



Macroeconomic Environment:

- In the 3rd quarter of 2019, GDP (in seasonally adjusted terms) recorded a positive rate of growth of 3.4%, compared with 3.2% in the 2nd quarter of 2019 on an annual basis. The increased activity is mainly attributed to the sectors: construction, information and communication, professional, scientific and technical activities, administrative and support service activities and arts, entertainment and recreation. Negative growth rate was recorded by the sector financial and insurance activities. Developments are currently driven by increases in domestic demand (private consumption and Gross Fixed Capital Formation)
- The economic sentiment indicator (ESI-Economics Research Center at the University of Cyprus) deteriorated in December 2019, it decreased by 1.8 points compared to November 2019. The decrease resulted from weaker business confidence among firms in services and industry.
- During January-December 2019, tourist arrivals increased at a rate of 1% compared to January-December 2018. An increase of 26.3% was recorded in tourist arrivals from Israel, a 0.2% increase from the UK, a 0.2% decrease from Russia, an 8% decrease from Greece and a 19.9% decrease from Germany.
- Employment developments reflect conditions of strong economic activity. Employment in persons recorded an increase of 3.2% in the first nine months of 2019 compared to the same period in 2018. Increases were recorded mainly in construction, professional, scientific and technical activities, wholesale and retail trade, hotels and restaurants, manufacturing and education.
- Labour Force Survey (LFS) unemployment, in monthly seasonally adjusted terms, increased to 7.7% in November 2019 compared to 7.5% in November 2018. The most affected segment of the population is youth unemployment, although it has been on a downward trend since the 3rd quarter of 2013 falling to 17.2% in 2019Q3 from a peak of 40.5% in the 3rd quarter of 2013.
- Compensation per employee recorded an increase of 4.6% in the first nine months of 2019 compared to the same period in 2018.
- Inflation (HICP) in December 2019 recorded an increase of 0.7% compared with an increase of 0.5% in November 2019. For 2019, it averaged at 0.5%. Core HICP stood at 0.6% in January-December 2019. All subcategories of HICP presented an increase except categories clothing and footwear, health, transport and communication.
- Imports of goods recorded a decrease of 9.9% in January-November 2019 compared to January-November 2018. The decrease in imports is affected by developments in imports of transport equipment (aircrafts and vessels). Imports of goods, excluding imports of aircrafts and vessels, exhibit a decrease of 3.7%.
- Exports of goods recorded a decrease of 30.5% in January-November 2019 compared to January- November 2018 mainly due to exports of transport equipment (aircrafts and vessels) occurring in 2018. Exports of goods, excluding exports of aircrafts and vessels, exhibit a decrease of 23%.
- The current account (CA) balance recorded a small improvement in 2019Q3, recording a deficit of €11.9 mn, compared with a deficit of €37.6 mn in 2018Q3. This development was mainly attributed to the increases in services and, to a much lesser extent, primary income. The trade balance of goods and secondary income, on the other hand, recorded decreases, thus mitigating the abovementioned increases. For 2019/9m the deficit is €803.4 mn (3.7% of GDP), compared with a deficit of €114.6 mn (0.5% of GDP) in 2018/9m. Adjusted for SPEs, the deficit in 2019/9m is 3.6% of GDP compared with 2.6% of GDP in 2018/9m.
- The international investment position (IIP) recorded a small worsening in 2019Q3, showing a net liability position at €24,869.3 mn, compared with €24,834.0 mn in the previous quarter. This was mainly due to the decreases recorded in foreign direct investment and, to a lesser extent, portfolio investment. These decreases were

mitigated by the increases in the category “other investment” and, to a much lesser extent, in derivatives and reserves.

- The gross external debt reached €208,112.8 mn in 2019Q3, compared with €208,114.5 mn in 2019Q2. This development was due to the decrease in government debt while all the other categories recorded increases which almost cancelled out the abovementioned decrease.
- The net external debt reached €87,064.9 mn in 2019Q3, compared with €87,449.5 mn in 2019Q2.

