



MINISTRY OF FINANCE

MACROECONOMIC  
MONITOR  
OF CYPRUS

MAR  
2023



# TABLE OF CONTENTS

Macro economy	3
External Sector	3
Public Finances	4
Property Market	4
Banking Sector Developments	4
Credit ratings	5
<b>1. Output</b>	<b>6</b>
<b>2. Consumption</b>	<b>7</b>
<b>3. Investment</b>	<b>8</b>
<b>4. Labour Market</b>	<b>9</b>
<b>5. Inflation, Wages</b>	<b>10</b>
<b>6. External Sector</b>	<b>11</b>
<b>7. Housing</b>	<b>12</b>
<b>8. Financial Sector</b>	<b>12-13</b>
<b>9. Public Sector</b>	<b>14</b>



# MACROECONOMIC MONITOR OF CYPRUS

Updated on 24 March 2023

## Macro Economy

- In the 4th quarter of 2022, GDP (in seasonally adjusted terms) recorded a positive rate of growth of 4.5%, compared with 5.3% in the 3rd quarter of 2022 on an annual basis (see graphs 1.1-1.2). The positive GDP 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 3.1-3.4 and 6.1-6.2).

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

- In February 2023, economic sentiment in Cyprus improved further, as the **Economic Sentiment Indicator (ESI-CypERC)** increased by 1.9 points compared with January 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-February 2023, **arrivals of tourists** totaled 209,630 compared to 115,865 in the corresponding period of 2022, recording an increase of 80.9% (see graph 6.3). Arrivals from the United Kingdom were the main source of tourism for February 2023, with a share of 27.2% of total arrivals, followed by Israel with 12.8%, Greece with 12.6%, Poland with 9.8% and Germany with 5.1%.

- **Employment** developments reflect conditions of improved economic activity. Total employment increased by 2.9% in 2022 compared to 2021. The most significant percentage increases were observed in the economic activities of Accommodation and food service activities, Wholesale and Retail Trade; Manufacturing, Information and Communication and Professional, scientific and technical activities.

- **Labour Force Survey (LFS) unemployment**, in monthly seasonally adjusted terms, increased to 7.4% in January 2023 compared to 6.0% in January 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 18.7% in the 4th quarter of 2022 from a peak of 40.6% in the 3rd quarter of 2013.

- **Compensation per employee** recorded an increase of 3.8% in 2022 compared with 2021 (see graphs 5.3-5.5).

- **Inflation (HICP)** in February 2023 recorded an increase of 6.7% compared to an increase of 6.8% in January 2023 (see graph 5.1) and for January- February 2023 it stands

at 6.8%. Compared to January-February 2022, the largest changes were noted in Housing, Water, Electricity, Gas and Other Fuels and Food and Non-Alcoholic Beverages. Core HICP recorded an increase of 6.1% in January-February 2023 (see graph 5.2).

- **Imports of goods recorded an increase of 127.3%** in January 2023 compared to January 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 15.4%.

- **Exports of goods recorded an increase of 41.4%** in January 2023 compared to January 2022. Exports of goods, excluding exports of aircrafts and vessels, exhibit an increase of 30.8%.

## External Sector

- The **current account (CA)** balance of Cyprus (see graph 6.4) recorded a deterioration, with the deficit increasing from €132.8 mn (-0.6% of GDP) in 2021Q3, to €435.7 mn (-1.6% of GDP), in 2022Q3. The resulting deficit when adjusting the data for the impact of Special Purpose Entities (SPEs), that is, classifying SPEs as non-residents, stood at €583.1 mn (-2.2% of GDP) in 2022Q3, compared with a deficit of €216.2 mn (-0.9% of GDP) in 2021Q3. The deterioration in the current account deficit resulted from the increase in goods trade deficit and, to a much lesser extent, the secondary income. The aforementioned developments were partly offset by increased surplus in services and decreased deficit in primary income. For the first nine months of 2022, the deficit stood at €2,283.2 mn (-8.5% of GDP) compared with €1,420.3 mn (-5.9% of GDP) during the corresponding period the year before. Adjusted for the impact of SPEs, the resulting deficit stood at €2,080.1 mn (-7.7% of GDP) compared with €1,344.1 mn (-5.6% of GDP) during the corresponding period the year before.

- The **international investment position (IIP)** (see graph 6.5) recorded a slight deterioration at the end of 2022Q3, presenting a net liability position of €28,063.5 mn, compared with a net liability position of €27,642.0 mn in 2022Q2. With the corresponding data being adjusted for the impact of SPEs, IIP recorded a net liability position of €10,164.1 mn at the end of 2022Q3, compared with a net liability position of €9,649.6 mn, at the end of the previous quarter.

- The **gross external debt** significantly increased to €181,011.0 mn in 2022Q3 from €162,924.4 mn in 2022Q2. On the other hand, external assets in debt instruments increased to €150,365.3 mn, up from €127,207.7 mn in 2022Q2. Consequently, net external debt decreased by €5,071.0 mn to €30,645.7 mn in 2022Q3. Adjusted for the impact of SPEs, gross external debt reached €62,725.5 mn at the end of 2022Q3, compared to €62,653.1 mn, at the end of 2022Q2. The corresponding net external debt indicator increased to -€9,392.1 mn, compared with -€8,526.1 mn at the end of the previous quarter.

## Public Finances

- **General government budget balance (GGBB)** recorded a surplus in January 2023, of the order of €342.5 mn (1.2% of GDP) compared to a surplus of €222.8 mn (0.8% of GDP) during the corresponding month the year before (see graph 9.1).

- **General government primary balance (GGPB)** recorded a surplus in January 2023, of the order of €384.4 mn (1.4% of GDP) compared to a surplus of €272.1 mn (1.0% of GDP) during the corresponding month the year before (see graphs 9.1-9.2).

- **Total expenditure** exhibited an increase of about 11.5%, reaching €792.7 mn in January 2023, compared to €710.9 mn during the corresponding month the year before (see graph 9.3).

- **Total revenue** exhibited an increase of about 21.6%, reaching €1,135.2 mn in January 2023, compared to €933.7 mn during the corresponding month the year before (see graph 9.3).

## Property Market

- Eurostat's **house price index** for Cyprus recorded an **increase of 5.8%** in the 3rd quarter of 2022 compared to the 2nd quarter of 2022 and an increase of 5.3% compared to the 3rd quarter of 2021.

