



MINISTRY OF FINANCE

MACROECONOMIC
MONITOR
OF CYPRUS

MAY
2023



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MACROECONOMIC MONITOR OF CYPRUS

Updated on 19 May 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 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" and "Financial Activities" (see graphs 2.1-2.4, 3.1-3.4 and 6.1-6.2).

- In April 2023, economic sentiment in Cyprus deteriorated, as the **Economic Sentiment Indicator (ESI- CypERC)** decreased by 2.8 points compared with March 2023 (see graph 1.3). The decrease in the ESI-CypERC resulted from weaker business confidence in services and industry, and from significant confidence losses among consumers.

- For the period of January-April 2023, **arrivals of tourists** totaled 736.629 compared to 534.040 in the corresponding period of 2022, recording an increase of 37.9% (see graph 6.3). Arrivals from the United Kingdom were the main source of tourism for April 2023, with a share of 36.3% of total arrivals, followed by Israel with 9.9%, Poland and Germany with 6.7% respectively and Greece 6.2%.

- **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 6.8% in March 2023 compared to 6.4% in March 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 1st quarter of 2023 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 April 2023 recorded an increase of 3.9% compared to an increase of 6.1% in March 2023 (see graph 5.1) and for January-April 2023 it stands at 5.9%. Compared to January-April 2022, the largest changes were noted in Housing, Water, Electricity, Gas and Other Fuels (14.0%), Food and Non-Alcoholic Beverages (8.5%) and Restaurants

and Hotels (8.2%). Core HICP recorded an increase of 5.9% in January-April 2023 (see graph 5.2).

- **Imports of goods recorded an increase of 41.2%** in January-March 2023 compared to January-March 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 13.2%.

- **Exports of goods recorded an increase of 8.1%** in January-March 2023 compared to January-March 2022. Exports of goods, excluding exports of aircrafts and vessels, exhibit a decrease of 2.6%.

External Sector

- The **current account (CA)** balance of Cyprus (see graph 6.4) recorded a deterioration, with the deficit increasing from €1,638.2 mn (-6.8% of GDP) in 2021, to €2,463.3 mn (-9.1% of GDP), in 2022. The increase in the Current Account deficit resulted from the deterioration of the deficit in Goods and the increase in the deficit of Primary Income. The aforementioned developments were partly offset by the improved surplus in Services, and 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 €2,819.9 mn (-10.4% of GDP) in 2022, compared with a deficit of €1,946.5 mn (-8.1% of GDP) in 2021.

- The **international investment position (IIP)** (see graph 6.5) recorded a small deterioration in 2022, presenting a net liability position of €28,439.5 mn, compared with a net liability position of €28,282.4 mn in 2021. With the corresponding data being adjusted for the impact of SPEs, IIP recorded a net liability position of €11,037.3 mn in 2022, compared with a net liability position of €10,759.2 mn, in 2021.

- The **gross external debt** decreased to €167,649.7 mn in 2022 from €168,002.7 mn in 2021. The external assets in debt instruments increased to €152,293.4 mn, up from €130,872.1 mn in 2021. Consequently, the net external debt decreased by €21,774.3 mn to €15,356.3 mn, in 2022. Adjusted for the impact of SPEs, gross external debt reached €61,856.7 mn in 2022, compared to €69,108.3 mn, in 2021. The corresponding net external debt indicator decreased further to -€10,311.2 mn in 2022, compared with -€3,111.3 mn in 2021.

Public Finances

- **General government budget balance (GGBB)** recorded a surplus in January-March 2023, of the order of €324.1 mn (1.1% of GDP) compared to a surplus of €239.9 mn (0.9% of GDP) during the corresponding period the year before (see graph 9.1).
- **General government primary balance (GGPB)** recorded a surplus in January-March 2023, of the order of €401.7 mn (1.4% of GDP) compared to a surplus of €326.0 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 11.4%, reaching €2,479.9 mn in January-March 2023, compared to €2,226.3 mn during the corresponding period the year before (see graph 9.3).
- **Total revenue** exhibited an increase of about 13.7%, reaching €2,804.0 mn in January-March 2023, compared to €2,466.2 mn during the corresponding period the year before (see graph 9.3).

Property Market

- Eurostat's **house price index** for Cyprus recorded a **decrease of 4.0%** in the 4th quarter of 2022 compared to the 3rd quarter of 2022 and an increase of 4.4% compared to the 4th 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 20.7% while **transfers of property** were down by 7.9% in January-April 2023 compared with January-April 2022 (see graph 7.3).
- Monetary Financial Institutions (MFI) **mortgage loans to domestic residents** for housing **increased by 4.0%** in March 2023 (see graph 7.2).

Banking Sector Developments

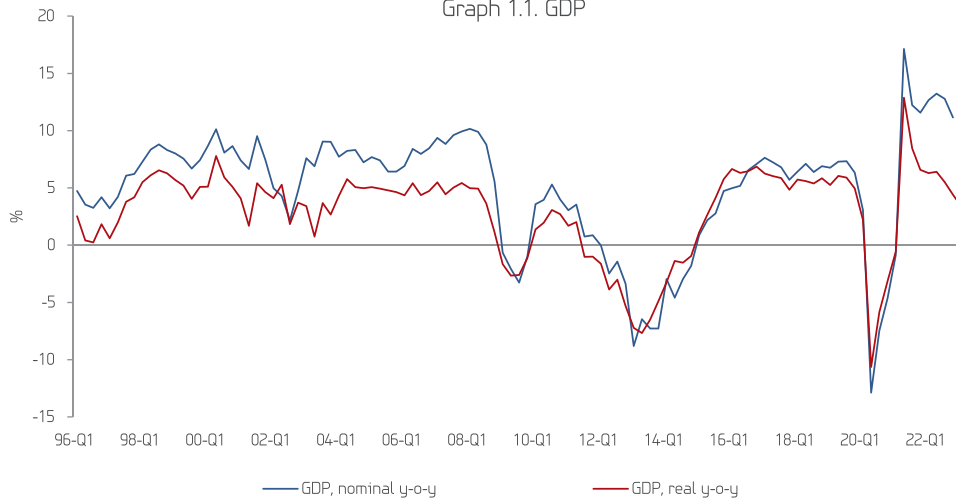
- **MFI loans to domestic residents** (private sector) **increased by 0.2%** in March 2023 (see graphs 8.2-8.4). Lending conditions remain tight (see graphs 8.6-8.7).
- **Deposits of domestic residents** held with MFIs (private sector) exhibited an **increase of 4.3%** in March 2023 (see graph 8.1).
- Overall **lending and deposit interest rates** in Cyprus are increasing following the ECB's decision to raise the three key ECB interest rates by 375 basis points (see graph 8.5). In March 2023, **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 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

