sentiment Indicator (ESI- CypERC) increased by 4.3 points compared with May 2023 (see graph 1.3). The increase in the ESI-CypERC was mainly driven by confidence gains in services and among consumers.

- For the period of January-June 2023, arrivals of tourists totaled 1.613.690 compared to 1.221.382 in the corresponding period of 2022, recording an increase of 32.1% (see graph 6.3). Arrivals from the United Kingdom were the main source of tourism for June 2023, with a share of 34.8% of total arrivals, followed by Israel with 10.2%, Poland with 6.6%, Sweden with 5.0% and Greece with 4.5%.

- 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 4.9% in May 2023 compared to 7.1% in May 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 14.7% in the 1st 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 June 2023 recorded an increase of 2.8% compared to an increase of 3.6% in May 2023 (see graph 5.1) and for January-June 2023 it stands at 4.9%. Compared to January-June 2022, the largest changes were noted in Housing, Water, Electricity, Gas and Other Fuels (9.7%), Food and Non-Alcoholic Beverages (8.9%) and Restaurants and Hotels (7.1%). Core HICP recorded an increase of 5.5% in January-June 2023 (see graph 5.2).

- Imports of goods recorded an increase of 19.8% in January-May 2023 compared to January-May 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 6.8%.

- Exports of goods recorded an increase of 3.9% in January-May 2023 compared to January-May 2022. Exports of goods, excluding exports of aircrafts and vessels, exhibit a decrease of 5.2%.

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-May 2023, of the order of €315.1 mn (1.1% of GDP) compared to a surplus of €141.6 mn (0.5% of GDP) during the corresponding period the year before (see graph 9.1).
- **General government primary balance (GGPB)** recorded a surplus in January-May 2023, of the order of €500.2 mn (1.7% of GDP) compared to a surplus of €317.0 mn (1.2% of GDP) during the corresponding period the year before (see graphs 9.1-9.2).
- **Total expenditure** exhibited an increase of about 10.2%, reaching €4,330.4 mn in January-May 2023, compared to €3,929.9 mn during the corresponding period the year before (see graph 9.3).
- **Total revenue** exhibited an increase of about 14.1%, reaching €4,645.5 mn in January-May 2023, compared to €4,071.5 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 1.6%** in the 4th quarter of 2022 compared to the 3rd quarter of 2022 and an increase of 6.6% compared to the 4th quarter of 2021. Cumulative from the 1st quarter of 2008 it has exhibited a decline of 16.6% (see graph 7.1), revealing an adjustment to the conditions of lower demand.

- According to the Department of Lands and Surveys, **new sale contracts** were up by 22.8% while **transfers of property** were down by 5.5% in January-June 2023 compared with January-June 2022 (see graph 7.3).
- Monetary Financial Institutions (MFI) **mortgage loans to domestic residents** for housing **increased by 3.3%** in May 2023 (see graph 7.2).

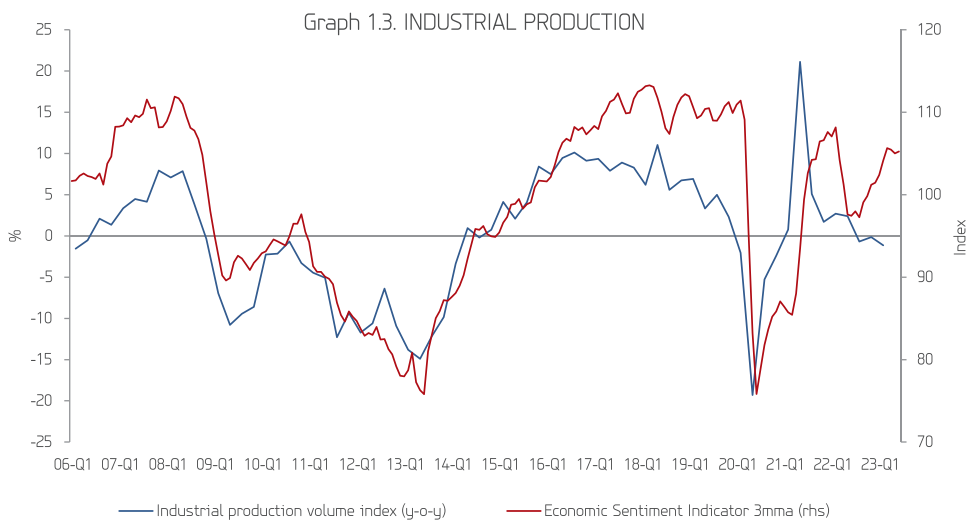
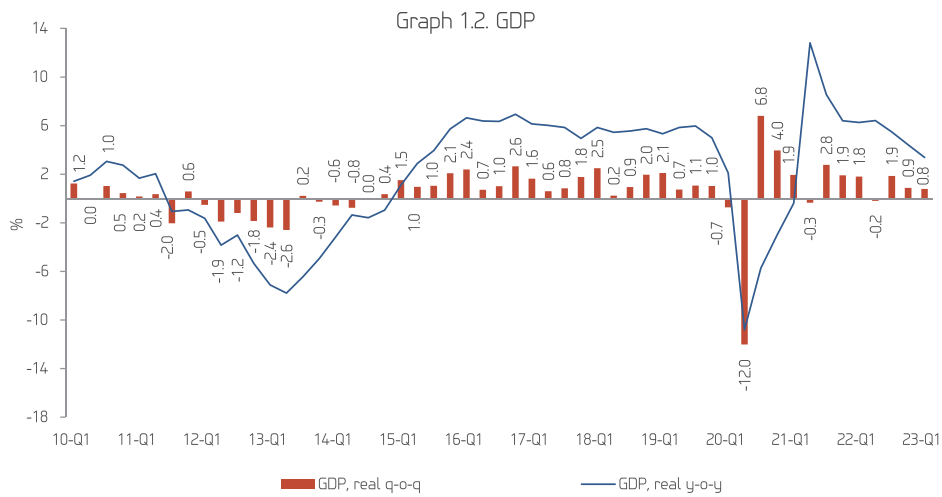
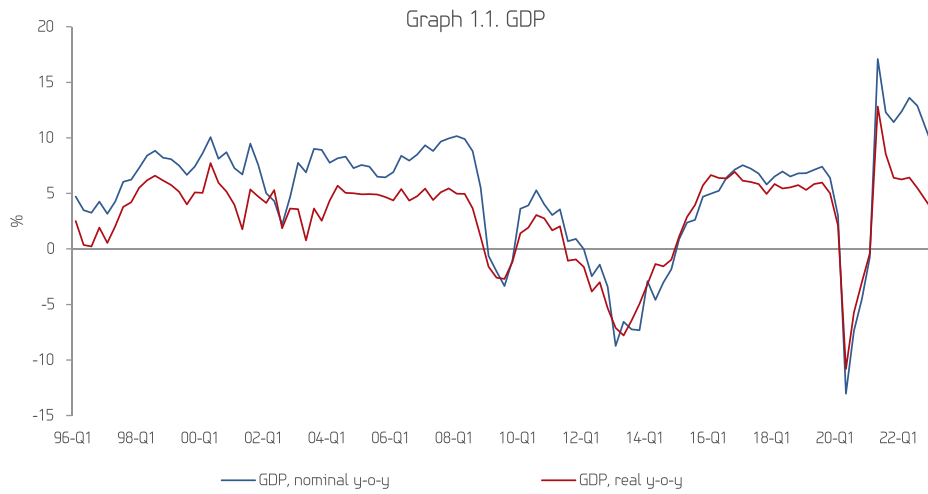
Banking Sector Developments

