



MINISTRY OF FINANCE

MACROECONOMIC
MONITOR
OF CYPRUS

MAR
2024



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MACROECONOMIC MONITOR OF CYPRUS

Updated on 22 March 2024

Macro Economy

- In the 4th quarter of 2023, GDP (in seasonally adjusted terms) recorded a positive rate of growth of 2.2%, compared with 2.4% 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 February 2024, economic sentiment in Cyprus deteriorated, as the Economic Sentiment Indicator (ESI- CypERC) decreased by 2.1 points compared with January 2024 (see graph 1.3). The decrease in the ESI-CypERC was driven by lower confidence among consumers and weaker business confidence in all sectors except construction.

- For the period of January-February 2024, arrivals of tourists totaled 212,995 compared to 209,630 in the corresponding period of 2023, recording an increase of 1.6% (see graph 6.3). Arrivals from the United Kingdom were the main source of tourism for February 2024, with a share of 24.6% of total arrivals, followed by Poland with 13.3%, Israel with 10.6%, and Greece with 10.3%.

- Employment developments reflect conditions of improved economic activity. Total employment increased by 1.5% in 2023 compared with 2022. The most significant increases in number of persons were observed in the economic activities of "Accommodation and food service activities", "Wholesale and Retail Trade", "Manufacturing", "Administrative and support service activities" and "Human health and social work activities".

- Labour Force Survey (LFS) unemployment, in monthly seasonally adjusted terms, increased to 6.7% in January 2024 compared to 6.5% in January 2023 (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 18.4% in the 4th quarter of 2023 from a peak of 40.5% in the 3rd quarter of 2013.

- Compensation per employee recorded an increase of 5.6% in 2023 compared with 2022 (see graphs 5.3-5.5).

- Inflation (HICP) in February 2024 recorded an increase of 2.1% compared to an increase of 2.1% in January 2024 (see graph 5.1). For the period January-February 2024, the HICP rose by 2.1% compared to the corresponding period of the previous year. For the period January-February 2024, compared to the corresponding period of the previous year, the largest changes were noted in Restaurants and Hotels (5.9%), Alcoholic Beverages and Tobacco (3.1%) and Miscellaneous Goods and Services (3.0%). Core HICP recorded an increase of 2.7% in January-February 2024 (see graph 5.2).

- Imports of goods recorded a decrease of 51.1% in January 2024 compared to January 2023. Imports are affected by developments in imports of transport equipment (aircrafts and vessels). Imports of goods, excluding imports of aircrafts and vessels, exhibit a decrease of 2.0%.

- Exports of goods recorded a decrease of 10.7% in January 2024 compared to January 2023. Exports of goods, excluding exports of aircrafts and vessels, exhibit an increase of 2.1%.

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 first 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 assets 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 2024, of the order of €455.9 mn (1.4% of GDP) compared to a surplus of €368.6 mn (1.2% of GDP) during the corresponding month the year before (see graph 9.1).

- **General government primary balance (GGPB)** recorded a surplus in January 2024, of the order of €490.9 mn (1.6% of GDP) compared to a surplus of €410.3 mn (1.4% of GDP) during the corresponding month the year before (see graphs 9.1-9.2).

- **Total revenue** exhibited an increase of about 13.2%, reaching €1,316.0 mn in January 2024, compared to €1,163.0 mn during the corresponding month the year before (see graph 9.3).

- **Total expenditure** exhibited an increase of about 8.3%, reaching €860.1 mn in January 2024, compared to €794.4 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 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 up by 5.3% while **transfers of property** were up by 11.5% in January-February 2024 compared with January-February 2023 (see graph 7.3).

- Monetary Financial Institutions (MFI) **mortgage loans to domestic residents** for housing **increased by 1.9%** in January 2024 (see graph 7.2).

Banking Sector Developments

- MFI **loans to domestic residents** (private sector) **decreased by 1.1%** in January 2024 (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 0.1%** in January 2024 (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 January 2024, **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 decreased.

- **NPEs** in November 2023 decreased to €2.00 bn (8.3% on gross loans) compared to €2.30 bn (9.5% on gross loans) in December 2022. The gross loans decreased by €199.2 mn in the period from 31 December 2022 until 30 November 2023.

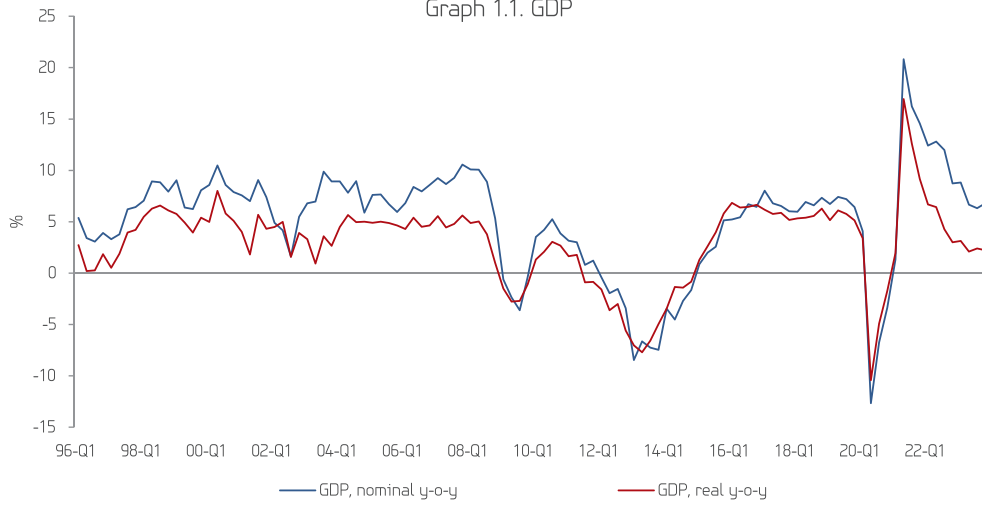
- **Accumulated provisions** increased to 51.0% in December 2023 compared to 47.5% in December 2022 compared to 43.4% of NPEs in December 2021 thus facilitating restructuring activity with a view to cure NPEs of viable customers.