- The CBC's **residential property price index** recorded an **increase of 2.1%** in the 3rd quarter of 2022 compared to the 2nd quarter of 2022 and an increase of 6.3% compared to the 3rd quarter of 2021. Cumulative from the 1st quarter of 2008 it has exhibited a decline of 17.9% (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 16.5% while **transfers of property** were down by 5.5% in January-February 2023 compared with January-February 2022 (see graph 7.3).

- Monetary Financial Institutions (MFI) **mortgage loans to domestic residents** for housing **increased by 4.9%** in January 2023 (see graph 7.2).

## Banking Sector Developments

- MFI **loans to domestic residents** (private sector) **remained unchanged** in January 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 2.6%** in January 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 350 basis points (see graph 8.5). In January 2023, **deposit interest rates** for maturity of up to 1 year decreased and of up to 3 months increased 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 December 2022 decreased to €2.30 bn (9.5% on gross loans) compared to €3.02 bn (11.1% on gross loans) in December 2021. The gross loans decreased in the period from 1 January 2022 until 31 December 2022.

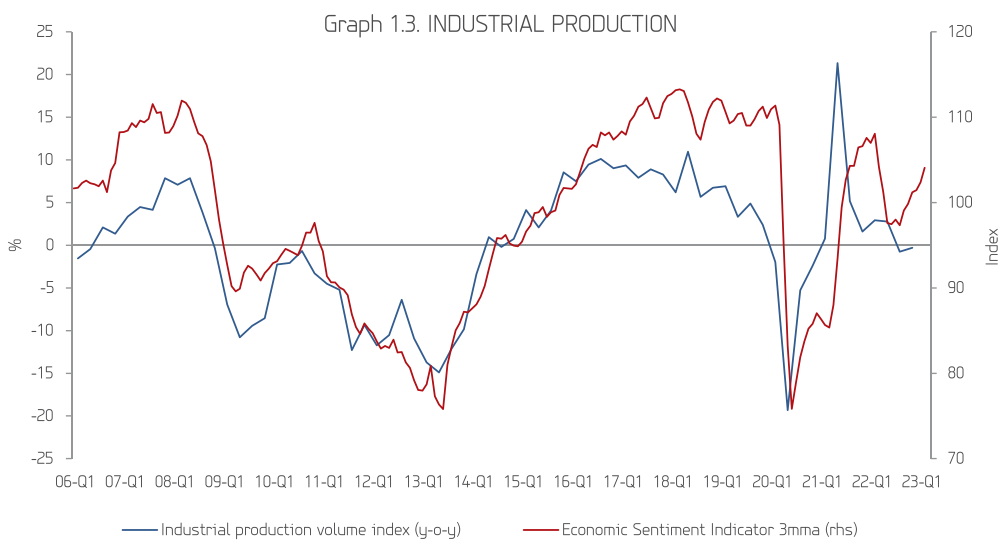
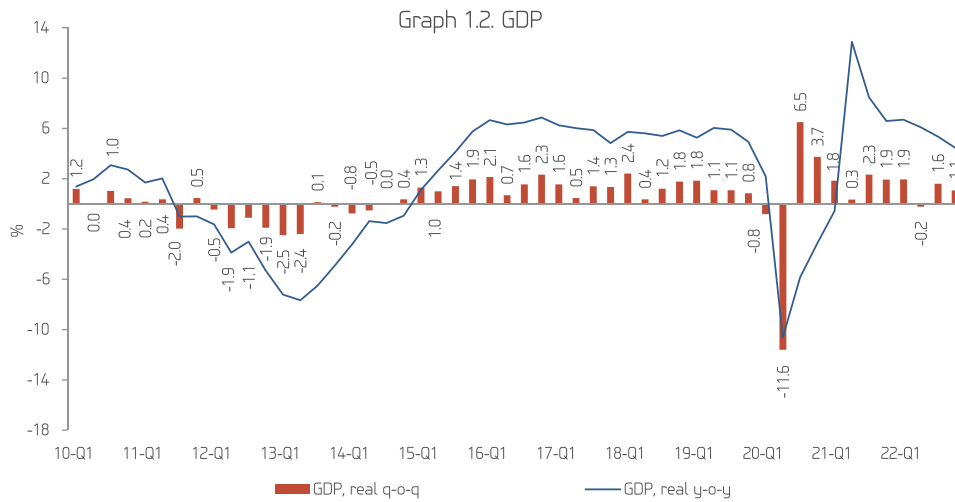
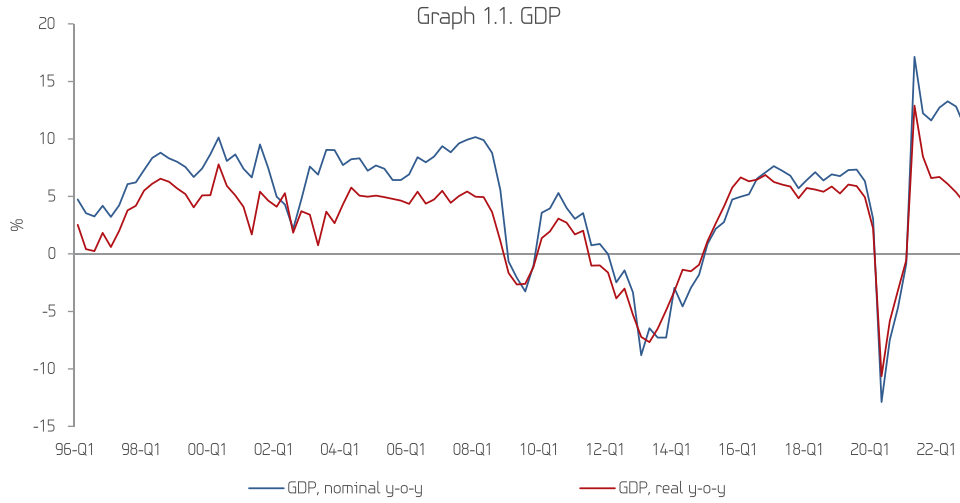
- The decrease for the year 2022 was due to debt to assets (swaps) and reclassified NPEs as performing facilities.

- **Accumulated provisions** increased to 47.5% in December 2022 compared to 43.4% in December 2021 compared to 43.7% of NPEs in December 2020 thus facilitating restructuring activity with a view to cure NPEs of viable customers.

## Credit Ratings

- On 10/03/2023, Fitch Ratings upgraded Cyprus's Long-Term Foreign-Currency Issuer Default Rating (IDR) to 'BBB' from 'BBB-'. The outlook is stable.
- On 07/10/2022, 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.