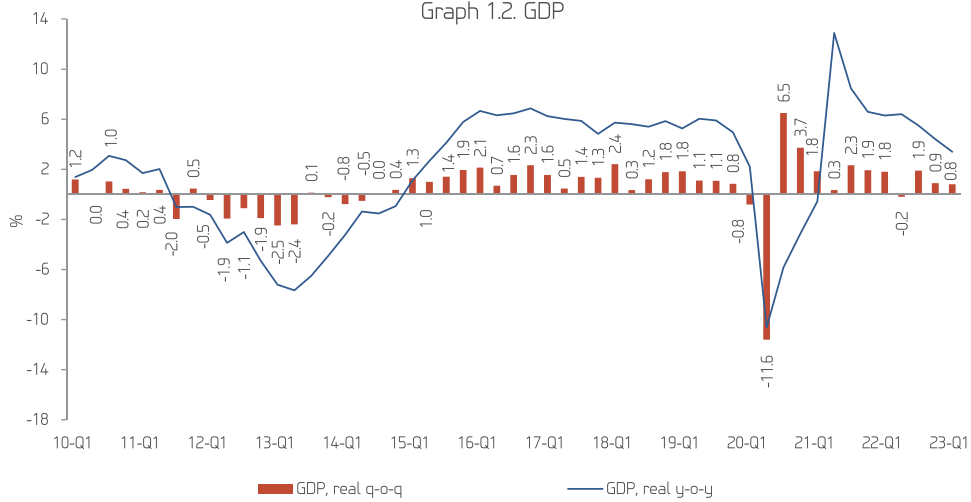
- On 31/03/2023, DBRS Ratings confirmed the Republic of Cyprus's Long-Term Foreign and Local Currency - Issuer Ratings at 'BBB' and the trend to stable.
- On 10/03/2023, Fitch Ratings upgraded Cyprus's Long-Term Foreign-Currency Issuer Default Rating (IDR) to 'BBB' from 'BBB-'. The outlook is stable.
- On 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