Credit Ratings

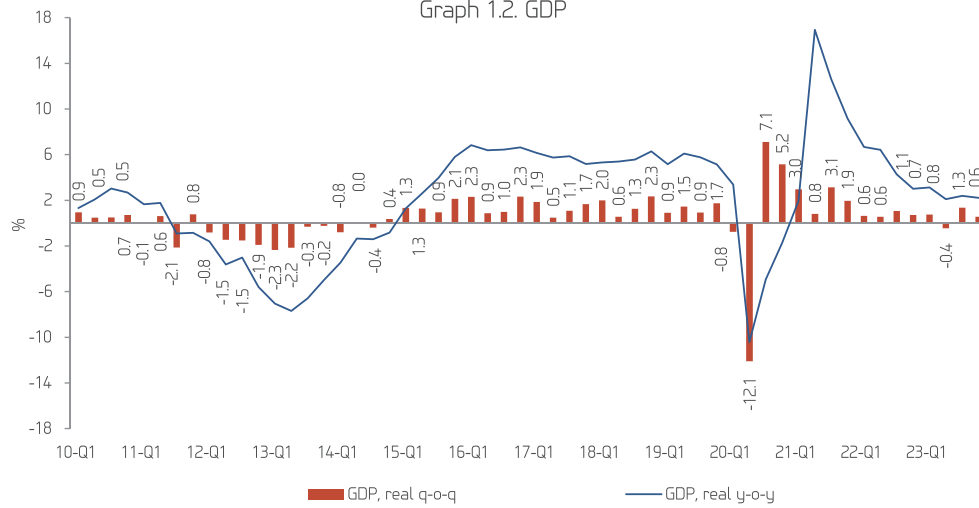
- On 22/03/2024, DBRS Ratings affirmed the Republic of Cyprus's Long-Term Foreign and Local Currency - Issuer Ratings from BBB to BBB (high). The outlook remains stable.
- On 08/12/2023, Fitch Ratings affirmed Cyprus's Long-Term Foreign-Currency Issuer Default Rating (IDR) to 'BBB' and changed the outlook 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 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

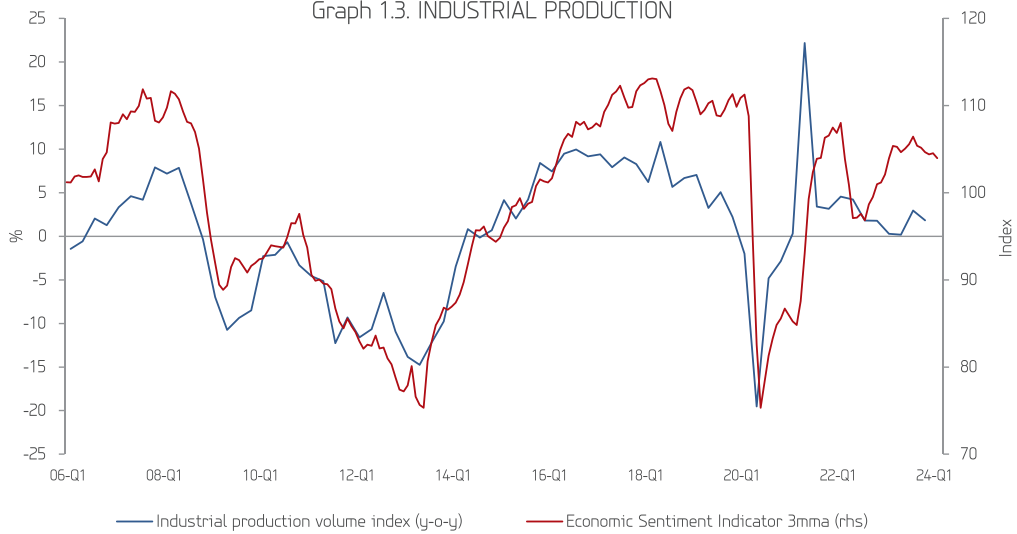
Graph 1.1. GDP



Graph 1.2. GDP

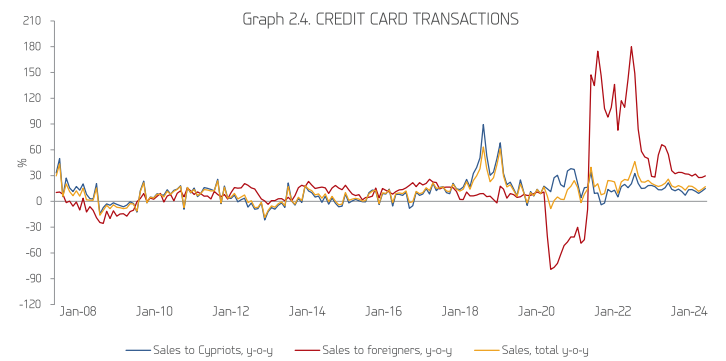
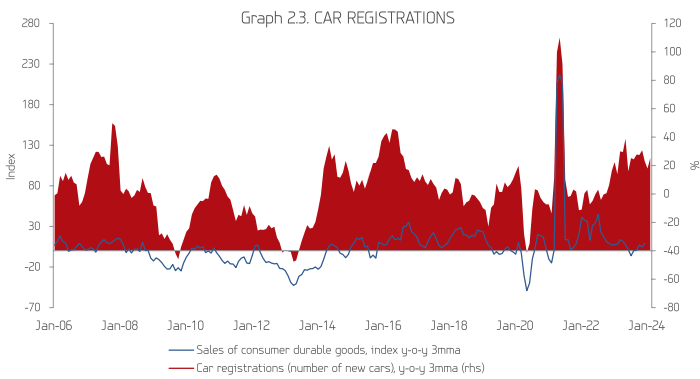
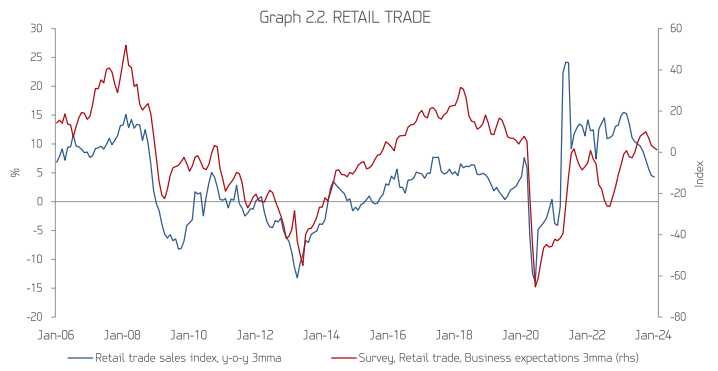
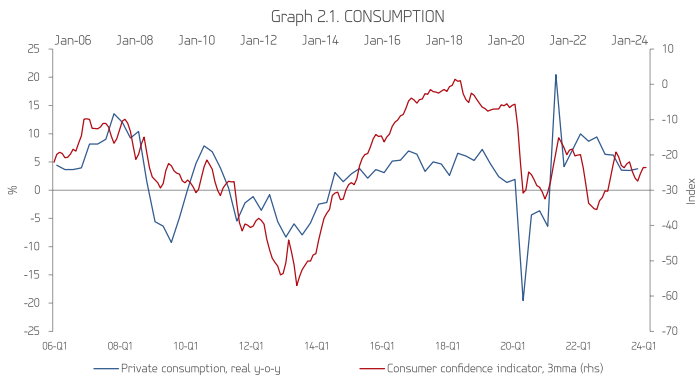


