



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.
- Developments are currently driven by improving private consumption and net exports.
- The economic sentiment indicator by CypERC decreased by 3.2 points in September 2016 compared to August 2016 as a result of the worsening of business confidence in services, retail trade and industry.
- Exports of goods decreased by 13.1% in January-August 2016 compared to January-August 2015, mainly due to the transfer of economic ownership of mobile transport equipment that was recorded as exports, with total value of €158.6 mn in January 2015. Excluding this one-off transaction, exports of goods exhibited a decrease of 0.4%.
- Imports of goods increased by 13.7% in January-August 2016 compared to January-August 2015 mainly due to the transfer of economic ownership of mobile transport equipment, with total value of €563.4 mn in May 2016 recorded as imports. Excluding this one-off transaction, imports of goods and services exhibited a decrease of 2.7%.
- In January-September 2016 tourist arrivals increased with a rate of 18.8% compared to January-September 2015. An increase of 44.5% was recorded in tourist arrivals from Russia, a 12.4% increase from Greece, an 11.1% increase from the UK and a 6.6% increase from Germany.
- Inflation (HICP) for September 2016 stood at -0.4% compared to -0.6% in August 2016. For 2016 so far it stands at -1.4%.
- Labour Force Survey (LFS) unemployment, in monthly seasonally adjusted terms, decreased significantly to 12.1% in August 2016 compared to 14.7% in August 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 half of 2016 marginally increased by around 0.2% compared to the 1st half of 2015. The observed wage adjustment is expected to help containing the upward pressure on unemployment.

Banking Sector:

- Non-performing loans (local operations) continued their downward trend in absolute terms in 2016 (€25.1 bn on 31/8/2016, down from €27.3 bn on 31/12/2015 and €28.4 bn on 31/12/2014).
- Restructurings (local operations) reached €13.7 bn in August 2016 (€14.2 on 31/12/2015, and €12.9 bn on 31/12/2014).
- Data shows around 80% of fixed-term loan restructurings undertaken, abide by the new repayment schedule agreed as part of the restructuring.
- 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 €47.9 bn in August 2016.
- Total loans (local operations) continued their decreasing trend, being €52.0 bn on 31 August 2016, down from €60.2 bn on 31 December 2015, evident of the continuous deleveraging of the banks, mainly due to write offs in the context of restructuring efforts.
- Loans demand is increasing, although banks apply strict criteria in supplying new credit.

Fiscal Developments January-September 2016:

- General government budget balance was in surplus during the period January-September 2016 of about €142.8 mn (0.8% of GDP) compared to a surplus of €100.8 mn during the same period of the year before (0.6% of GDP). General government primary balance was in surplus during the period under review of about €524.6 mn (3.1% of GDP) compared to a surplus of €500.3 mn (2.8% of GDP) during January-September 2015.
- Total revenue exhibited a positive rate of growth of the order of 0.7% during the first semester of 2016, reaching €4,887 mn compared to €4,854 mn the year before. Taxes on production and imports exhibited a positive rate of growth of the order of 1.6%, current taxes on income and wealth increased by 3.2% and social contributions increased by 3.2%, reflecting the improved economic and labor market conditions. Other current resources declined by 17.4% mainly due to a smaller dividend payment by €40 mn from the Central Bank of Cyprus.
- Total expenditure recorded a marginal decline during January-September 2016, reaching €4,744 mn compared to €4,753 mn the year before. Intermediate consumption and compensation of employees exhibited a decline of the order of 2.7% and 2.0% respectively, whereas social transfers increased by 4.2% compared to the year before.

Public debt and financing:

- The General Government Debt reached €19,9 bn in August 2016 (preliminary data) exhibiting an increase by €1 bn since the start of the year. The increase is attributed to accumulation of cash reserves.
- Available cash covers the financing needs for the remainder of 2016 and 2017.

- In September buybacks for €0,2 bn of domestic bonds due in 2020-2021 were conducted in order to smooth the debt maturity profile, a core objective of the public debt management strategy.
- Yields at the monthly 13-week Treasury Bill auctions have declined for the fifth consecutive month to 0,31% in the November auction.

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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%20Q2_2016.pdf](http://www.mof.gov.cy/mof/pdmo/pdmo.nsf/All/F0C650FEBD5E4C11C225788D00208D2A/$file/CY%20Qrt%20Bulletin%20Q2_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