



### Macroeconomic Environment:

- In the 3<sup>rd</sup> quarter of 2015, GDP (in seasonally adjusted terms) recorded a positive rate of growth of 2.2% compared with a positive rate of growth of 0.8% in the 2<sup>nd</sup> quarter of 2015 on an annual basis.
- Having regard that, the business operating environment gradually and steadily continues to improve given that lending to non-financial corporations has turned marginally positive and interest rates are in decline, we expect return to growth as from 2015.
- The economic sentiment indicator by CypERC increased by 1.3 points in December 2015 compared to November 2015. This increase is due to strengthening of economic confidence in services and, to lesser extent, to retail trade.
- Exports of goods increased by 19.3% in January-November 2015 compared to January-November 2014, mainly due to the transfer of economic ownership of mobile transport equipment, with total value of €158.6 mn in January 2015.
- In 2015 tourist arrivals increased by 8.9% compared to 2014. An increase of 43.3% was recorded in tourist arrivals from Israel, a 29.9% increase from Germany, a 19.5% increase from the UK and a 38.2% increase from Greece. On the other hand a 17.6% decrease was recorded in arrivals from Russia.
- Inflation (HICP) for December 2015 stood at -0.6% compared to -1.5% in November 2015 and for 2015 it averaged at -1.6%.
- Labour Force Survey (LFS) unemployment, in monthly seasonally adjusted terms, decreased significantly to 15.8% in November 2015 compared to 16.6% in November 2014. 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 the first nine months of 2015 declined by around 0.6% compared to the first nine months of 2014, 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:

- Deposits in the banking system have been on a rising trend throughout the second half of the year with deposits increasing from €45.78 billion in June to €47.42 billion in November.
- The Sale of Credit Facilities and Related Matters Law of 2015 has been enacted by the House of Representatives on the 12th November 2015 and has been published in the Official Gazette of the Republic on the 27th November 2015. The purpose of the Law is to give the Central Bank of Cyprus the power to authorize, regulate and supervise the business activity of acquiring credit facilities that have been granted by a credit institution either incorporated in Cyprus and authorized under Cypriot law or operating through a branch in Cyprus. These powers will allow the CBC to ensure that the activity of acquiring and managing credit facilities is carried out properly and will also safeguard financial stability in Cyprus.

- Excluding extraordinary transactions, loans are still on a modest decreasing trend, due to the deleveraging efforts by banks.

#### Cooperative Credit Institutions:

- The Cooperative Central Bank published interim financial results for the 3Q on 12 November 2015. The Cooperative Credit Sector posted consolidated net losses of €228 mln due to the adoption of supervisory measures which resulted in an increase in specific impairment provisions by €471mln. The impact of the supervisory measures is financially severe on numerous fronts. The coverage ratio of non-performing loans increased further and is at par with EU average and exceeds by a large margin its peers regarding coverage of NPEs: As a result of the additional provisions, the Bank will return to losses in 2015. The overall increase in provisions in Q3 2015 had a direct impact on the capital adequacy which resulted in a capital adequacy ratio of 12,01%.
- The European Commission has approved additional state aid of €175 million in favour of the Cooperative Central Bank Ltd on 18 December 2015. The capital adequacy ratio after the recapitalization is 14,1%. The additional state aid is accompanied by supplementary restructuring measures, in order to ensure that the bank becomes viable without continued state support in the future and that the distortions of competition created by the state aid are mitigated. In particular, Cyprus' commitment to either list the Cooperative group's shares on the stock exchange or sell a significant part of the capital to solid investors will restore the bank's access to capital markets and enable it to finance the recovery of the Cypriot economy on a sustainable basis. Moreover, the group will deepen the rationalisation of its structure and will accelerate the development of central divisions (non-performing loan management, risk management, IT department), which are key factors for prudent and efficient management of the bank and will enhance its viability.

#### Fiscal Developments – January-October 2015:

- General government budget balance (GGBB) was in deficit during the year 2015 of the order of €82.5 mn (0.5% of GDP) compared to a deficit of €43 mn (0.2% of GDP) during the year before. General government primary balance (GGPB) was in surplus during 2015, of the order of €466.5 mn (2.7% of GDP) compared to a surplus of €455.2 mn (2.6% of GDP) during 2014.
- Total revenue exhibited a negative rate of growth of around 0.6% during the year 2015, reaching €6,886 mn compared to €6,924 mn the year before. This outcome is mainly attributed to a lower Central Bank dividend received this year compared to the one received during April 2014, by about €30 mn.
- Total expenditure reached €6,967 mn during 2015, remaining unchanged compared to total expenditure of the year before. Intermediate consumption and compensation of employees exhibited a decline of the order of 1.4%, 2.9% respectively, whereas interest payments and gross fixed capital formation exhibited an increase of the order of 10% and 4.5% respectively.

#### Public debt and financing:

- Yields in the Treasury Bills market continued to drop during the first auctions of 2016. In the latest 13 week T-Bill auction on the 4<sup>th</sup> of January (value date 8<sup>th</sup> of January) the Republic sold

€120 mn of T-Bills with an average yield of 0.65%. Demand remains quite healthy with bids in that particular auction exceeding €200 mln.

- Due to the very high demand from domestic investors for bonds of the Republic the Public Debt Management office proceeded with issuing two domestic bonds in January. The two bonds had maturity of 2 and 7 years and were issued via auction with value date the 18<sup>th</sup> of January. The results were as follows:

Tenor	2-year	7-year
Issue size	€75 mln	€221.87 mln
Coupon	2%	3.25%
Average Yield	1.86%	3.23%
Total Bids	€134.85 mln	€226,57 mln

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**Links:**

Macroeconomic monitor:

[http://www.mof.gov.cy/mof/mof.nsf/All/7E6B1AC471F747ADC2257F480024DB24/\\$file/Macro%20Monitor%20-%20November%202015.pdf?OpenElement](http://www.mof.gov.cy/mof/mof.nsf/All/7E6B1AC471F747ADC2257F480024DB24/$file/Macro%20Monitor%20-%20November%202015.pdf?OpenElement)

Public Debt Quarterly Bulletin:

[http://www.mof.gov.cy/mof/pdmo/pdmo.nsf/All/0416DE6CE7C7AC80C2257C3D0028A453/\\$file/201512%20CY%20Newsletter.pdf](http://www.mof.gov.cy/mof/pdmo/pdmo.nsf/All/0416DE6CE7C7AC80C2257C3D0028A453/$file/201512%20CY%20Newsletter.pdf)

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