

Macroeconomic Outlook

March 2023

Ministry of Finance



OUTLINE

- 01/** *Main messages*
- 02/** *Current situation*
- 03/** *Medium-term framework*
- 04/** *Risks to the outlook*
- 05/** *Policy challenges – Structural reforms*
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MAIN MESSAGES

- *Economic activity in 2021 recovered following the COVID-19 pandemic, with the GDP increasing by 6.6%.*
- *Labour market developments showed resilience and flexibility, conditions improved.*
- *Inflation increased due to higher energy prices.*
- *In 2022, economic activity remained strong, despite the adverse external environment.*
- *Overall, for 2022 as a whole, the economy grew by 5.6% in real terms. This positive outturn is largely due to the better than expected developments in the tourism sector and the continued expansion of exports in other services.*



SUMMARY 2022

- *In 2022, the **economy** recorded a positive growth rate of 5.6% in real terms, compared with 2021.*
- *In terms of **domestic demand**, it increased by 9.8% compared to the corresponding period of 2021, and more specifically public consumption increased by 3.5% and private consumption increased by 7.7%. Gross fixed capital formation increased by 6.6% over the same period.*
- *In terms of **external demand**, exports increased by 14.3% while imports increased by 19.5% in 2022 compared with 2021.*
- *From a **sectoral point** of view, growth in 2022 is widespread across sectors, with negative growth recorded only in Construction.*



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PROSPECTS 2023-2025

- *Going forward, according to the baseline macroeconomic scenario as presented in DBP 2023, growth in the medium term is expected to continue on a positive path, albeit at a decelerated pace, with annual growth in 2023 expected to at a rate of 3%, in real terms. The deceleration is attributed to the expected deterioration of the external economic environment and to the impact of the continued rise of energy prices, coupled with the increases in interest rates, that will put a pressure on both domestic and external demand.*
- *Over the period 2024-2025, growth is expected to stabilize, with real GDP growth projected at 3.3% and 3.2% respectively.*



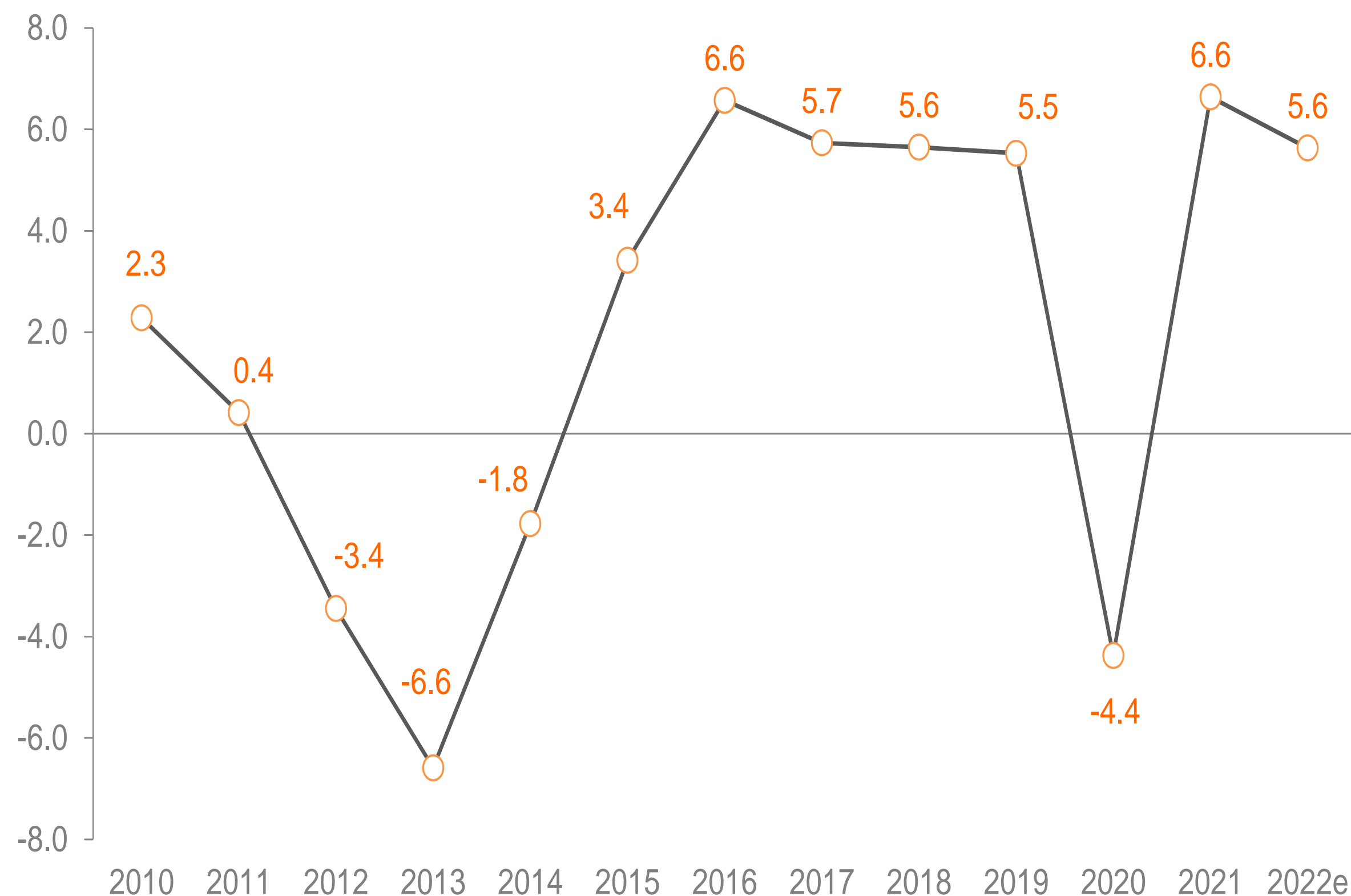
CYPRUS ECONOMY IN 2022



From the expenditure side, growth was mainly driven by domestic demand, increases in private consumption and investment.

From the production side, growth is widespread across sectors, with negative growth recorded only in “Construction”. Growth was more pronounced in the sectors “Information and communication”, “Accommodation and food service activities”, “Wholesale and retail trade; repair of motor vehicles and motorcycles;” and “Transportation and storage”.

Real GDP 2010-2022 (%)



Source: Cystat

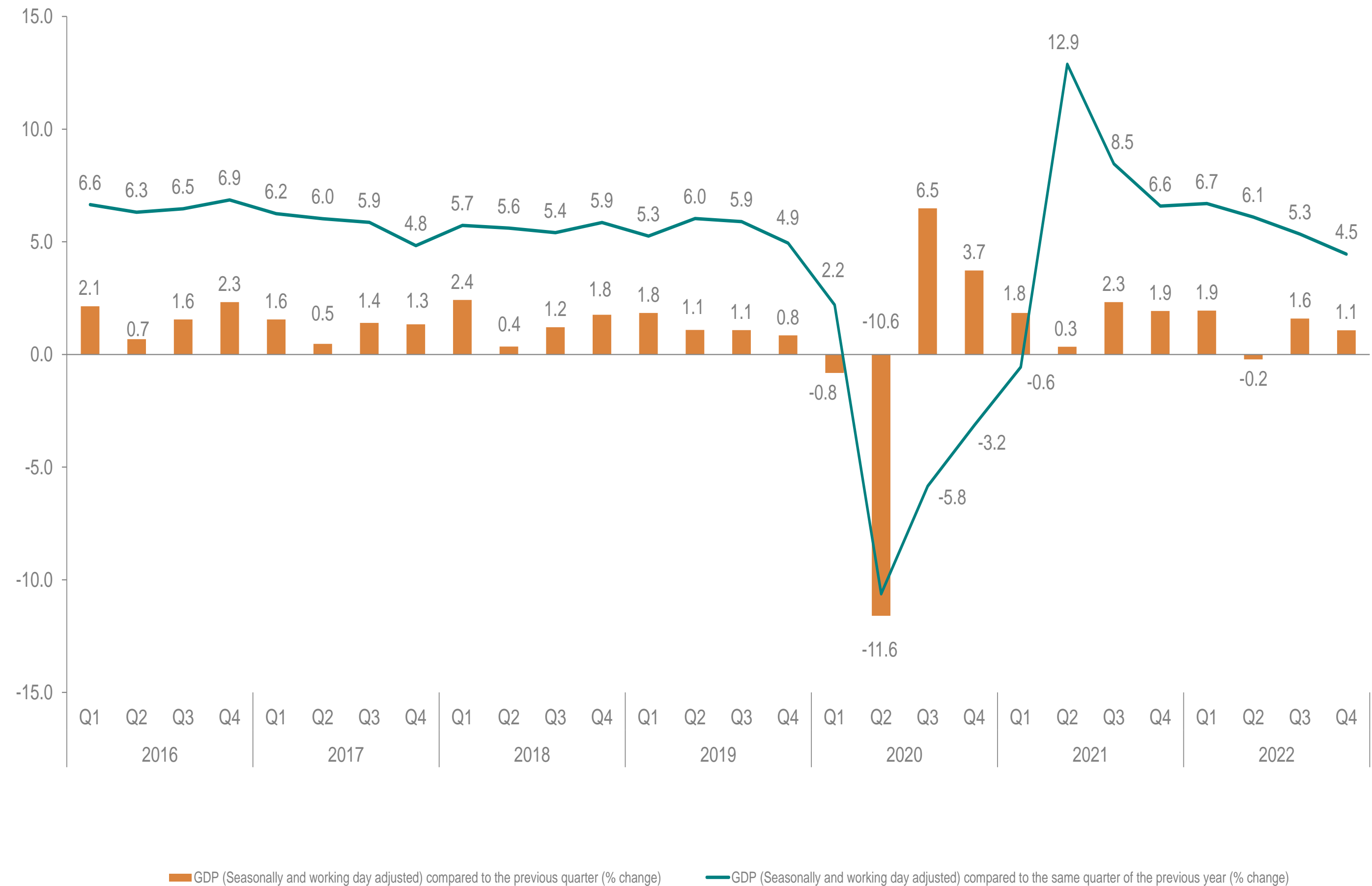


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FACTORS AFFECTING THE ECONOMY

- *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*

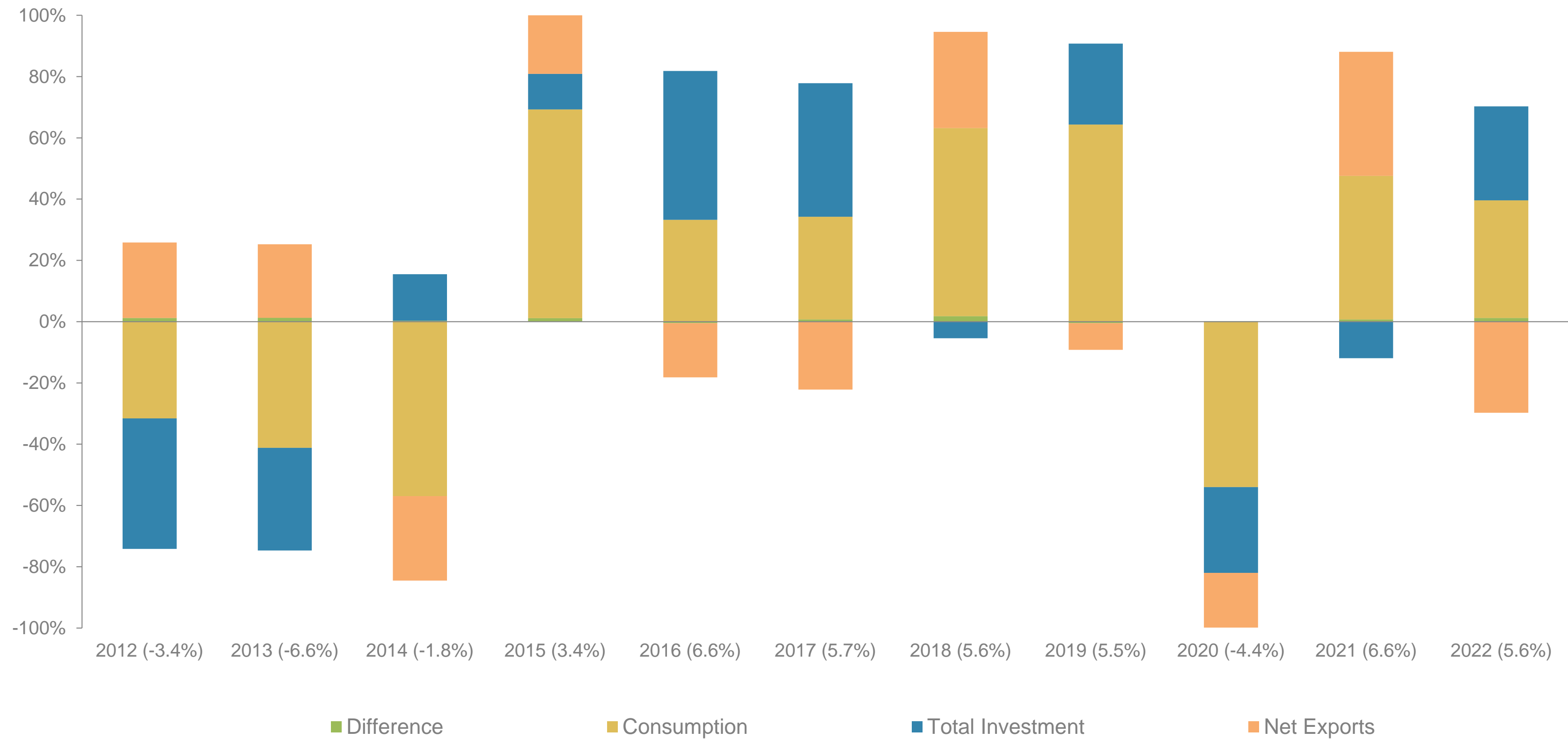
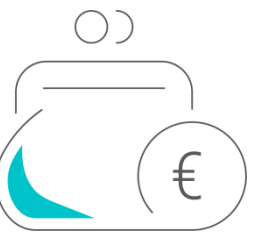


Source: Cystat



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



Source: Cystat



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HICP INFLATION

(annual change %)