- **MFI loans to domestic residents** (private sector) **decreased by 0.7%** in May 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 4.7%** in May 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 400 basis points (see graph 8.5). In May 2023, **deposit interest rates** for maturity of up to 1 year increased and of up to 3 months marginally 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 increased.
- **NPEs** in February 2023 decreased to €2.26 bn (9.3% 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 48.4% in February 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.

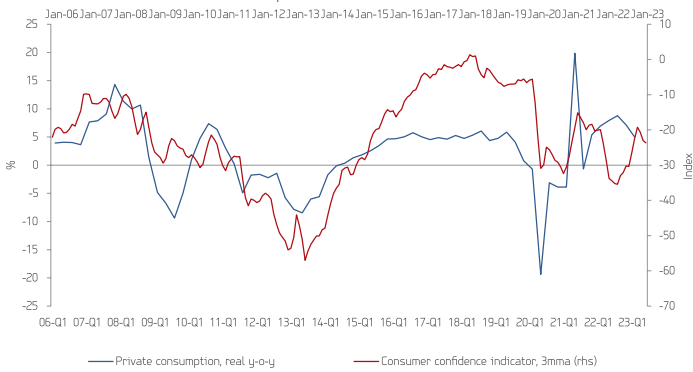
1. OUTPUT



Sources: Eurostat, DG ECFIN, Cystat

2. CONSUMPTION

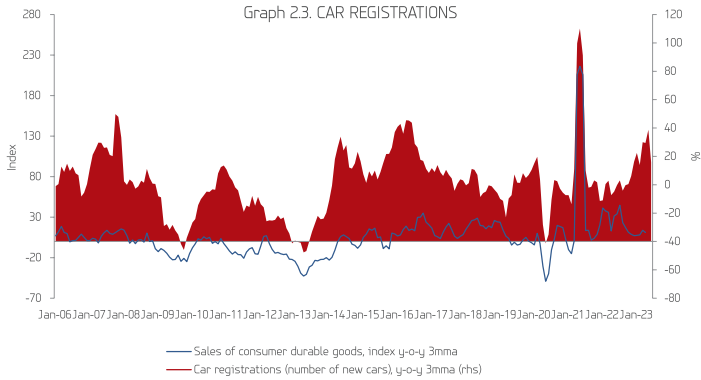
Graph 2.1. CONSUMPTION



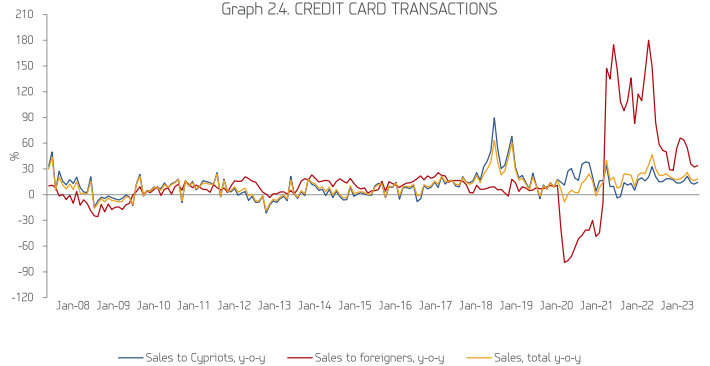
Graph 2.2. RETAIL TRADE



Graph 2.3. CAR REGISTRATIONS



Graph 2.4. CREDIT CARD TRANSACTIONS

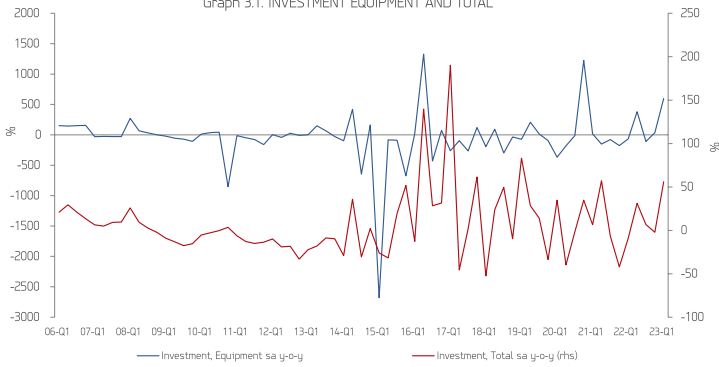


Note: Data for credit card transactions from 2018 onwards were revised based on reclassification of some foreign cards to local cards, thus data are not comparable with the data of the previous years.

