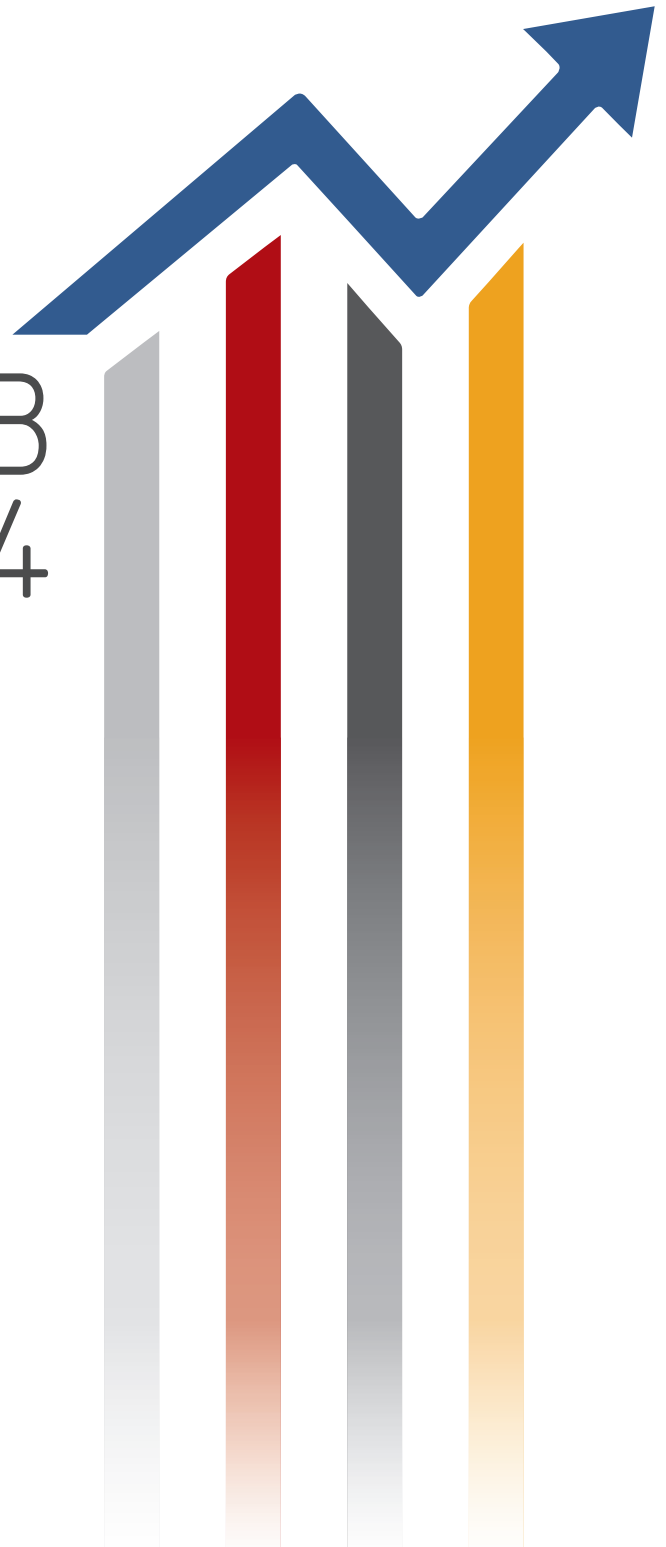




MINISTRY OF FINANCE

MACROECONOMIC  
MONITOR  
OF CYPRUS

FEB  
2024



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# MACROECONOMIC MONITOR OF CYPRUS

Updated on 22 February 2024

## Macro Economy

- In the 4th quarter of 2023, GDP (in seasonally adjusted terms) recorded a positive rate of growth of 2.3%, compared with 2.2% in the 3rd quarter of 2023 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", "Wholesale and Retail Trade, Repair of Motor Vehicles", "Information and Communication", "Construction", "Arts, Entertainment and Recreation" and "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 consumption and gross fixed capital formation (see graphs 2.1-2.4).

- In January 2024, economic sentiment in Cyprus improved, as the **Economic Sentiment Indicator (ESI- CypERC)** increased by 2.3 points compared with December 2023 (see graph 1.3). The increase in the ESI-CypERC was mainly driven by confidence gains in services.

- In January 2024, the **arrivals of tourists** reached 87,961 compared to 90,549 in January 2023, recording a decrease of 2.9% (see graph 6.3). Arrivals from the United Kingdom were the main source of tourism for January 2024, with a share of 18.6% of total arrivals, followed by Poland with 18.2% and Greece with 11.8%.

- **Employment** developments reflect conditions of improved economic activity. Total employment increased by 1.6% in the 1st nine months of 2023 compared to the same period in 2022. The most significant percentage increases were observed in the economic activities of Accommodation and food service activities, Wholesale and Retail Trade, Manufacturing, Public administrations and Human health and social work activities.

- **Labour Force Survey (LFS) unemployment**, in monthly seasonally adjusted terms, **decreased to 6.1% in December 2023 compared to 7.0% in December 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 19.9% in the 4th quarter of 2023 from a peak of 40.7% in the 2nd quarter of 2013.

- **Compensation per employee** recorded an increase of 4.9% in the 1st nine months of 2023 compared with the same period in 2022 (see graphs 5.3-5.5).

- **Inflation (HICP)** in January 2024 recorded an increase of 2.1% compared to an increase of 1.9% in December 2023

(see graph 5.1). Compared to January 2023, the largest positive change was noted in Restaurants and Hotels (5.8%), whereas the largest negative change was noted in Transport (-1.3%). Core HICP recorded an increase of 2.6% in January 2024 (see graph 5.2).

- **Imports of goods recorded an increase of 11.3%** in January-December 2023 compared to January-December 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 9.0%.

- **Exports of goods recorded a decrease of 0.5%** in January-December 2023 compared to January-December 2022. Exports of goods, excluding exports of aircrafts and vessels, exhibit an increase of 15.1%.

## External Sector

- The **current account (CA)** balance of Cyprus (see graph 6.4) recorded a deterioration, with the deficit increasing from €399.0 mn (-1.4% of GDP) in 2022Q3, to €517.0 mn (-1.7% of GDP), in 2023Q3. The increase in the Current Account deficit resulted mainly from the deterioration of the deficits of Goods and of Primary and Secondary Incomes. In particular, the increase in the deficit of Goods, the deterioration of the deficit in Primary Income and, to a lesser extent, the increase in the deficit of Secondary Income, contributed to the increase of the deficit. The aforementioned developments were partly offset by the increased surplus of Services. The resulting deficit adjusted for the impact of Special Purpose Entities (SPEs), that is, classifying SPEs as non-residents, stood at €408.9 mn (-1.4% of GDP) in 2023Q3, compared with a deficit of €548.8 mn (-2.0% of GDP) in 2022Q3. For the 1st nine months of 2023 the deficit decreased from €2,124.2 mn (-7.6% of GDP) in 2022/9m, to €2,688.3 mn (-9.0% of GDP), in 2023/9m.

