



Macroeconomic Environment:

- In the 3rd quarter of 2014, GDP (in seasonally adjusted terms) contracted by -2% compared with -2.2% in the 2nd quarter of 2014 on an annual basis.
- The business operating environment remains constrained, given that lending to non-financial corporations is subdued and interest rates are still high relative to economic conditions. We maintain our view that growth in 2014 will remain negative, of about -2½ compared to a forecast of 2.8% contraction of the Autumn 2014 forecast of the European Commission, and we assume a rebound in 2015 with a gradual restoration of lending at affordable rates.
- Exports of goods decreased by 8.3% in January-September 2014 compared to the corresponding period in 2013.
- In January-October 2014 tourist arrivals increased by 1.5% compared to the corresponding period in 2013. A decrease of 2.3% was recorded in arrivals from the United Kingdom, a 4.3% decrease in arrivals from Greece and a 5.4% increase in arrivals from Russia.
- Inflation (HICP) increased by 0.3% in October 2014 compared to 0% in September 2014 and for 2014 so far it stands at -0.2%.
- Labour Force Survey (LFS) unemployment, in monthly seasonally adjusted figures, decreased from 16.8% in September 2013 to 15.1% in September 2014. The most affected segment of the population is youth.
- Compensation per employee in the 1st half of 2014 declined by about 5.1% compared to the 1st half of 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:

- AQR and stress test results better than expected under the Macroeconomic Adjustment Programme. The AQR and stress test assessment indicated that no further bank recapitalisation by the State is necessary. The table below presents summary results of the comprehensive assessment, calculated after taking into account recapitalisations already made in 2014 (Source: Central Bank of Cyprus)

Bank name	CET1 after the AQR findings (%)	CET1 under the stress test baseline scenario (%)	CET1 under the stress test adverse scenario (%)	Capital surplus/(deficit) € million
Bank of Cyprus	11.5	11.6	5.8	81
Co-Operative Central Bank	13.6	14.1	9.3	331
Hellenic Bank	7.4	8.4	1.7	(176)
RCB Bank	16.7	15.7	11.6	112

- In October the Supreme Court ruled that the amending legislation on foreclosure voted by parliament in September is unconstitutional and was therefore withdrawn. Thus a new and more efficient foreclosure legislation is now in place that will facilitate over the medium term the effort to address the NPL problem
- Credit institutions continue to focus on the NPL issue and are stepping up their recovery efforts. The Bank of Cyprus has sold its largest single name NPL exposure (€330 mln nominal value), in the process realizing an accounting gain of €27 mln. Also the Bank of Cyprus has recently initiated receivership procedures for a domestic exposure (€200 mln nominal value) which is the largest receivership ever taking place in Cyprus
- Deposits of domestic residents held with MFIs (private sector) exhibited a contraction presenting an annual decline of 2.4% in October 2014 vis-à-vis October 2013.

Cooperative Credit Institutions:

- The Cooperative Central Bank was subject to the AQR and Stress Test conducted by the ECB and EBA. The Cooperative Central Bank, after taking into account the recapitalization already made in 2014 showed capital adequacy ratios in excess of the minimum requirements in all three scenarios, i.e. the asset quality review, the baseline scenario of the stress test and the adverse scenario of the stress test. More specifically, the Cooperative Central Bank has, based on the results, a capital adequacy ratio of 13.6%, 14.1% and 9.3% respectively.
- Publication of the consolidated audited accounts for 2013, the condensed consolidated accounts for the first six month of 2014 and the nine months consolidated accounts for 2014.

<http://www.coopbank.com.cy/content/The%20Bank/COOPconsolFS2013.pdf>

<http://www.coopbank.com.cy/content/The%20Bank/newendiamesesoiikomikeskatastaseis3062014.pdf>

<http://www.coopbank.com.cy/content/The%20Bank/MIELEGMENESOIKONOMIKESKATASTASEIS28112014.pdf>

- The Cooperative Central Bank published in November 2014, the third quarterly report describing the progress with the implementation of the restructuring plan.

<http://www.coopbank.com.cy/content/The%20Bank/KPIS28112014.pdf>

- Continuing enhancement of the operational capacity of the central NPL Management Division that was set up in the Cooperative Central Bank to handle the sector's non –performing loans. The main pillars of the Division is the Arrears Management & Restructuring Unit, Debt Recovery Unit and Property Management Unit.

Fiscal Developments:

- Developments in public finances continue to exceed expectations.
- General government budget balance (GGBB) was in surplus during the first 10 (ten) months of 2014, of the order of €265 mln (1.5% of GDP) compared to a deficit of €339 mln (-1.9% of GDP) during the same period of the previous year.
- Similarly, general government primary balance (GGPB) was in surplus during the first 10 (ten) months of 2014, of the order of €646 mln (3.7% of GDP) compared to a surplus of €113 mln (0.6% of GDP) during the same period of the previous year.
- Total revenue exhibited a positive rate of growth of about 5.2%, reaching €5,636 mln during the first 10 (ten) months of 2014, compared to €5,357 mln during the same period of the year before.
- Total expenditure exhibited a negative rate of growth of about 5.7%, reaching €5,371 mln during the first 10 (ten) months of 2014, compared to €5,696 mln during the same period of the year before.
- In accordance with the 2014 Autumn Forecast of the European Commission, the budget balance is estimated to exhibit an improvement with the deficit falling to 3% of GDP in 2014 compared to a deficit of 4.9% the year before. According to Ministry's services the budget deficit in 2014 will be contained below the reference value two years ahead of the deadline set by the ECOFIN Council and not expected to exceed 2% of GDP.