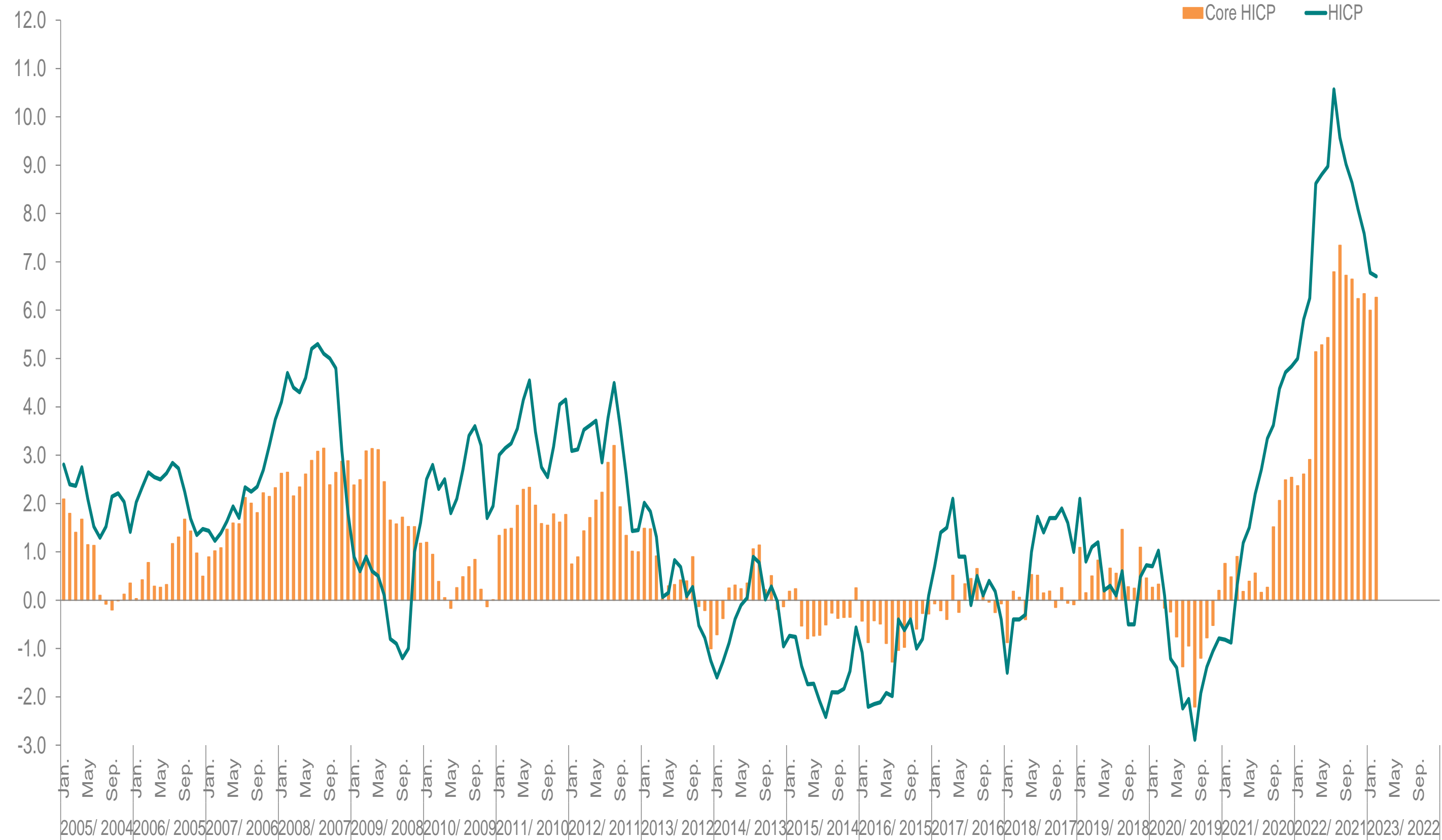
- Normal adjustment of prices given recession.

- 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-December 2022, HICP increased by 8.1% and core HICP increased by 5.3%.

- In January-February 2023, HICP increased by 6.8% and core HICP by 6.1%.



Sources: Cystat and Eurostat



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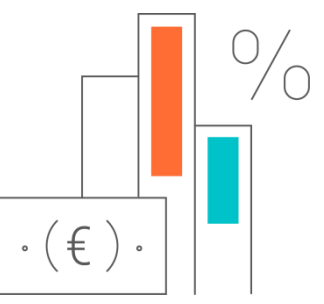
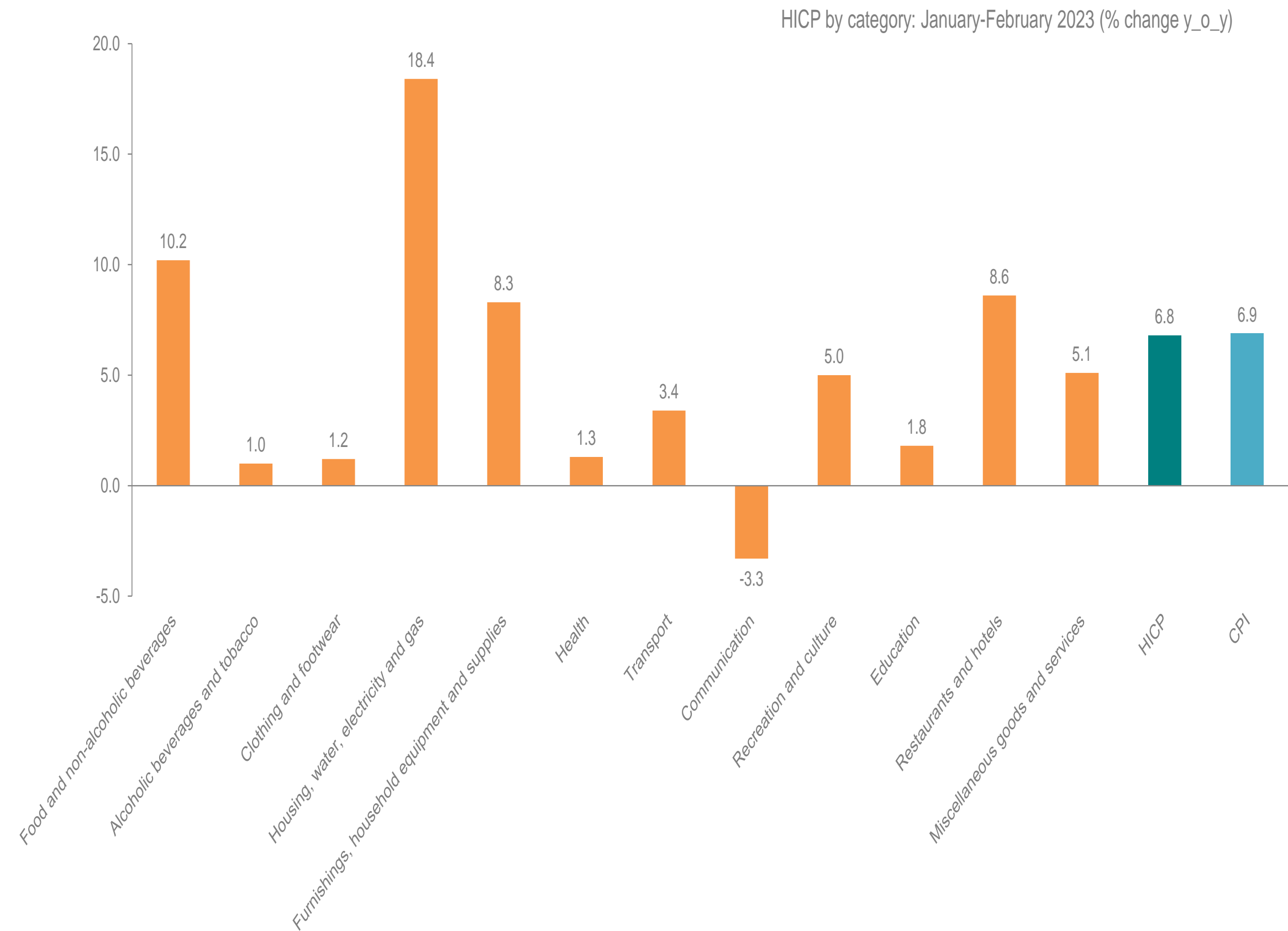
HICP by category, %

-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-December 2022, compared to the corresponding period of the previous year, the largest changes were noted in Housing, Water, Electricity, Gas and Other Fuels (21.5%) and Transport (14.2%).

-In January-February 2023, compared to January-February 2022, the largest changes were noted in Housing, Water, Electricity, Gas and Other Fuels (18.4%) and Food and Non-Alcoholic Beverages (10.2%).

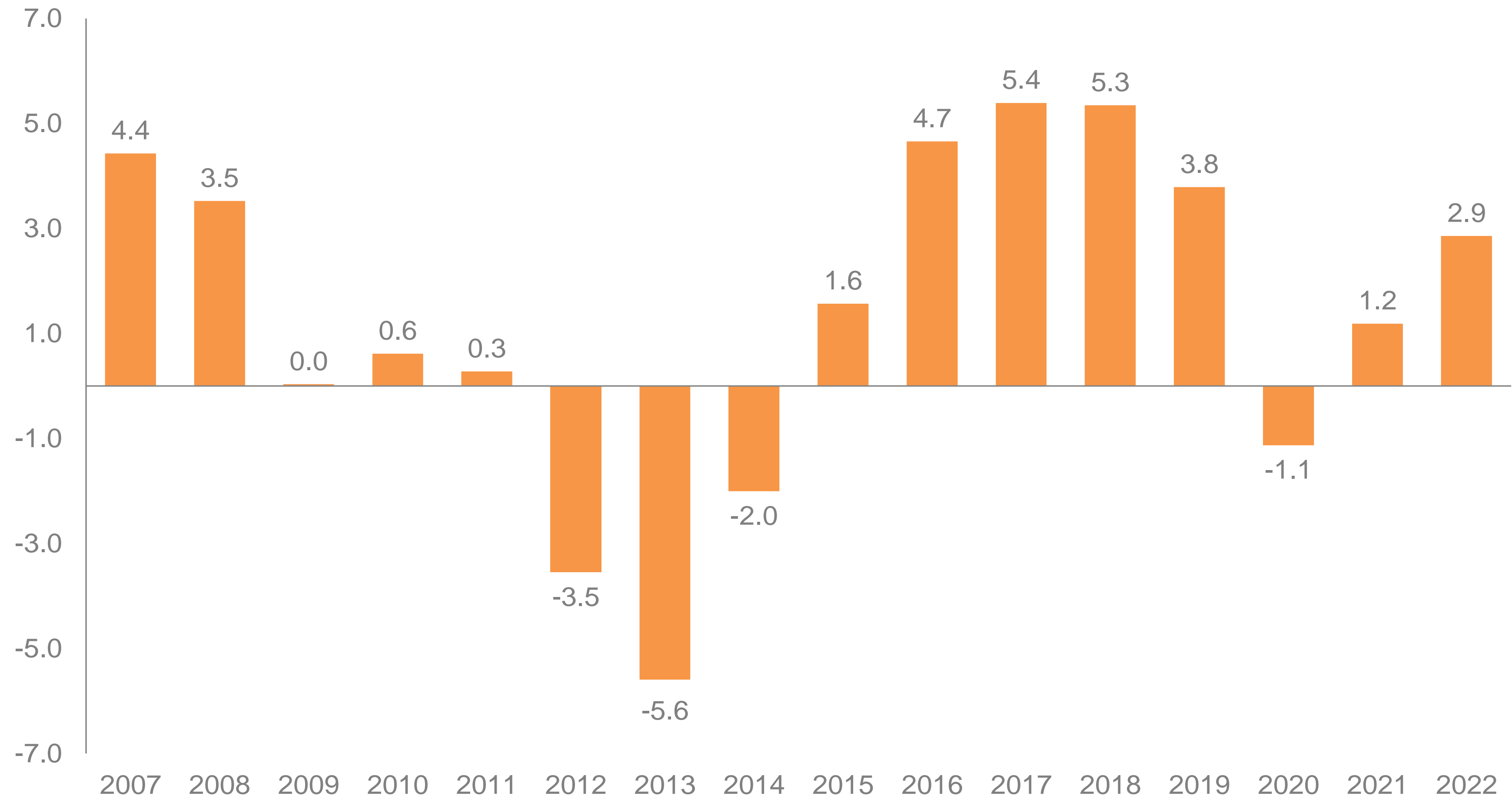


Source: Cystat



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Employment, persons NA (% change)



Source: Cystat



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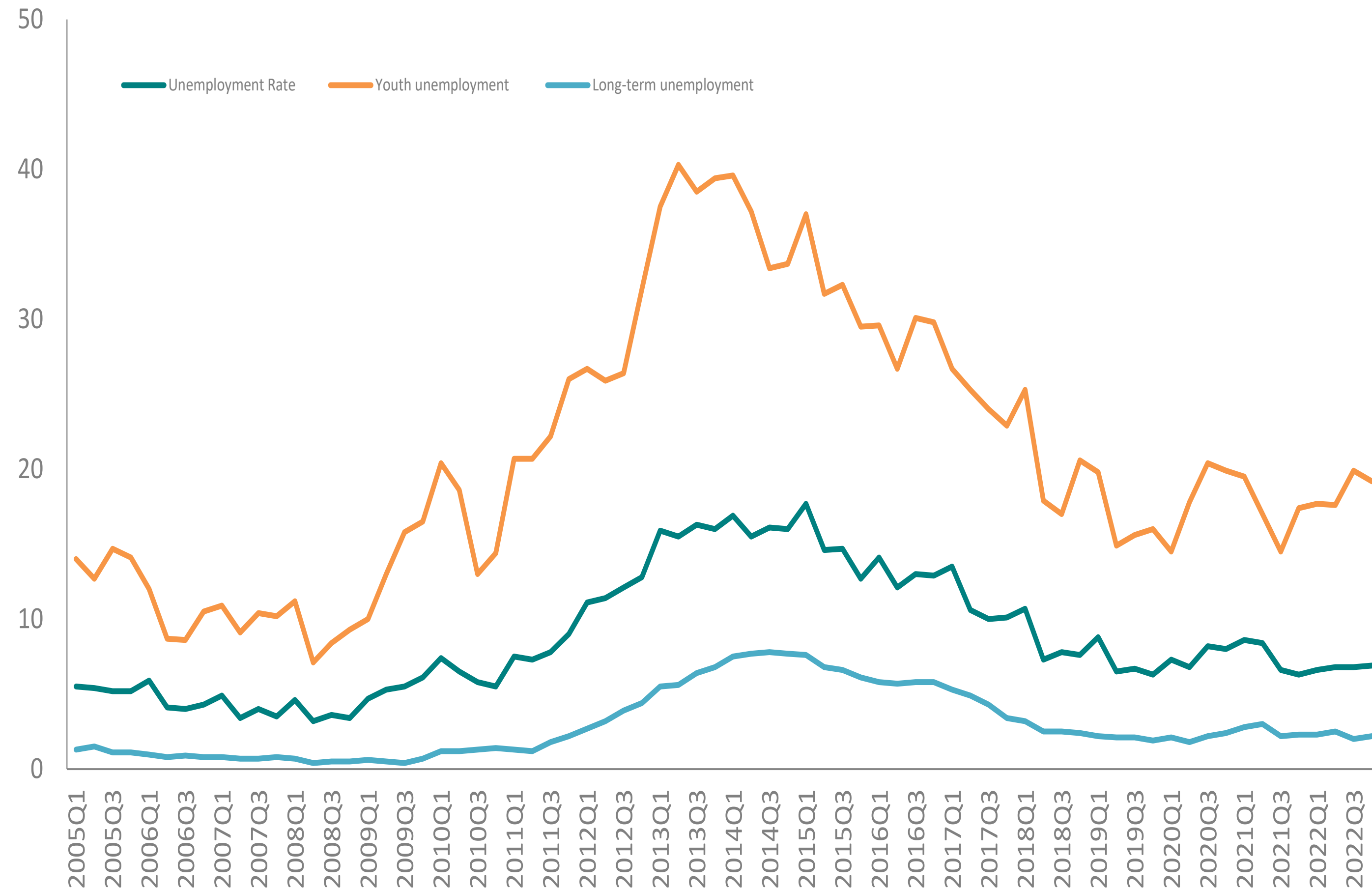
LFS Unemployment - %

-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 2022, the unemployment rate stood at 6.8%, youth unemployment at 18.6%, and long-term unemployment at 2.3%.

