



CENTRAL BANK OF CYPRUS
EUROSYSTEM



The Cyprus Economy: Outlook for 2017-2018

A CYPRUS ECONOMIC SOCIETY PANEL DISCUSSION

George Kyriacou

Director of Economic Analysis and Research

Central Bank of Cyprus

19 January 2017

Views expressed are personal



Outline of presentation – setting the stage for the discussion

- Background and the current juncture
- Economic outlook for 2017-2018
- Main factors underpinning economic outlook
- Main factors hampering economic outlook
- Brief discussion of risks in outlook (upside / downside)
- Some concluding remarks



- Background
 - Severe economic crisis
 - Frontloaded economic adjustment programme in 2013 with banking, fiscal and structural measures. Painful provisions.
 - Bail-in of unsecured depositors, resolution of Laiki Bank
 - Sharp recession in 2012-2014
- Sooner than expected signs of recovery in 2015
 - First recording of positive GDP growth and reduction in unemployment
 - Full abolition of capital controls (April 2015)
 - Signs of confidence in international markets











- Further progress in 2016, including
 - Stronger economic growth, in part due to
 - exceptionally high performance in tourism
 - strong domestic consumption
 - Fiscal overachievements,
 - More confidence in the economy (Deposits, new loans, ELA repayment)
 - Successful exit from the economic adjustment programme
-but significant challenges remain despite some progress achieved, such as
 - High level of NPLs
 - High level of private indebtedness (pre-existing)
 - High level of unemployment
 - High level of public debt
 - Sovereign ratings still below investment grade






- Economic outlook for 2017-2018
 - CBC Forecasts (December 2016) (Annex 1) 
 - Real GDP recent forecasts by various institutions (Annex 2) 
 - Prices in real estate market stabilised, with positive outlook (Annex 3) 



- Relatively positive external environment (Annex 4) 
- Confidence returning
 - Economic Sentiment Indicators (Annex 5) 
 - Consumer confidence (Annex 6) 
 - Deposits (Annex 7) 
 - CY bond yields (Annex 8) 
- Private sector investment rebounding and with positive outlook (Annex 9) 
- Broader based recovery
- Structural changes undertaken
- Unit labour costs (Annex 10) 
- Demand for new loans / low interest rates (Annex 11) 




- High level of NPLs (Annex 12) 
- High level of private indebtedness (Annex 13) 
- High level of public debt (Annex 14) 
- Reform fatigue



- External Risks
 - Brexit
 - Other Eurozone political and economic uncertainties
 - Political change in the USA
 - Regional Conflicts
- Domestic
 - Credit developments
 - Natural Gas Prospects
 - Solution of the Cyprus Problem



If this was a Medical Report it may have looked as follows:

- The wound was deep, almost fatal. (Annex 15) 
- The major surgery undertaken was successful, the patient survived. It still hurts, risks remain but recovery is setting in, with a long recuperation period. Stabilising, supportive and preventive measures are still needed. Old unhealthy habits need to stop. The patient needs to rely on healthy fundamentals and is not in a position to take excessive risks.
- Medical prescription for drugs and therapy going forward, to be discussed by the doctors in the room.



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THANK YOU



Annex 1

CBC Forecasts for Cyprus (December 2016)

	2010	2011	2012	2013	2014	2015	2016f	2017f	2018f
Real GDP (annual percentage change)	1,3	0,3	-3,2	-6,0	-1,5	1,7	2,8	2,8	3,1
Inflation (annual percentage change)	2,6	3,5	3,1	0,4	-0,3	-1,5	-1,2	0,9	1,5
Unemployment (percentage of labour force)	6,3	7,9	11,8	15,9	16,1	14,9	12,8	10,7	8,8

- Prepared in the context of the biannual macroeconomic projection exercise of the Eurosystem.
- Recovery of economic activity expected to continue.
- Inflation expected to gradually return to “normal positive levels”.
- Unemployment continues its gradual declining path.





Annex 2

Real GDP recent forecasts for Cyprus by various institutions (annual change %)

	2016	2017	2018
CBC Forecasts (Dec 2016)	2,8	2,8	3,1
MoF Forecasts (Budget Sep 2016)	2,7	2,8	2,8
Univercity of Cyprus (Oct 2016)	2,9	3,2	2,9
IMF (Oct 2016)	2,8	2,2	2,3
European Commission (Nov 2016)	2,8	2,5	2,3
Moody's (Nov 2016)	2,9	2,7	

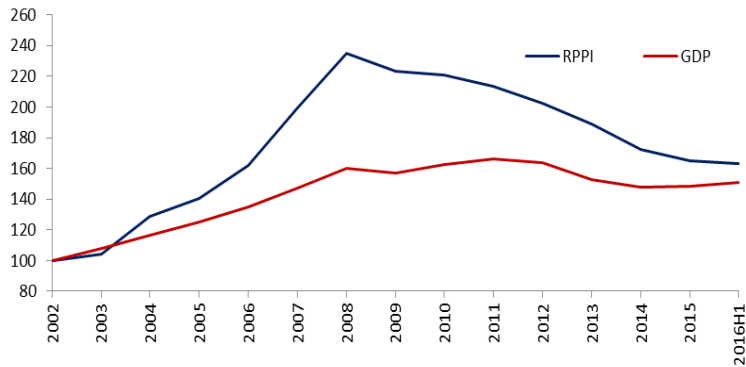
- All institutions expect continuation of growth
- Differences in strength of recovery





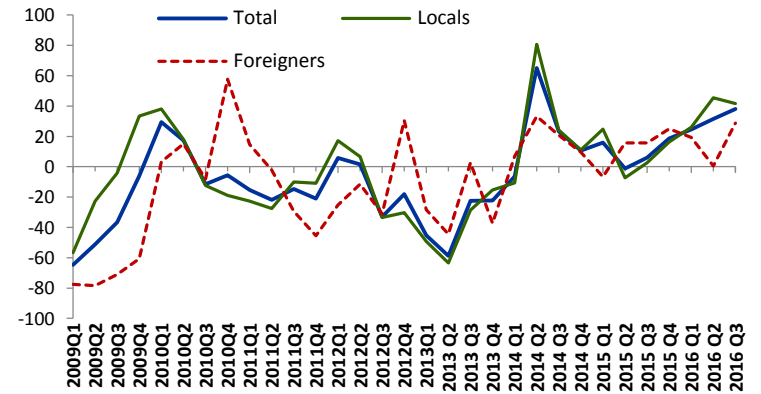
Annex 3: Real Estate Market – positive outlook

The CBC Residential Property Price Index and GDP (nominal, non-seasonally adjusted) (2002 = 100)



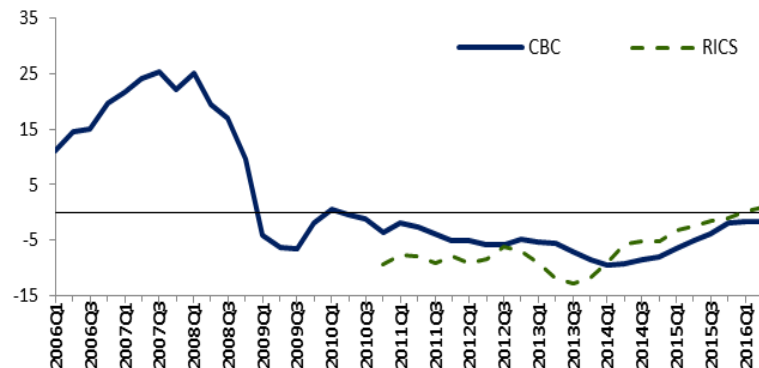
Source: CBC, Cystat.
* RPPI data until 2016Q2 and GDP until 2016Q3.