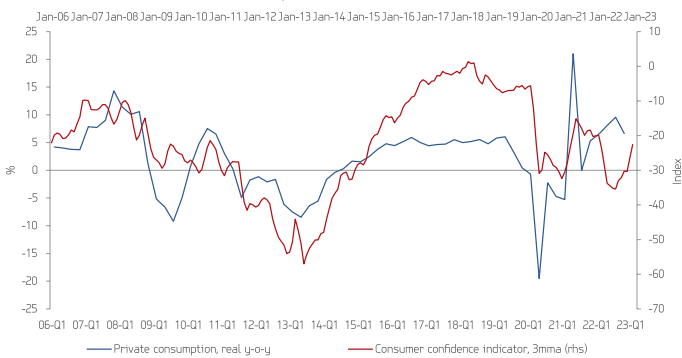
# 1. OUTPUT



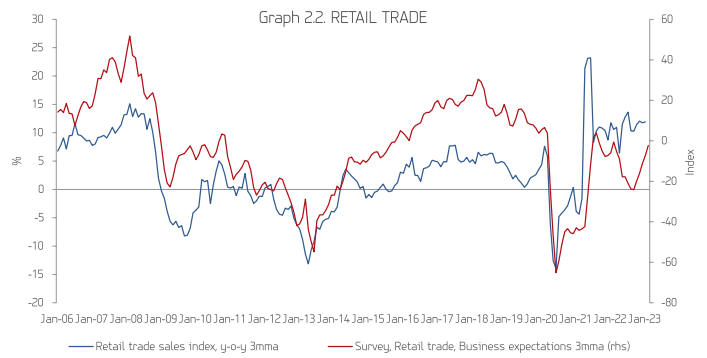
Sources: Eurostat, DG ECFIN, Cystat

## 2. CONSUMPTION

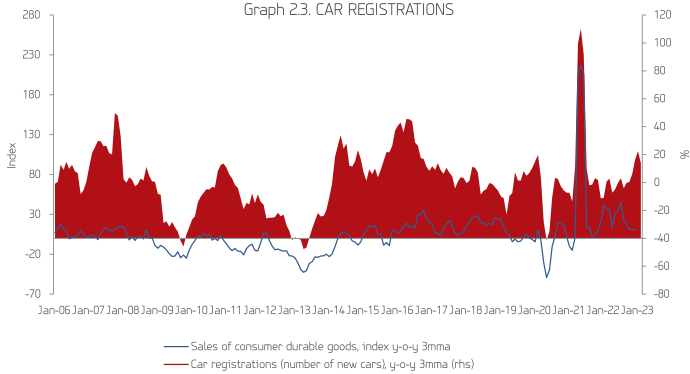
Graph 2.1. CONSUMPTION



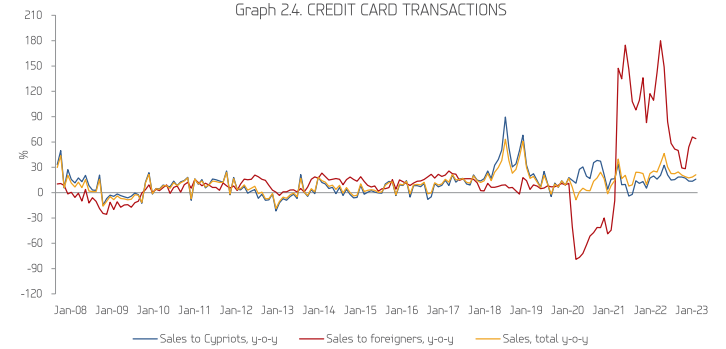
Graph 2.2. RETAIL TRADE



Graph 2.3. CAR REGISTRATIONS



Graph 2.4. CREDIT CARD TRANSACTIONS

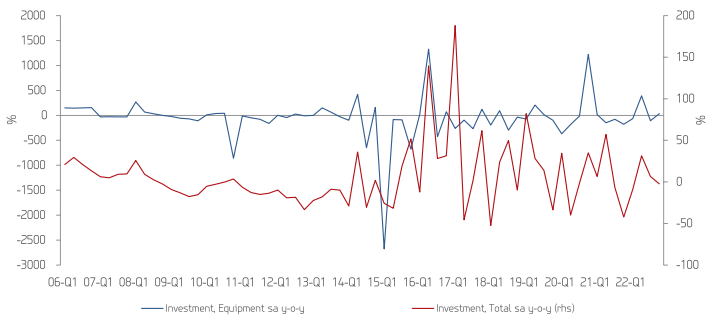


Note: Data for credit card transactions from 2018 onwards were revised based on reclassification of some foreign cards to local cards, thus data are not comparable with the data of the previous years.

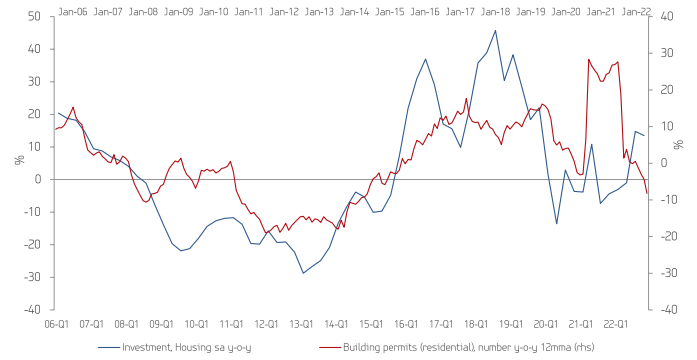
Sources: Eurostat, DG ECFIN, Cystat, JCC Payment Systems Ltd

# 3. INVESTMENT

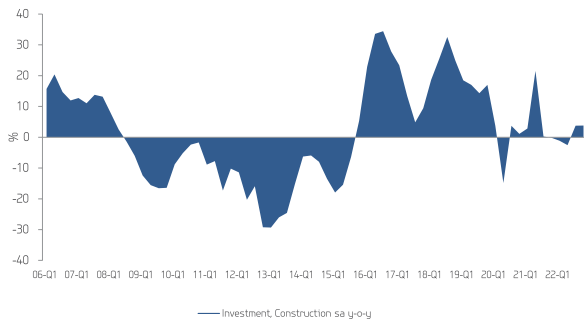
Graph 3.1. INVESTMENT EQUIPMENT AND TOTAL