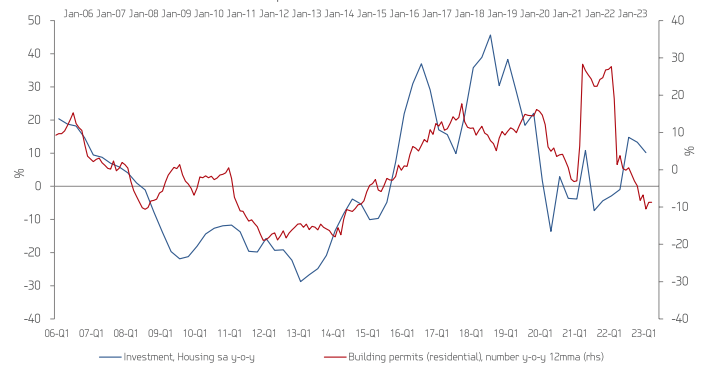
Sources: Eurostat, DG ECFIN, Cystat, JCC Payment Systems Ltd

3. INVESTMENT

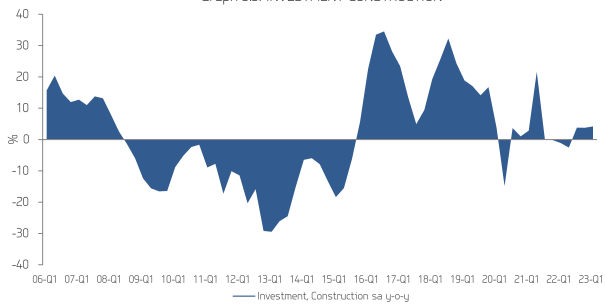
Graph 3.1. INVESTMENT EQUIPMENT AND TOTAL



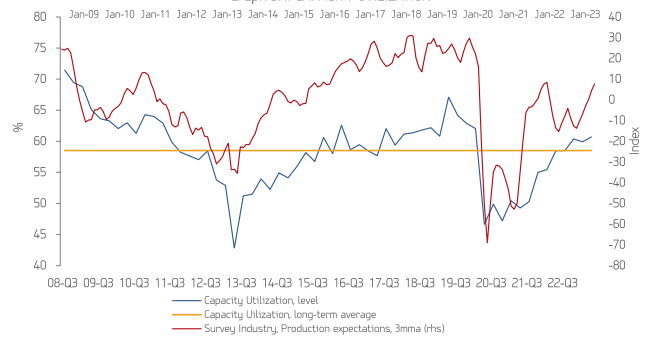
Graph 3.2. BUILDING PERMITS



Graph 3.3. INVESTMENT CONSTRUCTION

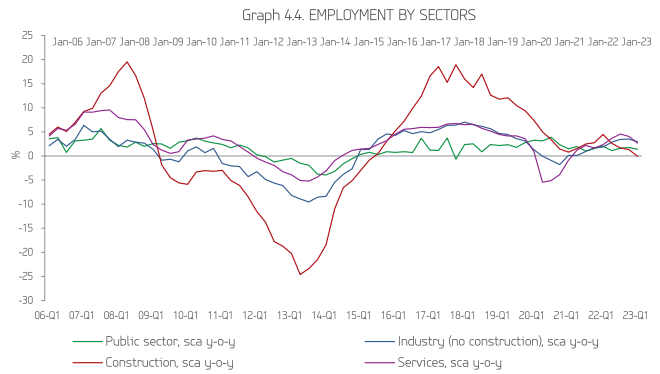
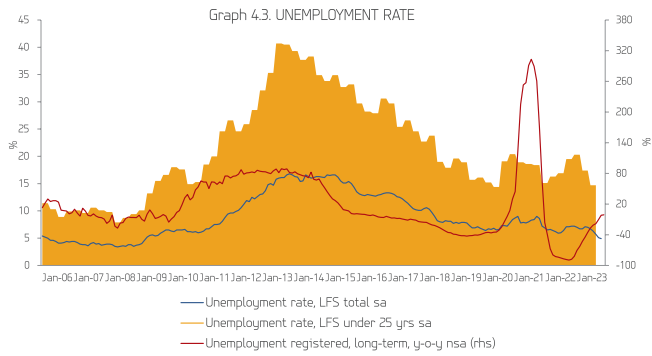
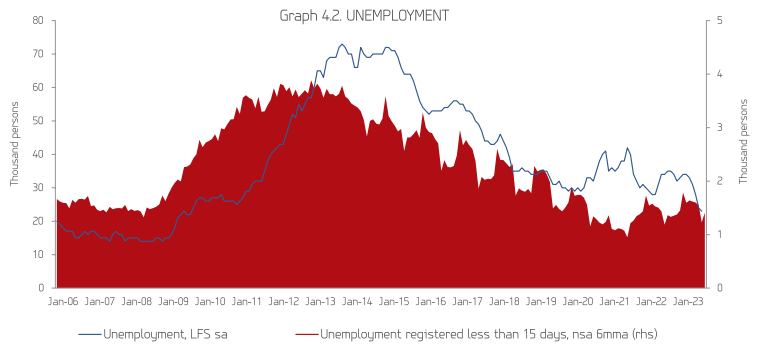
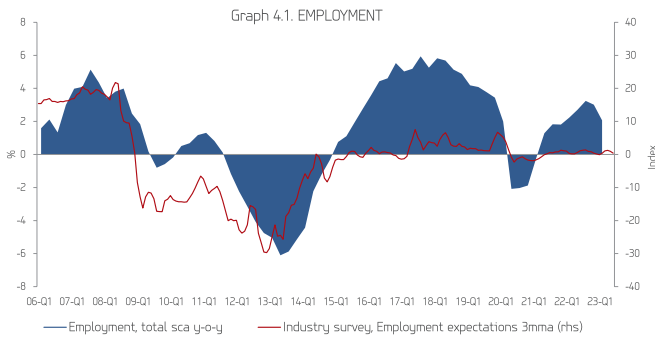


