THE CYPRUS ECONOMY CHARTBOOK

September 2018

Bank of Cyprus Economic Research

Bank of Cyprus

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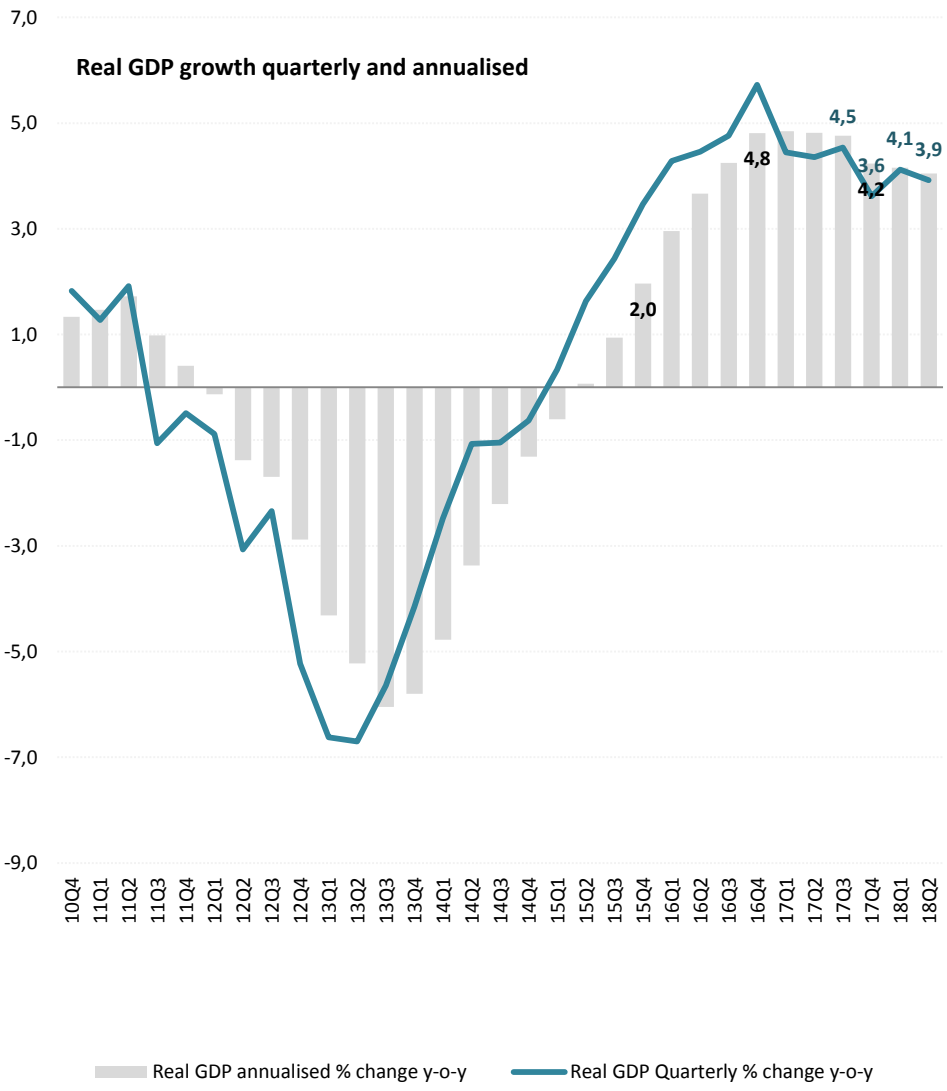
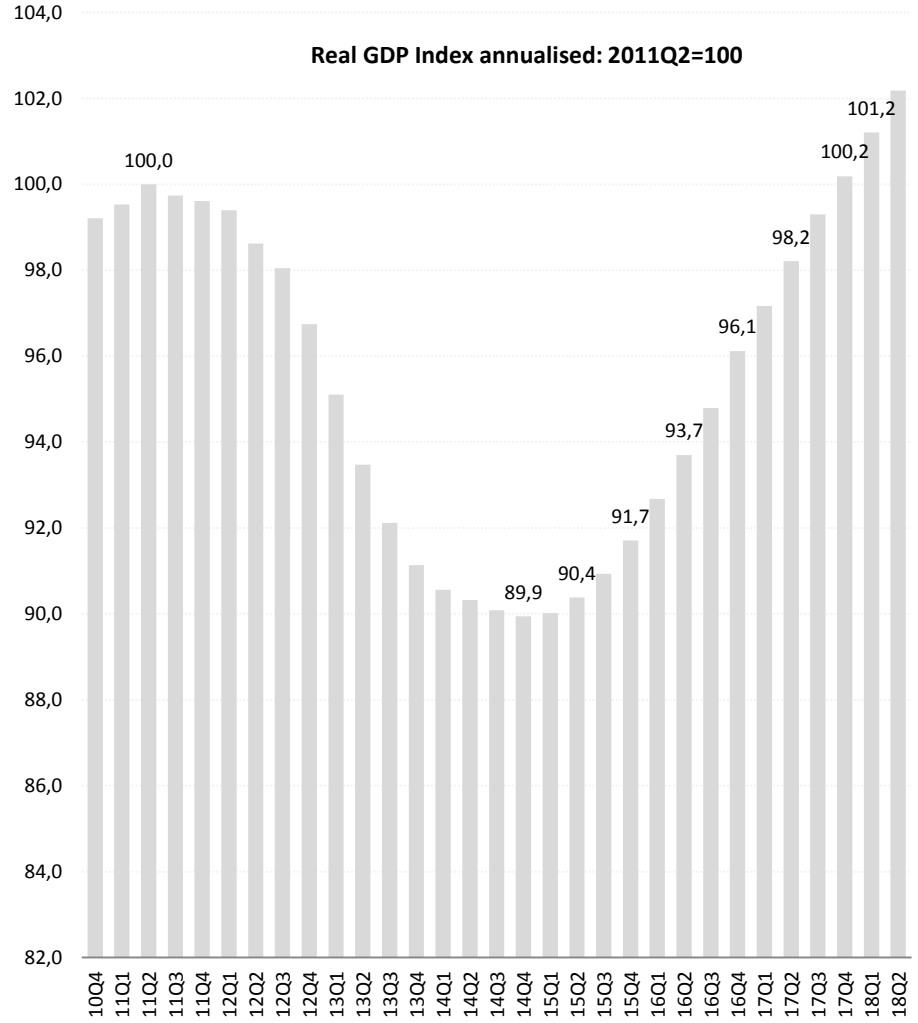
Economic activity continued to rise strongly through Q2 2018

Real GDP increased by 4,1% and 3,9% y-o-y seasonally adjusted in Q1 and Q2 2018, following a yearly increase of 4,2% in 2017



On an annualised basis, real GDP in Q4 2017 surpassed its level as at the pre-crisis peak (Q2 2011 annualised)

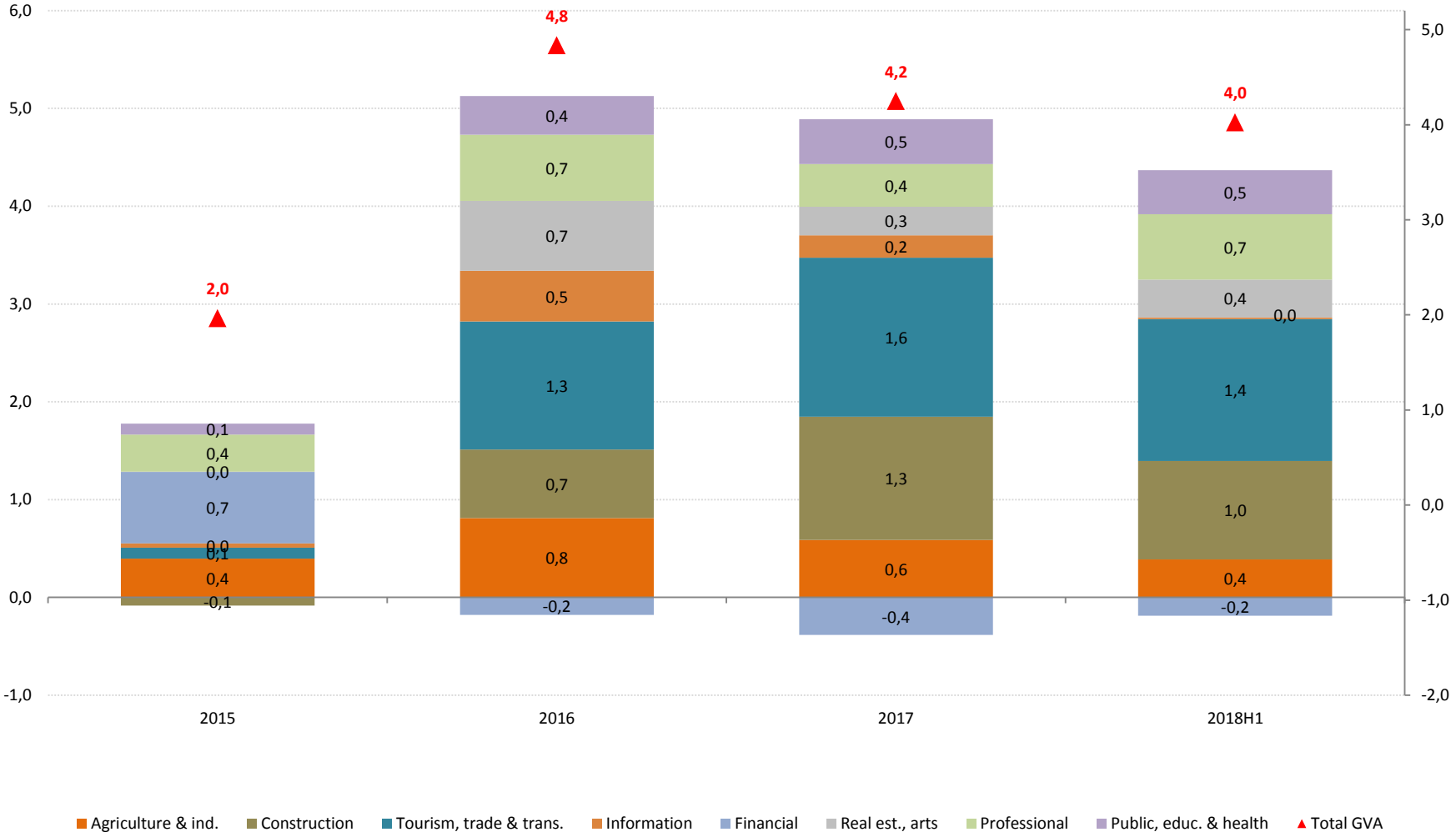


Sources: Cyprus Statistical Service; Bank of Cyprus Economic Research

Economic activity in the first half was driven by tourism, construction, manufacturing and professional services

Growth of real GVA in the first half of 2018 was driven by tourism-trade-transport; construction; professional; and manufacturing

