

The Cyprus Stock Exchange as a leading indicator

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Abstract

We show that the Cyprus Stock Exchange (CSE) index could potentially be employed as a gauge for the economy's future. In particular, the CSE index appears to have a leading indicator property with both the unemployment rate and domestic loans, something that is more visible in post-2013 sample. This evidence, obtained using a VECM model for Cyprus, supports the view that, despite the lack of a large liquidity in the Cyprus market, the index does reflect investors' perceptions about the economy's future. What perhaps justifies the smaller extent of the relationship prior to 2013 is that the change in lending and interest rates at the time was largely unrelated to changes in the underlying fundamentals of the economy and more associated to the state of the real estate market.

Keywords: CSE, leading indicator, unemployment rate, Cyprus

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