Graph 3.4. CAPACITY UTILIZATION



Sources: Cystat, DG ECFIN, CypERC

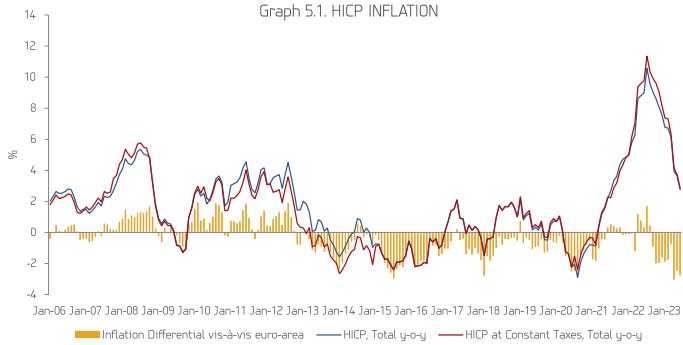
4. LABOUR MARKET



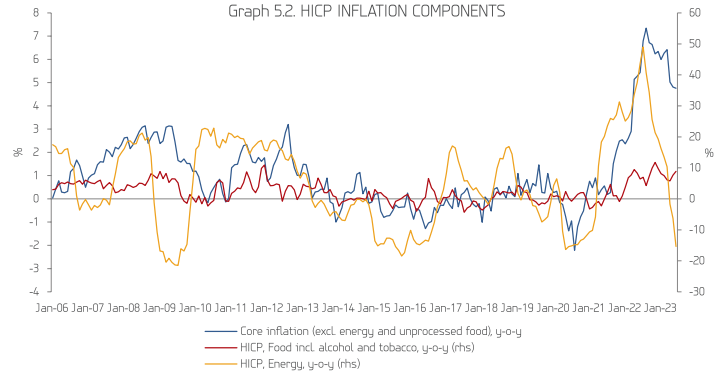
Sources: Eurostat, DG ECFIN, Cystat

5. INFLATION / WAGES

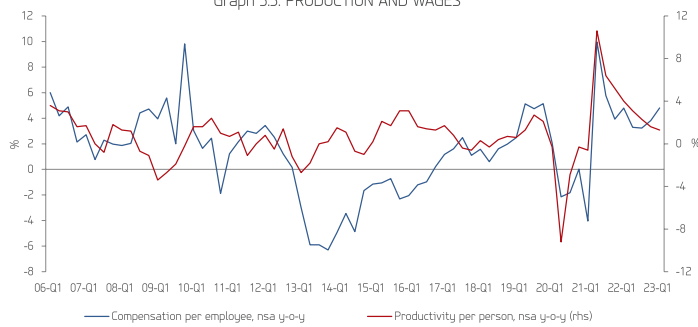
Graph 5.1. HICP INFLATION



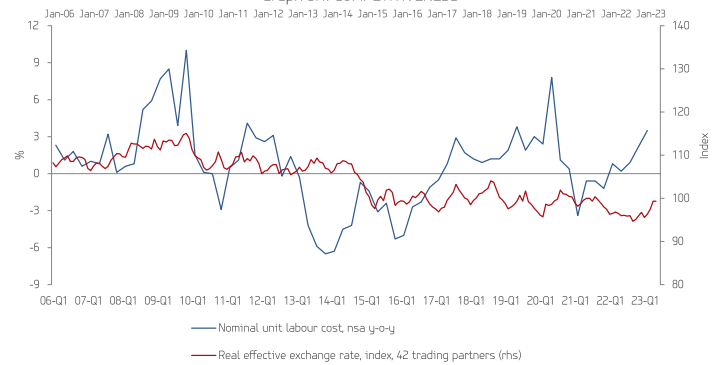
Graph 5.2. HICP INFLATION COMPONENTS



