



#### Macroeconomic Environment:

- In the 1<sup>st</sup> quarter of 2019, **GDP** (in seasonally adjusted terms, flash estimate) recorded a positive rate of growth of 3,5%, compared to 3,8% in the 4<sup>th</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, professional, scientific and technical activities and administrative and support service activities. Negative growth rate was recorded by the sector financial and insurance activities. Developments are currently driven by increases in private consumption and net exports.
- The economic sentiment indicator (University of Cyprus) increased by 2,4 points in April 2019 compared with March 2019. The increase was driven by stronger business confidence in services and, to a smaller degree, confidence improvements in industry and among consumers.
- The **current account** (CA) balance recorded a reduced deficit in 2018, of €1.460,9 mn (7% of GDP), compared with a deficit of €1.642,5 mn (8,4% of GDP) in 2017. This development was attributed to the trade balance of goods, in particular exports of goods, mostly ships, which, during the year under review, recorded a higher increase than the respective imports. This development was mitigated, mainly by the decrease recorded in services and, to a lesser extent, by the decrease in the deficit recorded in primary and secondary income. The CA balance for 2018 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 4,5% of GDP compared to a deficit of 3,1% of GDP the year before.
- Exports of goods, excluding exports of aircrafts and vessels, exhibited a decrease of 28,3% in January-March 2019 compared to January-March 2018.
- Imports of goods, excluding imports of aircrafts and vessels, exhibited a decrease of 3,2% in January-March 2019 compared to January-March 2018.
- In January-April 2019 tourist arrivals increased at a rate of 0,5% compared to January-April 2018. An increase of 2,6% was recorded in tourist arrivals from the UK, a 2,4% decrease from Russia, a 2,6% decrease from Greece and a 21,1% decrease from Germany.
- **Inflation** (HICP) in April 2019 recorded an increase of 1,2% compared to an increase of 1,1% in March 2019. For 2019 so far it stands at 1,3%. Core HICP stood at 0,6% in January-April 2019. All subcategories of HICP presented an increase except the categories of alcoholic beverages and tobacco, furnishings, health, transport and communication.
- **Employment** developments reflect conditions of strong economic activity. Employment in persons recorded an increase of 4,0% in 2018 compared to 2017. Increases were recorded mainly in construction, accommodation and food service activities, wholesale and retail trade professional, scientific and technical activities and manufacturing.
- Labour Force Survey (LFS) unemployment, in monthly seasonally adjusted terms, decreased to 7,0% in March 2019 compared to 9,0% in March 2018. The most affected segment of the population is youth unemployment, although it has been on a downward trend since the 3<sup>rd</sup> quarter of 2013 falling to 20% in 2018Q4 from a peak of 40,4% in the 3<sup>rd</sup> quarter of 2013.
- Compensation per employee recorded an increase of 0,1% in 2018 compared to 2017.

#### Banking Sector:

- The **capital position** has remained relatively stable in 2018. CET1 capital ratio of the Cypriot banking sector was 15% on 31/12/2018 (14,9% on 31/12/2017).