Graph 1.3. INDUSTRIAL PRODUCTION



Sources: Eurostat, DG ECFIN, Cystat

2. CONSUMPTION

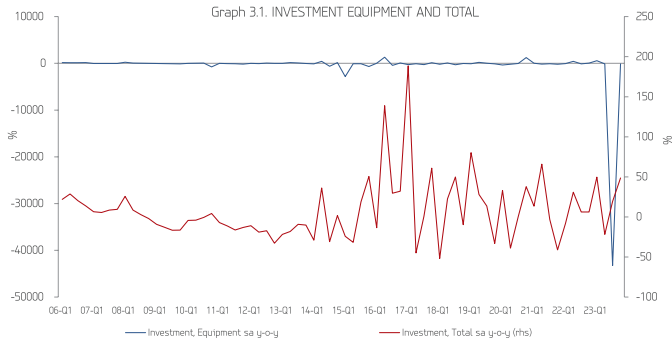


Note: Data for credit card transactions from 2018 onwards were revised based on reclassification of some foreign cards to local cards, thus data are not comparable with the data of the previous years.

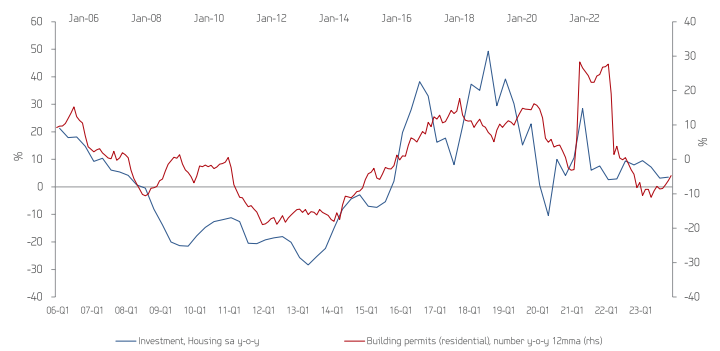
Sources: Eurostat, DG ECFIN, Cystat, JCC Payment Systems Ltd

3. INVESTMENT

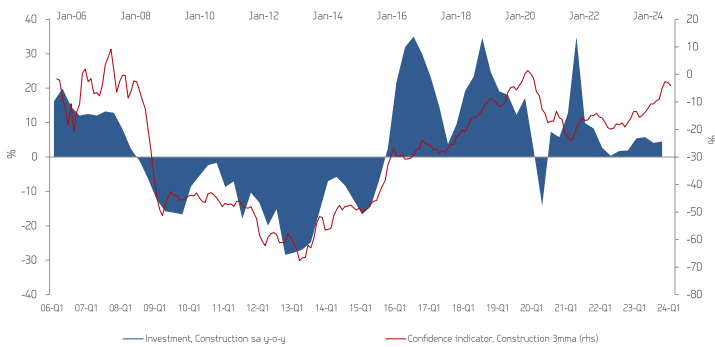
Graph 3.1. INVESTMENT EQUIPMENT AND TOTAL



