



Macroeconomic Environment:

- In the 3rd 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 0.6% in the 2nd quarter of 2015 on an annual basis.
- Having regard that, the business operating environment shows signs of stabilization and gradual improvement 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 0.7 in October 2015 compared to September 2015. This increase is due to the improvement in business climate in manufacturing and to further enhancement of consumer confidence.
- Exports of goods increased by 20% in January-September 2015 compared to January-September 2014, mainly due to the transfer of economic ownership of mobile transport equipment.
- In January-October 2015 tourist arrivals increased by 7.4% compared to January-October 2014. An increase of 46.8% was recorded in tourist arrivals from Israel, a 33.9% increase from Germany, an 18% increase from the UK and a 39.3% increase from Greece. On the other hand a 19.9% decrease was recorded in arrivals from Russia.
- Inflation (HICP) for October 2015 was -1.8% compared to -1.9% in September 2015 and for 2015 so far it stands at -1.7%. Core HICP inflation stood at -0.4% in January-October 2015.
- Labour Force Survey (LFS) unemployment, in monthly seasonally adjusted terms, decreased significantly to 15.1% in September 2015 compared to 16.3% in September 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 1st half of 2015 declined by around 1.1% compared to the 1st half 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:

- The Foreclosure Law, the Insolvency Framework and the relevant Regulations which are important for addressing the Non-Performing Loans issue, have been enacted by the House of Representatives on the 17th of April 2015.
- In addition, on the 4th of September 2015, the House of Representatives passed the Transfer and Mortgage (Amending) Law of 2015, which deals with the longstanding problem of title deeds transfer to home buyers, when the property they bought is encumbered by the seller (developer). In specific, title deeds will be issued to buyers who submitted the sale contract up until 31.12.2014, in the cases where buyers have paid the price in full or have paid partially, in full compliance with their obligations.
- 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.
- 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 €47.01 billion in October.

Cooperative Credit Institutions:

- The CCB Group following a severe restructuring in 2013, which resulted to injection of state aid amounting to €1.5 bn, still enjoys the trust of the Cypriot society with strong liquidity and NPE provision coverage.
- A new amended Restructuring Plan is under discussion in order to allow for an additional capital injection from the Republic of Cyprus and strengthen the capital buffers of the Bank following supervisory measures, given that the Bank was in line with the capital level targeted in the original Restructuring Plan prior to the supervisory measures. The supervisory measures resulted in an increase in specific impairment provisions by €471mn and of the targeted Supervisory Review and Evaluation Process (SREP) capital from 9.79% to 12.25%.
- The impact of the supervisory measures is financially severe on numerous fronts:
 - ✓ Coverage ratio: The coverage ratio of non-performing loans increased further as the Bank incorporated the increase in specific provisions, as estimated by the SSM, prior to the issue of the Q3 2015 results. The increase in provisions has meant that the Bank is at par with EU average and exceeds by a large margin its peers regarding coverage of NPEs:
 - ✓ Profitability: As a result of the additional provisions, the Bank will return to losses in 2015.
 - ✓ Capital adequacy: The overall increase in provisions in Q3-2015 (increase in specific provisions, partly counterbalanced by a release of Incurred But Not Reported [IBNR] provisions) had a direct impact on the capital adequacy which resulted in a capital adequacy ratio of 12.01%. The capital adequacy will be increased gradually through internal capital generation and potentially capital injection.

Fiscal Developments – January-October 2015:

- General government budget balance (GGBB) was in surplus during the period January-October 2015 of the order of €65.3 mn (0.4% of GDP) compared to a surplus of €287.3 mn (1.7% of GDP) during the same period of the previous year. General government primary balance (GGPB) was in surplus during the period under review, of the order of €473.7 mn (2.7% of GDP) compared to a surplus of €669.6 mn (3.8% of GDP) during the same period of the previous year.
- Total revenue exhibited a negative rate of growth of around 3.8% during the period January-October 2015, reaching €5,418 mn compared to €5,631 mn during the same period of 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 exhibited a marginal negative rate of growth of around 0.2% during the period under review, reaching €5,344 mn, compared to €5,353 mn during the same period of the year before. Intermediate consumption, compensation of employees and social transfers exhibited a decline of the order of 6.8%, 1.9% and 2.0% respectively.

Public debt and financing:

- Fitch upgraded the Republic of Cyprus on 23rd October by two notches from B- to B+ and a positive outlook citing the significant progress shown in the fiscal performance, the better than expected macroeconomic situation and the progress in the banking sector.
- Moody's upgraded the Republic of Cyprus on 13th November by two notches from B3 to B1 with stable outlook also citing the significant progress shown in the fiscal performance of the government and the better than expected macroeconomic situation.
- DBRS upgraded the Republic of Cyprus on 4th December by one notch from BL to B with a stable outlook citing the improvement in fiscal management and debt and liquidity.
- The Republic of Cyprus proceeded with the issuance of a new Eurobond on the 27th of October (value date: 4th of November). The characteristics of the new bond were as follows:
 - a. Tenor: 10 years
 - b. Size: €1 billion
 - c. Coupon: 4.25%
 - d. Yield: 4.25%
 - e. Size of order book: €3.3 billion
- The new issue was done simultaneously with a switch of older bonds maturing in 2019 and 2020 with the newly issued bond. Specifically, €184 mn were exchanged from the June 2019 bond (XS1081101807), €230 mn from the February 2020 bond (XS0483954144) and €20 mn from the May 2020 bond (XS1064662890)
- Yields in the Treasury Bills market continued to drop as the amounts auctions stabilized to €400 mln but demand continued to increase. In the latest 13 week T-Bill auction on the 30th of November (value date 4th of December) the Republic sold €100 mn of T-Bills with an average yield of 0.65%. Total bids in that particular auction amounted to over €500 mn indicating a very healthy demand.

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Links:

Macroeconomic monitor:

[http://www.mof.gov.cy/mof/mof.nsf/All/D74FDF7E6A3B9F47C2257F0D0023AA31/\\$file/Macro%20Monitor%20-%20September%202015.pdf?OpenElement](http://www.mof.gov.cy/mof/mof.nsf/All/D74FDF7E6A3B9F47C2257F0D0023AA31/$file/Macro%20Monitor%20-%20September%202015.pdf?OpenElement)

Public Debt Quarterly Bulletin:

[http://www.mof.gov.cy/mof/pdmo/pdmo.nsf/All/F0C650FEBD5E4C11C225788D00208D2A/\\$file/CY%20Qrt%20Bulletin%20Q3_2015.pdf](http://www.mof.gov.cy/mof/pdmo/pdmo.nsf/All/F0C650FEBD5E4C11C225788D00208D2A/$file/CY%20Qrt%20Bulletin%20Q3_2015.pdf)

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