- **Non-performing exposures** continued their downward trend dropping to €10,4 bn on 31/1/2019 (30,5% of gross loans) from €11,1 bn on 30/11/2018 (32% of gross loans), from €20,9 bn on 31/12/2017 (42% of gross loans). This trend is expected to continue in the near future.
- **Provisions** reached 51,3% of the NPEs on 31/01/2019 (up from 47,2% on 31/12/2017).
- **Restructurings** were €6,66 bn on 31/1/2019 (€11,9 bn on 31/12/2017).
- **Bank of Cyprus** (the biggest bank in Cyprus) announced on the 13<sup>th</sup> of May its financial results of Q1-2019. The bank reported after tax profits of €95 mn. The main drivers affecting profit levels were a negative adjustment of €21 mn due to project Helix (loss on sale of loans portfolio) and a €105 mn positive adjustment due to the effect of amendments in the tax legislation adopted in March 2019.
- Total **deposits** in April 2019 recorded a net increase of €236,9 mn, compared with a net decrease of €327,7 mln in March 2019. However, the annual growth rate declined to 0,6%, compared with 5,1% in March 2019, because the increase of deposits was much lower than the respective increase in April last year. Total deposits had then increased by €2,4 bn, due to the deposit of an amount of €2,5 bn by the Cyprus Government with the Cyprus Cooperative Bank. The outstanding amount of total deposits reached €47,7 bn in April 2019.
- **Total loans** in April 2019 exhibited a net decrease of €206,4 mn, compared with a net increase of €63,2 mn in March 2018. The annual growth rate stood at -2,3%, compared with -2,0% in March 2018. The outstanding amount of total loans reached €38,0 bn in April 2019.
- The Central Bank's residential **property** price index recorded an increase of 0,3% in the 3<sup>rd</sup> quarter of 2018 compared to the 2<sup>nd</sup> quarter of 2018 and an increase of 1,6% compared to the 3<sup>rd</sup> quarter of 2017. Cumulatively from the 1<sup>st</sup> quarter of 2008 it has exhibited a decline of 27%, revealing an adjustment to the conditions of lower domestic and foreign demand.

#### Fiscal Developments:

- The General government **budget balance** continued to be in surplus in January-February 2019, of the order of €407,3 mn (1,9% of GDP) compared to a surplus of €254,3 mn (1,2% of GDP) during the corresponding period the year before.
- General government **primary balance** also recorded a surplus in January-February 2019, of the order of €468,7 mn (2,2% of GDP) compared to a surplus of €307,5 mn (1,5% of GDP) during the corresponding period the year before.
- Total revenue in the period in January-April 2019 exhibited a positive rate of growth of about 6,9%, reaching €2.553,7 mn, compared to €2.388,2 mn during the corresponding period the year before.
- Total expenditure in the period in January-April exhibited a positive rate of growth of about 3,4%, reaching €2.056,8 mn 2019, compared to €1.988,8 mn during the corresponding month the year before.

#### Public debt and financing:

- On the 3<sup>rd</sup> of May the Republic of Cyprus proceeded with a dual tranche **new syndicated issuance**. The total issuance amounted to €1,25 bn of which the first tranche was a €750 mn 30-year bond and the second tranche was a €500 mn 5-year long bond. The issue was extremely successful with a total trading book of €11,1 bn and a broad and varied investor base (both geographically and by industry).

- The 30-year bond (the first ever for the Republic) was priced at 175 basis points over the Mid-swap rate with a coupon of 2,75% (yield 2,835%, price 98,298) and the 5-year bond was priced at 60 basis points over the Mid-swap rate with a coupon of 0,625% (yield 0,673%, price 99,738).
- Currently the two bonds are trading at mid yield of 0,39% for the 5-year bond and 2,4365% for the 30-year bond respectively. All international bonds of the Republic have exhibited significant yield compression in 2019.
- The yield at the monthly 13-week **Treasury Bill** auctions remains in negative territory, with the latest auction in late May recording a yield of -0,07%.
- On the 17<sup>th</sup> of May DBRS affirmed the **rating** of the Republic of Cyprus at BBB(L) with stable outlook.

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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 Q4-2018

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

Macroeconomic Monitor May 2019

[http://mof.gov.cy/assets/modules/wnp/articles/201901/456/docs/macro\\_monitor\\_may19.pdf](http://mof.gov.cy/assets/modules/wnp/articles/201901/456/docs/macro_monitor_may19.pdf)

Stability Programme 2019-22

<http://mof.gov.cy/en/publications/stability-programme/stability-programme-2019-2022>

Fiscal accounts Mar-Apr 2019:

<https://www.mof.gov.cy/mof/cystat/statistics.nsf/All/DF77C95DED8C521DC2258316003CFA07?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