- The **international investment position (IIP)** (see graph 6.5) recorded an improvement in 2023Q3, presenting a net liability position of €28,267.5 mn, compared with a net liability position of €28,658.3 mn in 2023Q2. With the corresponding data being adjusted for the impact of SPEs, IIP recorded a net liability position of €10,130.7 mn in 2023Q3, compared with a net liability position of €10,710.7 mn, in 2023Q2.

- The **gross external debt** decreased to €162,317.2 mn in 2023Q3 from €169,614.3 mn in 2023Q2. The external as-

sets in debt instruments increased to €152,975.5 mn, up from €146,830.5 mn in 2023Q2. Consequently, the net external debt decreased by €13,441.7 mn to €9,342.1 mn in 2023Q3. Adjusted for the impact of SPEs, gross external debt reached €58,261.2 mn in 2023Q3, compared to €58,513.4 mn, in 2023Q2. The corresponding net external debt indicator decreased to -€14,534.8 mn in 2023Q3, compared with -€12,822.1 mn in 2023Q2.

## Public Finances

- **General government budget balance (GGBB)** recorded a surplus in January-November 2023, of the order of €1,000.7 mn (3.4% of GDP) compared to a surplus of €636.8 mn (2.3% of GDP) during the corresponding period the year before (see graph 9.1).
- **General government primary balance (GGPB)** recorded a surplus in January-November 2023, of the order of €1,382.5 mn (4.6% of GDP) compared to a surplus of €1,019.5 mn (3.7% of GDP) during the corresponding period the year before (see graphs 9.1-9.2).
- **Total revenue** exhibited an increase of about 12.5%, reaching €11,064.3 mn in January-November 2023, compared to €9,836.4 mn during the corresponding period the year before (see graph 9.3).
- **Total expenditure** exhibited an increase of about 9.4%, reaching €10,063.6 mn in January-November 2023, compared to €9,199.6 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 0.4% in the 3rd quarter of 2023 compared to the 2nd quarter of 2023 and an increase of 0.6% compared to the 3rd quarter of 2022.
- The CBC's **residential property price index** recorded an increase of 2.2% in the 3rd quarter of 2023 compared to the 2nd quarter of 2023 and an increase of 7.6% compared to the 3rd quarter of 2022. Cumulative from the 1st quarter of 2008 it has exhibited a decline of 11.7% (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 down by 3.2% while **transfers of prop-**

**erty** were up by 8.5% in January 2024 compared with January 2023 (see graph 7.3).

- Monetary Financial Institutions (MFI) **mortgage loans to domestic residents** for housing increased by 2.1% in December 2023 (see graph 7.2).

## Banking Sector Developments

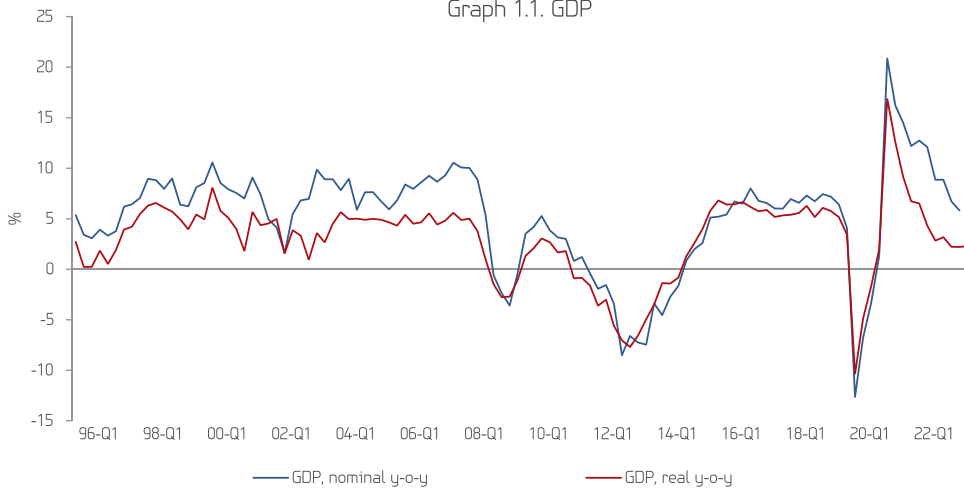
- MFI **loans to domestic residents** (private sector) decreased by 0.9% in December 2023 (see graphs 8.2-8.4). Lending conditions remain tight (see graphs 8.6-8.7).
- **Deposits of domestic** residents held with MFIs (private sector) exhibited an increase of 0.2% in December 2023 (see graph 8.1).
- Overall **lending and deposit interest rates** in Cyprus are increasing following the ECB's decision to raise the three key ECB interest rates by 450 basis points (see graph 8.5). In December 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 also decreased.
- **NPEs** in October 2023 decreased to €2.02 bn (8.3% on gross loans) compared to €2.30 bn (9.5% on gross loans) in December 2022. The gross loans decreased by €202.6 mn in the period from 1 January 2022 until 31 October 2023.
- The decrease for the year 2022 was due to debt to assets (swaps) and reclassified NPEs as performing facilities.
- **Accumulated provisions** increased to 50.8% in October 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

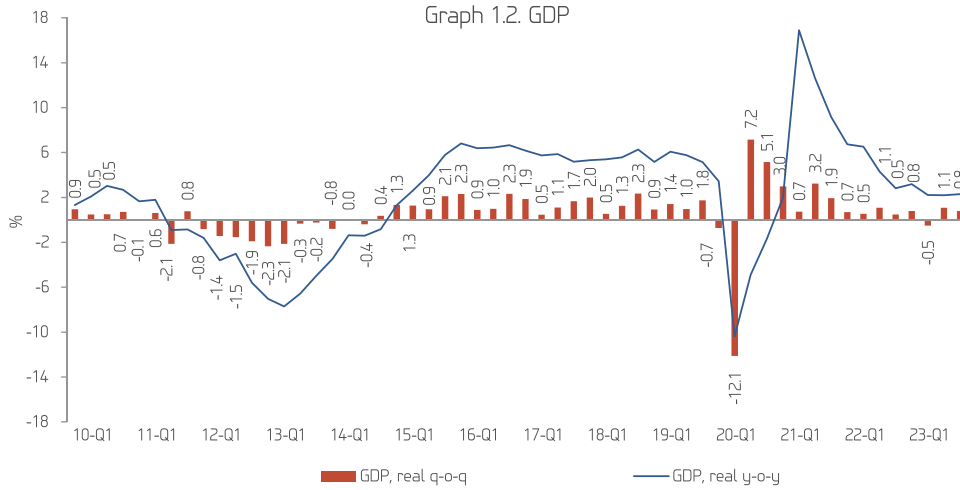
- On 08/12/2023, Fitch Ratings affirmed Cyprus's Long-Term Foreign-Currency Issuer Default Rating (IDR) to 'BBB' and changed the outlook to positive.
- On 29/09/2023, Moody's Investors Service upgraded the Government of Cyprus' long-term issuer and senior unsecured ratings to Baa2 from Ba1 and changed the outlook to positive from stable.
- On 29/09/2023, DBRS Ratings upgraded the Republic of Cyprus's Long-Term Foreign and Local Currency - Issuer Ratings from BBB to BBB (high). The outlook remains stable.
- On 01/09/2023, Standard & Poor's Ratings affirmed its long- and short-term foreign and local currency sovereign credit ratings on Cyprus to 'BBB/A-2' and changed the outlook to positive from stable.