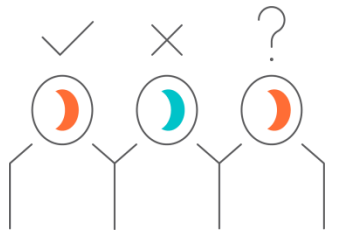
-Signs that the labour market returns to pre-COVID period via increasing reduction in inactivity rate and higher vacancy rates.



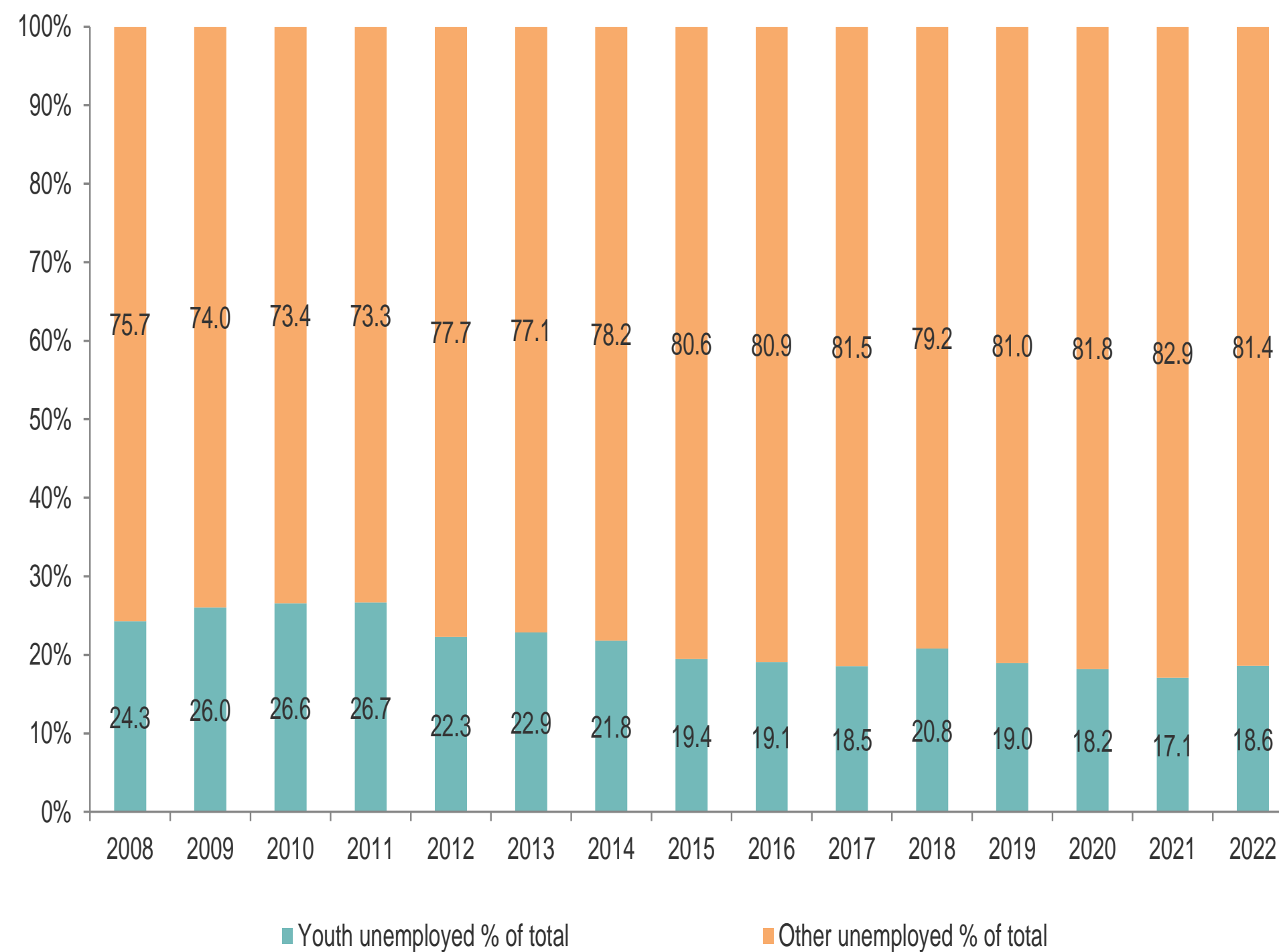
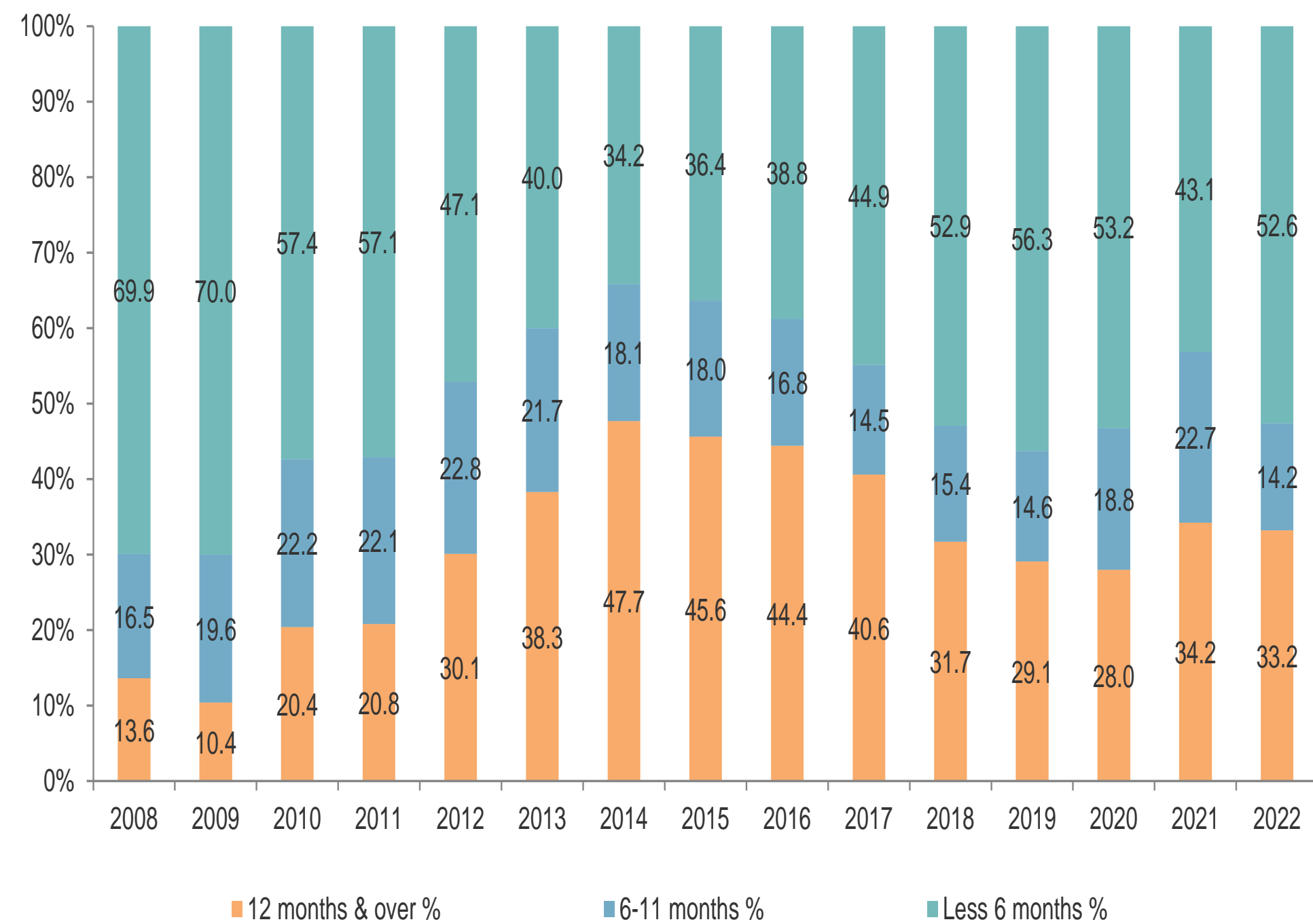
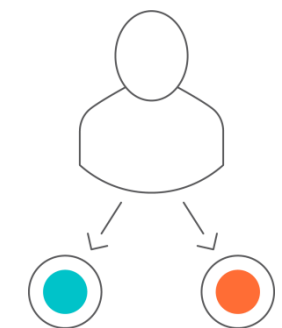
Source: Cystat



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Unemployed by duration and age, %



Source: Cystat



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Credit cards (annual change):

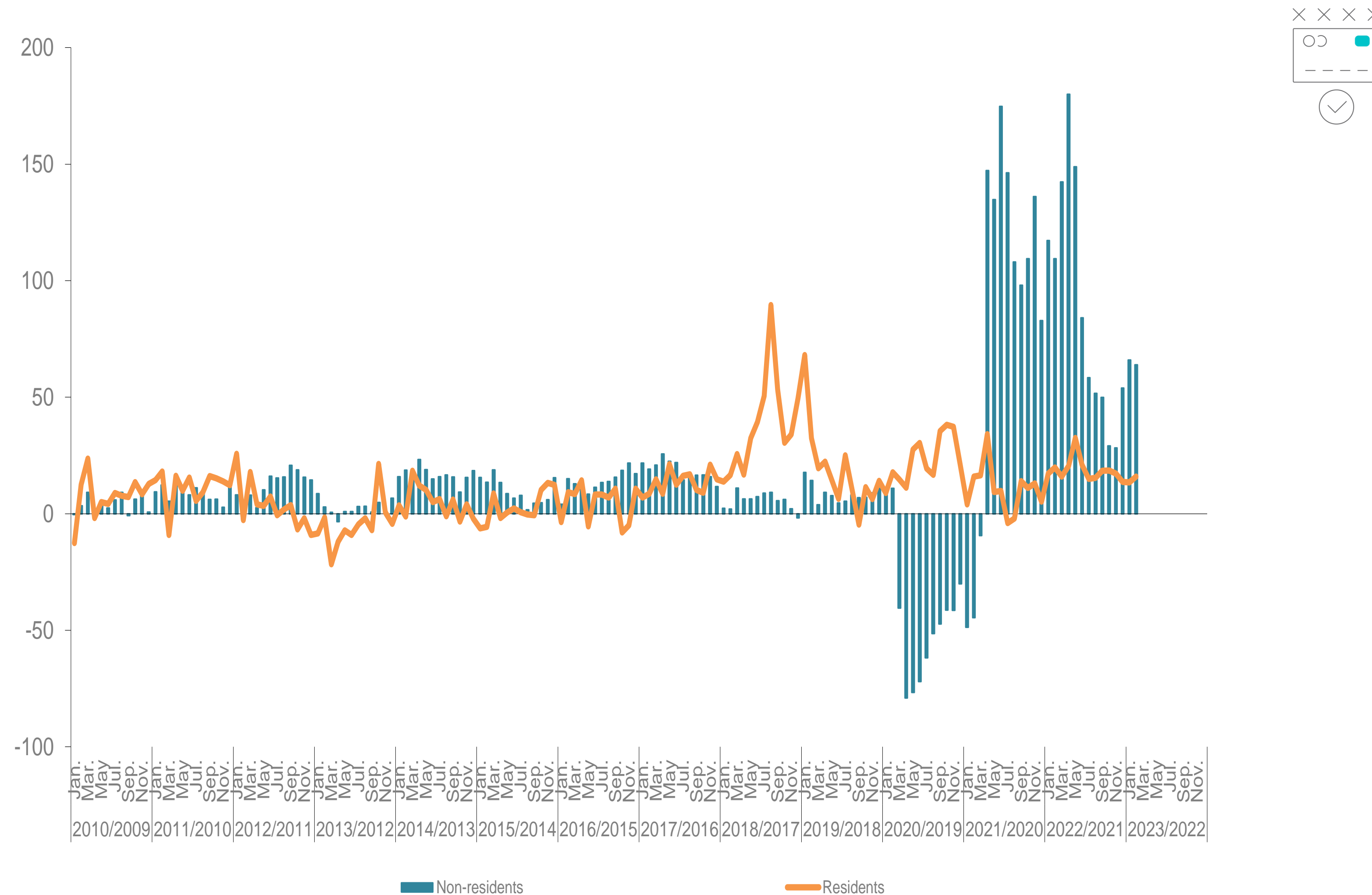
-Increase of credit card transactions domestically.

-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-December 2022 increased by 25.2% in credit card total sales (18.4% increase in domestic and 68.1% increase in foreign).

-In January-February 2023 increased by 19.8% in credit card total sales (14.7% increase in domestic and 65% 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%.

