



#### Macroeconomic Environment:

- **In the 3<sup>rd</sup> quarter of 2017, GDP** (in seasonally adjusted terms) **recorded a positive rate of growth of 3.9% same as in the 2<sup>nd</sup> quarter of 2017** on an annual basis. The increased activity was broad-based and is mainly attributed to sectors: hotels and restaurants, retail and wholesale trade, construction, and manufacturing. The sector financial and insurance activities sector was the only sector recording a negative growth rate.
- Developments are currently driven by increases in **private consumption and gross fixed capital formation**.
- **Imports of goods increased by 6.9%** in January-September 2017 compared to January-September 2016. The increase in imports is affected by developments in imports of transport equipment (airplanes and vessels). Imports of goods, excluding imports of transport equipment, exhibit an increase of 19%.
- **Exports of goods increased by 9%** in January-September 2017 compared to January-September 2016 due to exports of transport equipment (vessels) occurred in the latter period. Exports of goods, excluding exports of transport equipment, exhibit an increase of 25.9%.
- During January-October 2017 **tourist arrivals increased at a rate of 14.6%** compared to the corresponding period of 2016. An increase of 60% was recorded in tourist arrivals from Germany, a 7.9% increase from the UK, a 7.1% increase from Greece and a 5.2% increase from Russia.
- The **current account balance** in the 1<sup>st</sup> half of 2017 presented a deficit of €720 mn (-3.8% of GDP) compared with a deficit of €392 mn (-2.2% of GDP) in the 1<sup>st</sup> half of 2016. The Current Account balance for the 1<sup>st</sup> half of 2017, excluding Special Purpose Entities (Cyprus residents with no interaction with the domestic economy), records a deficit of 1.9% of GDP compared to a surplus of 0.4% of GDP during the corresponding period of the year before.
- **Inflation (HICP)** in October 2017 increased by 0.4% compared to an increase of 0.1% in September 2017. For 2017 so far it stands at 0.8%. Core HICP inflation stood at 0.1% during January-October 2017.
- Labour Force Survey **unemployment**, in monthly seasonally adjusted terms, decreased to **10.3% in September 2017 compared to 13.0% in September 2016**. The most affected segment of the population is youth unemployment, although it has been on a downward trend since the 3<sup>rd</sup> quarter of 2013 falling to 25.5% in September 2017 from the peak of 40.1% in the 3<sup>rd</sup> quarter of 2013. Particularly challenging is also the relatively high long-term unemployed (5.1 % in the 2<sup>nd</sup> quarter of 2017).
- **Compensation per employee** increased by around 0.4% in the 1<sup>st</sup> half of 2017 compared to the 1<sup>st</sup> half of 2016. The observed benign wage adjustment is expected to help maintaining a downward trend in unemployment.

#### Banking Sector:

- The **capital position** has recently declined, following provisioning for non-performing exposures (NPEs), remaining at adequate level. CET1 capital ratio of the Cypriot banking sector reached 15.0% at 30/06/2017 (15.9% at 31/12/2016 and 15.7% at 31/12/2015).
- **Non-performing exposures** continued their downward trend in absolute terms reaching €22.7 bn at 31/07/2017, down from €24.3 bn at 31/12/2016 and €27.3 bn at 31/12/2015).
- **Provisions** on non-performing exposures continued increasing as a share of the NPEs, reaching 47% at 31/07/2017 (42% on 31/12/2016 and 38% on 31/12/2015).
- **Restructurings** were €12.7 bn at 30/06/2017 (€13.45bn on 31/12/2016, and €14.15 bn at 31/12/2015). Data show that over 68% of undertaken fixed-term loan restructurings abide by the new repayment schedule agreed as part of the restructuring.