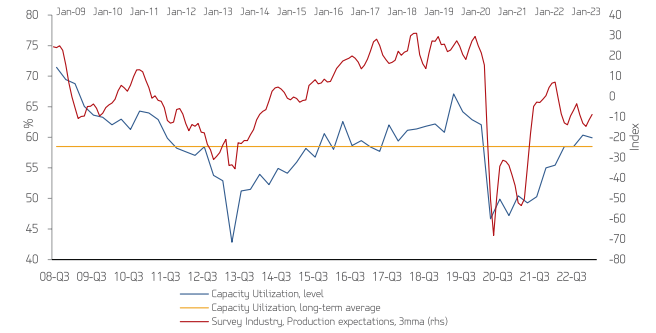
Graph 3.2. BUILDING PERMITS



Graph 3.3. INVESTMENT CONSTRUCTION



Graph 3.4. CAPACITY UTILIZATION

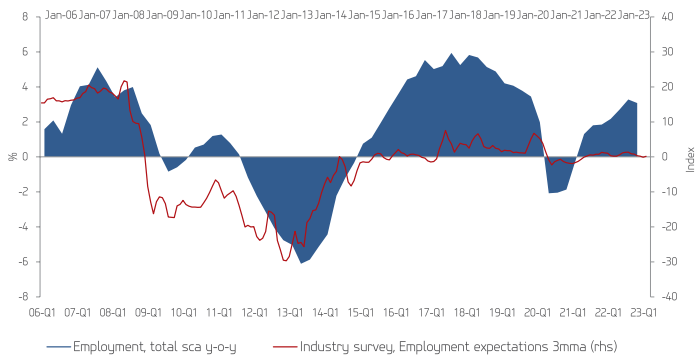


Sources: Cystat, DG ECFIN, CypERC

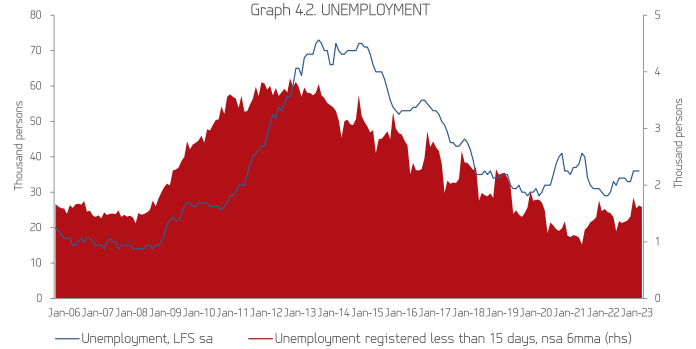


## 4. LABOUR MARKET

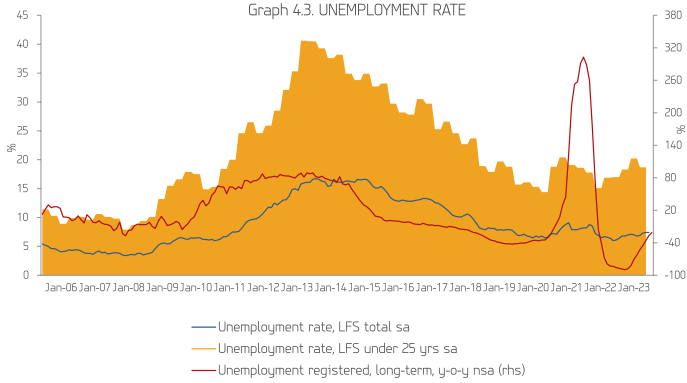
Graph 4.1. EMPLOYMENT