CHART Sales Contracts (y-o-y % change)



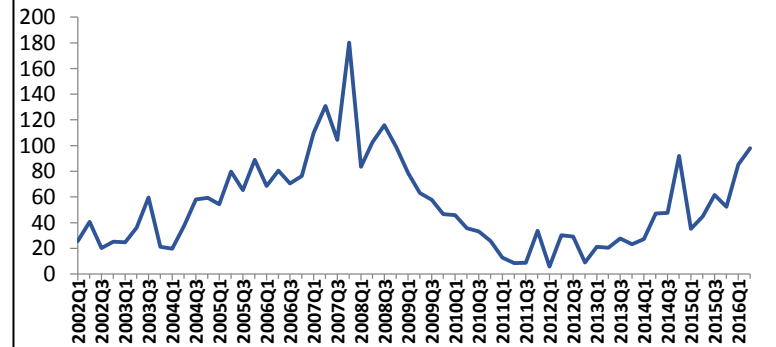
Source: Department of Lands and Surveys.

Residential property price indices (annual change, %)



Source: CBC.

Investment in real estate by foreigners (€ million)

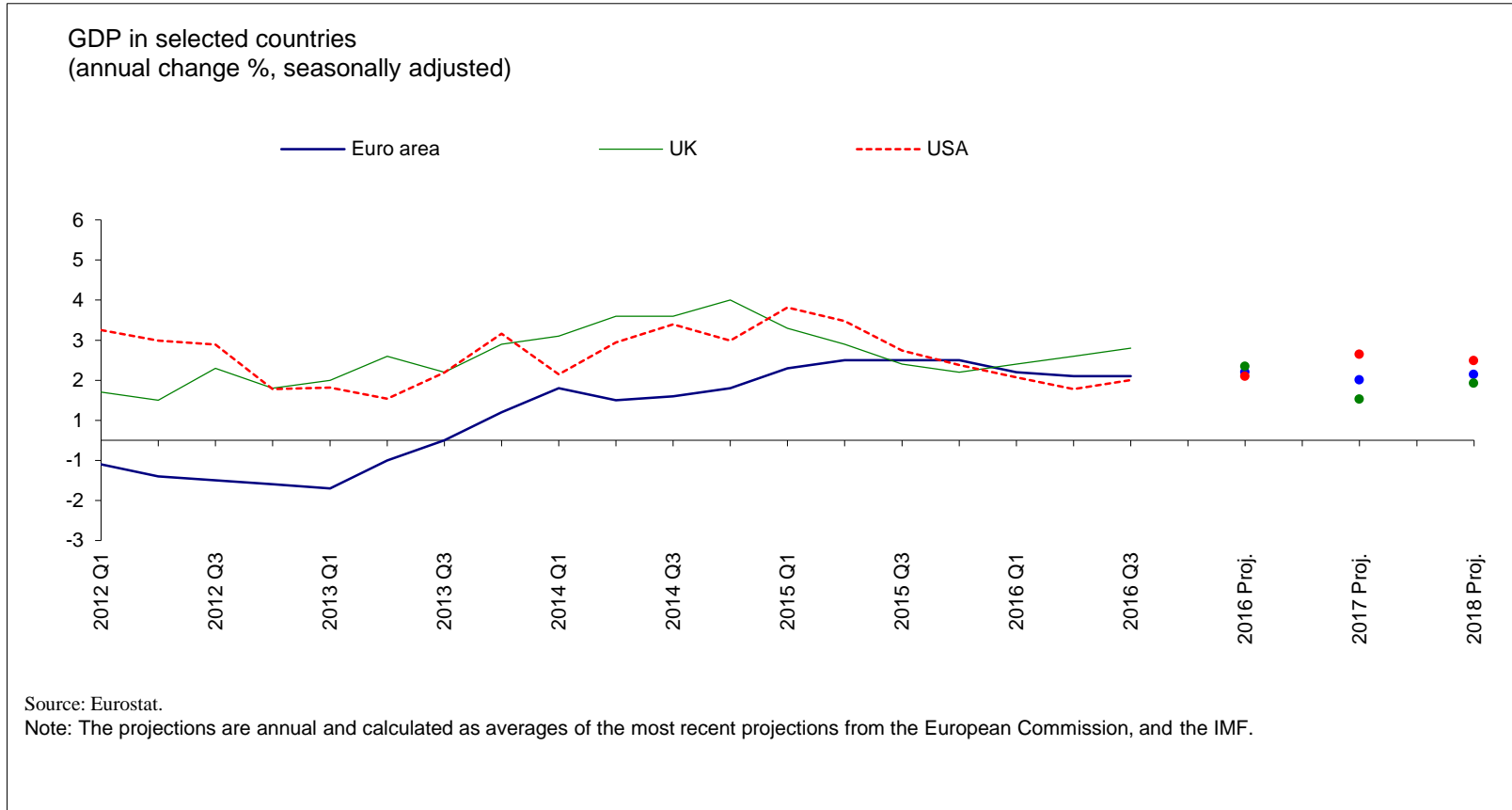


Source: CBC.