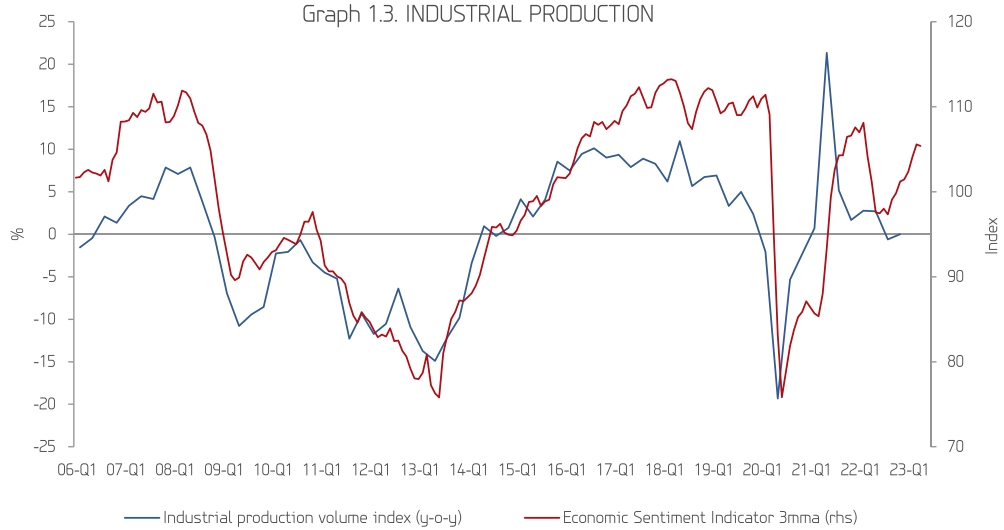
Graph 1.1. GDP



Graph 1.2. GDP



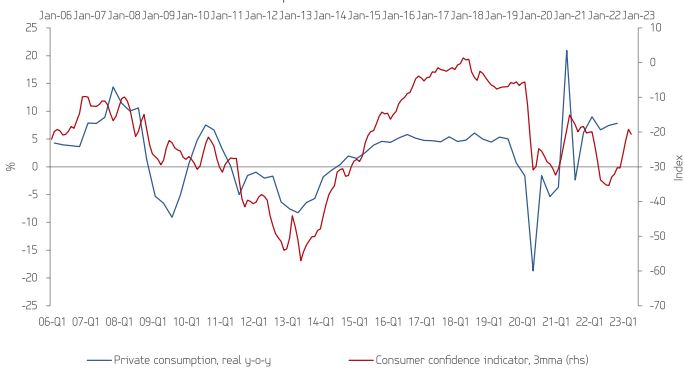
Graph 1.3. INDUSTRIAL PRODUCTION



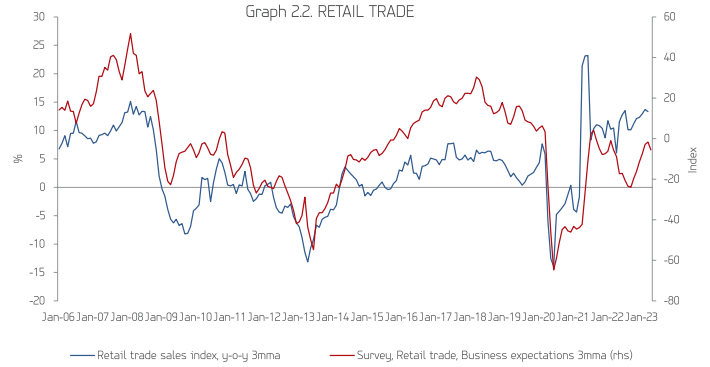
Sources: Eurostat, DG ECFIN, Cystat

2. CONSUMPTION

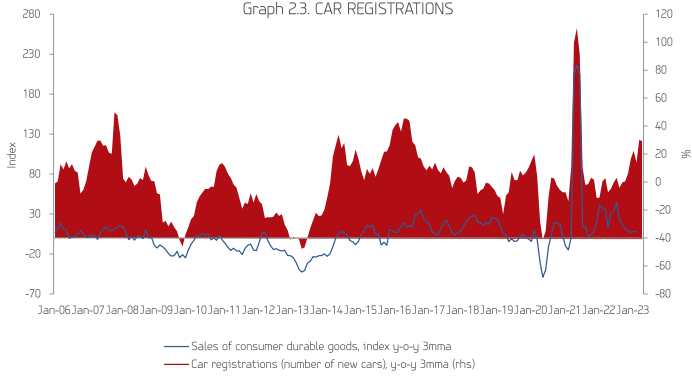
Graph 2.1. CONSUMPTION



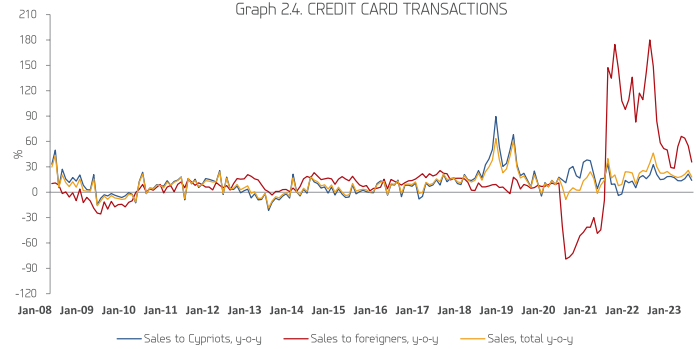
Graph 2.2. RETAIL TRADE



Graph 2.3. CAR REGISTRATIONS



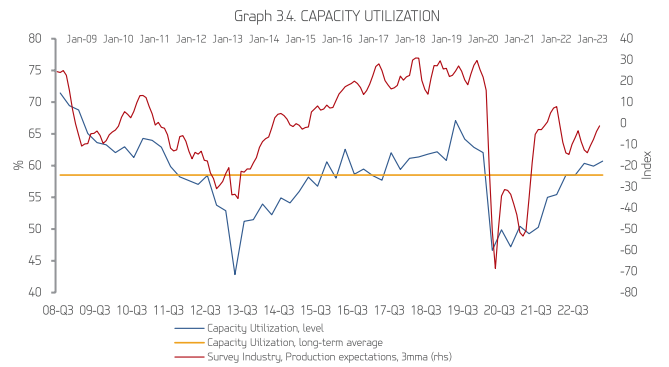
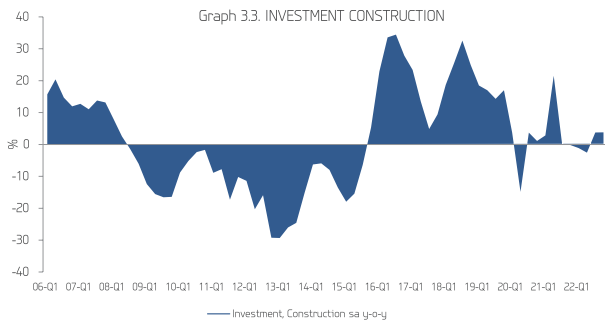
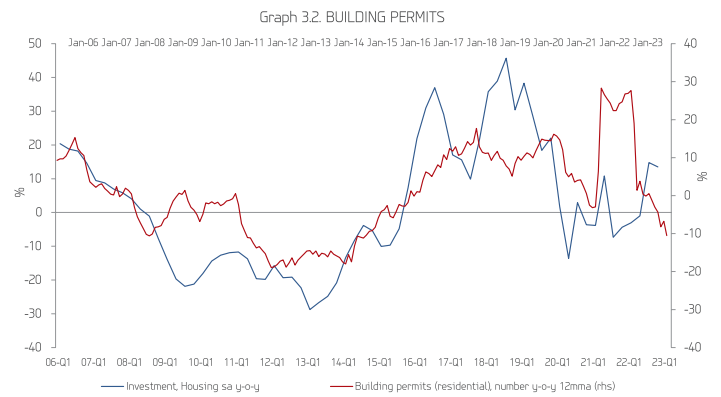
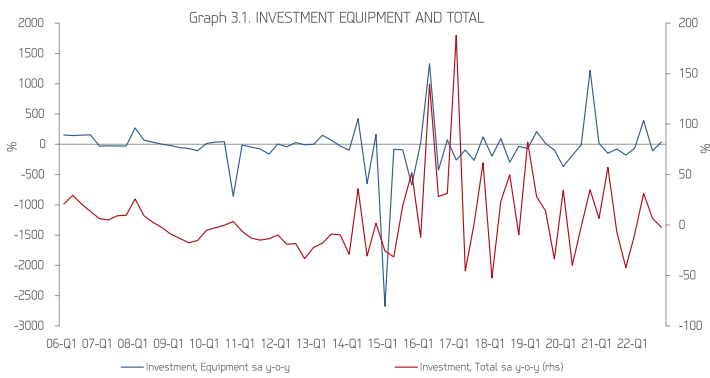
Graph 2.4. CREDIT CARD TRANSACTIONS