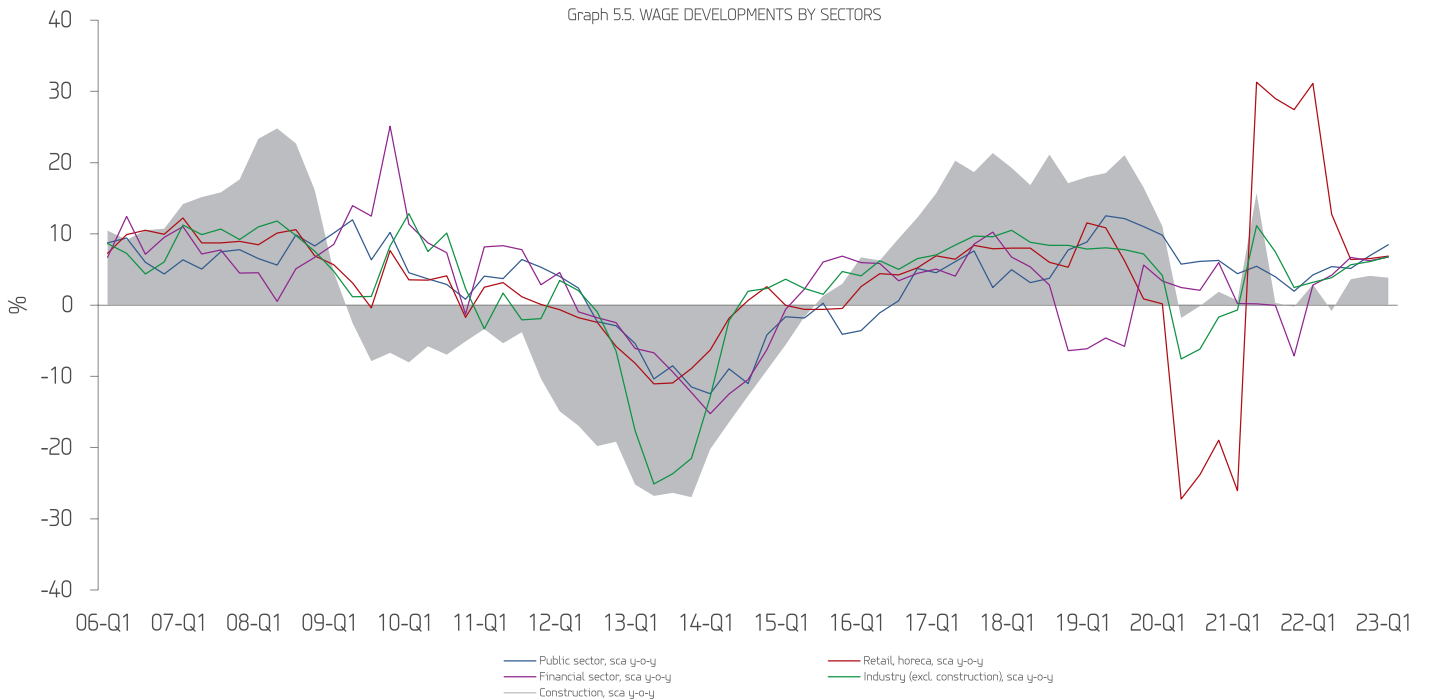
Graph 5.3. PRODUCTION AND WAGES



Graph 5.4. COMPETITIVENESS



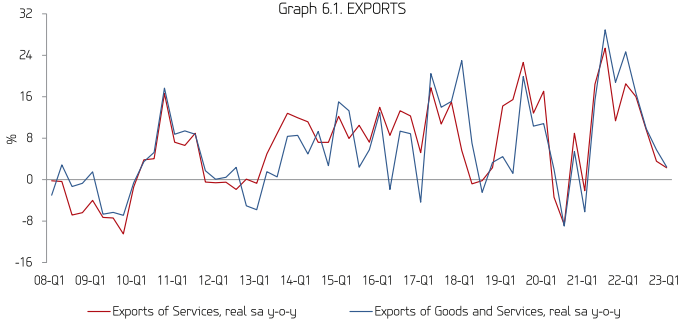
Graph 5.5. WAGE DEVELOPMENTS BY SECTORS



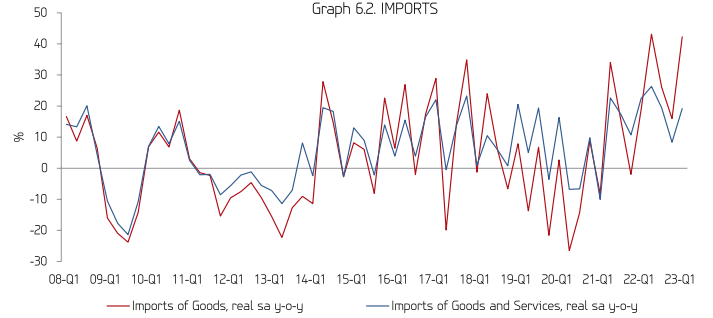
Source: Eurostat

6. EXTERNAL SECTOR

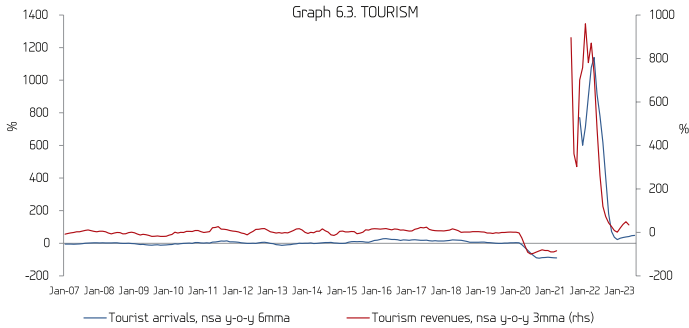
Graph 6.1. EXPORTS



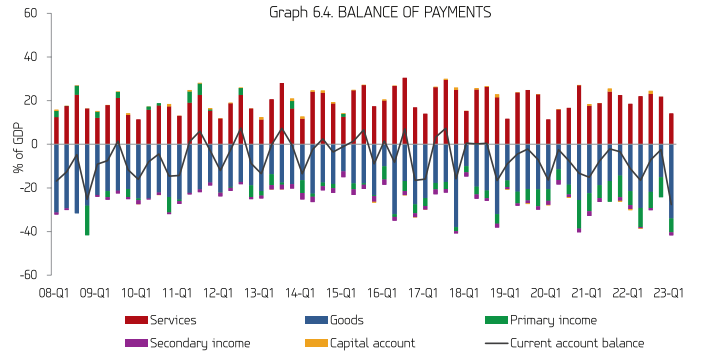