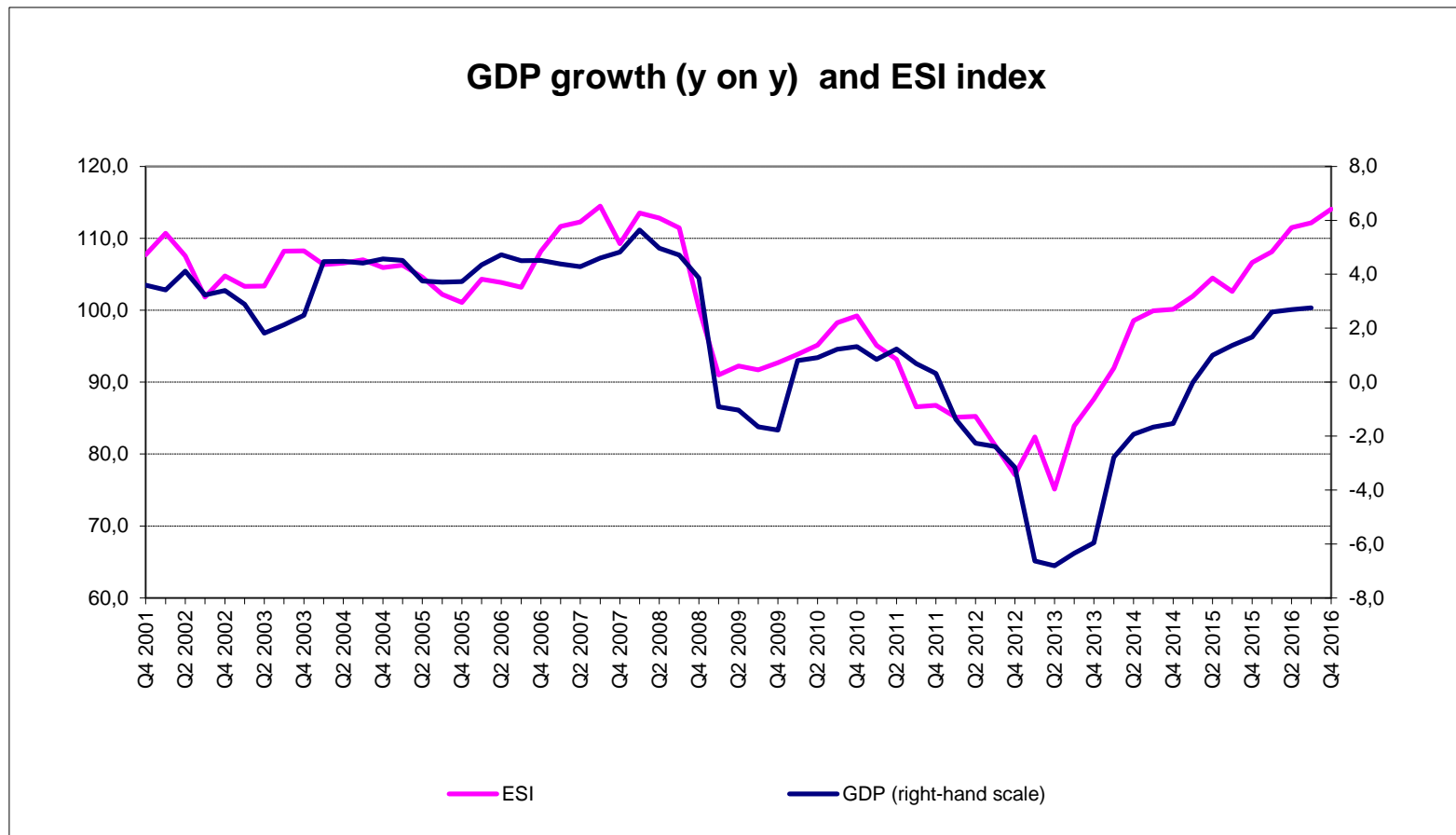


Annex 4





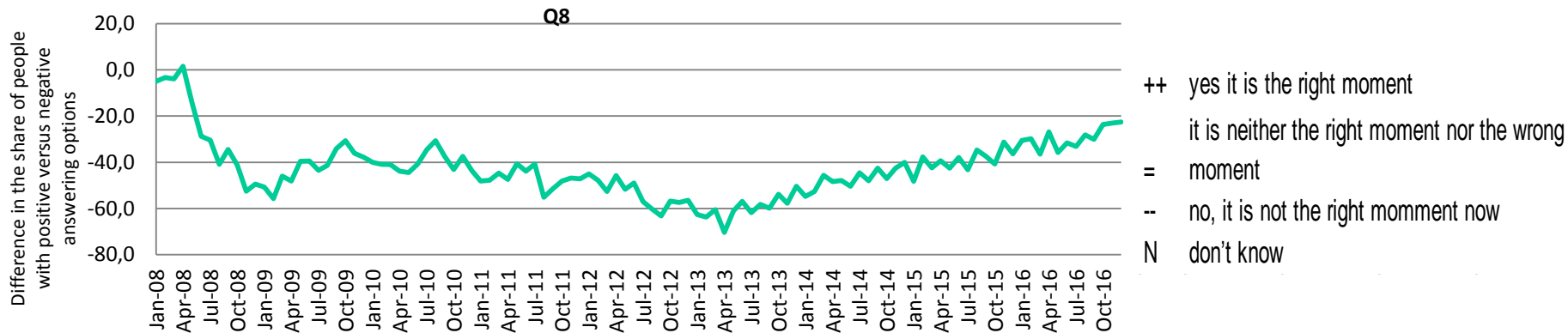
Annex 5: Economic Sentiment Indicators



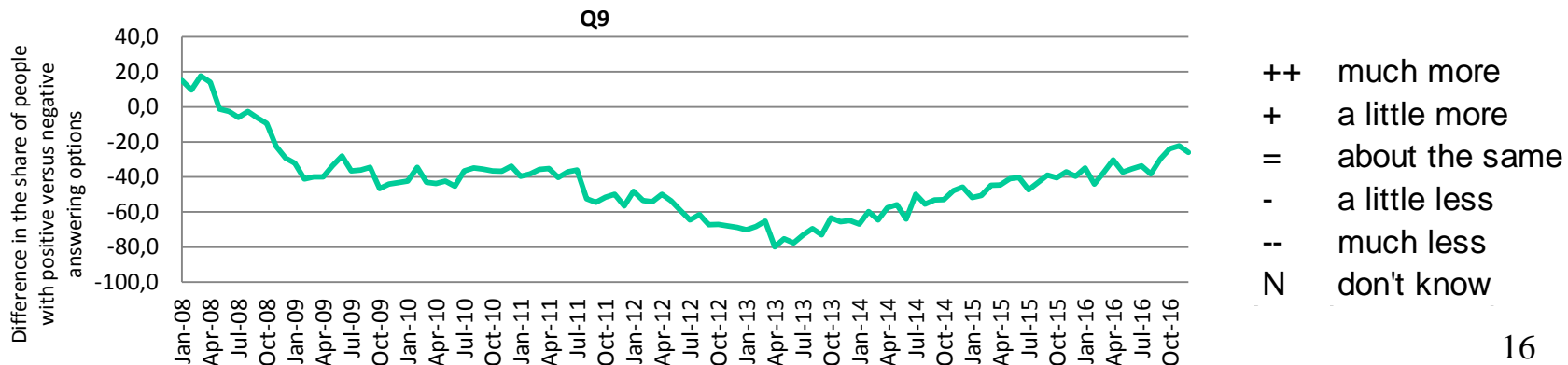


Annex 6: Consumer confidence (from the ESI questionnaire)

Q8: In view of the general economic situation, do you think that now it is the right moment for people to make major purchases such as furniture, electrical/electronic devices, etc.?

