



Macroeconomic Environment:

- In the 1st quarter of 2017, **GDP recorded a positive rate of growth of 3.3%** (in seasonally adjusted terms) from 2.9% in the 4th quarter of 2016 on an annual basis. The GDP increase is broad based and is mainly attributed to sectors hotels and restaurants, 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 **increased by 1.3 points in April 2017** compared to the preceding month, driven by confidence improvements in services, construction and retail trade sectors.
- **Imports of goods increased by 35.2%** in January-March 2017 compared to January-March 2016. The increase in imports is influenced by imports of transport equipment (airplanes).
- **Exports of goods decreased by 33.5%** in January-March 2017 compared to January-March 2016 due to exports of transport equipment (vessels) recorded in the latter period.
- In January-April 2017 **tourist arrivals** increased at a rate of 19.9% compared to January-April 2016. An increase of 48.3% was recorded in tourist arrivals from Russia, a 38.6% increase from Germany, a 9.8% increase from the UK and a 9.6% increase from Greece.
- The **current account balance** in 2016 recorded a deficit of €941.8 mn (-5.3% of GDP) compared with a deficit of €514.0 mn (-2.9% of GDP) in 2015 solely due to the income account as the trade account was broadly in balance. Excluding the one-off transaction in imports of goods of mobile transport equipment (one yacht) the current account deficit declines to about 2.1% of GDP in 2016.
- **Inflation** (HICP) for April 2017 stood at 2.1% compared to 1.5% in March 2017. For 2017 so far it stands at 1.4%. All subcategories of HICP presented an increase except categories of alcoholic beverages and tobacco, clothing and footwear, furnishings, household equipment and supplies and communication.
- Labour Force Survey (LFS) unemployment **decreased to 12.5%** in March 2017 compared to 13.3% in March 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 exposures** (NPEs) continued their downward trend in absolute terms reaching €24.2 bn on 31/1/2017, down from €27.3 bn on 31/12/2015 and €28.4 bn on 31/12/2014).
- **Provisions** on non-performing exposures continued increasing as a share of the NPEs, reaching 42% on 31/1/2017 (38% on 31/12/2015 and 34% on 31/12/2014).
- **Restructurings** reached €13.6 bn in January 2017 (€14.5 bn on 31/12/2015, and €13.5 bn on 31/12/2014). Data shows that over 72% of undertaken fixed-term loan restructurings, 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 €49.2 bn in April 2017.
- Total **loans** continued their decreasing trend, being €54.6 bn in April 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** is on an upward trend. New loans towards Non-Financial Corporations during the first three months of 2017, reached €575 mn (total 2016: €2334 mn), while towards Households reached €295 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.
- The Cyprus Securities and Exchange Commission approved on 22nd December 2016 the **Cooperative Central Bank** prospectus ahead of its intended listing on the Cyprus Stock Exchange either on the main or the alternative market (if preconditions for a main market listing by the end of 2017 are not met).
- An extraordinary General Meeting of Cooperative Central Bank shareholders on 30 December 2016 approved the legal merger of the 18 cooperative credit institutions with the Cooperative Central Bank.
- Eurostat's **house price index** for Cyprus increased by 3.1% in the fourth quarter of 2016 compared to the third quarter of 2016, and increased by 2.8% compared to the fourth quarter in 2015.

Fiscal Developments:

- General government **budget balance was in surplus in 2016** of the order of €64 mn (0.4% 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 €529 mn (2.6% of GDP) compared to a surplus of 299 mn (1.7% of GDP) during the year before.
- During the **first quarter of 2017** general government **budget balance was in surplus** of the order of €201 mn (1.1% of GDP) compared to a surplus of €146 mn (0.8% of GDP) during the same period of the year before.
- General government **primary balance was in surplus during the first quarter of 2017** of the order of €295 mn (1.7% of GDP) compared to a surplus of 237 mn (1.3% of GDP) during the same period of the year before.
- **Total revenue** exhibited a positive rate of growth of about 4.9% reaching €1,716 mn during the first quarter of 2017 compared to €1,637 mn during the first quarter of 2016.
- **Total expenditure** exhibited an increase of about 1.7% reaching €1,515 mn during the first quarter of 2017 compared to €1,490 mn during the same period of the year before.

Public debt and financing:

- The General Government **Debt** reached €19.3 bn in April 2017 exhibiting no change since the beginning of the year.
- Available **cash** covers the financing needs up to end 2018.
- The **yields of the benchmark bonds have continued their downward path**. The 2023 bond (most recent issuance) has currently a spread vs. Bunds of 276 bps down from 389 bps at its issuance on 20th July 2016, while the spread of the 2025 bond (longest point on curve) has reduced at end May 2017 to 284 bps from 364 bps at end May 2016.
- The yield at the monthly 13-week Treasury Bill auctions continue to be negative. In the latest auction in May the average yield was -0.05%. The bid-to-cover ratio was 1.9.
- The next **sovereign rating** reviews are scheduled for 2 June by DBRS and 28 July by Moody's.

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New publications:

Public Debt Management Annual Report 2016
<http://www.mof.gov.cy/mof/pdmo/pdmo.nsf/All/FF9F9CCE6F27A2DCC225782B002F21CC?OpenDocument>

Stability Programme 2017-2020
<http://mof.gov.cy/en/publications/stability-programme>

Macroeconomic monitor April 2017
<http://mof.gov.cy/en/publications/economic-development-bulletins/65>

Fiscal accounts Q1-2017:
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