



Macroeconomic Environment:

- In the 2nd quarter of 2019, GDP (in seasonally adjusted terms) recorded a positive rate of growth of 3.2%, compared to 3.4% in the 1st 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.
- The economic sentiment indicator (ESI-Economics Research Center at the University of Cyprus) in July 2019, decreased by 1.7 points compared with June 2019. The decrease resulted from weaker business confidence in services, retail trade, construction and industry.
- The current account (CA) balance worsened in 2019Q1, recording a deficit of €591.3 mn, (2.7% of GDP) compared with a deficit of €148.8 mn (0.7% of GDP) in 2018Q1. This development was mainly attributed to the trade balance of goods and, to a lesser extent, services. Primary and secondary income, on the other hand, recorded increases, therefore mitigating the abovementioned decreases. It is noted that the improvement in primary income is related with the deterioration in services. The CA balance for 2019Q1 adjusted to exclude imports/exports of Special Purpose Entities (SPEs) that primarily operate in the shipping industry (ship registration/deregistration) with a small footprint on the economy, recorded a deficit of 3.3% of GDP compared to a deficit of 2.4% of GDP in 2018Q1.
- Exports of goods recorded a decrease of 37.3% in January-June 2019 compared to January-June 2018 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 23.9%
- Imports of goods recorded a decrease of 8.6% in January-June 2019 compared to January-June 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 0.9%.
- In January-July 2019 tourist arrivals marginally decreased at a rate of 0.1% compared to January-July 2018. An increase of 1.6% was recorded in tourist arrivals from the UK, a 19.5% increase from Israel, a 4.5% decrease from Russia, an 8% decrease from Greece and an 18.6% decrease from Germany.
- Inflation (HICP) in July 2019 recorded an increase of 0.1% compared to an increase of 0.3% in June 2019. For 2019 so far it stands at 0.8%. Core HICP stood at 0.6% in January-July 2019. All subcategories of HICP presented an increase except categories clothing, furnishings, health, transport and communication
- Employment developments reflect conditions of strong economic activity. Employment in persons recorded an increase of 3.1% in the 1st quarter of 2019 compared to the 1st quarter of 2018. Increases were recorded mainly in construction, wholesale and retail trade professional, scientific and technical activities, manufacturing and education.
- Labour Force Survey (LFS) unemployment, in monthly seasonally adjusted terms, decreased to 6.5% in June 2019 compared to 8.3% in June 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 16.4% in 2019Q1 from a peak of 40.5% in the 3rd quarter of 2013.
- Compensation per employee recorded an increase of 1.8% in 1st quarter of 2019 compared to the 1st quarter of 2018.

Banking Sector:

- The capital position has slightly risen in 2019. CET1 capital ratio of the Cypriot banking sector was 15.6% on 31/03/2019 (15% on 31/12/2018).
- Non-performing exposures continued their downward trend (in absolute levels) dropping to €10.14 bn on 31/3/2019 (30.6% of gross loans) from €10.4 bn on 31/1/2019 (30.5% of gross loans). The increase in percentage terms is due to the reduction in the amount of total facilities during the same period.
- Provisions reached 52.33% of NPEs on 31/03/2019 (up from 47.2% on 31/12/2017).
- Restructurings were €6.43 bn on 31/3/2019 (€11.9 bn on 31/12/2017).
- Total deposits in the period May to July 2019 continued to grow albeit at a small degree. Total deposits were at €48.4 bn at the end of June 2019, up from €47.9 bn. This increase is driven from an increase in domestic deposits during the same period.
- Bank of Cyprus has announced its financial results for the first half of 2019. The major points of note were:
 - Total Capital ratio of 18.1% pro forma for the disposal of investment in CNP (insurance subsidiary) (17.8% as reported)
 - CET1 ratio of 15.2% pro forma for the disposal of investment in CNP (14.9% as reported)
 - Project Helix completed, adding 140 bps to capital in 2Q2019 (project Helix which refers to the sale of a portfolio of loans with a gross book value of €2.8 bn, of which €2.7 bn related to non-performing loans)
 - NPEs of €4.3 bn (€2.2 bn net); 71% reduction since 2014; NPE ratio reduced to 33%, coverage increased to 50%
 - Profit after tax of €2 mn for 2Q2019 and €97 mn for 1H2019
- Hellenic Bank has announced its financial results for the first quarter of 2019. The major points of note were:
 - CET1 ratio of 18,54% and Capital adequacy ratio of 21.16%
 - 1Q2019 Profit before provisions of €35.9 million, and 1Q2019 Profit after taxation of €14.9 million
- The CBC's residential property price index recorded an increase of 0.2% in the 4th quarter of 2018 compared to the 3rd quarter of 2018 and an increase of 1.5% compared to the 4th quarter of 2017. Cumulative from the 1st quarter of 2008 it has exhibited a decline of 26.9%, revealing an adjustment to the conditions of lower domestic and foreign demand.