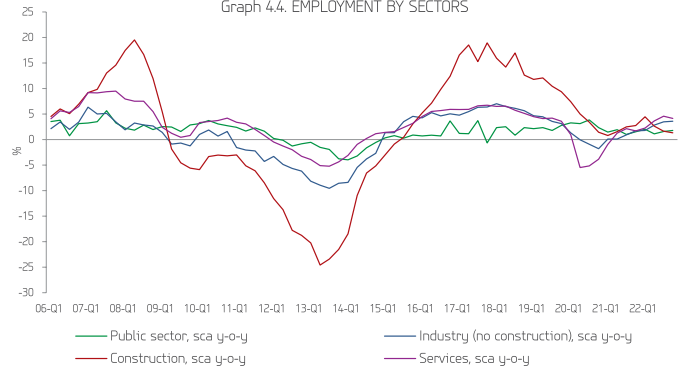
Graph 4.2. UNEMPLOYMENT



Graph 4.3. UNEMPLOYMENT RATE



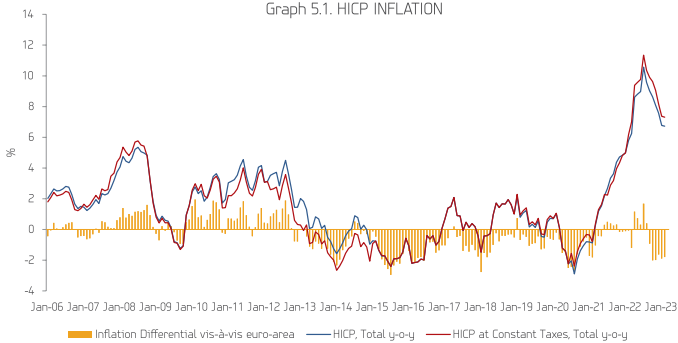
Graph 4.4. EMPLOYMENT BY SECTORS



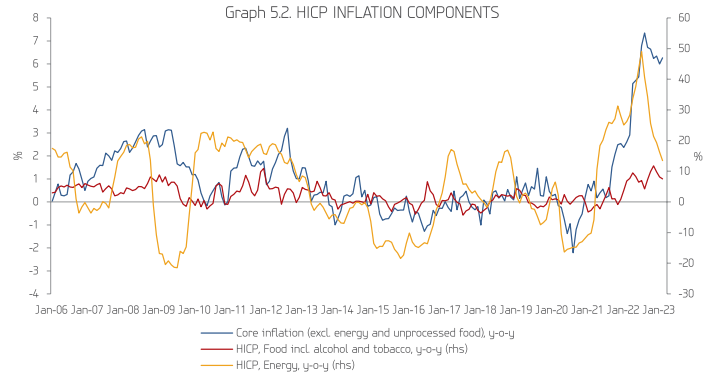
Sources: Eurostat, DG ECFIN, Cystat

## 5. INFLATION / WAGES

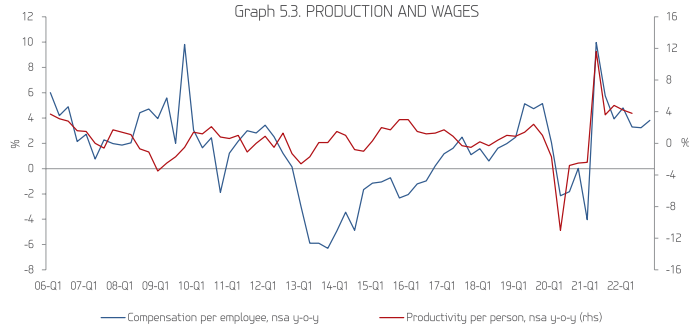
Graph 5.1. HICP INFLATION



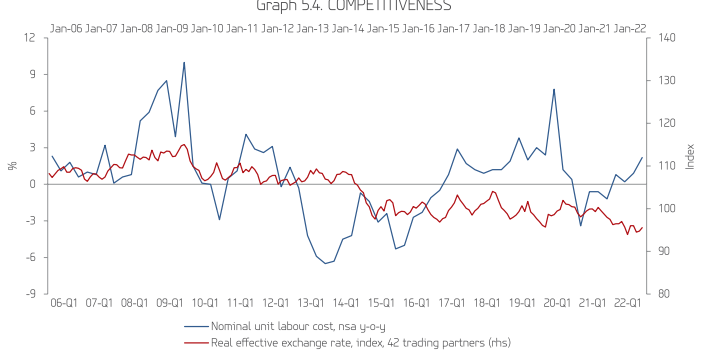