# 1. OUTPUT

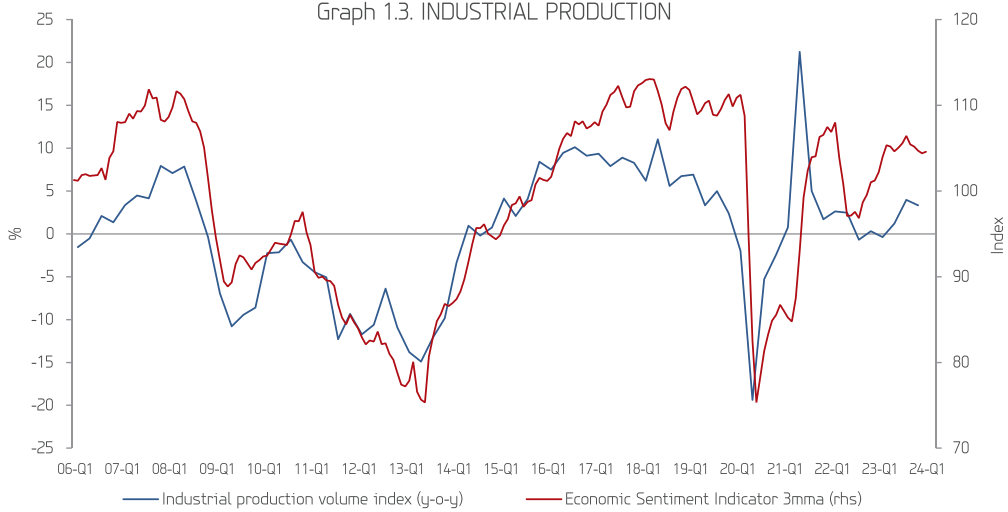
Graph 1.1. GDP



Graph 1.2. GDP



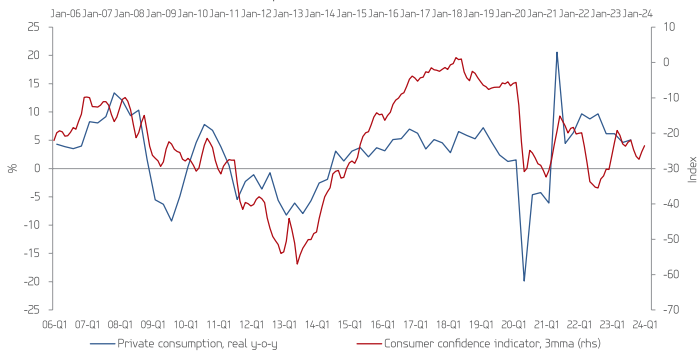
Graph 1.3. INDUSTRIAL PRODUCTION



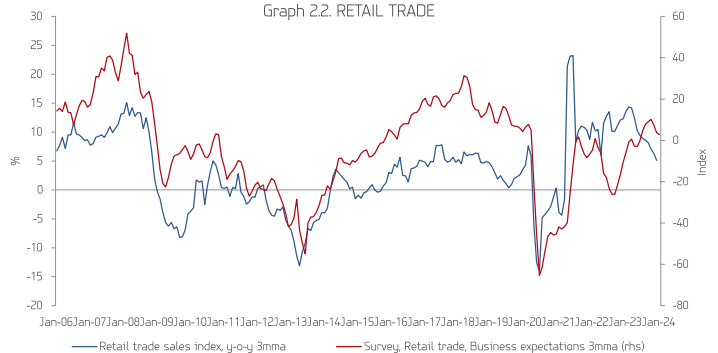
Sources: Eurostat, DG ECFIN, Cystat

## 2. CONSUMPTION

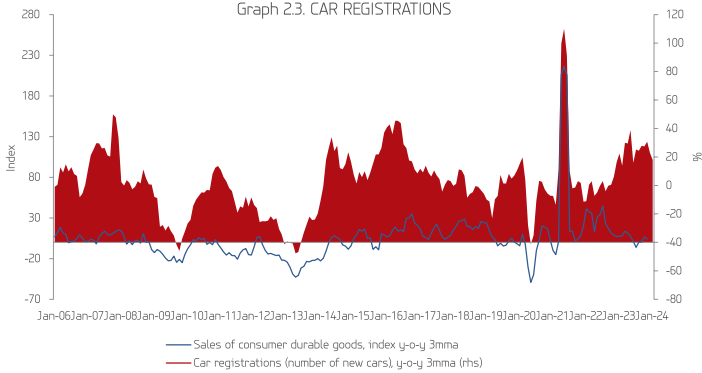
Graph 2.1. CONSUMPTION



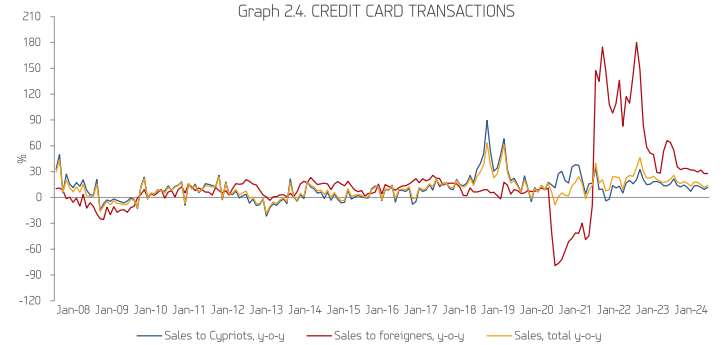
Graph 2.2. RETAIL TRADE



Graph 2.3. CAR REGISTRATIONS



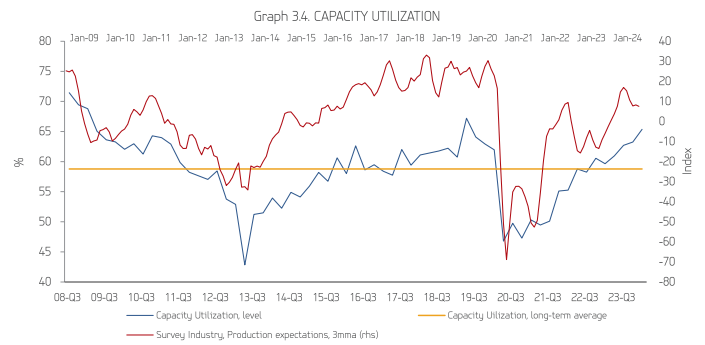
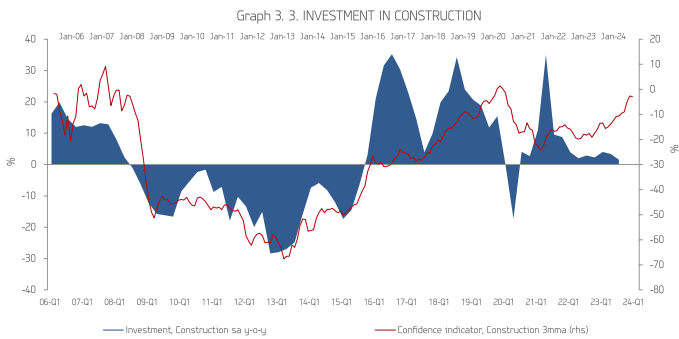
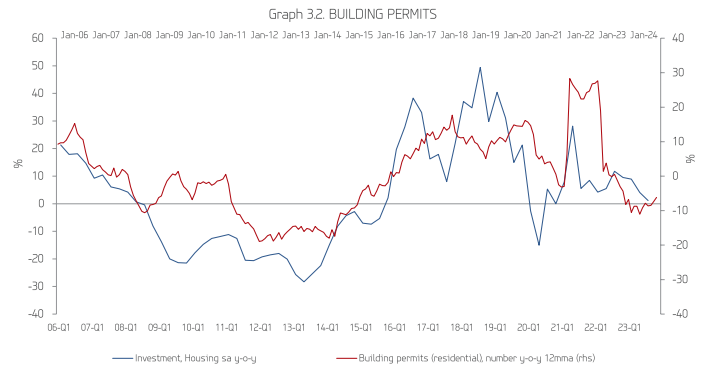
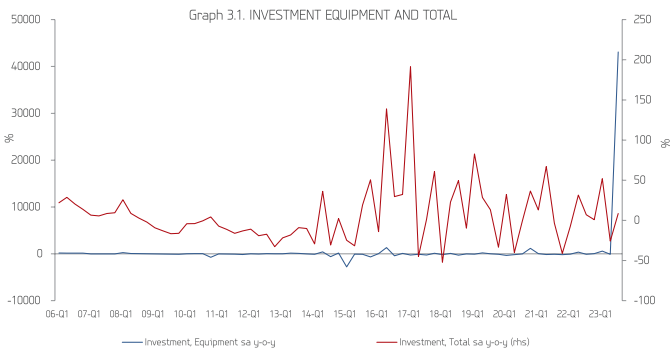
Graph 2.4. CREDIT CARD TRANSACTIONS



