



CENTRAL BANK OF CYPRUS
EUROSYSTEM

ECONOMIC BULLETIN

JUNE 2016



1

Introduction

2

Macroeconomic
Developments and
Projections

3

Statistical Annex

Published by:
ECONOMIC ANALYSIS AND RESEARCH

Edited by:
Publications Section, General Administration

© **CENTRAL BANK OF CYPRUS, 2016**

Address	80 Kennedy Ave 1076 Nicosia Cyprus
Postal Address	P.O. Box 25529 1395 Nicosia Cyprus
Telephone	+357 22714100
Website	http://www.centralbank.gov.cy

Design and Interactive pdf:	FBRH CONSULTANTS Ltd, www.fbrh.eu
--	---

*All rights reserved.
Reproduction for educational and non-commercial purposes is permitted
provided that the source is acknowledged.*

ISSN (online) 1986 -1060



1

Introduction

2

Macroeconomic
Developments and
Projections

3

Statistical Annex



CENTRAL BANK OF CYPRUS
EUROSYSTEM

ECONOMIC
BULLETIN
JUNE 2016

NICOSIA - CYPRUS



1

Introduction

2

Macroeconomic
Developments and
Projections

3

Statistical Annex

CONTENTS

Introduction	8
Macroeconomic Developments and Projections	10
1. International Environment: main developments	11
1.1 External developments	11
1.2 Monetary developments in the euro area	15
2. Domestic Environment: main developments	17
2.1 Domestic Prices, Monetary Aggregates and MFI Interest Rates	18
2.2 Domestic Competitiveness and the Balance of Payment	30
2.3 Domestic Demand, Production and the Labour Market	34
2.4 Domestic Fiscal Developments	39
3. Macroeconomic Forecasts for the Cyprus Economy	41
Statistical Annex	53
Explanatory notes for Statistical Annex	54
Technical Notes	68

Note: The cut-off date for data in this *Bulletin* is 10 May 2016.



1

Introduction

2

Macroeconomic
Developments and
Projections

3

Statistical Annex

TABLES AND CHARTS

TABLES

A.1	Inflation in Cyprus (HICP)	18
A.2	Summary of the April 2016 BLS results	21
A.3	Loans to domestic households	21
A.4	Deposits of domestic households	26
A.5	Cyprus MFI interest rates on euro-denominated loans (new business) to euro area households	28
A.6	Cyprus MFI interest rates on euro-denominated loans (new business) to euro area non-financial corporations	28
A.7	Cyprus MFI interest rates on euro-denominated deposits (new business) by euro area residents	29
A.8	Balance of Payments (main categories)	32
A.9	Tourism	33
A.10	Business and consumer surveys: confidence indicators	35
A.11	Real estate sector	37
A.12	Accounts of general government	40
A.13	HICP projections	41
A.14	National accounts projections in real terms	48

CHARTS

A.1	GDP in selected countries	12
A.2	Inflation in selected countries	13
A.3	Selected exchange rates against the euro	13
A.4	Closing prices of oil (Brent)	14
A.5	Official interest rates	15
A.6	Inflation in the euro area	15
A.7	ECB reference rates and EONIA	16
A.8	M3 and credit to the private sector: euro area	16
A.9	Consumer price index	19
A.10	Inflation in Cyprus (HICP)	19
A.11	Loans to the domestic private sector	21
A.12	Deposits of the domestic private sector	26
A.13	Deposits of non-residents: Cyprus	26
A.14	MFI interest rates on euro-denominated housing loans (new business) to euro area households	27
A.15	MFI interest rates on euro-denominated loans (new business) up to €1 million to euro area non-financial corporations	27

TABLES AND CHARTS

A.16	MFI interest rates on euro-denominated deposits (new business) by euro area households	29
A.17	MFI interest rates on euro-denominated deposits (new business) by euro area non-financial corporations	30
A.18	Nominal compensation per employee by sector	30
A.19	Productivity and real compensation per employee	30
A.20	Unit labour costs: Cyprus and the euro area	31
A.21	Real and nominal effective exchange rates (IMF weights)	31
A.22	Tourist arrivals and receipts	33
A.23	(a) Quarterly GDP growth (expenditure categories) (b) Quarterly GDP growth (expenditure categories)	34
A.24	Retail sales (excluding motor vehicles)	35
A.25	Registration of motor vehicles	35
A.26	Credit card spending	36
A.27	Lending criteria and interest rate on housing loans	37
A.28	House and apartment price indices	38
A.29	Unemployment and employment	38
A.30	Registered unemployment	39
A.31	Unemployment by duration	39
A.32	Budget and primary balances of the general government	39
A.33	Total revenue and expenditure of the general government	40
A.34	General government consolidated gross debt	41
A.35	Real GDP fan chart	51
A.36	HICP fan chart	51
A.37	HICP excluding energy fan chart	51

BOXES

1	Bank Lending Survey	22
2	House prices in Cyprus	42

ABBREVIATIONS

BLS	Bank Lending Survey	Eurostat	Statistical Office of the European Union
BoE	Bank of England	FED	Federal Reserve
BPM	Balance of Payments and International Investment Position Manual	FOMC	Federal Open Market Committee
CA	Current Account	GDP	Gross Domestic Product
CBC	Central Bank of Cyprus	HICP	Harmonised Index of Consumer Prices
CCB	Cooperative Central Bank	IMF	International Monetary Fund
CPI	Consumer Price Index	LFS	Labour Force Survey
CTO	Cyprus Tourism Organisation	MFIs	Monetary Financial Institutions
Cystat	Statistical Service of the Republic of Cyprus	MoU	Memorandum of Understanding
EBRD	European Bank for Reconstruction and Development	NEER	Nominal Effective Exchange Rate
ECB	European Central Bank	NFCs	Non-Financial Corporations
EER	Effective Exchange Rate	NPLs	Non-Performing Loans
EIB	European Investment Bank	PNFS	Private Non-Financial Sector
EONIA	Euro Overnight Index Average	REER	Real Effective Exchange Rate
ESA	European System of Accounts	SDW	Statistical Data Warehouse
ESI	Economic Sentiment Indicator	SPEs	Special Purpose Entities
ESM	European Stability Mechanism	UK	United Kingdom
EU	European Union	US	United States of America
		WDN	Wage Dynamics Network



1

Introduction

2

Macroeconomic Developments and Projections

3

Statistical Annex

Introduction

The Cyprus economy exited its economic adjustment programme at end-March 2016, having successfully completed the programme agreed with international lenders back in March 2013. Real GDP has been growing at an accelerating rate for a second consecutive year, with the growth rates higher than those forecasted by Cyprus's international lenders. Indeed, the deviations in the forecasts of international lenders regarding key economic figures, including the annual rate of real GDP growth, suggest that the forecasts produced by our international lenders have been systematically compiled on a very conservative basis. This is demonstrated by the lenders' delay in reviewing their forecasts on the basis of available data. The delay had, unfortunately, adverse effects in terms of the sovereign rating. Despite the reported progress, a number of macroeconomic imbalances still persist. For example, high levels of unemployment as well as public and private debt remain a source of concern.

The current monetary policy approach of the ECB, which relies on quantitative easing, has greatly assisted the economic recovery in the euro area countries. However, monetary policy alone is not enough to bring the desired results without the necessary structural reforms and appropriate fiscal adjustments in each country of the euro area separately. Therefore, the path of economic recovery in Cyprus needs to continue without relapses so that the economy can absorb the sustainable benefits stemming from the accommodative monetary policy pursued within the Eurosystem.

In line with the macroeconomic challenges faced, and despite the progress achieved, the high level of non-performing loans (NPLs) remains an issue of concern. More specifically, the

appropriate framework for addressing this problem has already been implemented with the first positive results already being visible. The significant increase in loan restructurings are expected to lead to a significant reduction in NPLs both in the short and medium term. The initial reduction in NPLs has already started to release resources to the banking system in order to finance economic activity, as reflected in the supply of credit while a simultaneous increase has been observed on the demand side regarding new lending by households and businesses. Moreover, the acceleration in GDP growth already observed is expected to contribute further to the reduction in both unemployment and subsequently NPLs.

Regarding the growth of the economy, the increase recorded in 2015 was of the order of 1,6%, while during 2016Q1 GDP grew by 2,6%. For 2016, GDP growth is expected to reach 2,7%. The economic recovery is reflected by several other sub-indicators of economic activity, such as tourism, which has been one of the main drivers of GDP growth in the current year, and the Economic Sentiment Indicator (ESI). New investments and domestic consumption are also expected to contribute significantly to GDP growth in 2016. It is also noted that fiscal imbalances have been corrected to a significant extent, placing public debt on a correction path from the current high levels. The stock of public debt is on a downward trajectory due to the primary surpluses recorded since 2014 (excluding the effect of strengthening the capital base of the Cooperative Central Bank). Consolidation and restructuring of the banking sector continues without any backtracking, reflected in the gradual recovery of the banking system's role in the financing of economic activity.

The considerable progress recorded in the Cyprus economy does not allow for compla-



1

Introduction

2

Macroeconomic
Developments and
Projections

3

Statistical Annex

gency, since various challenges require immediate attention. At the same time, domestic or external political and economic risks that could slow or reverse the economic recovery path, have not disappeared. That is why constant monitoring of economic developments and appropriate adjustment of policy is required. This will enable Cyprus's sovereign rating to be restored back to investment grade, thus making the island fully independent in terms of lending by the Troika and creating the necessary confidence among consumers, businesses and investors. More importantly, Cyprus needs to avoid returning to the previous practices that led to the unprecedented crisis. Such practices would reverse the momentum of economic recovery. The economy's outlook as regards the return to sustainable growth, full employment and strong economic credibility, appears favourable but the path is surrounded by difficulties and fragilities. It is thus imperative that we all contribute to the efforts to sustain growth.

-  
-  
- 1** Introduction
- 2** Macroeconomic Developments and Projections
- 3** Statistical Annex

Macroeconomic Developments and Projections



1 Introduction

2 Macroeconomic Developments and Projections

3 Statistical Annex

1. International Environment: main developments

- *Global economic activity was weak and uneven across regions in 2016Q1, amid increased geopolitical tensions.*
- *Concerns over future global economic activity were intensified due to China's economic slowdown.*
- *Global inflation remained at low levels, mainly on the back of low oil prices.*
- *The ECB and other major central banks, such as China and Japan, continued their expansionary monetary policy stance.*
- *The euro area continued recording positive credit growth during 2016Q1.*

1.1 External developments

GDP growth¹

Global economic activity remained moderate during 2016Q1, reflecting financial market volatility and the fall in equity and commodity prices at the beginning of the year. Nevertheless, global trade has maintained its momentum, although its growth rate is expected to remain modest for the whole of 2016.

While the global financial market turmoil seems to have abated, the medium-term global economic outlook started showing signs of weakening. The main factors affecting the global economic outlook are the uncertainty over China's economic outlook, the continued tightening of financial conditions in emerging markets, the significant downward correction in equity prices and the capital outflows from these economies as well as the continued subdued prices of basic raw materials.

1. GDP projections are estimated as the average of the most recent projections from: The Economist poll of Forecasters (7 May 2016), the European Commission (European Economic Forecasts, Spring 2016) and the IMF (World Economic Outlook, April 2016).



1

Introduction

2

Macroeconomic
Developments and
Projections

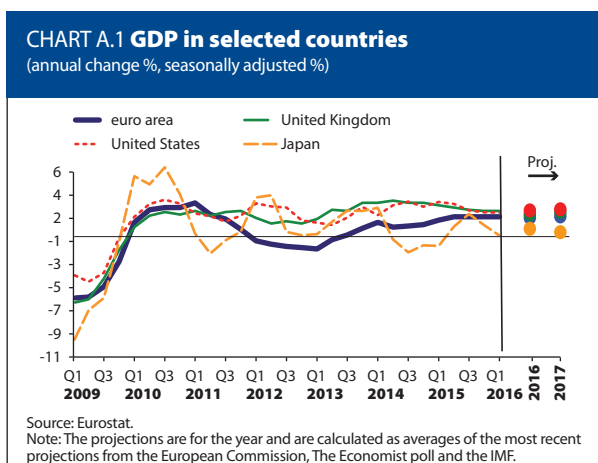
3

Statistical Annex

The gradual slowdown in the Chinese economy, is increasingly affecting the global economy. In an effort to stimulate the economy, the Chinese authorities implemented a set of monetary easing measures, relating mostly to key interest rate reductions. Commodity-exporting countries are dealing with the negative effects of low prices in basic raw materials, while markets translate this continued weakening in raw materials as a sign of an underlying weakness in the global economy.

Focusing on developed economies, factors such as low interest rates, improvements in labour market conditions and increased confidence, support the economic prospects of these specific economies. In particular, euro area economic activity showed signs of improvement, mainly due to the reduction in oil prices and the continuation of the ECB’s expansionary monetary policy. However, adverse external and domestic developments, such as the prolonged period of low inflation and low investment, the need for further loan deleveraging and the high, albeit improved, unemployment level continue to constrain the euro area’s growth dynamics. As a result, the annual GDP growth rate in the euro area stabilised at 1,6% during the last four quarters (**Chart A.1**), while the forecasts of international organisations and analysts for 2016 and 2017 remained basically unchanged at 1,5% and 1,7%, respectively.

On the other hand, economic growth in a number of advanced economies, including the USA and Japan, was disappointing in late 2015 and early 2016, creating concerns about the sustainability of their economic recovery and, consequently, heightening expectations for a weakening in global economic activity. Meanwhile, the uncertainty surrounding the outcome of the forthcoming UK’s EU referendum along with the possible negative impact



on both the economic growth of the UK and the euro area, raises further concerns over the future path of the global economic outlook (Chart A.1, p. 12).

Overall, the prospects of the global economic activity continue to suggest a gradual and uneven recovery. The risks to global economic activity continue to be on the downside and mainly relate to the global financial turmoil and the continued geopolitical tensions.

Inflation²

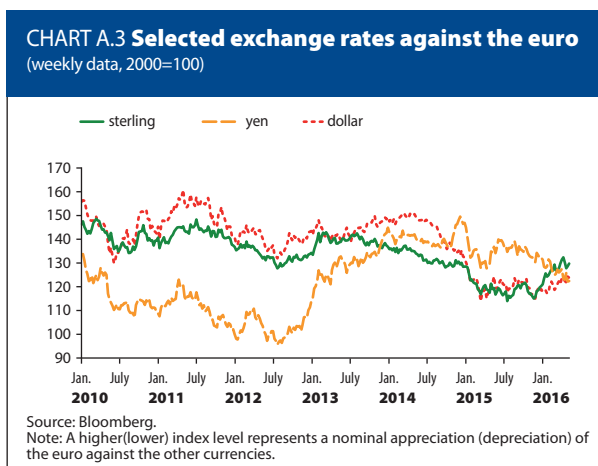
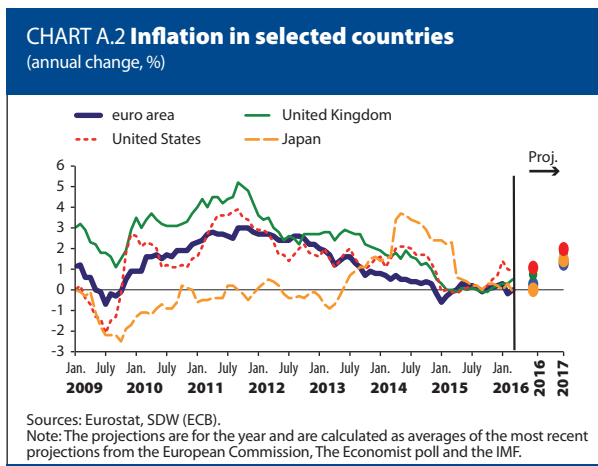
Global inflation declined further during 2016Q1, mainly due to the significant excess global capacity arising from the subdued economic activity, the sharp decrease in the international price of oil and the subsequent drop in global energy prices (Chart A.2). In accordance with the projections of international organisations and analysts, the rate of inflation in the euro area, the UK and the US is expected to pick up in 2016 and 2017.

Exchange rates

The evolution of the exchange rate of the euro against major currencies mainly relates to the recent external developments (Chart A.3). More analytically, between 1 January 2016 and 6 May 2016 (latest available data), the euro:

- strengthened by 5% against the dollar, reflecting the uncertainty about a possible delay in the increase of the US base rate
- strengthened by 7% against sterling, reflecting the uncertainty about a possible exit of the UK from the EU and
- weakened by 6,8% against the yen, reflecting the further easing of monetary policy.

2. Inflation projections are estimated as the average of the most recent projections from: The Economist poll of Forecasters (7 May 2016), the European Commission (European Economic Forecasts, Spring 2016) and the IMF (World Economic Outlook, April 2016).



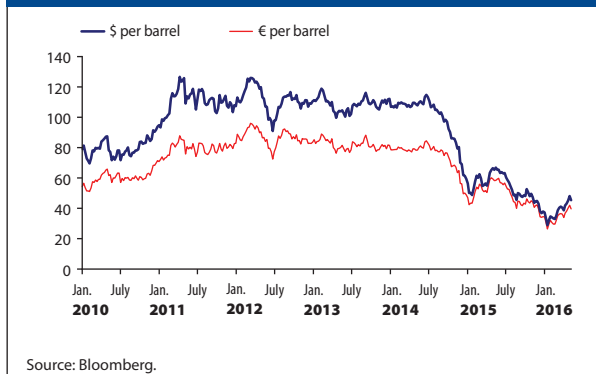
Oil

The price of Brent crude oil exhibited an upward trend during 2016Q1 (**Chart A.4**). The recent increase in oil prices was partly driven by the reduction in global oil surplus production. More specifically, in March 2016 OPEC's output decreased, mainly due to supply disruptions in Iraq, Nigeria and the United Arab Emirates. In addition, oil demand was higher than expected in 2016Q1, mainly due to strong demand from India and other Asian countries that are not members of the OECD. Nevertheless, the closing price of oil remains at historically low levels, recording an annual decrease of 30,6% (from \$65,39 per barrel on 8 May 2015 to \$45,37 per barrel on 6 May 2016). It should be noted that, whilst this decrease benefits oil-importing countries through an increase in disposable income and subsequently in private consumption, it adversely affects oil exporting countries.

International official interest rates

Most major central banks continued their expansionary monetary policy in the course of 2016. Analytically, the ECB proceeded with the adoption of further standard monetary policy measures which included decreasing its main refinancing operations rate from 0,05% to 0,00%, as well as further non-standard monetary policy measures, such as extending the asset purchase programme (APP) to include both the private and public sector. On the other hand, the Bank of England and the Federal Reserve maintained their key interest rates at 0,50% and 0,25%-0,50%, respectively, in 2016Q1. Given weakening expectations for global economic activity, markets have shifted their expectations of a normalisation in the

CHART A.4 Closing prices of oil (Brent)
(weekly data)



monetary policy stance of the US and the UK further to the future. It should be noted that the Federal Reserve proceeded with an increase in its key interest rate on December 2015, thus marking the end of its long period of expansionary monetary policy (Chart A.5).

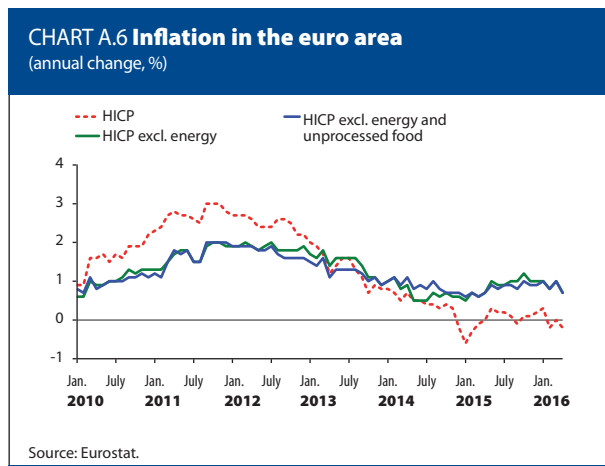
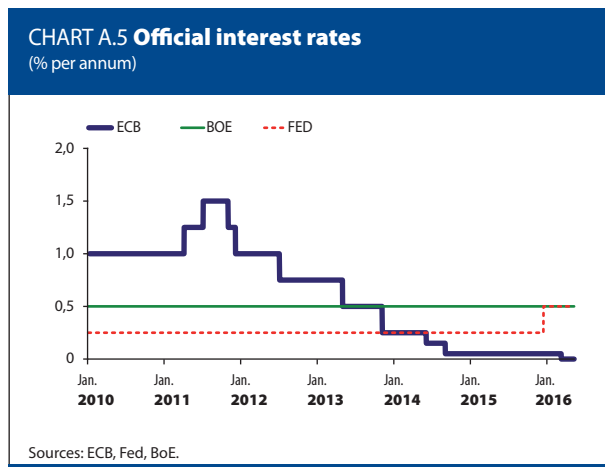
1.2 Monetary developments in the euro area

Inflation

According to the latest available data, the inflation rate in the euro area stood at 0% in March 2016 compared with -0,2% in February 2016 (Chart A.6). Inflation in the euro area continues to be negatively impacted by the historically low oil prices. Looking ahead, based on current energy futures prices, inflation in the euro area is likely to remain close to zero in the coming months before picking up during the second half of 2016, in large part owing to base effects. Furthermore, the ECB's expansionary monetary policy measures and the anticipated economic recovery in the euro area, are expected to contribute to a recovery in euro area inflation over the medium term. The outlook for HICP inflation has been revised downwards, reflecting mainly the annual decline in oil prices. Currently, international organisations and analysts expect the euro area inflation rate to reach 0,3% in 2016 and increase further to 1,3% in 2017.

Reference rates and ECB interventions

Taking into account the medium-term outlook of continued low inflation in the euro area as well as the fragile economic recovery, the Governing Council of the ECB proceeded with the



implementation of further standard and non-standard monetary policy measures in March 2016. More specifically, it decided to:

- decrease the interest rate on monetary refinancing operations by 5 basis points to 0,00%
- decrease the marginal lending facility rate by 5 basis points to 0,25%
- decrease the deposit facility rate by 10 basis points to -0,40%
- increase the monthly purchases under the APP from €60 billion to €80 billion, starting in April 2016
- launch a new series of four targeted longer-term refinancing operations, each with a maturity of four years, starting in June 2016, with the ability to raise capital either with the current negative deposit facility rate or with the main refinancing operations rate, depending on the growth rate of net loan transactions of each credit institution in the private sector.