Graph 5.2. HICP INFLATION COMPONENTS



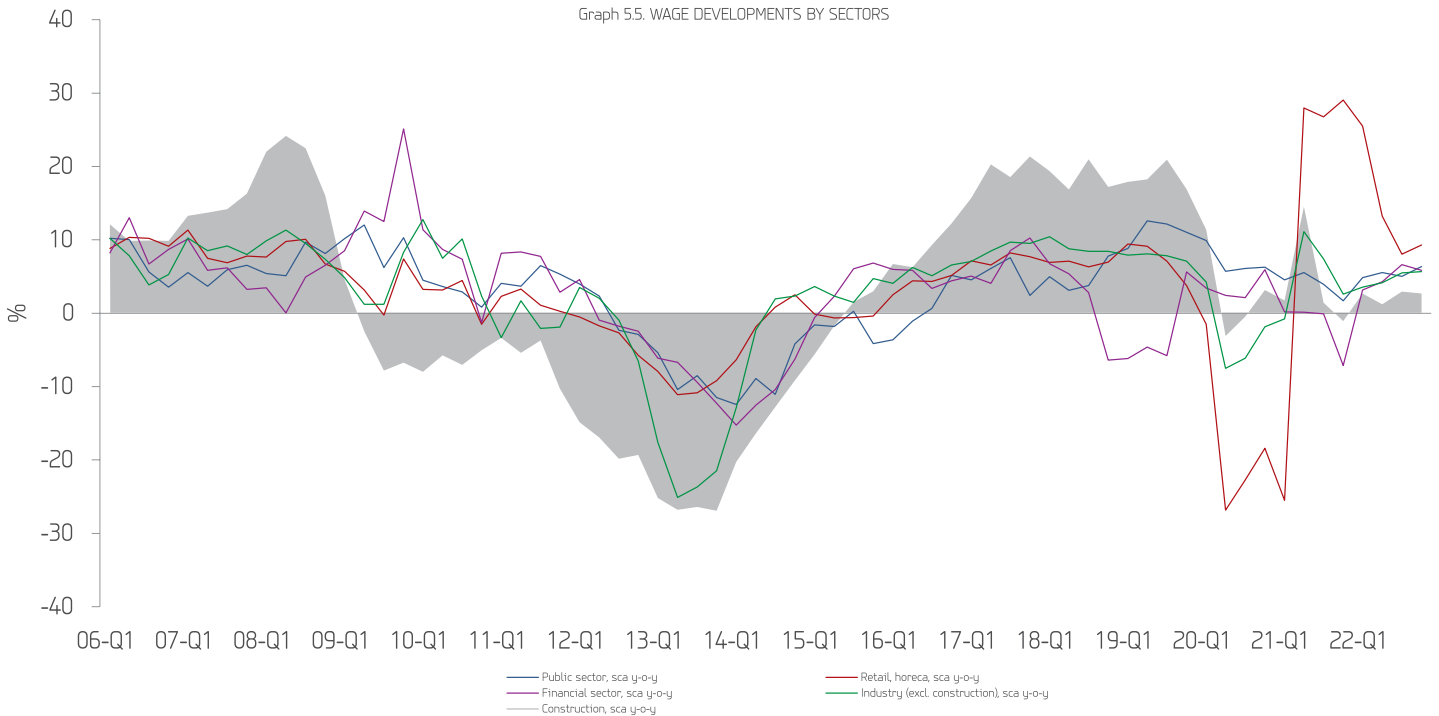
Graph 5.3. PRODUCTION AND WAGES



Graph 5.4. COMPETITIVENESS

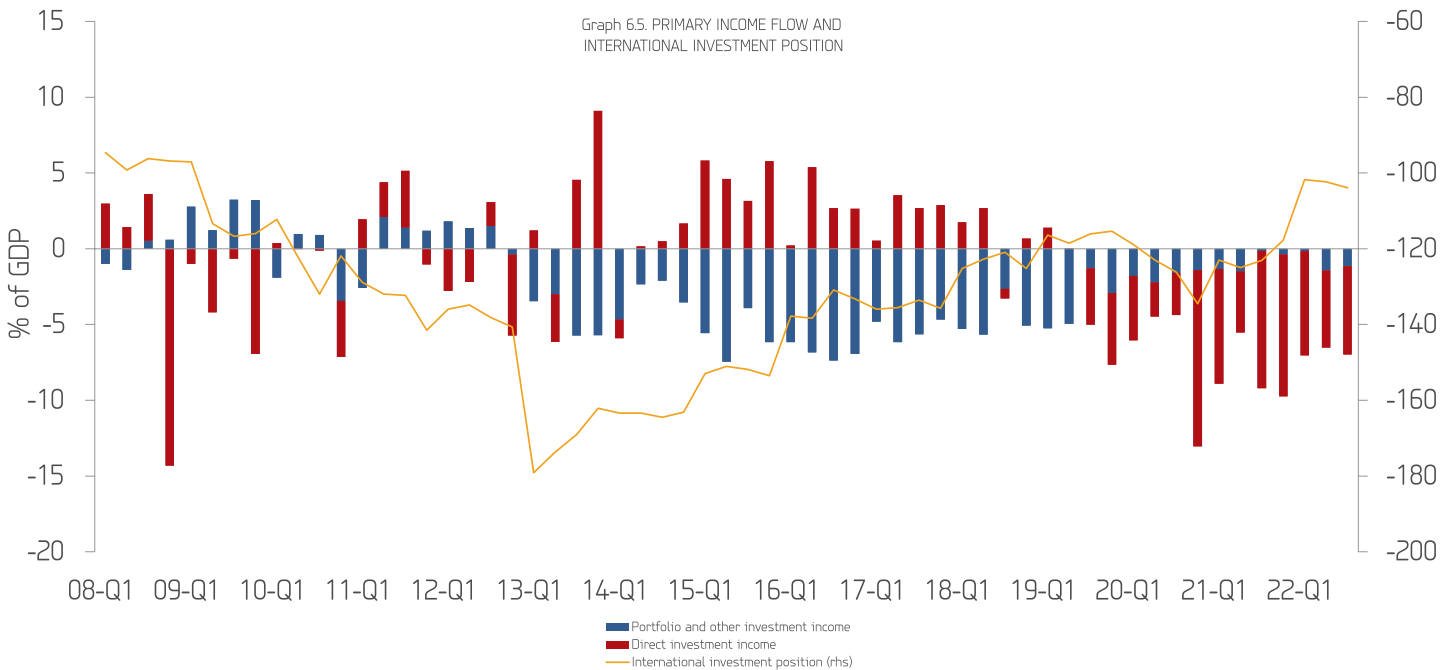
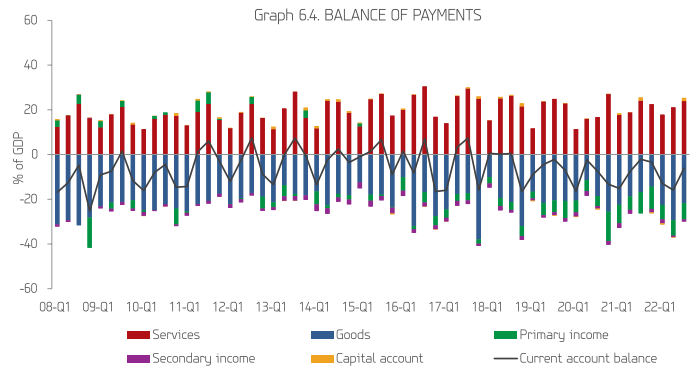
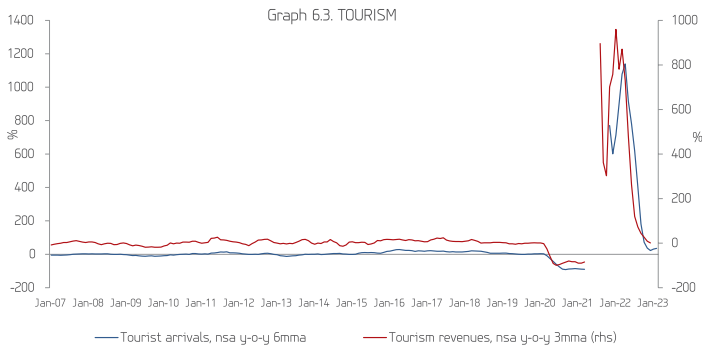
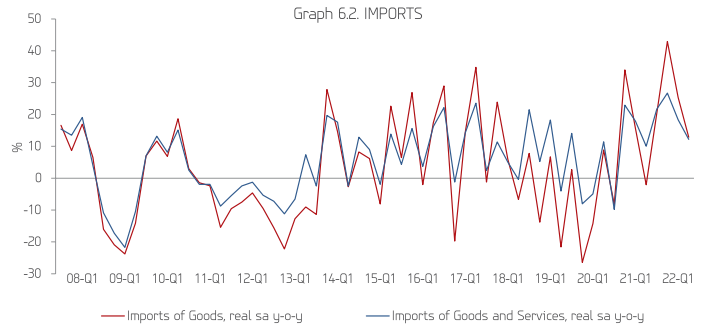
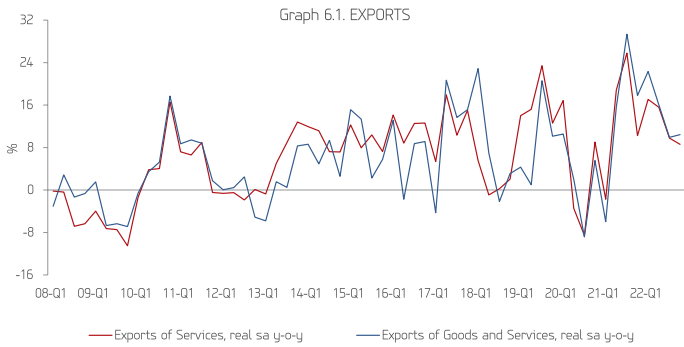