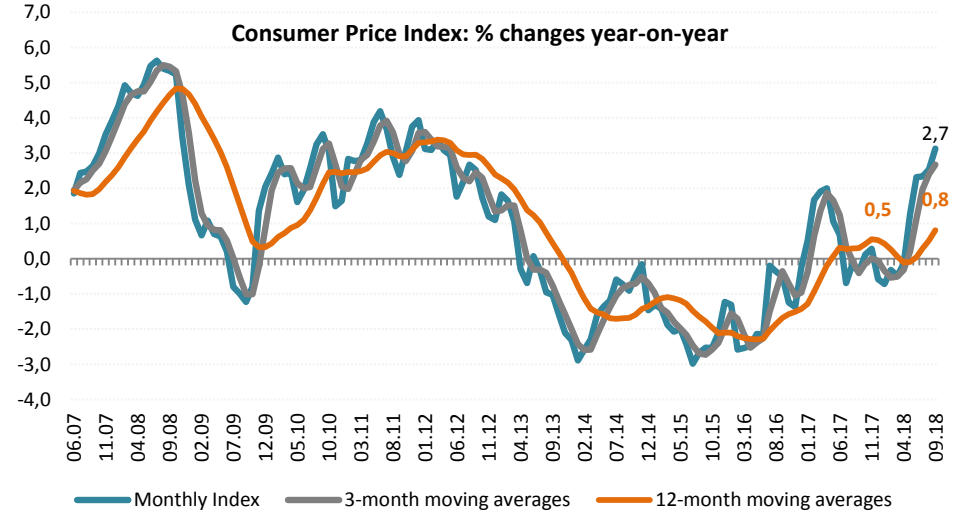
Contribution to real GVA growth in percent points (under the new methodology there is no additivity of sectors and total GVA)



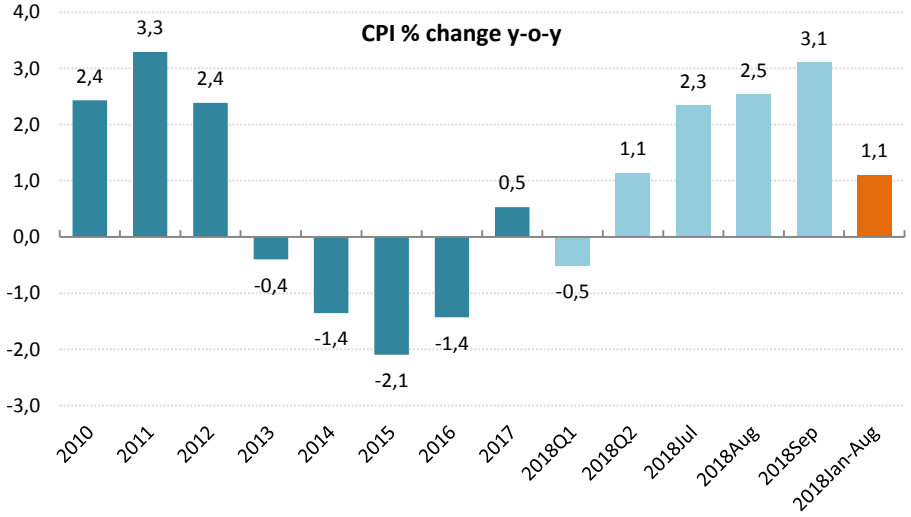
Sources: Cyprus Statistical Service; Bank of Cyprus Economic Research

Consumer inflation started to accelerate in 2018 …

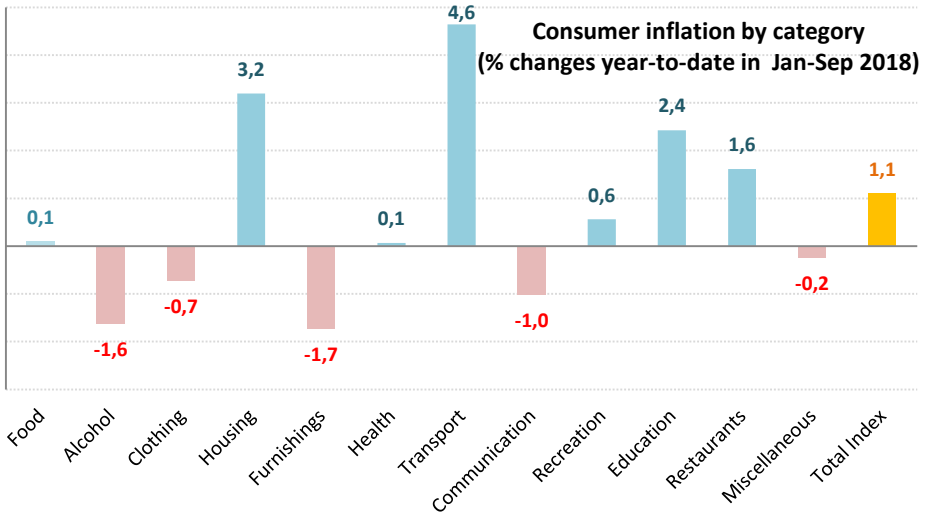
Consumer inflation up 1,1% in Jan-Sep and up 2,7% in the 3-months Jul-Sep (after rising by 0,5% average in 2017)



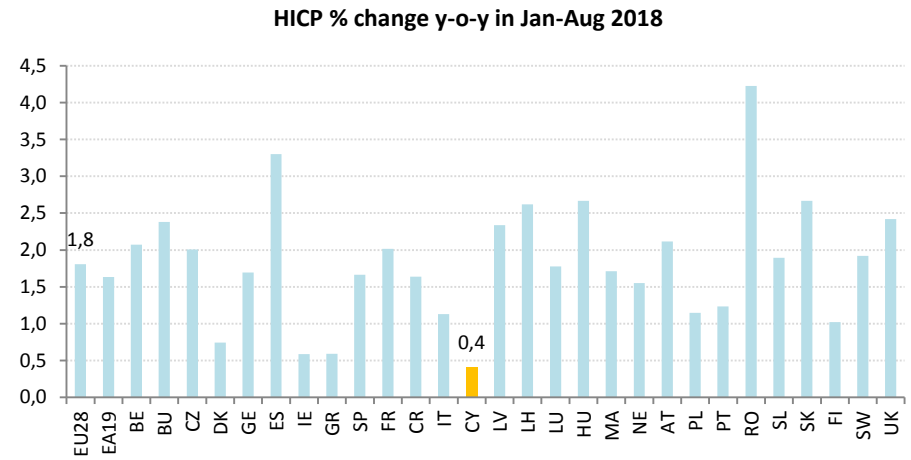
…starting to accelerate from Q2 2018 onwards



…Inflation in Jan-Sep 2018 was driven higher mainly by housing and transport costs, in turn driven by energy prices



In the EU Cyprus harmonised inflation remains low in the year to August



Sources: Cyprus Statistical Service; Eurostat; Bank of Cyprus Economic Research

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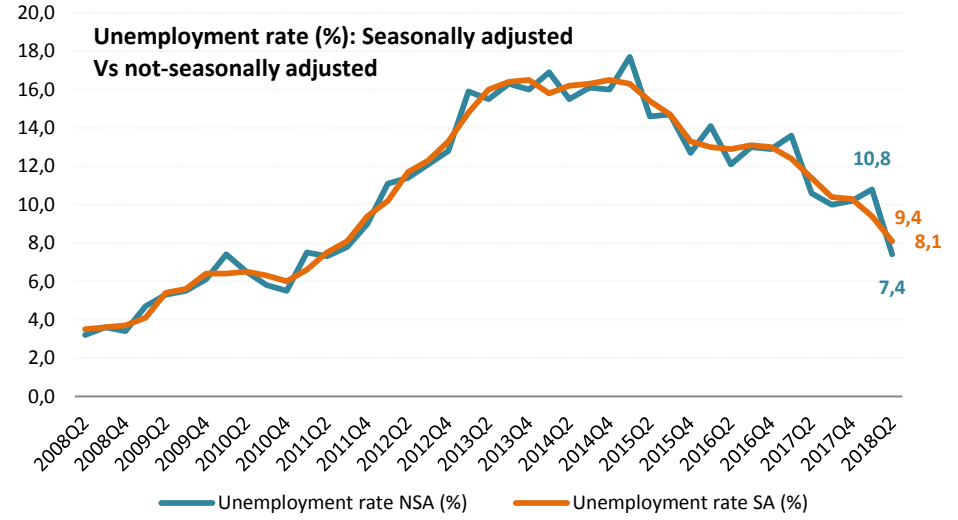
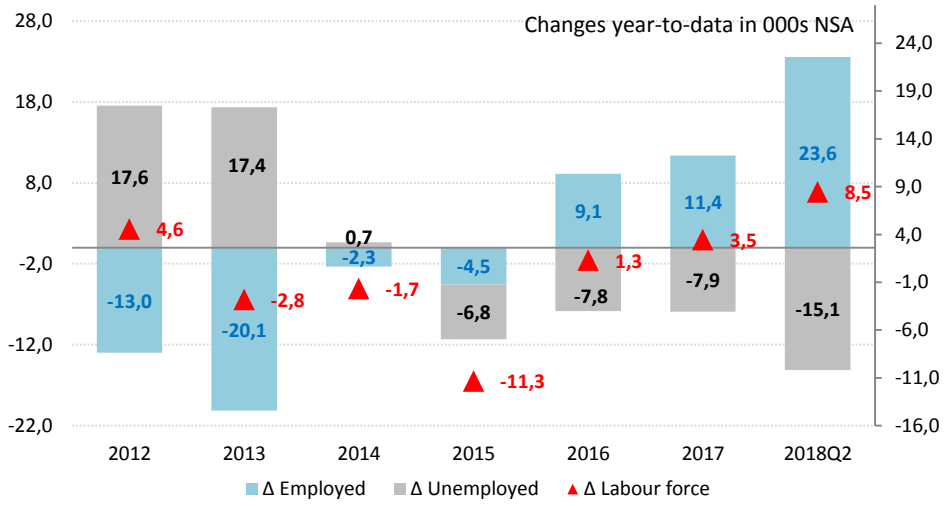
In the labour market the unemployment rate continued to drop in 2018 amidst rising employment and participation rates