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

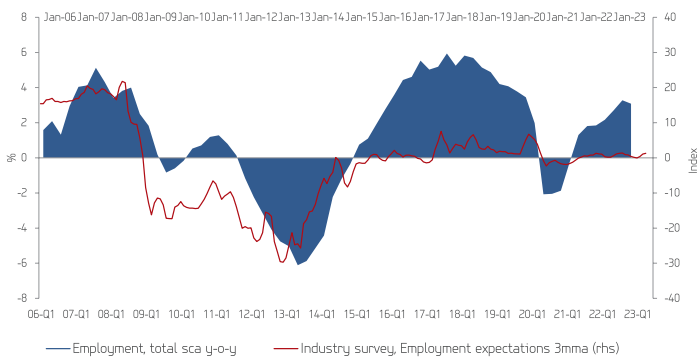
3. INVESTMENT



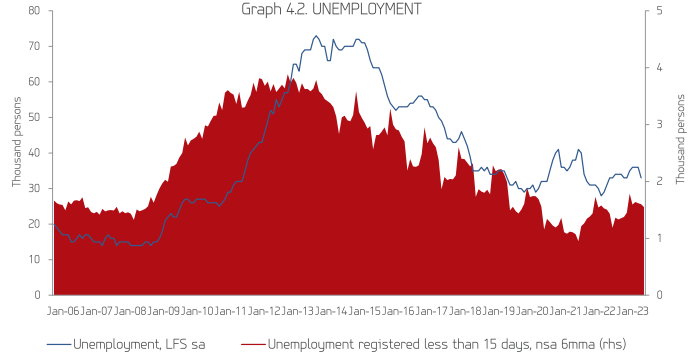
Sources: Cystat, DG ECFIN, CypERC

4. LABOUR MARKET

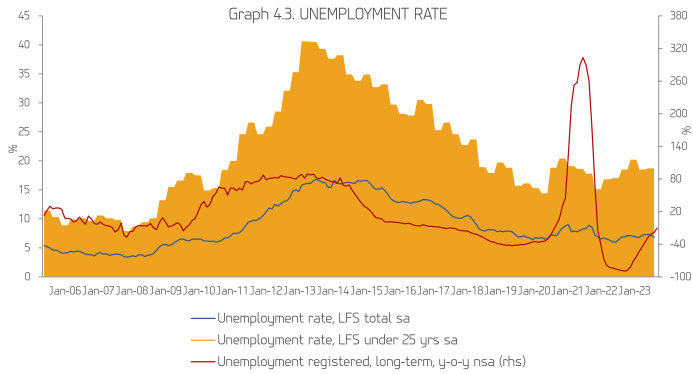
Graph 4.1. EMPLOYMENT