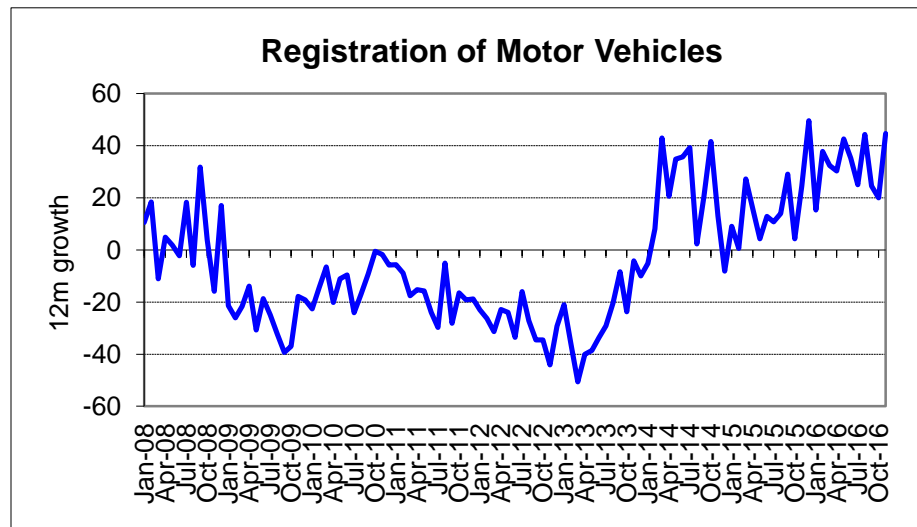
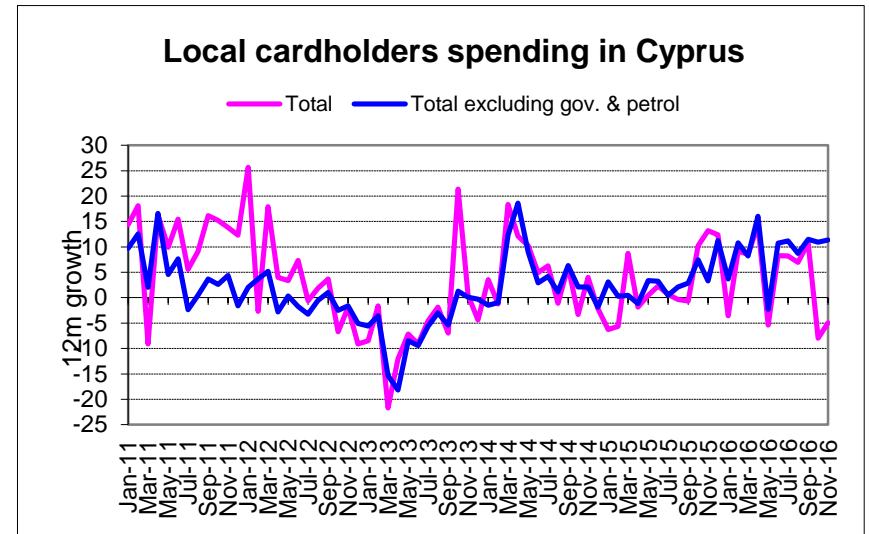
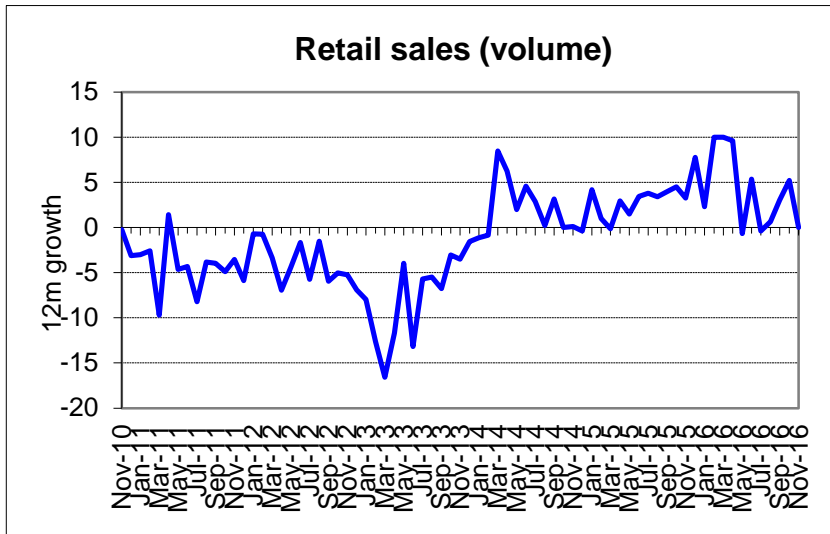


Q9: Compared to the past 12 months, do you expect to spend more or less money on major purchases (furniture, electrical/electronic devices, etc.) over the next 12 months? I will spend...