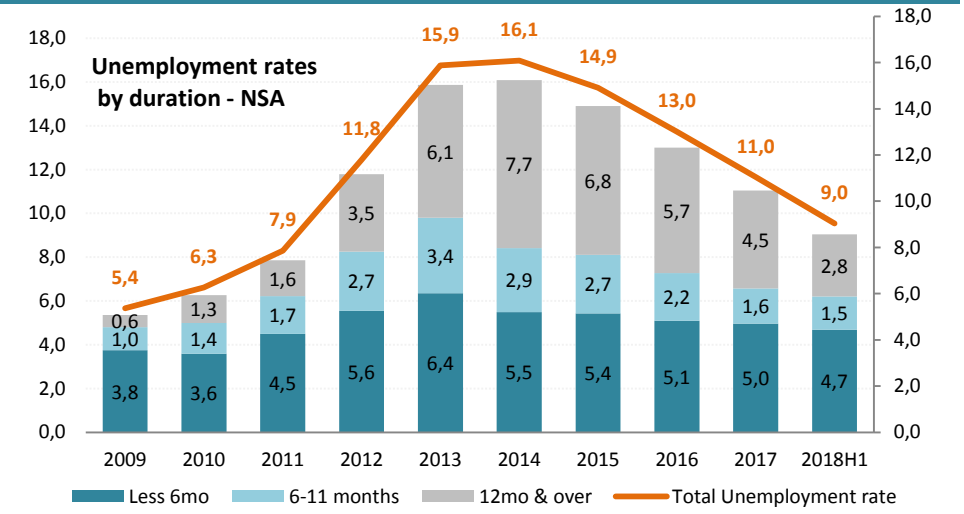
The unemployment rate continued to drop in 2018 to 8,1% SA and 7,4% NSA in Q2



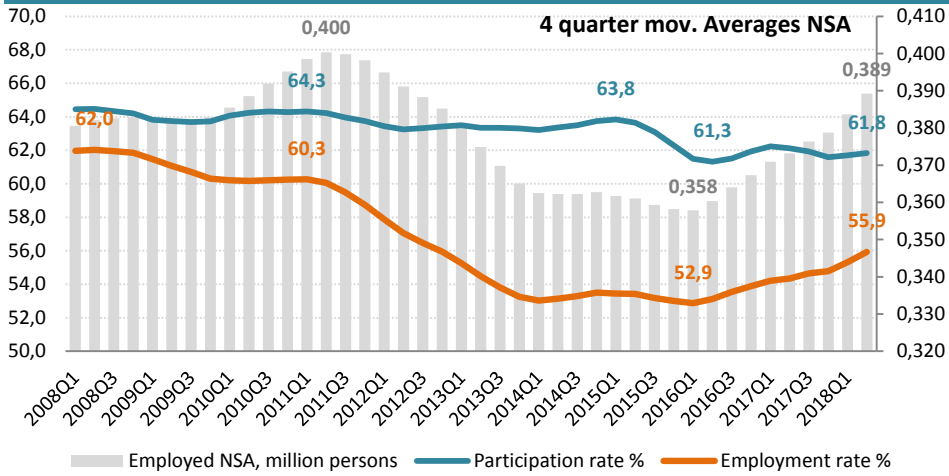
The drop in the unemployment rate in the first half was driven by an increase in employment against a small labour force increase



The long term unemployment rate (12 months and over) dropped sharply in the first half of 2018 (NSA)



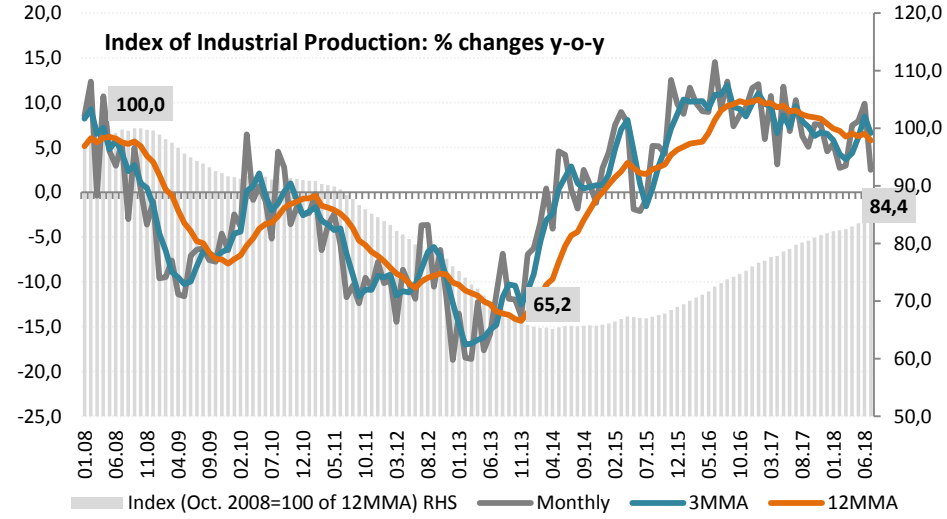
…Employment is increasing along with the employment rate and the labour force participation rate … but still below pre-crisis



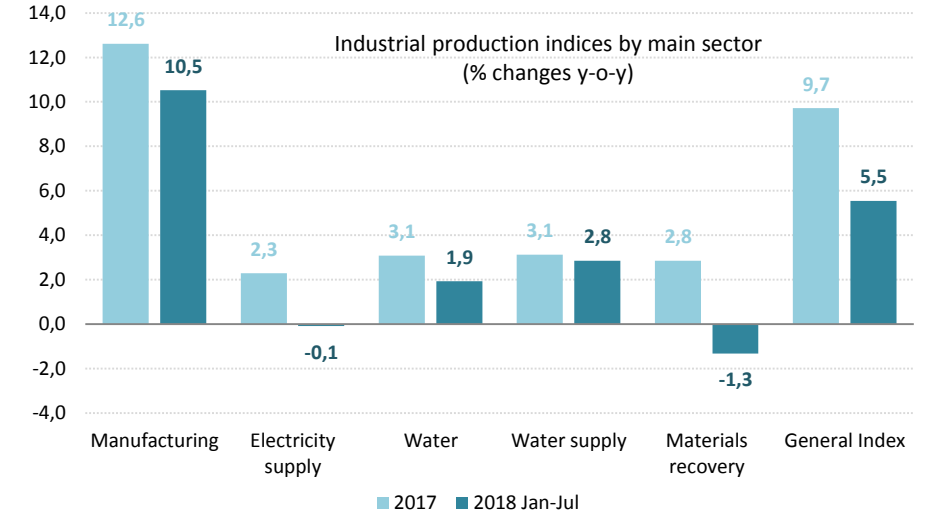
Sources: Cyprus Statistical Service; Eurostat; Bank of Cyprus Economic Research

In industry the long recession from 2008 ended in early 2014 … growth turned positive in 2015 and continues positive but at a slowing pace

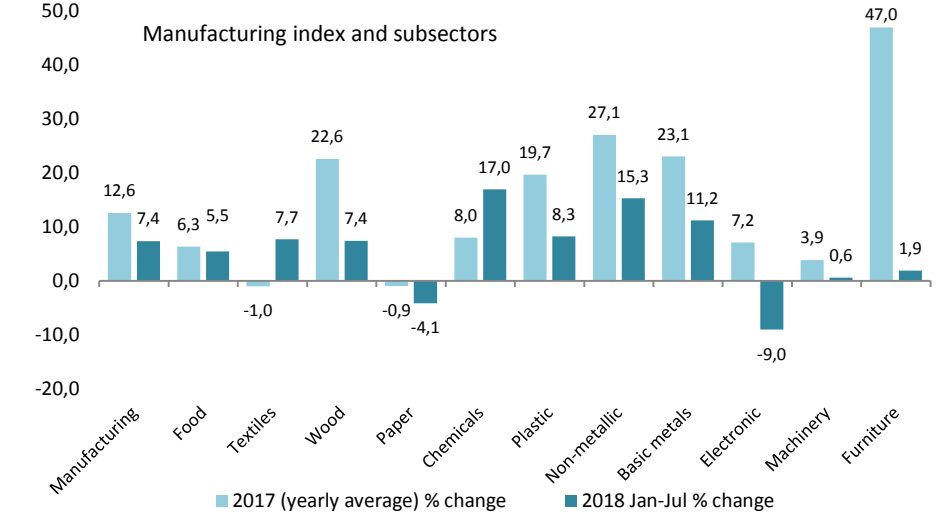
The industrial production index bottomed in April 2014 annualised and has been rising since …starting to slow from 2017 onwards



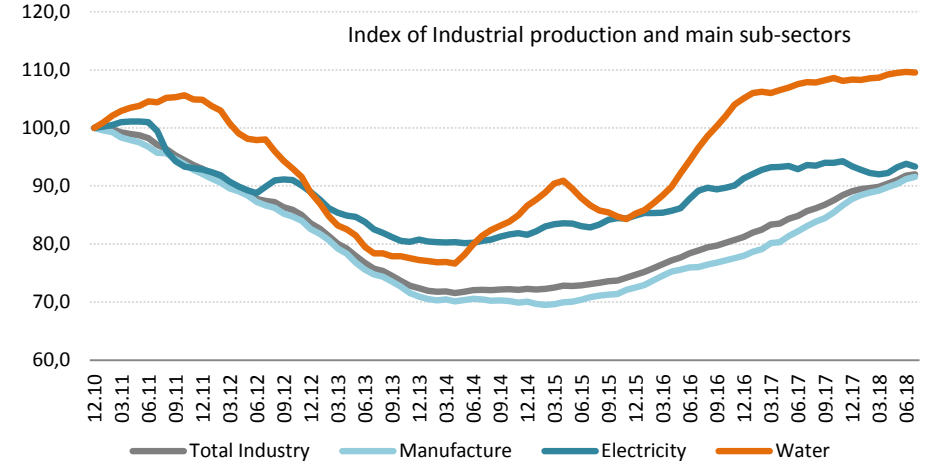
… driven mainly by manufacturing activity and to a lesser extent by the water supply sector



In manufacturing, activity was fairly broadly distributed with few exceptions like paper products and electronics



The various sectors of industrial activity had variable performances but all bottomed in early 2014