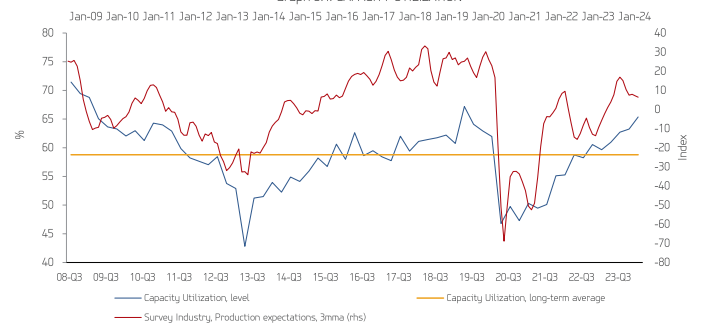
Graph 3.2. BUILDING PERMITS



Graph 3.3. INVESTMENT IN CONSTRUCTION



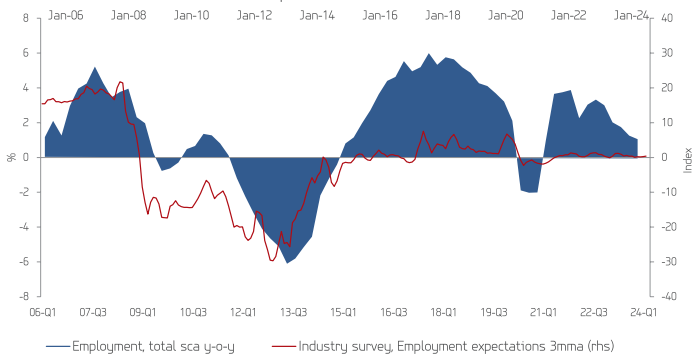
Graph 3.4. CAPACITY UTILIZATION



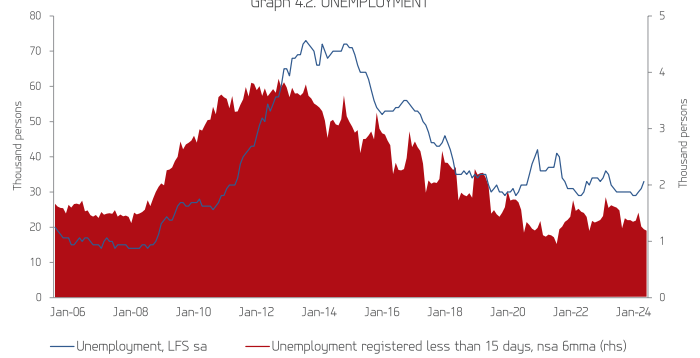
Sources: Cystat, DG ECFIN, CypERC

4. LABOUR MARKET

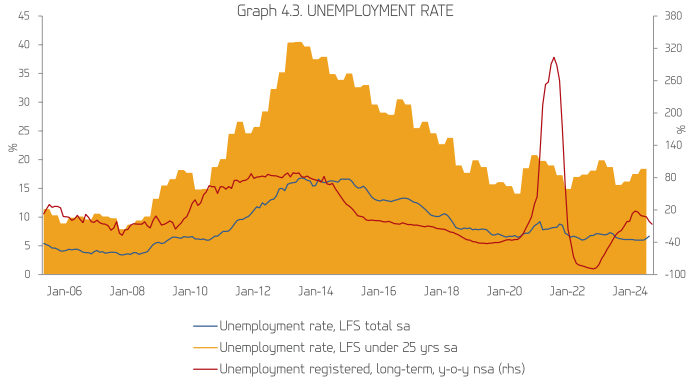
Graph 4.1. EMPLOYMENT



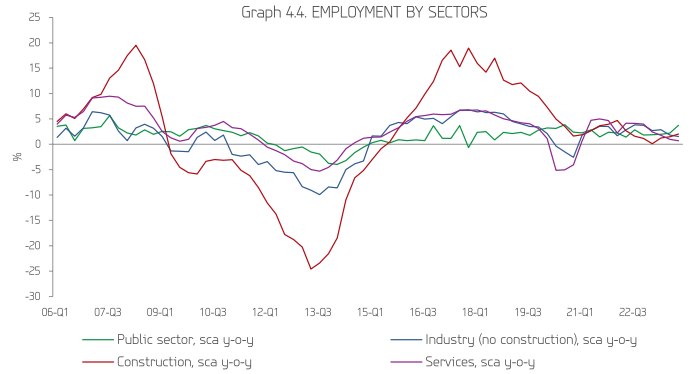
Graph 4.2. UNEMPLOYMENT



Graph 4.3. UNEMPLOYMENT RATE