With respect to the interbank overnight rate (EONIA), it has continued to remain at negative levels since mid-2014 owing to the continued ECB interventions to increase liquidity in the markets. On 10 May 2016, EONIA stood at -0,33% (Chart A.7).

Credit expansion

Credit expansion (loans and securities) to the euro area private sector has continued to record positive growth since May 2015. More specifically, credit growth reached 1,1% (Chart A.8) in March 2016. This positive development reflects the improvement in the growth of loans to both non-financial corporations (NFCs) and households as well as the positive impact from the ECB's expanded asset pur-

CHART A.7 ECB reference rates and EONIA

(% per annum, daily data)

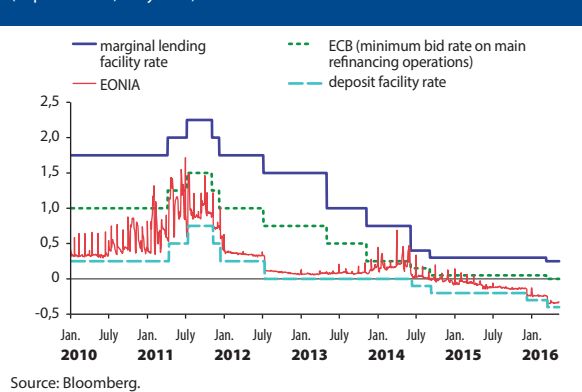
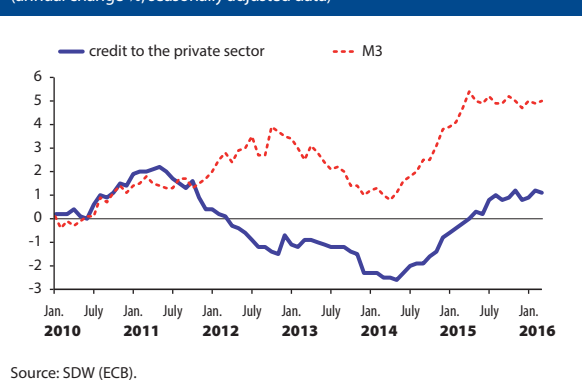


CHART A.8 M3 and credit to the private sector: euro area

(annual change %, seasonally adjusted data)



chase programme and the subsequent gradual decrease of the euro area lending rates. Analytically, the annual growth of loans (adjusted for sales and securitisation) to NFCs reached 1,1% at the end of 2016Q1 compared with -0,2% at the end of 2015Q4 and -0,6% at the end of 2015Q1. The annual growth rate of loans to households also increased and reached 1,6% at the end of 2016Q1 compared with 1,4% at the end of 2015Q4 and 0,3% at the end of the 2015Q1. Nevertheless, the continued efforts for bank balance sheet consolidation and the high level of non-performing loans in some member states, continue to hinder credit growth dynamics in the euro area.

According to the results of the April 2016 Bank Lending Survey, participating banks expect credit standards for loans to enterprises to ease in 2016Q2 compared with 2016Q1. In contrast, credit standards for loans to households for housing purposes are expected to tighten further, whereas those for consumption and other lending purposes are expected to ease. Meanwhile, net demand for loans to households and enterprises is expected to further increase during 2016Q2 compared with 2016Q1.

2. Domestic Environment: main developments

- *Cyprus continued recording the highest rate of deflation in the euro area.*
- *Provision of new loan contracts continued, especially to NFCs, whilst further deleveraging of existing private sector loans was also recorded.*
- *Small gradual decrease in the level of NPLs since February 2015.*
- *Continued inflows of deposits, especially by NFCs.*



1

Introduction

2

Macroeconomic
Developments and
Projections

3

Statistical Annex

- *Stabilisation of domestic deposit rates at historically low levels with further reduction in lending rates recorded in 2016Q1.*
- *Continuation of GDP growth.*
- *Various economic indicators show even stronger signs of recovery in domestic demand, including the tourism sector.*
- *Signs of faster deceleration in unemployment. However, it remains at very high levels.*
- *Continuation of the fiscal consolidation path.*
- *Higher economic growth forecasts are expected.*

2.1 Domestic Prices, Monetary Aggregates and MFI Interest Rates

Prices

In 2015, as well as in 2016Q1, Cyprus recorded the highest average deflation rate in the euro area. The main drivers of the negative inflation rate continue to be the historically low energy prices and the downward adjustment in prices of various products and services in the most important categories of the HICP (Table A.1). It should be emphasised that a relatively prolonged period of deflation is unfavourable and includes negative risks relating mainly to the postponement of private sector's consumption and investment decisions in anticipation of lower prices in the future. A deflationary spiral is then formed with continuous reduction in prices and economic activity. Despite this, there is no indication, at least at the current stage, that deflation triggered any negative effects on the real domestic economy, especially given the fact that domestic deflation is for the most part the result of exceptionally low oil prices and that domestic demand is picking up.

TABLE A.1 Inflation in Cyprus (HICP)

	Weights ⁽¹⁾	Annual percentage change			
		Jan.-Mar. 2015	Jan.-Mar. 2016	Mar. 2015	Mar. 2016
HICP	1000,0	-1,0	-1,8	-1,4	-2,1
Unprocessed food	73,9	6,1	-4,4	6,2	-8,7
Processed food	176,5	0,8	-0,7	0,4	-2,1
Energy	74,6	-14,4	-12,6	-14,5	-14,4
Services	460,3	0,0	-0,9	-0,4	-0,5
Non-energy industrial goods	214,8	-1,1	0,5	-1,8	1,2
HICP excluding energy	925,4	0,4	-0,9	0,0	-1,1
HICP excluding energy and food	675,0	-0,3	-0,5	-0,8	0,0

Source: Cystat.
(1) Based on the weights for 2016.

The main factors that contributed to the continued negative trend in domestic inflation were the low oil prices, leading to reduced import prices and triggering secondary effects on domestic prices, as well as the structural changes that took place in the domestic economy, such as the downward adjustment in domestic wages. It is also worth noting that the negative rate of inflation was also driven by the lower prices of air passenger transport compared with the respective period in 2015, as a result of the increased competition among air carriers.

Specifically, domestic inflation based on the Consumer Price Index (CPI) continued its negative trend reaching -2,1% in 2016Q1 compared with -1,5% in 2015Q1. Similarly, the HICP decreased by 1,8% during the first three months of 2016 compared with -1% in the corresponding period of 2015 (**Chart A.9**). Note that during the aforementioned period, almost all HICP components recorded a negative average inflation. The only exception was the category of non-energy industrial goods, whose inflation strengthened mainly on the back of higher clothing prices.

Furthermore, inflation excluding energy registered a decrease of 0,9% during 2016Q1 compared with an increase of 0,4% in the same quarter last year (**Chart A.10**). At the same time, excluding food and energy (which in total represent about 33% of the overall HICP), inflation stood at -0,5% in 2016Q1 compared with -0,3% in 2015Q1 (**Chart A.10**). The deterioration of domestic core inflation was mainly due to price reductions seen in the major categories of services, particularly in the tourism sector.

Monetary aggregates³

The recovery of the domestic financial sector continued in 2016Q1, amid positive develop-

3. For a detailed explanation of the methodology and technical analysis of monetary aggregates, see the Technical Notes on [p. 68](#).

CHART A.9 Consumer price index
(annual change, %)

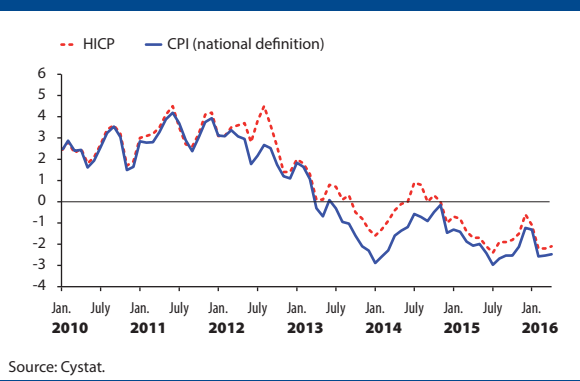
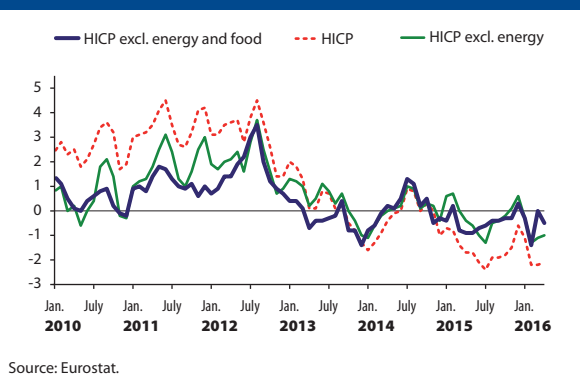


CHART A.10 Inflation in Cyprus (HICP)
(annual change, %)



ments for the Cyprus economy, dominated mainly by the successful official exit of Cyprus from the economic adjustment programme in March 2016. Among other positive developments, one should note the recent upgrade of the largest domestic banks by the international rating agencies as well as the historically low interest rates prevailing in Cyprus fostering demand for loans. Despite the challenges that remain, the structural reforms already adopted for the banking system are expected to bring the Cyprus economy on a sustainable growth path.

Addressing the high level of NPLs remains a key priority for the CBC. The relevant structural policies adopted are milestones in solving this important issue with the effectiveness of measures taken expected to be seen in the medium term. The latest figures indicate that NPLs reached their highest level in February 2015. Since then, NPLs have recorded continuous reductions, supported by the substantial increasing loan restructurings from early 2015 onwards. Effective management of NPLs is expected to accelerate the growth rate of new loans and promote further economic growth.

In 2016Q1, an increase in new lending contracts was recorded, albeit in small volumes. Overall, loans to the domestic private sector at the end of March recorded a slightly negative net annual growth, mainly due to the continuing efforts of both the private and banking sector to deleverage and correct their balance sheets.

In connection with the above, the results of the Bank Lending Survey in April 2016 point to unchanged credit standards for loans to enterprises and households in 2016Q1 compared with the previous quarter. According to the participating banks, credit standards are expected to remain unchanged in all loan cate-

- 
- 
- 
- 
- 1**
Introduction
- 2**
Macroeconomic
Developments and
Projections
- 3**
Statistical Annex

gories for 2016Q2. In contrast, it is important to note that the net demand for housing loans, consumer and other loans as well as loans to enterprises continues to be positive since early 2015, while in 2016Q2, net demand for all aforementioned loan categories is expected to increase further (Table A.2 and Box 1, p. 22).

Loans to the domestic private sector at the end of March 2016 recorded a marginal annual decrease of 0,2% compared with an increase of 0,2% at end-December 2015 and -0,3% at the end of 2015Q1 (Chart A.11).

Analytically, the annual growth rate of loans to domestic households stood at -1% at the end of 2016Q1 (Chart A.11, and Table A.3). All sub-categories of loans to households registered negative growth rates at the end of March 2016. In particular, housing loans to domestic residents recorded a negative growth rate of 1,7% at the end of 2016Q1.

In contrast, loans to domestic NFCs recorded a positive annual growth of 0,5% at end-March 2016, partly because of the co-financing of SMEs through the EIB and the EBRD as well as the historically low interest rates prevailing in Cyprus (Chart A.11).

With regard to deposits, the stabilisation of the domestic banking sector continues, with the annual growth rate of domestic private sector deposits in positive territory since May 2015. In particular, domestic private sector deposits at end-March 2016 recorded an increase of 2,8% compared with 1,7% at the end of 2015 and -0,7% at end-March 2015 (Chart A.12, p. 26).

In detail, the annual growth rate of deposits from both domestic households and domestic NFCs increased. Specifically, deposits by households recorded an increase of 0,6% at end-March 2016 compared with 0,5% at end-December 2015 and -3,2% at end-March 2015

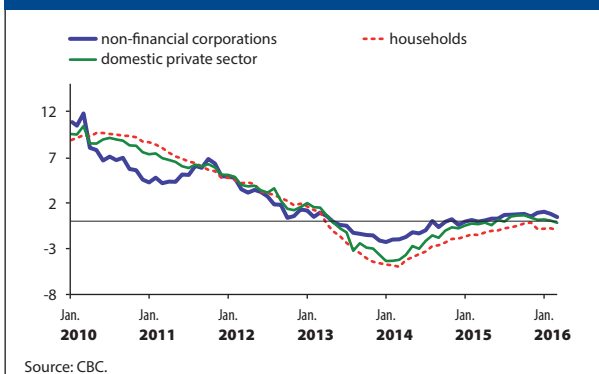
TABLE A.2 Summary of the April 2016 BLS results

Summary of results	Cyprus		Euro area	
	2016Q1	2016Q2 (expectations)	2016Q1	2016Q2 (expectations)
Credit standards for loans				
Enterprises	Unchanged	Unchanged	Easing	Easing
Households				
- Housing loans	Unchanged	Unchanged	Tightening	Tightening
- Consumer credit and other lending	Unchanged	Unchanged	Easing	Easing
Demand for loans				
Enterprises	Increase	Increase	Increase	Increase
Households				
- Housing loans	Increase	Increase	Increase	Increase
- Consumer credit and other lending	Increase	Increase	Increase	Increase

Sources: EBC, SDW.

Note: The above results list the changes that occurred in the last three months (in this case 2016Q1) and the changes that are expected for the next three months (i.e. 2016Q2). Recall that the measure used for the statistical analysis of this survey was the diffusion index.

CHART A.11 Loans to the domestic private sector (annual change, %)



Source: CBC.

TABLE A.3 Loans to domestic households ^{(1),(2)}

	Outstanding balance as % of total ⁽³⁾	Annual percentage change					
		2014 Dec.	2015 Mar.	2015 June	2015 Sep.	2015 Dec.	2016 Mar.
Domestic households	100,0	-1,9	-1,5	-1,0	-0,5	-0,9	-1,0
1. Consumer credit	12,9	-3,7	-2,5	-1,7	-0,7	-0,8	-0,5
2. Lending for house purchase	54,7	-2,5	-2,2	-1,8	-1,6	-1,9	-1,7
3. Other lending	32,4	-0,3	0,1	0,5	1,3	0,7	-0,1

Source: CBC.

(1) Sectoral classification is based on ESA 2010.

(2) Including non-profit institutions serving households.

(3) As at the end of the last month available. Figures may not add up due to rounding.

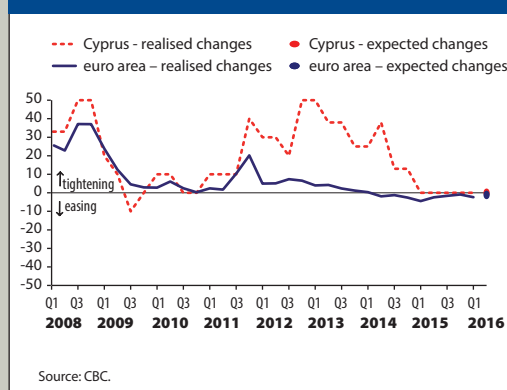
Box 1: Bank Lending Survey

The Eurosystem has been conducting the Bank Lending Survey (BLS) since 2003. The BLS is a qualitative survey for the assessment of credit conditions in the euro area and is conducted on a quarterly basis (January, April, July and October). Cyprus has been participating in the BLS since April 2008, with a sample size covering around 85% of the total outstanding loans to euro area enterprises and households. The aggregated national results are published on the CBC website soon after the ECB publication of the euro area results.

The questionnaire covers a broad area of questions that affect the supply and demand of loans in Cyprus. More specifically, the questionnaire includes questions about the credit standards, credit terms and conditions for the approval of loans to enterprises and households, such as the banks' liquidity, the size of the loan and bank competition. Also, the questionnaire includes questions about the banks' assessment of credit conditions, such as the general level of interest rates, the debt restructuring/re-financing and consumer confidence. In addition, it should be noted that the survey captures both actual and expected developments in credit markets.

Overall, the survey provides an important source of qualitative data about the credit market conditions in both Cyprus and the euro area. In particular, the BLS results are important leading indicators for the main macroeconomic variables and complement the information derived from the official data used for the assessment of the state of the real economy.

CHART 1 Credit standards: loans to enterprises (diffusion index %)



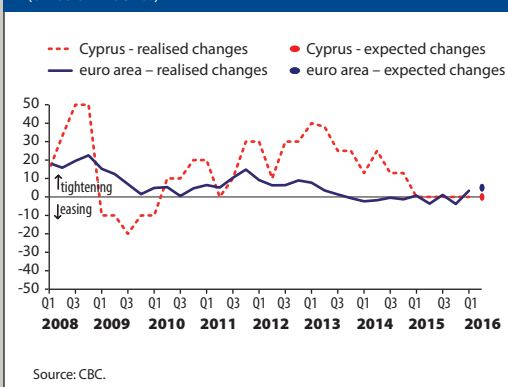
Source: CBC.

Characteristically, the banks' estimates and expectations in early 2015 for a net loan demand recovery in the private sector as well as the decrease in the net tightening of credit standards, were consistent with both domestic banking sector developments and the continuous recovery in domestic economic activity.

Loan supply (credit standards)

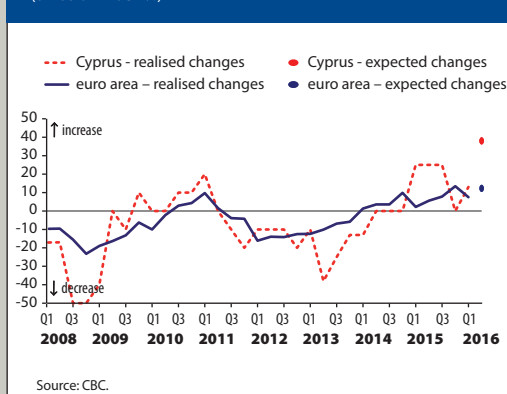
Credit standards on loans to enterprises in Cyprus were tightened almost every quarter since the beginning of the survey in April 2008 and up until the end of 2014 (Chart 1). Since 2015 credit standards on loans to enterprises remained unchanged, mainly due to the improvement in the general economic conditions and outlook. Credit standards on loans to households also exhibited a similar trend (Chart 2, p. 23). According to the banks' expectations for 2016Q2, credit standards on loans to enterprises and households in Cyprus are expected to remain unchanged, i.e. at the same tightened levels as in 2014Q4.

CHART 2 Credit standards: loans to households for house purchase
(diffusion index %)



Source: CBC.

CHART 3 Demand: loans to enterprises
(diffusion index %)

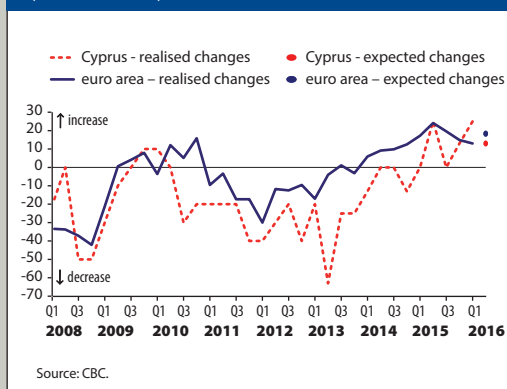


Source: CBC.

Loan demand

Net demand for loans by enterprises in Cyprus for the period April 2008 – December 2014 was on the most part negative (Chart 3). Important factors that contributed to this decrease were the reduced fixed investment needs, the lower need for inventories and working capital and the reduced mergers and acquisitions and corporate restructurings. Clearly, the demand for loans was negatively affected during the peak of the financial crisis in 2013. Nevertheless, it is worth mentioning that since 2015Q1, net demand for loans by enterprises has been recording an increase. Factors such as the improved economic environment, the increased debt restructurings, fixed investments and the increased need for inventories and working capital, positively impacted net demand for loans by enterprises. The lower general level of lending interest rates was also a major contributing factor to the aforementioned increase in loan demand. This was especially evident following the

CHART 4 Demand: loans to households for house purchase
(diffusion index %)

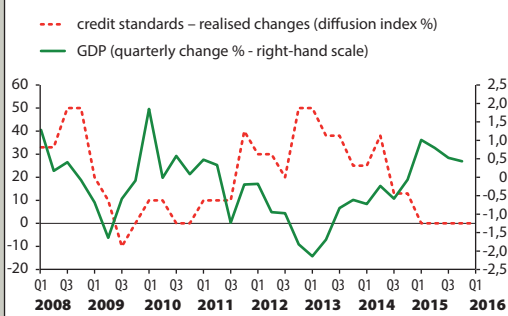


Source: CBC.

general decrease in the Cyprus deposit rates reflecting the revised CBC Directive adopted in February 2015.

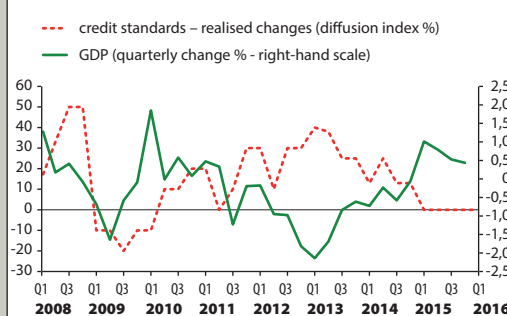
With respect to households, the trend in net loan demand for housing loans was similar to that of enterprises (Chart 4). Important factors that contributed to the decrease in net loan demand between the period 2008 and 2014 was the reduced consumer confidence, the low prospects of the housing market and the reduced household savings. As in the case of enterprises, net loan demand from households was significantly impacted – by the fi-

CHART 5 Cyprus: loans to enterprises in the euro area and GDP



Source: CBC.

CHART 6 Cyprus: loans to households in the euro area and GDP



Source: CBC.

financial crisis. On the positive side, during the latest four quarters net loan demand by households has increased. This is mainly attributed to the relative improvement in economic activity and consumer confidence, the decrease in the general level of interest rates and the higher need for debt restructurings.

