



Macroeconomic Environment:

- In the 2nd quarter of 2016, GDP (in seasonally adjusted terms) continued to record a positive rate of growth of 2.7% as was the case in the 1st quarter of 2016 on an annual basis. The increase in the GDP growth rate is broad based and is mainly attributed to the sectors: hotels and restaurants, professional, scientific and technical activities, retail and wholesale trade, manufacturing, construction and transport while negative growth rates were recorded in the financial service activities.
- Having regard that the business operating environment is exhibiting signs of rebound, given that lending to non-financial corporations has turned positive and interest rates are in decline, we expect growth to continue and accelerate further in 2016.
- The economic sentiment indicator by CypERC increased by 5.1 points in August 2016 compared to July 2016 as a result of the pickup of business confidence in services, retail trade and industry.
- Exports of goods decreased by 21.5% in January-June 2016 compared to January-June 2015, mainly due to the transfer of economic ownership of mobile transport equipment, with total value of €158.6 mn in January 2015. Excluding the impact of the said transfer the exports of goods exhibited a decrease of 6.7%.
- In January-July 2016 tourist arrivals increased with a rate of 19.8% compared to the same period in 2015. An increase of 45% was recorded in tourist arrivals from Russia, a 13.6% increase from the UK, an 11% increase from Germany and a 10.1% increase from Greece.
- Inflation (HICP) for July 2016 stood at -0.4% compared to -2.0% in June 2016. For the first seven months of 2016 it stands at -1.7%.
- Labour Force Survey (LFS) unemployment, in monthly seasonally adjusted terms, decreased significantly to 11.7% in June 2016 compared to 15.1% in June 2015. The most affected segment of the population is youth, although it has been on a downward trend since the last quarter of 2013. Particularly challenging is also the relatively high long-term unemployed.
- Compensation per employee in the 1st quarter of 2016 declined by around 1.1% compared to the 1st quarter of 2015, contributing to a decline of nominal unit labour costs and improving cost competitiveness further. The observed wage adjustment is expected to help containing the upward pressure on unemployment.

Banking Sector:

- Non-performing loans continued their downward trend in absolute terms in 2016 (€26.0 bn on 31/5/2016, down from €27.3 bn on 31/12/2015 and €28.4 bn on 31/12/2014).
- Restructurings reached €14.4 bn in May 2016, having increased slightly by €0.5bn in 2015 (€14.6 bn on 31/12/2015, increased from €13.5 bn on 31/12/2014).
- Viable restructurings are at a high level, reaching 81% for restructuring taking place over the past two years (2014 and 2015).
- Deposits in the banking system have been on a rising trend since the second half of the year 2015 with deposits increasing from €44.5 bn in June 2015 to €46.5 bn in May 2016.

- Total loans continued their decreasing trend, being €55.3 bn on May 2016, down from €62.7 bn on December 2015, evident of the continuous deleveraging of the banks.
- Loans demand is increasing, although banks apply strict criteria in supplying new credit.

Cooperative Credit Institutions:

- Cooperative Central Bank has announced on the 31 August 2016 the audited results for Q2 2016 as well as the Key Performance Indicators (KPIs) regarding the progress on the implementation of the restructuring plan. All the relevant documents were published at the CCB website.
- CCB generated net profit of €55 mn in the first half of 2016, compared to €46.7 mn in the corresponding period last year. This is the third consecutive profitable quarter on a consolidated basis. In the second quarter of 2016 net profit amounted to €27.2 mn compared to profits of €9.6 mn in the second quarter of 2015 and €28 mn in the first quarter of 2016.
- The bank`s capital ratio (CET 1) continued its upward trend, reaching 16.4 % on 30 June 2016 up from 15.6% at the end of the first quarter of 2016.
- The non - performing exposures ratio at the end of June 2016 showed a marginal improvement at 59.25% compared to 59.35% at the end of December 2015. With respect to the management of non-performing exposures, the major effort undertaken continues with positive rates. Specifically, for the first half of 2016, restructuring amounted to € 668 million, however these arrangements continue to appear as non-performing for 12 months, according to the European Banking Authority`s classification.
- The restructuring arrangements for the first half along with the cure rate which remains at very satisfactory levels, are fully reflected in the NPL ratio overdue by 90 days, which amounts to 48.20% compared to 50.95% at the end the previous year. Correspondingly, the coverage ratio of these loans with provisions maintained at 54%.The bank`s liquidity ratio stands at 32%.

Fiscal Developments January-June 2016:

- General government budget balance (GGBB) was in deficit during the first semester of 2016 of about €43.7 mn (-0.3% of GDP) compared to a deficit of €31.2 mn during the same period of the year before (-0.2% of GDP). General government primary balance (GGPB) was in surplus during the period under review, of about €180.3 mn (1.1% of GDP) compared to a surplus of €202.5 mn (1.1% of GDP) during January-June 2015.
- Total revenue exhibited a marginal negative rate of growth of the order of 0.4% during the first semester of 2016, reaching €3,088 mn compared to €3,099 mn the year before. Taxes on production and imports exhibited a positive rate of growth of the order of 1.8%, current taxes on income and wealth increased by 1.7% and social contributions increased by 3.8%, reflecting the improved economic and labor market conditions. Other current resources declined by 14% mainly due to a smaller dividend payment by €40 mn from the Central Bank of Cyprus.
- Total expenditure reached €3,132 mn during January-June 2016, compared to €3,130 mn the year before, thus, remaining at the same level of 2015. Intermediate consumption and compensation of employees exhibited a decline of the order of 2.5% and 3.1% respectively, whereas social transfers increased by 5.8% compared to the year before.

Public debt and financing:

- The General Government Debt at end June 2016 reached €19,0 bn (preliminary data) exhibiting an increase by €0,1 bn since the start of the year. The government guarantee stock declined from €3,1 bn in June 2016 to €2,1 bn in September 2016 due to a cancellation of a guarantee to the Bank of Cyprus.
- In July Cyprus accessed the international bond market with a new 7-year benchmark bond under its EMTN Programme priced at 3.75% coupon rate and 3.80% re-offer yield rate for an amount of €1 billion.
- Geographical distribution: UK 28%, US Offshore 24%, Other Europe 16%, Cyprus 14%, Germany & Austria 12%, Greece 5%, Rest of World 1%; Investor type distribution: Fund Managers 62%, Banks & Private Banks 22%, Insurance & Pension 8%, Hedge Funds 7%, and Others 1%. The orderbook size reached €2,5 bn.
- This bond builds up on the previous three benchmark issuances since 2014, further developing the sovereign yield curve and the investor base, and contributing to the overall public debt management strategic objectives.
- Available cash covers the financing needs for the remainder of 2016 and 2017.
- In the domestic market yields at the monthly 13-week Treasury Bill auctions have increased from 0.79% in April to 0.89% in June but since then have declined to 0.61% in the latest auction of September.

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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_2016%20.pdf](http://www.mof.gov.cy/mof/pdmo/pdmo.nsf/All/F0C650FEBD5E4C11C225788D00208D2A/$file/CY%20Qrt%20Bulletin%20Q1_2016%20.pdf)

Cooperative Central Bank results:

http://www.ccb.coop.com.cy/userfiles/f8ce1af3-1709-4976-a785-1a5a8d552da1/synoptikes_30_06_2016.pdf

http://www.ccb.coop.com.cy/userfiles/f8ce1af3-1709-4976-a785-1a5a8d552da1/kyrioi_deiktes_30_06_2016.pdf

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