Sources: Cyprus Statistical Service; Bank of Cyprus Economic Research

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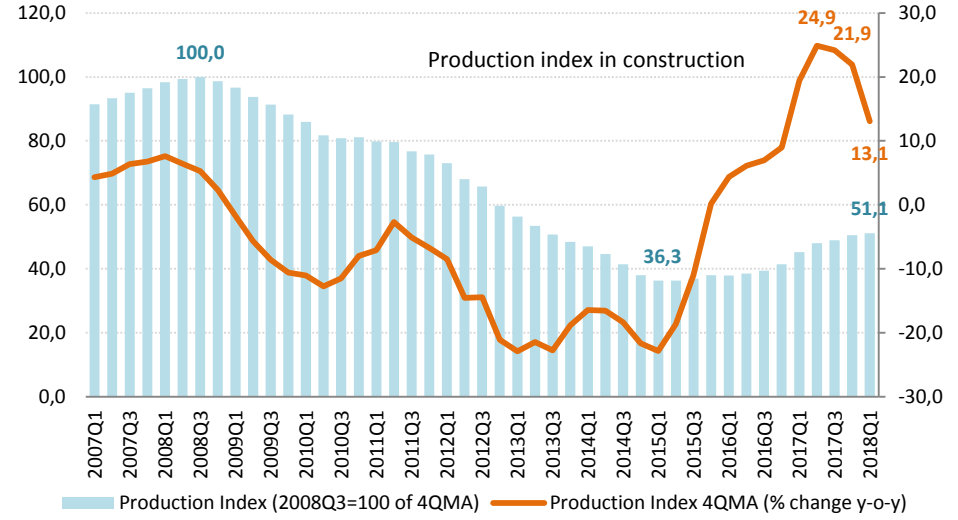
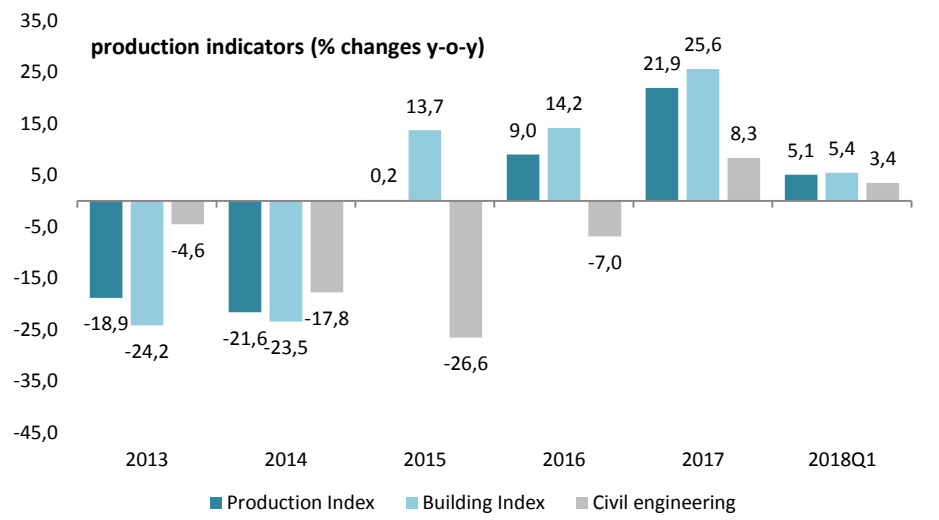
In the construction sector economic activity recovered robustly in 2017 … and continued to rise in 2018Q1 at a slower pace

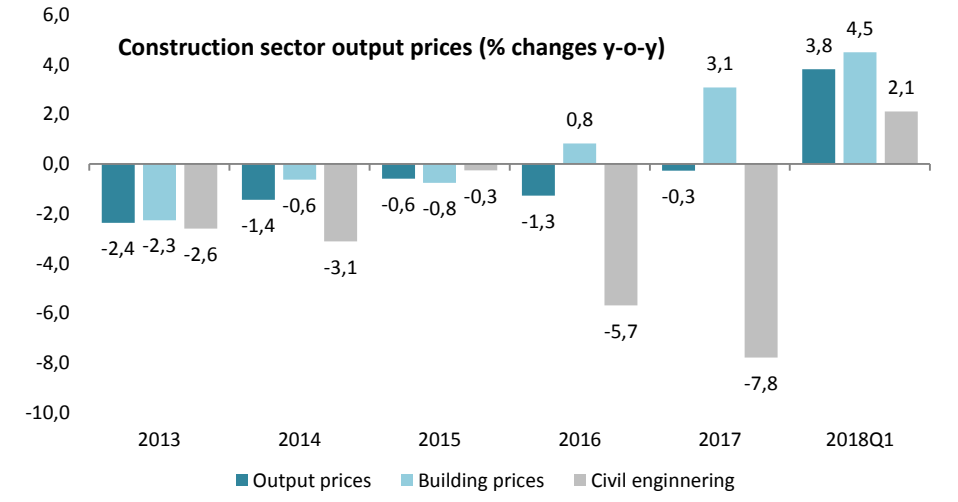
The Production index in construction rose sharply in 2017 … the index dropped to a low in Q1 2015 on a 4Q moving average basis



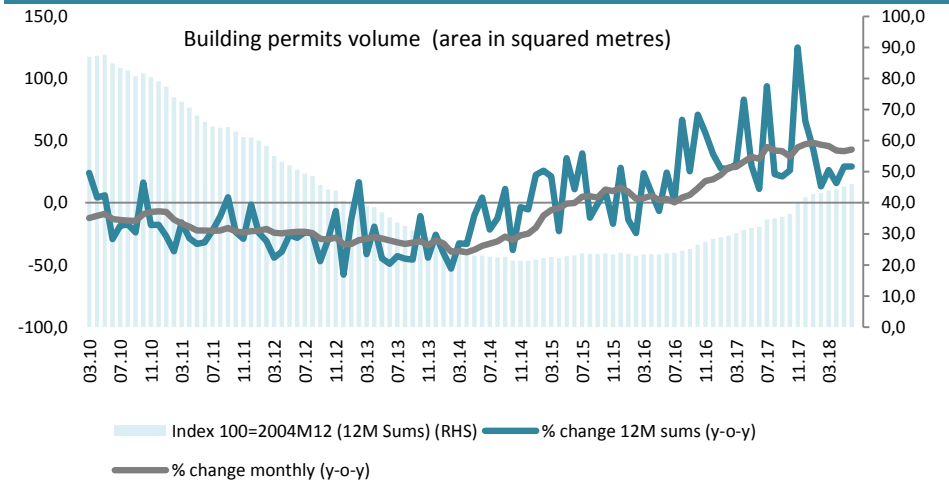
… Driven by steep increases in building activity in 2017 … leading to a sharp slowdown in Q1 2018



Output prices started to rise for building activity



The volume of building permits is also rising steeply



Sources: Cyprus Statistical Service; Bank of Cyprus Economic Research

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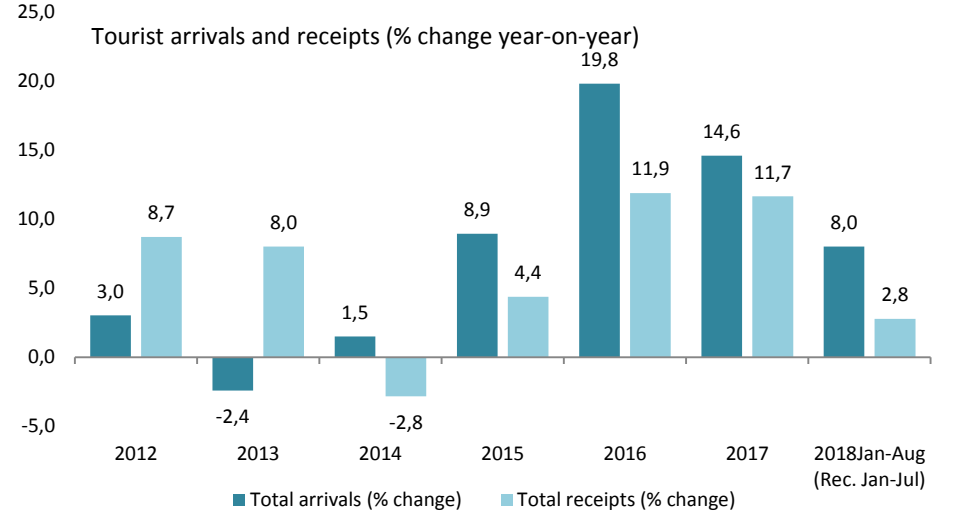
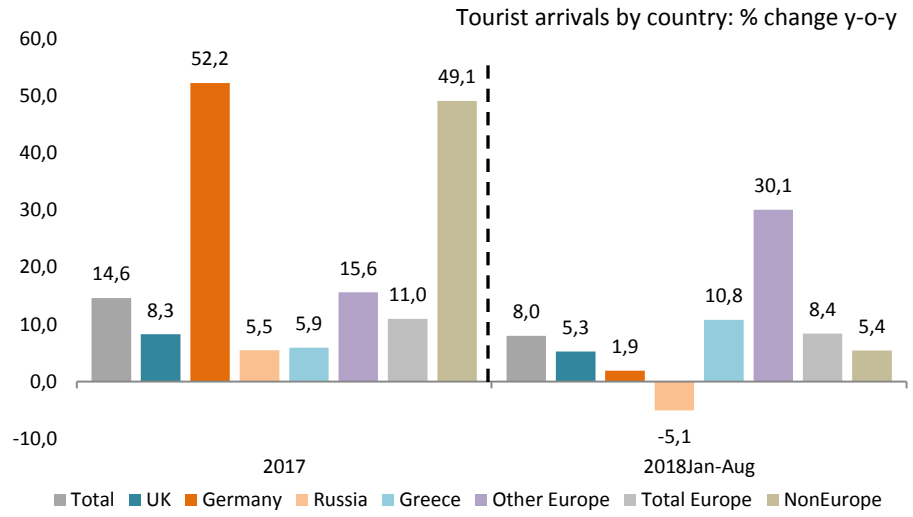
In Tourism, economic activity continued to expand in 2018 but at a markedly slowing pace

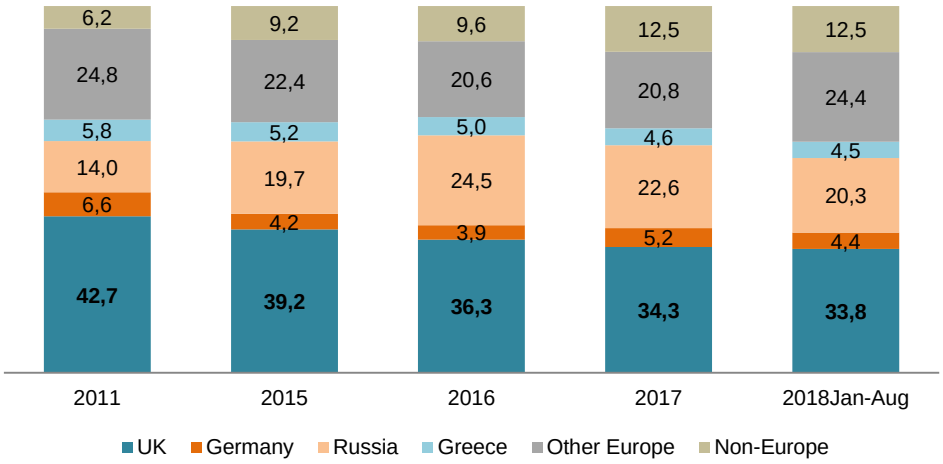
Tourist arrivals continued to increase in 2018 at a slowing pace, up 8% in Jan-Aug. Receipts increased by 2,8% in Jan-Jul