As previously mentioned, the increase in net demand from the non-financial private sector is consistent with the general economic recovery in Cyprus, which has been evident since 2015. According to banks' expectations for 2016Q2, net demand by all loan categories (enterprises and households) is expected to increase further.

Supply and demand for loans as leading indicators of real economic development

The supply (Charts 5 and 6) and demand (Charts 7 and 8, p. 25) for loans in the BLS, do not only reveal market conditions as perceived by the banks, but are also perceived as leading indicators for GDP

growth. A negative development in the credit supply index (i.e. credit standards for loans) implies, among other things, a widening of the margins of both the average and risky loans, a reduced ability of enterprises and households to borrow from banks and, as a consequence, a significant decrease of domestic production capacity as well as a contraction of the real GDP growth.

More analytically, the net tightening of credit standards for loans and the decrease observed in net loan demand for and by enterprises and households, preceded the financial crisis in Cyprus by almost one year. On the other hand, the decrease in net tightening of credit standards for loans and the recovery in the net loan demand that was observed since about mid-2014, are in line with the slight improvement recorded in bank lending conditions and the recovery of economic activity since the beginning of 2015.

In conclusion, according to the participating banks expectations for a continued increase in net demand from the non-financial private sector, GDP growth

CHART 7 Cyprus: loans to enterprises in the euro area and GDP

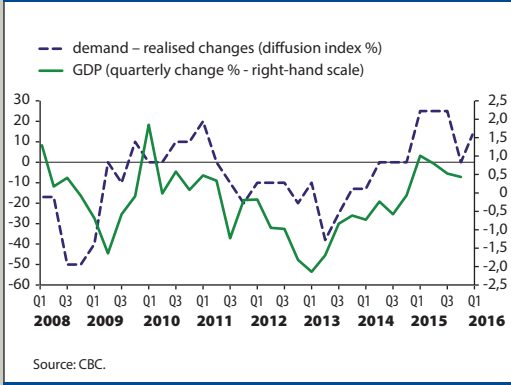
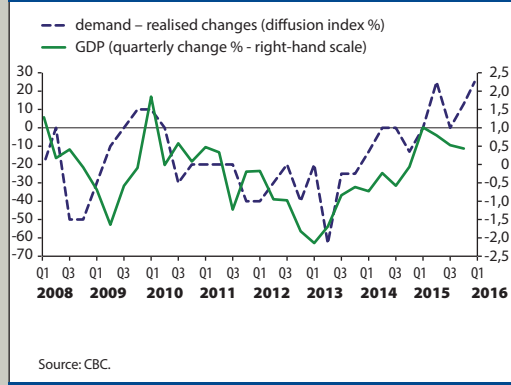


CHART 8 Cyprus: loans to households for house purchase in the euro area and GDP



in 2016Q2 is expected to remain at more or less the same levels as in 2016Q1 and to further increase during the second half of the year.



1 Introduction

2 Macroeconomic Developments and Projections

3 Statistical Annex

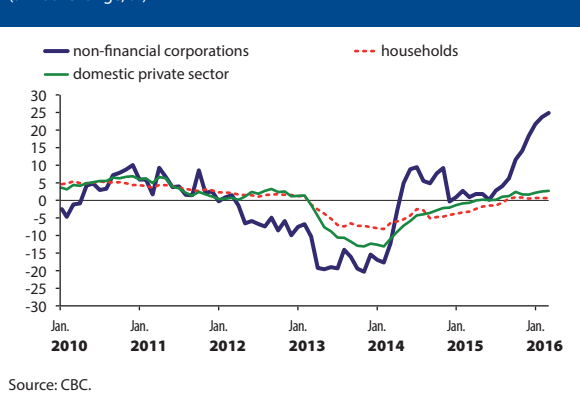
(Chart A.12 and Table A.4). Deposits of domestic NFCs recorded an increase of 24,9% at end-March 2016 compared with 18,4% at end 2015 and a marginal increase of 0,9% at end-March 2015 (Chart A.12). Despite the significant increase in the growth rate of domestic NFCs' deposits, their level continues to be low.

As regards total deposits of non-residents, a marginal positive annual growth was recorded in the last two months, reaching 0,5% at the end of March 2016 compared with -2,3% at the end of 2015 and -8,8% at the end of March 2015. In particular, deposits of non-resident households in Cyprus recorded consecutive positive growth rates since the beginning of 2015, reaching 8,6% at the end of 2016Q1. In contrast, the corresponding deposits of non-resident NFCs continued to record annual outflows, reaching a negative growth rate of 2,2% at the end of March 2016 (Chart A.13).

Interest rates

The interest rate environment in Cyprus continued its downward path, a trend that became more pronounced after March 2015. In particular, during the first three months of 2016, domestic lending rates edged further downwards compared with the end of 2015 while the decrease is markedly greater relative to the same period of 2015. Interest rates in Cyprus stand at historically low levels and follow the macro-prudential measures taken by the CBC last year, which aimed at reducing the maximum deposit interest rate, coupled with the accommodative monetary policy that has been followed by the ECB. At the same time, there appears to be increased activity in the domestic banking system with regards to loan products with competitive

CHART A.12 Deposits of the domestic private sector (annual change, %)



Source: CBC.

TABLE A.4 Deposits of domestic households ^{(1),(2)}

	Outstanding balance as % of total ⁽³⁾	Annual percentage change					
		2014 Dec.	2015 Mar.	2015 June	2015 Sep.	2015 Dec.	2016 Mar.
Domestic households	100,0	-4,1	-3,2	-1,5	0,5	0,5	0,6
Overnight	21,4	0,7	-1,8	3,1	8,2	8,5	9,1
With agreed maturity	72,9	-3,7	-1,5	-0,8	-0,1	-1,1	-1,6
up to 2 years	70,2	-2,9	-0,6	0,1	0,7	-0,5	-1,2
over 2 years	2,8	-18,3	-19,6	-17,3	-17,0	-14,6	-11,0
Redeemable at notice	5,6	-20,9	-23,9	-22,3	-15,5	-6,6	0,1
up to 3 months	4,2	-18,5	-19,6	-18,3	-11,0	-1,6	4,3
over 3 months	1,4	-26,3	-33,0	-31,2	-25,9	-18,9	-11,0

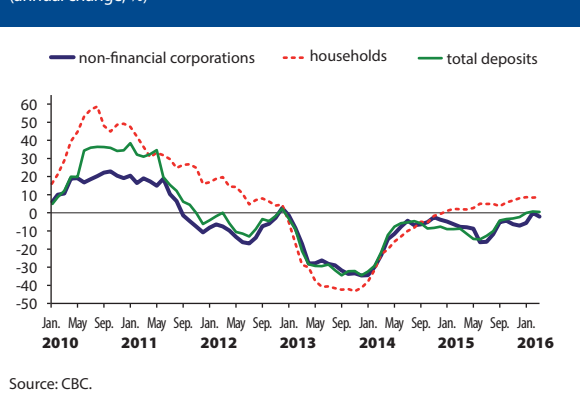
Source: CBC.

(1) Sectoral classification is based on ESA 2010.

(2) Including non-profit institutions serving households.

(3) As at the end of the last month available. Figures may not add up due to rounding.

CHART A.13 Deposits of non-residents: Cyprus (annual change, %)



Source: CBC.

terms. As a result of the above, at the end of 2016Q1 the spread between the domestic and the corresponding euro area interest rates had shrunk considerably compared with the same period last year. Indicatively, in March 2016 the spread stood at 122 and 175 basis points for housing and NFC loans respectively compared with 166 and 245 basis points respectively in March 2015 (Chart A.14 and A.15).

With regard to lending rates, the average interest rate on new euro denominated loans from Cyprus MFIs to both euro area households and euro area NFCs with an initial rate fixation of up to one year decreased during 2016Q1 compared with 2015Q4. The decrease is more pronounced when compared to 2015Q1. Yet these interest rates remain at higher levels than the corresponding euro area rates. More specifically, the average interest rate for housing loans, consumer and other loans to households stood at 3,11%, 4,47% and 3,92%, respectively (Table A.5, p. 28). Over the same period, the cost of new lending to NFCs for amounts up to € 1 million and over € 1 million was 4,39% and 3,30%, respectively (Table A.6, p. 28). It should be noted, however, that the reductions of the aforementioned lending rates reflect, in part, the lower interest rates offered by banks in their restructured performing loan portfolio. This is relevant considering the intensification of the restructuring efforts since the second half of 2015.

Moving to the deposit side, the interest rates offered by Cyprus MFIs to households and NFCs dropped significantly compared with the same period last year and were near historically low levels, following the CBC's revised Directive in February 2015 (Table A.7, p. 29). In particular, the average new deposit

CHART A.14 MFI interest rates on euro-denominated housing loans (new business) to euro area households⁽¹⁾
(% per annum, period averages)

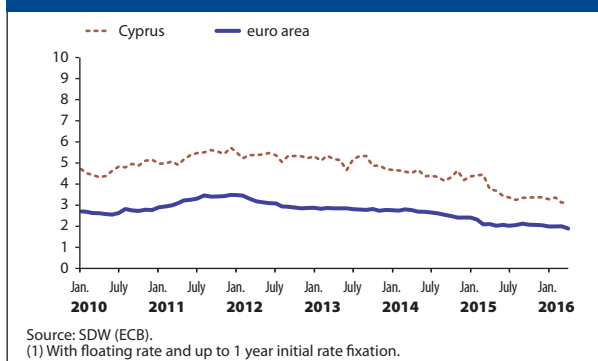
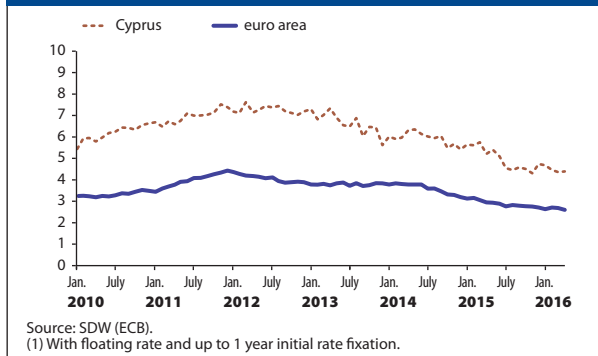


CHART A.15 MFI interest rates on euro-denominated loans (new business) up to €1 million to euro area non-financial corporations⁽¹⁾
(% per annum, period averages)



rate for households with an agreed maturity of up to one year stood at 1,52% for households and 1,36% for NFCs. Despite their decline, deposit rates remain at competitive levels compared with those of the euro area. As shown in **Charts A.16** (p. 29) and **A.17** (p. 30), the spread between deposit rates in Cyprus and the euro area, although more compressed relative to previous years, amounted to 91 and 123 basis points for households and businesses respectively.

The generally favourable interest rate environment, and in particular the significant reduction in lending rates over recent years, has had a positive contribution to the sustainability of the banking system's loan restructuring activities due to better repayment terms offered to debtors. At the same time, the latest indications of increased competition in loan products are beneficial to borrowers and should positively contribute to the recovery of the domestic financial sector and economic activity in general.

Labour costs

The decline in labour costs slowed down in 2015 compared with 2014, in line with the observed restructuring in the labour market. Specifically, the annual rate of change of the nominal total wages and social contributions (compensation per employee) stood at - 1% in 2015, compared with a decrease of 3,5% in 2014 (**Chart A.18**, p. 30). This development was due to annual reductions of 0,2% and 2,2% recorded in compensation per employee in the private and public sectors, respectively, due to legislative cuts in salaries and pensions of government employees as well as general reductions in the private sector. As regards the sectoral breakdown, reductions were observed in

TABLE A.5 Cyprus MFI interest rates on euro-denominated loans (new business) to euro area households⁽¹⁾
(% per annum, period average)

		Bank overdrafts ⁽²⁾	Floating rate and up to 1 year initial rate fixation		
			Consumer Credit	Lending for house purchase	Other lending
2015	Jan.	6,77	5,46	4,41	3,49
	Feb.	6,73	5,35	4,45	3,30
	Mar.	5,58	4,69	3,76	4,32
	Apr.	5,77	4,84	3,68	5,14
	May	5,84	4,37	3,44	4,52
	June	5,78	4,57	3,36	4,47
	July	5,72	4,38	3,24	4,29
	Aug.	5,68	4,80	3,35	4,06
	Sep.	5,63	4,38	3,36	4,44
	Oct.	5,62	4,56	3,37	4,06
	Nov.	5,60	4,33	3,37	4,31
	Dec.	5,59	4,56	3,28	4,18
2016	Jan.	5,58	4,42	3,36	4,63
	Feb.	5,57	4,38	3,12	4,34
	Mar.	5,52	4,47	3,11	3,92

Source: CBC.

(1) Including non-profit institutions serving households.

(2) For this instrument category, new business refers to end-of-period.

TABLE A.6 Cyprus MFI interest rates on euro-denominated loans (new business) to euro area non-financial corporations
(% per annum, period average)

		Bank overdrafts ⁽¹⁾	Floating rate and up to 1 year initial rate fixation	
			Other loans up to € 1 million	Other loans over € 1 million
2015	Jan.	6,32	5,61	5,22
	Feb.	6,25	5,75	5,04
	Mar.	5,54	5,21	4,28
	Apr.	5,55	5,40	3,80
	May	5,53	5,09	4,31
	June	5,48	4,54	4,57
	July	5,46	4,45	4,33
	Aug.	5,41	4,58	3,56
	Sep.	5,34	4,51	4,27
	Oct.	5,31	4,31	4,43
	Nov.	5,27	4,74	3,87
	Dec.	5,24	4,68	4,12
2016	Jan.	5,21	4,46	3,72
	Feb.	5,17	4,36	3,88
	Mar.	5,12	4,39	3,30

Source: CBC.

(1) For this instrument category, new business refers to end-of-period.

the secondary and, especially, the tertiary sector, which accounts for about 83% of total employment. More specifically, compensation per employee in the tertiary sector recorded an annual decline of 1,1% in 2015 compared with a decrease of 4,7% in 2014, while the secondary sector recorded a decrease of 0,5% compared with an increase of 2,4% in 2014. It should be noted that no information is yet available for 2016, however the nominal compensation per employee is expected to grow after three years of continued decline.

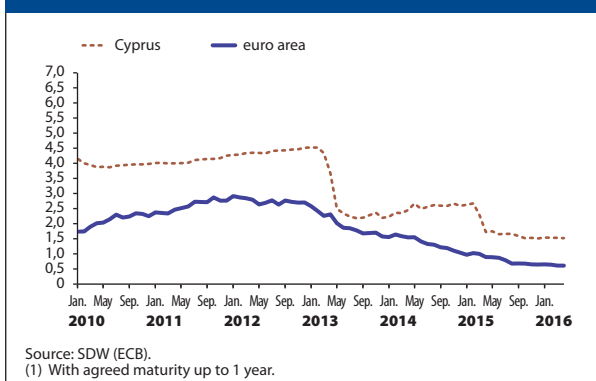
In contrast, real compensation per employee recorded an annual increase of 1% in 2015 compared with a decrease of 2,2% in 2014, reflecting the reduction in the general level of prices. In terms of productivity, which is measured as the change in real GDP per person employed, the relative index registered an annual increase of 0,7% in 2015, compared with a 0,2% decrease in 2014 (Chart A.19, p. 30). Unit labour costs, determined by the reduction in nominal compensation per employee and productivity change, recorded an annual decrease of 1,7% in 2015, compared with a decrease of 3,3% in 2014 (Chart A.20, p. 31). Unit labour costs in the euro area however, recorded an increase of 0,8% in 2015, compared with an increase of 1% in 2014. Unit labour costs is an important indicator of competitiveness for an economy and reflects the cost of labour per unit of output. Therefore, it is important for an economy in the medium and long term to maintain such costs low so as to improve competitiveness and employment opportunities. An examination of the unit labour cost index over time shows that it has been lower compared with the euro area since 2012, highlighting the improvement of the economy's competitiveness due to the significant reduction in nominal compensation

TABLE A.7 Cyprus MFI interest rates on euro-denominated deposits (new business) by euro area residents
(% per annum, period average)

		Households ⁽¹⁾			Non-financial corporations	
		With agreed maturity				
		Overnight ⁽²⁾	Up to 1 year	Over 1 and up to 2 years	Overnight ⁽²⁾	With agreed maturity up to 1 year
2015	Jan.	0,46	2,67	3,08	0,32	2,57
	Feb.	0,45	2,30	1,40	0,35	2,27
	Mar.	0,41	1,73	1,95	0,31	1,57
	Apr.	0,31	1,75	2,10	0,24	1,72
	May	0,23	1,65	2,16	0,23	1,63
	June	0,23	1,66	2,35	0,23	1,33
	July	0,22	1,66	2,12	0,23	1,72
	Aug.	0,21	1,59	2,12	0,21	1,56
	Sep.	0,21	1,52	2,04	0,19	1,57
	Oct.	0,21	1,53	2,03	0,19	1,45
	Nov.	0,21	1,51	2,09	0,18	1,53
	Dec.	0,21	1,54	1,97	0,19	1,49
2016	Jan.	0,19	1,54	1,97	0,18	1,33
	Feb.	0,19	1,53	1,80	0,16	1,36
	Mar.	0,19	1,52	1,73	0,15	1,36

Source: CBC.
(1) Including non-profit institutions serving households.
(2) For this instrument category, new business refers to end-of-period.

CHART A.16 MFI interest rates on euro-denominated deposits (new business) by euro area households⁽¹⁾
(% per annum, period averages)



Source: SDW (ECB).
(1) With agreed maturity up to 1 year.

per employee. In particular, the index in 2015 was lower by about 12 percentage points compared with the euro area.

2.2 Domestic Competitiveness and the Balance of Payment

Effective exchange rate

Chart A.21 (p. 31) shows the effective exchange rate (EER) of the euro in Cyprus, the nominal (NEER) and real (REER) index of EER, as calculated by the IMF⁴. Both indices recorded a weakening trend in 2015, despite the slight appreciation recorded periodically. In general, the path followed by the REER index was in line with the trend followed by the euro, but this mainly reflected domestic developments, notably the negative inflation recorded in 2015, which was lower compared with our trading partners. The gap between the NEER and REER increased since the beginning of 2013, partly due to the aftermath of the March 2013 events.

The REER, the inflation rate and unit labour costs are important measures of the competitiveness of the Cypriot economy. For example, higher unit labour costs and higher REER in Cyprus compared with competing countries suggest that domestic exports may be less price competitive. In general, inflation is related to, among other factors, both variables mentioned above and therefore also reflects the degree of competitiveness of the Cypriot economy. The adoption of measures affecting salaries and other benefits both in the public and private sectors have reduced unit labour costs for the whole economy, while the weakening trend of the euro over the last few years

4. The effective exchange rate index of the euro in Cyprus in real terms (REER) is calculated by taking into account trade relations between Cyprus and its 26 main partners (countries).

CHART A.17 MFI interest rates on euro-denominated deposits (new business) by euro area non-financial corporations⁽¹⁾
(% per annum, period averages)

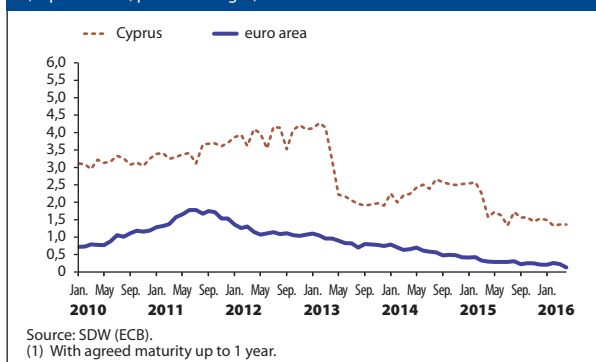


CHART A.18 Nominal compensation per employee by sector
(annual change, %)

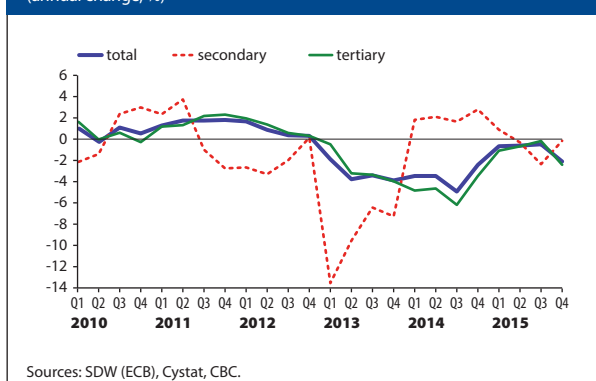
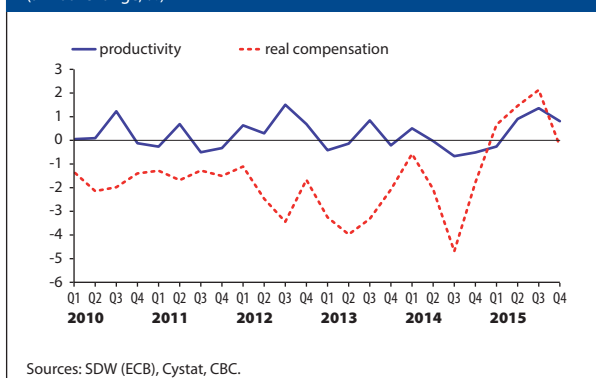


CHART A.19 Productivity and real compensation per employee
(annual change, %)



has improved the competitiveness of Cyprus and supported the recovery of the economy, in the medium term. One of the sectors that seems to have been affected the most by the reduction in unit labour costs as well as by the weakening trend of the euro is tourism (see Tourism, p. 33).

Balance of payments

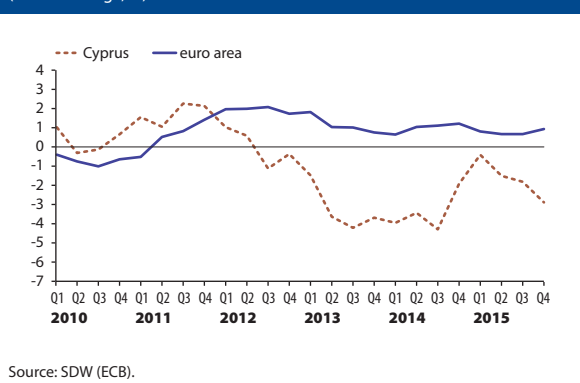
The reporting of external trade statistics has been substantially altered in light of new methodological and statistical changes⁵. These statistics, especially for exports and imports of goods, are not solely representative of developments in the domestic economy due to the inclusion of the economic transfer of mobile transport equipment by ship owning special purpose entities (SPEs) registered in Cyprus, since these transactions do not affect nor are affected by domestic developments.