Banking Sector:

- The reduction in non-performing exposures continued in 2019 as NPE's dropped to €9.78 bn on 31/08/2019 (29,5% of gross loans) from €10.14 bn on 31/3/2019 (30.6% of gross loans).
- Provisions reached 53.597% of NPEs on 31/08/2019 (up from 47.2% on 31/12/2017).
- Restructurings were €6.06 bn on 31/08/2019 (€11.9 bn on 31/12/2017).
- Total deposits continued to grow albeit at a small degree in 2019. Total deposits were at €48.7 bn at the end of December 2019, up from €47,9 bn in December 2018. This increase is driven from an increase in domestic deposits during the same period while nonresident deposits have remained relatively stable.
- The CBC's residential property price index recorded an increase of 0.5% in the 2nd quarter of 2019 compared to the 1st quarter of 2019 and an increase of 2.8% compared to the 2nd quarter of 2018. Cumulative from 2008 it has exhibited a decline of 26.6%, revealing an adjustment to the conditions of lower domestic and foreign demand.

Fiscal Developments:

- General government budget balance (GGBB) continued to be in surplus in January-November 2019, of the order of €1,041.2 mn (4.8% of GDP) compared to a deficit of €699.1 mn (3.3% of GDP) during the corresponding period the year before.
- General government primary balance (GGPB) recorded a surplus in January-November 2019, of the order of €1,521.7 mn (6.9% of GDP) compared to a deficit of €267.7 mn (1.3% of GDP) during the corresponding period the year before.
- Total revenue exhibited a positive rate of growth of about 15.2%, reaching €8,320.5 mn in January- November 2019, compared to €7,224.3 mn during the corresponding period the year before.
- Total expenditure exhibited a positive rate of growth of about 8.1%, reaching €7,279.3 mn in January- November 2019, compared to €7,923.4 mn during the corresponding period the year before.

Public debt and financing:

- Public debt fell to €20,900 mn at the end of December 2019 (preliminary data) from €21,258 mn at the end of 2018.
- On January 14, 2020 the Republic proceeded to issue two new bonds in a double tranche transaction (value date 21 January). A 10 year bond (XS2105095777) of €1000 mn issued at MS+55 bps (0.734%) and a 20 year bond (XS2105097393) of €750 mn issued at MS+75 bps (1.33%).
- During the period October 2019 to January 2020 the yields of the bonds of the Republic have broadly followed European trends exhibiting an increase during the end of 2019 which is slowly being reversed in 2020
- The yield at the monthly 13-week Treasury Bill auctions remains in negative territory, with the latest auction in late January recording a weighted average yield of -0.20%.

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New publications:

Public Debt Management Annual Report 2018

[https://www.mof.gov.cy/mof/pdmo/pdmo.nsf/All/231DDF5ACCOA0B90C2258411001F1732/\\$file/181231_Annual%20Report%202018_EN.pdf](https://www.mof.gov.cy/mof/pdmo/pdmo.nsf/All/231DDF5ACCOA0B90C2258411001F1732/$file/181231_Annual%20Report%202018_EN.pdf)

Quarterly Debt Bulletin Q3-2019

[https://www.mof.gov.cy/mof/pdmo/pdmo.nsf/All/B14632E68753B0E7C22584B800398A88/\\$file/CY%20Qrt%20Bulletin%20Q3_2019%20EN.pdf](https://www.mof.gov.cy/mof/pdmo/pdmo.nsf/All/B14632E68753B0E7C22584B800398A88/$file/CY%20Qrt%20Bulletin%20Q3_2019%20EN.pdf)

Macroeconomic Monitor January 2020

<http://mof.gov.cy/en/publications/economic-development-bulletins/65/569/?ctype=ar>

Economic Developments 2019 and Prospects 2020-2022 (in Greek only)

<http://mof.gov.cy/en/publications/economic-developments-and-prospects/economic-developments-in-2019-and-prospects-for-2020-22>

Fiscal accounts January-November 2019:

<http://mof.gov.cy/en/economic-indicators/public-finances/public-finance-developments/fiscal-developments-2019>

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