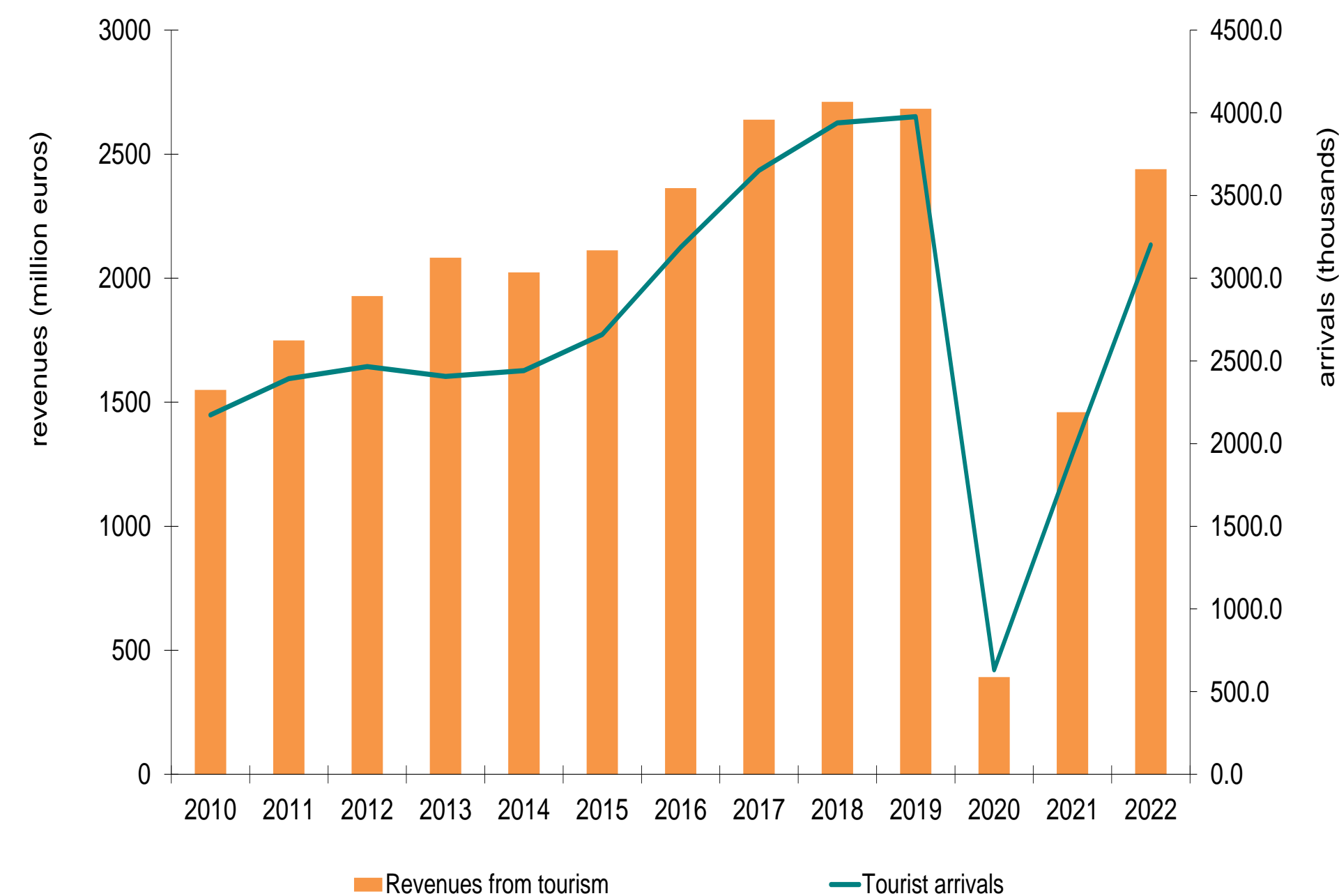
-In 2021 tourist arrivals increased by 206.7% and revenues from tourism increased by 286.1%.

-In 2022, arrivals of tourists totaled 3.201.080 compared to 1.936.931 in 2021. In January-December 2022, revenue from tourism is estimated at €2,439.2 mn compared to €1,513.6 mn in the corresponding period of 2021.

-In January-February 2023, arrivals of tourists totaled 209.630 compared to 115.865 in January-February 2022 (+80.9%).

Tourism % change	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total	+ 10.1	+3.0	-2.4	+1.5	+8.9	+19.8	+14.6	+7.8	+1.0	-84.1	+206.7	+65.3
United Kingdom	+2.5	-6.0	-7.1	-2.2	+19.5	+11.2	+8.3	+5.9	+0.2	-82.9	+71.3	+210.4
Russia	+49.2	+42.0	+28.3	+4.6	-17.6	+48.9	+5.5	-5.0	-0.2	-96.5	+1771.6	-90.0
Germany	+13.4	-8.5	-31.5	-12.7	+29.9	+10.5	+52.2	+0.2	-19.9	-60.1	+54.0	+113.1
Israel	-15.8	+23.5	+10.7	+57.6	+43.3	+50.9	+76.1	-11.2	+26.3	-90.7	+201.0	+237.9
Greece	+8.7	-4.1	-21.1	-3.8	+38.2	+14.8	+5.9	+9.8	-8.0	-63.4	+74.2	+55.2

Source: Cystat

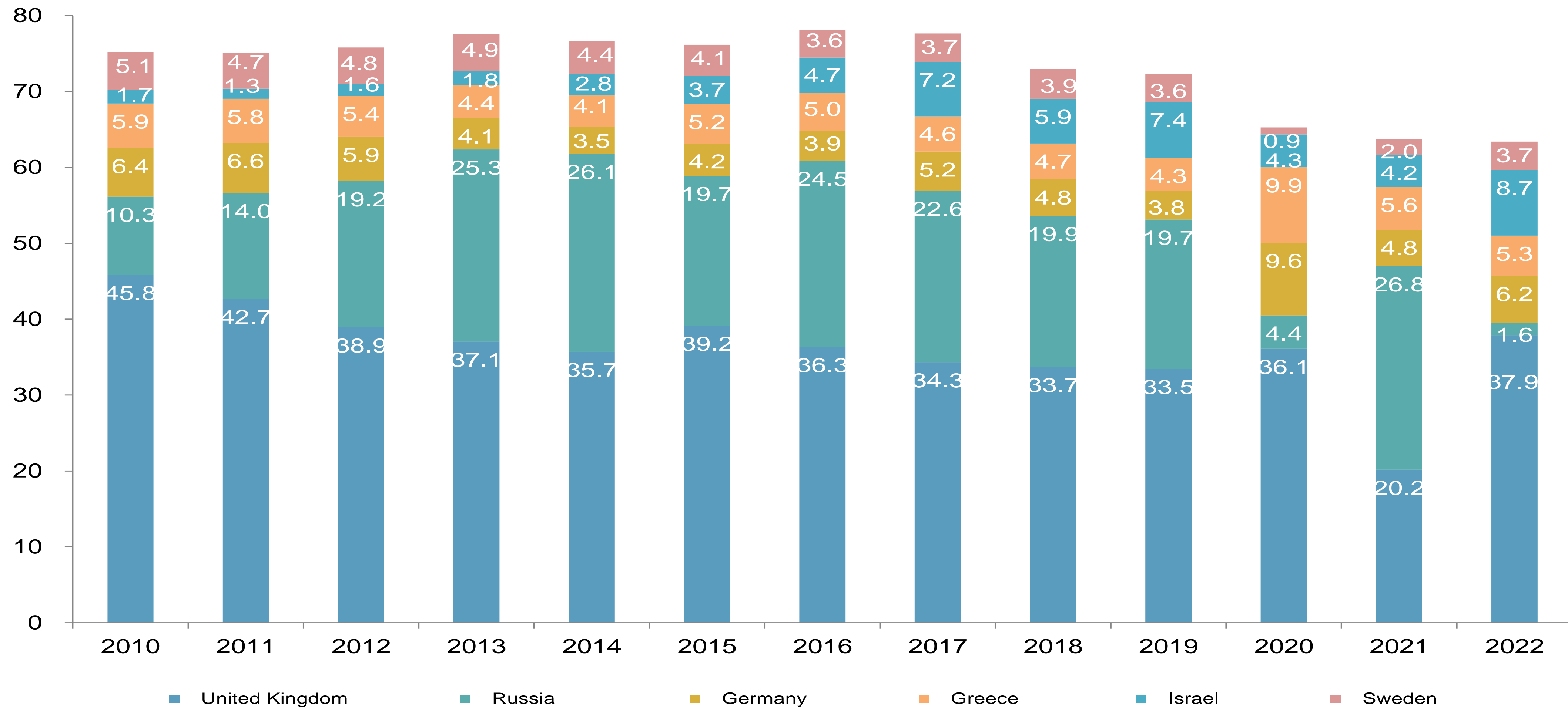


Source: Cystat



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Tourist Arrivals – Share to total



Source: Cystat



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Car registrations (3 mma, % change)

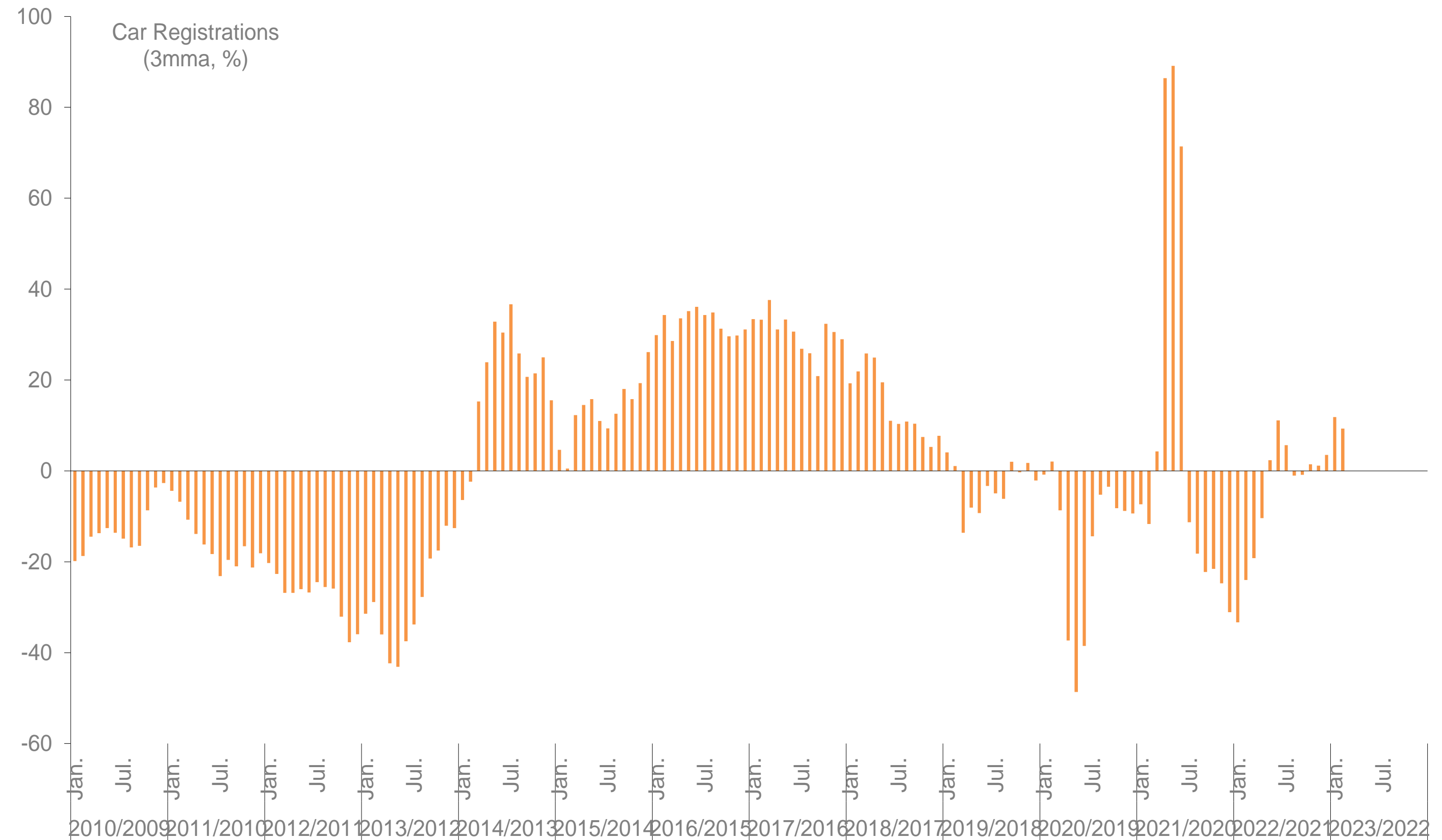
-Positive rate of growth in car registrations since 2014, following growth rates in the negative territory for 21 quarters.

-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-December 2022, compared to January-December 2021, they decreased by 2.7%.

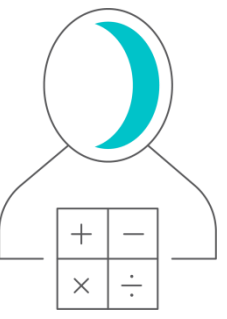
-In January-February 2023, compared to January-February 2022, they increased by 8.9%.