The current account recorded a smaller deficit in 2015, of the order of €634,2 million (or 3,6% as a percentage of GDP) compared with a deficit of €791,5 million (or 4,6% as a percentage of GDP) in 2014 (Table A.8, p. 32). However, excluding the transactions of ships, the current account deficit recorded a notable improvement in 2015 compared with the previous year.

More analytically, the trade deficit of goods worsened, reaching €3.178,5 million in 2015 compared with a deficit of €2.812,2 million in 2014 (Table A.8, p. 32), mainly due to the reduction in exports of goods. Excluding the transactions of ships, the trade deficit improved slightly. As far as merchanting is

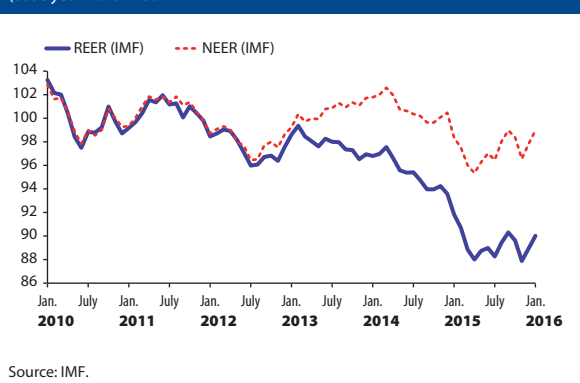
5. With the introduction of the ESA 2010 and BPM 6 statistical methods, total imports and exports of Cyprus include, among other things, the economic transfer of mobile transport equipment and activities of shipowning SPEs. More information is provided in Box 1, p. 50 of the December 2014 *Economic Bulletin*.

CHART A.20 Unit labour costs: Cyprus and the euro area
(annual change, %)



Source: SDW (ECB).

CHART A.21 Real and nominal effective exchange rates (IMF weights)
(Base year 2010=100)



Source: IMF.

concerned, revenue in 2015 decreased to €183,4 million compared with €240,1 million last year.

The surplus of the services account amounted to €2.933,7 million in 2015, remaining at 2014 levels, as the increase recorded in imports of services was offset by the increase in exports of services.

Exports of services increased by 4,4% (€333,9 million) in 2015, with increases recorded in all the main categories reflecting the recovery of confidence in the Cypriot banking system and the sustained confidence in the quality of domestic services. Specifically, increases of 6% (€110,7 million) and 69,6% (€87,4 million) were recorded in the categories of financial services and other business services, respectively. The sub-category of professional and management consulting services (including income from legal and accounting services) increased by 84,8% (€79,6 million). Also income from travel, which includes revenues from tourism, increased by 4,3% (€91,6 million) compared with a decrease of 1,7% (€36,3 million) in the previous year. The improved performance of the tourism sector seems to be continuing in 2016, based on available data for January 2016 which show an increase in revenues.

Imports of services increased by 7,1% (€333,3 million), reflecting increases in most categories, with the largest increases being observed in financial services (15,2% or €118,5 million) and other business services 19,2% (€91 million). Transport increased by 6,3% (€85,8 million), while the category of insurance and pension services decreased by 20,6% (€26,7 million).

In the primary income account (which mainly includes income from employment and investment) a surplus of €60,5 million was

TABLE A.8 Balance of Payments (main categories)
(€ million)

	2014	2015	Change
Current account balance	-791,5	-634,2	157,3
Goods and services balance	120,9	-244,8	-365,7
Trade balance	-2.812,2	-3.178,5	-366,3
Exports of goods	2.807,8	2.487,3	-320,5
Imports of goods	5.620,0	5.665,8	45,8
Services balance	2.933,1	2.933,7	0,6
Exports of services	7.629,8	7.963,7	333,9
<i>of which:</i>			
Transport	2.319,3	2.342,7	23,4
Travel	2.142,3	2.233,9	91,6
Insurance and pension services	17,7	23,9	6,2
Financial services	1.841,3	1.952,0	110,7
Other business services	125,6	213,0	87,4
Imports of services	4.696,7	5.030,0	333,3
<i>of which:</i>			
Transport	1.361,5	1.447,3	85,8
Travel	945,4	962,6	17,2
Insurance and pension services	129,7	103,0	-26,7
Financial services	781,1	899,6	118,5
Other business services	473,3	564,3	91,0
Primary income (net)	-488,8	60,5	549,3
Secondary income (net)	-423,5	-449,9	-26,4

Source: CBC.

recorded compared with a deficit of €488,8 million in 2014. This is due to the increase in revenues and reduction of expenses from foreign direct investment. The deficit in the secondary income account (which mainly includes current transfers) recorded a slight deterioration primarily due to the increase in government contributions to European funds.

The current account deficit in 2015 was mainly financed by liquidations of securities by the banking sector, the issuance of government bonds, government lending from the European Stability Mechanism (ESM) and the IMF as well as private sector lending.

Tourism

The tourism sector proved to be one of the most important pillars of the Cypriot economy. Efforts to penetrate into new markets, particularly in other European countries as well as countries of the Middle East and Asia seem to have been successful, while the promotion of new types of tourism products continues.

According to available data, tourist arrivals increased by 8,9% in 2015 relative to 2014, while revenues from tourism recorded an increase of 4,4%. As a consequence, the per capita expenditure of tourists during 2015 recorded a decrease of 4,2% (Table A.9 and Chart A.22). This reduction occurred despite the 3% increase in daily per capita expenditure and is attributed to the decrease in the average length of stay from 10,7 to 9,9 days.

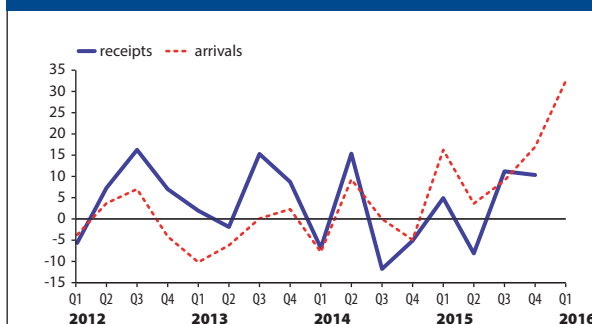
All in all, 2015 proved to be a very positive year for the tourism sector, with the positive trend continuing into 2016 as well. Available data on tourist arrivals for 2016Q1 show an increase of 32,4% compared with the corresponding period of the previous year. Also, revenues from tourism increased by 2,5% in

TABLE A.9 Tourism

	Tourist arrivals (thous.)	Tourist receipts (€ million)	Expenditure per person (€)
2014	2.441	2.023,4	828,9
2015	2.659	2.112,1	794,2
annual % change	8,9	4,4	-4,2
2015 Jan.	41,8	28,4	679,4
2016 Jan.	48,6	29,1	598,7
annual % change	16,3	2,5	-11,9
2015 Jan.- Mar.	190,0	-	-
2016 Jan.- Mar.	251,6	-	-
annual % change	32,4	-	-

Source: Cystat.

CHART A.22 Tourist arrivals and receipts
(annual change, %)



Source: Cystat.

the first month of 2016. It seems that the efforts made to mitigate the issue of seasonality, have been successful. It should, however, be noted that geopolitical circumstances contributed positively given that they adversely affected competitor neighbouring countries. In particular, arrivals from the UK and Russia rose significantly in 2016Q1 compared with the corresponding period of the previous year. Based on pre-bookings to date, *ceteris paribus*, 2016 is expected to be a much better year than the previous one.

2.3 Domestic Demand, Production and the Labour Market

Quarterly national accounts

The Cyprus economy recorded positive annual growth of 1,6% in 2015 compared with a contraction of 2,5% in 2014. According to analytical data for 2015 (Charts A.23(a) and A.23(b)), GDP growth is being driven by an improvement observed across all sub-categories and primarily due to the 1,9% increase in private consumption attributable to the stabilisation of the economic environment and the recovery of confidence. Exports of goods and services also contributed to growth, increasing by 1,9%. Excluding the transactions of ships, exports of goods and services recorded a more significant increase. Public consumption and gross fixed capital formation rose by 1,1% and 14%, respectively. However, excluding the transactions of ships, gross fixed capital formation recorded a decline.

In light of more recent preliminary data, a year-on-year improvement of 2,6% was recorded in 2016Q1. The increase of GDP can be mainly attributed to the hotels and restau-

CHART A.23(a) Quarterly GDP growth (expenditure categories)
(annual change, %)

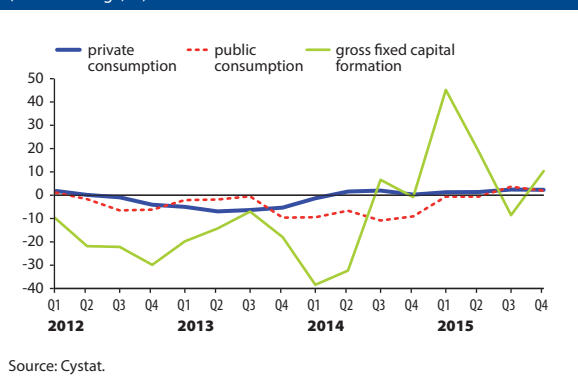
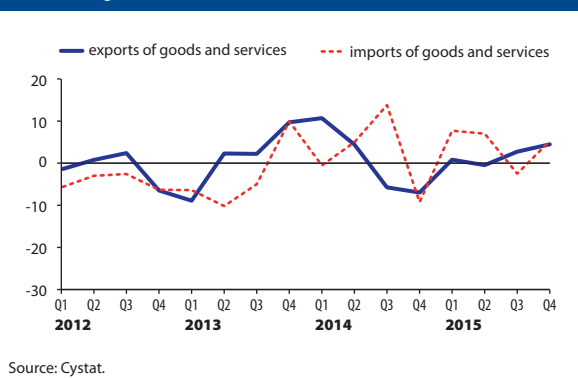


CHART A.23(b) Quarterly GDP growth (expenditure categories)
(annual change, %)



rants, professional, scientific and technical activities, retail and wholesale trade, manufacturing, construction and transport sectors. Negative growth rates were recorded by financial service activities, due to significant loan write-offs that materialised from March 2016 in line with the broader effort to further consolidate the banking sector, and household activities with employed persons.

Recent economic indicators show even stronger signs of the already ongoing recovery in domestic demand. Specifically, the Economic Sentiment Indicator (ESI) (Table A.10) increased from 106,7 in December 2015 to 113,3 in April 2016, reaching its highest point since April 2008. The turnover index of retail trade improved significantly in February 2016 (Chart A.24), reaching 5,1% in the first two months of the year, while a notable increase was observed in the sub-indices of consulting and professional services. Also, motor vehicle registrations continued their upward trend (Chart A.25), registering an increase of 28% in 2016Q1 compared with 2015Q1.

Regarding credit card spending, spending by cardholders of Cypriot credit cards in Cyprus rose by 4,2% in 2016Q1 compared with 2015Q1. It should be noted that if spending for oil purchases and government services are excluded, the relevant spending recorded a more significant increase (7,4%). Spending by foreign credit cardholders in Cyprus rose by 10,8% (Chart A.26, p. 36) reflecting the positive developments in tourism (Chart A.22, p. 33).

It is noteworthy that the confidence index in the construction sector has been improving, reaching its highest point in April 2016 since October 2008. The production index in the construction sector, although still fluctuating at very low levels, shows the first signs of sta-

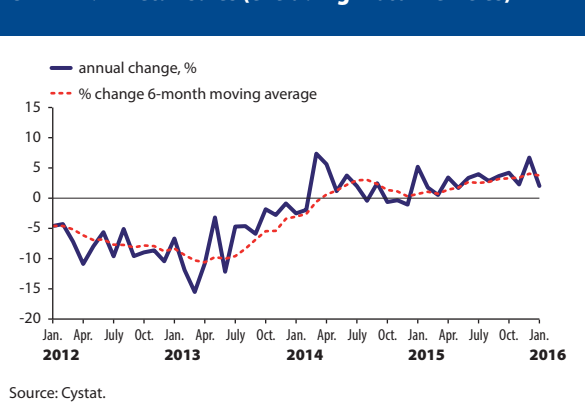
TABLE A.10 Business and consumer surveys: confidence indicators

(for sub-indices: difference between percentage of positive answers and percentage of negative answers)

	2015 June	2015 Sep.	2015 Dec.	2016 Mar.	2016 Apr.
ESI	104,1	104,6	106,7	108,9	113,3
Industry	-6	-9	-4	-3	4
Services	7	11	8	20	19
Consumer	-20	-13	-10	-14	-7
Retail trade	-11	-9	-2	-5	0
Construction	-45	-38	-30	-28	-25

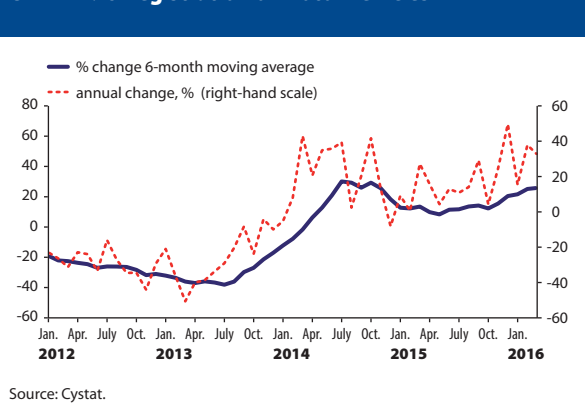
Source: European Commission.
Note: Seasonally adjusted data.

CHART A.24 Retail sales (excluding motor vehicles)



Source: Cystat.

CHART A.25 Registration of motor vehicles



Source: Cystat.

bilisation recording positive rates of change as from 2015Q3 (see real estate market, p. 36).

As previously mentioned, a significant recovery was observed in the tourism sector, registering very significant increases both in terms of arrivals and also revenues (see tourism, p. 33). Regarding the professional services sector, available data for 2016 relating to new company registrations in Cyprus demonstrate the comparative advantage that Cyprus has in providing relevant services (increase of 30% in March 2016 and 28,6% in 2016Q1).

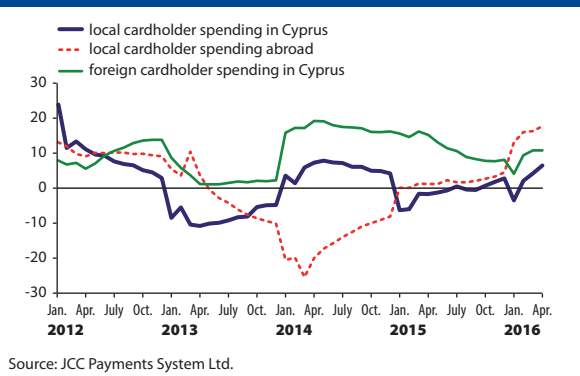
At the same time, new lending to the domestic private sector registered a slight recovery up to March 2016 as a result of the granting of new loans by banking institutions. It is noted that new lending remains limited mainly due to the ongoing efforts of both private and banking sectors to deleverage and consolidate their balance sheets.

Real estate market

The real estate market continued to show positive developments as outlined by the construction sector indicators. Nevertheless, the sector is still at low levels of activity compared with the levels before the crisis. On the positive side, the stabilisation recorded in housing prices should be stressed as it is the first after nearly six years of continuous reductions. (see also Box 2, p. 42)

In particular, construction activity, as recorded by the index of production in construction published by the Statistical Service of Cyprus (Cystat), recorded the first annual increases in 2015Q3 and 2015Q4 (8,6% and 24%, respectively) after almost seven years of continuous reductions. However, construction activity still remains low, close to 2013

CHART A.26 Credit card spending
(cumulative annual % change from January)



levels. Local sales of cement recorded annual growth of 37,9% in the period January - April 2016 (Table A.11), while in the corresponding period of 2015 an annual drop of 12% was recorded. Meanwhile, the Cystat price index of construction materials recorded an annual decrease of 3,6% for the period January - March 2016, suggesting an acceleration of the reductions in the prices of construction materials, something which favours construction activity. It is noted that the decline in the prices of construction materials will possibly have a negative effect on the prices of newly built houses, provided that land development companies will not take advantage of this so as to increase their profit margins.

Regarding demand for properties, an annual increase was recorded in 2016Q1 both by locals and foreigners (Table A.11), even though demand levels were similar to those of 2012, which were low compared to the pre-crisis period. Additionally, the continued reduction in interest rates and the fact that lending criteria remain unchanged, as recorded in the CBC Bank Lending Survey (Chart A.27), support the increase in demand for new housing loans.

Another indication of the gradual improvement of the real estate market conditions is the stabilisation observed in the CBC's Residential Property Price Index (houses and apartments), which on a quarterly basis remained unchanged in 2015Q4. This was the first non-negative change since 2010Q1. On an annual basis the index declined by 1.8%, the smallest decrease since 2010Q3 (Chart A.28, p. 38).

Indications for construction sector prospects suggest that, overall, the worst is over. Specifically, the number of authorised

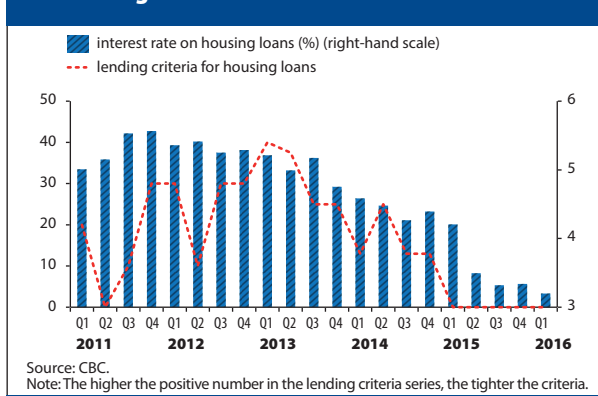
TABLE A.11 Real estate sector

(annual change, %, unless otherwise stated)

	Jan.-Apr. 2015	Jan.-Apr. 2016	Apr. 2015	Mar. 2016	Apr. 2016
Local sales of cement (Period: Jan. - Mar. 2015 and 2016)	-12,0	37,9	-5,8	30,1	n/a
Sales contracts (total) (Period: Jan. - Mar. 2015 and 2016)	15,8	24,5	22,5	19,2	n/a
Sales contracts (locals) (Period: Jan. - Mar. 2015 and 2016)	24,7	26,1	24,0	-7,1	n/a
Sales contracts (foreigners) (Period: Jan. - Mar. 2015 and 2016)	-6,7	19,2	18,3	282,9	n/a
Building sentiment indicator (average of index)	-45,3	-27,2	-42,9	-27,6	-24,6
Property price expectations for the next 3 months (average of index)	-16,3	-7,1	-14,4	-7,8	-4,3
Price index of construction materials (Period: Jan. - Mar. 2015 and 2016)	-1,5	-3,6	-2,7	-3,0	n/a

Sources: Cystat, DLS, European Commission.

CHART A.27 Lending criteria and interest rate on housing loans

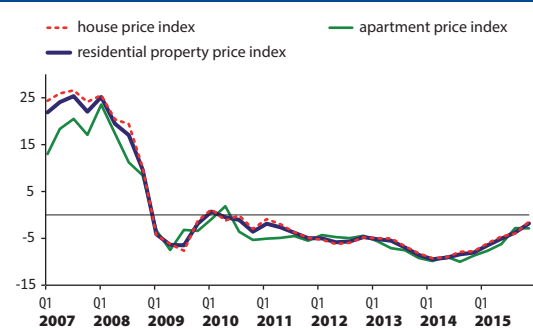


building permits registered an annual increase of 1,6% for the whole of 2015, while the first two months of 2016 recorded an annual decrease of 1,4%. Also, the confidence indicator in construction, as published by the European Commission's Economic Sentiment Surveys, averaged -27,2 in 2016Q1 compared with -45,3 in 2015Q1 (Table A.11, p. 37). This indicator is approximately at the levels recorded at end-2008, confirming the gradual return of confidence in the property market. The expectations index for the real estate prices in the next three months also presents a less negative picture, with the average for 2016Q1 at -7,1, compared with an average of -16,3 in the corresponding period of 2015. Furthermore, the expectations indicator for employment in the construction sector over the next three months was also less negative, recording an average of -0,4 in 2016Q1 compared with -5,7 in the same period of 2015. However, the recovery of the sector is not expected to be easy. Possible adverse effects include potential impacts from the forthcoming real estate foreclosures, the progress with NPLs as well as external factors such as the possible impact of the exit of the UK from the EU which could result in British property owners selling their holiday homes in Cyprus.

Labour market

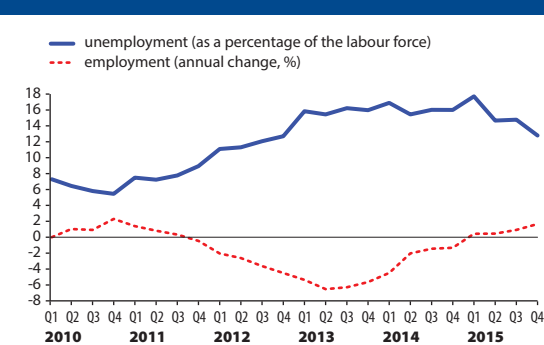
Compared with a decrease of 2,3% in 2014, employment recorded an annual increase of 0,9% in 2015, the first since 2011, a direct result of economic growth (Chart A.29). At the same time, total hours worked rose by 0,7% in 2015 compared with 2014, and consequently a decrease of 0,1% in hours worked per employee was recorded. Unemployment as a percentage

CHART A.28 House and apartment price indices (annual change,%)



Source: CBC.

CHART A.29 Unemployment and employment



Source: Cystat (LFS).

of the labour force also showed signs of improvement, as it reached 15% in 2015 compared with 16,1% in 2014 according to the Labour Force Survey (LFS). It should be noted that in 2015Q4 the unemployment rate decreased significantly, reaching 12,8% compared with 16% in 2014Q4 and 14,8% in 2015Q3 (Chart A.29, p. 38).