Graph 5.5. WAGE DEVELOPMENTS BY SECTORS



Source: Eurostat

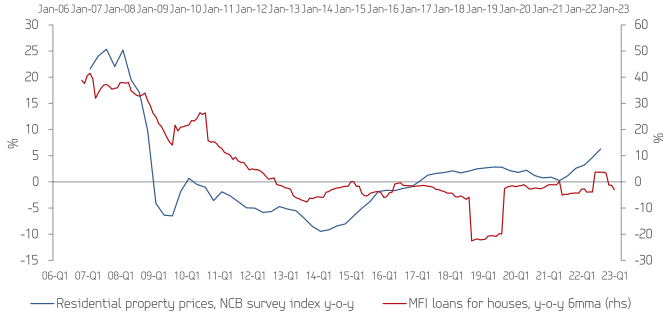
## 6. EXTERNAL SECTOR



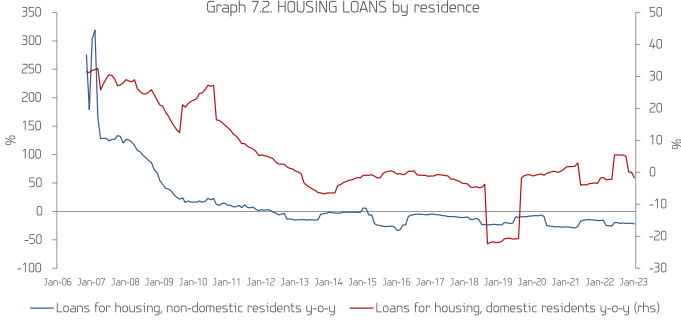
Sources: Cystat, CBC

## 7. HOUSING

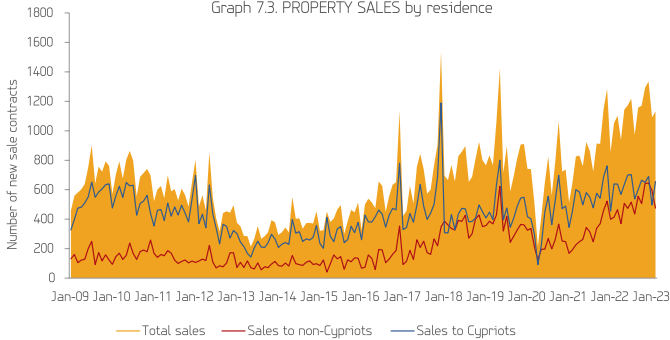
Graph 7.1. HOUSE PRICES AND HOUSING LOANS



Graph 7.2. HOUSING LOANS by residence



Graph 7.3. PROPERTY SALES by residence

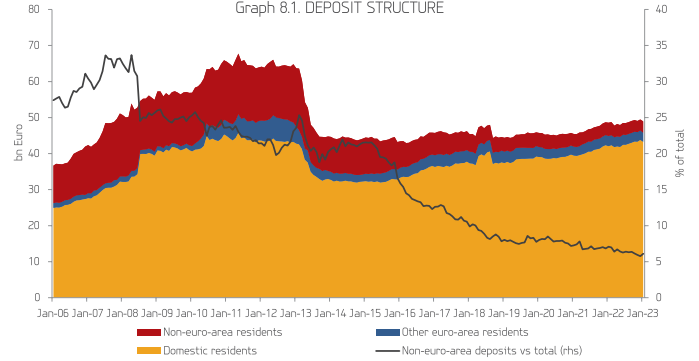


Note: According to the relevant modifications to the codification of the term "Alien" in the Land Information System, the way the statistics are presented has been modified. Therefore, the suggestion of the Department of Lands and Surveys is to avoid the comparison of the specific data from 2018 onwards,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

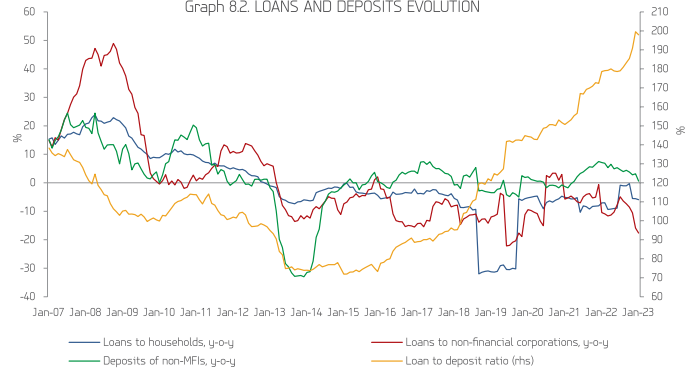
Sources: CBC, Dep. of Lands and Surveys

## 8. FINANCIAL SECTOR

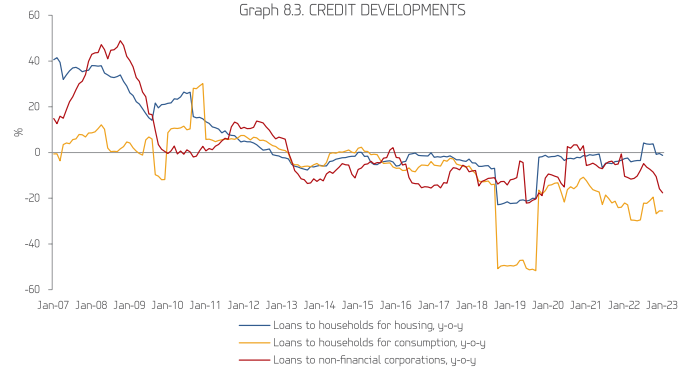
Graph 8.1. DEPOSIT STRUCTURE



Graph 8.2. LOANS AND DEPOSITS EVOLUTION

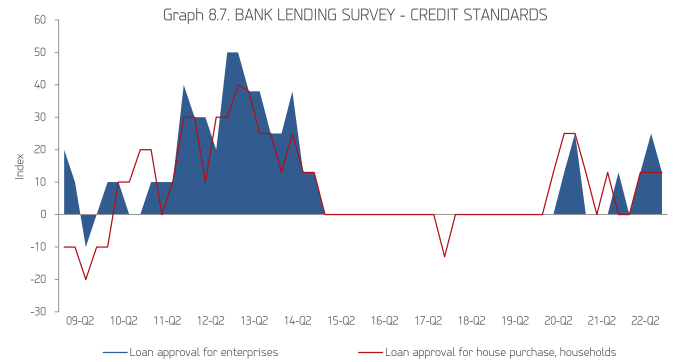
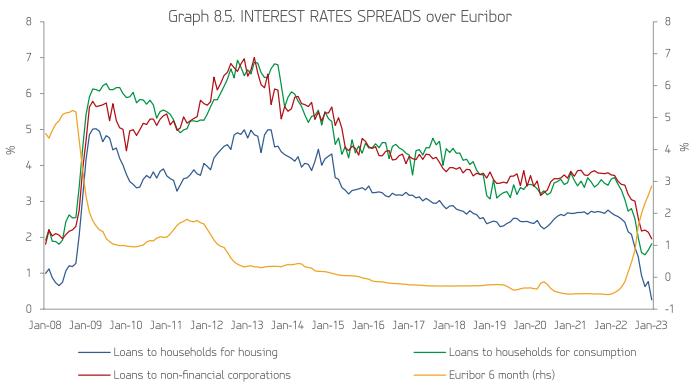
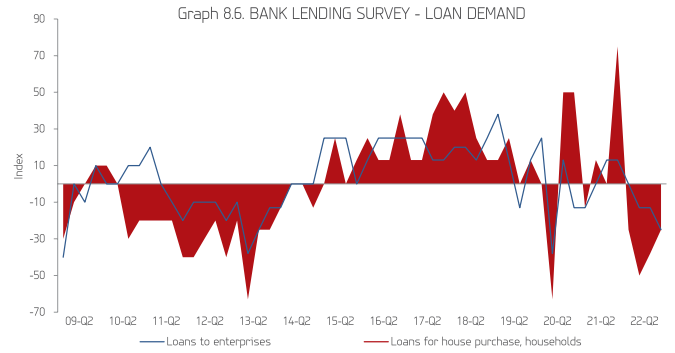
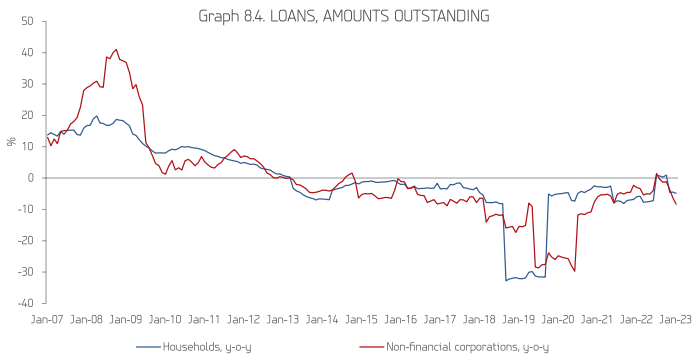


