



Macroeconomic Environment:

- In the 4th quarter of 2017, **GDP** (in seasonally adjusted terms) recorded a positive rate of growth of 3.9% compared to 4.1% in the 3rd quarter of 2017 on an annual basis. Thus, the average GDP growth for the year is estimated at 3.9%. The increased activity was broad based and is mainly attributed to sectors: hotels and restaurants, retail and wholesale trade, construction, and manufacturing.
- Developments are currently mainly driven by increases in **private consumption and gross fixed capital formation**.
- **Imports of goods** increased by 12.9% in January-December 2017 compared to January-December 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 16.8%.
- **Exports of goods** increased by 7% in January-December 2017 compared to January-December 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 18.9%.
- In January 2018 **tourist arrivals** increased at a rate of 21.2% compared to January 2017. An increase of 35.2% was recorded in tourist arrivals from Greece, a 14.6% increase from the UK, a 10.2% increase from Germany, while a 20.8% decrease was recorded from Russia.
- The **current account (CA)** balance recorded a surplus of €321 mn in the 3rd quarter of 2017, compared with a surplus of €406 mn in the 3rd quarter of 2016. This development was mainly due to a worsening recorded in primary income balance as a result of a decline in investment income, and, to a lesser extent, a deterioration in the goods balance. Services balance recorded a considerable improvement due to the performance of travel and financial services. Cumulatively for the first three quarters of 2017 the CA balance recorded a deficit of €399 mn (-2.1% of GDP) compared to a surplus of €14 mn (0.1% of GDP) in the corresponding period of 2016. The CA balance for the first three quarters of 2017, excluding the so-called Special Purpose Vehicles records a deficit of -0.4% of GDP compared to a surplus of 2.5% of GDP during the corresponding period of the year before.
- **Inflation (HICP)** in January 2018 decreased by 1.5% compared to a decrease of 0.4% in December 2017. All subcategories of HICP presented a decrease except categories of housing, water, electricity and gas, health, education and restaurants and hotels.
- Labour Force Survey (LFS) **unemployment**, in monthly seasonally adjusted terms, decreased to 11.3% in December 2017 compared to 12.8% in December 2016. 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 25% in September 2017 from the peak of 40.2% in the 3rd quarter of 2013. Particularly challenging is also the relatively high long-term unemployment.
- **Compensation per employee** increased by 0.4% in the first nine months of 2017 compared to the first nine months of 2016).

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 30/09/2017 (15.9% at 31/12/2016 and 15.7% at 31/12/2015).
- **Non-performing exposures** continued their downward trend in absolute terms reaching €21.8 bn on 31/10/2017, 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 47.5% on 31/10/2017 (42.4% on 31/12/2016 and 38.3% on 31/12/2015).
- **Restructurings** were €12.4 bn on 31/09/2017 (€13.5bn on 31/12/2016, and €14.2 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 €49.4 bn in December 2017.
- Total **loans** continued their decreasing trend, being €51.4 bn in December 2017, down from €60.2 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 2017 reached €2,346 mn (total 2016: €2,334 mn), while towards Households reached €1,175 mn (total 2016: €1,281 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. In January 2017 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. Furthermore, in January Hellenic Bank entered into an agreement to sell a non-performing loan portfolio of €145 million predominantly non-retail exposures to B2Kapital Cyprus Ltd, a wholly owned subsidiary of B2Holding ASA, a Norwegian corporation listed on the Oslo Stock Exchange.
- During **Cyprus Cooperative Bank** EGM on July 17, the shareholders approved the creation of an NPE platform in cooperation with the Spanish Altamira Asset Management, and 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 (€ 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 74.3 in the first nine months of 2017 compared to the 73.5 on 31/12/2016 (basis of 100: Q1-2010).

Fiscal Developments, 2017:

- General government **budget balance** was in surplus in 2017 of the order of €361 mn (1.9% of GDP), compared to a surplus of €82 mn (0.5% of GDP) the year before.
- General government **primary balance** was in surplus in 2017 of the order of €841 mn (4.5% of GDP), compared to a surplus of €547 mn (3% of GDP) the year before.
- The above **overperformance** reflects the improving economic environment and labour market conditions.
- **Total revenue** increased in absolute terms to €7,618 mn in 2017 compared to €7,028 mn in 2016, exhibiting a positive rate of growth of 8.4%.
 - revenue from taxes on production and imports reached €3,032 million during 2017 compared to €2,733 million the year before, exhibiting a positive rate of growth of 11% attributed mainly to an increase in VAT receipts by 15.9% compared to 2016.
 - revenue from taxes on income and wealth increased by 4.6% from €1,755 million during 2016 to €1,837 million during 2017, despite the absence of immovable property tax receipts and absence of receipts from the terminated temporary tax on private sector's employees' emoluments.

- social contributions recorded a positive rate of growth of 10.5%, reaching €1,707 million during the 2017 compared to €1,545 million the year before, reflecting improving conditions in the labour market.
- other current recourses reached €953 million, remaining at the same levels as in 2016.
- **Total expenditure** exhibited a positive rate of growth of 4.5% reaching €7,258 mn in 2017 from €6,946 mn the year before.
 - compensation of employees recorded a positive rate of growth of about 4%, mainly attributed to a one-off increase in the employment levels for security forces, reaching €2,346 million compared to €2,256 million the year before.
 - intermediate consumption increased by 10.3% during 2017 compared to the year before, reaching €713 million from €646 million during 2016. This increase is mainly attributed to increased expenditures for energy prices, reflecting an increase in international oil prices during the year under review.
 - social transfers recorded an increase of 2.1%, reaching €2,618 million in 2017 compared to €2,564 million in 2016, due to an increase in age pension expenditure.
 - subsidies exhibited a negative rate of growth of 43.3 % during 2017 (€55 million) compared to 2016 (€97 million).
 - gross fixed capital formation exhibited a positive rate or growth of 12.9%, from €432 million during 2016 to €488 million during the year under review.

Public debt and financing:

- The General Government **Debt** reached €18.7 bn in December 2017, recording a decline over the end 2016 debt stock of €19.4 bn.
- The debt-to-GDP ratio declined from 107% in 2017 to 98.4% at end year 2017.
- Available **cash** covers the financing needs of 2018.
- The Cyprus 2024 **bond yield** (most recent issuance) has increased since December 2017 from 1.31% to 1.61% (but down from 2.61% at its launch in June 2017), whilst the yield of the Cyprus 2025 bond (longest point) has increased at end February 2018 to 1.88% from 1.54% at the beginning of December 2017 (but down from 2.30% in mid September 2017).
- The yield at the monthly 13-week **Treasury Bill** auctions continue to be negative. The latest auction of February recorded a record low yield of -0.21% and a bid-to-cover ratio of 3.8.
- The next **rating** reviews are scheduled for 16th March (Standard & Poor's, BB+ positive) and 20th April (Fitch Ratings, BB positive).

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New publications:

Quarterly Debt Bulletin Q3-2017

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

Macroeconomic Monitor January 2018

<http://mof.gov.cy/en/publications/economic-development-bulletins/65/1-macroeconomic-monitor-of-cyprus-2018>

Draft Budgetary Plan 2018

http://mof.gov.cy/assets/modules/wnp/articles/201710/355/docs/draft_budgetary_plan_2018_final.pdf

Fiscal accounts Jan-Dec 2017:

<http://www.cystat.gov.cy/mof/cystat/statistics.nsf/All/240974023CEC7B7BC22581E80037DF71?OpenDocument&sub=2&sel=1&e=&print>

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