Graph 6.2. IMPORTS



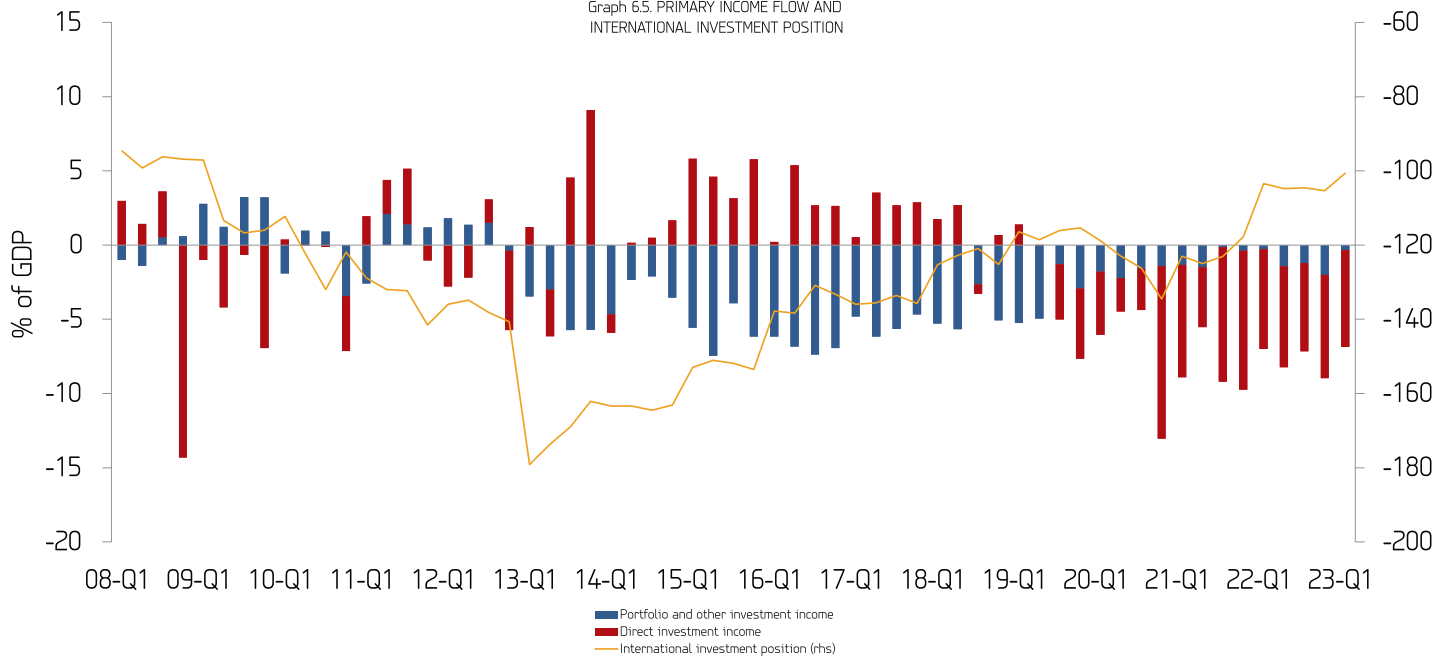
Graph 6.3. TOURISM



Graph 6.4. BALANCE OF PAYMENTS



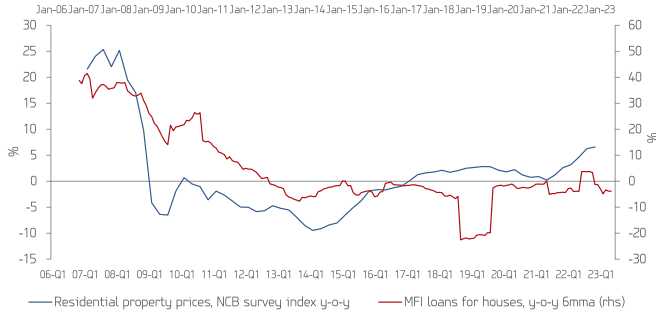
Graph 6.5. PRIMARY INCOME FLOW AND INTERNATIONAL INVESTMENT POSITION



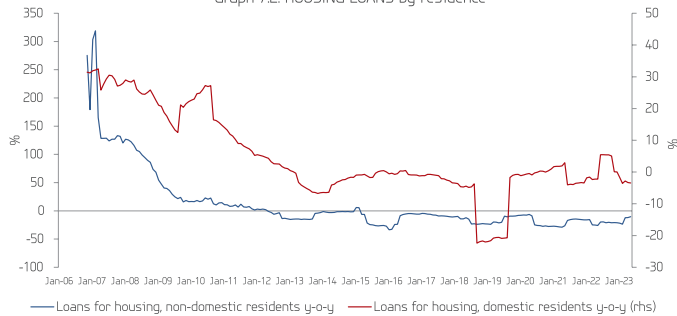
Sources: Cystat, CBC

7. HOUSING

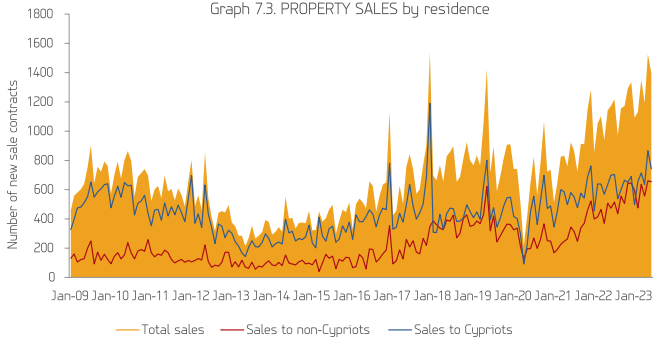
Graph 7.1. HOUSE PRICES AND HOUSING LOANS