The reduction in unemployment is also confirmed by the number of registered unemployed (Chart A.30), for which we have more recent monthly data from Cystat up to and including April 2016. Specifically, the registered unemployed in April 2016 decreased by 13,1% compared with the corresponding month of 2015 (from 42,6 thousand to 37 thousand people). Regarding the breakdown between Cypriots and non-Cypriots, registered unemployed Cypriots decreased by 15,5% (5.153 people) in April 2016, while non-Cypriots recorded a decrease of 4,4% (412 people).

In times of economic crisis with prolonged high levels of unemployment, it is very important to monitor the duration of unemployment as well (Chart A.31). According to LFS data, the unemployment rate with a maturity equal or greater to six months decreased to 8,6% in 2015Q4, compared with a rate of 10,1% in 2014Q4. According to the latest registered unemployment figures from Cystat, the number of registered unemployed for six months and over decreased by 1,259 persons in April 2016 compared with the same month of the previous year.

2.4 Domestic Fiscal Developments

The general government budget deficit as a percentage of GDP, excluding the recapitali-

CHART A.30 Registered unemployment
(number of unemployed, thousands)

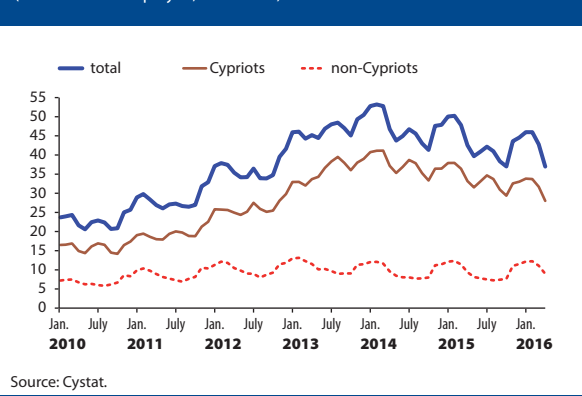


CHART A.31 Unemployment by duration
(as a percentage of the labour force)

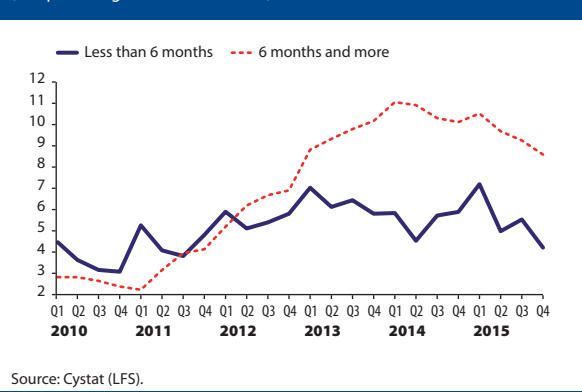
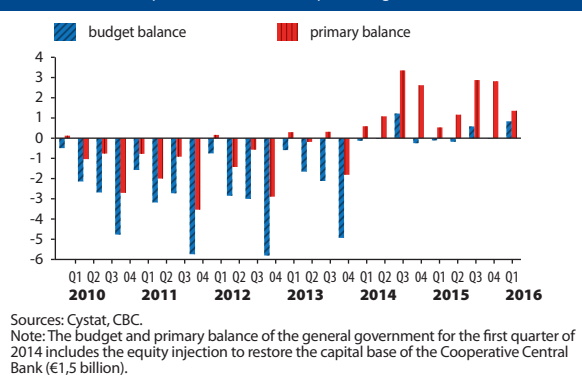


CHART A.32 Budget and primary balances of the general government
(cumulative for the period as from Q1 as a percentage of GDP)



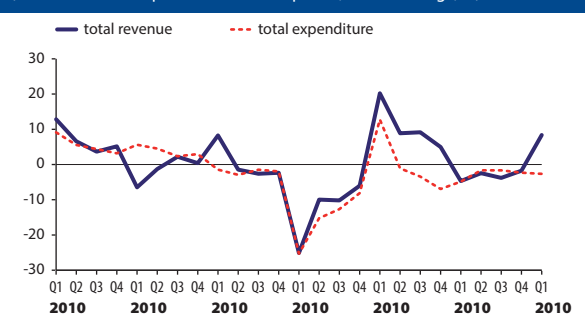
sation of the Cooperative Central Bank by €175 million, was in balance in 2015 (Chart A.32, p. 39). According to preliminary data by Cystat, the general government accounts show a surplus of 0,8% for 2016Q1, compared with a deficit of 0,1% in the corresponding period of 2015. This improvement was due to the timing of the CBC dividend payment to the authorities in 2016, which materialised earlier than the relevant payment in 2015. However, even after excluding the effect of the dividend from the accounts, a surplus of 0,3% of GDP was still recorded as revenues rose by 2,2% and expenditures fell by 2,7% (Chart A.33). Moreover, the primary balance as a percentage of GDP registered a surplus of 1,4% in 2016Q1 (0,8% excluding the impact of the CBC dividend) against a 0,5% surplus in the previous year (Chart A.32, p. 39).

Public revenue grew by 8,4% in 2016Q1 (Chart A.33 and Table A.12), mainly due to the increase in property income, attributed to the early payment of the CBC dividend as well as an increase of 4,6% in revenues from social contributions. As regards developments in public expenditure (Chart A.33 and Table A.12), the annual reduction of 2,7% in 2016Q1 was mainly due to reductions of 23,8% in "other current expenditure" and 5,2% in the compensation of employees, which more than compensate for the 7,9% increase recorded in social payments.

The general government consolidated gross debt to GDP ratio stood at 108,9% in 2015. According to the latest available data by Cystat, public debt stood at 107,7% at the end of 2016Q1 (Chart A.34, p. 41). This was due to a primary surplus of 1,4% of GDP (Chart A.32, p. 39) in the aforementioned period and despite the increase in government deposits.

CHART A.33 Total revenue and expenditure of the general government

(cumulative for the period as from 1st quarter, annual change, %)



Source: Cystat.

Note: Total expenditure for the first quarter of 2014 includes the €1,5 billion equity injection to restore the capital base of the Cooperative Central Bank.

TABLE A.12 Accounts of general government

	Jan.-Mar. 2015 (€ million)	Jan.-Mar. 2016 (€ million)	Change %
EXPENDITURE			
Intermediate consumption	117,0	118,7	1,5
Compensation of employees	527,6	500,1	-5,2
Social transfers	544,3	587,4	7,9
Interest	112,0	92,3	-17,6
Subsidies	30,3	35,6	17,5
Other current expenditure	130,3	99,3	-23,8
Gross fixed capital formation	41,6	35,7	-14,2
Other capital expenditure	16,9	10,5	-37,9
Total expenditure	1.520,0	1.479,6	-2,7
Total expenditure as a % of GDP	8,7	8,4	
REVENUE			
Taxes on production and imports	602,8	604,2	0,2
Current taxes on income, wealth, etc	381,0	386,8	1,5
Social contributions	367,8	384,8	4,6
Other current resources	39,6	43,0	8,6
Sales	105,1	106,8	1,6
Capital transfers received	0,4	0,4	0,0
Property income	4,3	100,8	2.244,2
Total revenue	1.501,0	1.626,8	8,4
Total revenue as a % of GDP	8,6	9,2	
Surplus (+) / Deficit (-)	-19,0	147,2	
Surplus (+) / Deficit (-) % of GDP	-0,1	0,8	

Sources: Cystat, CBC.

3. Macroeconomic Forecasts for the Cyprus Economy

This section analyses the updated forecasts⁶ of the CBC as prepared within the context of the Eurosystem projections. It is noted that the GDP growth forecast for 2016 has been revised considerably upwards compared with the CBC projection published in the December 2015 *Economic Bulletin*. This is because recent economic indicators and the preliminary GDP estimate for 2016Q1 were more positive than expected.

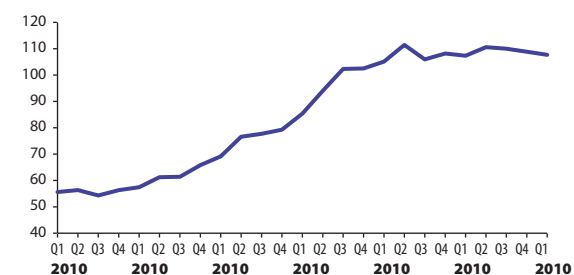
Prices: HICP

In 2016 inflation in Cyprus is expected to remain negative, reaching 0,9% compared with -1,5% in 2015 (Table A.13), mainly attributable to the continued reduction in the prices of certain goods and services as well as the low price of oil. Inflation excluding energy is projected to be negative, reaching -0,4% in 2016 from -0,2% in 2015. Prices excluding energy and food are expected to record a negative inflation of around 0,3% compared with -0,4% in 2015, reflecting reduced costs (mainly wages and rents) for business.

In 2017 and 2018 inflation is anticipated to be positive at around 1% and 1,6%, respectively, influenced mainly by the projected domestic economic recovery that is envisaged to exert upward pressure on prices, as well as the expected rise in energy prices due to the very low base. Excluding energy, inflation is projected to be around 0,7% and 1,4% in 2017 and 2018, respectively. Prices excluding energy and food are expected to record positive inflation around 0,5% and 1,3% in 2017 and 2018, respectively.

6. On the basis of the common assumptions adopted by the Eurosystem.

CHART A.34 General government consolidated gross debt (as a percentage of GDP)



Sources: Eurostat, Cystat, CBC.

TABLE A.13 HICP projections (annual change, %)

	2015	2016f	2017f	2018f
HICP	-1,5	-0,9	1,0	1,6
HICP excluding energy	-0,2	-0,4	0,7	1,4

Sources: Cystat, CBC.

Box 2: House prices in Cyprus

The assessment of the valuation of house prices in a country is undoubtedly important for everyone involved in the real estate market (investors, households, policy makers, real estate agents, land developers, etc.). For this purpose there are many models based on various working assumptions, while ratios have also been occasionally used in the literature¹ in order to assess the consistency of house prices with economic fundamentals. At the outset, it should be noted that a precise calculation of the valuation of house prices is not possible and any quantitative reports in the literature are only indicative. Therefore, more than one methodology should be used for a comprehensive, and as far as possible, complete evaluation of house price levels. As such, the results should consist of a range of objectively possible values. It is, thus, important that any methods used are checked for validity and reliability.

This box examines statistical evidence and models that assess the valuation of house prices in Cyprus, as calculated by the European Commission and the ECB in the context of assessing the financial stability of the euro area member countries. We then present the results of the on-going study being carried out by the CBC. In all the above exercises the CBC Residential Property Price Index (RPPI) was used as an indicator for house prices.

At this point it is important to note that the exercises of both the ECB and the European Commission have been made in real terms, while in contrast the CBC exercises were conducted in nominal terms. Thus, the results of the CBC are independent from the choice of a house price deflator since there is no common practice followed in the literature regarding this issue.

House price valuation exercises in Cyprus by the ECB

In the ECB report on financial stability in the euro area² two house price valuation models were presented, one of which is based on Bayesian methods. In this exercise an inverted demand equation was used, which connects real house prices with the fundamentals of the economy, such as income per household, the mortgage interest rates and housing stock. Model results for the period ranging from 2002Q1 until 2015Q4 are shown in **Chart 1**³ (p. 43) and are available in the SDW database. This model suggests that house prices in Cyprus were overvalued from 2007Q3 until 2014Q2, while they became undervalued by 2015Q4.

In addition, the ECB also uses other complementary statistical evidence for the valuation of house prices, in order to have a more complete picture. In particular, the price-to-income per household and the price-to-rent ratios were also utilised.

1. Igan and Loungani (2012), Muellbauer (2012) and Attanasio et al (2009).

2. ECB (2015).

3. These results have been used in other ECB studies such as the ESRB Risk Dashboard and the recent bank stress tests.



CHART 1 ECB residential property price valuations
(percentage of over / undervaluation, %)

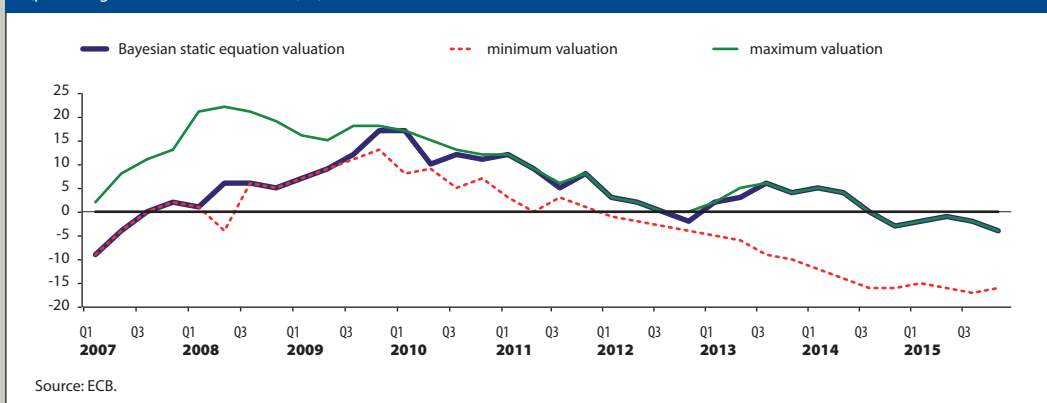


Chart 1 shows the maximum and minimum valuations in the results of all four ECB exercises (asset pricing approach, the price-to-income and price-to-rent ratios and model-based approach). Overall, according to the ECB's assessment, house prices in Cyprus in 2015Q4 were undervalued by 4% -16%.

House price valuation exercises in Cyprus by the European Commission

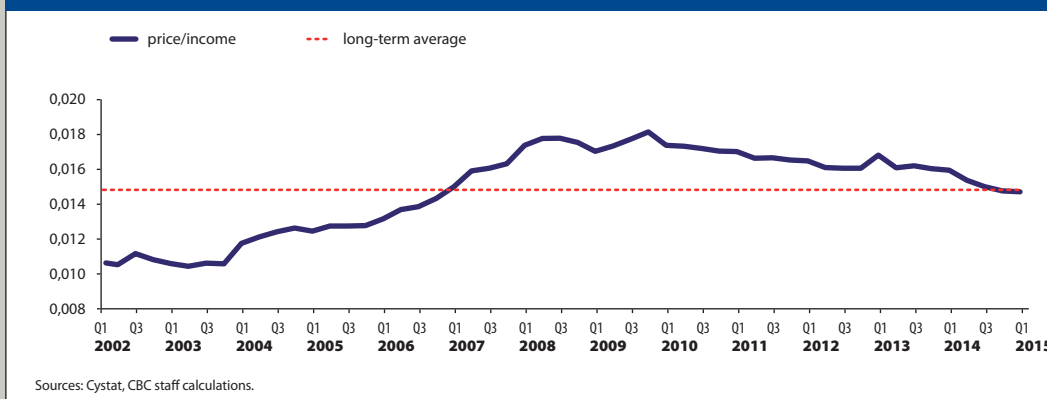
In the European Commission (EC) exercises, published as part of the publication for the assessment of Cyprus in 2016⁴, a brief review of the real estate market in Cyprus was presented. Part of the results of that review are presented in this box. The EC uses house prices for the period 2002Q1 - 2015Q1 and argues that house prices in Cyprus in 2015Q1 are slightly overvalued. Specifically, according to the EC's calculations, the price-to-income and price-to-rent ratios show that house prices in real terms (i.e. adjusted for the effect of inflation) are overvalued by 5% com-

pared to their long-term average. According to the European Commission, an excessive price increase was recorded from mid-2004 to 2010. Given that until 2015Q1 house prices in real terms had dropped by 34,5% from their peak, in order to complete the correction of the bubble they should theoretically be reduced by a further 9,7% in real terms (4,7% in nominal terms). This would bring house prices at levels corresponding to 2006Q2.

At this point, some concerns regarding the assumptions made in these exercises should be pointed out. For example, the price-to-income and price-to-rent ratios show that house prices in Cyprus were overvalued in 2015, but undervalued in the period 2010 – 2013. This paradoxical result could be due to the definition used for income and rent or even to the deflator used. In addition, the assumption that the excessive rise in house prices started in 2004 is subjective, for reasons explained below. Finally, conclusions drawn based only on ratios without complementing them with an econometric

4. European Commission (2016).

CHART 2 Ratio of price/income per capita



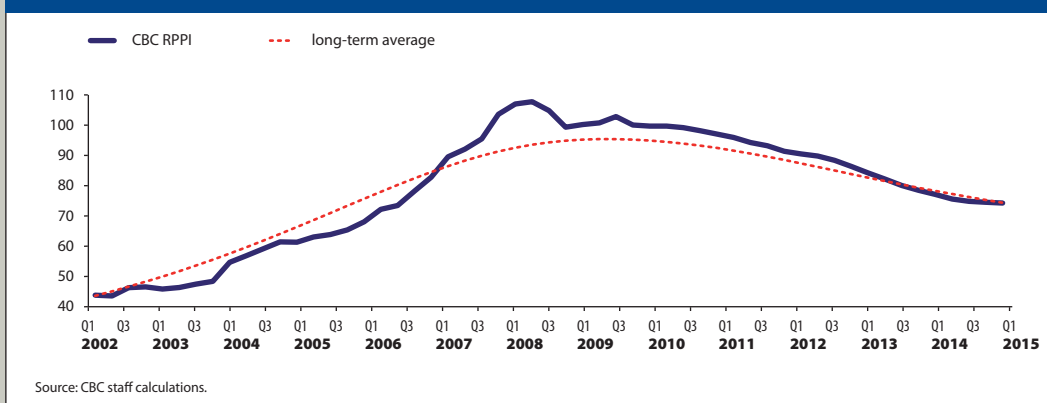
model, involves risks. According to the ECB (2015), ratios have the advantage that they are easy to construct but they may fail to capture important fundamental economic factors.

House price valuation exercises in Cyprus by the CBC

The CBC is conducting its own exercises in order to assess house prices in Cyprus. This ongoing study is multidimensional and covers a wide range of topics related to the field of real estate in Cyprus. Part of the results is presented in this box. The *a priori* assumption of the study prepared by the CBC is that house price equilibrium is at least equal to the prices observed in 2006. One should bear in mind that in 2004 Cyprus joined the EU, and therefore the economy underwent sustained structural change with positive effects. On the other hand excessive debt in the property sector started later, specifically in 2006. In addition to the above and in order to verify the above position, the CBC study proceeded to calculate the price-to-income ratio as

well as two econometric models for the period ranging from 2002Q1 until 2015Q3. In **Chart 2** the price-to-income ratio is presented. House prices are measured by the CBC RPPI and income by per capita GDP (adjusted for seasonal variations). As can be observed in **Chart 2**, house prices were at par with the equilibrium point in 2015Q1, i.e. the long-term average of the price-to-income ratio. The equilibrium point based on this exercise lies at end-2006/early-2007 levels. As regards the calculation of the first econometric model, this is conducted along the lines of Abdih and Tsangarides (2006) in which the long-term equilibrium in the market is calculated based on the fundamentals of the economy. The long-term equilibrium is allowed to fluctuate with time, i.e. it changes according to the variability of the economic fundamentals in the model. The model is a vector error correction model (VECM) with two lags and the endogenous variables used are real GDP, total credit and foreign direct investment in the real estate market. The coefficients estimated are statistically significant and have a positive

CHART 3 Valuation of residential property prices with vector error-correction model



sign, which is consistent with economic theory, while the system returns back to the long-term average (mean reverts) since the relative co-integration equation is statistically significant. After the model estimation, variables are filtered using the Hodrick-Prescott filter. This is combined with model results in order to extract the long-term equilibrium in each quarter. **Chart 3** shows the results of this method, which suggests that house prices in Cyprus were overvalued from 2007Q1 until 2014Q1, a consequence of the excessive price increases observed in the property market during the period 2006 – 2008. In 2015Q3 prices were at their long-term equilibrium level, close to the values observed in 2006. This is consistent with the prior position of the CBC study as mentioned earlier in this box. Of course, the possibility that prices will fluctuate in the future at levels above or below the equilibrium point cannot be excluded⁵.

To examine the reliability of the conclusions, the CBC study proceeds to calculate a second econometric model using a mean-adjusted Bayesian vector autoregression (BVAR) method. This model uses house prices, real GDP and the outstanding amount of total loans to residents of Cyprus. Through Bayesian methods, as described in Villani (2009), the long-run equilibrium (steady state) of the property market is derived⁶. In the BVAR model, the long-run equilibrium is stable over time, while in the VECM equilibrium varies through time. In addition, the mean-adjusted BVAR model assumes that we have some prior information about the location of the equilibrium point. For reasons elaborated above, we assume that 2006 is the year in which house prices were in equilibrium. Consequently, the results show that house prices are within the confidence interval of the long-run housing market equilibrium and, furthermore,

5. It is noted that the value of the lambda parameter of the HP filter does not significantly affect the long-term equilibrium, since the conclusions drawn in relation to house prices are the same, regardless of the parameter value.
6. The BVAR uses a Normal-Wishart prior with hyperparameters defined as usual in the literature: autoregressive coefficient = 0,8, overall tightness (L1) = 0,02 with 2 lags and 2.000 iterations.

TABLE 1 Summary of house price valuation methods for Cyprus.

Valuation method	Sample period	Reference period	Over(+)/under(-) valuation	Equilibrium corresponds to the price levels of:
European Central Bank				
Bayesian model	2002:1 - 2015:4	2015:4	-4%	2006:1
maximum	2002:1 - 2015:4	2015:4	-4%	2006:1
minimum	2002:1 - 2015:4	2015:4	-16%	2006:4
European Commission				
price/income and price/rent	2002:1 - 2015:1	2015:1	+5%	2006:1
statistical indication of business cycles	2002:1 - 2015:1	2015:1	+4,7%	2004:4
Central Bank of Cyprus				
price/income per capita	2002:1 - 2015:1	2015:1	-0,8%	2006:4
VECM model	2002:1 - 2015:3	2015:3	+0,1%	2006:3
mean-adjusted BVAR model	2002:1 - 2015:3	2015:3	a) -4,5% below equilibrium b) +1,2% above lower credibility interval	2006:4

Sources: ECB, European Commission, CBC.

near the lower confidence band, signalling a possible undervaluation in 2015Q3.

