



Macroeconomic Environment:

- **GDP** (in seasonally adjusted terms) recorded a positive rate of growth of 3.7% in the 3rd quarter of 2018, compared to 4.0% in the 2nd quarter of 2018 on an annual basis. The slowdown reflects also partly the base effect from the strong third quarter of the previous year. The increased activity is mainly attributed to the sectors: hotels and restaurants, retail and wholesale trade, construction, manufacturing, transport and storage, professional, scientific and technical activities and administrative and support service activities. Negative growth rate was recorded in the sector financial and insurance activities.
- Developments are currently driven by increases in **private consumption and net exports**.
- The economic sentiment indicator (ESI-CypERC) increased by 2.6 points in November 2018 compared to the previous month. The increase was driven by stronger business confidence in services and retail trade.
- The **current account balance** improved in 2018H1, recording a deficit of €391 mn (1.9% of GDP), compared with a deficit of €708 mn in 2017H1 (3.6% of GDP). This development was mainly attributed to the trade balance, which recorded a surplus in 2018H1 of €85.1 mn (0.4% of GDP) compared to a deficit of €316 mn (1.6% of GDP) in 2017H1. Primary and secondary income accounts contributed to the current account deficit by 2.3% of GDP in 2018H1 compared with 2% of GDP in 2017H1.
- **Imports of goods recorded an increase of 13%** in January-October 2018 compared to January-October 2017. The increase in imports is affected by developments in imports of transport equipment (aircrafts and vessels). Imports of goods, excluding imports of aircrafts and vessels, exhibit an increase of 17.7%.
- **Exports of goods recorded an increase of 54.4%** in January-October 2018 compared to January-October 2017 due to exports of transport equipment (aircrafts and vessels) occurring in 2018. Exports of goods, excluding exports of aircrafts and vessels, exhibit an increase of 35.2%.
- During the period January-November 2018 **tourist arrivals** increased at a rate of 7.8% compared to January-November 2017. An increase of 9.5% was recorded in tourist arrivals from Greece, a 5.7% increase from the UK, while a 0.3% decrease was recorded from Germany and a 4.7% decrease was recorded from Russia.
- **Inflation** (HICP) in November 2018 recorded an increase of 1.6% compared to an increase of 1.9% in October 2018. For the period January-November 2018, the HICP increase stood at 0.8% compared to the corresponding period of the previous year. Core HICP remained close to zero in January-November 2018. All subcategories of HICP presented a decrease except categories of food, housing, education and restaurants and hotels.
- **Employment** developments reflect conditions of strong economic activity. Employment in persons recorded an **increase of 4.1%** in the first nine months of 2018 compared to the first nine months of 2017. Increases were recorded mainly in construction, accommodation and food service activities, wholesale and retail trade, manufacturing and professional, scientific and technical activities.
- **Labour Force Survey (LFS) unemployment**, in monthly seasonally adjusted terms, decreased to 8.5% in October 2018 compared to 10.0% in October 2017. The most affected segment of the population is youth unemployment, although it has been on a downward trend falling to 19.4% in the 2nd quarter of 2018 from a peak of 40.5% in the 3rd quarter of 2013.
- **Compensation per employee** recorded an increase of 1.5% in the first nine months of 2018 compared to the first nine months of 2017.

Banking Sector:

- The **capital position** has recently moderately declined, while remaining at adequate levels, following increased provisioning for non-performing exposures (NPEs). CET1 capital ratio of the Cypriot banking sector was 14.2% at 30/06/2018 (14.9% at 31/12/2017).
- **Non-performing exposures** continued their downward trend dropping to €16.8 bn on 31/08/2018, from €20.9 bn on 31/12/2017 relating mainly to sale of NPEs to entities outside the domestic banking sector. The impact from the Cooperative Central Bank's NPE carve-out is expected to be recorded in the September figures.

