



CENTRAL BANK OF CYPRUS  
EUROSYSTEM



# The Cyprus Economy Panel 2020 Medium-Term Outlook and Risks

A CYPRUS ECONOMIC SOCIETY PANEL DISCUSSION

George Kyriacou

Director of Economic Analysis and Research

Central Bank of Cyprus

28 January 2020

*Views expressed are personal*





## Outline of presentation

- Recent Developments
- Medium Term-Economic Outlook (2019-2022)
- Factors Affecting Medium-Term Economic Outlook
- Long term risks and challenges
- Concluding Remarks






- Strong growth in 2019 (3,2% for the first nine months).
  - Largely due to:
    - Strong private consumption.
    - Strong private investment.
  - Main contributions by sector in the first nine months of 2019
    - Construction: 0,8 pp compared with 1,3 pp in the same period of 2018.
    - Tourist related sectors: 0,7 pp compared with 1,5 pp in the same period in 2018.
  - Fiscal surplus due to positive economic activity, strong tax collection and some one-off factors (mainly NHS- related).
  - Unemployment continuing downward trend.
- Significant challenges remain in the economy, despite progress, such as
  - High level of NPLs
  - High level of private indebtedness
  - High level of public debt
  - Sovereign ratings just above investment grade








- Economic outlook for 2019-2022
  - CBC forecasts (December 2019). (Annex 1) 
  - Real GDP - recent forecasts by various institutions. (Annex 2) 




## Favourable

- Momentum.
  - Economic sentiment indicators. (Annex 3) 
  - Private sector investment. (Annex 4) 
- Unit labour costs. (Annex 5) 
- Low interest rates environment.

## Negative

- High level of NPLs. (Annex 6) 
- High level of private indebtedness. (Annex 7) 
- High level of public debt. (Annex 8) 
- High level of unemployment. (Annex 9) 
- Uncertain external environment: euro area slow down, trade war, Brexit.
  - Impact on real estate market? (Annex 10) 
- Structural reforms stalled.
- Increased pressure on public expenditure.



- External
  - Regional / EA geopolitical uncertainty.
  - Global economic environment.
- Domestic
  - Productivity / technology affecting potential output. (Annex 11) 
  - Structural reforms, including in the judicial system, World Bank indicators.
  - Maintenance of prudent fiscal and macroeconomic policies.
  - Financial developments / stability.
  - Demographics, social security fund.
  
  - Natural gas prospects.



- On the one hand, current developments are relatively favourable, especially given the uncertainty in the external environment.
- Current juncture provides a good opportunity to think and plan carefully for policies to address medium term and long term risks and challenges.
- On the other hand, the relatively good current juncture may also act as factor inducing complacency. This would be disappointing as the economy still has a number of significant vulnerabilities.



CENTRAL BANK OF CYPRUS  
EUROSYSTEM

THANK YOU





## Annex 1

### CBC Forecasts for Cyprus (December 2019)

	2014	2015	2016	2017	2018	2019f	2020f	2021f	2022f
<b>Real GDP</b> (annual percentage change)	-1,9	3,4	6,7	4,4	4,1	3,0	2,9	2,8	2,7
<b>Inflation</b> (annual percentage change)	-0,3	-1,5	-1,2	0,7	0,8	0,5	0,9	1,0	1,2
<b>Unemployment</b> (percentage of labour force)	16,1	14,9	12,9	11,1	8,4	7,0	6,0	5,5	5,2
Memo: EA GDP forecast	1,4	2,1	1,9	2,5	1,9	1,2	1,1	1,4	1,4

- Prepared in the context of the biannual macroeconomic projection exercise of the Eurosystem.
- Expansion of economic activity expected to continue. Performance above EA average.
- Inflation expected to gradually return to “normal positive levels”.
- Unemployment continues its downward trend.





## Annex 2

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

	<b>2018</b>	<b>2019f</b>	<b>2020f</b>	<b>2021f</b>	<b>2022f</b>
CBC, BMPE, Dec 2019	4,1	3,0	2,9	2,8	2,7
IMF, WEO, October 2019	3,9	3,1	2,9	2,7	2,6
European Commission, Nov 2019	4,1	2,9	2,6	2,3	N/A
MoF Forecasts (Budget, Oct 2019)	3,9	3,2	2,9	2,7	2,7
Univercity of Cyprus, Nov 2019	4,1	3,6	3,1	N/A	N/A

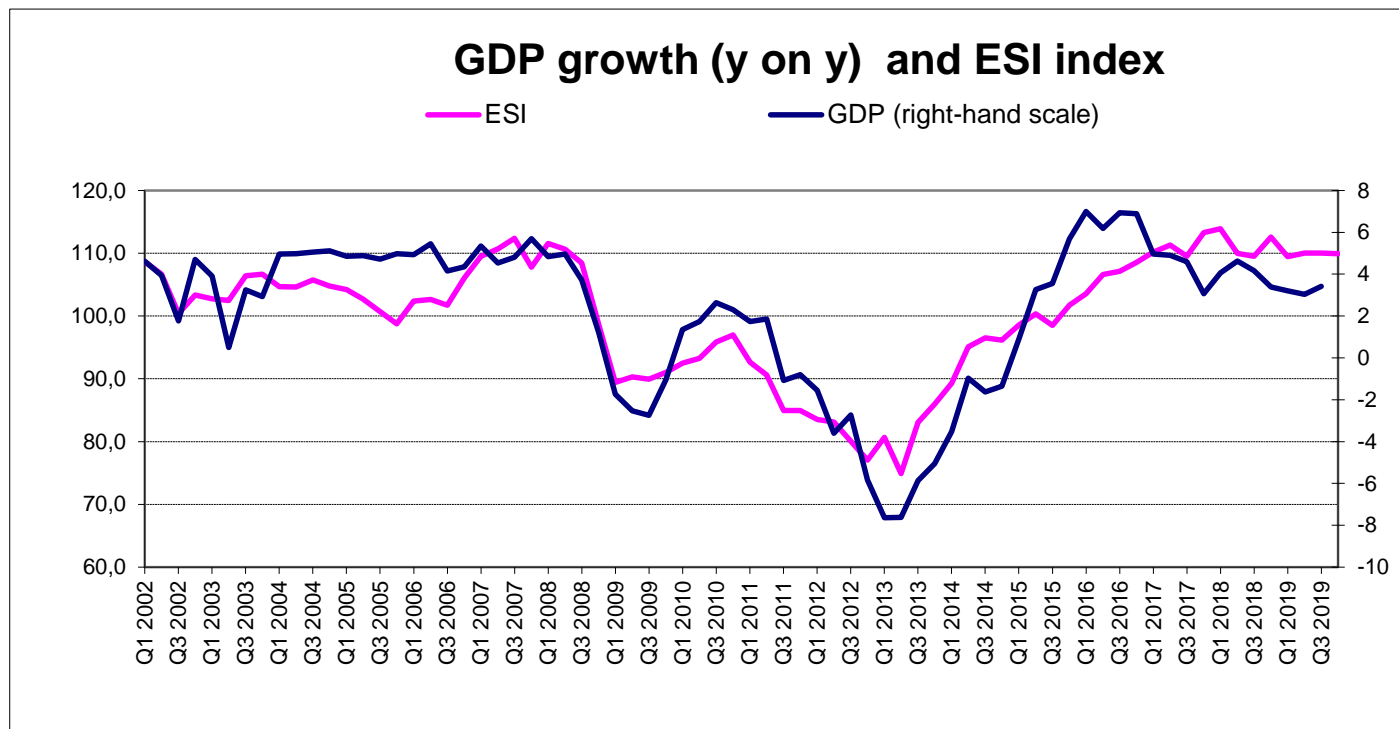
- All institutions expect continuation of strong growth.
- Differences in strength of deceleration.