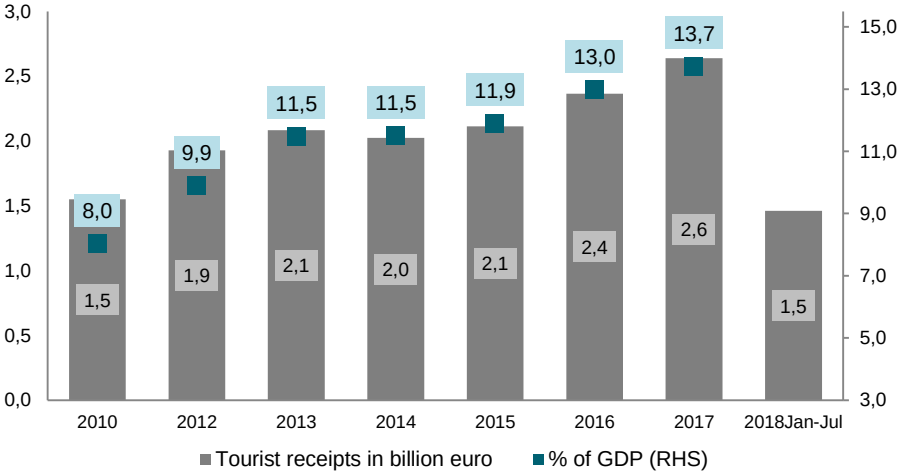
Tourist arrivals in the period increased at a slower pace from traditional sources and arrivals from Russia declined



The distribution of arrivals has been shifting …



Total receipts were 2,4 bn or 13% of GDP in 2016...and 2,7 billion in 2017 (13,7% of GDP)…1,5 billion Euro in Jan-Jul 2018



Sources: Cyprus Statistical Service; Eurostat; Bank of Cyprus Economic Research

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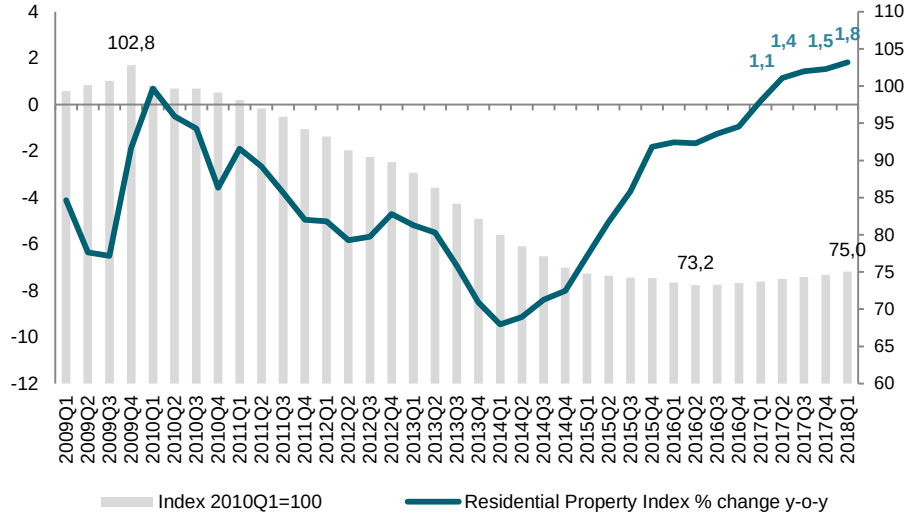
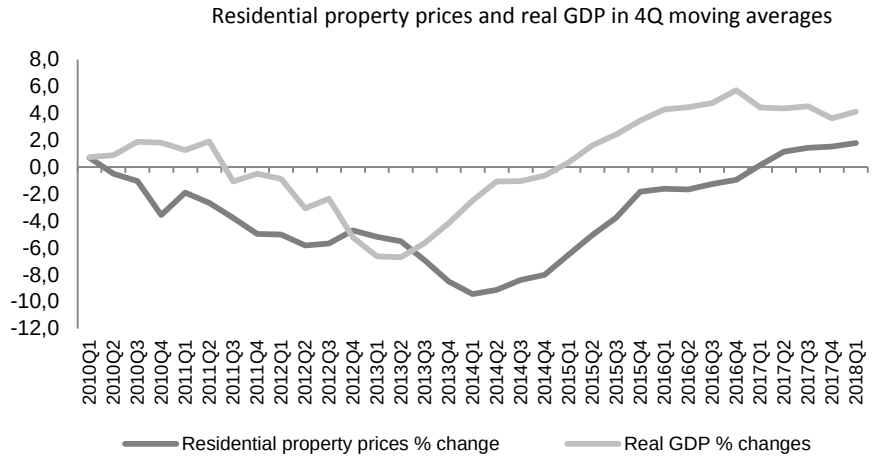
Residential property prices bottomed in the first half of 2016 and have been rising in 2017 and 2018

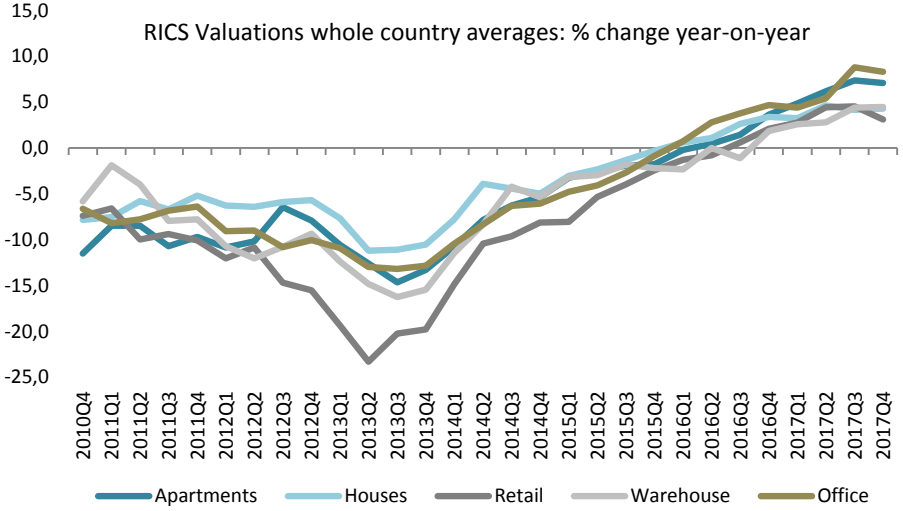
CBC Residential property prices declined by a cumulative 32% from peak to trough, and have risen steadily through 2017



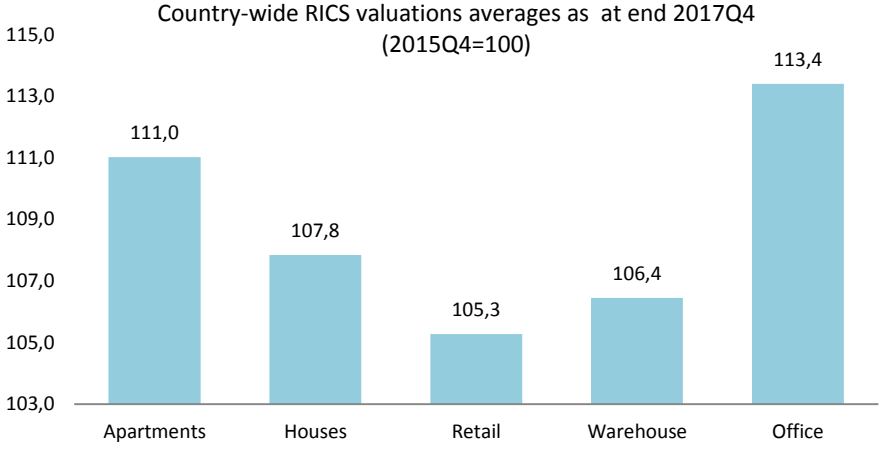
Residential property prices are positively correlated with real GDP … as recovery continues prices can be expected to rise



Whole country average RICS valuations entered positive territory in 2016 and accelerated into 2017



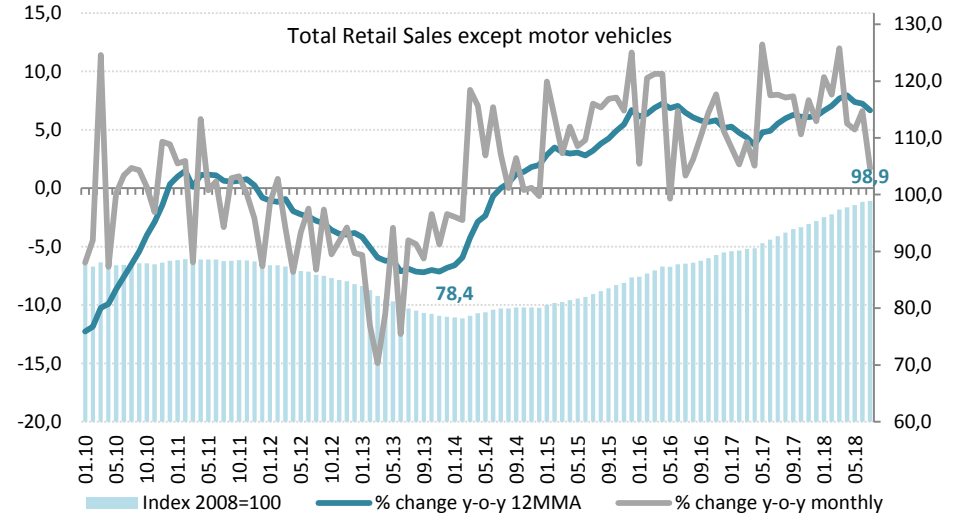
Country-wide RICS valuations bottomed in 2015 and have been rising through 2016 and 2017



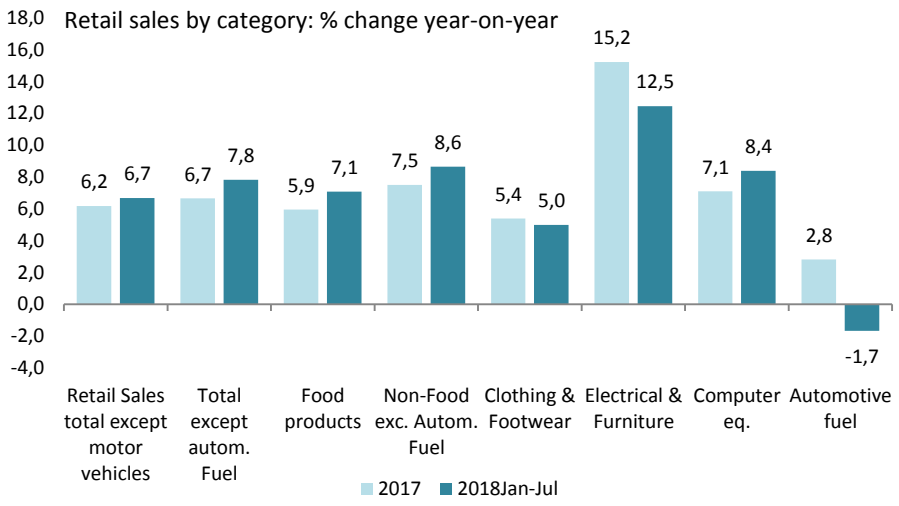
Sources: Cyprus Statistical Service; RICS; Bank of Cyprus Economic Research

On the demand side of the economy, volumes of retail trade continued to increase and vehicle registrations are also up

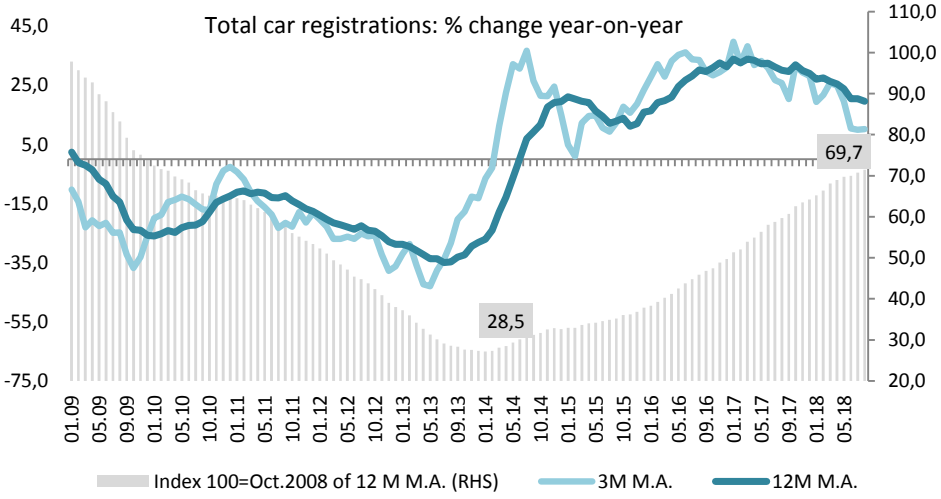
The volume index of retail trade peaked in 2008 on a 12 month basis and dropped 21,8% to early 2014, rising thence ...



