



### Macroeconomic Environment:

- **GDP** (in seasonally adjusted terms) **recorded a positive rate of growth of 3,9% in the 4<sup>th</sup> quarter of 2018, compared to 3,7% in the 3<sup>rd</sup> quarter of 2018** on an annual basis. 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)<sup>1</sup> in January 2019 decreased by 3,8 points compared with December 2018. The decline was mainly driven by confidence losses in services and industry. Economic confidence in construction remained unchanged, while confidence in retail trade changed only marginally. Consumer confidence, measured by the revised Consumer Confidence Indicator, strengthened slightly.
- The current account recorded an improvement in 2018/9m, with the deficit declining to €339 mn (1,6% of GDP), from €446 mn in 2017/9m (2,3% of GDP). This development is mainly attributed to an improvement in the trade balance, which recorded a surplus in 2108/9m of €339 mn (1,6% of GDP) compared to a surplus of €226 mn (1,2% of GDP) in 2017/9m. Primary and secondary income accounts contributed to the current account deficit by 3,3% of GDP in 2018/9m compared to 3,4% of GDP in 2017/9m.
- **Exports of goods recorded an increase of 43%** in 2018 compared to 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 27,1%.
- In January 2019 tourist arrivals increased at a rate of 8% compared to January 2018. An increase of 35,4% was recorded in tourist arrivals from Germany, a 17,6% increase from the UK, a 2% decrease from Greece and a 27,3% decrease from Russia.
- **Inflation (HICP)** in January 2019 recorded an increase of 2,1% compared to an increase of 1,0% in December 2018, while Core HICP was 1,1% in January 2019. All subcategories of HICP presented an increase except the categories of alcoholic beverages and tobacco, furnishings, household equipment and supplies, transport and communication.
- **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 8,8% in December 2018 compared to 10,3% in December 2017. The most affected segment of the population is youth unemployment, although it has been on a downward trend falling to 18,7% in 2018Q3 from a peak of 40,5% in the 3<sup>rd</sup> 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.

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<sup>1</sup> Source: Economic Research Center, University of Cyprus

### 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 14.1% at 30/09/2018 (14.9% at 31/12/2017).
- **Non-performing exposures** continued their downward trend dropping to €11,25 bn on 30/11/2018 (32% of gross loans), from €20,9 bn on 31/12/2017 (42% of gross loans) relating mainly to sale of NPEs to entities outside the domestic banking sector and the removal of the Cooperative Bank's NPE portfolio which has now been taken over by a government-owned credit acquiring company.
- **Provisions** reached 52% of the NPEs on 30/11/2018 (up from 47% on 31/12/2017).
- **Restructurings** were €7,2 bn on 30/11/2018 (€11,9 bn on 31/12/2017).
- Bank of Cyprus (the biggest bank in Cyprus) announced its 2018 preliminary results on the 4<sup>th</sup> March. The bank recorded a loss after tax of €104 mn. The bank had reported an underlying profit of €140 mn but due to a number of factors, mainly loss on the expected sale of a portfolio of loans (known as project Helix) and the impairment of a deferred tax asset resulted in the final loss figure in the accounts.
- Bank of Cyprus announced on the 19<sup>th</sup> March that the ECB provided regulatory approval for the sale of a portfolio of loans (known as project Helix). The transaction is expected to take place in early Q2-2019 and will reduce the bank's NPE portfolio by €2,7 bn. Accounting for Helix, as well as the recent legislative amendment to convert Deferred Tax Assets to Deferred Tax Claims, the Bank's CET1 and total Capital Adequacy ratios are at 15,4% and 18,3% respectively on 31<sup>st</sup> December 2018.
- Hellenic Bank (the second largest bank in Cyprus) announced in December 2018 its financial results for the first nine months of 2018. The bank posted a profit after tax of €296 mn for the period. The reason for the spike in profitability was the acquisition of the Cooperative Bank portfolio of assets.
- Hellenic Bank proceeded with a successful capital issue of €150 mn. The capital was issued in the form of new ordinary shares through an underwritten rights issue (€100 mn) and private placement (€50 mn). With the new capital Common Equity Tier 1 and Capital Adequacy ratios increase to 18,2% and 20,9% respectively.
- After increasing over 2016 and 2017 reaching €49,4 bn in December 2017 **deposits** declined over 2018 to €47,9 bn in December 2018. This reduction was mainly driven by the reduction in non-resident deposits.
- Total **loans** continued their decreasing trend, dropping from €51,4 bn in December 2017, to €39,2 bn in December 2018, mainly due to write offs in the context of debt restructurings, Cooperative Central Bank's NPE carve out and the NPE sales.
- The Central Bank's **house price index**<sup>2</sup> for Cyprus increased to 75,6 on 30/09/2018 compared to 74,6 on 31/12/2017 and 73,5 on 31/12/2016 (basis of 100: Q1-2010).