Graph 7.2. HOUSING LOANS by residence



Graph 7.3. PROPERTY SALES by residence

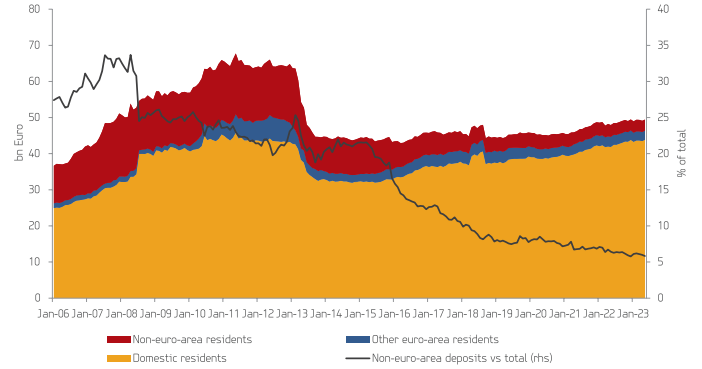


Note: According to the relevant modifications to the codification of the term “Alien” in the Land Information System, the way the statistics are presented has been modified. Therefore, the suggestion of the Department of Lands and Surveys is to avoid the comparison of the specific data from 2018 onwards,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

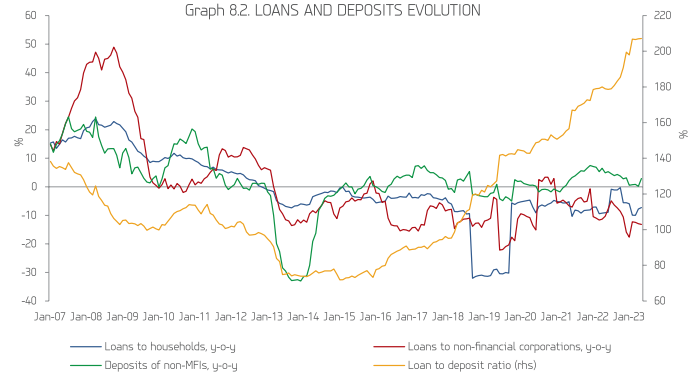
Sources: CBC, Dep. of Lands and Surveys

8. FINANCIAL SECTOR

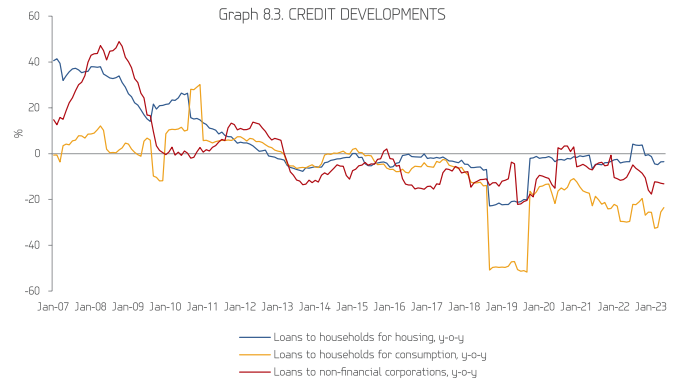
Graph 8.1. DEPOSIT STRUCTURE



Graph 8.2. LOANS AND DEPOSITS EVOLUTION

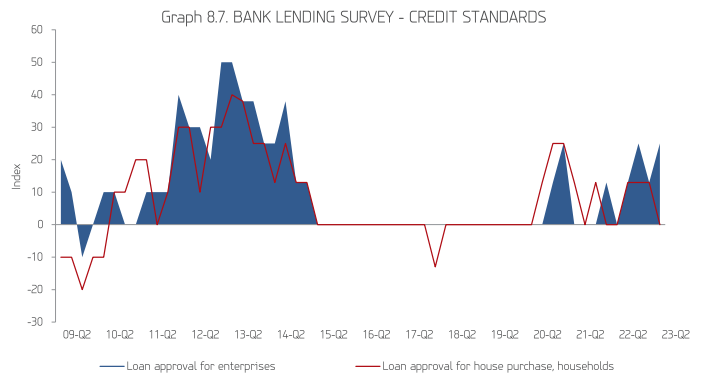
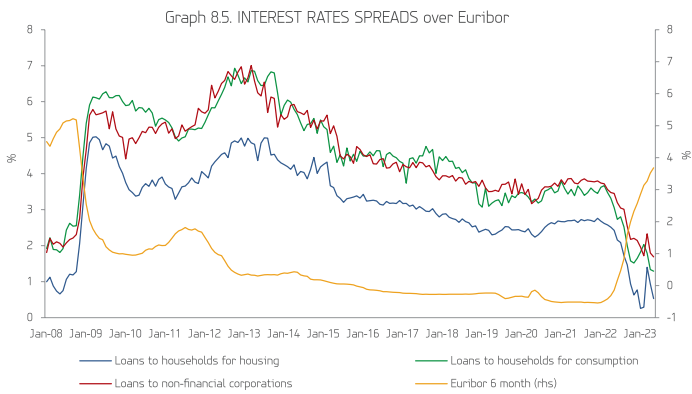
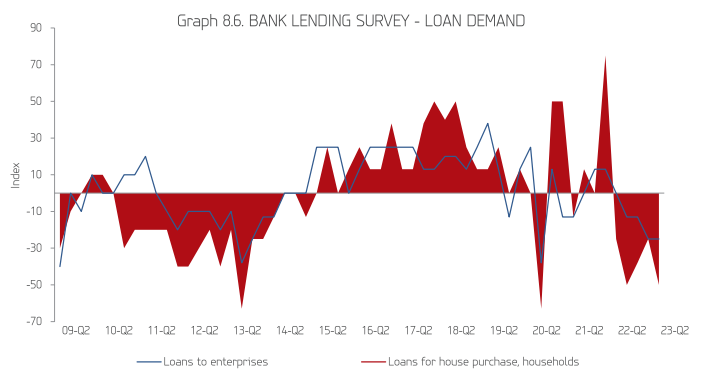
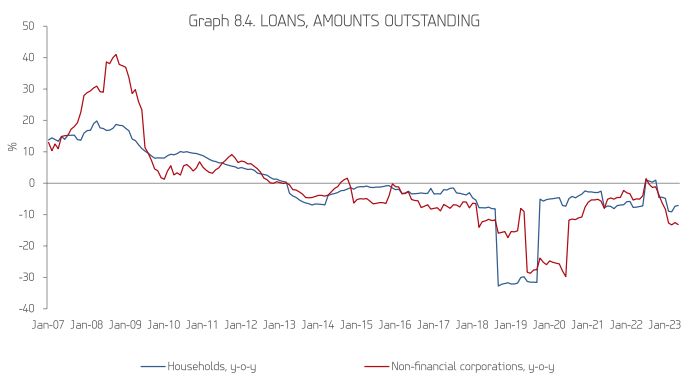