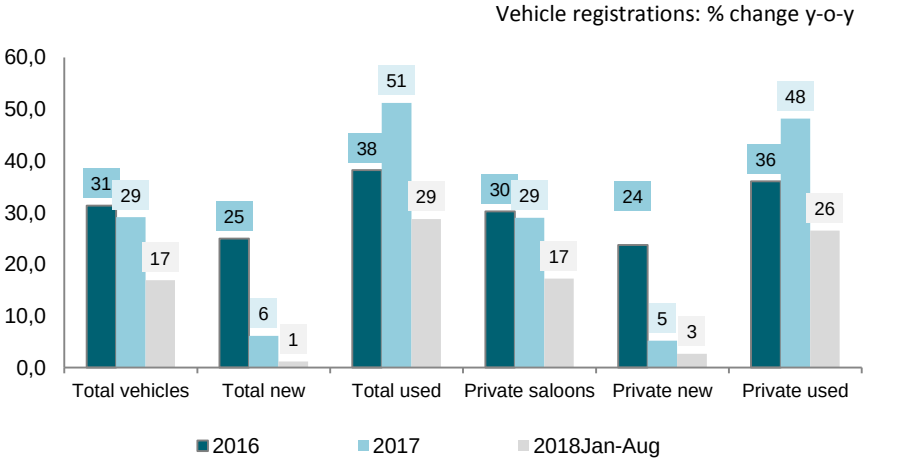
... In Jan-Jul 2018 retail sales in volume excluding vehicles were up 6,7% and were broadly driven except for a decline in fuel



Regarding vehicle registration, after a 73% drop from their peak in late 2008 to early 2014, they started to rebound sharply...



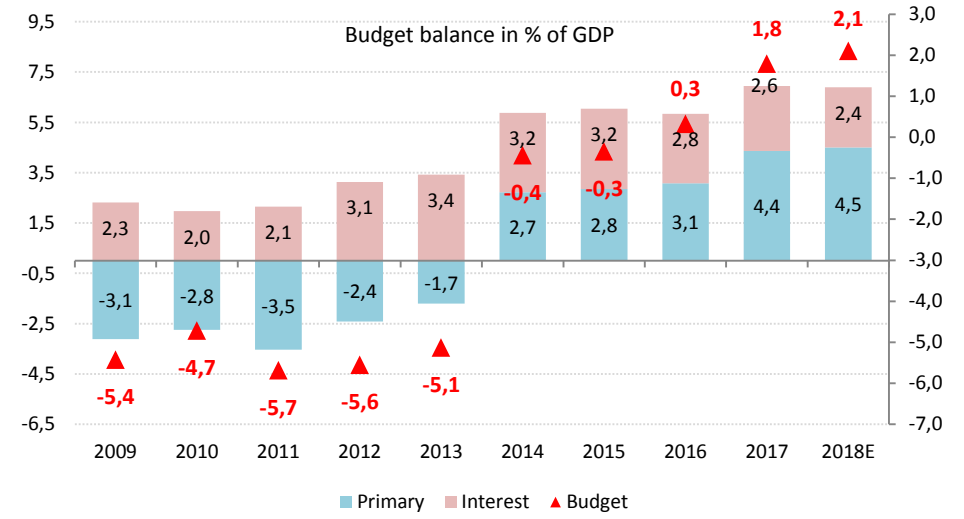
... rising 31% in 2016 and 29% in 2017. Registrations were up 17% in Jan-Aug 2018 y-o-y



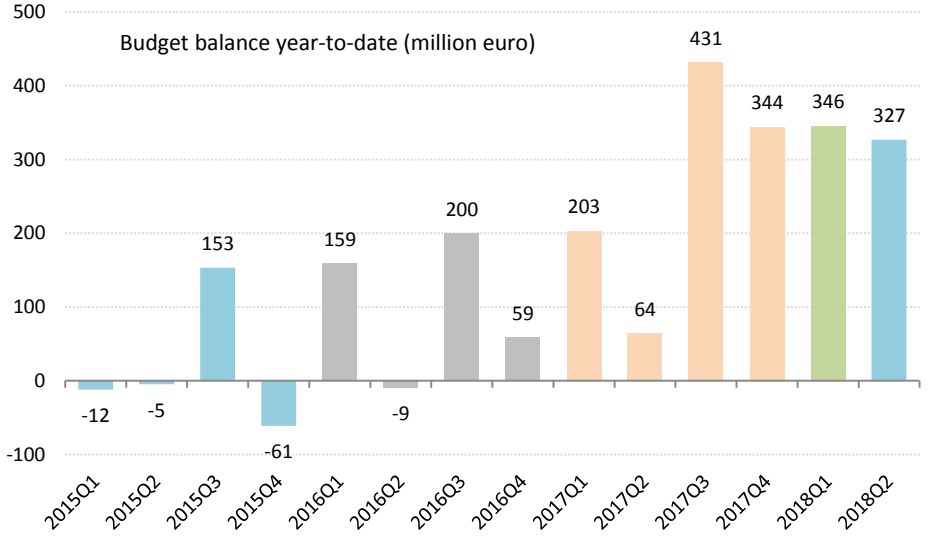
Sources: Cyprus Statistical Service; Bank of Cyprus Economic Research

In public finances the budget surplus increased sharply driven by increases in revenues

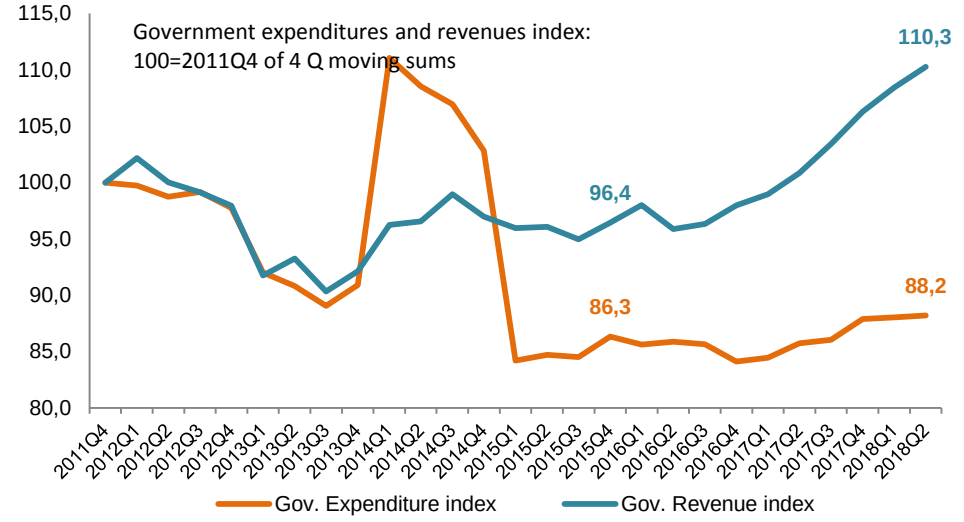
The budget rose to a surplus of 1,8% of GDP in 2017 driven by a sizeable primary surplus at 5% of GDP



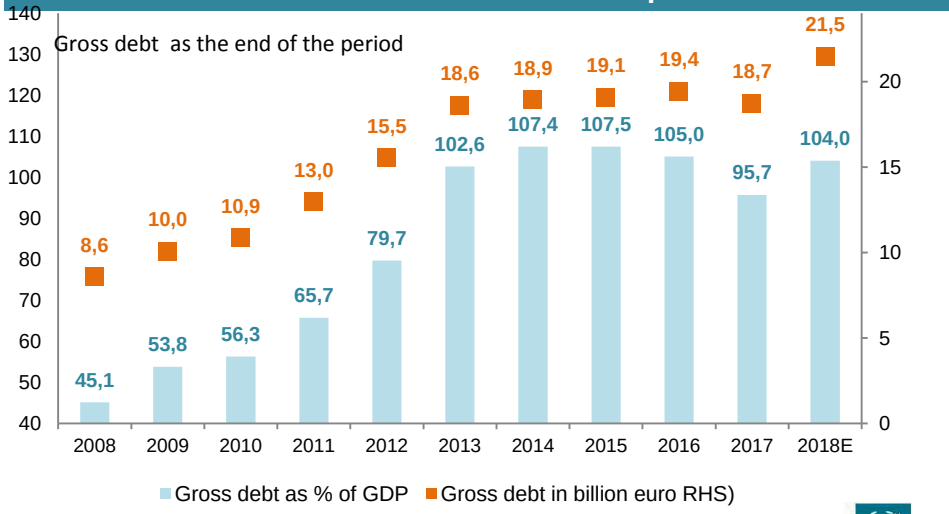
There was a sizable budget surplus in the first half of 2018



Expenditures dropped by 15,8% and revenues only by 3,6% between 2011Q4 and 2015Q4 and revenues are up sharply since