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

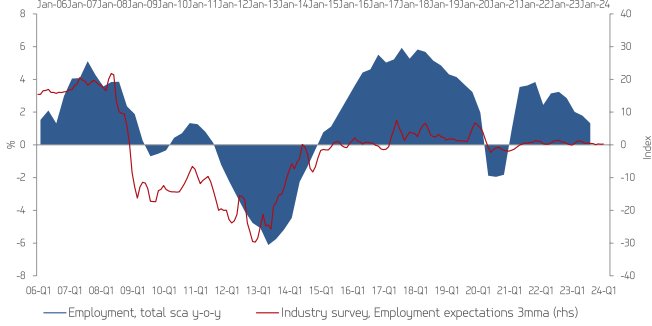


Sources: Cystat, DG ECFIN, CypERC

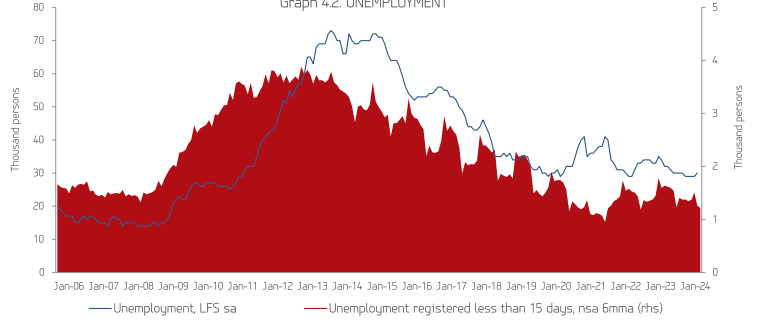


## 4. LABOUR MARKET

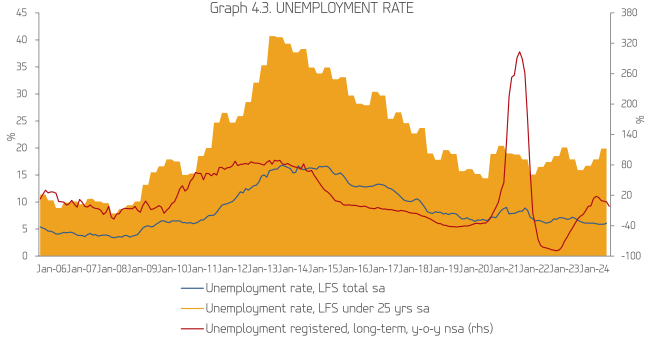
Graph 4.1. EMPLOYMENT



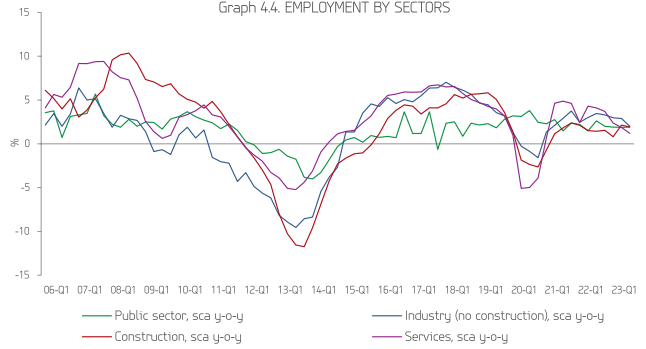
Graph 4.2. UNEMPLOYMENT



