



Macroeconomic Environment:

- The economic sentiment indicator (ESI-Economics Research Center at the University of Cyprus) improved in September 2019, it increased by 1.3 points compared to August 2019. The increase resulted from stronger business confidence in services and industry as well as from confidence improvements among consumers.
- The current account (CA) balance worsened in 2019Q2, recording a deficit of €203.6 mn, compared with a deficit of €88.4 mn in 2018Q2. This development was mainly attributed to the trade balance of goods and, to a much lesser extent, services. Primary and secondary income, on the other hand, recorded small increases, thus mitigating the abovementioned decreases. For 2019H1 the deficit is €791.5 mn (-3.6% of GDP), compared with a deficit of €77 mn (-0.4% of GDP) in 2018H1. Adjusted for SPEs, the deficit in 2019H1 is -3.9% of GDP compared with -2.4% of GDP in 2018H1.
- The international investment position (IIP) recorded a marginal improvement in 2019Q2, showing a net liability position at €24,834.0 mn, compared with €24,888.2 mn in the previous quarter. This was mainly due to the increase recorded in the category “other investment” and to a much lesser extent in derivatives and reserves. This increase was mainly mitigated, by the decrease in foreign direct investment and, to a lesser extent, portfolio investment. Adjusting for NPE’s the NIIP drops to -34% of GDP from 113%.
- The gross external debt reached €208,114.5 mn in 2019Q2, compared with €205,867.1 mn in 2019Q1. This worsening was mainly due to the increase in government debt and intercompany lending.
- The net external debt reached €87,449.5 mn in 2019Q2, compared with €86,932.7 mn in 2019Q1.
- Imports of goods recorded a decrease of 8.6% in January-August 2019 compared to January-August 2018. The decrease in imports is affected by developments in imports of transport equipment. Imports of goods, excluding imports of aircrafts and vessels, exhibit a decrease of 4.6%.
- Exports of goods recorded a decrease of 35.5% in January-August 2019 compared to January-August 2018 due to exports of transport equipment occurring in 2018. Exports of goods, excluding exports of aircrafts and vessels, exhibit a decrease of 27.7%.
- During January-September 2019 tourist arrivals marginally increased at a rate of 0.6% compared to January-September 2018. An increase of 0.8% was recorded in tourist arrivals from the UK, a 19.1% increase from Israel, a 2.2% decrease from Russia, a 6.2% decrease from Greece and a 19.1% decrease from Germany.
- Inflation (HICP) in September 2019 recorded a decrease of 0.5% compared to an increase of 0.6% in August 2019. For 2019 so far it stands at 0.7%. Core HICP stood at 0.6% in January-September 2019. All subcategories of HICP presented an increase except categories clothing and footwear, health, transport and communication
- Employment developments continued to be positive in 2019. Employment in persons recorded an increase of 3.2% in the 1st half of 2019 compared to the 1st half of 2018. Increases were recorded mainly in construction, hotels and restaurants, professional, scientific and technical activities, wholesale and retail trade, manufacturing and education.
- Labour Force Survey (LFS) unemployment, in monthly seasonally adjusted terms, decreased to 6.8% in August 2019 compared to 8.2% in August 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 16.6% in 2019Q2 from a peak of 40.5% in the 3rd quarter of 2013.
- Compensation per employee recorded an increase of 3.2% in 1st half of 2019 compared to the 1st half of 2018.

Banking Sector:

- The reduction in non-performing exposures continued in 2019 as NPE's dropped to €9.71 bn on 30/6/2019 (29,78% of gross loans) from to €10.14 bn on 31/3/2019 (30.6% of gross loans).
- Provisions reached 52.87% of NPEs on 30/06/2019 (up from 47.2% on 31/12/2017).
- Restructurings were €6.11 bn on 30/06/2019 (€11.9 bn on 31/12/2017).
- Total deposits continued to grow albeit at a small degree in 2019. Total deposits were at €48.87 bn at the end of September 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 0.7% in the 1st quarter of 2019 compared to the 4th quarter of 2018 and an increase of 2.66% compared to the 1st quarter of 2018. Cumulative from the 1st quarter of 2008 it has exhibited a decline of 25.45%, 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-August 2019, of the order of €924.2 mn (4.3% of GDP) compared to a surplus of €732.6 mn (3.5% of GDP) during the corresponding period the year before.
- General government primary balance (GGPB) recorded a surplus in January-August 2019, of the order of €1,279.5 mn (5.9% of GDP) compared to a surplus of €1,056.7 mn (5.1% of GDP) during the corresponding period the year before.
- Total revenue exhibited a positive rate of growth of about 12%, reaching €5,874.0 mn in January- August 2019, compared to €5,245.7 mn during the corresponding period the year before.
- Total expenditure exhibited a positive rate of growth of about 9.7%, reaching €4,949.8 mn in January- August 2019, compared to €4,513.1 mn during the corresponding period the year before.

Public debt and financing:

- Public debt rose to €21,302 mn at the end of September 2019 from €21,258 mn at the end of 2018. This is expected to drop by the end of the year as maturities will be higher than new issues in the period October-December 2019
- On October 9 2019 the Republic proceed to tap two existing bonds maturing in 2034 (XS1956050923) and 2049 (XS1989383788) issued earlier in the year. The taps were very successful and a total of €350 mn were secured, €100 mn through the tap on the 2034 bond at a yield of 0.98% (price 123.635) and €250 mn through the tap on the 2049 bond at a yield of 1.536% (price 128.669)
- During the period August to October the yields of the bonds of the Republic have exhibited a slightly upward trend reflecting the movements of other European issuers after the September announcement of the ECB. Currently the 30 year bond issued in May is trading at a price of 128.678 (1.53% yield).
- The yield at the monthly 13-week Treasury Bill auctions remains in negative territory, with the latest auction in late late October recording a yield of -0.21%.

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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 October 2019

http://mof.gov.cy/assets/modules/wnp/articles/201901/456/docs/macro_monitor_oct_19.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