Graph 8.3. CREDIT DEVELOPMENTS



Source: CBC, EMMI

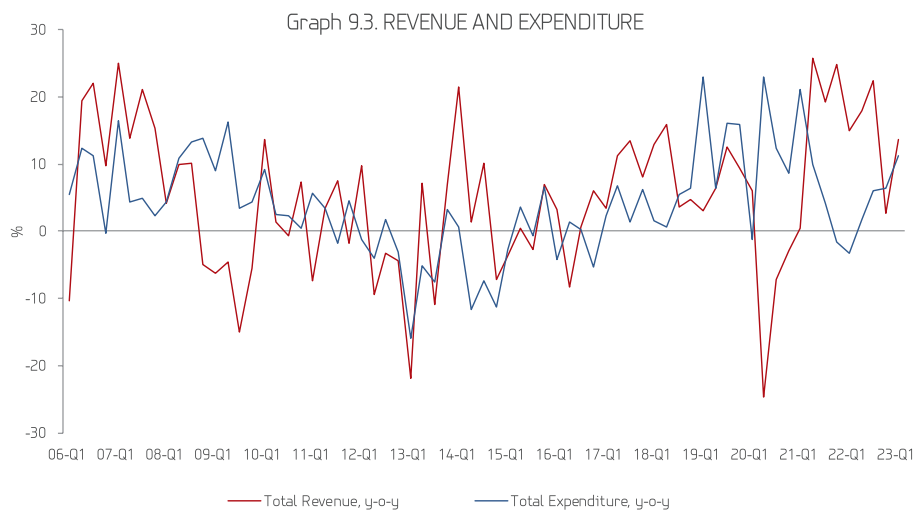
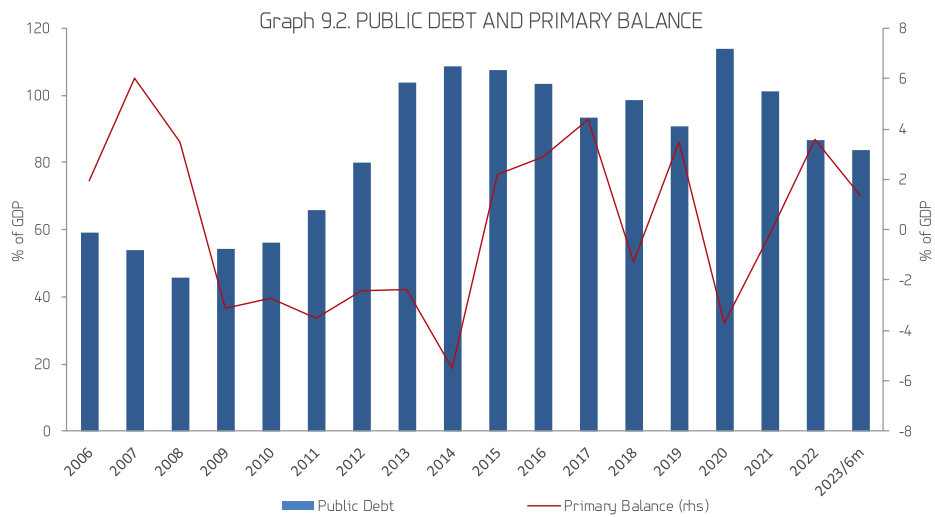
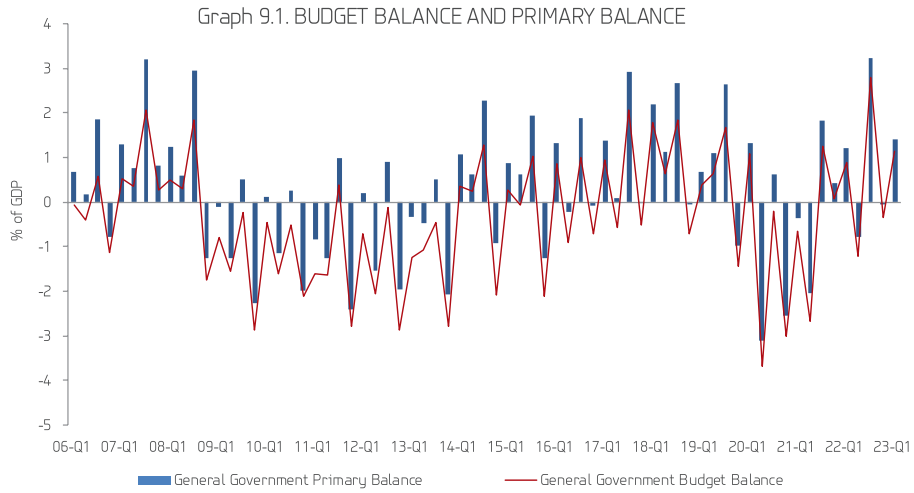
8. FINANCIAL SECTOR



Sources: CBC, EMMI

Source: ECB

9. PUBLIC SECTOR



Sources: Ministry of Finance, Cystat