Source: Cystat



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Registration of new companies (3mma, % change)

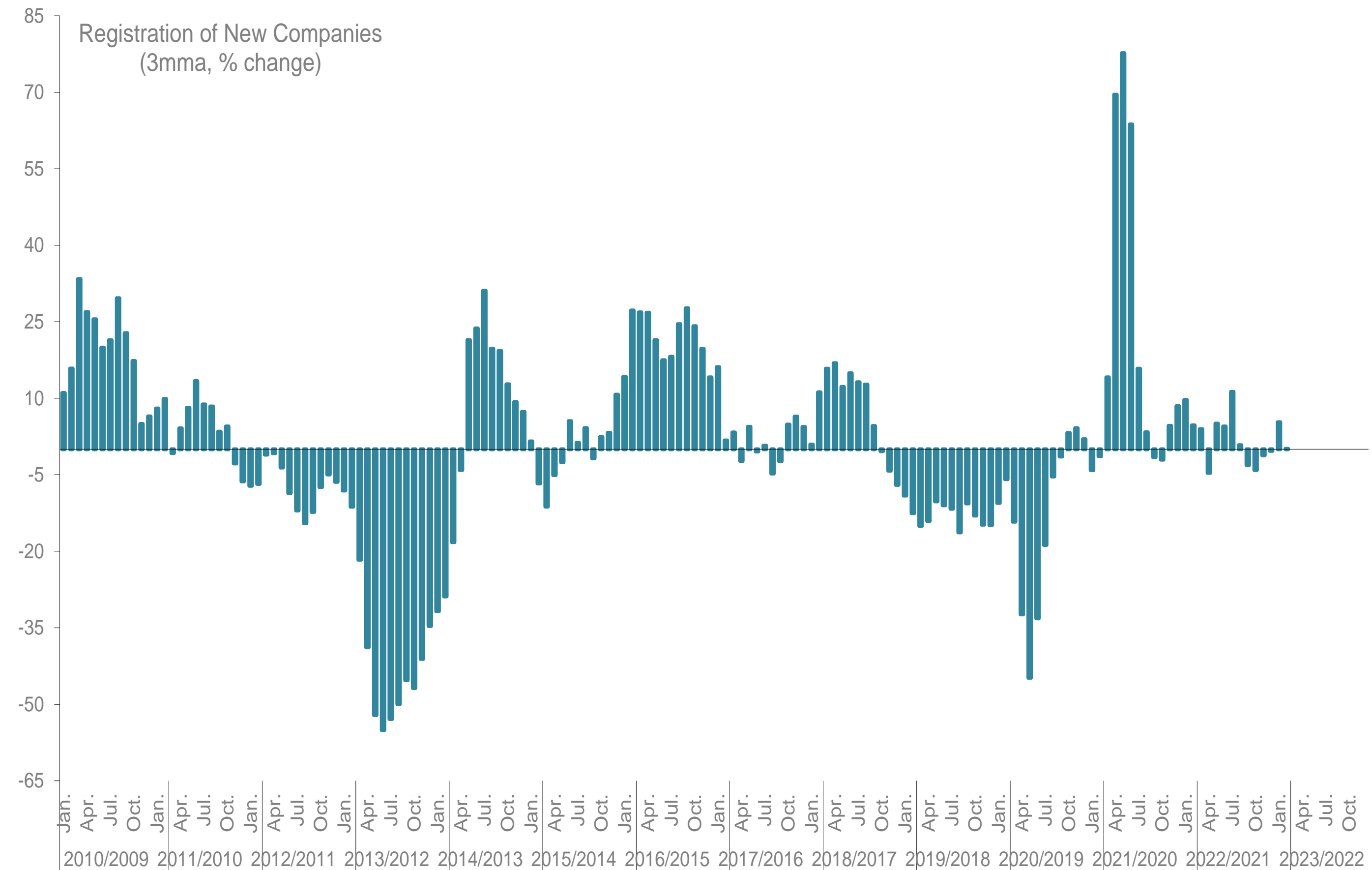
-High number of companies registration during 2014-2018.

-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-December 2022, 12.650 companies were registered compared to 12.532 companies in January-December 2021, recording an increase of 0.9%.

-In January-February 2023, 1.993 companies were registered compared with 1.970 in January-February 2022, recording an increase of 1.2%.

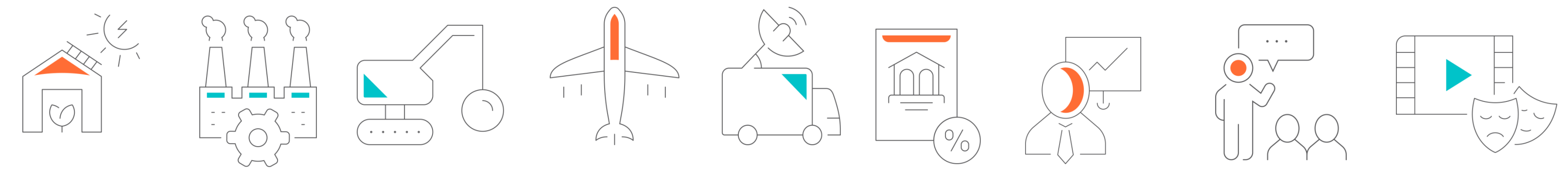
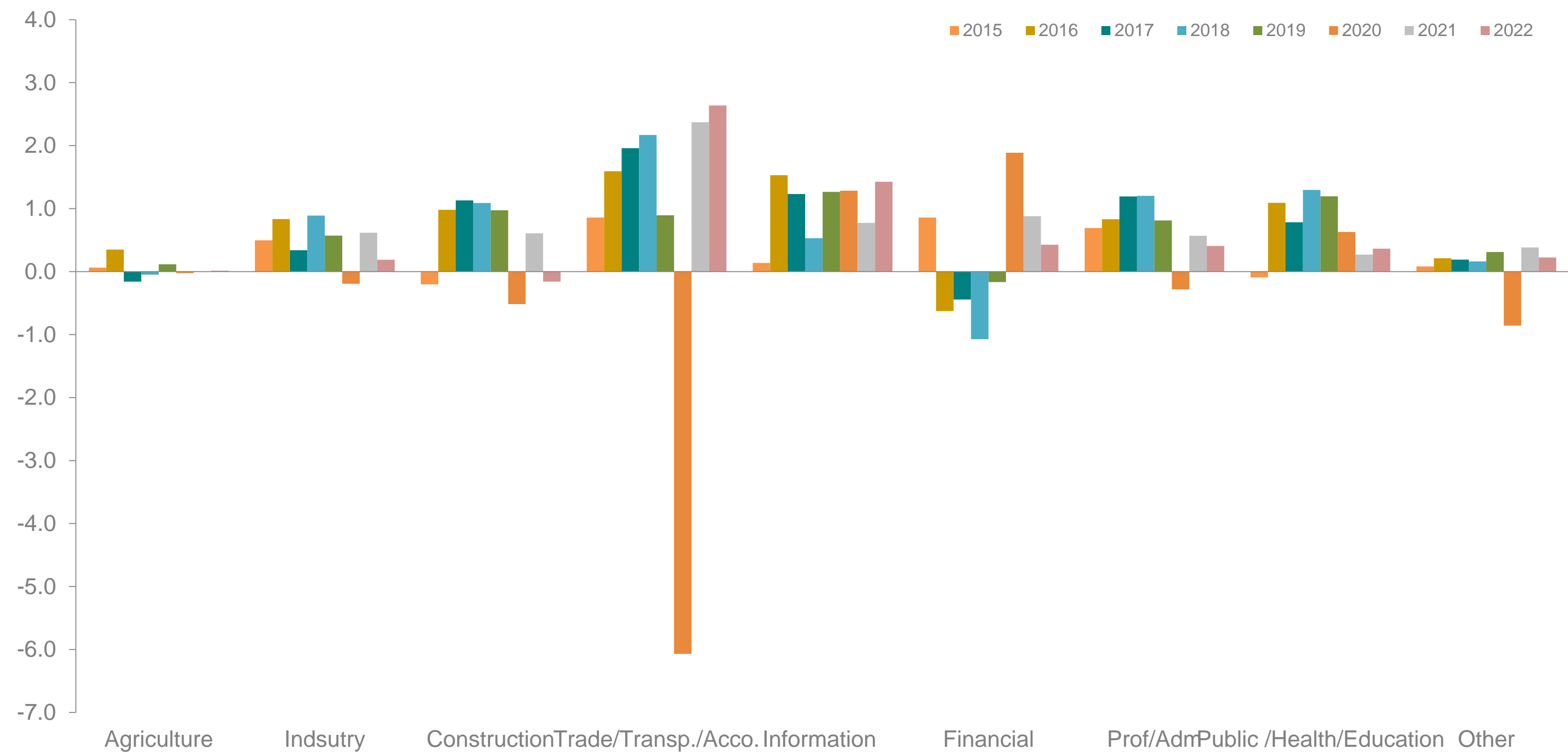
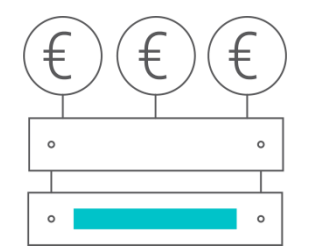


Source: Department of Registrar of Companies and Official Receiver



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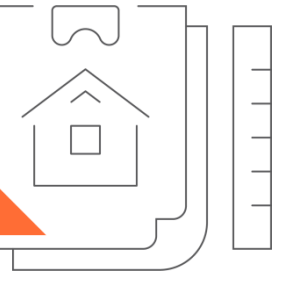
Contribution to growth, production, in p.p.



Source: Cystat



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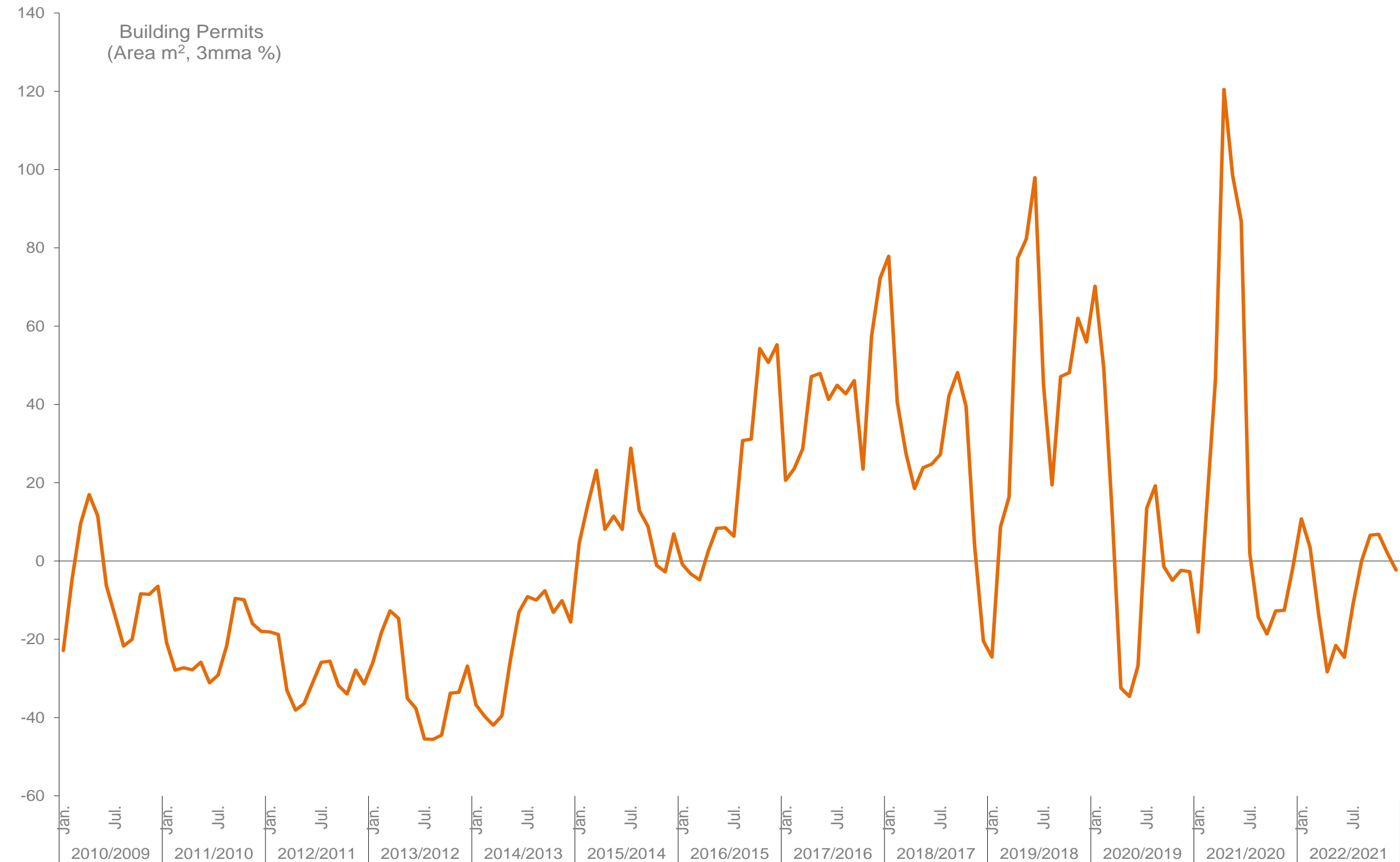


Building Permits (area m², 3mma %)

-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-December 2022, 7.604 building permits were issued compared to 8.164 in the corresponding period of the previous year, recording a decrease of 6.9%. The total value of these permits remained at the level of the preceding year, while the total area declined by 6.3%. The number of dwelling units recorded a decrease of 6.3%.

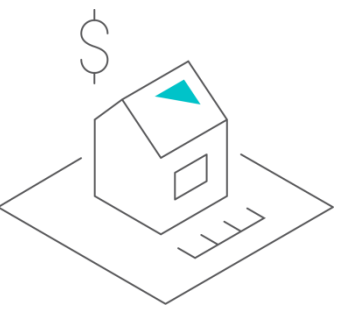


Source: Cystat



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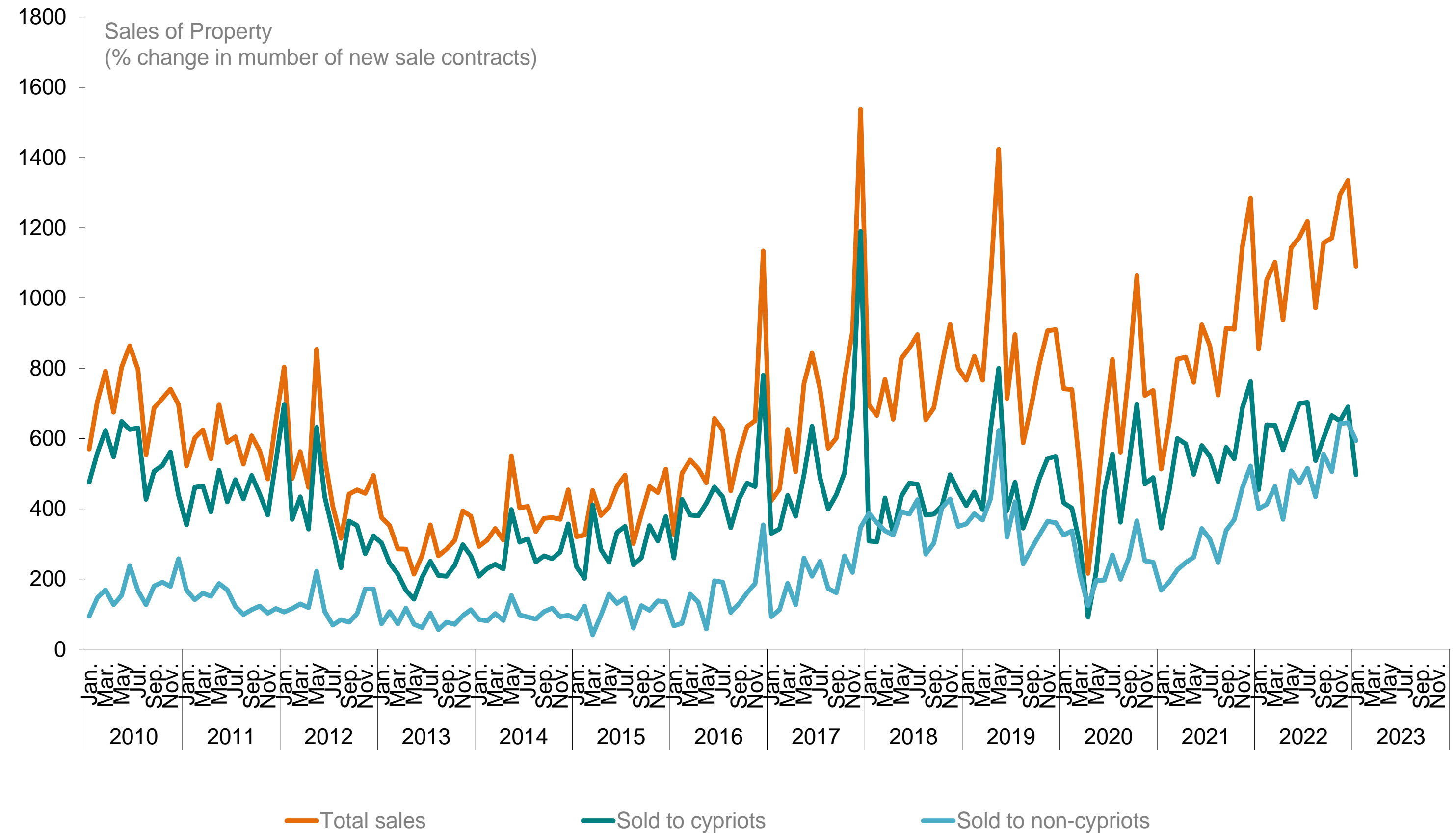
Sales of Property

-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 29.6% in January-December 2022 compared with January-December 2021.