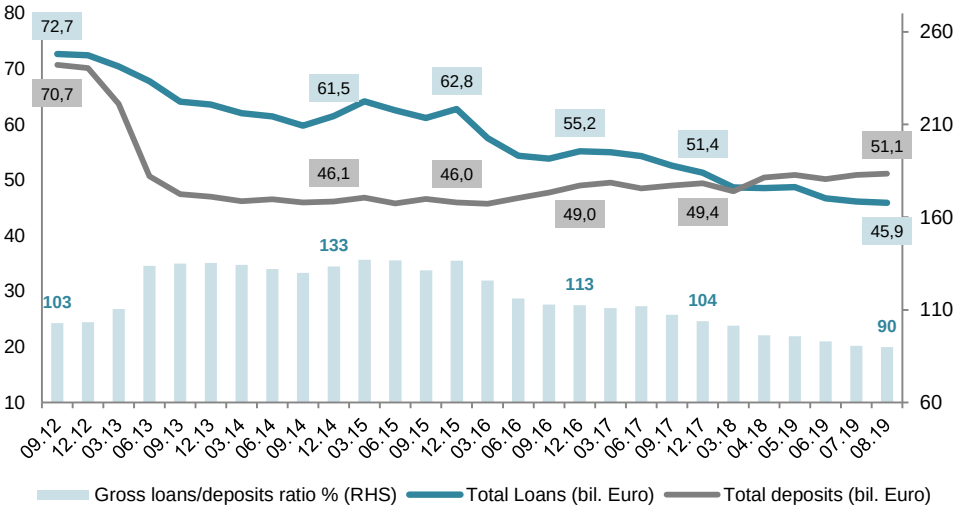
As a result total Gross Debt may have peaked at the end of 2015 relative to GDP and started to drop in 2017



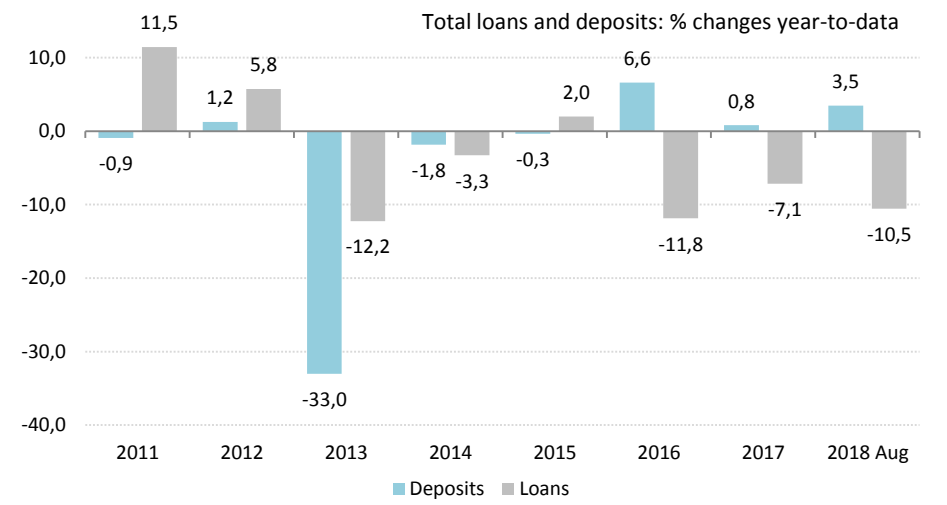
Sources: Cyprus Statistical Service; Bank of Cyprus Economic Research

In the banking sector funding conditions continue to improve driven by stable rising deposits and by loan deleveraging

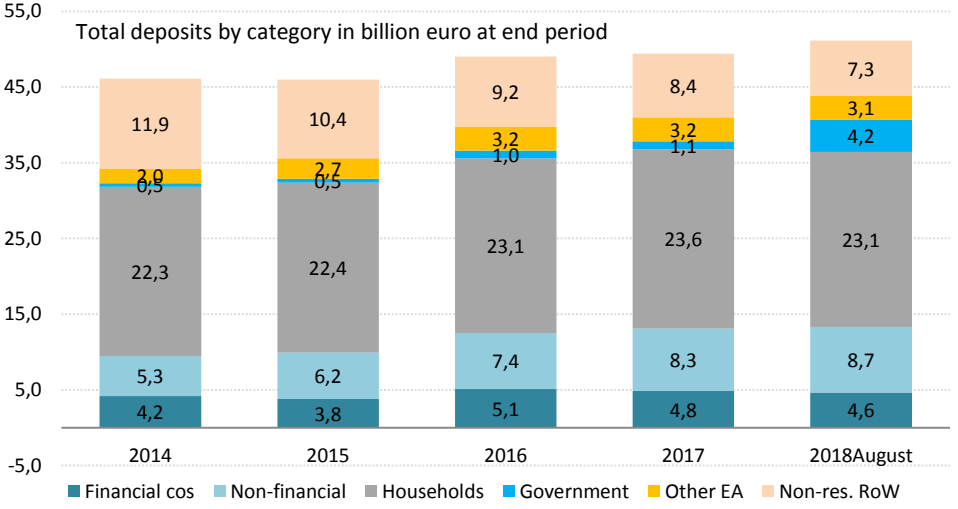
Total deposits remained continued to rise in 2018 while loans dropped further to August



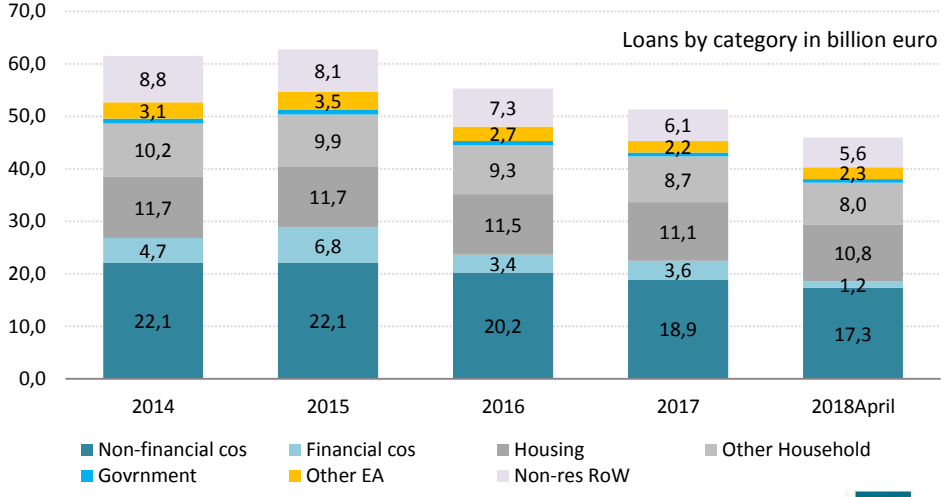
Total deposits increased 3,2% in the year to August, while loans dropped by 10,5% as deleveraging continues



… The increase in total deposits were attributable to an increase in government deposits related with the Cyprus Cooperative Bank



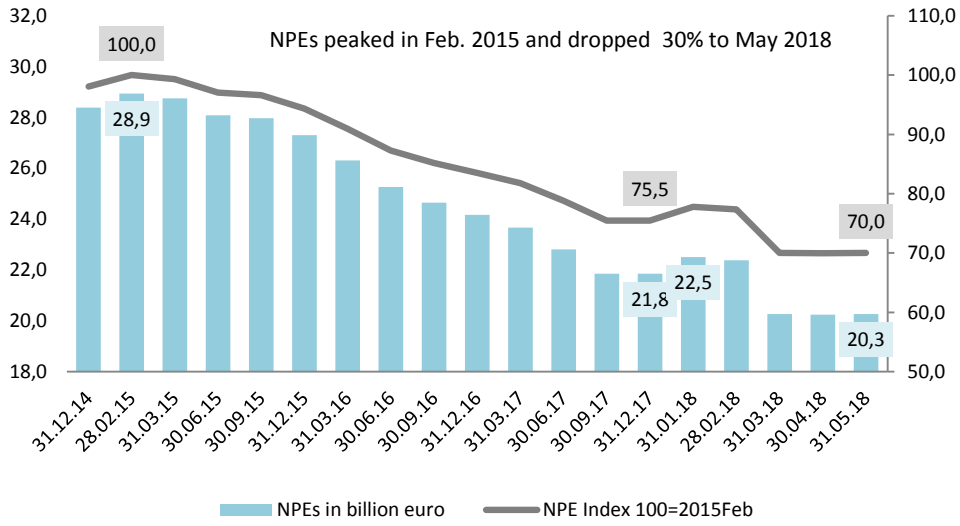
Loan deleveraging is broad affecting every category of lending



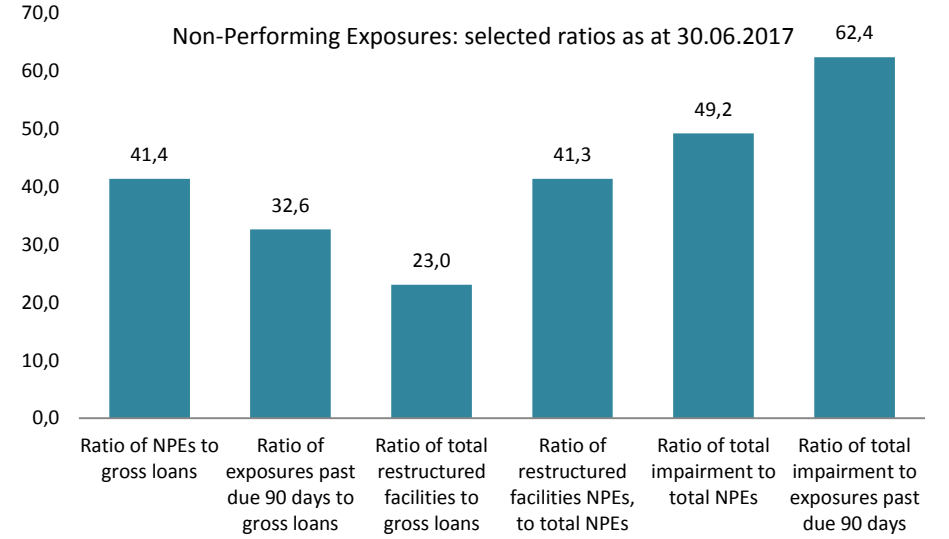
Sources: Central Bank of Cyprus; Bank of Cyprus Economic Research

Non-Performing Exposures remain on a declining path following an IFRS9 related uptick in Jan-Feb 2018

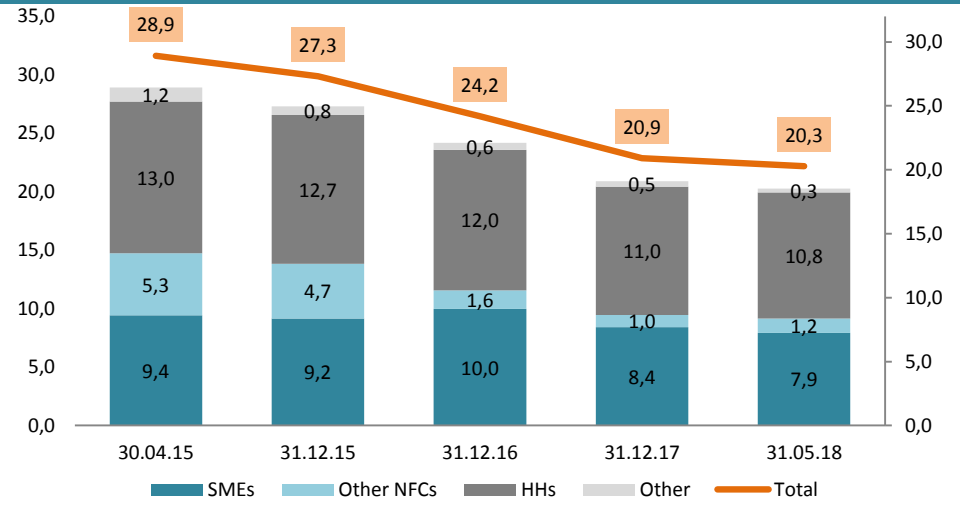
NPEs peaked in Feb. 2015 at 28,9 bn euro and dropped by 30% to 20,3 bn euro in May 2018 with a rise in Jan-Feb IFRS9-related