Graph 4.3. UNEMPLOYMENT RATE



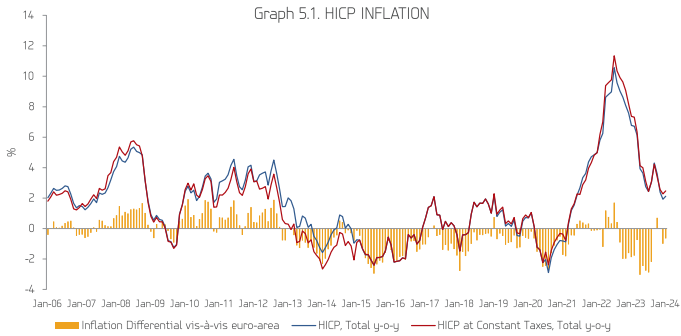
Graph 4.4. EMPLOYMENT BY SECTORS



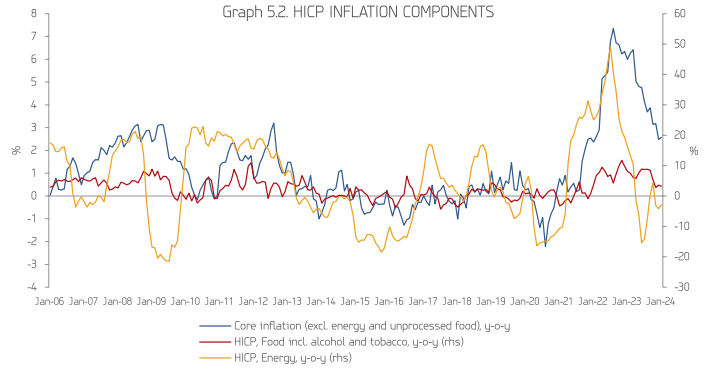
Sources: Eurostat, DG ECFIN, Cystat

## 5. INFLATION / WAGES

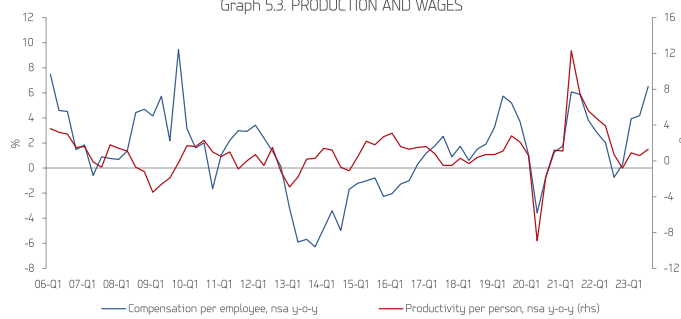
Graph 5.1. HICP INFLATION



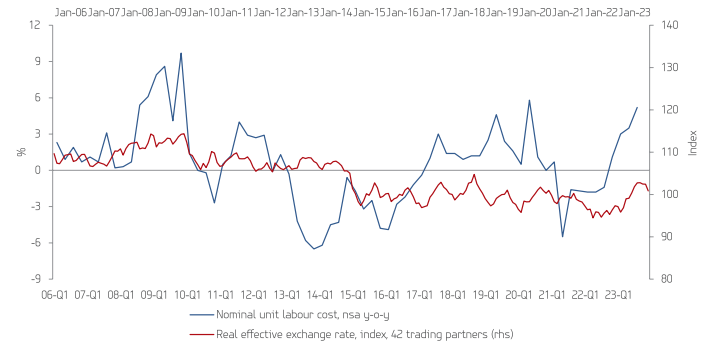