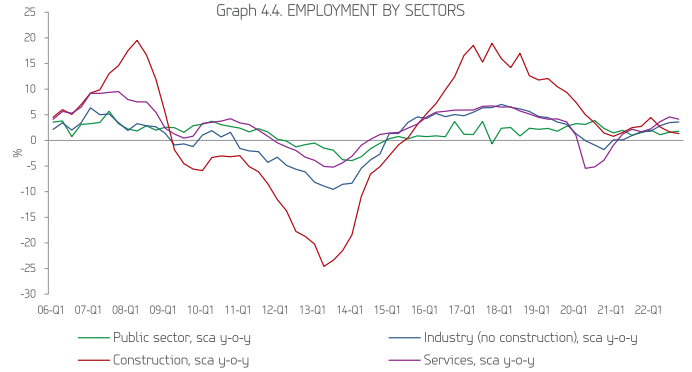
Graph 4.2. UNEMPLOYMENT



Graph 4.3. UNEMPLOYMENT RATE

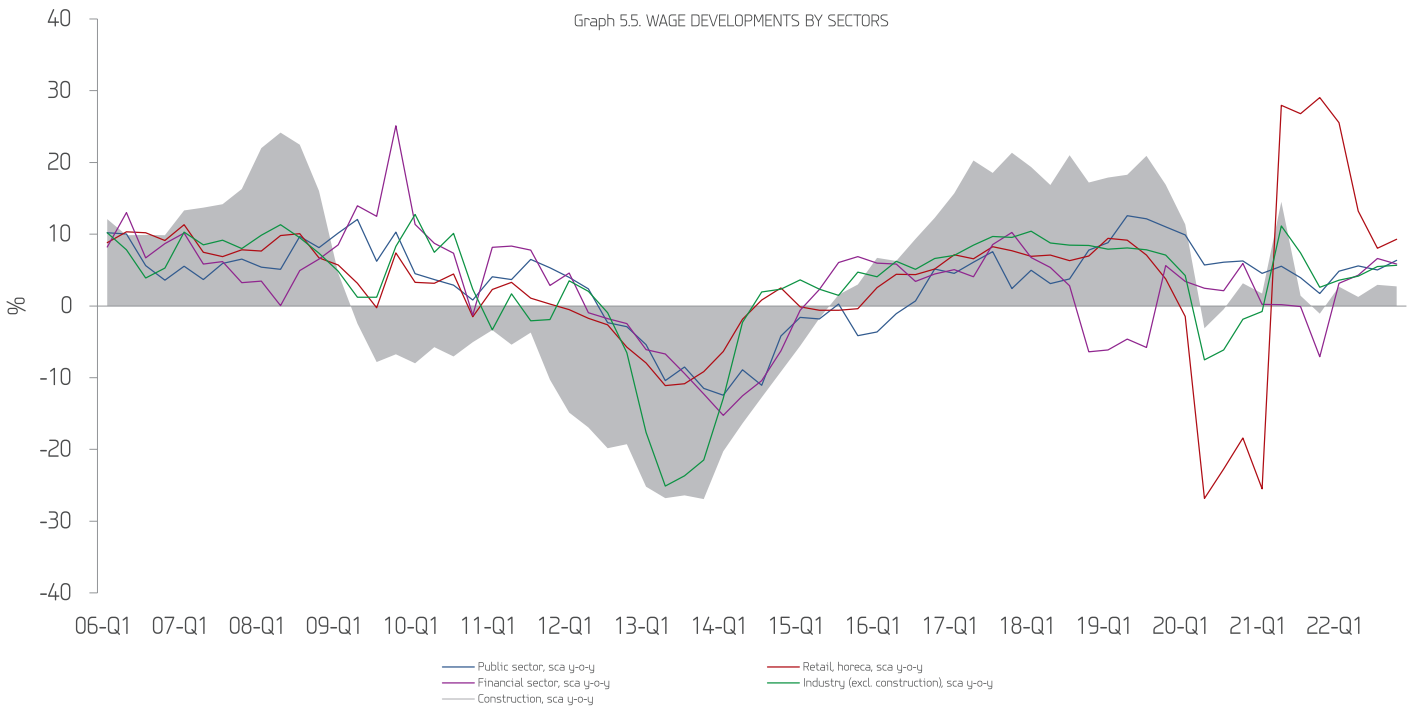
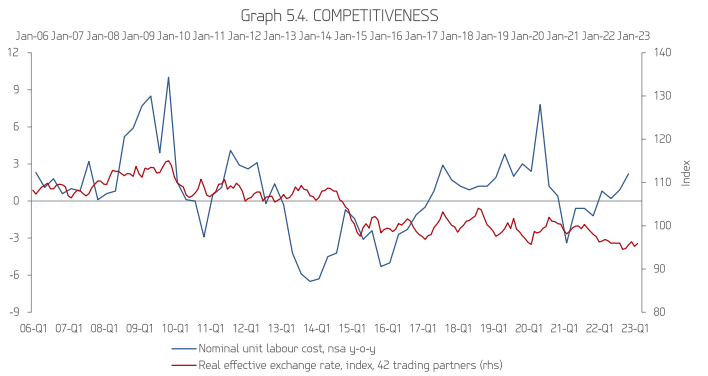
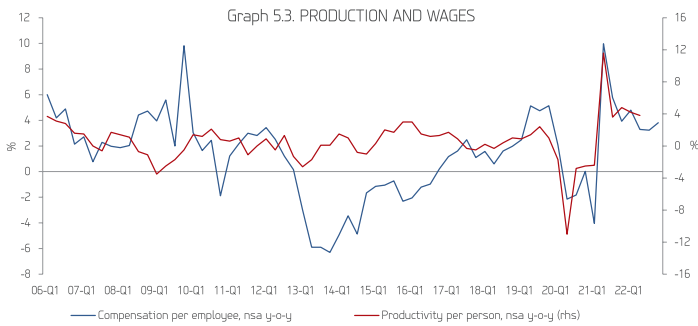
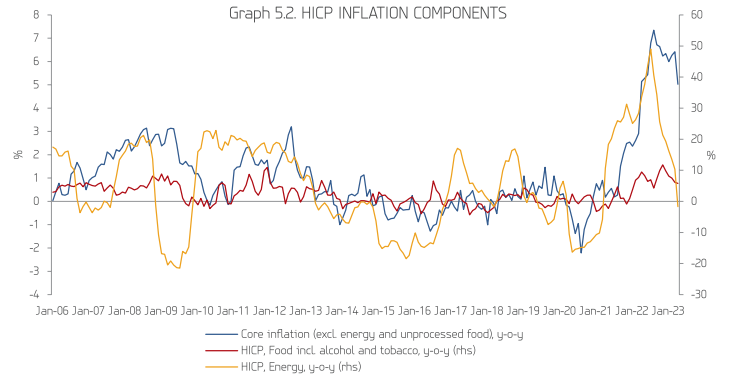
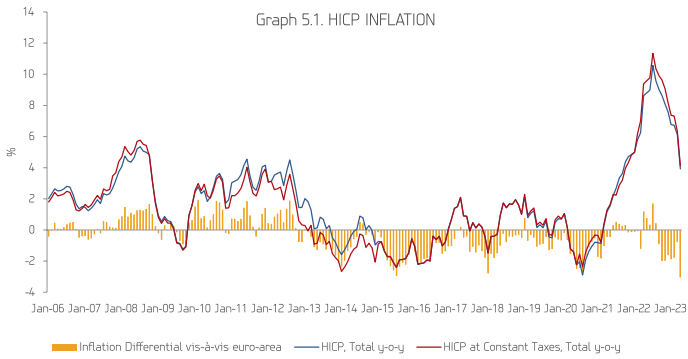