## Annex 3

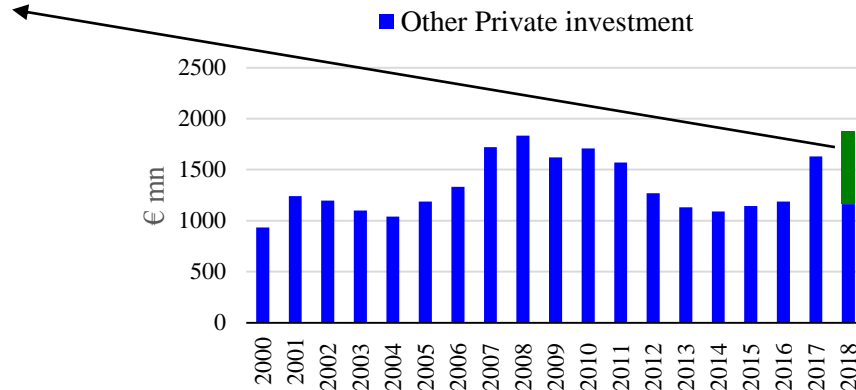
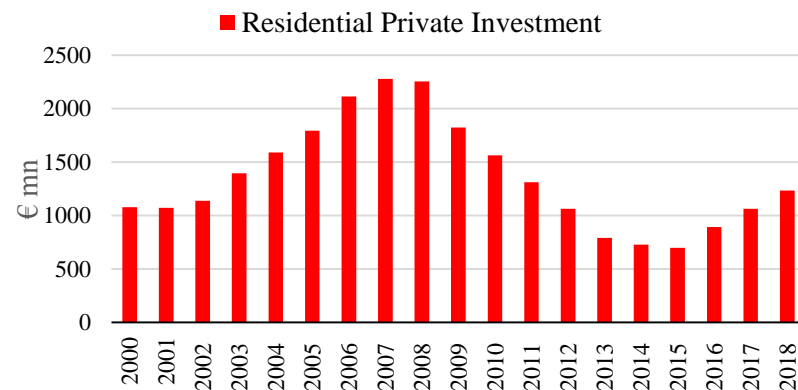
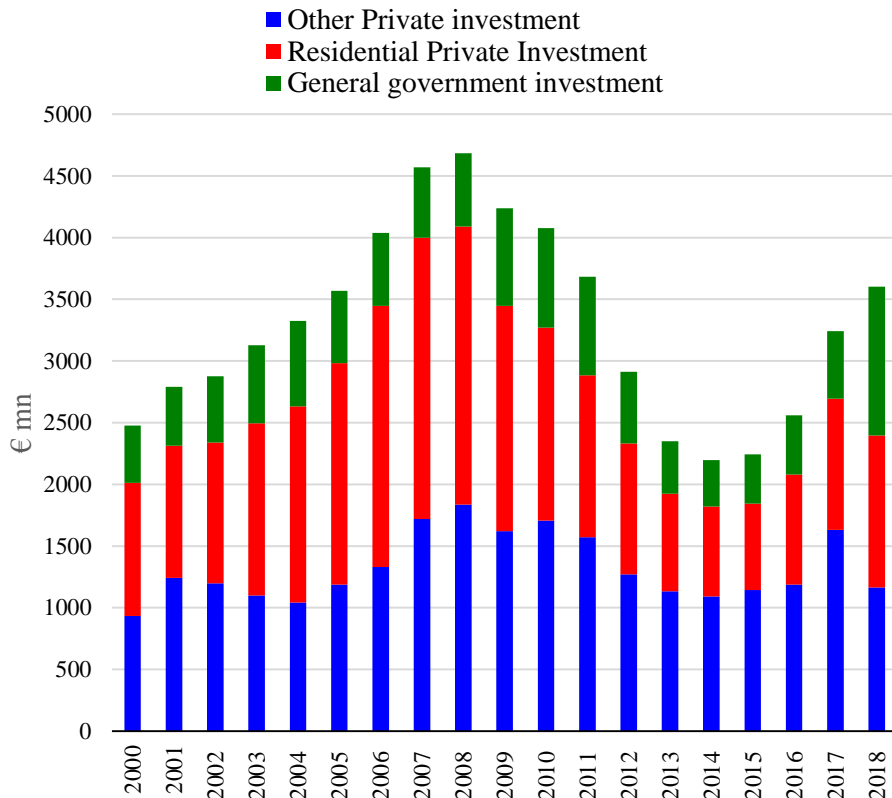
### Economic Sentiment Indicator (ESI)