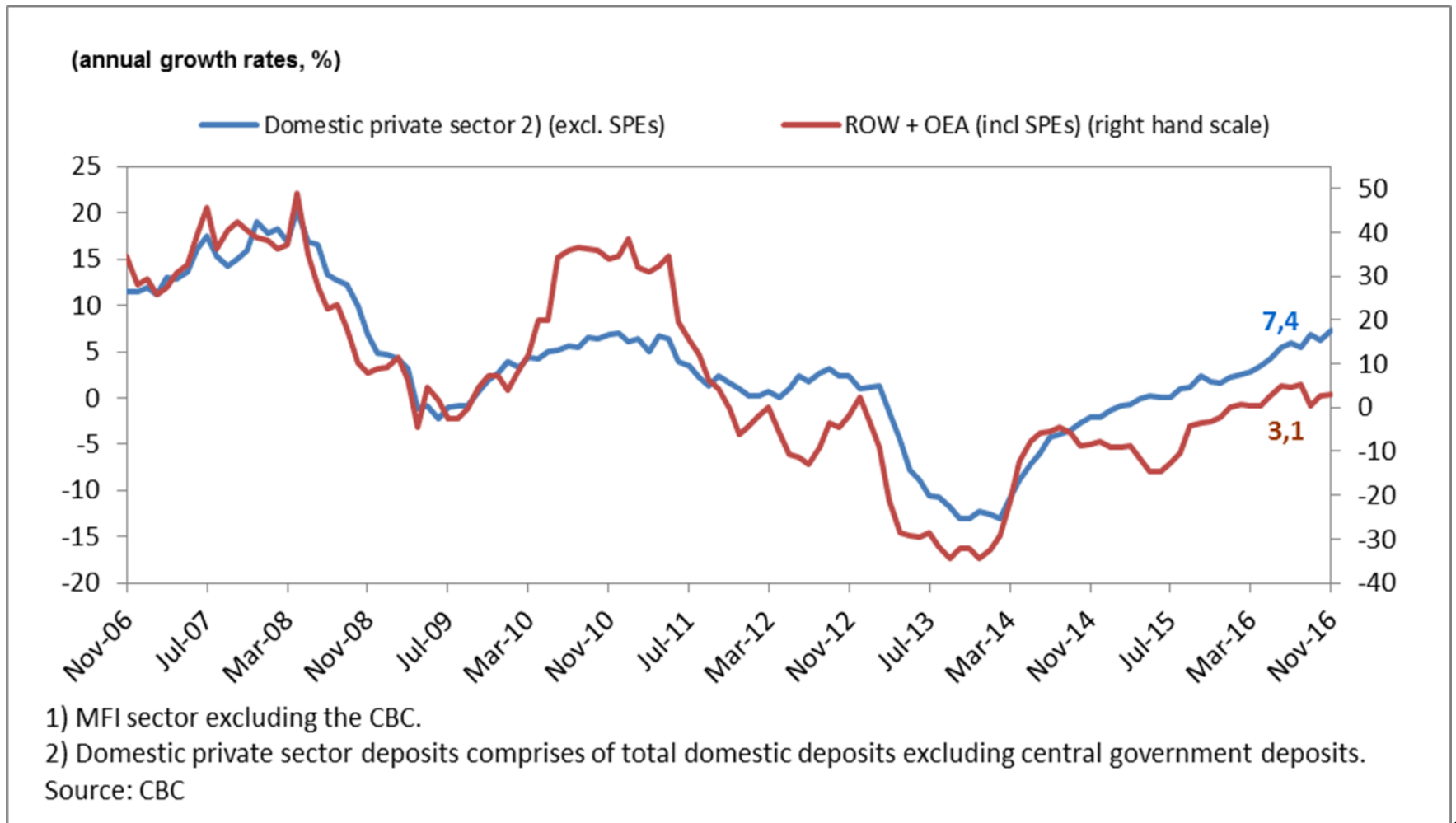


Annex 6: Consumer confidence (continued)



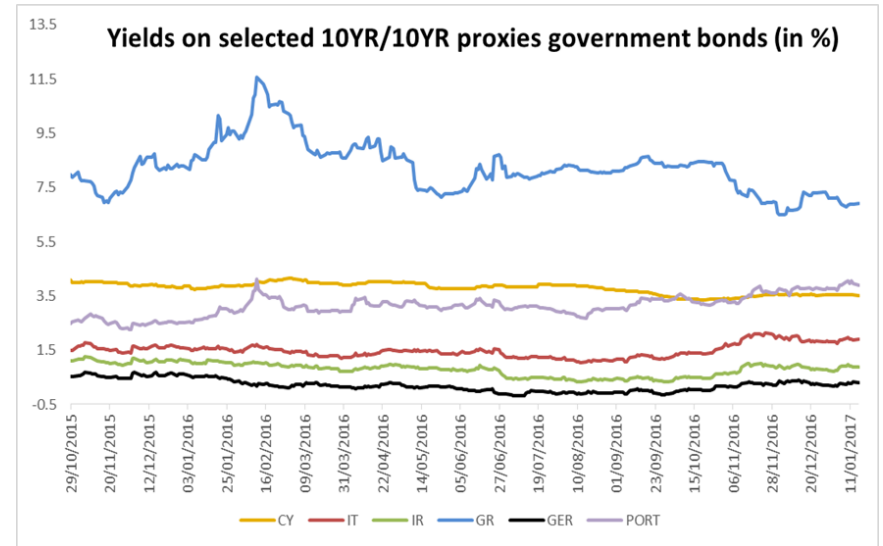
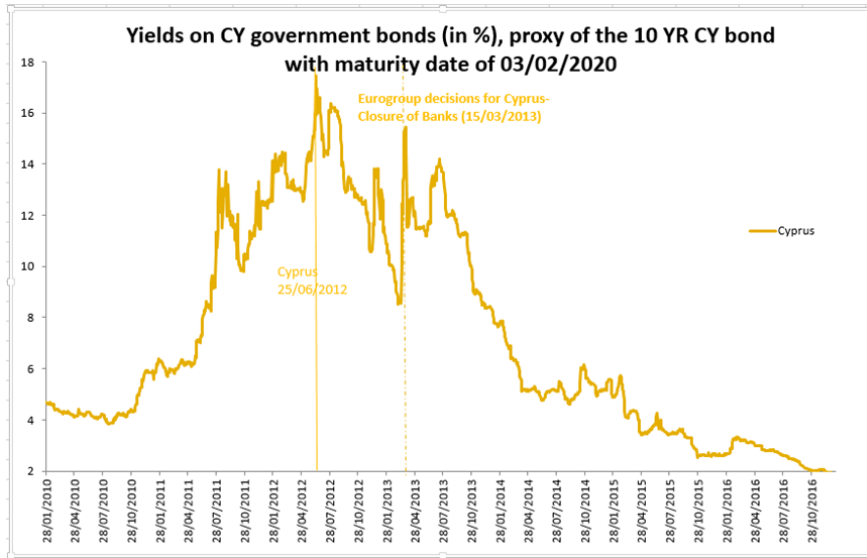


Annex 7: All MFI¹⁾ deposits (sectors adjusted for SPEs)