- **Provisions** reached 48.2% of the NPEs on 31/8/2018 (up from 47.3% on 31/12/2017).
- **Restructurings** were €9.3 bn on 31/08/2018 (€11.9 bn on 31/12/2017).
- **Bank of Cyprus** reached an agreement for the sale of a portfolio of loans with a gross book value of €2.8 bn, of which €2.7 bn relate to NPEs secured by real estate collateral (“Project Helix”).
- After increasing over 2016 and 2017 to €49.4 bn in December 2017 **deposits** declined over 2018 due to the concerns surrounding the Cooperative Central Bank in the first half of the year, with deposits standing at €47.8 bn in October 2018.
- Total **loans** continued their decreasing trend, dropping from €51.4 bn in December 2017, to €39.9 bn in October 2018, mainly due to write offs in the context of debt restructurings, Cooperative Central Bank’s NPE carve out and the NPE sales.
- Despite the overall decline of loans and strict criteria in supplying new credit, **new lending** is increasing. During 2017 new loans towards Non-Financial Corporations reached €2,141 mn, while those towards Households reached €1,087 mn. The respective figures for the first nine months of 2018 were €1,382 mn and €886 mn respectively.
- Eurostat’s **house price index** for Cyprus increased to 75.3 on 30/06/2018 compared to 74.6 on 31/12/2017 and 73.5 on 31/12/2016 (basis of 100: Q1-2010).

Fiscal Developments January-October 2018:

- General government **budget balance** was in surplus during the period January-October 2018 of the order of €853 mn (4.1% of GDP), compared to a surplus of €495 mn (2.5% of GDP) during the same period of the year before. General government **primary balance** was in surplus during the period under review of the order of €1,232 mn (6% of GDP), compared to a surplus of €899 mn (4.6% of GDP) during the same period of the year before.
- **Total revenue** increased in absolute terms to €6,477 mn during the period January-October 2018 from €5,968 mn in the year before, exhibiting a positive rate of growth of 8.5%.
 - revenue from taxes on production and imports reached €2,718 mn compared to €2,457 mn the year before, exhibiting a positive rate of growth of 10.6% attributed mainly to an increase in VAT receipts by 16.4%.
 - revenue from taxes on income and wealth increased by 5.6% from €1,381 mn during January-October 2017 to €1,458 mn during the same period of 2018, reflecting the increase both in the employment levels and in salaries.
 - social contributions recorded a positive rate of growth of 9.2%, reaching €1,500 mn during the period under review compared to €1,373 mn during the same period of year before, reflecting improving conditions in the labour market.
 - other current recourses reached €727 mn, compared to €649 million, exhibiting a positive rate of growth of 12%.
- **Total expenditure** exhibited a positive rate of growth of 2.8% during the period January-October 2018 reaching €5,624 mn from €5,473 mn during the same period of the year before.
 - compensation of employees recorded a positive rate of growth of about 3%, reaching €1,871 mn compared to €1,816 mn the year before, mainly due to the recruitment of personnel in the sectors of education and health, and partly attributed to the gradual withdrawal of public sector’s wage cuts
 - intermediate consumption recorded an increase of 7% during the period under review compared to the same period of the year before, reaching €547 mn from €512 mn, partly reflecting the increase in international oil prices as well as due to an increase in expenditure for pharmaceuticals.
 - social transfers recorded an increase of 2.9%, reaching €2,128 mn compared to €2,067 mn the year before.
 - subsidies exhibited a positive rate of growth of 10.1% during the period under review (€33.7 mn) compared to the same period of the year before (€30.6 mn).
 - gross fixed capital formation exhibited a positive rate or growth of 2.3%, from €248 mn during January-October 2017 to €254 mn during the same period of 2018.

Public debt and financing:

- On 19th October Fitch ratings upgraded Cyprus by one notch to BBB- and into the investment grade category, followed by a two-notch upgrade by DBRS on 23rd November to BBB (Low) again into the investment grade category. All four solicited credit ratings are set to stable outlook, whilst three out of four solicited ratings are investment grade.
- Available **cash** covers the financing needs up to Q3-2019.
- The yield at the monthly 13-week **Treasury Bill** auctions remains in negative territory, with the latest auction in late November recording a yield of -0,21%.

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New publications:

Quarterly Debt Bulletin Q3-2018

[http://www.mof.gov.cy/mof/pdmo/pdmo.nsf/All/0A63205287408EF0C225836200445E1A/\\$file/CY%20Qrt%20Bulletin%20Q3_2018%20%CE%95%CE%9D.pdf](http://www.mof.gov.cy/mof/pdmo/pdmo.nsf/All/0A63205287408EF0C225836200445E1A/$file/CY%20Qrt%20Bulletin%20Q3_2018%20%CE%95%CE%9D.pdf)

Macroeconomic Monitor November 2018

http://mof.gov.cy/assets/modules/wnp/articles/201801/386/docs/macro_monitor_sep_2018.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 Jan-Aug 2018:

<http://www.mof.gov.cy/mof/cystat/statistics.nsf/All/62686C5F2EADF920C225831500300A22?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