## Annex 4

### Breakdown of investment



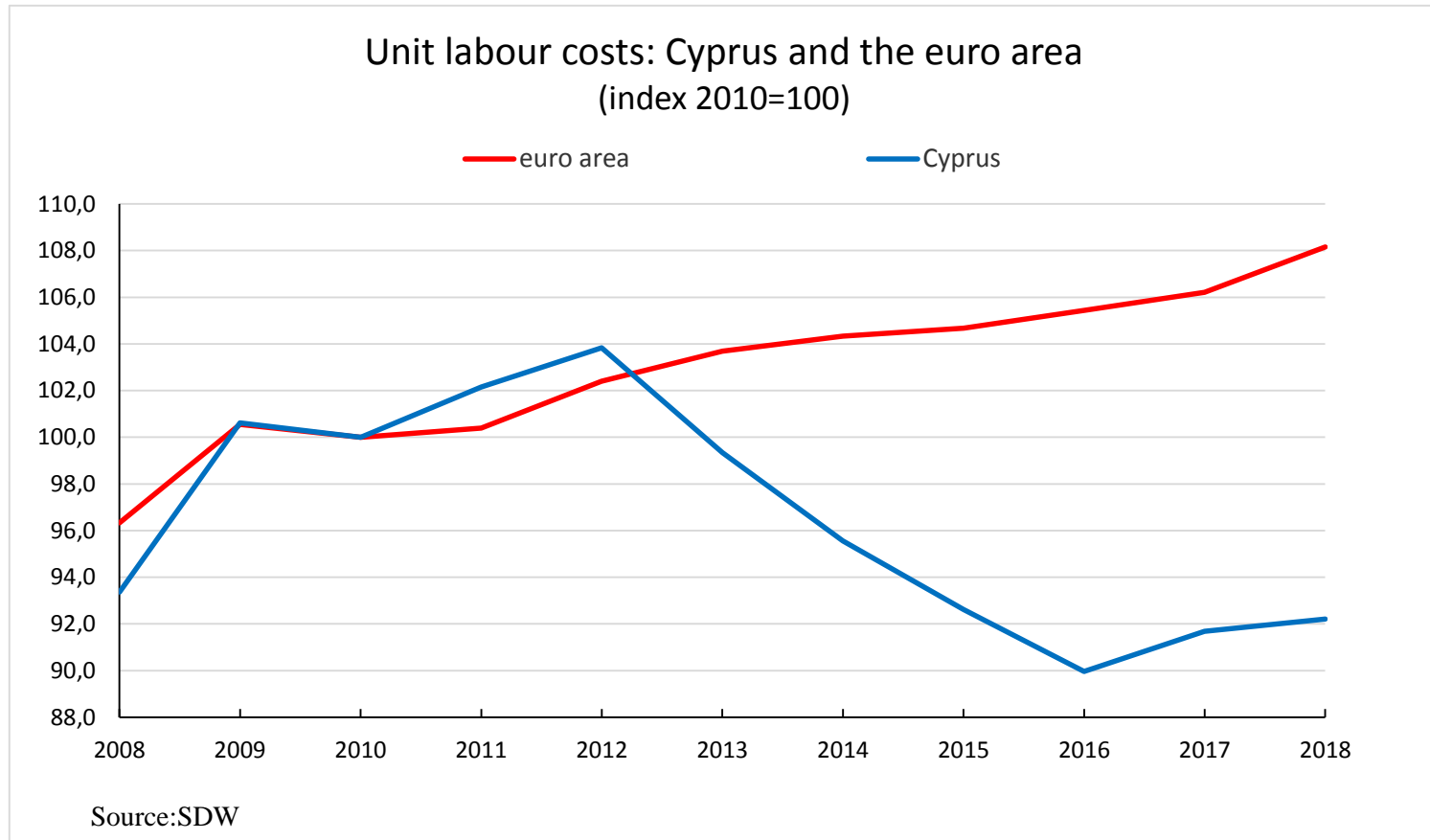
Note: data are adjusted for the impact of SPEs and one-off items  
Sources: Cystat, own calculations.

OPI for 2018 recorded a decrease compared to 2017 reflecting the transfer of the real estate assets of CCB to KEDIPES (Government sector).