Annex 8: CY bond yields





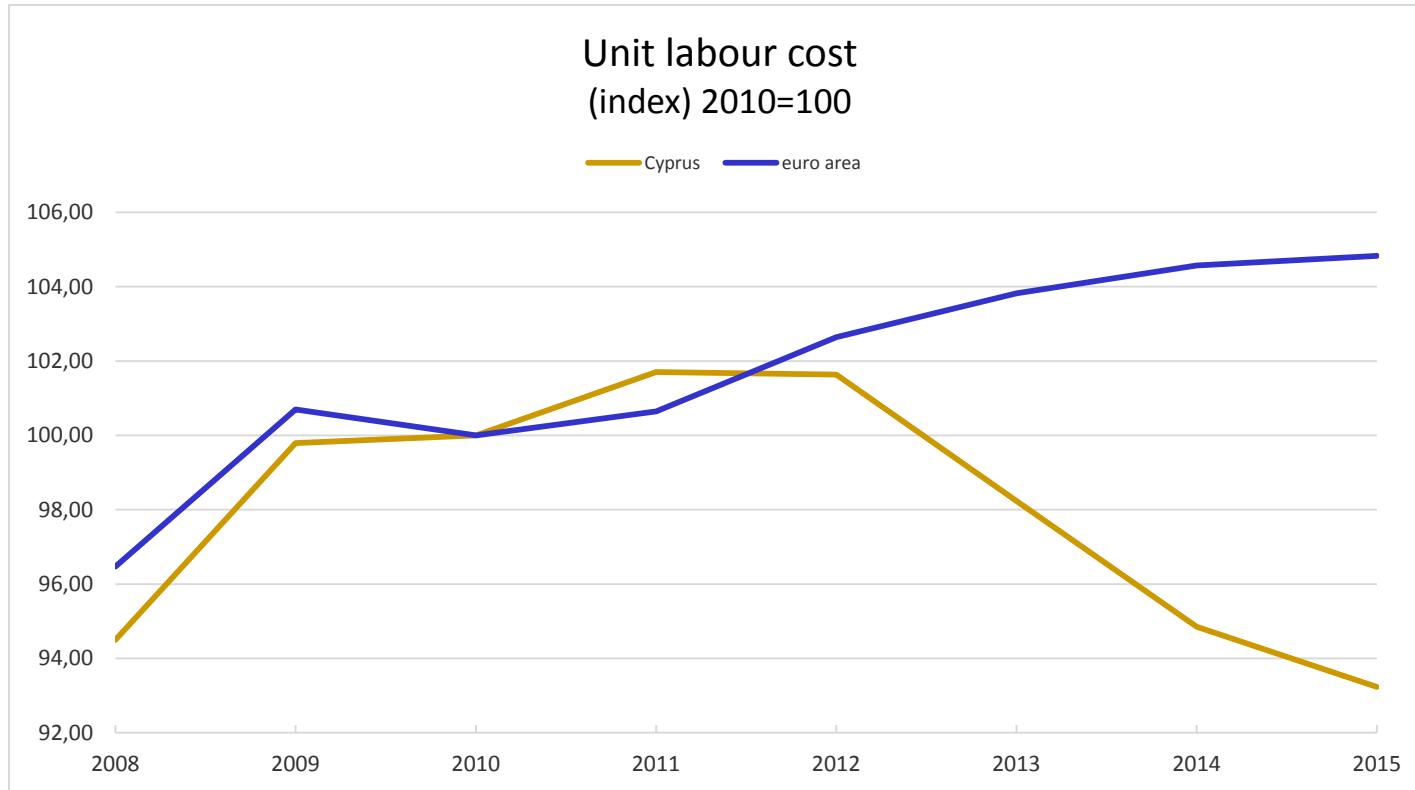
Annex 9

- **Major new/ongoing investment projects 2017-2019 (amounting to over a billion euros)**
 - Ayia Napa marina: €240 mln.
 - Larnaca marina.
 - Expansion of the terminal for the management and storage of petroleum products at Vasiliko
 - The “One” residential building in Limassol: €60 mln.
 - Limassol Del Mar residences: €350 mln.
 - Oval Business centre in Limassol: €60 mln
 - Lanitis Seafront in Limassol: €150 mln.
 - €50 mln. investment in Parklane Luxury Collection resort and spa (former Meridien Hotel) in Limassol. Also, renovation and expansion of other hotels in Limassol
 - Disbursements by European Investment Bank for SMEs and co-financed projects
 - Other investments funded by European Bank for Reconstruction and Development
- **Future projects and investments (not included in CBC projections)**
 - Initial estimates for casino construction and operating costs €500 mln.



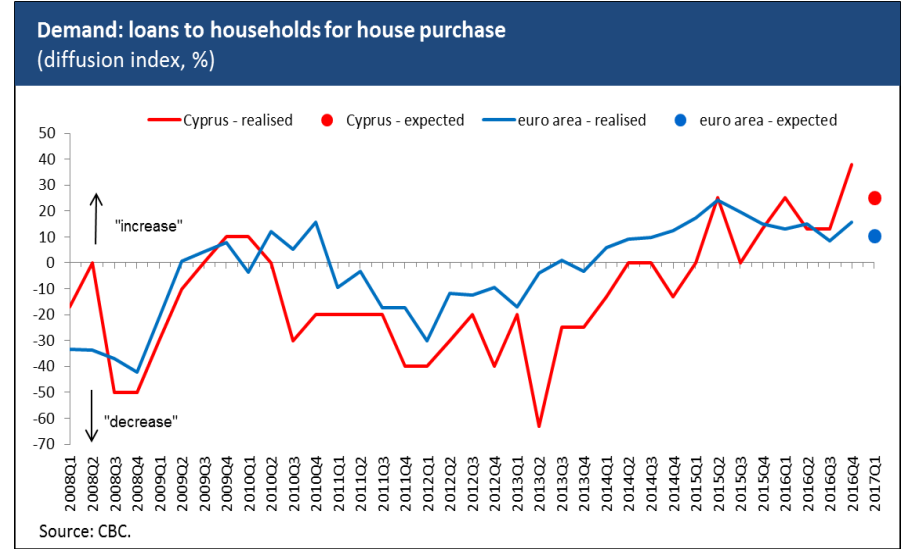
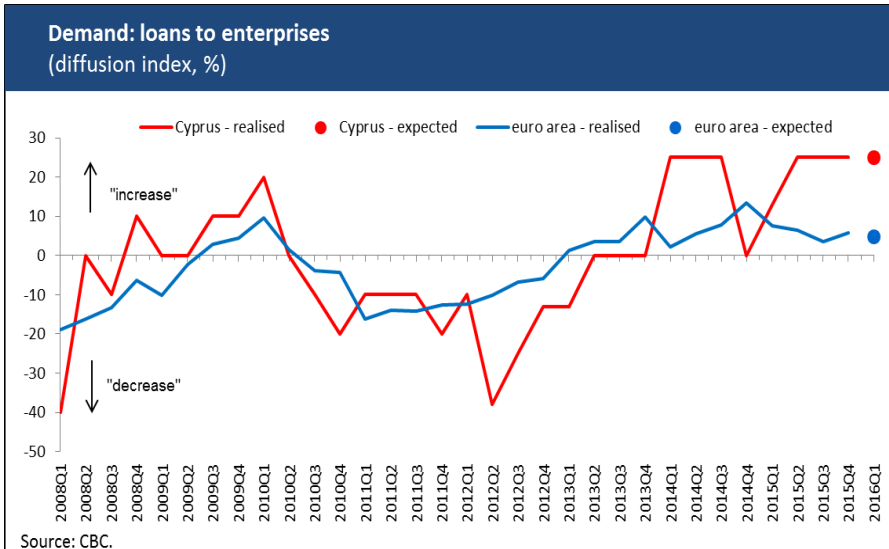