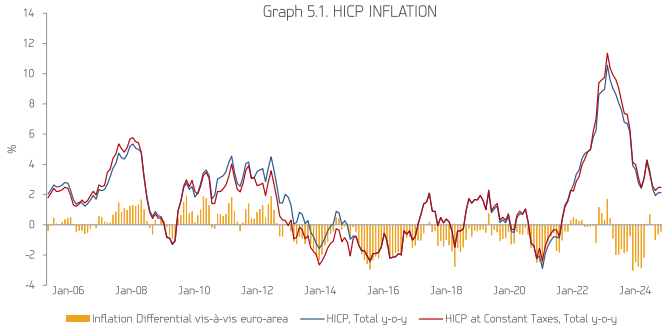
Graph 4.4. EMPLOYMENT BY SECTORS



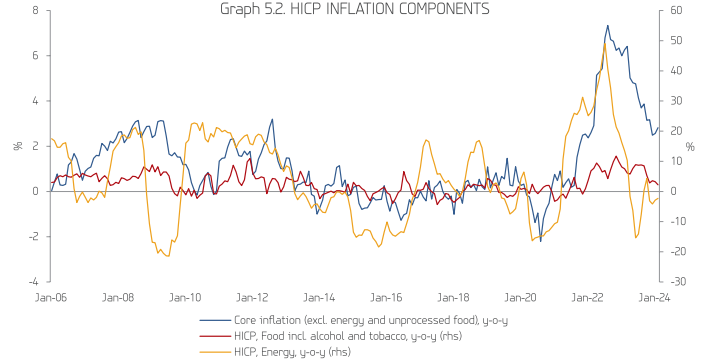
Sources: Eurostat, DG ECFIN, Cystat

5. INFLATION / WAGES

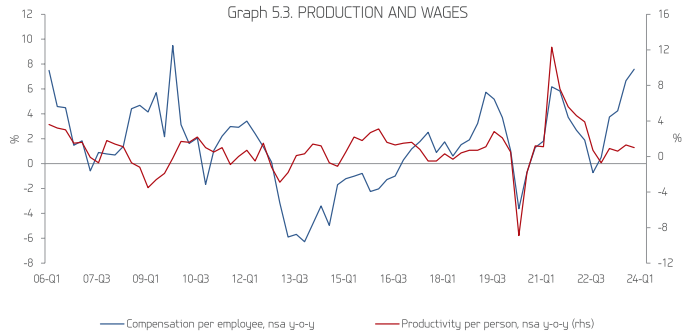
Graph 5.1. HICP INFLATION



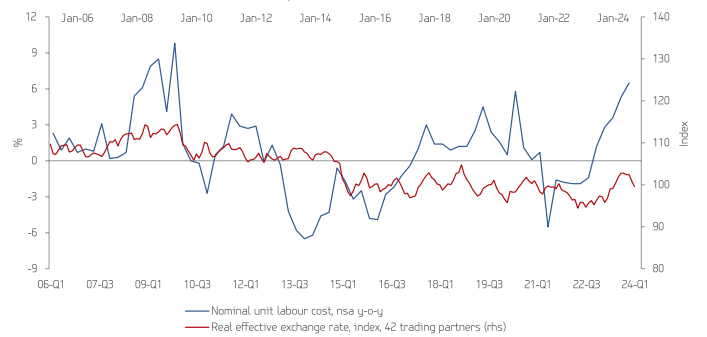
Graph 5.2. HICP INFLATION COMPONENTS



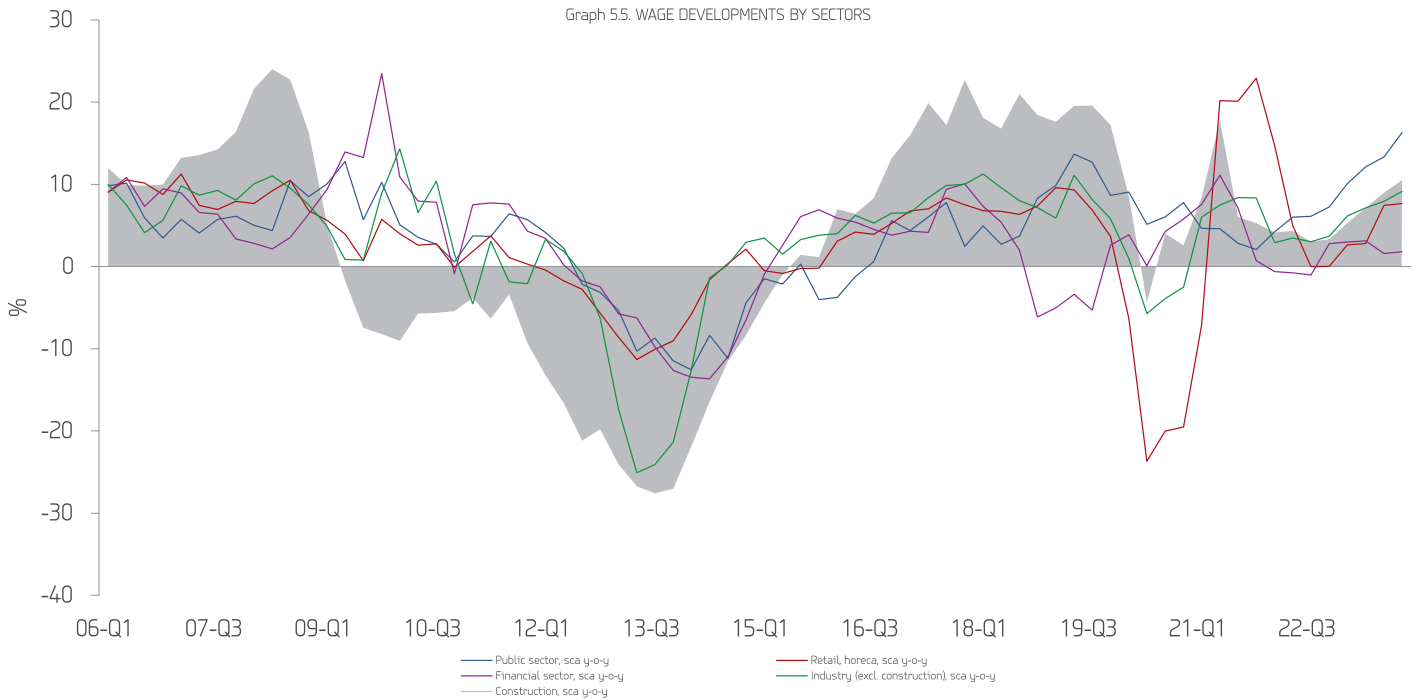
Graph 5.3. PRODUCTION AND WAGES



Graph 5.4. COMPETITIVENESS

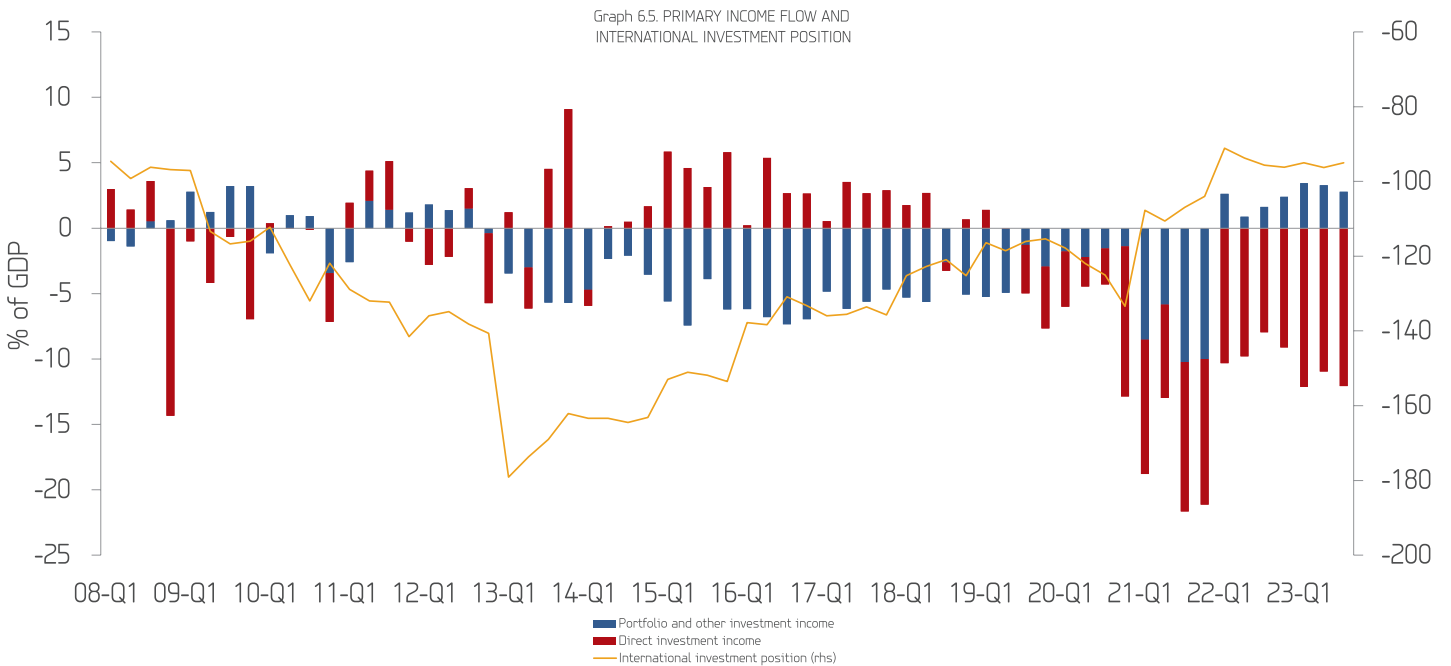
