



Macroeconomic Environment:

- In the 1st quarter of 2015, GDP (seasonally and working day adjusted) increased by 0.2% compared with -1.8% in the 4th quarter of 2014 on an annual basis.
- The business operating environment shows signs of stabilization and gradual improvement given that lending to non-financial corporations is marginally positive and interest rates are in decline and we assume return to growth in 2015.
- The economic sentiment indicator by CypERC increased by 4 points in April 2015 compared to March 2015. This increase is due to the improvement in the business climate in all sectors covered by the Survey and as well to the strengthening of the consumer economic confidence.
- Exports of goods increased by 45.5% in January-March 2015 compared to January-March 2014.
- In January-April 2015 tourist arrivals increased by 13.7% compared to January-April 2014. An increase of 84.7% was recorded in tourist arrivals from Israel, a 14.3% increase from Germany, a 15.8% increase from the UK and a 39.4% increase from Greece. On the other hand a 16.2% decrease was recorded in arrivals from Russia.
- Inflation (HICP) for April 2015 was -1.7% compared to -1.4% in March 2015 and for 2015 so far it stands at -1.2%.
- Labour Force Survey (LFS) unemployment, in monthly seasonally adjusted terms, decreased from 16.2% in March 2014 to 16% in March 2015. The most affected segment of the population is youth, although it has been on a downward trend since January 2014. Particularly challenging is also the increase in long-term unemployed.
- Compensation per employee in 2014 declined by around 4.7% compared to 2013, contributing to a decline of nominal unit labour cost and improving cost competitiveness further. The observed wage adjustment is expected to help containing the upward pressure on unemployment.

Banking Sector:

- The Foreclosure Law, the Insolvency Framework and the relevant Regulations which are important for addressing the Non-Performing Loans, have been enacted by the House of Representatives on the 17th of April 2015.
- Banking Institutions generally managed to reduce their operational costs and improve their profitability, as well as increase their CET.
- Deposits exhibit a small increase, reversing prior decreasing trend. Bank of Cyprus and Cooperative Central Bank suffered outflow of deposits in the first 11 months of 2014 but the trend has now been reversed. During the last 5 months, Bank of Cyprus, Cooperative Central Bank, and Hellenic Bank recently showed an increase of around €1.2 bn partly benefiting from the outflows from Greek subsidiaries. The system in total had a net increase of over €600 mn during this period.
- The level of deposits was not affected by the abolition of Restrictive Measures on financial transactions on the 5th of April 2015.

Cooperative Credit Sector:

- Publication of the consolidated audited accounts for 2014.

The Co-operative Credit Sector posted consolidated net profits of €41.2 mn for the year ended 31 December 2014. The net profits came despite a decision to make additional provisions, bringing the Organization's total provisions to €2.97 bn. The additional provisions boost the Co-op Movement's already satisfactory level of provisions, as recorded in the stress tests carried out at pan-European level in October. Based on the accumulated provisions on 31 December 2014, the ratio of provisions for loans in arrears for more than 90 days stood at 44.3% while the ratio of provisions for non-performing loans was 40.6%. Net profit from interest rose stood at €378.4 mn compared to €411.7 mn the previous year while total net revenue rose to €392.3mn compared to €377.8 mn on 31/12/2013. Profits from operations was €192 mn compared to €174.3mn in the corresponding period the previous year, registering an annual increase of 10.15%. The total balance sheet on 31/12/2014 was €13.94 bn and includes own capital of €1.25 bn, leading to a capital adequacy ratio of 13.5%. The supervisory requirement under Cyprus Central Bank regulations is 8%.

<http://www.ccb.coop.com.cy/userfiles/f8ce1af3-1709-4976-a785-1a5a8d552da1/oikonomikeskatastaseis2014.pdf>

Fiscal Developments January-April 2015:

- General government budget balance (GGBB) was in deficit during January-April 2015 of the order of €28.4 mn (-0.2% of GDP) compared to a surplus of €120.8 mn (0.7% of GDP) during the same period of the previous year.
- General government primary balance (GGPB) was in surplus during the period under review, of the order of €105.3 mn (0.6% of GDP) compared to a surplus of €256.5 mn (1.5% of GDP) during the previous year.
- Total revenue exhibited a negative rate of growth of about 10.3% during January-April 2015, reaching €2,012 mn during January-April 2015, compared to €2,244 mn during the same period of the year before. This outcome is mainly attributed to the fact that last year's Central Bank dividend was received during April (€180 mn), whereas receipt of this year's dividend has taken place in May.
- Total expenditure exhibited a negative rate of growth of about 3.9%, reaching €2,040 mn during the first four months of 2015, compared to €2,123 mn during the same period of the year before.

Public debt and financing:

- The General Government Debt at the end March 2015 (preliminary data) stood at €18.7 bn
- The Republic of Cyprus proceeded with the issuance of a new Eurobond on the 28th of April (value date: 6th of May). The characteristics of the new bond were as follows:

- a. Tenor: 7 years
 - b. Size: €1 billion
 - c. Coupon: 3.875%
 - d. Yield: 4.00%
 - e. Size of order book: €1.9 billion
- The issuance of Treasury Bills continued during the months of April and May. Auctions have continued to be oversubscribed and yields continue their downwards trajectory. During the last auction of 13 week TB's on the 29th of May (value date: 5th of June) yields dropped to 2.31% from 2.68% in early April. On the 18th of May a 30 day TB was issued with average yield of 1.81%. In the near future 26 week Treasury Bills will be introduced.
 - Long term bond yields continued to drop in April and May. The continued reduction is attributed to the enactment of the foreclosure and insolvency legislation which led to the completion of the program review by the troika partners, the continued fiscal and macroeconomic over performance of the economy and the successful Eurobond issuance in late April. At the moment long term yields hover in the range of 3.50-3.75%.

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Links:

Macroeconomic monitor:

http://www.mof.gov.cy/mof/mof.nsf/page23_en/page23_en?OpenDocument

Public Debt Quarterly Bulletin:

[http://www.mof.gov.cy/mof/pdmo/pdmo.nsf/All/F0C650FEBD5E4C11C225788D00208D2A/\\$file/CY%20Qrt%20Bulletin%20Q1_2015.pdf](http://www.mof.gov.cy/mof/pdmo/pdmo.nsf/All/F0C650FEBD5E4C11C225788D00208D2A/$file/CY%20Qrt%20Bulletin%20Q1_2015.pdf)

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