Annex 10: Unit Labour Costs

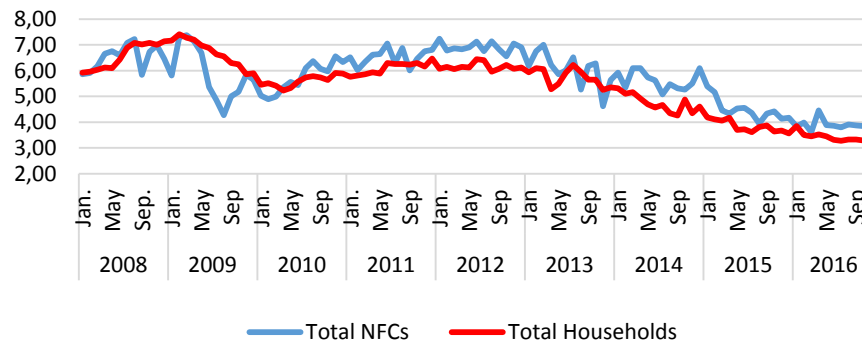




Annex 11: Results from Bank Lending Survey and monthly interest rates



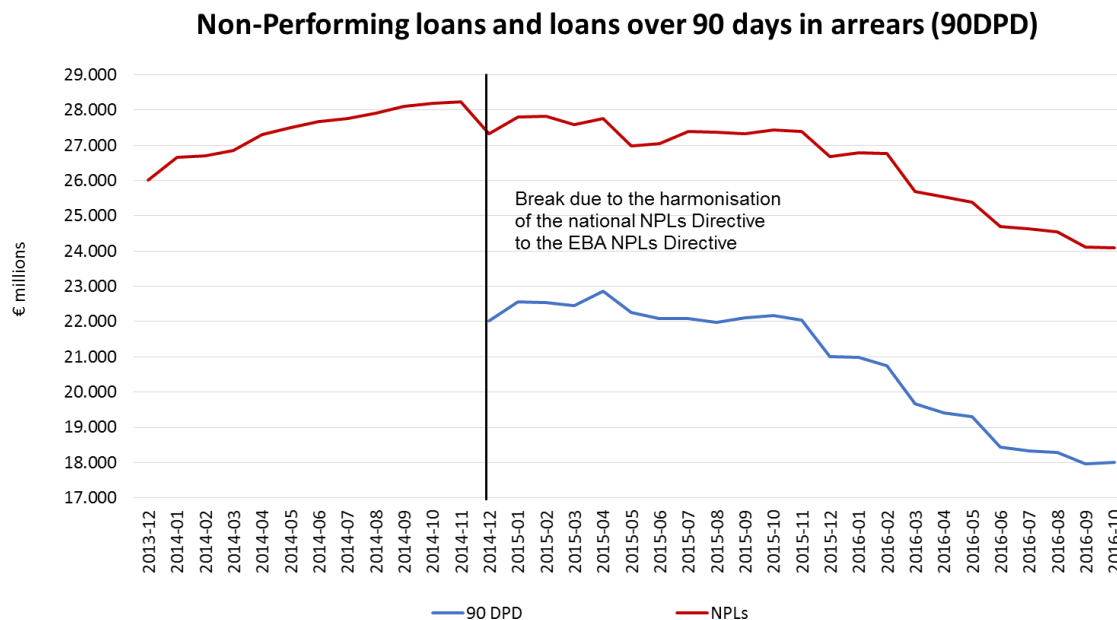
Lending interest rates, % (with maturity up to one year)





Annex 12: High level of NPLs

The evolution of NPLs of all credit institutions in Cyprus on a consolidated basis.

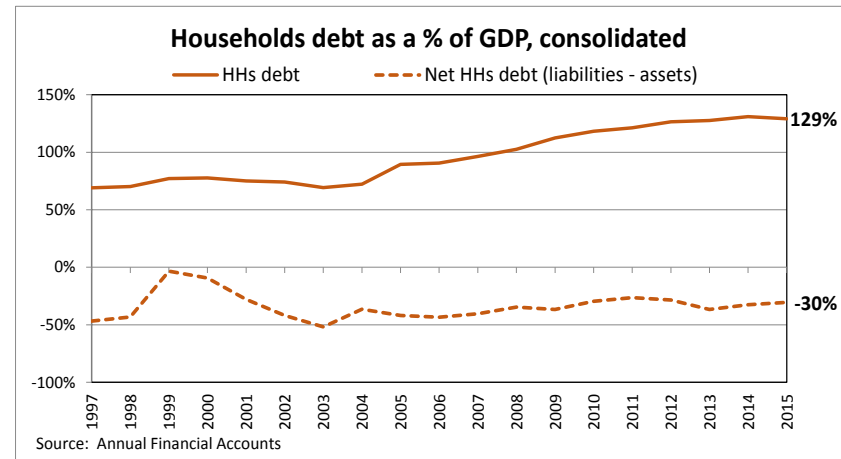
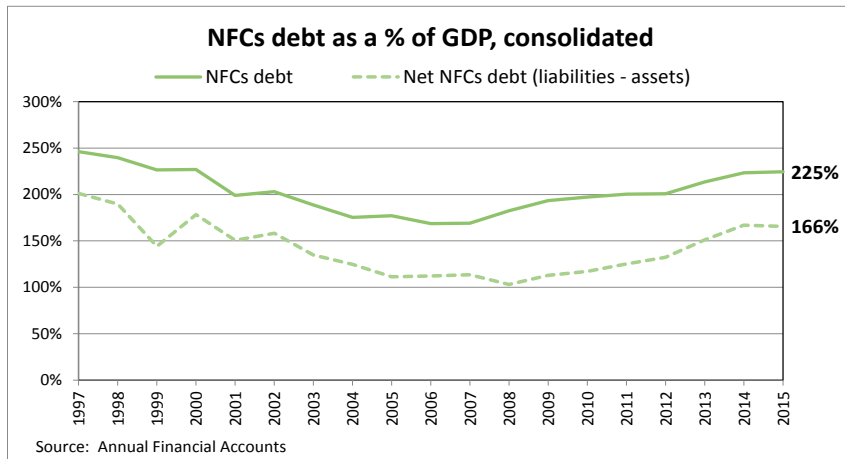
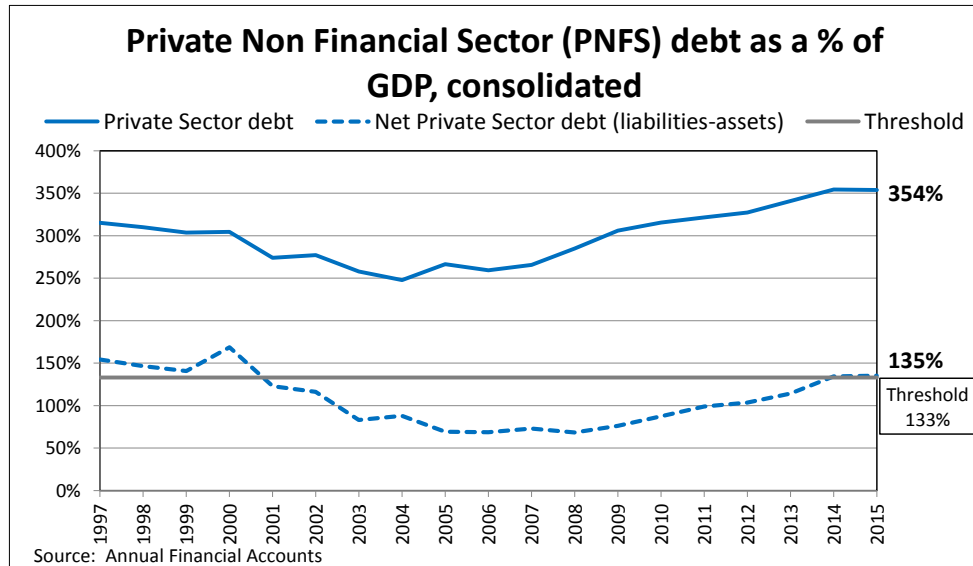


Date	Total Loans	Total NPLs	Loans with over 90 days in arrears	Total Restructurings	Restructurings which continue to be classified within NPLs	Restructurings within NPLs/Total restructurings	Restructurings within NPLs / Total NPLs
	€mln	€mln	€mln	€mln	€mln	%	%
31/12/2014	57.224	27.328	22.015	12.860	9.234	71,8%	33,8%
31/12/2015	58.204	26.685	21.007	14.154	10.713	75,7%	40,1%
31/10/2016	49.631	24.085	18.017	13.602	10.101	74,3%	41,9%





Annex 13: High level of private indebtedness



Note: Gross Debt refers to loans plus debt securities. Net debt refers to Gross Debt minus the corresponding financial assets (i.e. transferable deposits, other deposits, debt securities and loans).