Graph 5.2. HICP INFLATION COMPONENTS



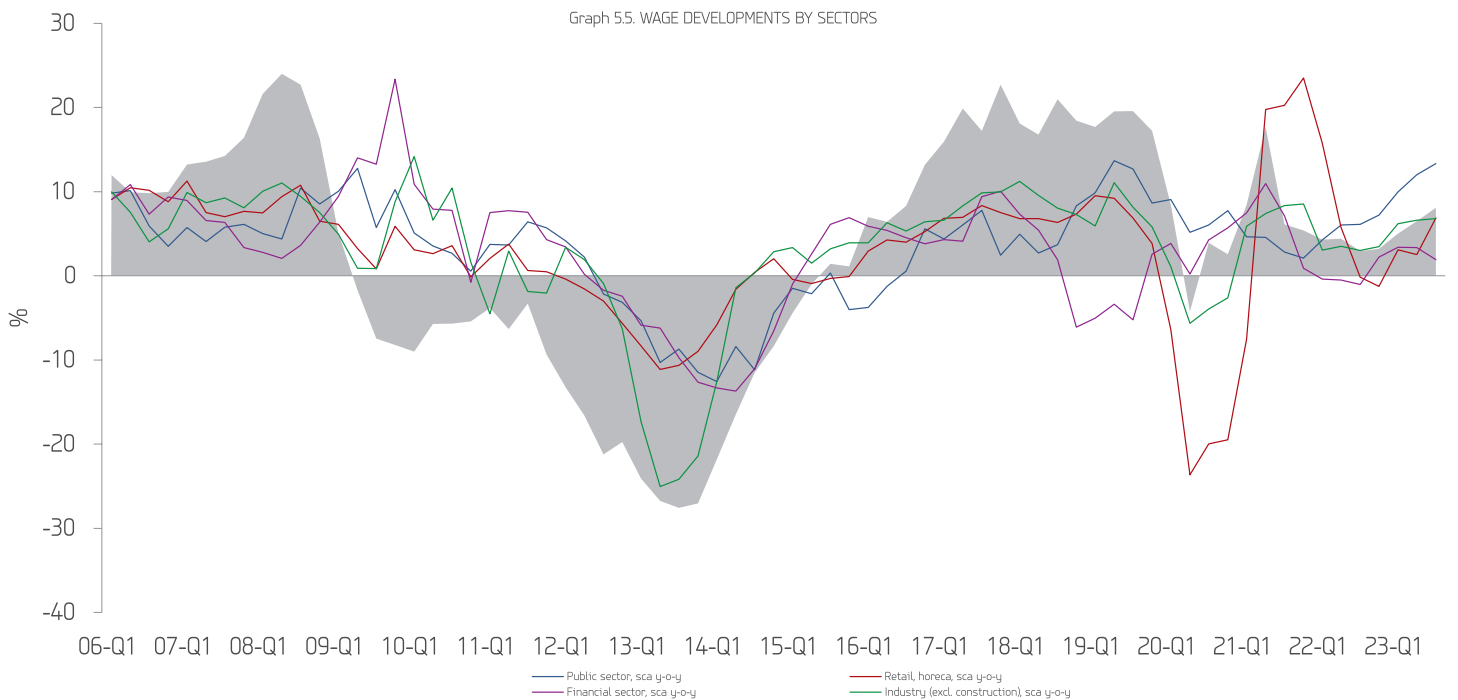
Graph 5.3. PRODUCTION AND WAGES



Graph 5.4. COMPETITIVENESS

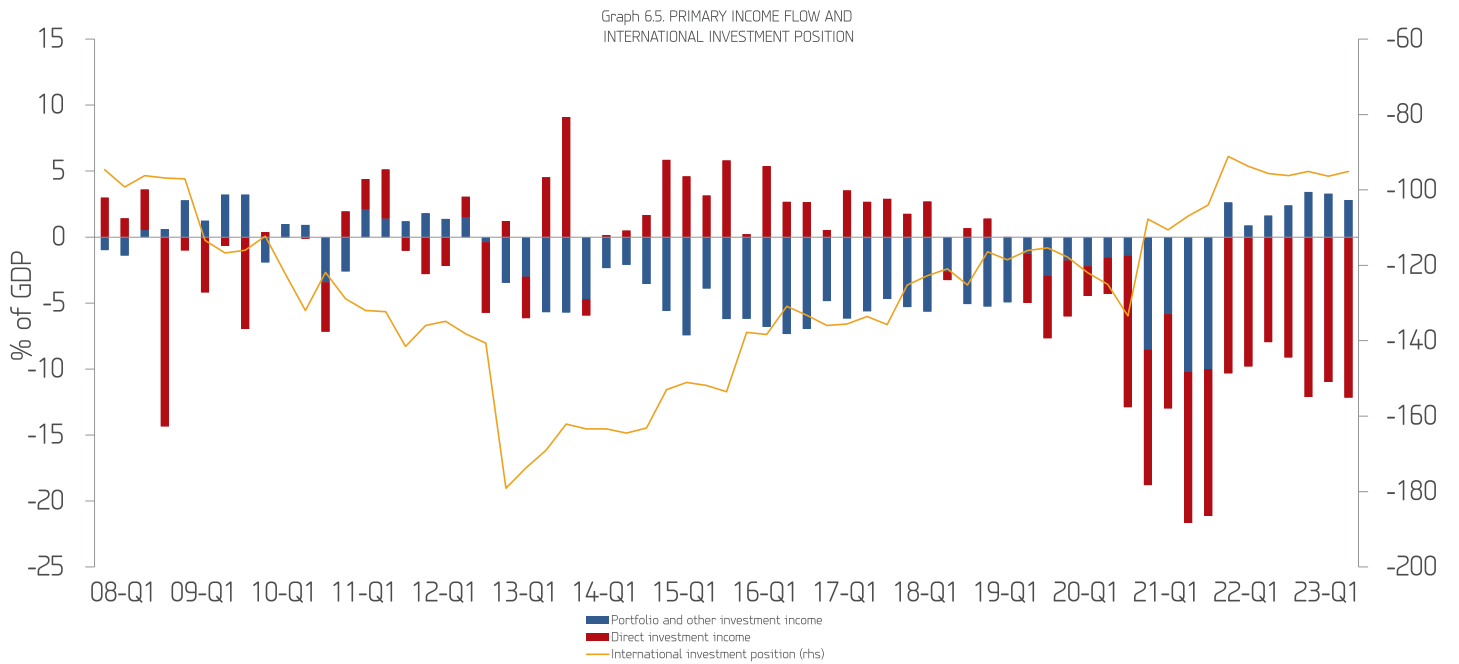
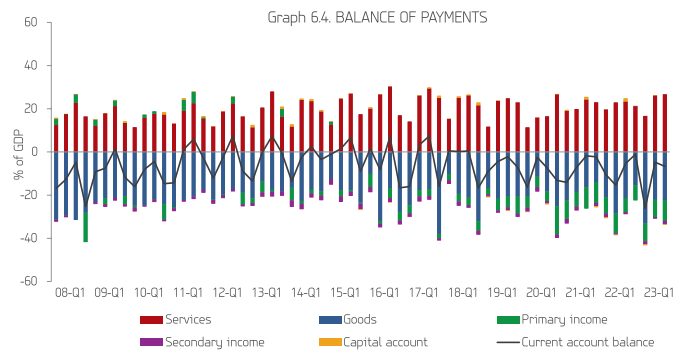
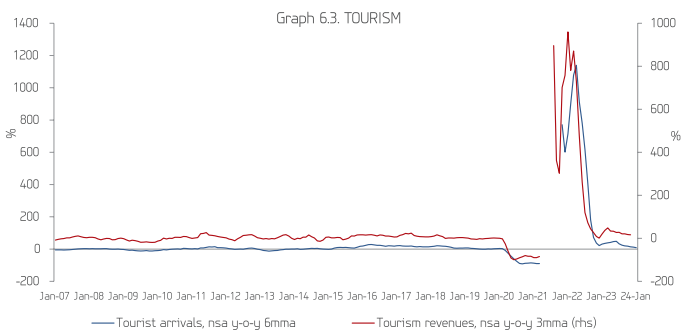
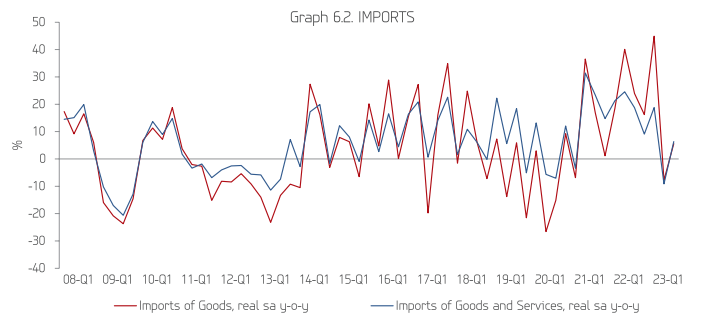
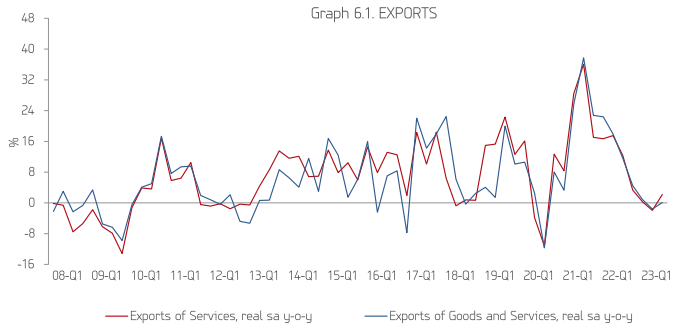