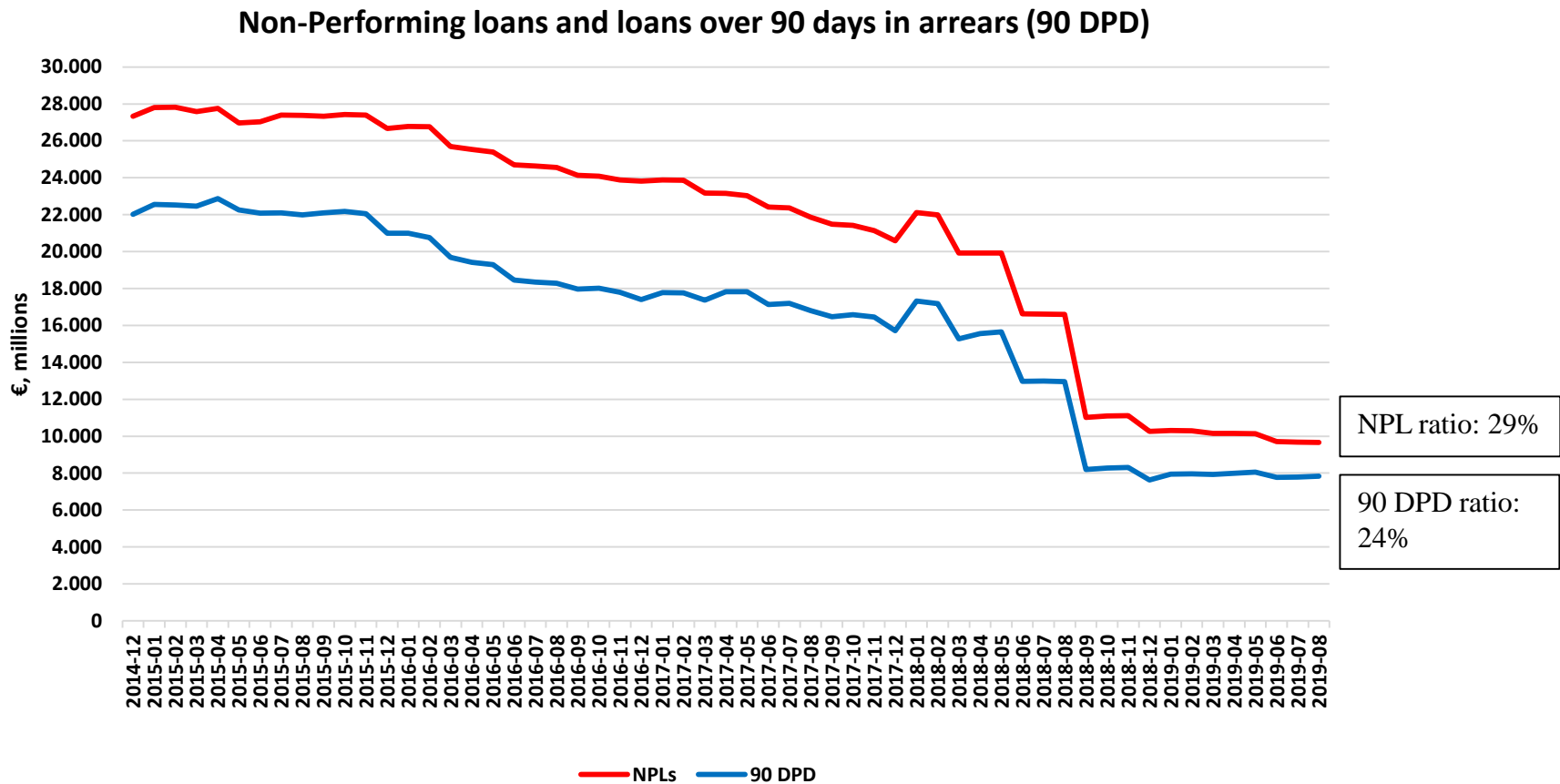
## Annex 5





## Annex 6 (cont.)

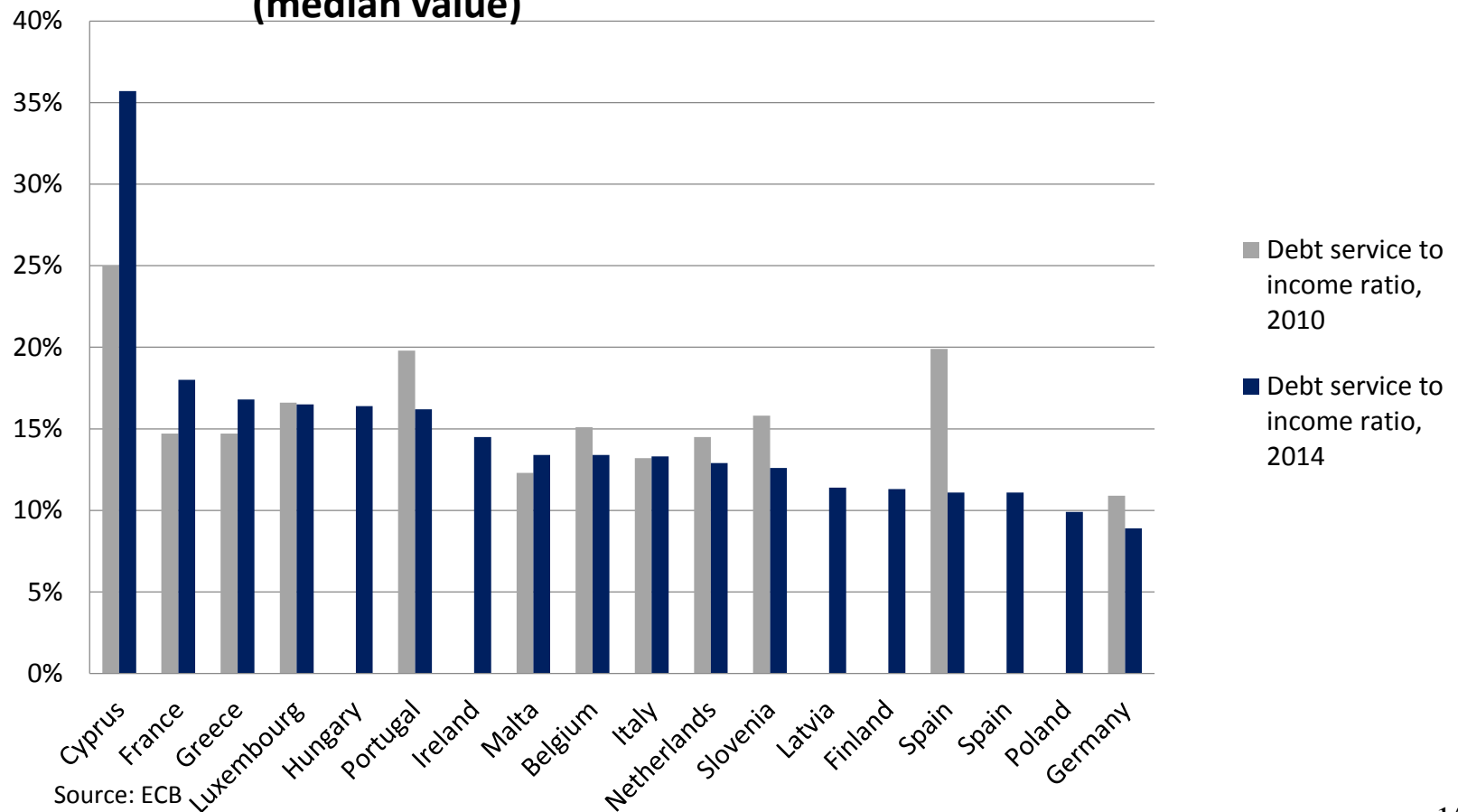
The evolution of NPLs of all credit institutions in Cyprus





## Annex 6 (cont.) : Data from Household Finance and Consumption Survey for Cyprus

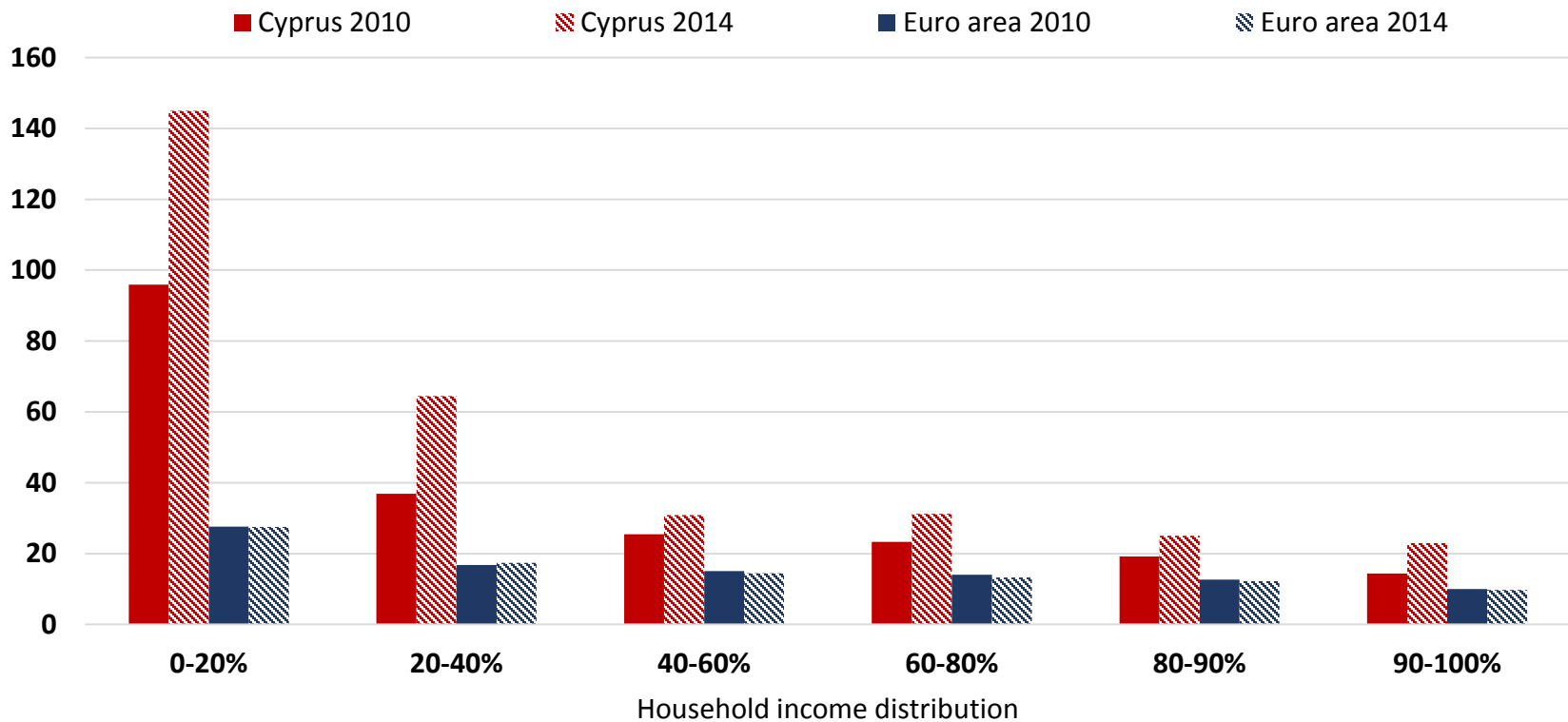
**Household debt service to income ratio  
(median value)**