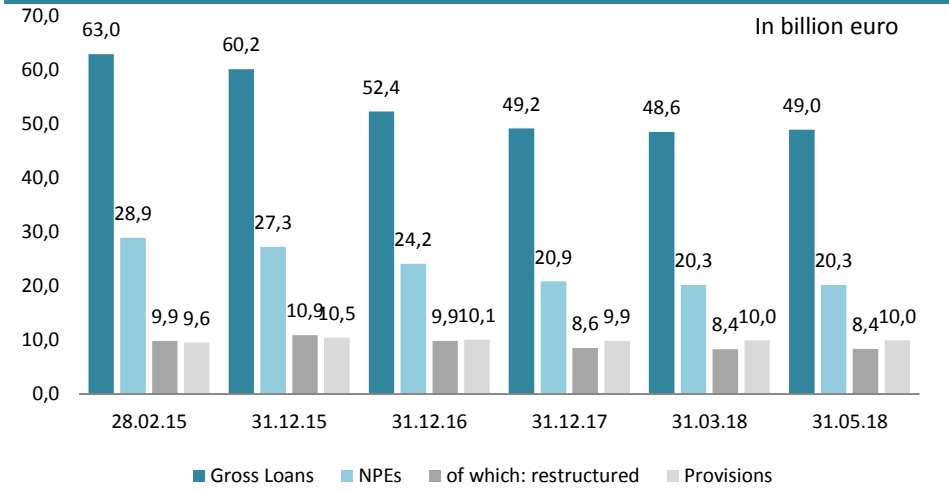
Total NPE ratio to gross loans was 41,4% in May 2018 and the ratio of past due 90 days plus was 32,6%



The NPEs of Non-Financial Companies (NFCs) account for the bulk of the decline in total NPEs



Deleveraging and restructuring are main drivers and as NPEs decline provisions provide for a bigger buffer.



Sources: Central Bank of Cyprus; Bank of Cyprus Economic Research

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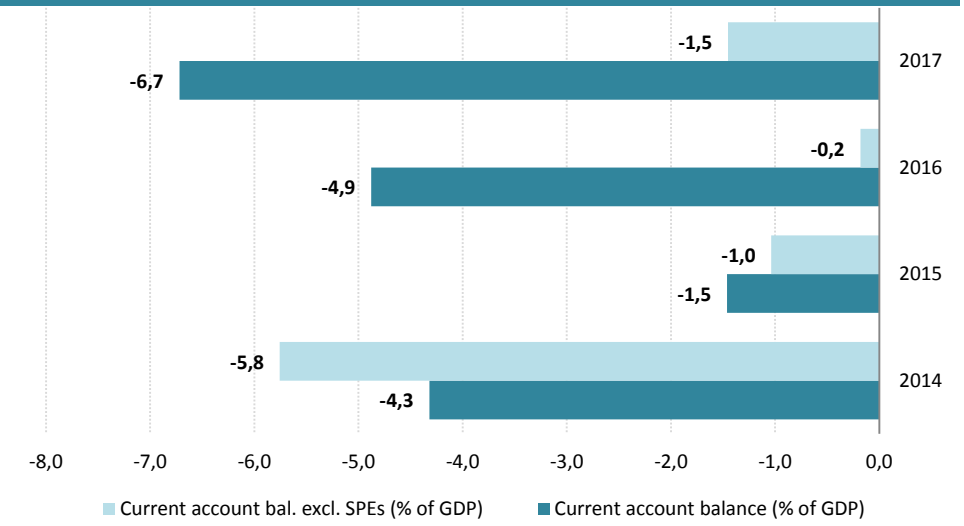
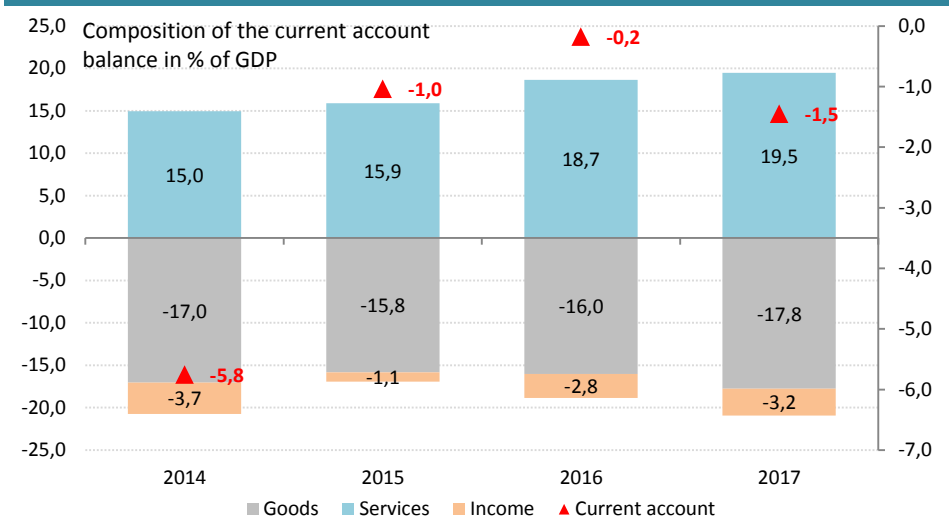
In the current account there has been significant improvement when Special Purpose Entities are excluded

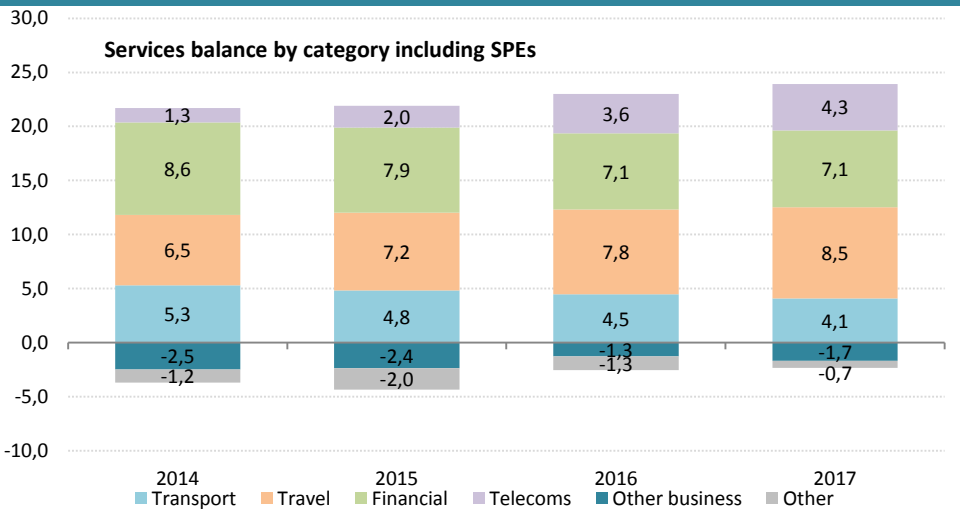
The current account deficit excluding Special Purpose Entities (SPEs), narrowed to 1,5% of GDP in 2017 from 5,8% in 2014



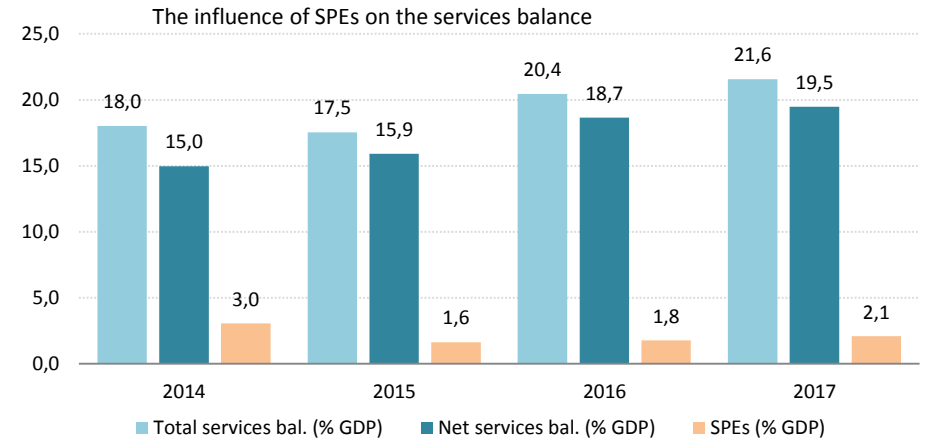
The current account deficit widened in 2017 compared with 2016 due to a sharp deterioration of the goods balance Excl. SPEs



The services balance was heavily influenced by the travel account



The services balance is also influenced by SPEs



Sources: Central Bank of Cyprus; Bank of Cyprus Economic Research

Macroeconomic Indicators and Forecasts

	2016	2017	2018F	2019F	2020F	2021F
Real GDP (% change)	4,8	4,2	3,8	3,4	3,2	2,8
Nominal GDP (billion Euro)	18,5	19,6	20,6	21,6	22,7	23,8
Nominal GDP (% change)	4,2	5,8	5,2	5,0	5,1	4,7
GDP Deflator (% change)	-0,6	1,5	1,4	1,6	1,9	1,9
Consumer Price Index (% change)	-1,4	0,5	1,5	2,0	1,9	1,8
Employment (% change)	2,5	3,1	5,6	2,1	1,2	1,1
Unemployment rate (%)	13,0	11,1	8,0	7,6	6,8	6,3
Interest payments (% of GDP)	3,3	3,1	2,7	2,9	2,6	2,5
Government budget (% of GDP)	0,3	1,8	2,1	2,0	1,6	1,6
Primary balance (% of GDP)	3,6	4,9	4,8	4,9	4,2	4,1
Gross public debt (billion euro)	19,4	18,7	21,5	21,1	20,8	20,5
Gross public debt (% of GDP)	105,0	95,7	104,4	97,8	91,6	86,4

Sources: Cyprus Statistical Service; Bank of Cyprus Economic Research

THE CYPRUS ECONOMY CHARTBOOK

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Bank of Cyprus Economic Research

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Bank of Cyprus