Public debt and financing:

- The General Government Debt at the end of September 2014 (preliminary data) stood at €18.4 bln. At the end of December 2013 it was also €18.4 bln
- S&P's upgraded the Republic of Cyprus to B+ on the 24th of October 2014
- Fitch changed the outlook on the Republic of Cyprus from Stable to Positive on the 24th of October 2014
- Moody's upgraded the Republic of Cyprus to B3 on the 11th of November 2014
- Short term yields have continued to drop with three month primary market yields dropping to 3.5% in November.
- Long term bond yields rose sharply in late September and October mainly due to increased market uncertainty about the EU periphery. Since mid-October there has been a reversal of this trend and yields have been decreasing although they have not yet recovered and are still well above the levels reached in August.
- In October the Supreme Court ruled that the amending legislation on foreclosure voted by parliament in September is unconstitutional and was therefore withdrawn. After this event the Republic was deemed by the program partners to be compliant to its obligations and the 6th tranche that was not disbursed in September will be disbursed in the near future

Oil and Gas sector:

- The Government of the Republic of Cyprus has awarded six offshore exploration licences so far; one for Block 12 to the consortium Noble Energy / Delek Drilling / Avner Oil Exploration, three for Blocks 2, 3 and 9 to the consortium ENI / KOGAS, and two for Blocks 10 and 11 to TOTAL

- Noble Energy, operator in Block 12, announced the first natural gas discovery (“Aphrodite”) in Block 12 in January 2012. Current estimated natural gas resources are 4.5 Trillion cubic feet (gross mean). The Government of Cyprus has started discussions with the Block 12 partners in order to explore the potential resource monetization options, and the discussions are underway
- The consortium ENI / KOGAS started its exploration program in September 2014. The first exploration drilling is currently taking place in Block 9 of the Cyprus EEZ, as part of an extensive drilling campaign in the licensed Blocks of the consortium that it is anticipated to last for at least 12 months.
- The French TOTAL is currently in the process of evaluation of the seismic data of Blocks 10 and 11.
- Service companies such as Schlumberger and Halliburton have established their regional offices in Cyprus, providing services to the oil and gas operators in the region.
- Also excellent relations with neighbouring countries in the eastern Mediterranean region are currently being established:
 - a. The trilateral summit Cairo Declaration between the President of the Arab Republic of Egypt Abdel-Fattah Al-Sisi, the President of the Republic of Cyprus, Nicos Anastasiades, and the Prime Minister of the Hellenic Republic, Antonios Samaras, in Egypt on 8/11/2014.
 - b. The trilateral meeting between the Minister of Energy, Commerce, Industry and Tourism of the Republic of Cyprus, Yiorgos Lakkotrypis, the Minister of Petroleum and Mineral Resources of the Arab Republic of Egypt, Sherif Ismail, and the Minister of Environment, Energy and Climate Change of the Hellenic Republic, Yiannis Maniatis in Nicosia on 25/11/2014. The Ministers, desiring to attract investment in the field of hydrocarbons, to the benefit and prosperity of the peoples of their respective countries and recognising the possibility of environmental trans-boundary impact of hydrocarbons operations in their countries’ respective maritime zones, identified specific areas of trilateral and broader regional cooperation: 1) environmental standards in offshore hydrocarbons operations, 2) methods of ensuring safety in offshore hydrocarbons operations, 3) energy infrastructure, 4) research and development in the hydrocarbons sector, and 5) institutional expertise and capacity building.

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Links:

Macroeconomic monitor:

[http://www.mof.gov.cy/mof/mof.nsf/All/751D51C5AEA94455C2257D8900375379/\\$file/Macro%20Monitor%20-%20October%202014.pdf?OpenElement](http://www.mof.gov.cy/mof/mof.nsf/All/751D51C5AEA94455C2257D8900375379/$file/Macro%20Monitor%20-%20October%202014.pdf?OpenElement)

Public Debt Quarterly Bulletin:

[http://www.mof.gov.cy/mof/pdmo/pdmo.nsf/All/F0C650FEBD5E4C11C225788D00208D2A/\\$file/CY%20Qrt%20Bulletin%20Q3_2014.pdf](http://www.mof.gov.cy/mof/pdmo/pdmo.nsf/All/F0C650FEBD5E4C11C225788D00208D2A/$file/CY%20Qrt%20Bulletin%20Q3_2014.pdf)

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