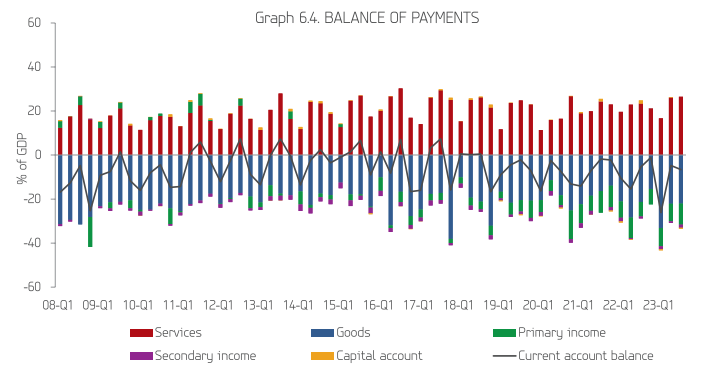
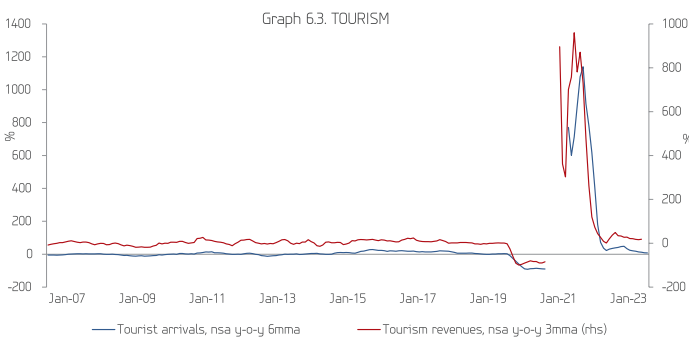
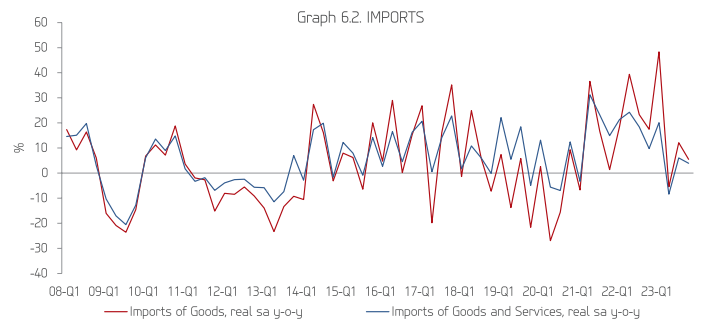
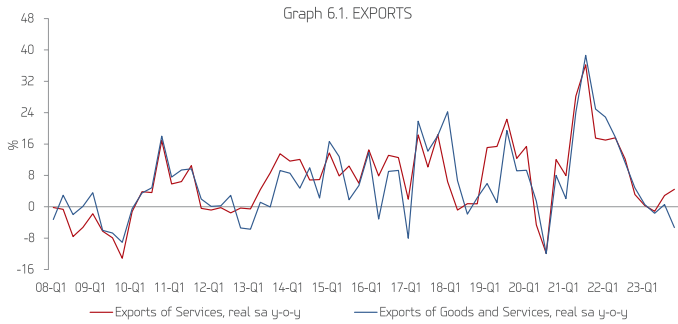


Graph 5.5. WAGE DEVELOPMENTS BY SECTORS



Source: Eurostat

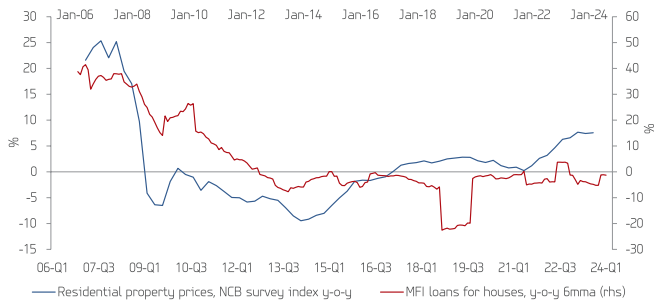
6. EXTERNAL SECTOR



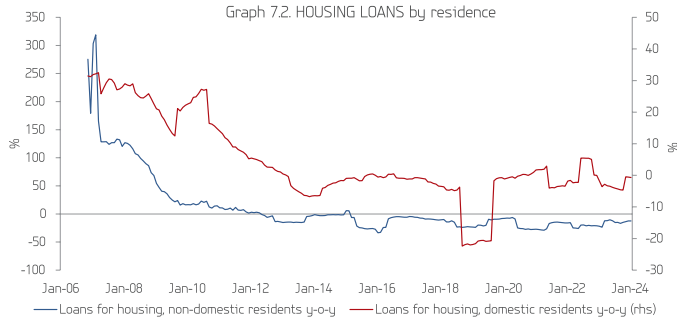
Sources: Cystat, CBC

7. HOUSING

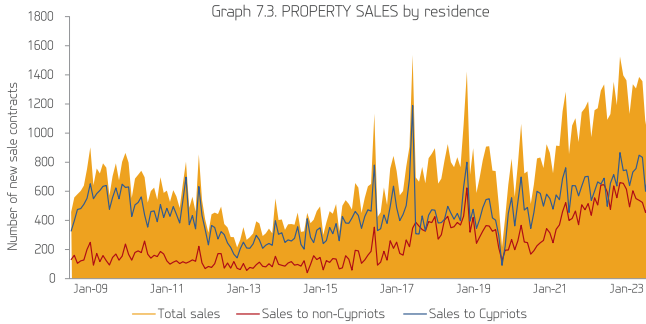
Graph 7.1. HOUSE PRICES AND HOUSING LOANS



