



Macroeconomic Environment

1. The Cyprus economy is estimated to have contracted by 5.4% in 2013. The contraction was not as steep as projected in the baseline scenario of the original Memorandum of Understanding which assumed an annual contraction of 8.7%. It is also an improvement related to the recent projection by the troika partners (-6%).
2. Given the significant deceleration of the economy, the unemployment rose steeply, reaching around 16% in 2013, a rate considerably high for Cyprus. However, recent evidence points to a slowdown of the increasing trend in unemployment.
3. Tourist arrivals in 2013 declined moderately by 2.4%, while revenues from tourism exhibited a significant increase of 8.4% over 2012 (data up to November 2013).
4. Compensation per employee in the first nine months of 2013 declined by 4.9% compared to the first nine months of 2012, contributing to a decline of nominal unit labour cost, thus improving cost competitiveness.
5. Inflation remains subdued, mainly reflecting the adjustment of prices to recent economic developments. As measured by the HICP, inflation decreased by 1.3% in December 2013 and for 2013 as a whole, it stood at +0.4%.
6. Exports of goods increased substantially by 10% in 2013 compared to 2012. The largest increases were exhibited in pharmaceuticals, cement and industrial products of agricultural origin.

Banking sector

Restrictive Measures on Transactions

- The Republic is continuing with the implementation of the Roadmap for the gradual relaxation of the restrictive measures on capital flows.
- Currently the Republic is implementing the measures of stage 2 of the Roadmap.
- As from the 21st February 2014 the following relaxations took place:
 - Relaxation of restrictive measures relating to fixed deposits, and
 - Relaxation of the current limit to transfers within the Republic.

Government Guarantees for Credit Institutions

- The Council of Ministers and the relevant Parliamentary Committee of the House of Representatives approved the issuance of additional guarantees up to €2.9 bn to Credit Institutions as contingency collateral in case of need, in line with state aid rules

Cooperative Credit Institutions

- The €1.5 bn earmarked for the recapitalization of Cooperative Credit Institutions (CCI's) was disbursed to the Republic of Cyprus in September 2013 and is expected to be disbursed to the Cooperative Central Bank upon approval of the restructuring plan by the European Commission.
- The mergers of the Individual Cooperative Credit Institutions are expected to be completed by the end of March 2014. The number of CCI's after the mergers will be 18.

Fiscal Developments:

1. General Government Primary Balance (GGPB) exhibited an improvement in 2013 and was contained to a deficit of €296 mn compared to a deficit of €576 mn during the year before. As a percentage to GDP, the GGPB during the period under review is estimated at 1.8% compared to a deficit of 3.3% in 2012.
2. General Government Budget Balance (GGBB) exhibited a similar improvement with the deficit falling to €845 mn (5.1% of GDP) in 2013 comparing to a deficit of €1,127 mn (6.4% of GDP) the year before. As a percentage to GDP, the GGBB in 2013 is estimated at 5.1% compared to a deficit of 6.4% the year before.
3. One off factors both on the revenue and on the expenditure side estimated at -€268 mn had a negative impact on the budget balance. These one off factors are associated with the signature fees for the exploration of hydrocarbon reserves (€180 mn) as well as increased outlays for gratuities (-€39 mn), state aid provided to Cyprus Airways (-€40 mn), compensation to provident and pension funds with deposits held at ex-Laiki Bank (-€299 mn) and dividend income from SOE's (-€70 mn).
4. Total revenue reached €6.7 bn during 2013 exhibiting a decline of 5.7% vis-à-vis the year before.
5. Total expenditure reached €7.5 bn during 2013 exhibiting a decline of 7.8% vis-à-vis the year before.
6. Compensation of employees in 2013 fell to €2,567 mn compared to €2,820 mn the year before exhibiting a decline of 9% brought by the reduction in wage and salary levels, as well as by a wave of early retirements. By excluding pensions and gratuities increase due to the latter, an one off factor, this contraction rises to 16% out of which 7% is attributed to a fall in the employment levels.

Public debt and financing:

1. The General Government Debt remained stable at €18.4 bn by end December 2013 from the end of September 2013. The additional funding by the ESM and IMF did not have an effect as roughly equal amounts of debt matured within the same period.
2. Short term debt yields have been following a slightly downward trend during Q4 dropping from 4.79% at the end of Q3 to 4.72%.
3. Long term bond yields continued to drop drastically during the period December 2013 to January 2014 with rates dropping below 8% for the first time since July 2011.
4. Next Programme disbursements are scheduled in March 2014 from the ESM (€150 mn) and the IMF (74.3 mn SDR; est. around €85 mn depending on exchange rate)
5. There were no rating actions on the sovereign rating of the Republic of Cyprus during the period December 2013 to January 2014.

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Links:

Macroeconomic monitor:

http://www.mof.gov.cy/mof/mof.nsf/page23_en/page23_en?OpenDocument

Public Debt Quarterly Bulletin:

<http://www.mof.gov.cy/mof/pdmo/pdmo.nsf/All/F0C650FEBD5E4C11C225788D00208D2A?OpenDocument>

Roadmap on relaxation of capital controls:

[http://www.mof.gov.cy/mof/mof.nsf/All/3766C4D62B9EDE71C2257BC2002E22E9/\\$file/Roadmap%20PresentationLHM07%2008%202012ENG%20\[Compatibility%20Mode\].pdf](http://www.mof.gov.cy/mof/mof.nsf/All/3766C4D62B9EDE71C2257BC2002E22E9/$file/Roadmap%20PresentationLHM07%2008%202012ENG%20[Compatibility%20Mode].pdf)