- New sale contracts up by 16.5% in January-February 2023 compared with January-February 2022.

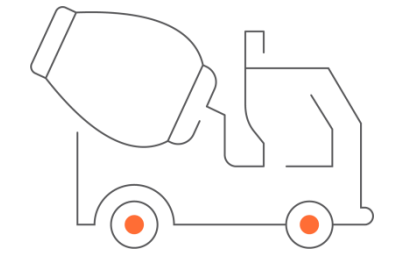


Source: Department of Lands and Surveys

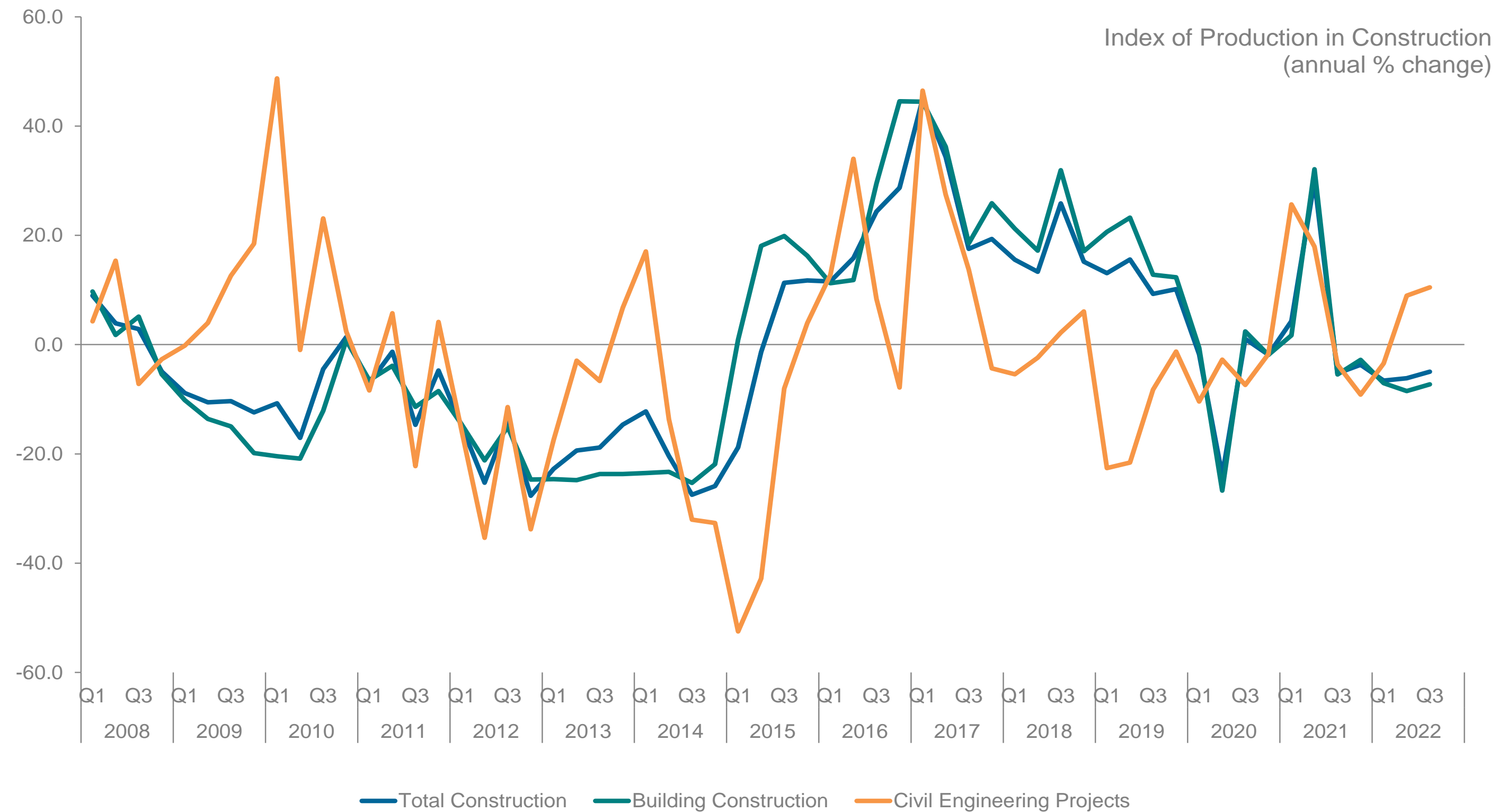


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INDEX OF PRODUCTION IN CONSTRUCTION



- 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 third quarter of 2022 reached 178.22 units (base year 2015=100,00), recording a decrease of 5.0% over the third quarter of 2021. By type of project, a decrease of 7.3% was observed for buildings and an increase of 10.5% for civil engineering projects in the third quarter of 2022 compared to the corresponding quarter of 2021.



Source: Cystat



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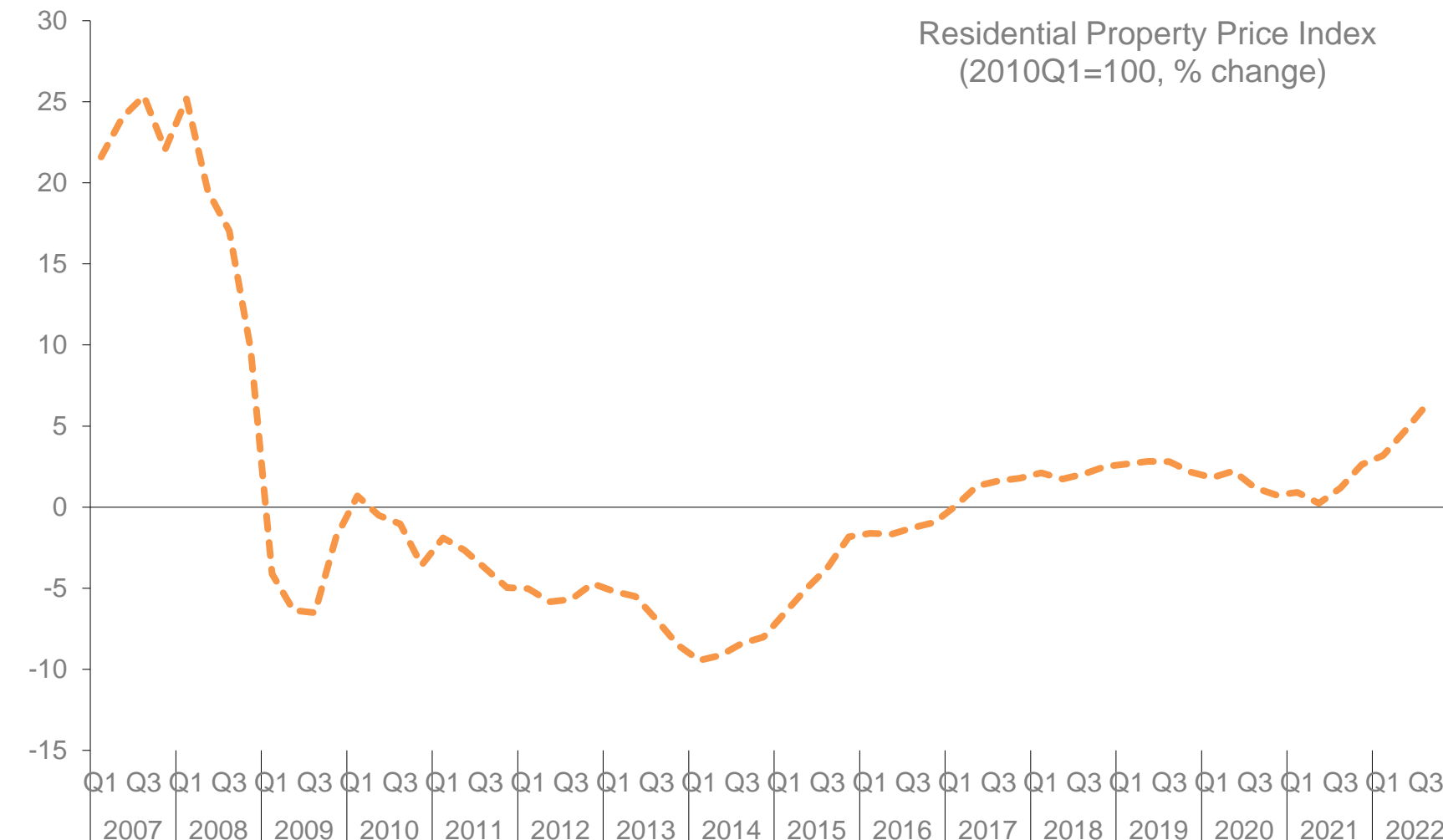
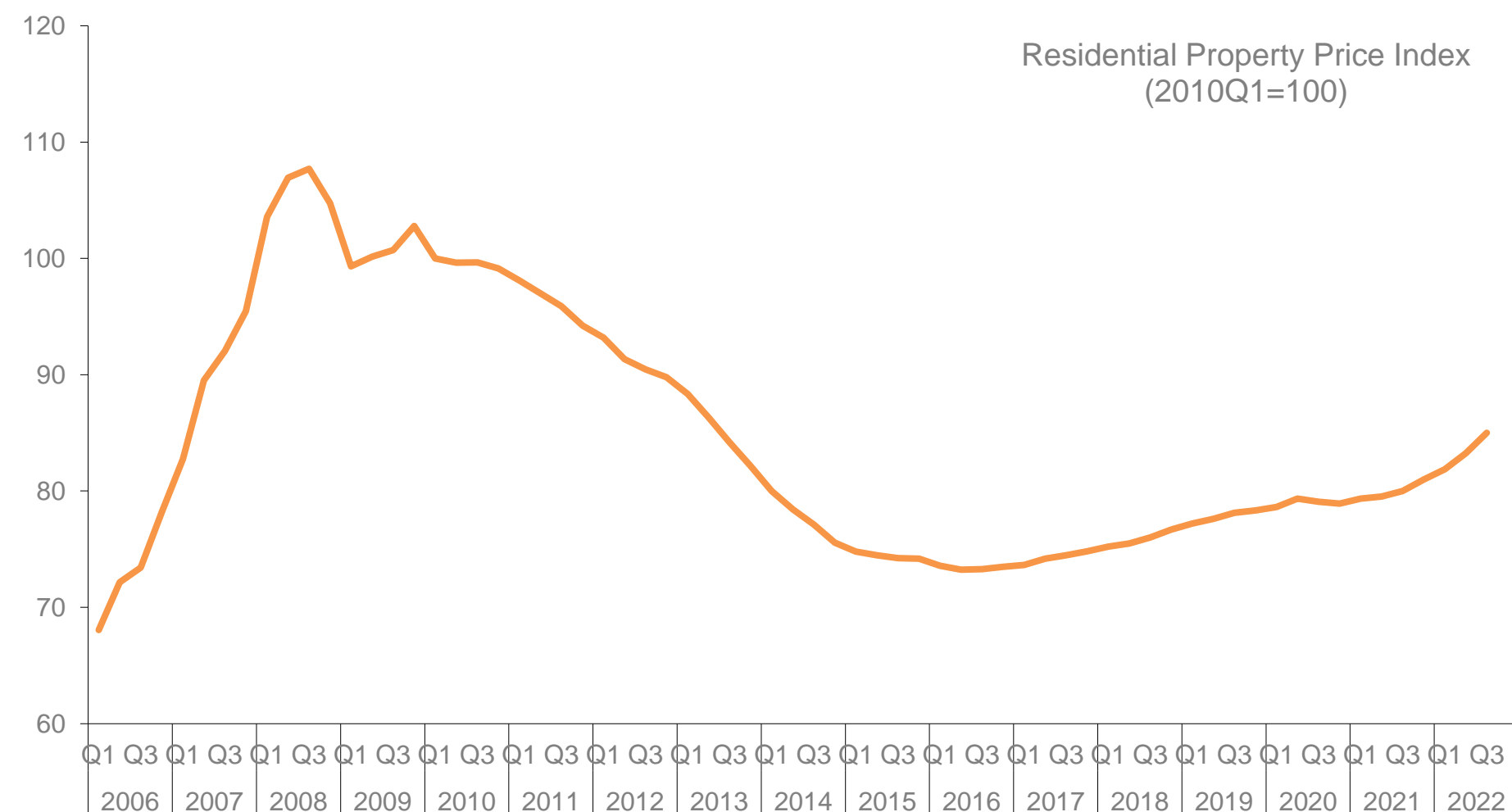


HOUSE PRICE INDEX

- 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 -21.1%.