Graph 5.5. WAGE DEVELOPMENTS BY SECTORS



Source: Eurostat

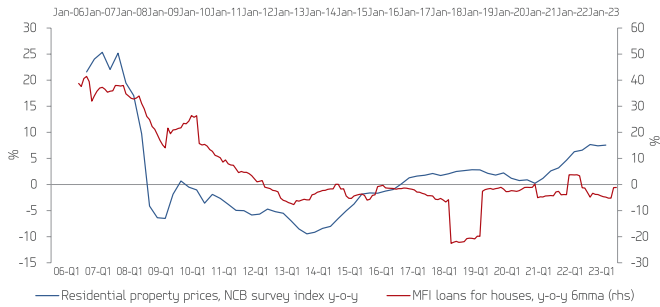
## 6. EXTERNAL SECTOR



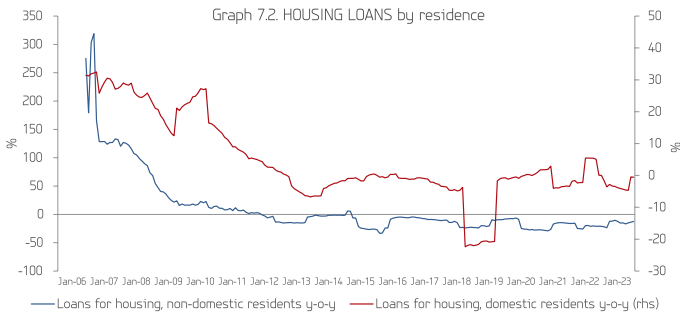
Sources: Cystat, CBC

## 7. HOUSING

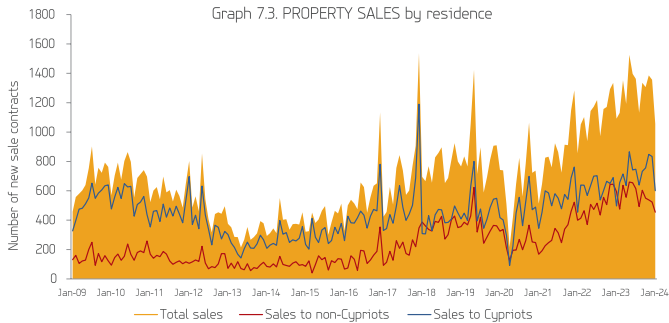
Graph 7.1. HOUSE PRICES AND HOUSING LOANS



Graph 7.2. HOUSING LOANS by residence



Graph 7.3. PROPERTY SALES by residence

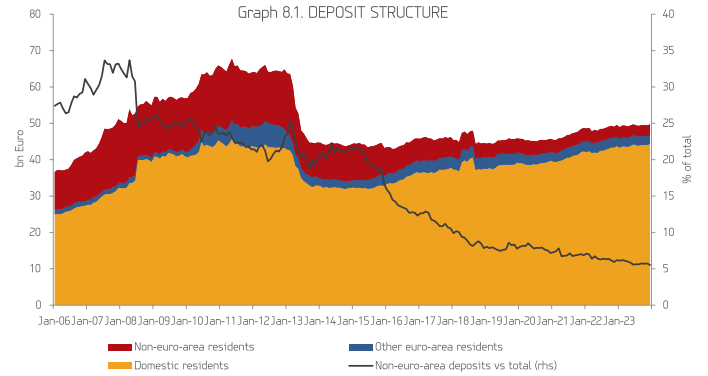


Note: According to the relevant modifications to the codification of the term "Alien" in the Land Information System, the way the statistics are presented has been modified. Therefore, the suggestion of the Department of Lands and Surveys is to avoid the comparison of the specific data from 2018 onwards,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

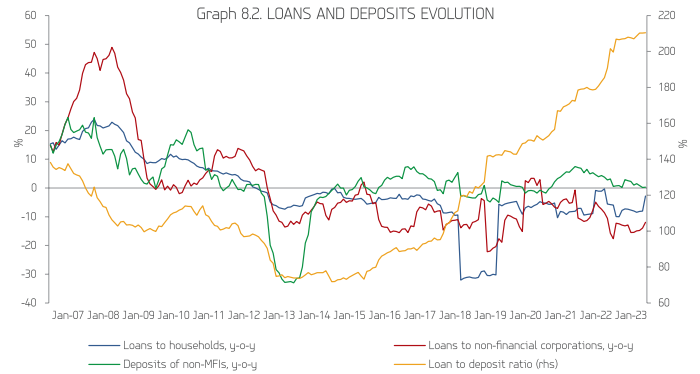
Sources: CBC, Dep. of Lands and Surveys

## 8. FINANCIAL SECTOR

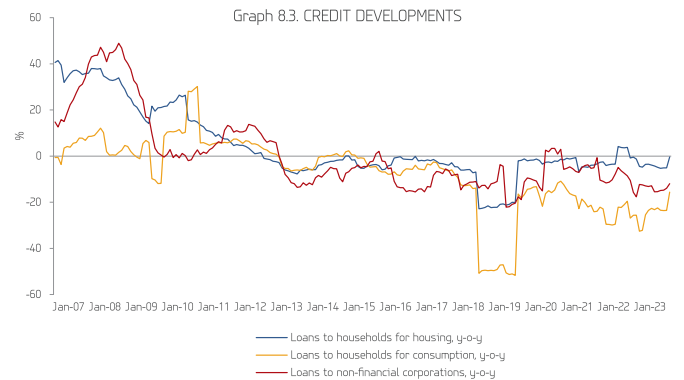
Graph 8.1. DEPOSIT STRUCTURE



Graph 8.2. LOANS AND DEPOSITS EVOLUTION

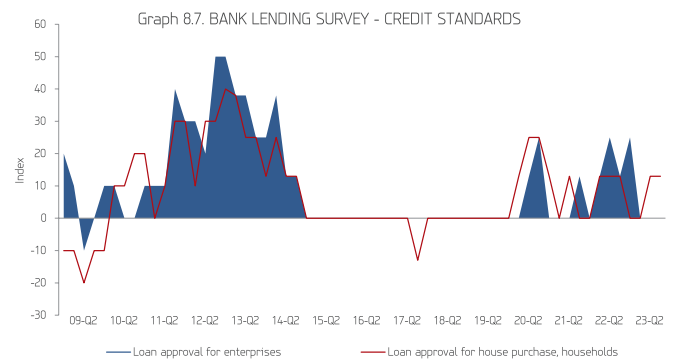
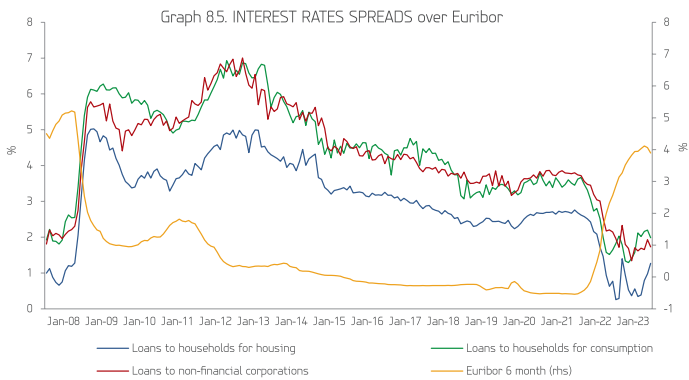
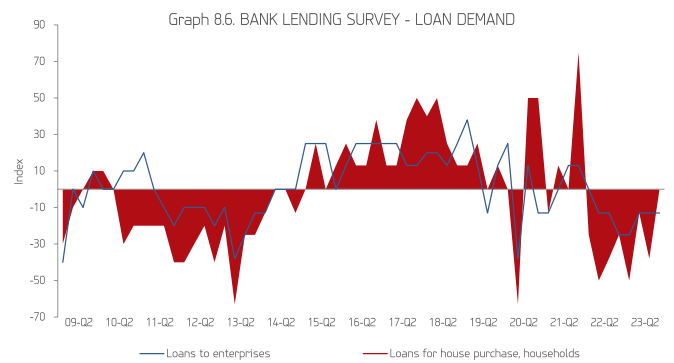
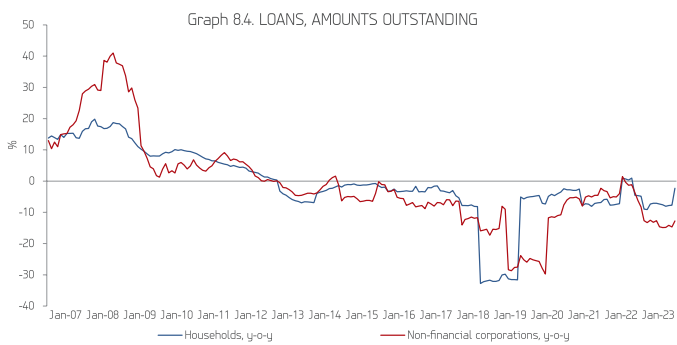


