



### Macroeconomic Environment:

- In the 1<sup>st</sup> quarter of 2014, GDP (in seasonally adjusted terms) contracted by -4.1% compared to -5% in the 4<sup>th</sup> quarter of 2013 on an annual basis which compares favourably with the prediction -4.8% annual contraction that is included in the 3<sup>rd</sup> review of the economic adjustment programme.
- Labour Force Survey (LFS) unemployment, in monthly seasonally adjusted figures, increased from 14.8% in March 2013 to 17.4% in March 2014, reflecting the effect of a protracted slowdown in economic activity.
- In January-April 2014 tourist arrivals increased by 1.4% compared to the same period in 2013. Revenues from tourism in January-February 2014 increased by 4.8% compared to January-February 2013.
- Compensation per employee in 2013 declined by 5.9% compared to 2012, contributing to a decline of nominal unit labour cost and improving cost competitiveness. The observed wage adjustment is expected to help containing the upward pressure on unemployment.
- Inflation as measured by the HICP, decreased at a rate of -0.4% in April 2014 compared to -0.9% in March 2014 and for 2014 so far it stands at -1%.
- Exports of goods increased by 2.8% in January-March 2014 compared to the same period in 2013.

### Banking sector

#### Restrictive Measures on Capital flows

- The Republic is continuing with the implementation of the Roadmap for the gradual relaxation of the restrictive measures on capital flows.
- Currently the Republic has completed stage 2 of the roadmap and has started implementing the measures of stage 3.
- As from the 30<sup>th</sup> of May 2014 all restrictive measures on domestic transactions were lifted.

#### Government Guarantees for Credit Institutions

- The Council of Ministers and the Parliamentary Financial Committee of the House of Representatives approved the issuance of additional guarantees up to €2.9 bn to Credit Institutions as contingency collateral against liquidity if necessary to safeguard financial stability, in line with state aid rules. Up to now no guarantees have been issued under this additional amount.

## Cooperative Credit Institutions

- The €1.5bn earmarked for the recapitalisation of Cooperative Credit Institutions (CCI's) was disbursed to the Cooperative Central Bank by the Republic in March 2014.
- The mergers of the Individual Cooperative Credit Institutions were completed by the end of March 2014. The number of CCI's after the mergers is 18.
- All Cooperative Credit Institutions have been recapitalised by the Cooperative Central Bank.
- A specialized unit for the management of non-performing loans was set up in the Cooperative Central Bank thus completing all obligations of the Republic under the MOU regarding the Cooperative Credit Institutions sector.

## Fiscal Developments:

- General government budget balance (GGBB) was in deficit during the first quarter of 2014, of the order of €20 mn (-0.1% of GDP) compared to target deficit of -€143 mn (-0.9% of GDP).
- General government primary balance (GGPB) was in surplus during the first quarter of 2014, of the order of €104 mn (0.7% of GDP) compared to target deficit of €5 mn (0% of GDP).
- Total revenue reached €1,567 million during the first quarter of 2014, exhibiting an improvement of €84 mn vis-à-vis the forecast.
- Total expenditure reached €1,587 million during the first quarter of 2014, exhibiting a decline of €39 mn vis-à-vis the forecast.
- In accordance with the updated macroeconomic scenario, the budget balance is estimated to reach a deficit of 5.3% of GDP in 2014 compared to a deficit of 5.4% the year before.
- Primary balance is estimated to exhibit an improvement vis-à-vis last years' level, as a percentage to GDP, falling to about -1.7% in 2014 from -2% the year before.

## Public debt and financing:

- Moody's (Caa3) changed the Credit Outlook for the Republic of Cyprus from negative to positive on the 21<sup>st</sup> of March 2014.
- S&P's upgraded the Republic of Cyprus to B on the 25<sup>th</sup> of April 2014.
- Fitch upgraded the Republic of Cyprus to B- on the 25<sup>th</sup> of April 2014.
- The Republic of Cyprus issued an EMTN bond through private placement on the 2<sup>nd</sup> of May. The bond was of an amount of €100 mn, has a coupon of 6.5% and matures in 2020.
- The General Government Debt remained stable at €18.45 bn at the end March 2014 vis-a-vis the end of December 2013 when it was €18.4 bn. The additional funding by the ESM and IMF did not have an effect as roughly equal amounts of debt matured within the same period.
- Short term debt yields have been following a downward trend during Q1 2014 dropping from 4.72% at the end of Q4 2013 to 4.48%.
- Long term bond yields continued to drop drastically during the first quarter of 2014 and through April, especially during the last two weeks leading to the Greek issuance on the 17<sup>th</sup> of April with rates dropping around the 5% for the first time since July 2011.
- The 4<sup>th</sup> Programme tranche was disbursed in April 2014 amounting to a total of €233 mn
- Next Programme disbursements are scheduled in June-July 2014 from the ESM (€600 mn) and the IMF (74.3 mn SDR; est. around €85 mn depending on exchange rate)

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**Links:**

Macroeconomic monitor:

[http://www.mof.gov.cy/mof/mof.nsf/page23\\_en/page23\\_en?OpenDocument](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?OpenDocument>

Roadmap on relaxation of capital controls:

[http://www.mof.gov.cy/mof/mof.nsf/All/3766C4D62B9EDE71C2257BC2002E22E9/\\$file/Roadmap%20PresentationLHM07%2008%202012ENG%20\[Compatibility%20Mode\].pdf](http://www.mof.gov.cy/mof/mof.nsf/All/3766C4D62B9EDE71C2257BC2002E22E9/$file/Roadmap%20PresentationLHM07%2008%202012ENG%20[Compatibility%20Mode].pdf)