Overview	2021Q4	2022Q1	2022Q2	2022Q3
Quarterly index (2010 Q1=100)	81.0	81.9	83.2	85.0
Quarterly change	1.3%	1.1%	1.7%	2.1%
Annual change	2.6%	3.2%	4.7%	6.3%

Source: CBC



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RETAIL

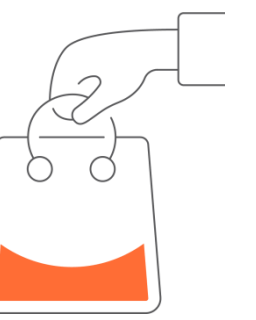
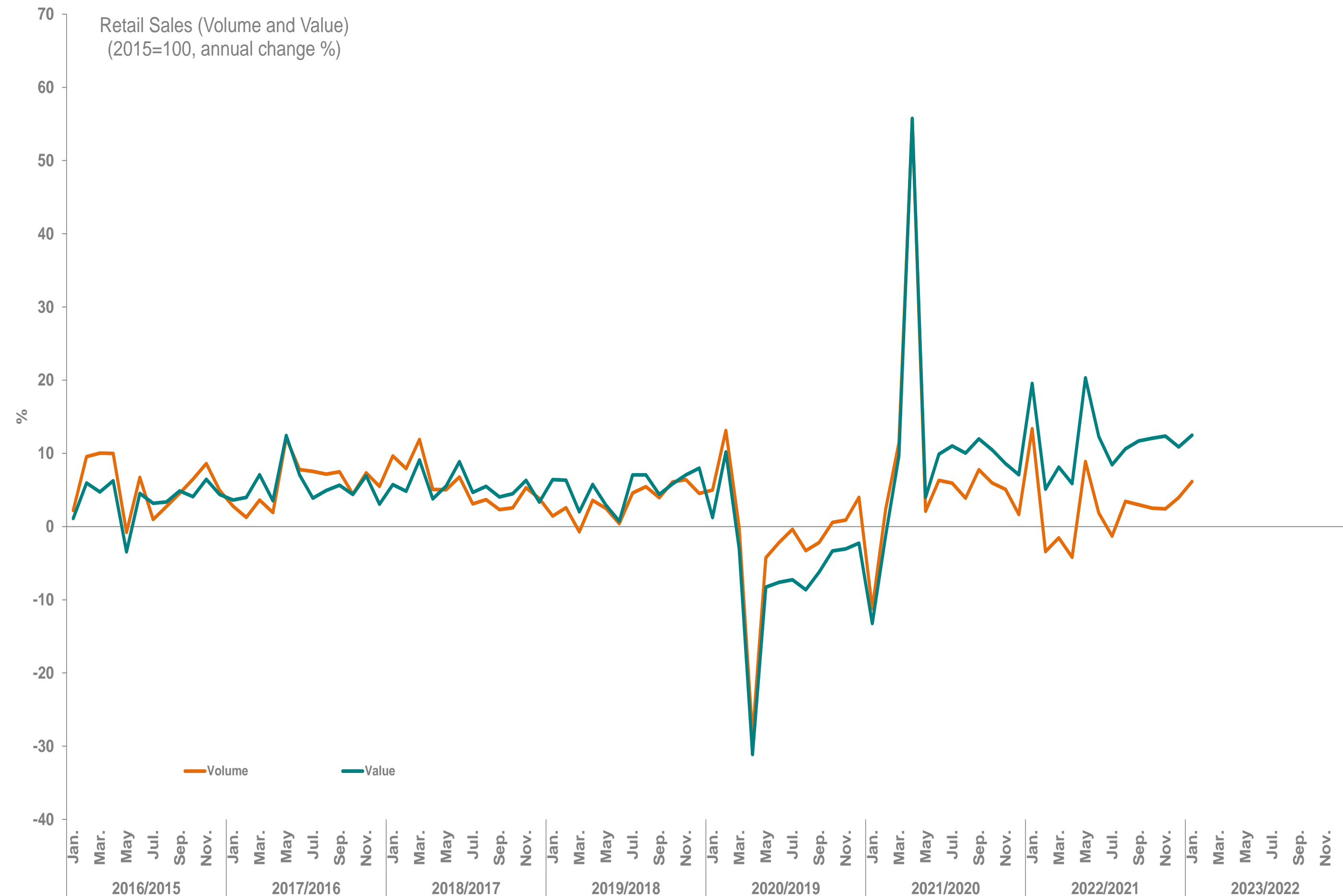
-Growth reached 2% and 3.5% in 2014 and 2015 respectively (2010=100).

-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-December 2022 it increased by 2.2%.

-In January 2023 it increased by 6.2%.

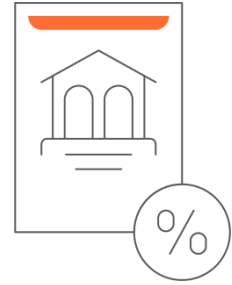


Source: Cystat

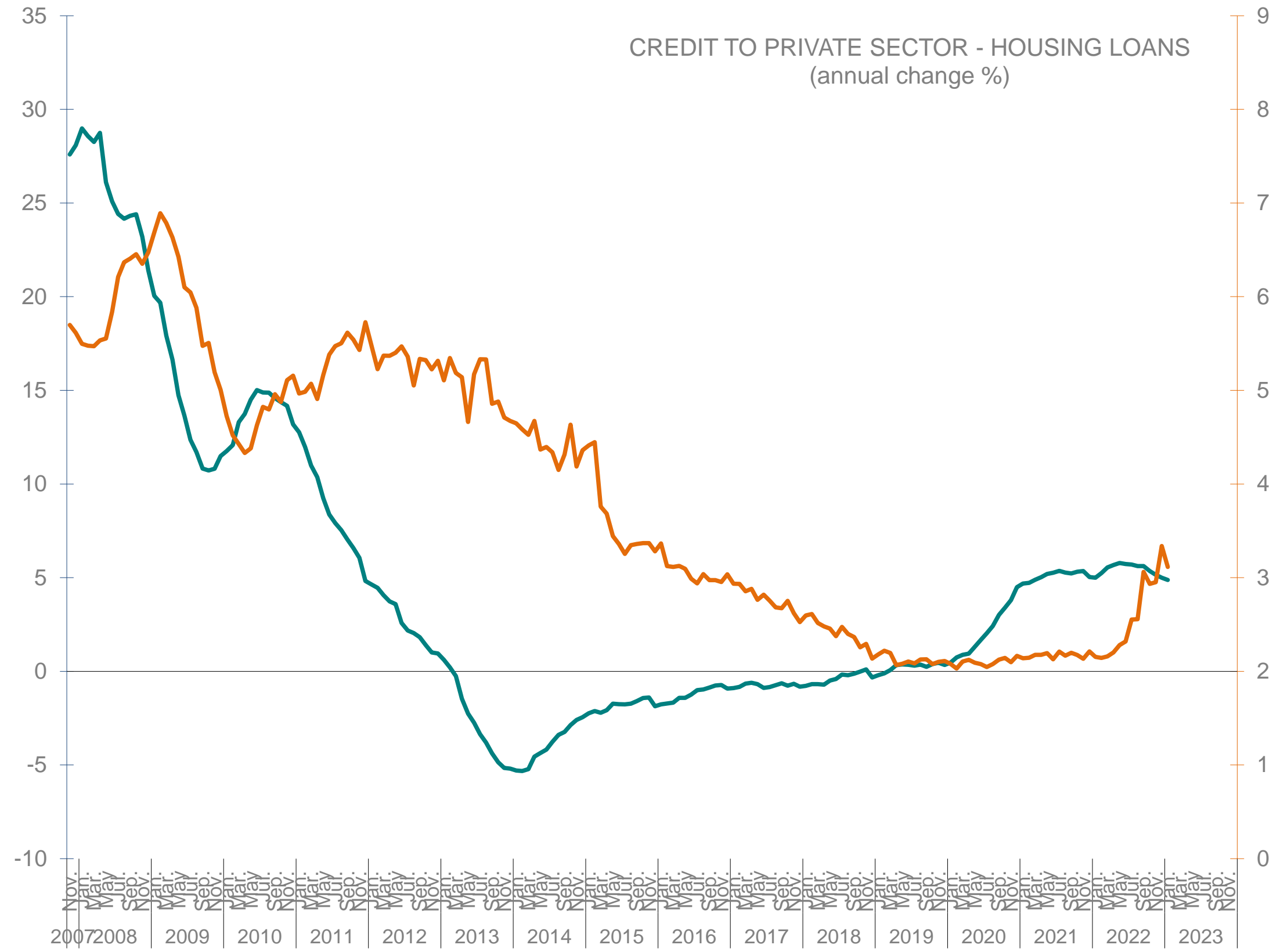


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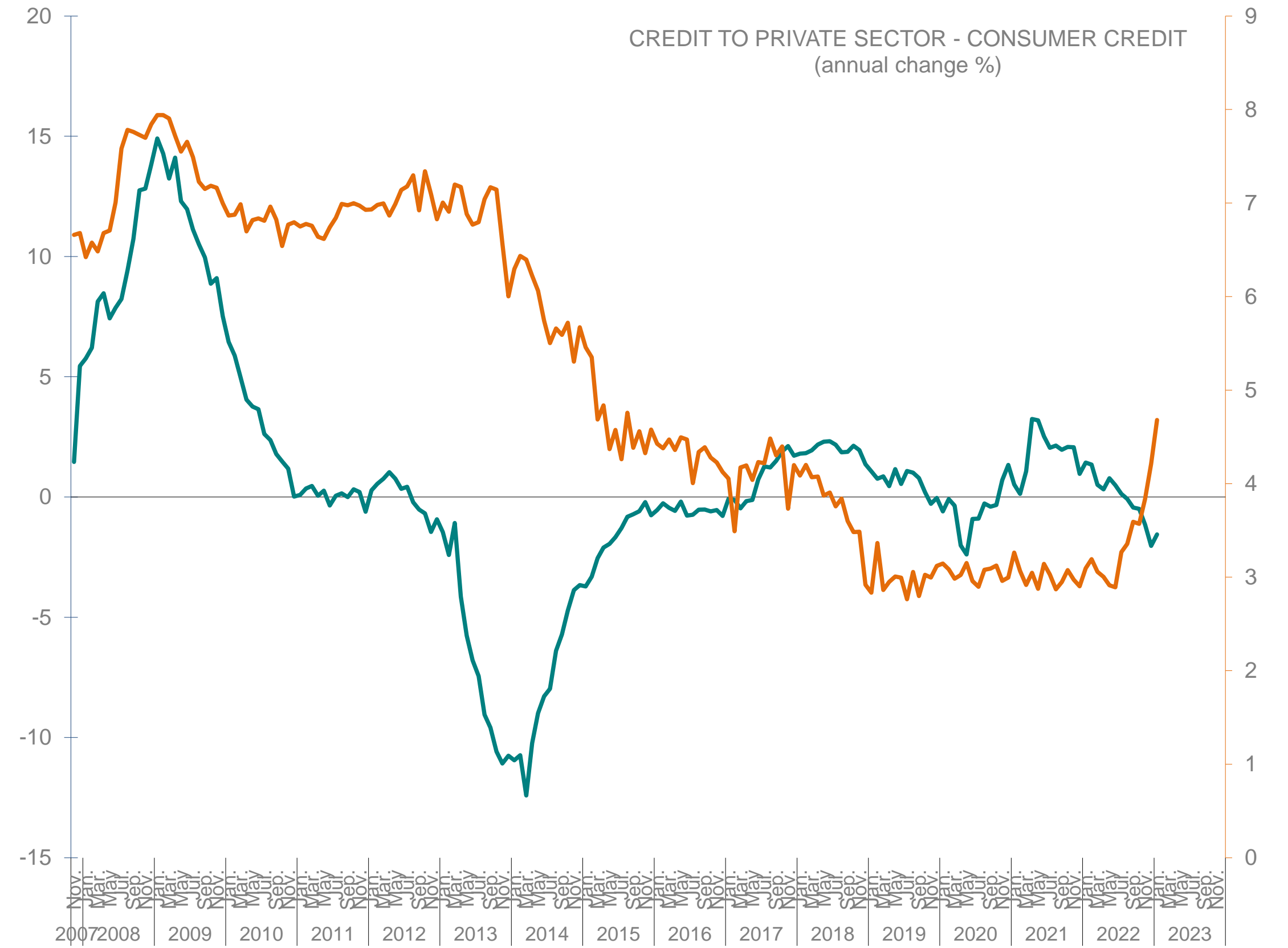


Credit: Housing Loans & Consumer credit



— Housing Loans

— Lending rate for house purchase



— Consumer credit

— Lending rate for 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
2022						
Total	1416.1	155.3	1177.9	83.0	1816.7	3232.8
Average	118.0	12.9	98.2	6.9	151.4	269.4
2022 Jan						
Total	118.1	10.4	99.6	8.1	129.8	247.9
Average	118.1	10.4	99.6	8.1	129.8	247.9
2023 Jan						
Total	93.2	11.9	76.0	5.3	56.2	149.3
Average	93.2	11.9	76.0	5.3	56.2	149.3