Graph 7.2. HOUSING LOANS by residence



Graph 7.3. PROPERTY SALES by residence

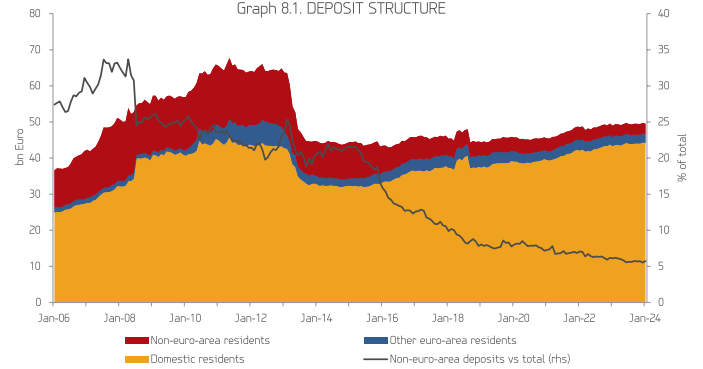


Note: According to the relevant modifications to the codification of the term "Alien" in the Land Information System, the way the statistics are presented has been modified. Therefore, the suggestion of the Department of Lands and Surveys is to avoid the comparison of the specific data from 2018 onwards,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

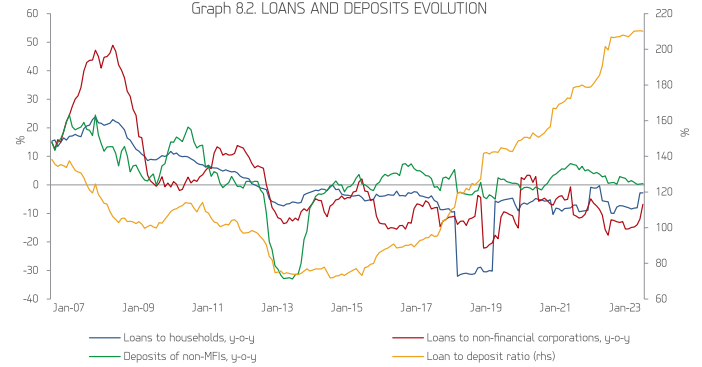
Sources: CBC, Dep. of Lands and Surveys

8. FINANCIAL SECTOR

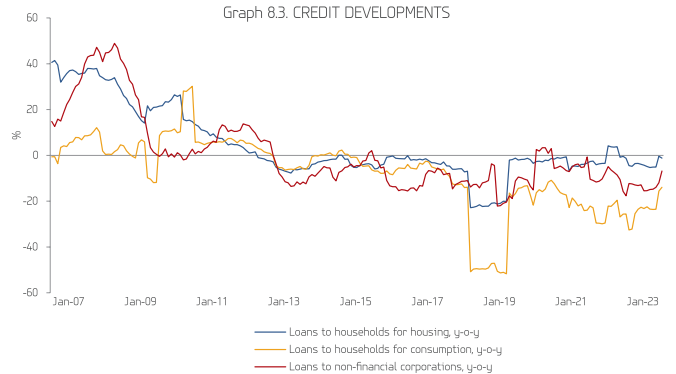
Graph 8.1. DEPOSIT STRUCTURE