As mentioned above, house price valuation exercises can give slightly different results depending on the data, the sample size and the methodology chosen. Thus, it is important that the results are cross-checked and subject to plausibility controls. **Table 1**, presents a summary of the results from the exercises mentioned in this box. According to the exercises carried out by the ECB and the European Commission (in which real house prices were used) house prices range from an undervaluation of 16% to an overvaluation of 5% in 2015, while according to the study by the CBC house prices in nominal terms were approximately at their equilibrium level in 2015.

References

- Abdih, Y. and C. Tsangarides (2006) "FEER for the CFA Franc" *International Monetary Fund Working Paper WP/06/236*, October.
- Attanasio, O., L. Blow, R. Hamilton and A. Leicester (2005) "Booms and busts: Consumption, house prices and expectations", *Economica*, 76 (301):20-50.
- European Central Bank (2015) *Financial Stability Review*, November.
- European Commission (2016) "Country Report Cyprus 2016, including an in-depth review on the prevention and correction of macroeconomic imbalances", *Commission Staff Working Document*, Brussels, April.
- Igan, D. and P. Loungani (2012) "Global housing cycles" *International Monetary Fund Working Paper WP/12/217*, August.
- Muellbauer, J. (2012) "When is a housing market overheated enough to threaten stability?", University of Oxford, Department of Economics, Discussion Paper Series 623, September.
- Villani, M. (2009) "Steady-state priors for vector autoregressions" *Journal of Applied Econometrics*, 24(4):630-650.



1 Introduction

2 Macroeconomic Developments and Projections

3 Statistical Annex

Compensation, productivity and the labour market

Following the encouraging recent preliminary GDP figures for 2016Q1, further improvement in the labour market is also expected. Employment is projected to record further positive growth rates over 2016, following the positive rates observed since 2015Q1. Specifically, an increase of 2,5% is envisaged for 2016 compared with a rise of 0,9% in 2015, reflecting the anticipated further improvement in the economic climate. In 2017 and 2018, employment is expected to record increases by 2,7% and 2,9%, respectively.

In line with the above, the LFS unemployment rate is projected to record a further decline in 2016 reaching 13,1%, down from 15% in 2015. Further improvement is expected to be recorded in 2017 and 2018, reaching 11,2% and 9,1%, respectively. The unemployment rate has exhibited a milder path than the trends projected by Cyprus's international lenders, mainly due to the significant reduction in the number of foreign workers in Cyprus, the ongoing recovery in employment as well as the flexibility demonstrated by the Cypriot labour market regarding wages.

Nominal compensation per employee is expected to rise by 0,3% in 2016 relative to a decrease of 1% in 2015, due to the small increases granted in specific parts of the private sector in line with the GDP recovery path. In the public sector, compensation per employee is expected to remain unchanged due to the continuing wage freeze until the end of 2016. For 2017 and 2018, a further increase in nominal compensation per employee by 1,5% and 2%, respectively, is



1 Introduction

2 Macroeconomic Developments and Projections

3 Statistical Annex

envisaged. This development is mainly driven by the improvement in the domestic economy and the subsequent improvement in the labour market resulting in an increase in wages across both the private and public sectors. It is noted that the non-renewal of the special contribution in 2017 is expected to have a positive impact on net wages and hence private consumption.

Unit labour costs are, mainly following developments in compensation per employee, expected to increase marginally by 0,1% in 2016 compared with a decrease of 1,7% in 2015. Further growth of 1,2% and 1,6% is projected for 2017 and 2018, respectively.

National accounts

According to the latest preliminary figures for 2016Q1, GDP registered a year-on-year increase of 2,6%. The better than expected path of the Cyprus economy reflects developments across almost all of the main productive sectors. On the basis of available data and in conjunction with leading economic indicators, the Cyprus economy is projected to record a recovery of 2,7% in 2016 (Table A.14).

Specifically, private consumption is expected to record a further increase of 2% in 2016, following an increase of 1,9% in 2015, mainly reflecting an increase in disposable income due to reductions in energy prices, lower interest rates and increased employment. Public consumption is projected to contract by 0,3% relative to an increase of 1,1% in 2015, mainly due to the reduction in gratuity payments related to retirements as well as the continuing decline in public sector employment. Gross fixed capital formation is expected to record a

TABLE A.14 National accounts projections in real terms
(annual change, %)

	2015	2016f	2017f	2018f
GDP	1,6	2,7	2,9	3,3
Private consumption	1,9	2,0	1,5	1,8
Public consumption	1,1	-0,3	-0,1	0,1
Gross fixed capital formation	14,0	9,9	8,8	10,3
Exports of goods and services	1,9	5,6	4,1	3,8
Imports of goods and services	4,0	3,3	2,9	2,9

Sources: Cystat, CBC.

recovery of 9,9% in 2016, given the historically low levels already reached. The recovery is anticipated to be driven by the implementation of specific development projects from the public and, importantly, private sector. Significant private investment projects that are expected to begin and to be completed in the coming years include the two marinas in Larnaca and Ayia Napa, the expansion of the terminal for the management and storage of petroleum products as well as other investments with funding from the European Investment Bank and the European Bank for Reconstruction and Development. Exports of goods and services are expected to record an increase of 5,6%, driven mainly by the increase in revenues from tourism and professional services. Tourism is anticipated to record significant increases both in terms of arrivals and revenues, a trend already observed in the first few months of the year and which is envisaged to continue based on the number of summer bookings. At the same time, tourism is expected to be positively affected by countries outside the euro area due to the depreciation of the euro, such as the UK and Russia. Recent reports indicate that economic developments in Greece have led several shipping companies to consider moving their headquarters to Cyprus, thereby enhancing the transport as well as the advisory and other services sectors. Imports of goods and services are projected to increase by 3,3% in 2016.

At the same time, the increase in new lending is expected to support economic recovery. The financial sector is recovering, with the latest available data indicating that non-performing loans may have already reached their peak. It is noted that a significant increase in loan write-offs has been



observed in March 2016, also in line with the broader effort to consolidate the banking sector. Moreover, the successful completion of the Cyprus economic adjustment programme, the recent upgrades of the sovereign rating by various credit rating agencies as well as the recent adoption and implementation of the insolvency framework by Parliament, have helped Cyprus to gradually return to the markets.

With the positive dynamics described above, it is expected that GDP will recover further in 2017 and 2018 by 2,9% and 3,3%, respectively. In particular, private consumption is projected to record an increase of 1,5% and 1,8% in 2017 and 2018, respectively. An increase of 8,8% and 10,3% in 2017 and 2018, respectively, is foreseen in gross fixed capital formation.

The lending that is expected to result both from the Cyprus banking system and from European funds is envisaged to positively affect fixed investments. A marginal decrease of 0,1% in 2017 is projected in public consumption while a marginal increase of 0,1% is foreseen in 2018. The marginal decrease in 2017 is attributable to the impact of prices offsetting the increases in wages and salaries, and despite the anticipated stabilisation in the level of public sector employment. A rise in exports and imports by 4,1% and 2,9%, respectively, is foreseen for 2017. In 2018 exports are projected to record a further increase of 3,8%, while imports are expected to record an increase of 2,9%.

Risk assessment of macroeconomic forecasts⁷

The forecasts for GDP (Table A.14, p. 48) and HICP (Table A.13, p. 41) are considered to

7. For further information regarding the methodology of the risk assessment of macroeconomic projections, see *Economic Bulletin*, June 2015, p. 55.

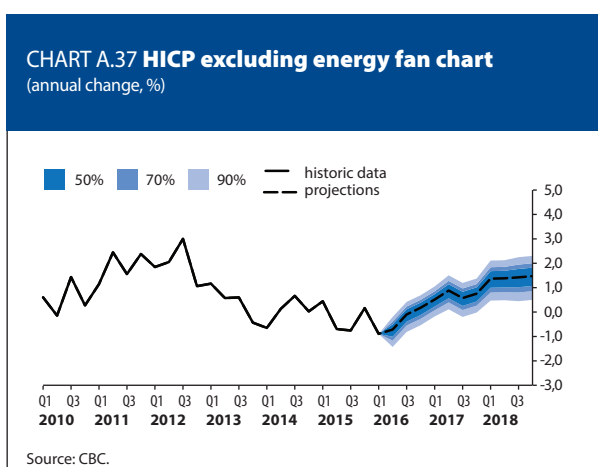
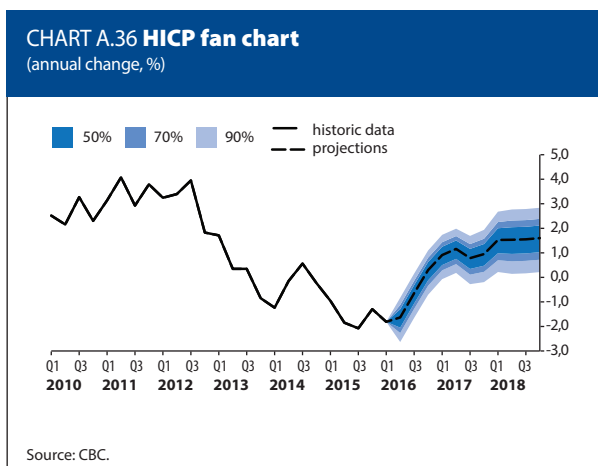
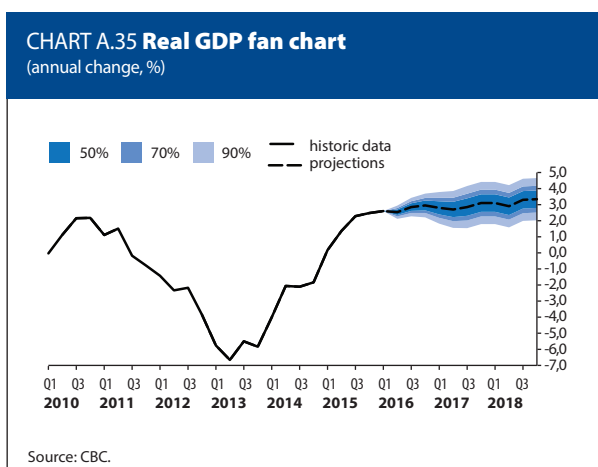


form the baseline scenario. The confidence intervals associated with the baseline scenario forecasts are outlined in **Charts A.35** and **A.36**, respectively. The confidence interval related to the baseline forecast for HICP excluding energy is shown in **Chart A.37**. As analysed in more detail below, risks to the GDP forecast are considered to be balanced, while for HICP risks are considered to be tilted to the downside.

Regarding GDP, downside risks are associated with a possible worsening of external demand for services, for example due to the unfavourable economic situation prevailing in the UK should the country leave the EU. Downside risks may also arise from geopolitical developments in the Mediterranean region. If these developments materialise, they could adversely affect the prospects of the tourism and professional services sectors, even though recent geopolitical developments have positively affected the Cyprus economy. In addition, downside risks relate to a possible deterioration in domestic credit conditions. A slower than expected progress in reducing the high level of non-performing loans could also negatively impact economic activity.

In relation to upside risks, the increase in net new loans that could materialise beyond what is expected could contribute further to the economic recovery, especially private investment. One marked example is the construction of the casino and its operation by 2017, which is not included in the baseline scenario and is expected to contribute to the diversification of the tourism product.

Finally, exploration of new fields in the Cyprus Exclusive Economic Zone related to the discovery of possible gas fields could lead to higher revenues both directly and indi-



rectly through increased economic activity. Overall, the sectors that are likely to be positively affected are those associated with energy and related services, tourism (benefiting from the construction of the casino and the entry of new air transport carriers) as well as professional services.

With respect to inflation, the main downside risks relate to a possible deterioration in external demand for services, as previously mentioned for GDP. Specifically, the possibility of the UK leaving the EU as well as the fragile balance in the Mediterranean region, with all the possible consequential impacts on exports, could potentially exert a downward pressure on prices of goods and services. In addition, downside risks relate to a deterioration in domestic credit conditions.

The main upside risks relate to the better than expected improvement in the domestic economic outlook, the realisation of higher oil prices and the possible depreciation of the euro against the dollar.



1

Introduction

2

Macroeconomic
Developments and
Projections

3

Statistical Annex

Statistical Annex



1
Introduction

2
Macroeconomic
Developments and
Projections

3
Statistical Annex

Explanatory notes for Statistical Annex

The statistical annex contains data on, mostly, the domestic economy and, where possible, longer time series than in the main body of the *Bulletin*. In the notes below, there is aggregate information on the aforementioned data, including explanations for both the subcategories and the sources of the data. The most recent data are, in general, preliminary and thus may need to be revised in future editions of the *Bulletin*.

Table B.1 shows the bilateral exchange rates of selected currencies against the euro. The source of the data is Bloomberg.

Tables B.2-B.7 refer to the Consumer Price Index (CPI), which is published on a monthly basis by Cystat with 2015 as the base year. **Table B.2** shows both the national CPI and the HICP. Even though the two indices exhibit similar fluctuations, they differ in two respects. First, the expenditures of charitable institutions (i.e. nursing homes, religious organisations, etc.) and foreign tourists are included in the HICP but not in the national CPI. The second difference concerns imputed rents, which were included in the national CPI until 2005 but not in the HICP. Since January 2006, only part of the imputed rents is included in the national CPI.

Tables B.2 and B.3 show the percentage change in the CPI by economic category and the corresponding weighted

contribution to the total change in the CPI by economic category, respectively. **Tables B.4 and B.5** present the percentage change in the CPI by category of goods and services and the corresponding weighted contribution to the total change in the CPI by category of goods and services, respectively. **Tables B.6 and B.7** show the percentage change in the CPI for prices of services and the corresponding weighted contribution to the percentage change in prices of services, respectively.

Table B.8 presents the balance of payments of Cyprus which records the transactions between residents and non-residents. The balance of payments is divided into the current account and the capital and financial account which, because of the double entry principle, must be equal. **Table B.9** shows the international investment position of Cyprus, namely the assets and liabilities of residents over non-residents. The data for **Tables B.8 and B.9** are collected and compiled by the CBC and are based on the IMF's methodology ("BPM6").

Table B.10 shows tourist arrivals and revenue from tourism as published by Cystat and based on the results of the monthly Passenger Survey.

Table B.11 shows GDP by category of expenditure at constant 2005 market prices calculated using the chain linking method, while **Table B.12** shows GDP by category of expenditure at current market



prices. The data for GDP are prepared by Cystat and are based on the concepts and methodology of the European System of Accounts (ESA 2010). Provisional data are based on the last available indicators, until the results of various economic surveys are finalised.

Table B.13 shows the turnover volume index of retail trade which uses the EU's new version of the statistical classification of economic activities, NACE Rev. 2, as published by Cystat with 2010 as the base year.

Table B.14 shows construction indicators as published by Cystat. Specifically, it shows the total area of building permits authorised by the municipal authorities and the district administration offices as well as the sales of cement in metric tons.

Table B.15 presents the index of manufacturing production, which shows the monthly change in volume production in the sectors of mining and quarrying, manufacturing industries, electricity, gas and water supply, i.e. sectors B, C, D and E of the EU's new statistical classification of economic activities, NACE Rev. 2. This index is published by Cystat with 2010 as the base year.

Table B.16 shows key indicators of the labour market in Cyprus based on the Labour Force Survey (LFS), which is published by Cystat. The LFS is conducted in all EU member states, based on the Regulation 577/98 of the EU Council.



TABLE B.1 Exchange rates of selected currencies against the euro

	USD/EUR	GBP/EUR	JPY/EUR
Average for January	1,0866	0,7546	128,5595
Average for February	1,1104	0,7759	127,3167
Average for March	1,1142	0,7817	125,8357
Average for April	1,1340	0,7923	124,2524
Average for May (until 10 May)	1,1441	0,7897	122,8329
Average for Jan-May (until 10 May)	1,1138	0,7773	126,2016
Closing rate on 31/12/2015	1,0862	0,7370	130,6400
Closing rate on 10/05/2016	1,1376	0,7900	123,7800
Highest exchange rate vs. the euro	1,1534	0,8094	131,7400
	2 May	7 Apr.	1 Feb.
Lowest exchange rate vs. the euro	1,0748	0,7325	121,9400
	5 Jan.	5 Jan.	29 Apr.
% appreciation (+)/depreciation (-) of the currency vs. the euro from closing rate on 31/12/2015 to closing rate on 10/05/2016	4,7%	7,2%	-5,3%

Source: Bloomberg.

TABLE B.2 Percentage change in CPI by economic category (%)

	2013	2014	2015	April 2015/14	March 2016/15	April 2016/15	Jan.-Apr. 2015/14	Jan.-Mar. 2016/15	Jan.-Apr. 2016/15	Weights
GENERAL INDEX	-0,40	-1,35	-2,10	-2,07	-2,53	-2,47	-1,68	-2,13	-2,22	100,00
A Domestic products	-1,57	-3,41	-3,95	-2,91	-7,80	-7,32	-0,91	-6,27	-6,53	20,52
A.1 Agricultural	-1,02	-3,65	0,96	5,54	-11,72	-9,83	7,07	-6,25	-7,13	5,96
A.2 Industrial	1,36	-0,14	-0,48	-0,42	-2,40	-0,88	-0,03	-1,23	-1,14	11,37
A.3 Electricity	-8,72	-11,21	-20,14	-20,75	-19,60	-25,54	-13,84	-22,82	-23,45	3,19
B Petroleum products	3,31	0,27	-13,25	-12,56	-13,75	-11,87	-15,52	-9,28	-9,95	5,50
C Imported products	-0,17	-0,58	-0,57	-1,14	0,78	0,34	-0,64	0,14	0,19	31,74
C1 Motor vehicles	-0,01	-3,07	-1,28	-1,79	-0,63	-0,25	-1,76	-0,72	-0,60	6,48
C2 Other imported products	-0,20	-0,06	-0,42	-1,01	1,14	0,48	-0,41	0,36	0,39	25,26
D Services	-0,49	-0,94	-0,01	-0,27	-0,91	-0,96	-0,22	-0,84	-0,87	42,24
HICP	0,4	-0,3	-1,6	-1,7	-2,2	-2,1	-1,2	-1,8	-1,9	

Source: Cystat.

TABLE B.3 Weighted contribution to the total percentage change in CPI by economic category
(%)

	2013	2014	2015	April 2015/14	March 2016/15	April 2016/15	Jan.-Apr. 2015/14	Jan.-Mar. 2016/15	Jan.-Apr. 2016/15	Weights
GENERAL INDEX	2,39	-0,40	-1,35	-2,07	-2,53	-2,47	-1,68	-2,13	-2,22	100,00
A Domestic products	1,58	-0,39	-0,83	-0,69	-1,63	-1,50	-0,22	-1,33	-1,37	20,52
A.1 Agricultural	-0,09	-0,06	-0,23	0,33	-0,72	-0,59	0,43	-0,39	-0,44	5,96
A.2 Industrial	0,42	0,17	-0,02	-0,05	-0,28	-0,10	0,00	-0,14	-0,13	11,37
A.3 Electricity	1,24	-0,49	-0,58	-0,96	-0,63	-0,81	-0,64	-0,80	-0,80	3,19
B Petroleum products	0,54	0,24	0,02	-0,97	-0,76	-0,67	-1,20	-0,50	-0,54	5,50
C Imported products	-0,15	-0,04	-0,15	-0,30	0,25	0,11	-0,17	0,04	0,06	31,74
C1 Motor vehicles	-0,03	0,00	-0,14	-0,08	-0,04	-0,02	-0,08	-0,05	-0,04	6,48
C2 Other imported products	-0,15	-0,05	-0,02	-0,22	0,29	0,12	-0,11	0,11	0,12	25,26
D Services	0,41	-0,21	-0,40	-0,11	-0,38	-0,40	-0,09	-0,35	-0,37	42,24

Source: Cystat.

TABLE B.4 Percentage change in the CPI by category of goods and services

	2013	2014	2015	April 2015/14	March 2016/15	April 2016/15	Jan.-Apr. 2015/14	Jan.-Mar. 2016/15	Jan.-Apr. 2016/15
GENERAL INDEX	-0,40	-1,35	-2,10	-2,07	-2,53	-2,47	-1,68	-2,13	-2,22
Food and non-alcoholic beverages	0,22	-1,45	-0,05	1,45	-6,39	-4,59	2,36	-3,42	-3,71
Alcoholic beverages and tobacco	8,58	2,59	1,84	1,50	1,23	1,37	2,23	1,59	1,53
Clothing and footwear	-2,73	2,08	-0,28	-0,51	4,96	2,32	0,32	2,03	2,11
Housing, water, electricity and gas	-3,99	-5,58	-9,01	-9,28	-7,18	-8,24	-7,32	-7,93	-8,01
Furnishings, household equipment and supplies	-1,09	-2,05	-0,59	-0,98	-1,25	-0,66	-0,68	-0,38	-0,45
Health	-2,50	-1,31	0,40	0,73	0,69	0,80	0,62	0,54	0,60
Transport	2,21	0,99	-4,88	-5,67	-6,41	-5,95	-6,52	-4,94	-5,19
Communications	0,97	1,48	0,33	0,87	-0,02	0,24	1,06	-0,08	0,00
Recreation and culture	-0,11	-1,31	-1,33	-1,31	-1,15	-1,41	-1,58	-1,10	-1,18
Education	-0,74	-3,51	-1,07	-1,61	0,32	0,32	-1,66	0,32	0,32
Restaurants and hotels	0,39	-1,38	0,23	0,11	0,56	0,26	0,03	0,51	0,45
Miscellaneous goods and services	0,86	-1,12	-0,42	-0,85	0,05	0,02	-0,60	-0,19	-0,14

Source: Cystat.