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

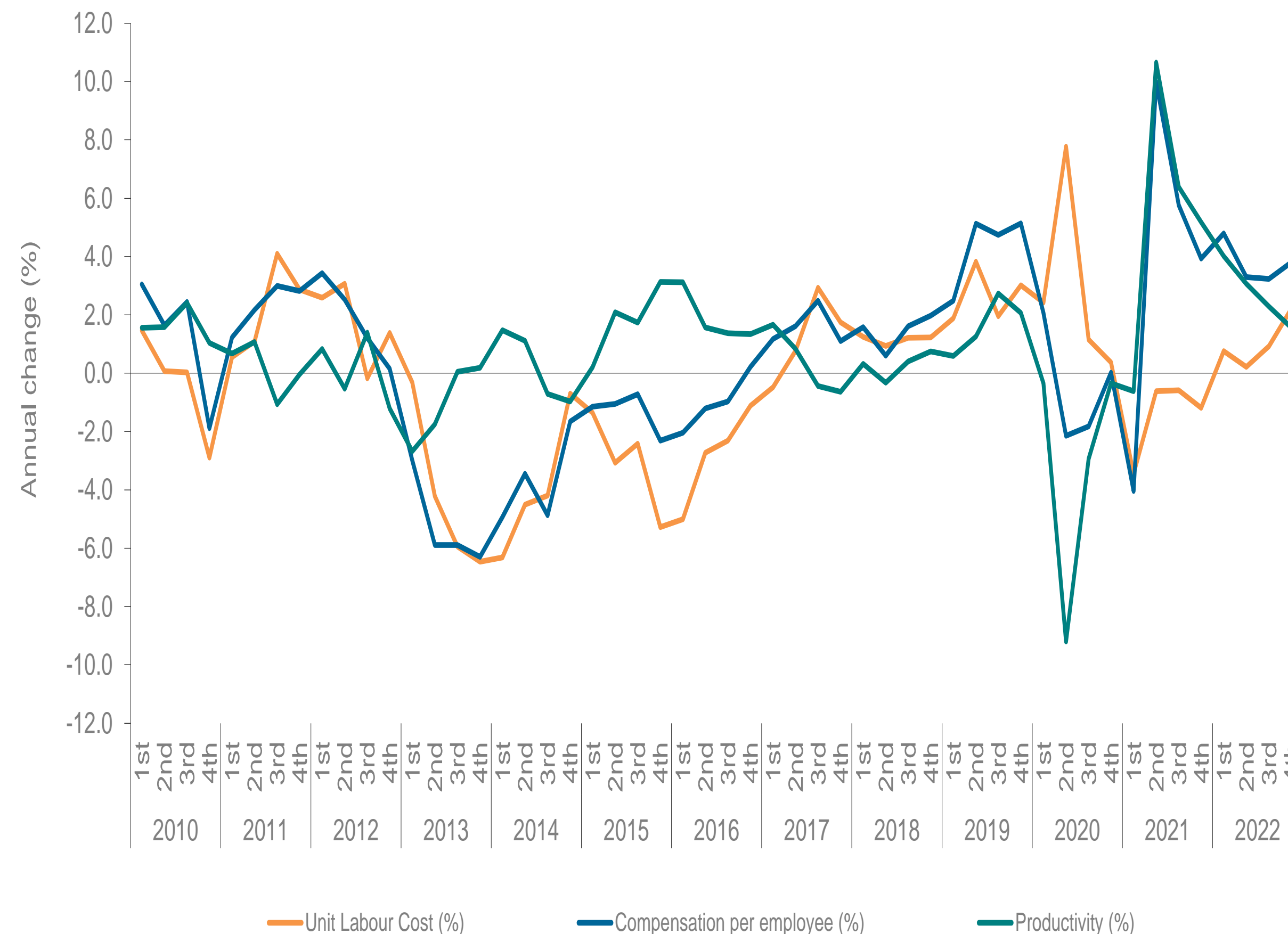


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WAGE DEVELOPMENTS

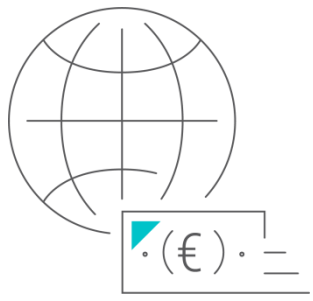
- Compensation per employee decreased by 0.5% in 2020 and in 2021 it increased by 3.8%.
- Sectoral variations exist replicating the state of relative growth in each sector of economic activity.
- Contribution of foreign workers continues to be significant in controlling wage costs.
- Labour productivity in persons in 2020 decreased by 3.9% and in 2021 it increased by 5.4%.
- For 2022, compensation per employee increased by 3.8%, productivity increased by 2.7% and thus ULC increased by 1%.



Source: Cystat

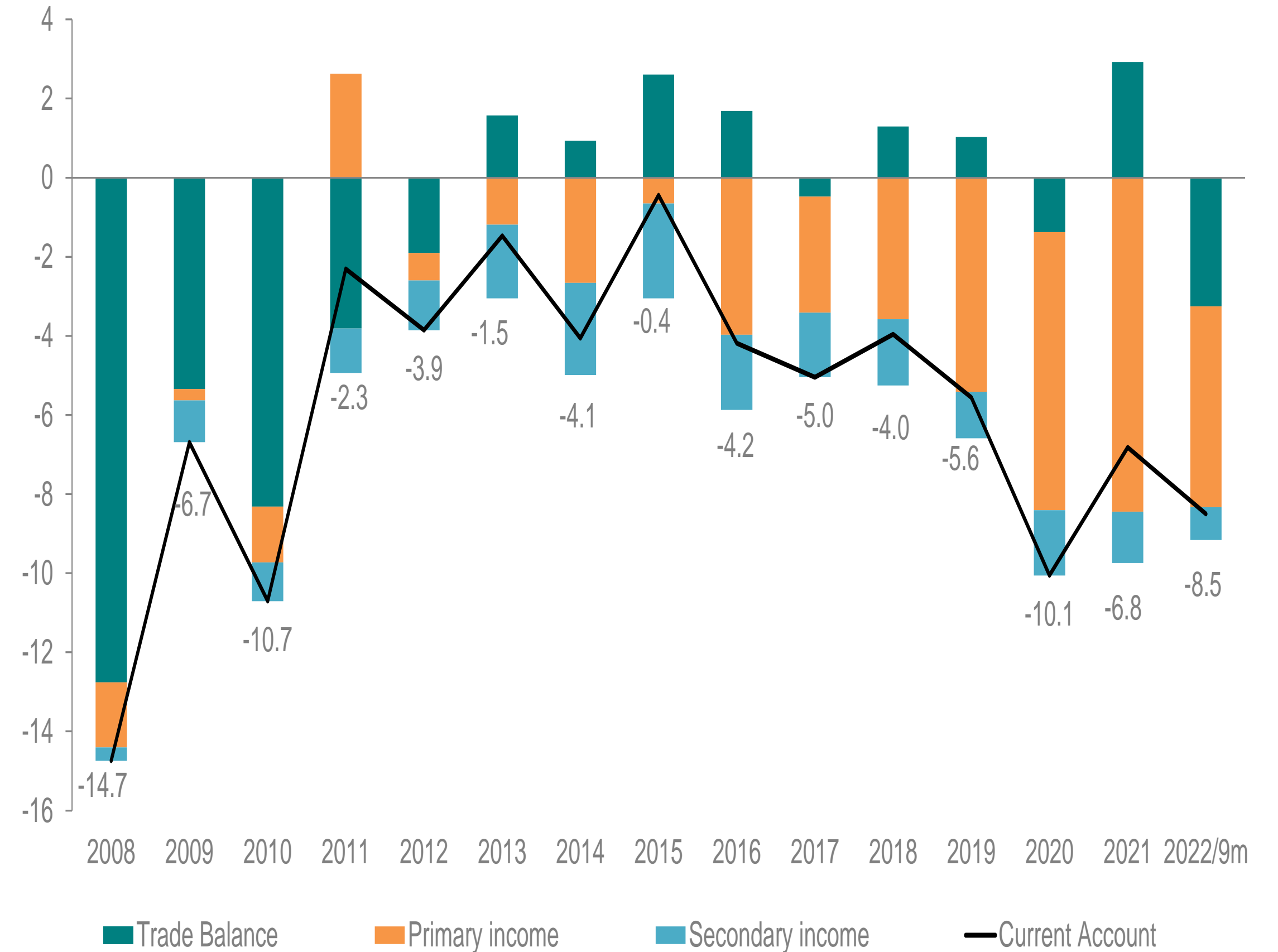


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CURRENT ACCOUNT

- The current account (CA) balance of Cyprus 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 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.
- 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.
- 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.



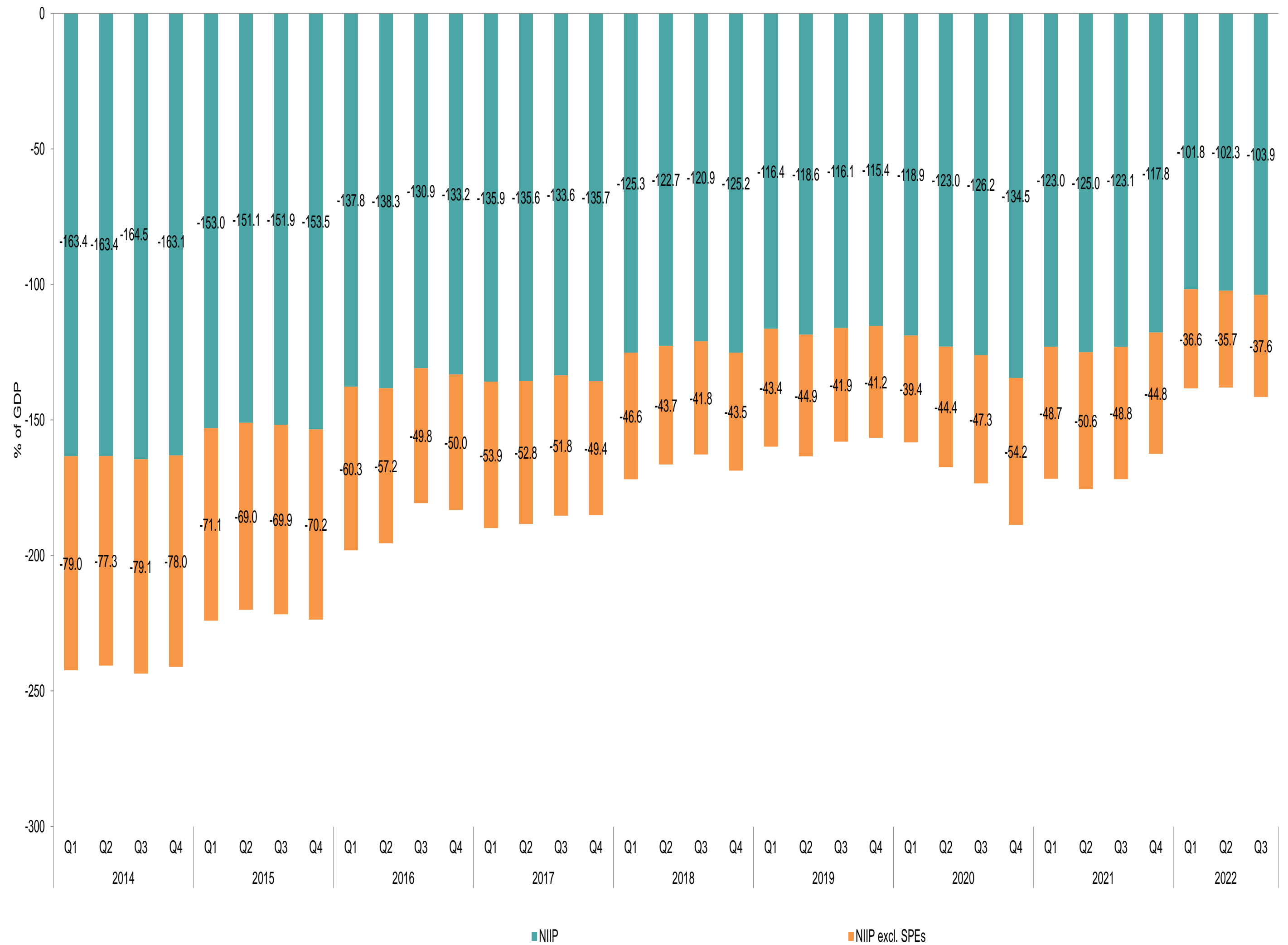
Source: CBC



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INTERNATIONAL INVESTMENT POSITION

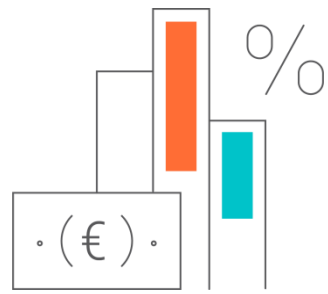
- The international investment position (IIP) recorded a slight deterioration at the end of 2022Q3, presenting a net liability position of €28,063.5 mn (-103.9% of GDP), compared with a net liability position of €27,642.0 mn (-102.3% of GDP) in 2022Q2.
- With the corresponding data being adjusted for the impact of SPEs, IIP recorded a net liability position of €10,164.1 mn (-37.6% of GDP) at the end of 2022Q3, compared with a net liability position of €9,649.6 mn (-35.7% of GDP), at the end of the previous quarter.



Source: CBC



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MEDIUM-TERM FRAMEWORK

	2019	2020	2021	2022	2023 ^f	2024 ^f	2025 ^f
Real GDP (%)	5.5	-4.4	6.6	5.6	3.0	3.3	3.2
Unemployment rate	7.1	7.6	7.5	6.8	6.4	5.7	5.0
Inflation rate (HICP)	0.5	-1.1	2.3	8.1	3.0	2.0	2.0

f = MoF (DBP 2023)



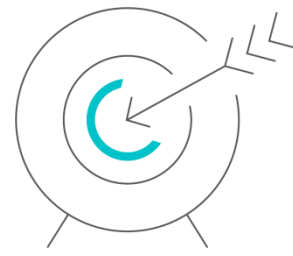
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RISKS TO THE OUTLOOK

- *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*





POLICY CHALLENGES – STRUCTURAL REFORMS

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





APPENDIX

<i>annual % change</i>	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
GDP growth (constant prices)	2.3	0.4	-3.4	-6.6	-1.8	3.4	6.6	5.7	5.6	5.5	-4.4	6.6	5.6
<i>Government consumption</i>	0.7	1.6	-2.4	-4.8	-7.5	1.4	0.2	1.8	3.6	11.9	11.6	6.6	3.5
<i>Private consumption</i>	4.9	-0.9	-2.8	-7.0	0.0	3.1	5.1	4.8	5.1	3.9	-6.8	4.5	7.7
<i>Gross fixed capital formation</i>	-1.4	-11.7	-19.5	-15.7	-7.4	-1.8	49.5	21.2	-4.9	6.9	4.5	-4.2	6.6
<i>Exports</i>	6.3	7.0	-0.6	1.1	6.3	8.9	7.2	11.0	7.2	8.7	2.2	13.6	14.3
<i>Imports</i>	10.8	-2.6	-3.6	-4.6	7.7	8.1	10.2	14.3	4.3	9.5	3.2	9.0	19.5
<i>GDP deflator</i>	1.9	1.6	1.7	-0.9	-1.3	-0.8	-0.6	1.0	1.0	1.3	-1.2	2.9	6.5
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	3,201.1
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	65.3
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	8.1
Productivity growth	1.7	0.1	0.1	-1.1	0.2	1.8	1.8	0.3	0.3	1.7	-3.3	5.4	2.7
Employment growth (persons, %)	0.6	0.3	-3.5	-5.6	-2.0	1.6	4.7	5.4	5.3	3.8	-1.1	1.2	2.9
Compensation per employee (%)	1.1	2.3	1.7	-5.3	-3.6	-1.3	-0.9	1.5	1.5	4.4	-0.5	3.8	3.8
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	6.8
Resource Balance (% of GDP)	-8.3	-3.8	-1.9	1.6	0.9	2.6	1.7	-0.5	1.3	1.0	-1.4	2.9	...
Current Account Balance (% of GDP)	-10.7	-2.3	-3.9	-1.5	-4.1	-0.4	-4.2	-5.0	-4.0	-5.6	-10.1	-6.8	...
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	0.2



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Thank you

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