Graph 4.4. EMPLOYMENT BY SECTORS



Sources: Eurostat, DG ECFIN, Cystat

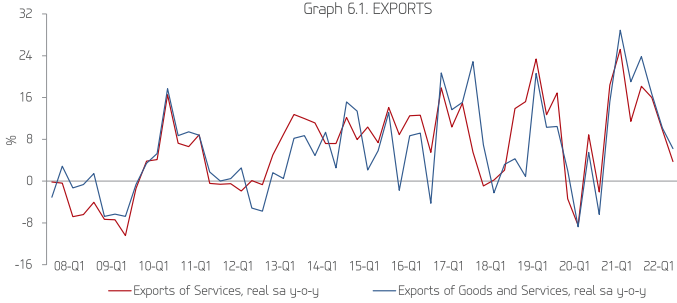
5. INFLATION / WAGES



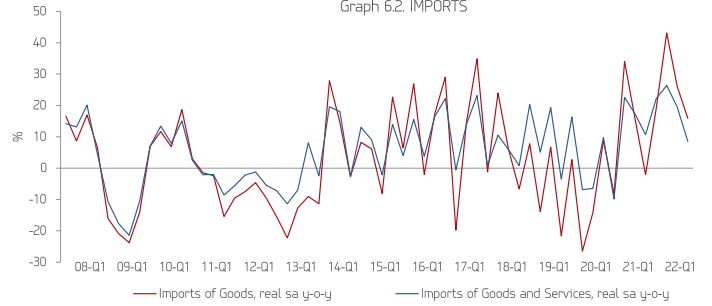
Source: Eurostat

6. EXTERNAL SECTOR

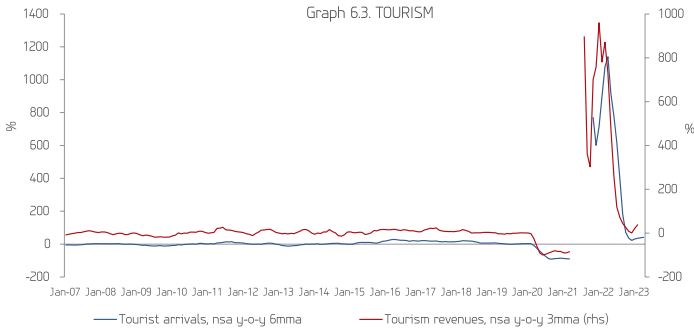
Graph 6.1. EXPORTS



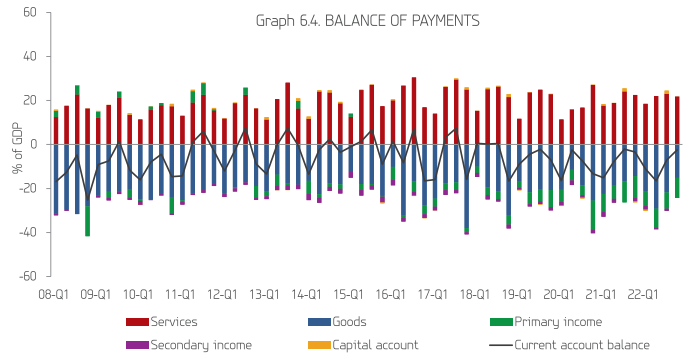
Graph 6.2. IMPORTS



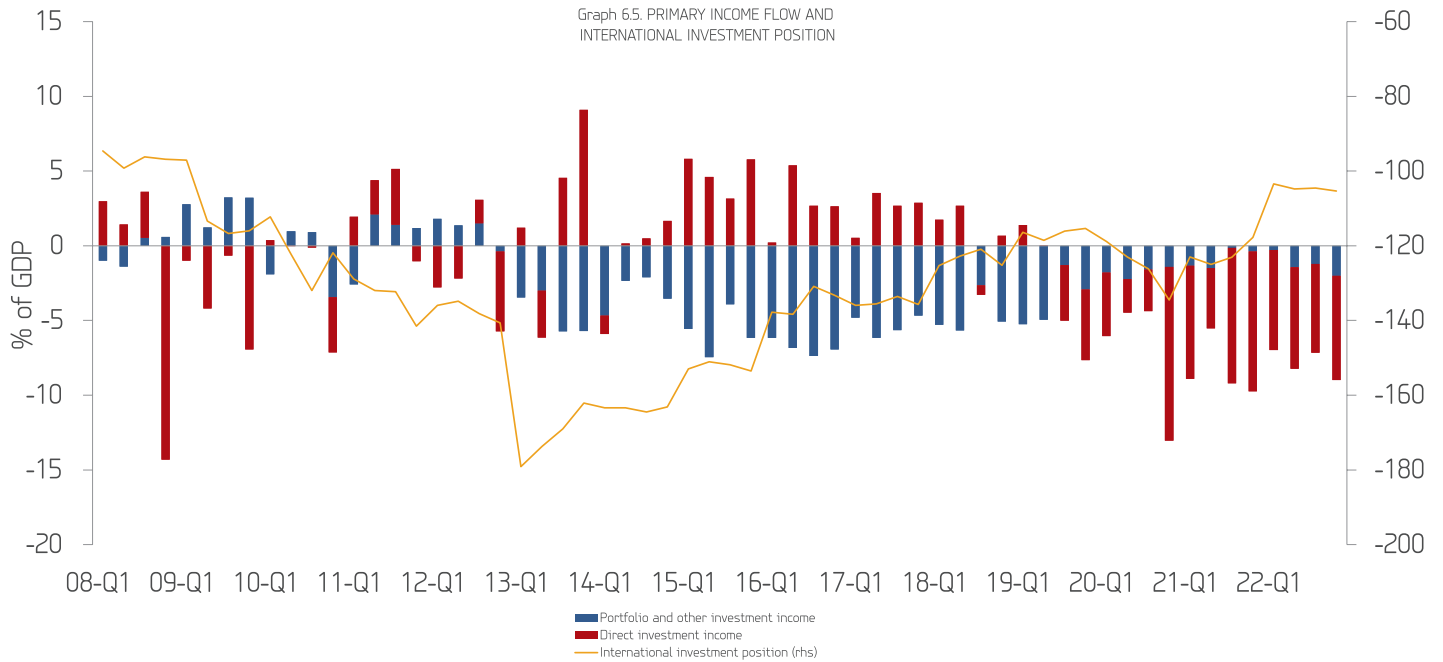
Graph 6.3. TOURISM



Graph 6.4. BALANCE OF PAYMENTS



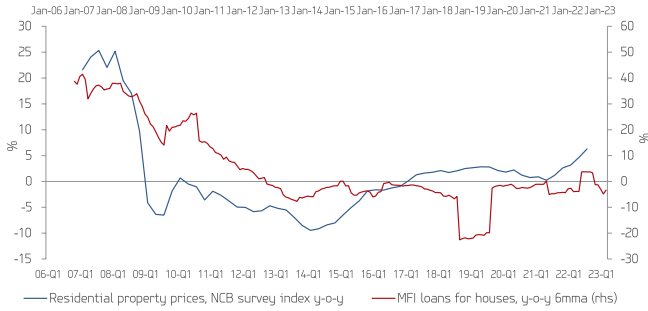
Graph 6.5. PRIMARY INCOME FLOW AND INTERNATIONAL INVESTMENT POSITION



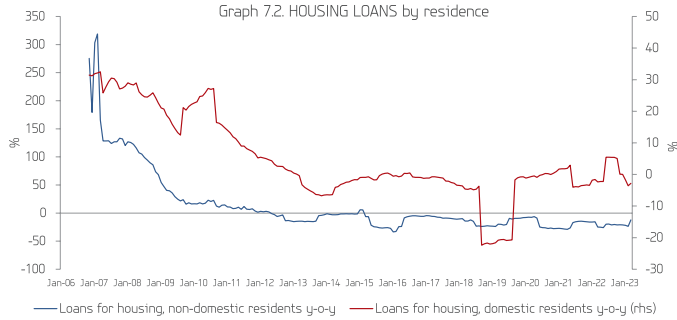
Sources: Cystat, CBC

7. HOUSING

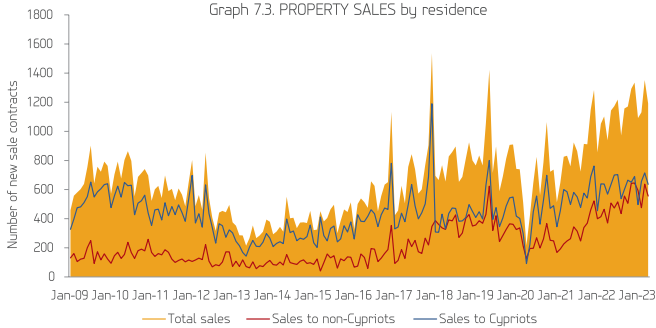
Graph 7.1. HOUSE PRICES AND HOUSING LOANS