TABLE B.5 Weighted contribution to the total percentage change in the CPI by category of goods and services
(%)

	2013	2014	2015	April 2015/14	March 2016/15	April 2016/15	Jan.-Apr. 2015/14	Jan.-Mar. 2016/15	Jan.-Apr. 2016/15
GENERAL INDEX	-0,40	-1,35	-2,10	-2,07	-2,53	-2,47	-1,68	-2,13	-2,22
Food and non-alcoholic beverages	0,22	-1,45	-0,05	0,25	-1,05	-0,74	0,41	-0,56	-0,61
Alcoholic beverages and tobacco	8,58	2,59	1,84	0,04	0,03	0,03	0,05	0,03	0,03
Clothing and footwear	-2,73	2,08	-0,28	-0,03	0,41	0,20	0,02	0,16	0,17
Housing, water, electricity and gas	-3,99	-5,58	-9,01	-1,31	-0,89	-1,01	-1,03	-1,00	-1,00
Furnishings, household equipment and supplies	-1,09	-2,05	-0,59	-0,06	-0,09	-0,05	-0,04	-0,03	-0,03
Health	-2,50	-1,31	0,40	0,05	0,05	0,05	0,04	0,04	0,04
Transport	2,21	0,99	-4,88	-0,83	-0,97	-0,90	-0,95	-0,73	-0,77
Communications	0,97	1,48	0,33	0,03	0,00	0,01	0,04	0,00	0,00
Recreation and culture	-0,11	-1,31	-1,33	-0,08	-0,07	-0,09	-0,09	-0,07	-0,08
Education	-0,74	-3,51	-1,07	-0,07	0,01	0,01	-0,07	0,01	0,01
Restaurants and hotels	0,39	-1,38	0,23	0,01	0,05	0,02	0,00	0,04	0,04
Miscellaneous goods and services	0,86	-1,12	-0,42	-0,07	0,00	0,00	-0,05	-0,02	-0,01

Source: Cystat.

TABLE B.6 Percentage change in prices of services

	April 2015/14	March 2016/15	April 2016/15	Jan.-Apr. 2015/14	Jan.-Mar. 2016/15	Jan.-Apr. 2016/15
GENERAL INDEX	-2,07	-2,53	-2,47	-1,68	-2,13	-2,22
Rents	-1,58	-0,73	-0,65	-1,95	-0,64	-0,64
Maintenance of houses	-1,94	0,45	0,95	-1,88	0,43	0,56
Transport	-1,60	-14,23	-15,11	0,37	-13,75	-14,09
Communications	1,72	0,55	0,55	1,80	0,55	0,55
Insurance	-0,09	0,29	0,29	-0,10	0,29	0,29
Public services	0,72	-2,97	-2,51	0,72	-2,97	-2,85
Education	-1,61	0,32	0,32	-1,66	0,32	0,32
Medical care	1,18	1,46	1,57	1,04	1,43	1,47
Restaurants and coffee shops	0,11	0,50	0,20	0,02	0,46	0,40
Personal and household services	-0,63	-0,68	-0,69	-0,75	-0,60	-0,63
Total services	-0,27	-0,91	-0,96	-0,22	-0,84	-0,87

Source: Cystat.

TABLE B.7 Weighted contribution to the percentage change in prices of services
(%)

	April 2015/14	March 2016/15	April 2016/15	Jan.-Apr. 2015/14	Jan.-Mar. 2016/15	Jan.-Apr. 2016/15
GENERAL INDEX	-2,07	-2,53	-2,47	-1,68	-2,13	-2,22
Rents	-0,04	-0,02	-0,02	-0,05	0,00	-0,02
Maintenance of houses	-0,05	0,01	0,03	-0,05	0,00	0,02
Transport	-0,05	-0,42	-0,45	0,01	-0,50	-0,46
Communications	0,06	0,02	0,02	0,07	0,00	0,02
Insurance	0,00	0,01	0,01	0,00	0,00	0,01
Public services	0,01	-0,04	-0,03	0,01	0,00	-0,04
Education	-0,07	0,01	0,01	-0,07	0,00	0,01
Medical care	0,06	0,07	0,07	0,05	0,10	0,06
Restaurants and coffee shops	0,01	0,04	0,02	0,00	0,00	0,02
Personal and household services	-0,06	-0,06	-0,06	-0,07	-0,10	-0,07
Total services	-0,11	-0,38	-0,40	-0,09	-0,50	-0,44

Source: Cystat.

TABLE B.8 Balance of payments
(€ million)

	2014 (prov.)			2015 (prov.)		
	Credit	Debit	Balance / Net	Credit	Debit	Balance / Net
1. Current account	15.720,7	16.512,2	-791,5	16.416,3	17.050,6	-634,2
Goods and Services	10.437,6	10.316,7	120,8	10.451,0	10.695,8	-244,8
Goods	2.807,8	5.620,0	-2.812,2	2.487,3	5.665,8	-3.178,5
General merchandise on a balance of payments (BoP) basis	2.567,7	5.620,0	-3.052,3	2.303,8	5.665,8	-3.361,9
Net exports of goods under merchandising	240,1		240,1	183,4		183,4
Non-monetary gold	0,0	0,0	0,0	0,0	0,0	0,0
Services	7.629,8	4.696,7	2.933,0	7.963,7	5.030,0	2.933,7
Manufacturing services on physical inputs owned by others	19,3	0,0	19,3	C	S	-2,8
Maintenance and repair services not included elsewhere (n.i.e.)	37,4	33,9	3,5	2,4	27,3	-25,0
Transport	2.319,3	1.361,5	957,7	2.342,7	1.447,3	895,4
Travel	2.142,3	945,4	1.196,9	2.233,9	962,6	1.271,3
Construction	23,5	9,0	14,5	20,0	6,5	13,4
Insurance and pension services	17,7	129,7	-112,0	23,9	103,0	-79,1
Financial services	1.841,3	781,1	1.060,2	1.952,0	899,6	1.052,4
Charges for the use of intellectual property n.i.e.	1,0	60,0	-59,0	C	S	-93,5
Telecommunications, computer, and information services	989,8	808,4	181,4	C	S	278,4
Other business services	125,6	473,3	-347,6	213,0	564,3	-351,3
Personal, cultural and recreational services	42,1	32,4	9,7	24,5	43,0	-18,5
Government goods and services n.i.e.	70,4	62,0	8,4	53,9	61,1	-7,2
Services not allocated	0,0	0,0	0,0	0,0	0,0	0,0
Primary income	5.051	5.539,9	-488,8	5.717,8	5.657,3	60,5
Compensation of employees	53,5	66,7	-13,1	56,2	54,5	1,7
Investment income	4.917,8	5.449,4	-531,6	5.580,7	5.578,3	2,3
Direct investment	3.200,8	3.608,6	-407,9	3.567,9	3.453,6	114,3
Portfolio investment	299,3	324,8	-25,5	512,7	489,8	22,9
Other investment	1.417,5	1.516	-98,5	1.499,6	1.634,9	-135,4
Reserve assets	0,2		0,2	0,5		0,5
Other primary income	79,7	23,8	55,9	81,0	24,5	56,5
Secondary income	232,1	655,6	-423,5	247,5	697,4	-449,9
General government	86,9	155,3		79,7	214,2	
Other sectors	145,2	500,3		167,8	483,2	
2. Capital account	147,6	1,2	146,4	49,5	0,0	49,5
	Assets	Liabilities	Net	Assets	Liabilities	Net
3. Financial account	7.538,7	8.339,4	-800,7	7.486,0	7.396,0	90,0
Direct investment	1.531,3	810,1	721,2	9.414,8	4.740,4	4.674,4
Equity and Investment Funds shares/units	1,322,4	-277,8		9,260,1	4,140,3	
Debt instruments	208,9	1,087,9		154,7	600,1	
Portfolio investment	-1.600,1	1.606,8	-3.206,8	-951,0	1.228,7	-2.179,6
Equity and investment fund shares	-165,1	861,5		-377,6	-0,1	
Debt securities	-1.435,0	745,2		-573,4	1,228,8	
Financial derivatives (other than reserves) and employee stock options	8.804,2	8.511,2	292,9	-1.358,2	-161,7	-1.196,6
Other investment	-1.202,7	-2.588,7	1.386	385,5	1.588,6	-1.203,1
<i>of which:</i>						
Currency and deposits	-2.939,4	-6.567,1		3.924,2	243,4	
Loans	1.458,1	4.021,9		-3.659,7	1.889,6	
Reserve assets	5,9			-5,1		
4. Net errors and omissions			-155,6			674,8

Source: CBC.

C denotes primary confidentiality (i.e. the number of statistical units under a cell is less than 3 or the dominance of one or two units in the data cell is larger or equal to 90%).
S denotes secondary confidentiality (i.e. cell is not primary confidential, but it is suppressed in order to prevent observations flagged as "primary confidential" to be indirectly deduced).

TABLE B.9 Annual international investment position 2015 (provisional)

(€ million)

	ASSETS	LIABILITIES	NET
Financial account	207.547,3	230.054,3	-22.507,0
Direct investment	124.229,4	128.940,2	-4.710,8
Equity and Investment Funds shares/units	114.596,8	114.773,1	
Debt instruments	9.632,6	14.167,2	
Portfolio investment	11.712,0	11.972,6	-260,6
Equity and investment fund shares	4.472,1	2.599,9	
Equity securities	2.893,4	991,2	
Central bank	0,0	0,0	
Other MFIs	C	C	
General government	0,0	0,0	
Other sectors	S	S	
Investment fund shares	1.578,6	1.608,7	
Central bank	0,0	0,0	
Other MFIs	C	0,0	
General government	0,0	0,0	
Other sectors	S	1.608,7	
Debt securities	7.239,9	9.372,6	
Short term	281,5	485,8	
Central bank	0,0	0,0	
Other MFIs	C	S	
General government	0,0	0,0	
Other sectors	S	C	
Long term	6.958,4	8.886,8	
Central bank	2.077,4	0,0	
Other MFIs	2.124,2	302,3	
General government	0,0	3.233,5	
Other sectors	2.756,8	5.350,9	
Financial derivatives (other than reserves) and employee stock options	9.460,6	10.193,2	-732,6
Central bank	0,0	0,0	
Other MFIs	S	S	
General government	0,0	0,0	
Other sectors	C	C	
Other investment	61.404,7	78.948,3	-17.543,6
Other equity	391,7	0,0	
Currency and deposits	24.070,3	25.817,1	
Central bank	2.892,7	201,2	
Other MFIs	5.825,5	25.615,9	
General government	8,9	0,0	
Other sectors	15.343,2	0,0	
Loans	32.024,5	46.607,4	
Central bank	0,0	0,0	
Other MFIs	13.292,6	0,0	
General government	338,8	11.193,1	
Other sectors	18.393,2	35.414,3	
Insurance, pension schemes, and standardised guarantee schemes	262,8	560,8	
Trade credits and advances	3.259,0	5.230,1	
Other accounts receivable/payable	1.396,4	628,5	
SDRs	0,0	104,3	
Reserve assets	740,5		

Source: CBC.

C denotes primary confidentiality (i.e. the number of statistical units under a cell is less than 3 or the dominance of one or two units in the data cell is larger or equal to 90%).

S denotes secondary confidentiality (i.e. cell is not primary confidential, but it is suppressed in order to prevent observations flagged as "primary confidential" to be indirectly deduced).

TABLE B.10 Tourist arrivals and receipts from tourism

Year	Month	Tourist arrivals			Receipts from tourism		
		Number of tourists	% change		€ million	% change	
			Previous year	Cumulative period		Previous year	Cumulative period
2012	January	47.610	7,1	7,1	30,0	0,7	0,7
	February	55.420	-11,0	-3,5	32,3	-12,5	-6,6
	March ⁽¹⁾	94.300	-4,7	-4,1	62,5	-5,9	-6,2
	April	189.648	-5,1	-4,1	114,6	-16,2	-11,3
	May	276.781	3,5	-1,1	214,3	14,5	-0,7
	June	329.977	9,7	2,2	254,5	15,7	4,6
	July	371.453	3,4	2,6	301,5	9,9	6,1
	August	363.573	7,9	3,6	312,1	16,9	8,5
	September	335.352	10,2	4,6	289,9	22,9	10,8
	October	261.997	0,8	4,1	211,5	12,0	11,0
	November	84.020	-9,5	3,6	62,8	-3,1	10,4
	December	54.772	-16,2	3,0	41,6	0	10,2
2013	January ⁽²⁾	42.286	-11,2	-11,2	28,5	3,0	3,0
	February	42.327	-23,6	-17,9	32,7	-12,4	-5,0
	March	92.620	-1,8	-10,2	66,0	5,6	0,3
	April	162.439	-14,3	-12,2	110,4	-3,7	-1,6
	May	276.244	-0,2	-7,2	202,1	-5,7	-3,5
	June	308.219	-6,6	-7,0	259,8	2,1	-1,5
	July	361.442	-2,7	-5,8	338,6	12,3	2,6
	August	352.215	-3,1	-5,3	349,5	12,0	4,8
	September	357.635	6,7	-3,3	353,4	21,9	7,9
	October	273.587	4,4	-2,5	246,6	16,6	8,9
	November	81.542	-2,9	-2,5	59,2	-5,7	8,4
	December	54.813	0,1	-2,4	37,6	-9,6	8,0
2014	January	40.675	-3,8	-3,8	30,7	-0,6	-0,6
	February	45.227	6,9	1,5	31,3	10,6	4,7
	March	77.533	-16,3	-7,8	56,5	-14,4	-5,4
	April	180.998	11,4	1,4	132,9	20,4	6,7
	May	293.181	6,1	3,5	224,1	10,9	8,6
	June	342.221	11,0	6,0	303,2	16,7	11,6
	July	381.955	5,7	5,9	321,2	-5,1	6,2
	August	373.086	5,9	5,9	324,3	-7,2	2,8
	September	316.602	-11,5	2,8	273,4	-22,6	-2,4
	October	251.453	-8,1	1,5	217,1	-12,0	-3,6
	November	81.437	-0,1	1,4	65,0	9,9	-3,2
	December	56.863	3,7	1,5	43,7	16,2	-2,8
2015	January	41.799	2,8	2,8	28,4	-7,5	-7,5
	February	50.709	12,1	7,7	30,9	-1,3	-4,4
	March	97.479	25,7	16,2	65,0	15,0	4,9
	April	201.495	11,3	13,7	130,5	-1,8	1,4
	May	307.449	4,9	9,6	217,1	-3,1	-0,8
	June	336.967	-1,5	5,7	259,0	-14,6	-6,1
	July	414.527	8,5	6,5	342,1	6,5	-2,4
	August	392.272	5,1	6,2	358,5	10,5	0,5
	September	360.899	14,0	7,4	321,1	17,4	3,2
	October	269.363	7,1	7,4	225,0	3,6	3,3
	November	108.093	32,7	8,2	81,9	25,9	4,0
	December	78.348	37,8	8,9	52,6	20,4	4,4
2016	January	48.607	16,3	16,3	29,1	2,5	4,4
	February	65.988	30,1	23,9	n/a	n/a	n/a
	March	137.013	40,6	32,4	n/a	n/a	n/a

Source: Cystat.
 (1) Data for March 2012 are based on Cystat estimations.
 (2) Data for January 2013 are based on Cystat estimations.

TABLE B.11 GDP by category of expenditure at constant 2005 prices, chain linking method
(€ million)

Year /Quarter	Gross domestic product	General government consumption	Private consumption	Gross fixed capital formation	Changes in inventories	Exports of goods and services	Imports of goods and services
2001 Q1	3.006,7	432,3	2.077,0	588,3	63,7	1.652,9	1.807,6
2001 Q2	3.233,2	453,3	1.858,3	600,2	157,6	2.210,9	2.047,0
2001 Q3	3.336,6	475,5	1.692,0	615,5	84,8	2.509,8	2.041,1
2001 Q4	3.196,4	638,8	2.027,0	686,4	-248,1	1.972,0	1.879,6
2002 Q1	3.092,6	448,6	2.058,4	661,4	165,7	1.558,6	1.800,0
2002 Q2	3.367,2	468,4	1.906,2	724,7	162,1	2.112,3	2.006,5
2002 Q3	3.395,4	502,4	1.838,6	644,1	9,7	2.379,7	1.979,2
2002 Q4	3.330,3	651,4	2.063,6	786,2	-162,3	1.953,5	1.962,0
2003 Q1	3.190,9	496,9	2.091,0	633,3	301,0	1.460,3	1.791,6
2003 Q2	3.420,8	516,9	1.991,3	707,7	179,9	1.912,1	1.887,2
2003 Q3	3.484,2	536,2	1.884,6	679,1	-66,8	2.439,8	1.988,7
2003 Q4	3.460,3	791,8	2.148,1	830,7	-385,9	2.080,2	2.004,7
2004 Q1	3.346,4	512,0	2.224,4	667,3	128,3	1.701,2	1.886,8
2004 Q2	3.566,1	567,7	2.108,4	737,6	132,5	2.082,5	2.062,7
2004 Q3	3.638,9	579,4	2.102,2	698,6	-60,2	2.375,4	2.056,5
2004 Q4	3.628,7	710,8	2.295,9	868,9	22,3	1.929,9	2.199,1
2005 Q1	3.502,9	515,9	2.325,9	704,2	240,8	1.698,5	1.982,4
2005 Q2	3.679,3	563,9	2.213,7	755,8	-14,5	2.137,7	1.977,3
2005 Q3	3.779,0	526,9	2.135,0	755,8	-7,5	2.466,8	2.098,0
2005 Q4	3.769,4	829,6	2.353,6	958,4	-48,0	1.952,0	2.276,2
2006 Q1	3.654,1	572,6	2.408,2	864,8	158,2	1.779,9	2.129,6
2006 Q2	3.864,1	626,3	2.310,3	927,6	-12,1	2.199,3	2.187,3
2006 Q3	3.935,7	601,7	2.259,7	921,5	-214,2	2.588,2	2.221,2
2006 Q4	3.942,9	807,1	2.487,6	1.128,8	-1,8	1.792,0	2.270,8
2007 Q1	3.826,1	600,6	2.598,5	928,0	151,1	1.779,7	2.231,8
2007 Q2	4.029,0	593,5	2.511,7	1.023,0	126,9	2.158,4	2.384,5
2007 Q3	4.139,9	636,9	2.491,1	1.000,0	-236,3	2.770,5	2.522,3
2007 Q4	4.161,5	861,9	2.836,2	1.193,3	-230,0	2.092,3	2.592,1
2008 Q1	4.021,7	591,6	2.848,0	1.195,8	195,4	1.738,9	2.548,0
2008 Q2	4.213,7	610,0	2.759,6	1.134,3	226,6	2.195,7	2.712,6
2008 Q3	4.282,2	761,8	2.754,2	1.044,6	103,7	2.639,9	3.021,9
2008 Q4	4.228,7	881,7	2.873,5	1.142,5	-172,8	2.169,2	2.665,4
2009 Q1	4.026,0	638,1	2.688,6	1.099,9	27,0	1.852,8	2.280,4
2009 Q2	4.119,6	631,8	2.579,4	983,0	80,9	2.095,5	2.250,9
2009 Q3	4.152,0	661,8	2.564,5	852,2	85,0	2.401,6	2.413,0
2009 Q4	4.108,9	1.095,2	2.701,1	962,0	-304,8	2.017,2	2.361,8
2010 Q1	4.024,8	649,9	2.690,3	1.011,3	176,2	1.809,4	2.312,4
2010 Q2	4.166,0	640,3	2.634,5	931,7	225,4	2.149,5	2.415,4
2010 Q3	4.241,5	648,9	2.648,9	832,4	169,8	2.446,5	2.505,0
2010 Q4	4.198,3	1.023,3	2.835,4	923,8	-257,8	2.321,8	2.648,2
2011 Q1	4.069,9	642,7	2.765,4	931,9	264,2	1.825,5	2.359,7
2011 Q2	4.228,8	661,6	2.629,1	832,8	163,4	2.310,3	2.368,3
2011 Q3	4.234,1	704,1	2.615,3	756,9	2,7	2.621,7	2.466,6
2011 Q4	4.165,2	991,8	2.855,9	833,1	-463,6	2.331,8	2.383,7
2012 Q1	4.011,8	650,6	2.817,9	843,1	125,4	1.798,8	2.224,1
2012 Q2	4.130,2	650,5	2.633,0	650,9	164,6	2.328,1	2.297,0
2012 Q3	4.142,1	658,3	2.592,1	589,2	21,0	2.684,7	2.403,2
2012 Q4	4.005,1	930,4	2.739,2	584,2	-196,1	2.180,4	2.233,0
2013 Q1	3.780,7	637,0	2.677,5	676,6	232,8	1.638,6	2.081,8
2013 Q2	3.855,3	638,4	2.450,5	558,0	-110,0	2.381,4	2.063,0
2013 Q3	3.914,3	655,0	2.427,4	548,1	-177,4	2.744,0	2.282,8
2013 Q4	3.771,2	841,0	2.593,2	479,0	-79,5	2.392,1	2.454,6
2014 Q1	3.629,2	576,9	2.642,0	416,7	250,6	1.813,8	2.070,7
2014 Q2	3.775,7	595,9	2.489,5	377,7	-8,8	2.487,0	2.165,5
2014 Q3	3.831,7	584,0	2.476,1	584,3	198,6	2.586,2	2.597,6
2014 Q4	3.702,1	764,6	2.599,9	475,1	-135,2	2.225,7	2.227,9
2015 Q1	3.635,5	573,4	2.676,0	605,0	182,3	1.828,8	2.230,0
2015 Q2	3.827,3	592,2	2.523,9	449,3	103,6	2.475,6	2.317,4
2015 Q3	3.919,3	605,4	2.536,4	534,3	119,8	2.656,9	2.533,5
2015 Q4	3.793,9	779,3	2.660,5	524,3	-150,5	2.325,4	2.345,1

Source: Cystat.