## Annex 6: Data from Household Finance and Consumption Survey for Cyprus

### Debt service to income ratio by income bracket (Median)



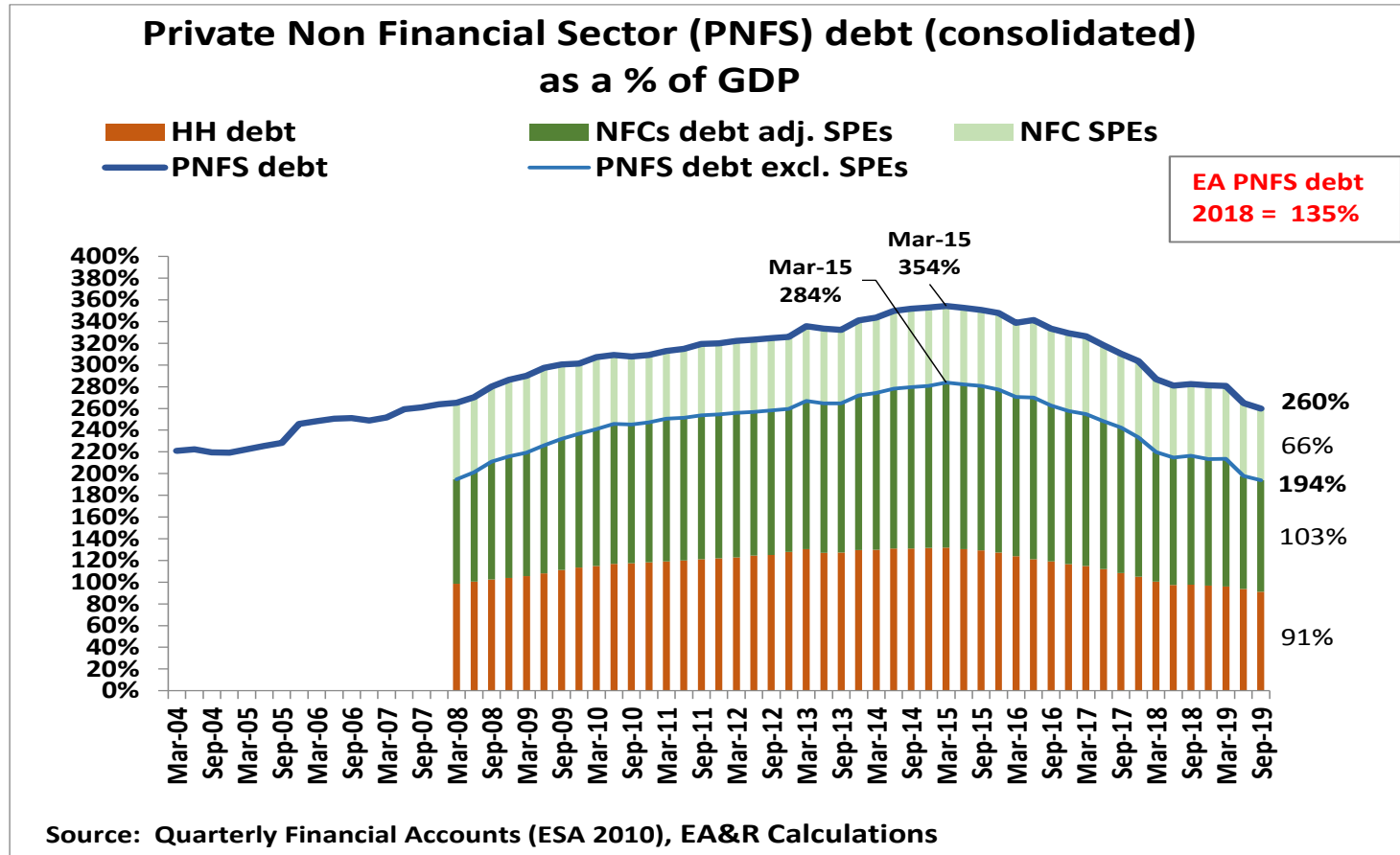
Source: ECB, CBC calculations.