- **Deposits** in the banking system have been on a rising trend since the second half of 2015 with deposits increasing from €44.5 bn in June 2015 to €49 bn in September 2017.
- Total **loans** continued their decreasing trend, being €52.6 bn in September 2017, down from €62.7 bn in December 2015, mainly due to write offs in the context of debt restructurings.
- Despite the overall decline of loans and strict criteria in supplying new credit, new **lending** (including loans transferred from other banks) is on an upward trend. New loans towards Non-Financial Corporations during the first nine months of 2017 reached €1877 mn (total 2016: €2334 mn), while towards Households reached €819 mn (total 2016: €1281 mn).
- Since January 2017 the **Bank of Cyprus**' shares are listed and traded both at the London Stock Exchange and the Cyprus Stock Exchange. Moreover, the Bank issued €250 mn unsecured and subordinated Tier 2 Capital Notes, with a coupon of 9.25% and a ten-year maturity, with an option to call at 5 years. The book was oversubscribed by 2.4 times. Most investors were UK-based fund managers.
- **Hellenic Bank** has executed a 10-year service level agreement with APS Cyprus, an independent company, for the management of the Bank's non-performing loan and real estate portfolio retaining ownership of the said portfolios.
- During **Cyprus Cooperative Bank** EGM on July 17, the shareholders approved: (i) the creation of an NPE platform in cooperation with the Spanish Altamira Asset Management; (ii) the introduction of 6.036.000.000 ordinary shares in the Main Market of the Cyprus Stock Exchange at a listing price of EUR 0.10; (iii) the renaming of "Cooperative Central Bank" to "Cyprus Cooperative Bank". The agreement with Altamira constitutes a landmark for the bank in its efforts to reduce the high stock of NPEs (EUR 7.2bn), in line with European banking standards.
- The Cooperative Cyprus Bank has appointed Citibank as an investment advisor in view of its upcoming capital raising which should materialize by July 2018. Based on the bank's restructuring plan the government's shareholding of 99% should be reduced at levels below 25% by 2020.
- Eurostat's **house price index** for Cyprus increased to 74.1 in the first half of 2017 compared to the 73.5 at 31/12/2016 (basis of 100, is the 2010Q1).

#### Fiscal Developments:

- General government **budget balance was in surplus in 2016** of the order of €82 mn (0.5% of GDP) compared to a deficit of €209 mn (-1.1% of GDP) in 2015.
- General government **primary balance was in surplus during 2016** of the order of €547 mn (3% of GDP) compared to a surplus of €299 mn (1.7% of GDP) during the year before.
- During the **period January-September 2017** general government **budget balance was in surplus** of the order of €429 mn (2.4% of GDP) compared to a surplus of €143 mn (-0.7% of GDP) during the same period of the year before.
- General government **primary balance was in surplus during the period January-September 2017** of the order of €825 mn (4.5% of GDP) compared to a surplus of €519 mn (2.9% of GDP) during the same period of the year before.
- **Total revenue** exhibited a positive rate of growth of about 9.3% reaching €5,372 mn during the first nine months of 2017 compared to €4,917 mn during the same period of 2016.
- **Total expenditure** exhibited an increase of about 3.5% reaching €4,943 mn during the first nine months of 2017 compared to €4,447 mn during the same period of the year before.

### Public debt and financing:

- The General Government **Debt** reached €19.5 bn in September 2017, remaining fairly stable over the end 2016 debt of €19.4 bn.
- Following an early partial repayment of a loan from the Central Bank of Cyprus for €0.6 bn in November, the debt-to-GDP ratio is projected to fall below 100% at end year 2017.
- Available **cash** covers the financing needs of 2018.
- The Cyprus 2024 **bond** (most recent issuance) has rallied since its launch in June from 2.61% down to 1.29% in early December, whilst the yield of the Cyprus 2025 bond (longest point) has declined from 2.30% in mid September to 1.53% at the beginning of December.
- The yield at the monthly 13-week **Treasury Bill** auctions continue to be negative. The latest auction of November recorded an average yield of -0.10% and a bid-to-cover ratio of 2.6.
- Fitch upgraded Cyprus by one notch on 20<sup>th</sup> October to BB with a positive outlook, while DBRS revised the **rating** outlook from stable to positive on 1<sup>st</sup> December 2017.

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### **New publications:**

Quarterly Debt Bulletin Q2-2017

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

Draft Budgetary Plan 2018

[http://mof.gov.cy/assets/modules/wnp/articles/201710/355/docs/draft\\_budgetary\\_plan\\_2018\\_final.pdf](http://mof.gov.cy/assets/modules/wnp/articles/201710/355/docs/draft_budgetary_plan_2018_final.pdf)

Macroeconomic monitor November 2017

<http://mof.gov.cy/en/publications/economic-development-bulletins/65/macroeconomic-monitor-of-cyprus-2017>

Fiscal accounts Jan-Oct 2017:

[http://www.cystat.gov.cy/mof/cystat/statistics.nsf/economy\\_finance\\_12main\\_en/economy\\_finance\\_12main\\_en?OpenForm&sub=2&sel=1](http://www.cystat.gov.cy/mof/cystat/statistics.nsf/economy_finance_12main_en/economy_finance_12main_en?OpenForm&sub=2&sel=1)

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