TABLE B.12 GDP by category of expenditure at current prices
(€ million)

Year /Quarter	Gross domestic product	General government consumption	Private consumption	Gross fixed capital formation	Changes in inventories	Exports of goods and services	Imports of goods and services
2001							
Q1	2.586,3	362,5	1.851,0	508,5	14,1	1.529,7	1.679,5
Q2	2.919,9	383,2	1.688,3	522,6	168,7	2.072,6	1.915,5
Q3	2.965,6	402,8	1.519,3	539,5	63,4	2.349,5	1.908,8
Q4	2.876,0	543,0	1.871,6	592,5	-204,7	1.835,5	1.761,9
2002							
Q1	2.721,3	386,7	1.863,5	582,6	135,0	1.441,2	1.687,7
Q2	2.974,6	404,3	1.747,2	636,9	118,5	1.960,0	1.892,3
Q3	3.025,3	439,6	1.684,0	567,2	-19,7	2.210,0	1.855,8
Q4	3.085,4	577,9	1.933,6	691,5	-81,2	1.800,8	1.837,2
2003							
Q1	2.936,7	459,3	1.978,6	575,7	253,0	1.355,1	1.685,1
Q2	3.218,0	483,1	1.903,2	642,8	178,6	1.785,5	1.775,2
Q3	3.284,8	510,8	1.767,4	619,0	-46,9	2.305,7	1.871,1
Q4	3.323,0	759,3	2.081,6	756,9	-355,2	1.973,4	1.893,0
2004							
Q1	3.206,4	488,2	2.122,7	630,8	124,7	1.632,7	1.792,8
Q2	3.425,5	542,4	2.027,2	702,7	106,2	2.021,1	1.974,1
Q3	3.540,1	555,6	2.016,3	672,2	-48,7	2.330,2	1.985,6
Q4	3.595,2	689,5	2.281,8	841,2	31,4	1.898,9	2.147,6
2005							
Q1	3.450,8	512,6	2.281,9	698,5	220,0	1.685,1	1.947,2
Q2	3.656,3	563,1	2.205,7	752,3	-26,1	2.135,2	1.974,0
Q3	3.781,3	526,1	2.132,8	757,2	-5,3	2.471,9	2.101,4
Q4	3.842,1	834,5	2.407,9	966,2	-17,8	1.962,7	2.311,4
2006							
Q1	3.698,5	588,9	2.433,7	890,8	147,5	1.802,8	2.165,1
Q2	3.957,8	642,9	2.381,6	961,0	-24,7	2.242,3	2.245,4
Q3	4.056,3	621,0	2.330,0	960,3	-234,5	2.654,0	2.274,5
Q4	4.166,0	834,9	2.592,1	1.182,0	40,9	1.850,5	2.334,3
2007							
Q1	4.012,1	632,2	2.684,6	983,2	140,2	1.865,9	2.294,1
Q2	4.309,4	628,0	2.664,9	1.091,0	125,5	2.280,7	2.480,7
Q3	4.483,1	677,7	2.662,0	1.076,6	-252,4	2.947,9	2.628,8
Q4	4.570,5	921,7	3.081,8	1.301,7	-210,8	2.232,0	2.755,9
2008							
Q1	4.441,4	658,6	3.093,6	1.342,7	206,4	1.876,8	2.736,7
Q2	4.730,2	680,1	3.099,6	1.288,4	242,5	2.387,5	2.968,0
Q3	4.858,3	862,6	3.124,8	1.203,8	87,1	2.895,8	3.315,7
Q4	4.791,8	996,2	3.232,6	1.308,5	-179,5	2.360,1	2.926,1
2009							
Q1	4.479,6	739,4	2.950,5	1.250,9	39,9	1.973,0	2.474,1
Q2	4.666,6	734,5	2.904,6	1.101,6	90,7	2.301,0	2.465,8
Q3	4.681,9	754,0	2.864,5	947,1	98,1	2.627,2	2.609,1
Q4	4.654,3	1.235,1	3.063,7	1.059,1	-352,8	2.197,9	2.548,7
2010							
Q1	4.556,9	750,6	3.025,7	1.154,5	169,2	1.968,6	2.511,7
Q2	4.778,0	743,6	3.025,0	1.057,8	246,5	2.397,7	2.692,5
Q3	4.899,3	762,5	3.051,4	941,4	232,5	2.684,3	2.772,9
Q4	4.883,7	1.195,5	3.279,0	1.027,8	-278,9	2.593,5	2.933,2
2011							
Q1	4.673,0	769,8	3.191,0	1.058,8	263,6	2.036,2	2.646,3
Q2	4.989,5	797,0	3.123,9	925,4	237,4	2.603,7	2.698,0
Q3	4.993,3	858,5	3.105,0	840,2	34,7	2.941,8	2.786,8
Q4	4.891,3	1.193,5	3.413,8	916,5	-574,0	2.647,2	2.705,7
2012							
Q1	4.694,0	781,6	3.342,9	951,8	91,1	2.050,0	2.523,5
Q2	4.937,5	780,6	3.235,9	721,5	167,7	2.685,0	2.653,1
Q3	4.993,3	790,3	3.198,8	653,8	38,7	3.081,3	2.769,6
Q4	4.843,9	1.101,1	3.340,3	642,2	-154,6	2.497,4	2.582,5
2013							
Q1	4.365,8	731,5	3.221,0	773,3	123,9	1.921,3	2.405,2
Q2	4.663,2	730,2	3.018,0	625,6	-22,8	2.744,1	2.431,8
Q3	4.631,6	745,2	2.992,7	599,8	-164,9	3.120,1	2.661,3
Q4	4.404,1	953,2	3.103,8	513,0	-75,1	2.736,3	2.827,1
2014							
Q1	4.123,6	625,4	3.085,8	442,3	247,9	2.082,7	2.360,4
Q2	4.399,3	648,1	3.022,1	394,8	-51,1	2.875,7	2.490,3
Q3	4.538,6	631,3	3.044,9	658,5	195,4	2.959,5	2.950,9
Q4	4.332,0	836,9	3.091,6	508,2	-108,9	2.519,6	2.515,3
2015							
Q1	4.119,3	617,3	3.084,2	683,9	231,7	2.043,0	2.540,9
Q2	4.409,0	639,2	3.001,4	486,2	133,1	2.827,7	2.678,6
Q3	4.528,8	651,5	3.039,3	591,5	91,8	3.001,0	2.846,3
Q4	4.363,7	847,0	3.104,8	567,4	-106,4	2.565,1	2.614,3

Source: Cystat.

TABLE B.13 Turnover volume index of retail trade

Year / Month	Volume	6-month moving average	% change	
			previous year	6-month moving average
2013				
January	77,1	88,4	-6,7	-8,3
February	69,8	84,5	-11,9	-9,4
March	69,9	81,5	-15,5	-10,3
April	74,7	79,7	-10,8	-10,6
May	82,6	79,8	-3,2	-9,8
June	80,6	75,8	-12,2	-10,0
July	91,3	78,1	-4,7	-9,6
August	88,4	81,2	-4,6	-8,4
September	82,9	83,4	-5,9	-6,9
October	83,8	84,9	-1,8	-5,5
November	79,8	84,5	-2,8	-5,4
December	103,9	88,3	-0,9	-3,4
2014				
January	75,2	85,7	-2,5	-3,1
February	68,4	82,3	-1,9	-2,6
March	75,0	81,0	7,4	-0,6
April	78,9	80,2	5,6	0,6
May	83,6	80,8	1,2	1,3
June	83,6	77,5	3,8	2,2
July	93,1	80,4	2,0	2,9
August	88,0	83,7	-0,4	3,0
September	84,9	85,4	2,5	2,3
October	83,3	86,1	-0,6	1,4
November	79,5	85,4	-0,3	1,1
December	102,8	88,6	-1,1	0,3
2015				
January	79,1	86,3	5,2	0,7
February	69,6	83,2	1,8	1,1
March	75,4	81,6	0,5	0,7
April	81,6	81,3	3,4	1,4
May	85,0	82,3	1,7	1,8
June	86,4	79,5	3,3	2,7
July	96,8	82,5	4,0	2,5
August	90,5	86,0	2,8	2,7
September	88,0	88,1	3,7	3,2
October	86,8	88,9	4,2	3,3
November	81,3	88,3	2,3	3,4
December	109,7	92,2	6,7	4,0
2016				
January**	80,7	89,5	2,0	3,7
February*	75,6	87,0	8,6	4,6

Percentage change by category	Weights	February 2015/2014	February 2016/2015	Jan.-Feb. 2015/2014	Jan.-Feb. 2016/2015
General index (GI) (1+2+3)	100,00	1,75	8,62	3,55	5,11
(1) Retail sale of automotive fuel in specialised stores	11,60	9,78	2,01	20,27	5,15
General index excluding automotive fuel (GI-(1)) (2+3)	88,40	0,74	9,66	2,80	5,99
(2) Retail sale of food products (2.1+2.2)	35,88	-1,44	6,19	-0,05	2,77
<i>of which</i>					
(2.1) Retail sale in non-specialised stores with food, beverages or tobacco predominating	29,75	-2,47	6,09	-1,15	3,05
(2.2) Retail sale of food, beverages and tobacco in specialised stores	6,13	3,15	6,83	4,64	1,99
(3) Retail sale of non-food products (except automotive fuel)	52,52	3,43	13,26	6,18	9,02
(3.1+3.2+3.3+3.4)					
<i>of which</i>					
(3.1) Other retail sale in non-specialised stores	11,36	-17,36	1,68	-14,79	2,78
(3.2) Retail trade of textiles, clothing and footwear	9,50	-3,90	9,77	4,82	4,88
(3.3) Retail sale of electrical goods and furniture	12,93	16,76	14,20	17,44	11,12
(3.4) Retail sales of computer equipment, books and other	13,62	5,15	14,09	7,54	9,23
(4) Food beverages and tobacco and other retail trade in non-specialised stores (2.1)+(3.1)	46,51	-3,35	5,73	-1,98	2,96

Source: Cystat.
* Provisional.
** Revised data.

TABLE B.14 Construction indicators

Year/ Month	Sales of cement (volume)			Building permits authorised (volume)			
	Total (mil.ton)	% change		Area (sq.met)	% change		
		Previous year	6- month moving average		Previous year	6- month moving average	
2012	January	60.071	-33,44	-22,84	127.078	-24,02	-14,05
	February	65.372	-33,71	-25,49	141.435	-30,91	-17,20
	March	58.865	-49,99	-31,48	148.715	-44,24	-26,20
	April	68.304	-21,66	-32,92	106.275	-39,18	-28,52
	May	83.946	-29,94	-32,93	134.085	-25,85	-28,04
	June	72.496	-34,86	-34,54	124.830	-28,24	-33,02
	July	84.914	-24,83	-33,00	142.702	-23,61	-32,81
	August	34.748	-23,32	-32,14	97.744	-24,88	-32,23
	September	63.198	-36,33	-29,21	116.257	-47,03	-32,28
	October	73.426	-24,05	-29,49	126.546	-29,99	-30,77
	November	69.252	-25,50	-28,73	143.762	-6,50	-28,05
	December	46.257	-42,46	-29,53	90.437	-57,72	-33,87
2013	January	48.860	-18,66	-29,27	109.957	-13,47	-33,21
	February	42.615	-34,81	-30,55	164.902	16,59	-27,46
	March	47.907	-18,62	-27,74	87.251	-41,33	-25,14
	April	51.629	-24,41	-28,04	85.812	-19,25	-23,46
	May	42.220	-49,71	-32,97	74.157	-44,69	-29,72
	June	47.624	-34,31	-31,34	63.687	-48,98	-25,13
	July	54.311	-36,04	-34,02	81.682	-42,76	-30,14
	August	21.299	-38,70	-34,29	53.809	-44,95	-40,82
	September	45.077	-28,67	-35,68	63.022	-45,79	-41,52
	October	49.957	-31,96	-36,89	113.123	-10,61	-39,44
	November	44.597	-35,60	-33,96	80.237	-44,19	-39,41
	December	38.864	-15,98	-31,65	67.192	-25,70	-36,01
2014	January	31.957	-34,59	-30,97	65.564	-40,37	-35,31
	February	40.210	-5,64	-27,05	77.633	-52,92	-37,92
	March	38.299	-20,06	-25,72	58.870	-32,53	-36,00
	April	37.674	-27,03	-24,44	57.330	-33,90	-40,36
	May	38.789	-8,13	-19,21	66.760	-9,97	-35,78
	June	39.252	-17,58	-19,47	66.307	4,11	-33,00
	July	46.060	-15,19	-16,07	64.129	-21,49	-29,86
	August	17.878	-16,06	-17,75	47.060	-12,54	-19,25
	September	40.230	-10,75	-16,13	70.103	-11,24	-11,96
	October	43.987	-11,95	-13,16	70.071	-38,06	-14,47
	November	38.903	-12,77	-13,91	77.428	-3,50	-13,27
	December	39.408	1,40	-10,88	63.668	-5,24	-14,51
2015	January	27.941	-12,57	-10,10	80.398	22,63	-7,73
	February	29.185	-27,42	-12,37	97.685	25,83	-1,59
	March	40.029	4,52	-10,02	71.301	21,12	-0,45
	April	35.476	-5,83	-8,92	44.318	-22,70	6,88
	May	38.053	-1,90	-6,95	90.760	35,95	13,93
	June	42.340	7,87	-5,82	73.588	10,98	16,71
	July	49.192	6,80	-2,50	89.551	39,64	19,48
	August	20.398	14,10	3,46	41.428	-11,97	14,01
	September	41.683	3,61	3,30	69.398	-1,01	10,05
	October	45.170	2,69	4,70	76.820	9,63	14,86
	November	49.097	26,20	9,53	64.285	-16,97	5,05
	December	44.733	13,51	10,51	81.584	28,14	7,80
2016	January	34.165	22,28	12,91	69.327	-13,77	-1,44
	February	47.726	63,53	19,54	73.880	-24,37	-5,24
	March	52.079	30,10	24,39	n/a	n/a	n/a

Source: Cystat.

TABLE B.15 Volume index of manufacturing production

Year / Month	Index		% change		Cumulative period	
	Monthly	Cumulative	Previous year	6 - month moving average		
2013 January	66,20	66,20	-11,73	-10,80	-11,73	
February	67,10	66,65	-16,13	-12,13	-14,00	
March	66,90	66,73	-20,92	-13,63	-16,44	
April	74,90	68,78	-12,40	-14,74	-15,38	
May	75,30	70,08	-19,89	-16,63	-16,39	
June	74,40	70,80	-16,22	-16,36	-16,36	
July	83,80	72,66	-11,04	-16,07	-15,53	
August	55,60	70,53	-7,64	-15,06	-14,81	
September	74,60	70,98	-11,82	-13,54	-14,47	
October	74,60	71,34	-12,54	-13,57	-14,28	
November	68,90	71,12	-16,28	-12,82	-14,46	
December	68,50	70,90	-9,63	-11,69	-14,09	
2014 January	61,10	61,10	-7,70	-11,25	-7,70	
February	64,90	63,00	-3,28	-10,56	-5,48	
March	68,90	64,97	2,99	-8,27	-2,65	
April	70,80	66,43	-5,47	-6,95	-3,42	
May	78,00	68,74	3,59	-3,28	-1,91	
June	77,40	70,18	4,03	-0,87	-0,87	
July	82,40	71,93	-1,67	0	-1,00	
August	52,80	69,54	-5,04	-0,14	-1,40	
September	74,90	70,13	0,40	-0,52	-1,19	
October	73,50	70,47	-1,47	0,16	-1,22	
November	65,30	70,00	-5,22	-1,30	-1,57	
December	70,70	70,06	3,21	-1,50	-1,19	
2015 January	57,90	57,90	-5,24	-2,03	-5,24	
February	62,80	60,35	-3,24	-1,82	-4,21	
March	69,60	63,43	1,02	-1,74	-2,36	
April	74,70	66,25	5,51	-0,52	-0,26	
May	80,00	69,00	2,56	0,85	0,38	
June	81,50	71,08	5,30	1,28	1,28	
July	88,00	73,50	6,80	3,21	2,18	
August	55,30	71,23	4,73	4,37	2,43	
September	77,20	71,89	3,07	4,68	2,50	
October	75,00	72,20	2,04	4,10	2,45	
November	74,10	72,37	13,48	5,82	3,39	
December	75,60	72,64	6,93	6,10	3,69	
2016 January	62,00	62,00	7,94	6,23	7,94	
February	62,50	62,50	10,19	7,04	9,11	
Percentage change by category			February 2015/2014	February 2016/2015	Jan.-Feb. 2015/2014	Jan.-Feb. 2016/2015
General index			-3,23	10,19	-4,21	9,11
Manufacture of food products, beverages and tobacco products			4,69	12,61	2,24	10,33
Manufacture of textiles, wearing apparel and leather products			8,20	18,34	-3,32	21,43
Manufacture of wood and products of wood and cork, except furniture			0,22	16,52	-3,36	16,19
Manufacture of paper products and printing			3,60	7,53	-4,09	8,46
Manufacture of refined petroleum products, chemicals and chemical products and pharmaceutical products and preparations			-8,81	2,65	-3,02	2,40
Manufacture of rubber and plastic products			-13,13	6,34	-13,52	-2,75
Manufacture of other non-metallic mineral products			-22,20	26,13	-22,81	31,88
Manufacture of basic metals and fabricated metal products			-3,88	3,85	-8,40	3,23
Manufacture of electronic and optical products and electrical equipment			-25,19	28,87	-14,48	28,66
Manufacture of machinery and equipment, motor vehicles and other transport equipment			9,84	2,09	19,66	-6,12
Manufacture of furniture, other manufacturing and repair and installation of machinery and equipment			-14,11	0,60	-17,23	-1,54

Source: Cystat.

TABLE B.16 Labour market indicators based on the Labour Force Survey (LFS)

	2014				2015			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Labour force	431.089	431.626	436.202	439.039	435.544	427.228	420.317	414.469
Employed	358.287	364.964	366.307	368.772	358.401	364.585	358.178	361.448
By type of employment:								
Full time	304.256	311.866	318.562	317.334	305.968	314.469	313.393	310.904
Part time	54.031	53.097	47.745	51.438	52.433	50.116	44.785	50.544
By sector of employment:								
Primary sector	14.563	15.469	16.531	18.058	15.284	15.490	13.062	12.903
Secondary sector	59.825	59.337	60.560	61.156	58.286	57.142	58.237	59.458
Tertiary sector	283.899	290.158	289.216	289.558	284.831	291.953	286.879	289.087
Employees	288.646	298.268	304.354	306.236	298.797	310.141	309.640	311.305
Unemployed								
By unemployment duration:								
Less than 12 months	40.577	33.258	35.995	36.436	43.892	33.476	34.405	27.630
12 months and above	32.225	33.405	33.900	33.832	33.249	29.166	27.734	25.390
Labour force (% of the population)								
Total	63,2	63,3	64,1	64,4	64,5	63,4	62,7	61,9
Male	69,3	69,3	69,9	69,4	69,3	68,0	68,0	66,9
Female	57,7	58,0	58,8	59,8	60,3	59,3	58,0	57,5
Employment (% of the population)								
Total	52,5	53,6	53,8	54,1	53,1	54,1	53,5	54,0
Male	57,1	57,6	58,2	57,7	56,7	57,9	58,4	57,9
Female	48,4	49,9	49,9	50,8	49,8	50,7	49,0	50,5
Unemployment (% of the labour force)								
Total	16,9	15,4	16,0	16,0	17,7	14,7	14,8	12,8
Male	17,6	16,8	16,8	16,7	18,1	14,9	14,1	13,4
Female	16,1	13,9	15,2	15,1	17,3	14,4	15,5	12,1

Source: Cystat (LFS).

Technical Notes



1

Introduction

2

Macroeconomic
Developments and
Projections

3

Statistical Annex

(A) Domestic monetary aggregates

All monetary aggregates' data exclude the CBC.

On 1 July 2008, a new definition of residents of Cyprus entered into force (Statistical Purposes Directive, 2008). As a result, MFIs reclassified a large number of organisations or customers' businesses with limited or no physical presence in Cyprus, known as 'special purpose entities (SPEs), from non-residents to residents. The effect of this change is excluded from the monetary and financial statistics series presented in this publication, which reports domestic residents data excluding SPEs. For purposes of normalisation and comparability of monetary time series, data have been further processed by the CBC's Economic Analysis and Research Department.

The calculation of annual percentage changes is based on the methodology used by the ECB. More specifically, the growth of monetary aggregates is calculated based on the monthly differences in outstanding amounts adjusted for amounts that do not arise from transactions, such as reclassifications/other adjustments, revaluation adjustments and exchange rate adjustments, so as to reflect changes due to net transactions.

The above methodology has been adopted since the December 2009 edition of the *Economic Bulletin*. In previous editions of the *Bulletin*, the growth rate of monetary variables was calculated as the annual percentage change of outstanding balances at the end of the period. Details of the methodology can be found in the *Monetary and Financial Statistics*, published by the Statistics Depart-

ment of the CBC, which is available on the CBC website.

(B) Balance of Payments

The present statistical collection system adopted as of June 2014, is based on the methodology of International Monetary Fund (BPM6), which has also been adopted by the EU, as well as on additional requirements and the level of detail required by both the Statistical Service (Eurostat) and the European Central Bank (ECB).

The adoption of BPM6 by the external statistics of the Cyprus took place in June 2014. In October 2014 was the first publication of the data. The published data for BoP, IIP and external debt cover the period from 2008 to date.

The application of new manuals provided the opportunity to adopt broader changes and revisions to improve the coverage and quality of the statistics of the external sector. Specifically, in addition to the incorporation in all external statistics produced and published of the special purpose entities that are registered / incorporated in Cyprus, the CBC has also upgraded the collection systems and compiling statistics of the external sector, giving greater emphasis to the application of new research and the use of available administrative sources.

(C) National Accounts

In June 2014 Cystat implemented the new statistical standards for the historical data series since 1995. The ESA 2010 replaces ESA 1995 and is based on the System of National



1

Introduction

2

Macroeconomic
Developments and
Projections

3

Statistical Annex

Accounts (ESA) 2008 which is in the process of being implemented worldwide. The aim is to adapt the national accounts to the current economic environment, advances in methodology and changing user needs. Regarding the sectoral classification, ESA 2010 provides a clearer separation between non-financial corporations and corporations that are not directly engaged in the non-financial activities. In particular, holding companies of non-financial corporations and other so-called captive financial institutions as well as certain Special Purpose Entities (SPEs) are now classified under a new category. In parallel, the investment funds sector is now separated from the remaining part of other financial intermediaries and insurance companies are shown separately from pension funds. The ESA 2010 has also adopted changes to the financial accounts.

More details on the methodology of compiling the balance of payments and the national accounts are available in the Box1 p.51 of the December 2014 *Economic Bulletin* and on the website of the CBC.



1 Introduction

2 Macroeconomic Developments and Projections

3 Statistical Annex