



Macroeconomic Environment:

- In the 4th quarter of 2016, **GDP recorded a positive rate of growth of 2.9%** (in seasonally adjusted terms) as in the 3rd quarter of 2016 on an annual basis. The GDP increase is broad based and is mainly attributed to sectors: hotels and restaurants, professional, scientific and technical activities, retail and wholesale trade, manufacturing and construction. Negative growth rate was recorded in the financial services sector.
- Developments are currently driven by improving **private consumption and gross fixed capital formation**.
- The **economic sentiment indicator** by CypERC **decreased by 1.9 points in February 2017** compared to the preceding month; the decline resulted from the worsening of business confidence in services and retail trade, and the weakening of consumer confidence.
- **Imports of goods increased by 46%** in January 2017 compared to January 2016. **Exports of goods increased by 50%** in January 2017 compared to January 2016.
- In January-February 2017 **tourist arrivals increased at a rate of 26%** compared to January-February 2016. An increase of 122% was recorded in tourist arrivals from Russia, a 22% increase from the UK, a 21% increase from Greece while a 2% decrease was recorded from Germany.
- The **current account balance** recorded a deficit of €78 mn (-0.4% of GDP) in the first nine months of 2016 compared with a deficit of €316 mn (-1.8% of GDP) in the first nine months of 2015 mainly due to improvement in the services balance. Excluding the one-off transactions in imports and exports of mobile transport equipment the current account balance recorded a surplus of €485 mn (2.7% of GDP) during the reference period of 2016 compared with a deficit of €475 mn (-2.7% of GDP) during the corresponding period of 2015.
- **Inflation** (HICP) for February 2017 stood at 1.4% compared to 0.7% in January 2017. For 2017 so far it stands at 1%.
- Labour Force Survey (LFS) **unemployment increased to 14.1%** in January 2017 in monthly seasonally adjusted terms compared to 13.1% in January 2016.
- **Compensation per employee decreased** in 2016 by around 0.6% compared to 2015. The observed wage adjustment is expected to help maintaining a downward trend in unemployment.

Banking Sector:

- The **capital position** has been strengthened. CET1 capital ratio of the Cypriot banking sector reached 16.1% on 31/12/2016 (15.6% on 31/12/2015 and 14.2% on 31/12/2014).
- **Non-performing loans** continued their downward trend in absolute terms in 2016 (€24.2 bn on 31/12/2016, down from €27.3 bn on 31/12/2015 and €28.4 bn on 31/12/2014).
- **Provisions** on non-performing loans continued increasing as a % of the NPLs, reaching 42% on 31/12/2016 (38% on 31/12/2015 and 34% on 31/12/2014).
- **Restructurings** reached €13.6 bn in December 2016 (€14.6 bn on 31/12/2015, and €13.5 bn on 31/12/2014). Data shows that 73% of fixed-term loan restructurings undertaken, abide by the new repayment schedule agreed as part of the restructuring.

- **ELA** obtained by Bank of Cyprus was **fully repaid** in January 2017 (had peaked at €11.4 bn in April 2013), confirming the strengthening of the Bank and the restoration of confidence towards the Cyprus' banking system.
- **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 €49.3 bn in February 2017.
- Total **loans** continued their decreasing trend, being €55.2 bn in February 2017, down from €62.7 bn in December 2015, mainly due to write offs in the context of debt restructurings.
- Eurostat's **house price index** for Cyprus increased by 0.2% in the third quarter of 2016 compared to the second quarter of 2016, and decreased by 3.3% compared to the third quarter in 2015.

Fiscal Developments:

- General government **budget balance was in surplus in 2016** of the order of €9 mn (0.1% of GDP) compared to a deficit of €196 mn (-1.1% of GDP) in 2015.
- General government **primary balance was in surplus during 2016** of the order of €474 mn (2.6% of GDP) compared to a surplus of 299 mn (1.7% of GDP) during the year before.
- Total revenue exhibited a positive rate of growth of about 0.5% reaching €6920 mn in 2016 compared to €6883 mn during 2015. Total expenditure exhibited a decrease of about 2.4% reaching €6911 mn in 2016 compared to €7080 mn during 2015.
- General government **budget balance was in surplus during January 2017** of about €172 mn (0.9% of GDP) compared to a surplus of €102 mn during the same period of the year before (0.6% of GDP).
- General government **primary balance was in surplus during January 2017** of about €189 mn (1.0% of GDP) compared to a surplus of €115 mn (0.6% of GDP) during January 2016.

Public debt and financing:

- The General Government **Debt** reached €19.3 bn in December 2016 exhibiting an increase by about €0.35 bn over 2016. The increase has been diverted mainly to the accumulation of cash reserves. In net terms, the debt-to-GDP ratio registered a decline from 104% in 2015 to 102% in 2016.
- Available **cash** covers the financing needs up to the first quarter of 2018.
- The **yields at the benchmark bonds most recently followed a downward path**. The 2023 bond (most recent issuance) has currently a spread vs. Bunds of 316 bps down from 358 bps at end November while the spread of the 2025 bond (longest point on curve) has reduced at end March to 320 bps from 340 bps at end November.
- The yield at the monthly 13-week Treasury Bill auction declined to a record all-time low of -0.04% in the February auction. The bid-to-cover ratio was 3.1.
- In March Standard and Poor's **upgraded the sovereign's rating to BB+** with a stable outlook on robust economic and budgetary prospects. There was no announcement made on the scheduled review date by Moody's on 24th March. The next rating review is scheduled for 21st April by Fitch Ratings.

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Links:

Macroeconomic monitor:

<http://mof.gov.cy/en/publications/economic-development-bulletins/65>

Fiscal accounts:

[http://www.cystat.gov.cy/mof/cystat/statistics.nsf/All/FF787A99E7E121DBC2258021003CB42D/\\$file/PUB_FIN-FISCAL_DEVELOP-M-JAN17-EN-060317.pdf?OpenElement](http://www.cystat.gov.cy/mof/cystat/statistics.nsf/All/FF787A99E7E121DBC2258021003CB42D/$file/PUB_FIN-FISCAL_DEVELOP-M-JAN17-EN-060317.pdf?OpenElement)

Public debt management quarterly bulletin:

[http://www.mof.gov.cy/mof/pdmo/pdmo.nsf/All/F0C650FEBD5E4C11C225788D00208D2A/\\$file/CY%20Qrt%20Bulletin%20Q3_2016%20%CE%95%CE%9D.pdf](http://www.mof.gov.cy/mof/pdmo/pdmo.nsf/All/F0C650FEBD5E4C11C225788D00208D2A/$file/CY%20Qrt%20Bulletin%20Q3_2016%20%CE%95%CE%9D.pdf)

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