## Annex 7



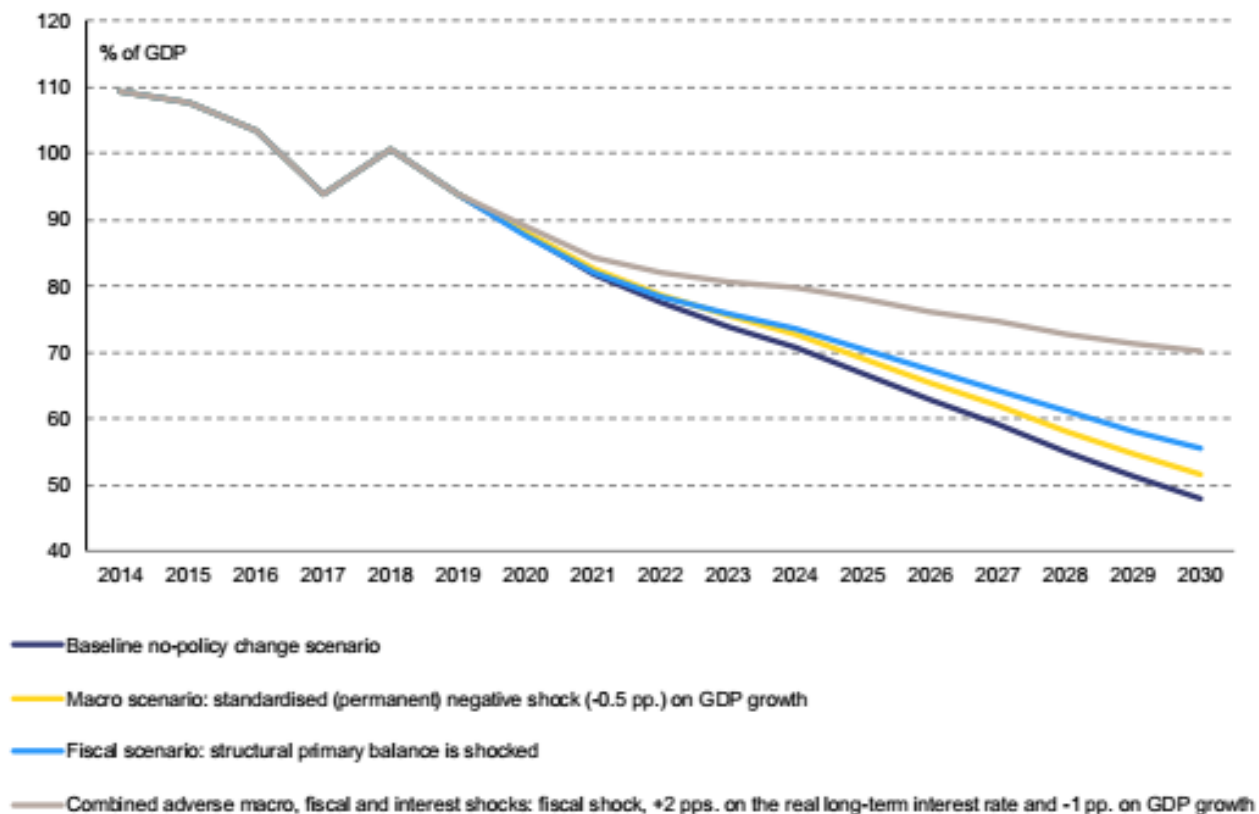


## Annex 8

### High level of public debt

(from *Post-Programme Surveillance Report, Cyprus, Autumn 2019*)