Annex 13

Special attention should be given to the comparison of debt data between countries due to various peculiarities and national characteristics.

NFCs:

- NFCs in Cyprus are mostly SMEs with limited access to finance other than bank lending.
- NFC and thus PNFS debt includes the debt of Special Purpose Entities (SPEs) amounting to around 75% of GDP. These SPEs are ship owning companies that have limited or no physical presence in Cyprus and thus have no impact on the Cyprus economy.

Households:

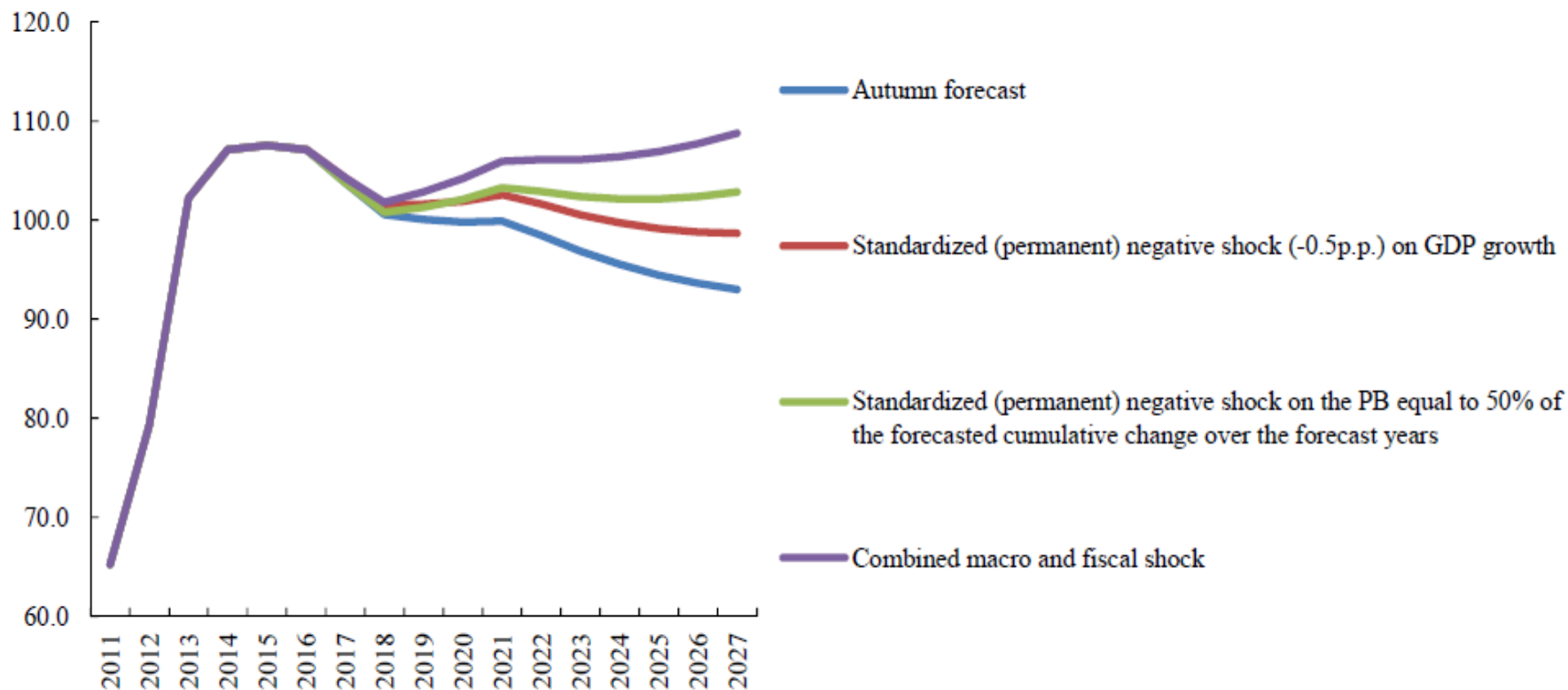
- The bulk of HH debt relates to the purchase of real assets e.g. high proportion of primary residence ownership with appr. 55% of household debt attributed to housing collateralised loans.
- Households deposits more than outweigh their loans.
- Cypriots tend to accumulate precautionary savings due to:
 - lack of good welfare pension scheme,
 - lack of national health system
 - cultural practice to hold a safety net in times of hardship





Annex 14: High level of public debt (figures from E.C. Autumn Forecasts)

Graph A2.1: Debt trajectories (in % of GDP)

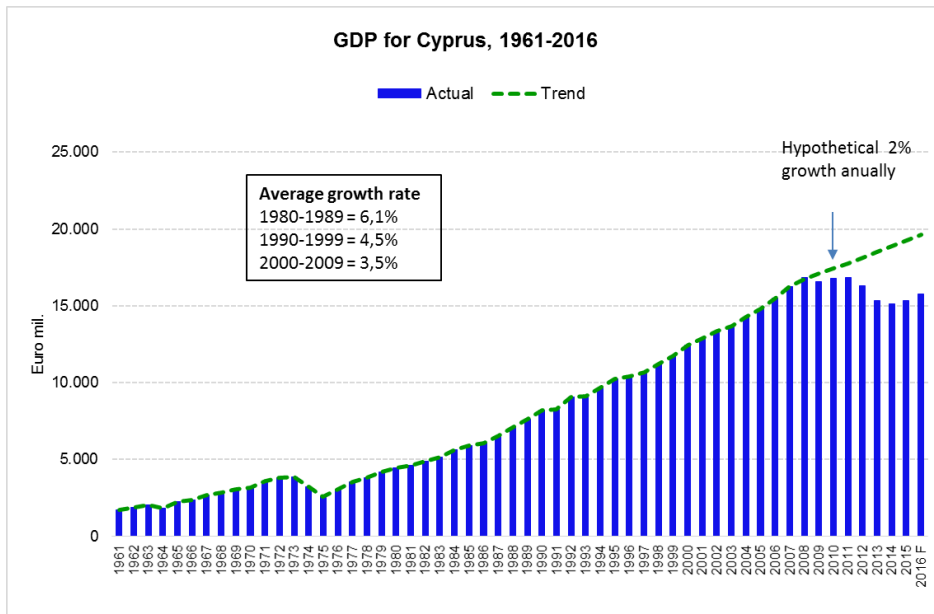


Source: European Commission.





Annex 15



Deposits of non-MFIs held with MFIs ¹⁾					
	Outs. Amount (€ bln)				
	Dec-12	Dec-13	Dec-14	Dec-15	Nov-16
TOTAL DEPOSITS	70,2	47,0	46,1	46,0	49,0
DOMESTIC RESIDENTS excl. SPEs	38,0	30,3	29,8	30,4	33,0
NON- RESIDENTS incl. SPEs	32,1	16,6	16,3	15,5	16,0

1) MFI sector excluding the CBC

***The reduction in Total Deposits reflects the bail-in of uninsured deposits and actual outflows of deposits.**