Fiscal Developments:

- General government budget balance continued to be in surplus in January-June 2019, of the order of €572.3 mn (2.6% of GDP) compared to a surplus of €326.9 mn (1.6% of GDP) during the corresponding period the year before.
- General government primary balance (GGPB) also recorded a surplus in January-June 2019, of the order of €761.8 mn (3.5% of GDP) compared to a surplus of €528.5 mn (2.5% of GDP) during the corresponding period the year before.
- Total revenue exhibited a positive rate of growth of about 12.1%, reaching €4,105.1 mn in January-June 2019, compared to €3,662.7 mn during the corresponding period the year before.

- Total expenditure exhibited a positive rate of growth of about 5.9%, reaching €3,532.8 mn in January-May 2019, compared to €3,335.8 mn during the corresponding period the year before.

Public debt and financing:

- The Republic of Cyprus has decided to proceed with the early repayment of the Russian loan provided to the Republic in 2011. The repayment has taken place on the 2nd of September for the total amount of the loan (€1562,5 mn plus accrued interest). Funding for the early repayment was sourced through the issuance of bonds in May and the fiscal surplus.
- Public debt rose to €23,003 mn at the end of Q2 2019 from €21,258 mn at the end of 2018. This is due to the fact that funding was executed in Q2 to cover debt maturities and the early repayment of the Russian loan. Total maturities in August-December 2019 are €2,647 mn thus public debt will be reduced to 20,356 mn by the end of the year
- During the period May to August the yields of the bonds of the Republic have been trending downwards following the overall development in the markets but also the sustained stability of the Cypriot economy. Currently the 30 year bond issued in May is trading at a price of 133.21 (1.37% yield).
- The yield at the monthly 13-week Treasury Bill auctions remains in negative territory, with the latest auction in late August recording a yield of -0.10%.

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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 Q2-2019

[https://www.mof.gov.cy/mof/pdmo/pdmo.nsf/All/31627721E9AF9B44C22584460020C587/\\$file/CY%20Qrt%20Bulletin%20Q2_2019%20EN.pdf](https://www.mof.gov.cy/mof/pdmo/pdmo.nsf/All/31627721E9AF9B44C22584460020C587/$file/CY%20Qrt%20Bulletin%20Q2_2019%20EN.pdf)

Macroeconomic Monitor August 2019

http://mof.gov.cy/assets/modules/wnp/articles/201901/456/docs/macro_monitor_august_2019.pdf

Economic Developments 2018 and Prospects 2019-2021 (in Greek only)

<http://mof.gov.cy/en/publications/economic-developments-and-prospects/economic-developments-in-2018-and-prospects-for-2019-21>

Fiscal accounts Mar-July 2019:

http://mof.gov.cy/assets/modules/wnp/articles/201902/464/docs/fiscal_budg_dev_300819.pdf

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