Graph 8.2. LOANS AND DEPOSITS EVOLUTION



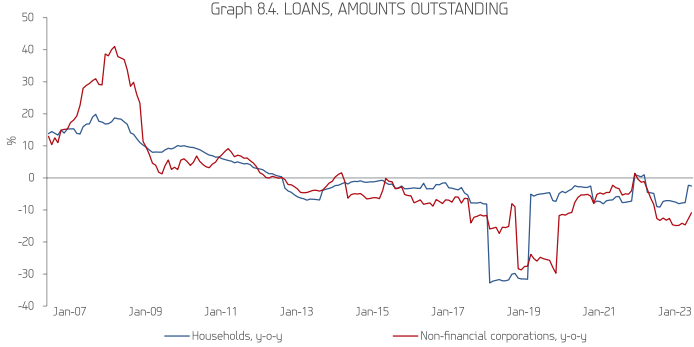
Graph 8.3. CREDIT DEVELOPMENTS



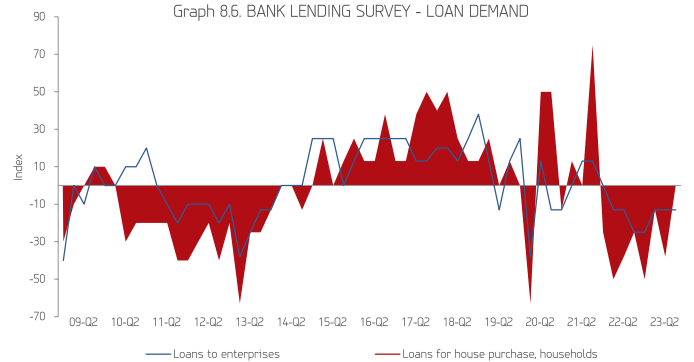
Source: CBC, EMMI

8. FINANCIAL SECTOR

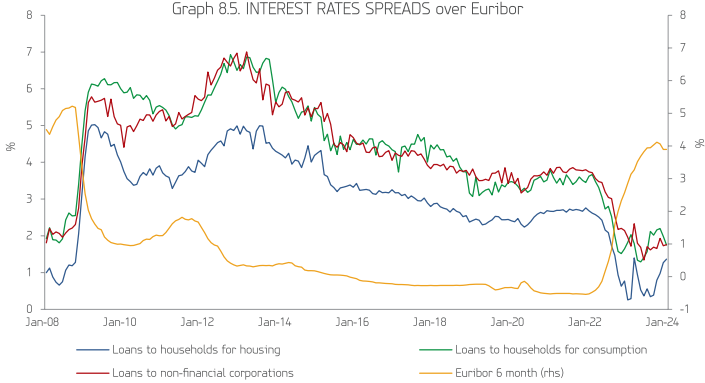
Graph 8.4. LOANS, AMOUNTS OUTSTANDING



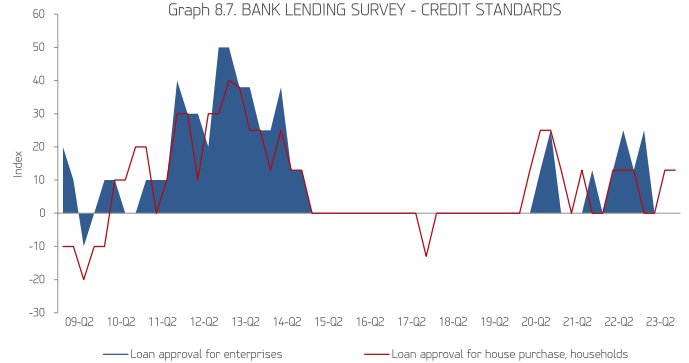
Graph 8.6. BANK LENDING SURVEY - LOAN DEMAND



Graph 8.5. INTEREST RATES SPREADS over Euribor



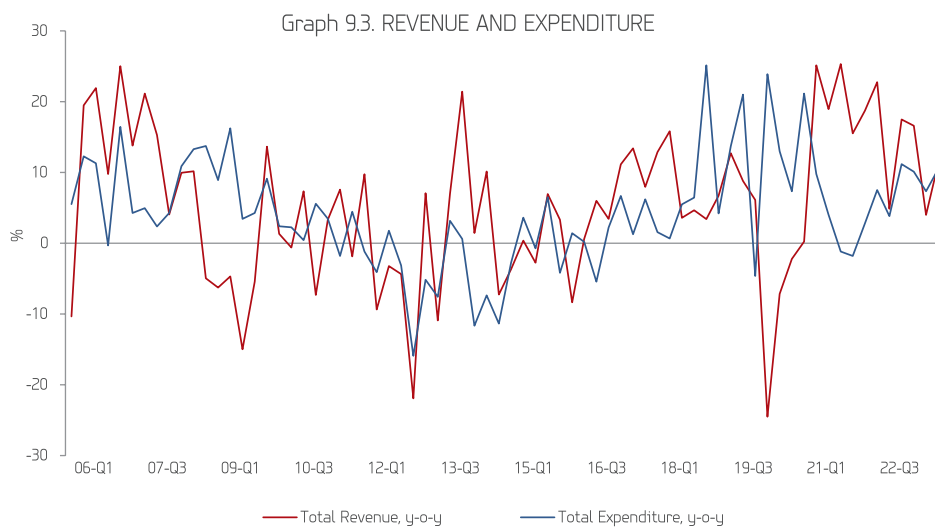
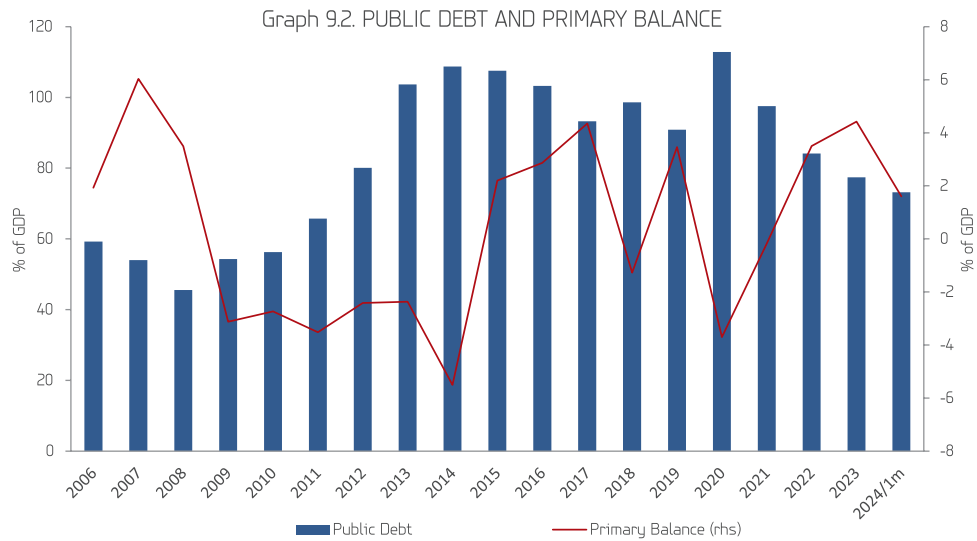
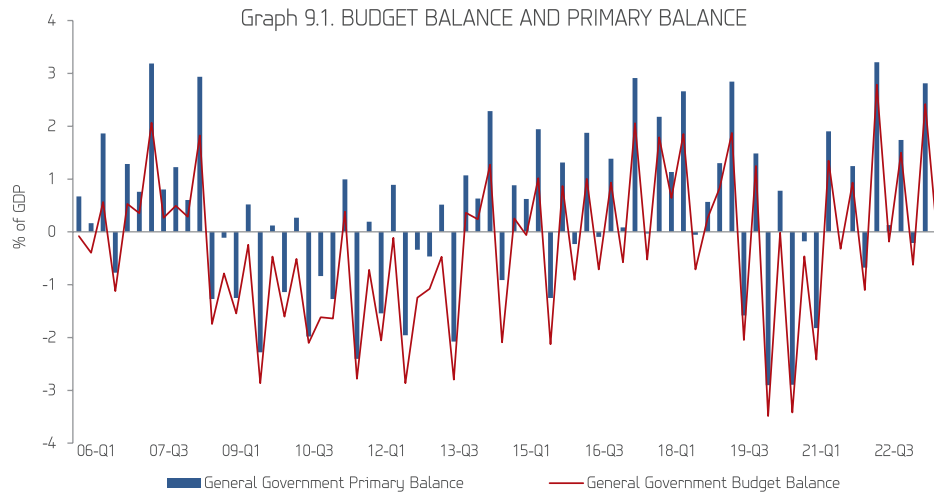
Graph 8.7. BANK LENDING SURVEY - CREDIT STANDARDS



Sources: CBC, EMMI

Source: ECB

9. PUBLIC SECTOR



Sources: Ministry of Finance, Cystat