Graph 8.3. CREDIT DEVELOPMENTS



Source: CBC, EMMI

## 8. FINANCIAL SECTOR

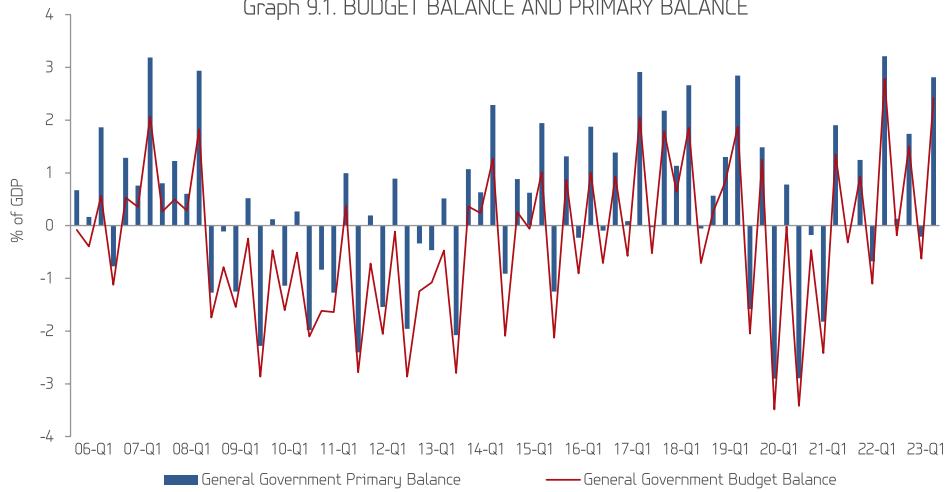


Sources: CBC, EMMI

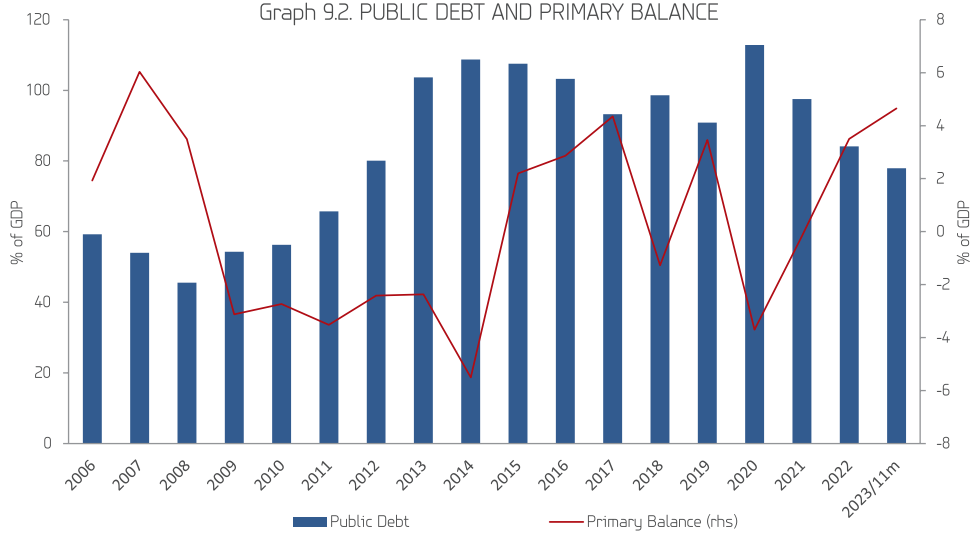
Source: ECB

## 9. PUBLIC SECTOR

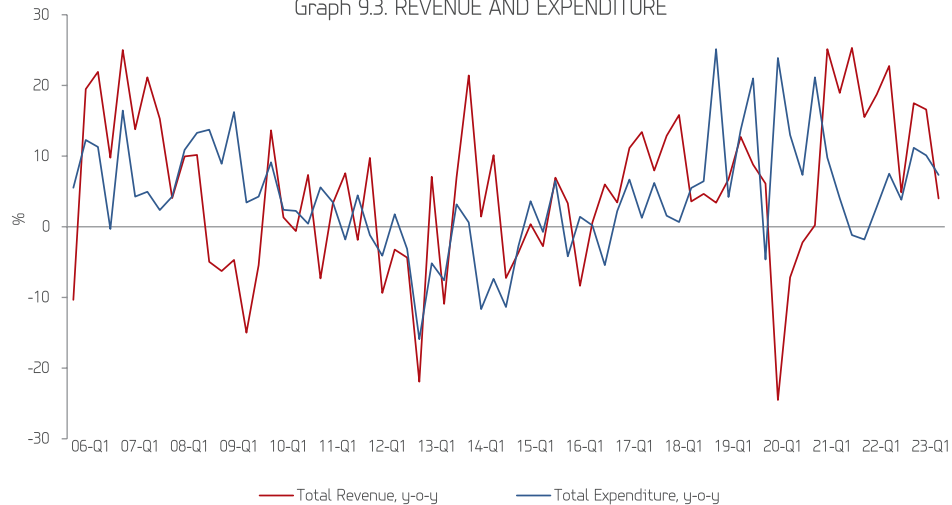
Graph 9.1. BUDGET BALANCE AND PRIMARY BALANCE



Graph 9.2. PUBLIC DEBT AND PRIMARY BALANCE



Graph 9.3. REVENUE AND EXPENDITURE



Sources: Ministry of Finance, Cystat