Graph A1.1: DSA scenarios



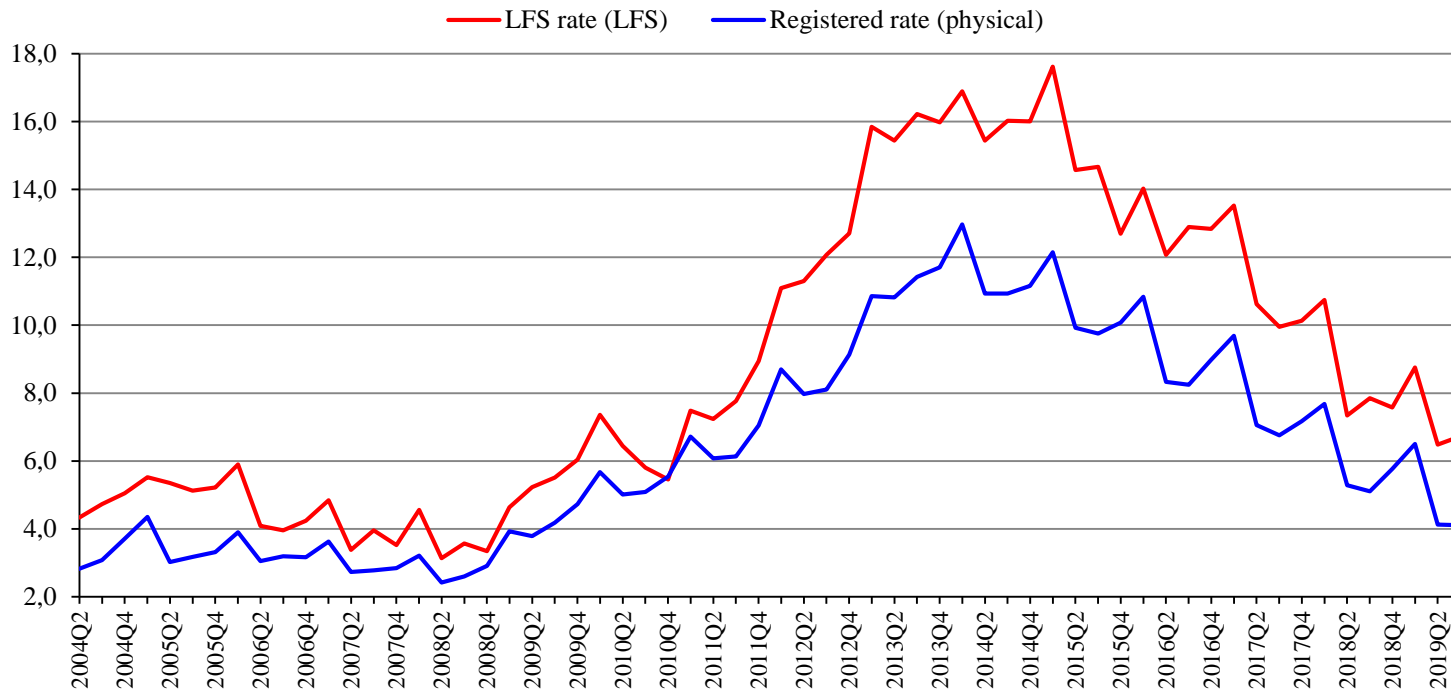
Source: European Commission





## Annex 9a (cont.)

### Unemployment rate

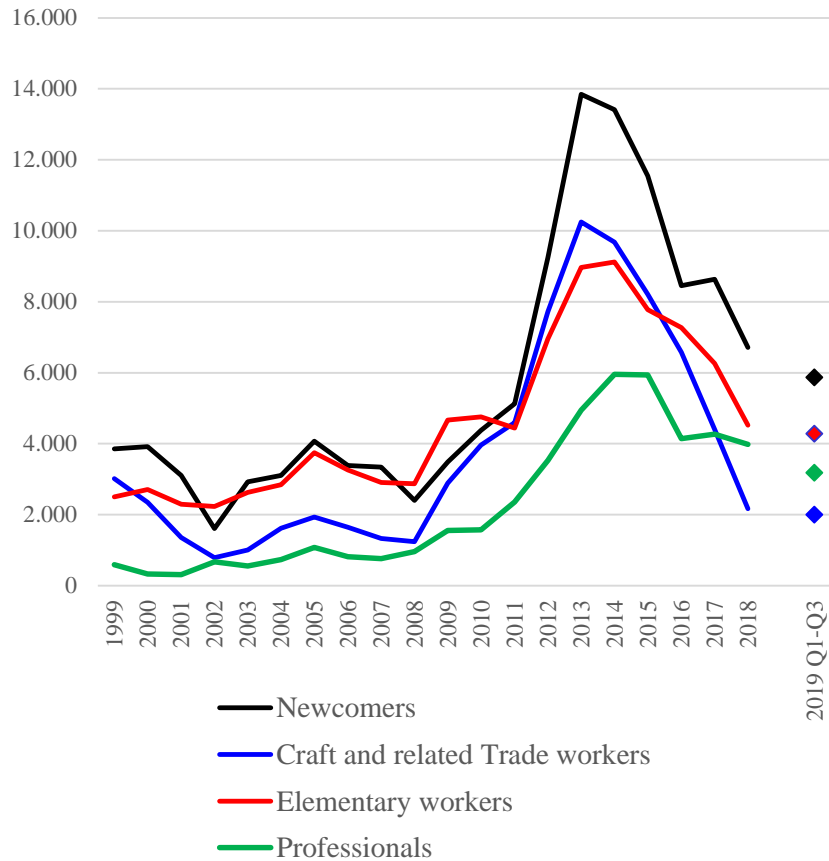


Sources: Cystat, CBC calculations

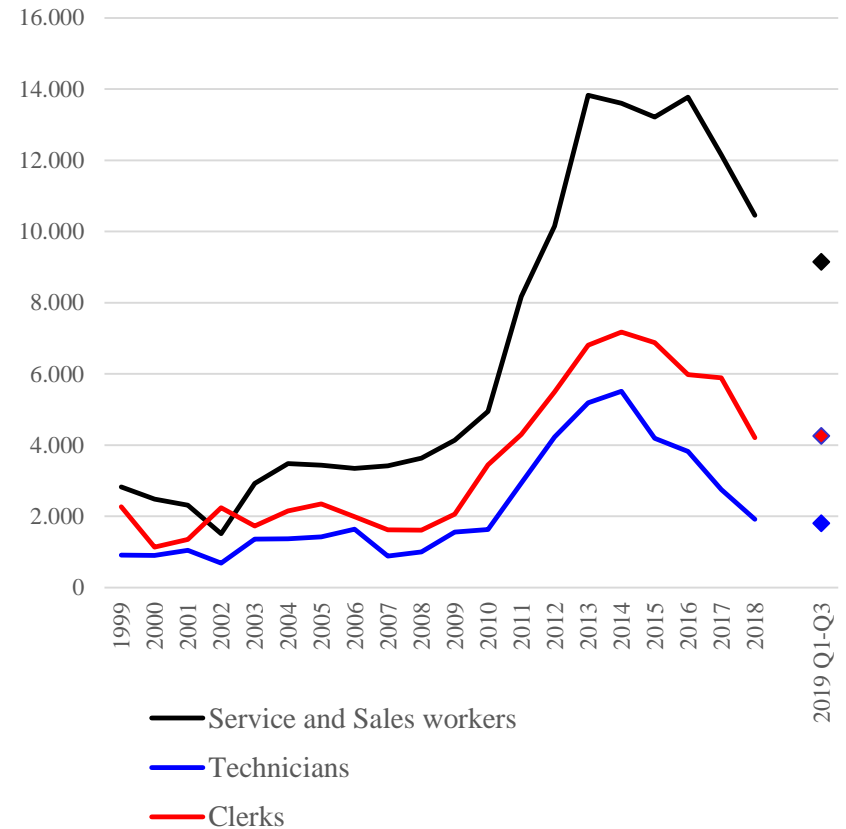


## Annex 9b

### Unemployed by profession (LFS)



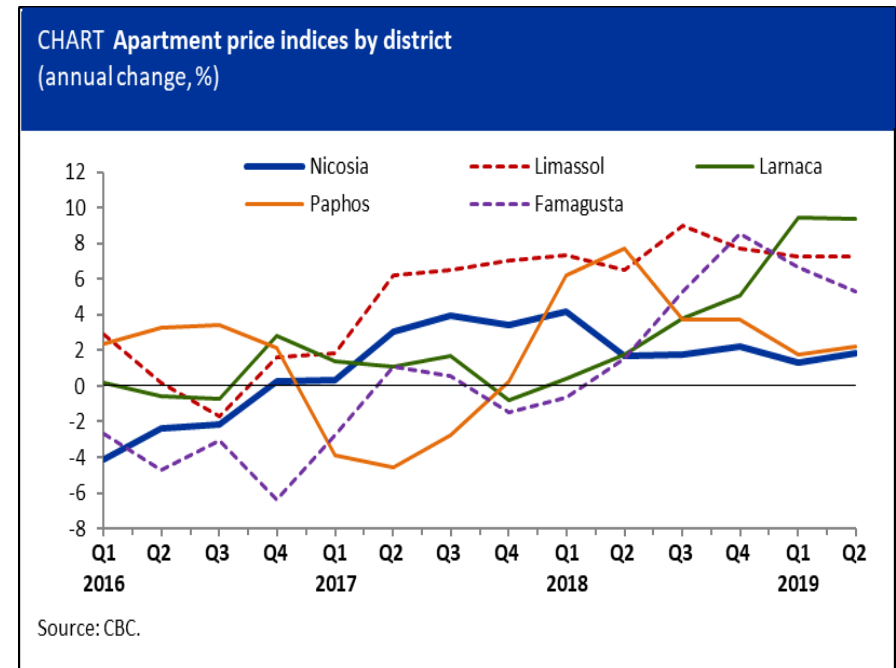
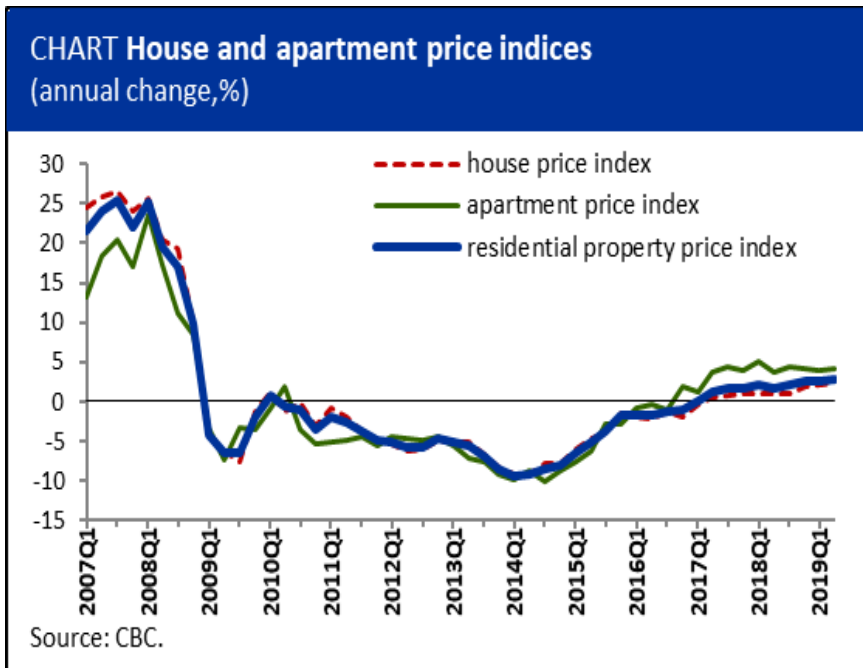
### Unemployed by profession (LFS)