Graph 7.2. HOUSING LOANS by residence



Graph 7.3. PROPERTY SALES by residence

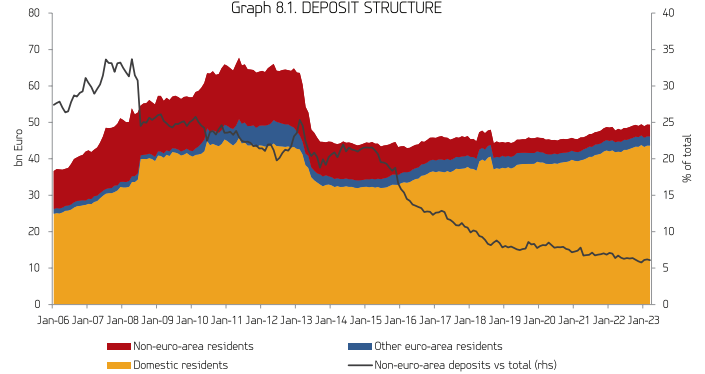


Note: According to the relevant modifications to the codification of the term “Alien” in the Land Information System, the way the statistics are presented has been modified. Therefore, the suggestion of the Department of Lands and Surveys is to avoid the comparison of the specific data from 2018 onwards,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

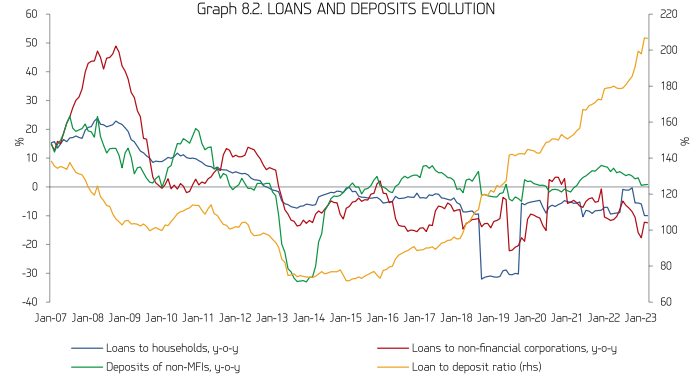
Sources: CBC, Dep. of Lands and Surveys

8. FINANCIAL SECTOR

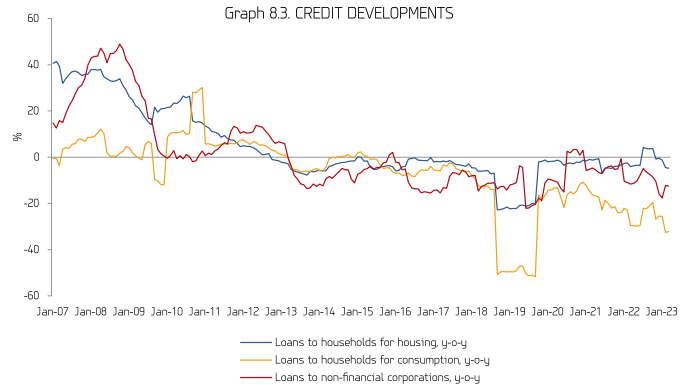
Graph 8.1. DEPOSIT STRUCTURE



Graph 8.2. LOANS AND DEPOSITS EVOLUTION

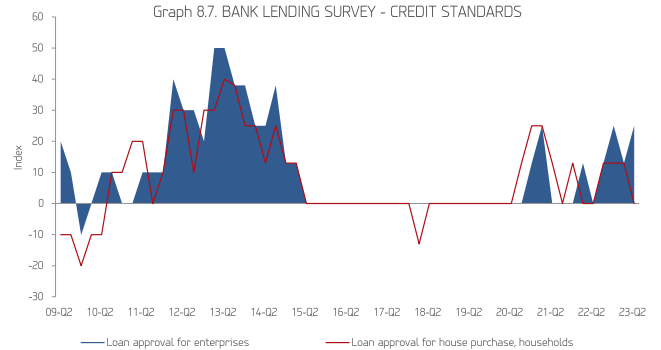
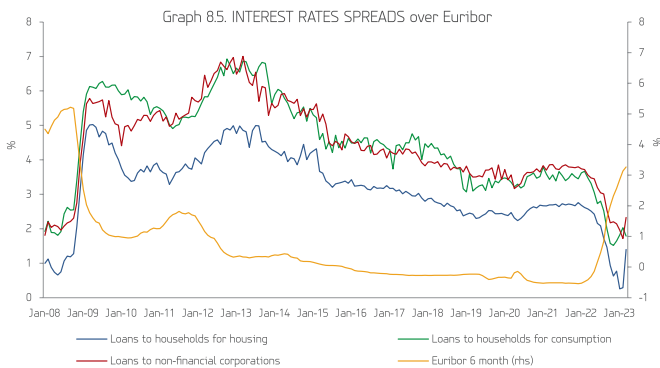
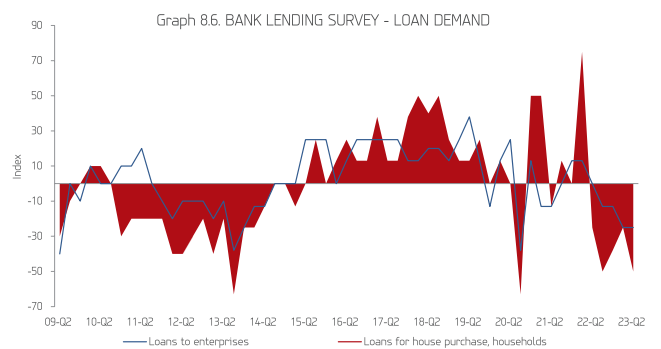
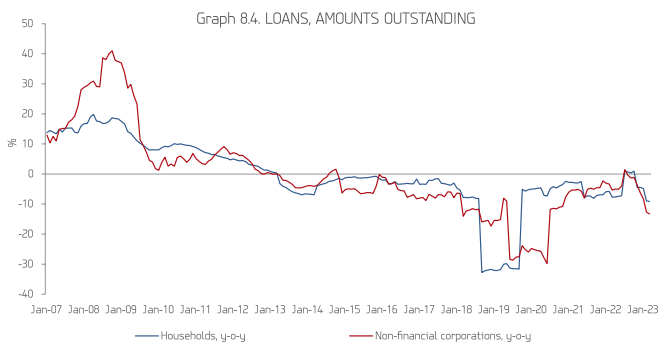


