
Outlook for the Cyprus Economy for 2017-2018

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- ▶ 2. Projections are nearly always wrong

Current state

1. External environment

- ▶ Slowly improving external environment, despite challenges (low growth in EU, crisis in Russia)
- ▶ Geopolitical tensions appear to have a positive impact

2. Policy environment

- ▶ Fiscal consolidation as a result of the adjustment program
- ▶ New lending gradually picking up - low interest rates, despite NPLs
- ▶ Exchange rate appreciation vis - vis UK and Russia
- ▶ Wage adjustment – profitability
- ▶ Passports for residency
- ▶ However, limited structural reforms
- ▶ Confidence returning

Current state (cont.)

3. Outcomes

- ▶ Growth much better than expected : Tourism, real estate, svs
- ▶ Labour market : Job creation, wages moderation
- ▶ CA - trade account - income account
- ▶ PF
- ▶ Leverage
- ▶ Low investment - low productivity
- ▶ Model : adaptability, flexibility, exploitation of opportunities - Lack of strategic vision, innovation, quality improvement

Factors affecting short term prospects

1. Employment & wage dev – on the upside
2. Leverage - NPLs
3. Confidence
4. Fiscal policy
5. Expectations – Assessments by Troika, rating agencies
6. Interest rates
7. Export demand for tourism & Exchange rate
8. Utilization potential for svcs

Commission & IMF & rating agencies projections

	IMF			European Commission			CBC			CyERC			Consensus Economics		
	2016	2017	2018	2016	2017	2018	2016	2017	2018	2016	2017	2018	2016	2017	2018
GDP %	2,8	2,2	2,3	2,8	2,5	2,3	2,8	2,8	3,1	2,9	3,2	n/a	2,7	2,5	n/a
	<i>*WEO Oct 2016</i>			<i>*Autumn 2016 forecasts</i>			<i>*December 2016 Bullet in</i>			<i>* October 2016</i>			<i>*December 2016 issue</i>		

	Standard and Poor			Moody's			Fitch			DBRS			AVERAGE		
	2016	2017	2018	2016	2017	2018	2016	2017	2018	2016	2017	2018	2016	2017	2018
GDP %	2,7	2,7	2,5	2,9	2,7	2,5	2,9	2,6	2,5	2,8	2,5	n/a	2,8	2,6	2,5
	<i>*September 2016</i>			<i>*November 2016</i>			<i>*November 2016</i>			<i>* December 2016</i>					

Short term prospects

1. All indicators point to the right direction
2. Broad based growth - unemployment - inflation
3. CAD may turn negative (imports, income account)
4. Fiscal would likely remain broadly balanced/ risks/ moderately expansionary/risks
5. Likely to perform in line even surpass target expectations

Factors affecting medium term prospects

1. Total factor productivity

CY	Output Gaps (% of Potential Output)		Actual Output Growth (annual % change)	Potential Growth (annual % change)		Contributions to Potential Growth*				
	HP Filter	PF method		HP Trend Growth	PF Potential Growth	Total Labour (Hours) Contribution	Labour (persons) Contribution	Changes in Hours (per Empl) Contribution	Capital Accumulation Contribution	TFP Contribution
2006	1,9	3,9	4,5	2,7	3,6	1,3	(1,6)	(-0,3)	2,3	0,0
2007	4,4	5,0	4,8	2,2	3,7	1,4	(1,6)	(-0,1)	2,5	-0,2
2008	6,7	5,2	3,9	1,7	3,7	1,5	(1,5)	(-0,1)	2,6	-0,3
2009	3,6	0,9	-1,8	1,2	2,4	0,9	(1,1)	(-0,1)	1,8	-0,3
2010	4,2	0,3	1,3	0,7	2,0	0,7	(0,9)	(-0,3)	1,5	-0,2
2011	4,2	-0,6	0,3	0,3	1,2	0,5	(0,8)	(-0,4)	1,0	-0,2
2012	0,9	-3,4	-3,2	0,1	-0,4	-0,5	(-0,1)	(-0,4)	0,4	-0,3
2013	-5,1	-7,3	-6,0	0,0	-1,9	-1,8	(-1,4)	(-0,4)	0,2	-0,3
2014	-6,6	-6,4	-1,5	0,1	-2,5	-2,0	(-1,7)	(-0,4)	-0,2	-0,2
2015	-5,3	-3,7	1,7	0,3	-1,2	-1,0	(-0,7)	(-0,3)	0,0	-0,1
2016	-3,3	-0,8	2,8	0,6	-0,3	-0,4	(-0,3)	(-0,2)	0,1	0,0
2017	-1,7	1,6	2,5	0,9	0,1	-0,3	(-0,2)	(-0,1)	0,3	0,2
2018	-0,5	3,4	2,3	1,1	0,5	-0,1	(-0,0)	(-0,1)	0,4	0,2
2019				1,4	0,7	0,0	(0,0)	(-0,1)	0,5	0,2
2020				1,5	0,7	-0,1	(-0,0)	(-0,1)	0,5	0,2
2021				1,6	0,7	-0,1	(-0,0)	(-0,1)	0,5	0,2

- ▶ Output gap is counter intuitive
- ▶ Potential growth lower than historical performance

Factors affecting medium term prospects (cont.)

2. Employment
3. Investment
4. Productivity
5. Leverage
6. Discussions on tax transparency



Medium term prospects

1. Difficult to predict
2. Factors are pointing to a less benign outcome



Downside Risks

1. Geopolitical tensions in our region
2. USA elections
3. EU elections
4. Brexit



Upside risks

1. Energy

2. Cy problem?



Conclusions

- ▶ Likely to perform well in the short term and face challenges in the medium term

- ▶ Policy implications
 1. Fiscal policy: No room to support growth-restructuring of expenditure-
another tax reform

 2. Macroprudential policy

 3. Wages: Flexibility – link to productivity

 4. Reforms- PSR – Privatisations - Health Care – Targeted Support for
innovation and upgrading of quality