## Annex 10

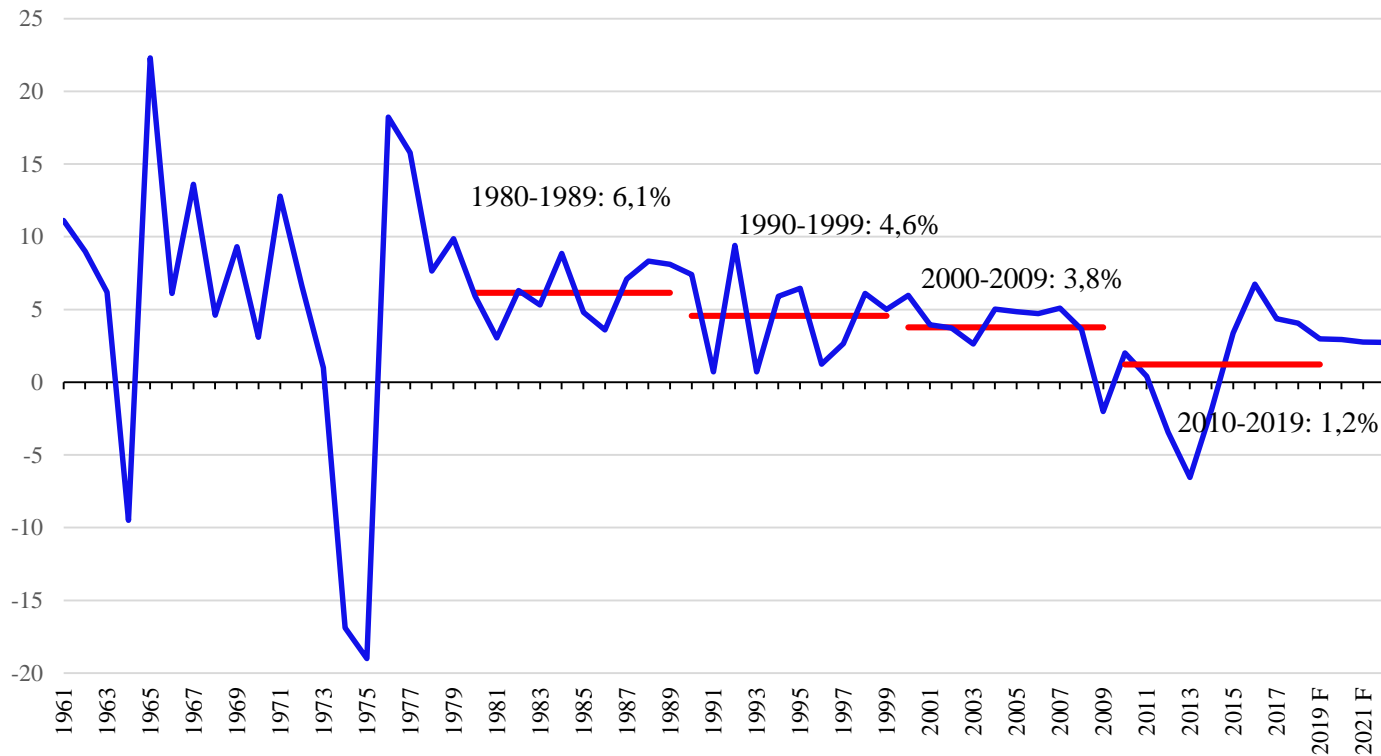
### Impact of external environment on real estate?





## Annex 11

### GDP growth in Cyprus 1961-2022





CENTRAL BANK OF CYPRUS  
EUROSYSTEM



THANK YOU



Main results from Wave 1 and Wave 2	Wave 1	Wave 2
<b>Hhs with no Loans %</b>	33,3	40,9
Gross HH income - EUR, average	27.384	23.495
Deposits – EUR, average	32.741	28.207
Total Liabilities - EUR, average	0	0
Total Real Assets - EUR, average	412.849	223.330
Total Real Assets excl. HMR Value - EUR, average	231.847	114.798
<b>Hhs with Loans %</b>	66,7	59,1
Gross HH income - EUR, average	51.530	35.040
Deposits – EUR, average	32.548	16.553
Total Liabilities - EUR, average	116.058	129.216
Total Real Assets - EUR, average	676.035	430.504
Total Real Assets excl. HMR Value - EUR, average	366.841	216.936
<b>Hhs with 90DPD (% of Hhs with loans)</b>	10,8	27,0
Gross HH income - EUR, average	37.082	23.561
Deposits – EUR, average	13.634	6.643
Total Liabilities - EUR, average	160.732	193.947
Total Real Assets - EUR, average	530.600	399.997
Total Real Assets excl. HMR Value - EUR, average	281.275	203.092
<b>Hhs with Performing Loans (% of Hhs with loans)</b>	89,2	73,0
Gross HH income - EUR, average	53.282	39.286
Deposits – EUR, average	34.842	20.219
Total Liabilities - EUR, average	110.641	105.268
Total Real Assets - EUR, average	693.671	441.790
Total Real Assets excl. HMR - EUR, average	377.218	222.058





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 80% 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 until recently
  - cultural practice to hold a safety net in times of hardship