Graph 8.3. CREDIT DEVELOPMENTS



Source: CBC, EMMI

8. FINANCIAL SECTOR

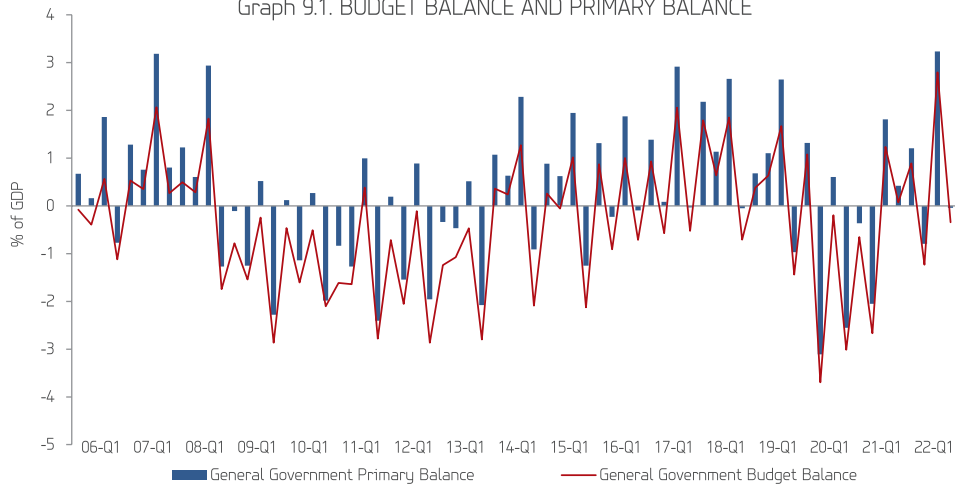


Sources: CBC, EMMI

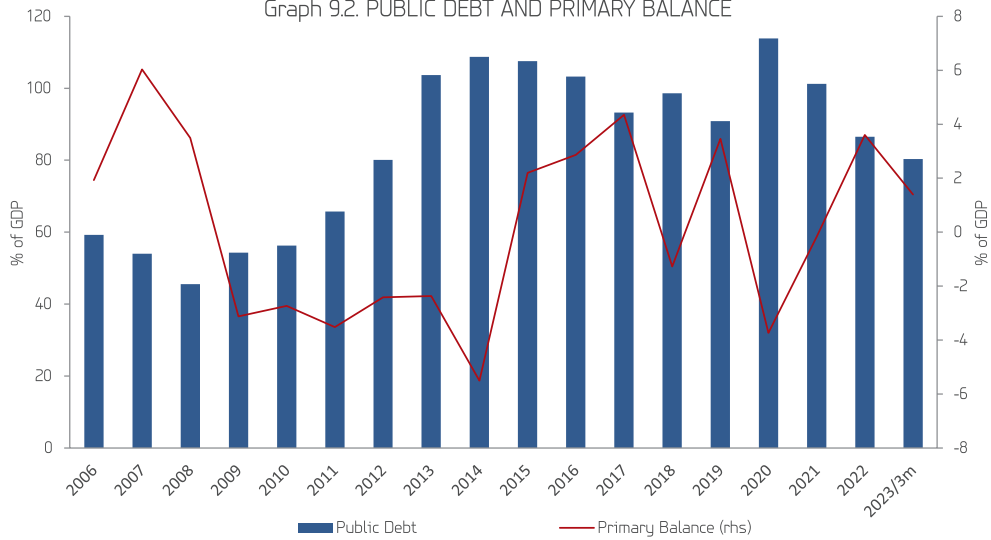
Source: ECB

9. PUBLIC SECTOR

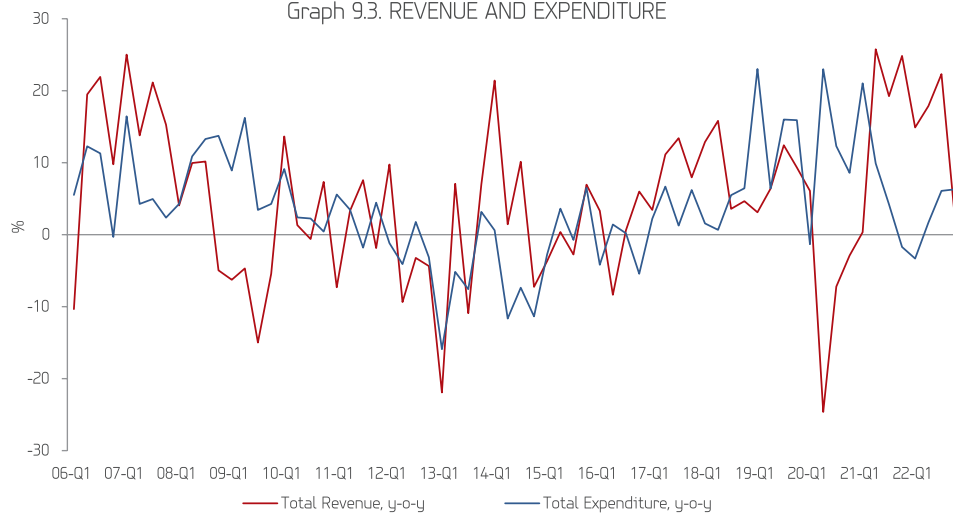
Graph 9.1. BUDGET BALANCE AND PRIMARY BALANCE



Graph 9.2. PUBLIC DEBT AND PRIMARY BALANCE



Graph 9.3. REVENUE AND EXPENDITURE



Sources: Ministry of Finance, Cystat