### Fiscal Developments 2018:

- The preliminary General Government fiscal results, which are prepared by the Statistical Service of Cyprus include the fiscal burden of €1.662 mn, that was the result of the sale of the Cyprus Cooperative Bank Ltd (CCB) to the Hellenic Bank, and indicate a deficit of €1.051 mn (-5,1% of GDP) for 2018, as compared to a surplus of

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<sup>2</sup> Source: Central Bank of Cyprus

€344 mn for 2017 (1,8% of GDP). Excluding the fiscal burden of CCB, the fiscal balance would register a surplus of €611 mn (+2,9% of GDP).

- Total revenue increased by 7,4% that corresponds to an increase of €564 mn, to total €8.202 mn in 2018 (€7.638 mn in 2017). Most of the revenue categories exhibited an increase in 2018. Specifically, taxes on production and imports registered a 7,9% increase from 2017, that is an increase of €241 mn (€3.298 mn in 2018 as opposed to €3.056 mn in 2017), of which net VAT revenue increased by 12,3%, which corresponds to €228 mn, and reached a total of €2.080 mn (as opposed to €1.851 mn in 2017)
- Total expenditure for 2018, including the fiscal burden of CCB, recorded an increase of €1.959 mn (+26,9%) as compared to 2017 and reached €9.253 mn (€7.294 mn in 2017). Excluding the fiscal burden of the sale of the CCB the increase in total expenditure is a much more benign €297 mn (+4% from the 2017 levels).

#### Public debt and financing:

- At end December 2018 public debt stock was €21.258 mn, or 102,5% of GDP.
- On 19<sup>th</sup> February, the Republic of Cyprus proceeded with a syndicated issuance of its first 15-year €1 billion benchmark bond in the international markets. The issuance was particularly successful as there was a record-high strong interest from a very diversified pool of investors (both geographically and by industry) with the order book closing at €8,1 billion. Pricing closed at mid-swaps plus 175 basis points from the initial price thoughts of mid-swaps plus 200 basis points. The bond was issued at a price of 99,9903 and a coupon of 2,75%. Currently the bond is trading at mid yield of 2,366%.
- The yield at the monthly 13-week **Treasury Bill** auctions remains in negative territory, with the latest auction in late February recording a yield of -0,04%.
- On 8<sup>th</sup> March Standard & Poor's affirmed the rating of the Republic of Cyprus at BBB- with stable outlook.

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#### **New publications:**

Quarterly Debt Bulletin Q4-2018

[http://www.mof.gov.cy/mof/pdmo/pdmo.nsf/All/53304F5DA01A5CCCC22583C90028D564/\\$file/CY%20Qrt%20Bulletin%20Q4\\_2018%20CE%95%CE%9D.pdf](http://www.mof.gov.cy/mof/pdmo/pdmo.nsf/All/53304F5DA01A5CCCC22583C90028D564/$file/CY%20Qrt%20Bulletin%20Q4_2018%20CE%95%CE%9D.pdf)

Macroeconomic Monitor February 2019

[http://mof.gov.cy/assets/modules/wnp/articles/201901/456/docs/macro\\_monitor\\_feb19.pdf](http://mof.gov.cy/assets/modules/wnp/articles/201901/456/docs/macro_monitor_feb19.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-Dec 2018:

<http://www.cystat.gov.cy/mof/cystat/statistics.nsf/All/30E0E2683CB6E38EC2258315004C897B?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