



Macroeconomic Environment:

- In the 2nd quarter of 2015, the rate of growth (in seasonally adjusted terms) accelerated to 0.8% compared with a rate of growth of 0.1% in the 1st quarter of 2015 on an annual basis.
- Having regard that, the business operating environment exhibits signs of growth amid improving conditions given a marginal positive lending to non-financial corporations in conjunction with falling interest rates, we assume a return to growth as from 2015.
- The economic sentiment indicator by CypERC increased by 6.6 points in August 2015 compared to July 2015. This increase is mainly due to a further strengthening of economic confidence in the services sector as well as consumers' expectations.
- Exports of goods increased by 21.7% in January-July 2015 compared to January-July 2014, mainly due to the transfer of economic ownership of mobile transport equipment.
- In January-August 2015 tourist arrivals increased by 6.2% compared to January-August 2014. An increase of 46.2% was recorded in tourist arrivals from Israel, a 34.8% increase from Germany, a 16.3% increase from the UK and a 41.6% increase from Greece. On the other hand a 19.6% decrease was recorded in arrivals from Russia.
- Inflation (HICP) for August 2015 was -1.9% compared to -2.4% in July 2015 and for 2015 so far it stands at -1.6%. This development is attributed mainly to the significant decline in prices of energy products including second round effects. Core inflation during the aforesaid period stands at -0.4%.
- Labour Force Survey (LFS) unemployment, in monthly seasonally adjusted terms, decreased marginally to 16.3% in July 2015 compared to 16.4% in July 2014. The most affected segment of the population is youth, although it has been on a downward trend since January 2014. Particularly challenging is also the increase in long-term unemployed.
- Compensation per employee in the 1st half of 2015 declined by around 1.1% compared to the 1st half of 2014, contributing to a decline of nominal unit labour cost and improving cost competitiveness further. The observed wage adjustment is expected to help containing the upward pressure on unemployment.

Banking Sector:

- The Foreclosure Law, the Insolvency Framework and the relevant Regulations which are important for addressing the Non-Performing Loans issue, have been enacted by the House of Representatives on the 17th of April 2015, and are being implemented.
- In addition, on the 4th of September 2015, the House of Representatives passed the Transfer and Mortgage (Amending) Law of 2015, which deals with the longstanding problem of title deeds transfer to home buyers, when the property they bought is encumbered by the seller (developer). In specific, title deeds will be issued to buyers who submitted the sale contract up until 31.12.2014, whether they paid the price fully or partially (and continuing to pay).

- Banking Institutions continue to reduce their operational costs and improve their profitability, as well as strengthening their capital position.
- There was a moderate decrease in deposits in the first six months of the year, due to the developments in Greece (especially in the Greek subsidiary banks). Deposits stabilized in June-August 2015, after the agreement reached on the Greek issue at the European Council and are exhibiting an increase.
- Excluding extraordinary transactions, loans are still on a modest decreasing trend, due to the deleveraging efforts by banks, and mostly the actions undertaken by the Greek subsidiaries to reduce exposure to Greece and their parent companies.

Cooperative Credit Institutions:

- Regarding the six-month results, the Co-operative Central Bank announced a net profit of €46.7 mln in the first half of 2015 compared to €85.6 mln in the corresponding period of 2014. The decrease is mainly due to the much lower net interest revenues as a result of the drop in the lending rates since March 1, 2015 as evident by the declining net interest ratio of 2.5% from 2.7% in 2014. Net income from interest fell to €167 mln from €203 mln.
- A substantial decline in staff expenses from €66 mln to €47 mln contributed to a milder decrease of operating profit before provisions to €99 mln from €118 mln. The cost to income ratio deteriorated to 40.4% from 37.4% as at December 31, 2014. The cost of provisions stood at €52 mln from €54 mln in the first half of 2014.
- Loans and advances amounted to €9.9 bln after provisions for bad debts, marginally lower compared with December 31, 2014 as a result of weak demand for new borrowing and the deleveraging process attempted by both individual and business customers. Loans in arrears of more than 90 days increased by €126 mln compared with December 31, 2014 primarily due to the recognition of interests reaching an amount of €6.8 bn.
- Deposits and other customer accounts amounted to €12.7 bln and have recorded an increase of €327 mln compared with end of 2014. The Coops managed to strengthen the funding ratio (net loans to deposits) to 77.6% compared with 81.6% at the beginning of the year. At the end of the period, the Cooperatives maintained 2,665 job posts and had the largest nationwide branch network with 256 service points.

Fiscal Developments – January-August 2015:

- General government budget balance (GGBB) was in surplus during the period January-August 2015 of the order of €118.8 mln (0.7% of GDP) compared to a surplus of €141.5 mln (0.8% of GDP) during the same period of the previous year. General government primary balance (GGPB) was in surplus during the period under review, of the order of €472.3 mln (2.7% of

GDP) compared to a surplus of €473.5 mln (2.7% of GDP) during same period of the previous year.

- Total revenue exhibited a slightly negative rate of growth of around 0.8% during the period January-August 2015, reaching €4,426 mln compared to €4,461 mln during the same period of the year before. This outcome is mainly attributed to a lower Central Bank dividend received this year compared to the one received during April 2014, by about €30 mln.
- Total expenditure exhibited a marginal negative rate of growth of around 0.3% during the period under review, reaching €4,307 mln, compared to €4,319 mln during the same period of the year before. Intermediate consumption, compensation of employees and social transfers exhibited a decline of the order of 7.7%, 1.7% and 2.7% respectively.

Public debt and financing:

- Standard & Poor's upgraded the Republic of Cyprus on the 23rd of September by one notch from B+ to BB- and assigned a positive outlook citing the significant progress shown in the fiscal performance and the removal of capital controls.
- The volume of issued Treasury Bills has been reduced significantly by the PDMO as the better than predicted fiscal situation has led to the creation of significant cash reserves. The initial target of maintaining €500 mln of short term debt has been revised to €400 mln, a target that was achieved during the last auction on the 2nd of October. Yields have been reduced significantly with the weighted average yield for 13-week Treasury Bills dropping to 1.58% from 1.87% in September.
- Both the IMF and the ESM have decided to disburse the scheduled tranches (total €625 mln) in September/October 2015.

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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/\\$file/CY%20Qrt%20Bulletin%20Q2_2015.pdf](http://www.mof.gov.cy/mof/pdmo/pdmo.nsf/All/F0C650FEBD5E4C11C225788D00208D2A/$file/CY%20Qrt%20Bulletin%20Q2_2015.pdf)

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The information has been compiled and verified to the best of our knowledge. The possibility of a factual mistake cannot, however, be excluded