Graph 8.3. CREDIT DEVELOPMENTS



Source: CBC, EMMI

## 8. FINANCIAL SECTOR

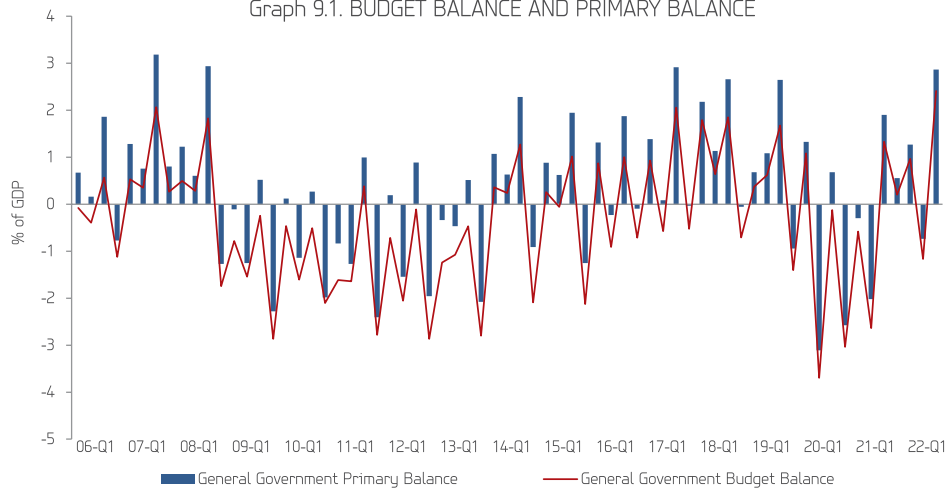


Sources: CBC, EMMI

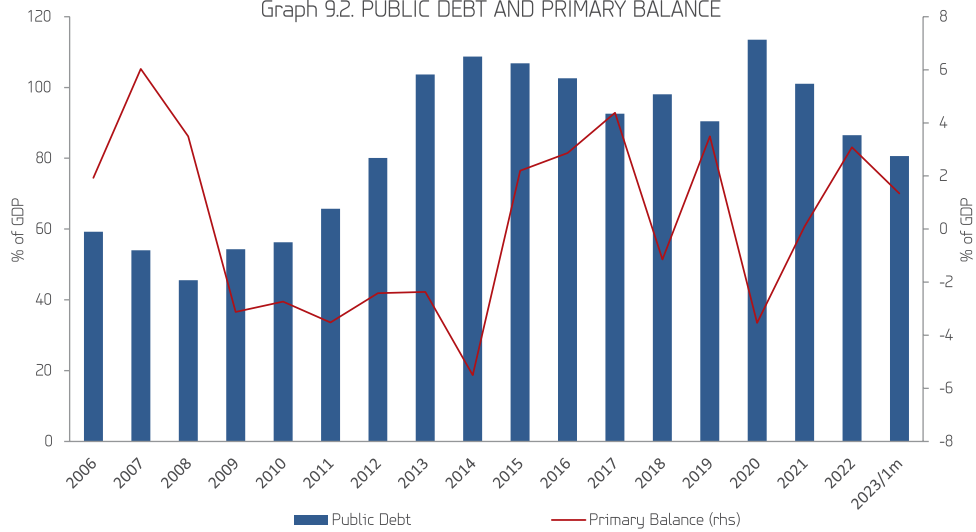
Source: ECB

## 9. PUBLIC SECTOR

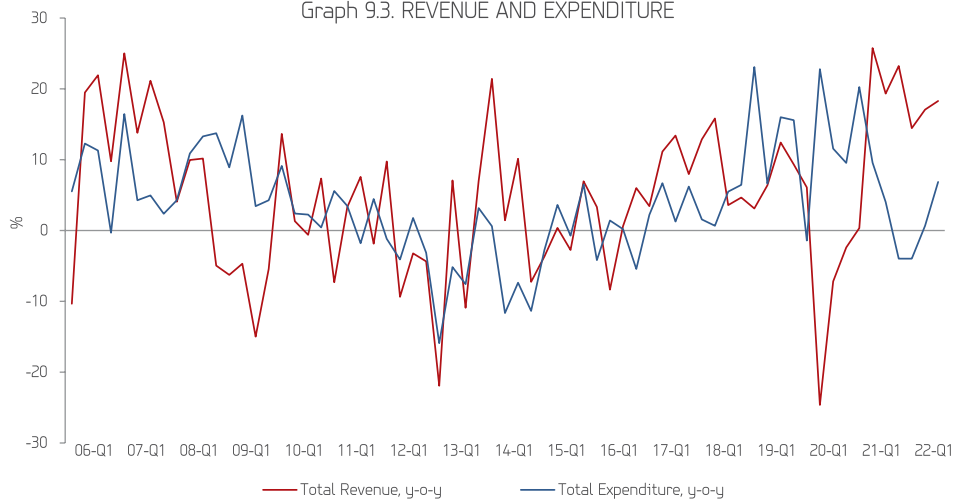
Graph 9.1. BUDGET BALANCE AND PRIMARY BALANCE



Graph 9.2. PUBLIC DEBT AND PRIMARY BALANCE



Graph 9.3. REVENUE AND EXPENDITURE



Sources: Ministry of Finance, Cystat