



Macroeconomic Environment:

- In the 3rd quarter of 2014, GDP (in seasonally adjusted terms) contracted by -1.8% 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 modest rebound in 2015 with a gradual restoration of lending at affordable rates.
- The economic sentiment indicator by CypERC decreased by 2.4 points in January 2015 compared to December 2014 and still remaining in the negative territory. This decrease is due to the worsening of the business climate in services, but as well to the worsening of the economic confidence of consumers.
- Exports of goods decreased by 11.8% in January-November 2014 compared to the corresponding period in 2013 mainly due to reduced foreign exports.
- In 2014 tourist arrivals increased by 1.5% compared to 2013. A decrease of 2.2% was recorded in arrivals from the United Kingdom, a 3.8% decrease in arrivals from Greece and a 4.6% increase in arrivals from Russia.
- Inflation (HICP) decreased by 1% in December 2014 compared to 0% in November 2014 and for 2014 it averaged at -0.3%.
- Labour Force Survey (LFS) unemployment, in monthly seasonally adjusted figures, increased from 16.6% in November 2013 to 16.8% in November 2014. The most affected segment of the population is youth, although it has been on a downward trend since January 2014.
- Compensation per employee in the first nine months of 2014 declined by about 4% compared to the first nine months 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:

- Hellenic Bank proceeded in December 2014 with a capital increase through the issue of new ordinary shares to private investors. The capital increase was larger than the amount necessary for Hellenic Bank to cover the capital shortfall that it exhibited in the AQR-stress tests performed by the ECB in October 2014.
- Banking Institutions generally managed to reduce their operational costs and improve their profitability, as well as increasing their CET.
- Deposits are beginning to increase, reversing prior decreasing trend. Bank of Cyprus and Cooperative Central Bank suffered outflow of deposits in the first 10 months of 2014 but the trend has now been reversed, each achieving increase of over €300mln in the last 3 months.
- Credit institutions continue to focus on the NPL issue and are stepping up their recovery efforts. Figures remain high though, in excess of 50%. The Foreclosure Law, the Insolvency Framework and the relevant Regulations which are important for addressing the NPL issue, are currently being discussed by the relevant Parliament committee.

Cooperative Credit Institutions:

- Publication of the consolidated audited accounts for 2013, the condensed consolidated accounts for the first six months of 2014 and the nine months consolidated accounts for 2014.
<http://www.coopbank.com.cy/content/The%20Bank/COOPconsolIFS2013.pdf>
<http://www.coopbank.com.cy/content/The%20Bank/newendiamesesoikomikeskatastaseis3062014.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) during 2014 was slightly negative of the order of €7 mln (0.0% of GDP) compared to a deficit of €891 mln (-4.9% of GDP) during the previous year.
- General government primary balance (GGPB) was in surplus during 2014, of the order of €488 mln (2.8% of GDP) compared to a deficit of €327 mln (0.6% of GDP) during the previous year.
- Total revenue exhibited a positive rate of growth of about 6.1%, reaching €7,014 mln during 2014, compared to €6,610 mln during the year before.
- Total expenditure exhibited a negative rate of growth of about 6.4%, reaching €7,021 mln during 2014, compared to €7,501 mln during the year before.

Public debt and financing:

- The General Government Debt at the end of 2014 (preliminary data) stood at €18.7 bln. At the end of December 2013 it was €18.4 bln.
- The PDMO has published its medium term strategy for the years 2015-2019. The main strategic guidelines that form the strategy are the following:
 - a. Smoothing of maturity profile and extension of maturity of marketable debt
 - b. Risk mitigation through increased cash reserves and management of interest rate and foreign exchange risk
 - c. Development of the government securities market
 - d. Minimization of marketable debt borrowing costs, without compromising the above guidelines

The Medium Term Debt Strategy is available under the following link

[http://www.mof.gov.cy/mof/pdmo/pdmo.nsf/All/09FD892D97735FCCC2257DB7003EA752/\\$file/Cyprus%20MTDS%202015-2019%20Final%20EN.pdf](http://www.mof.gov.cy/mof/pdmo/pdmo.nsf/All/09FD892D97735FCCC2257DB7003EA752/$file/Cyprus%20MTDS%202015-2019%20Final%20EN.pdf)

- On the 3rd of February 2015 the first Treasury Bills auction since 2012 was executed. The security auctioned was a 13 week treasury bill. The results of the auction were the following:
 - a. Offered amount of €125 mln
 - b. Bids for €208 mln were received
 - c. €130 mln was accepted
 - d. The weighted average yield was 2.96%
- The auction produced a reduction of short term yields of 44 basis points from the previous 13 week treasury bills issuance in early January 2015.
- An indicative schedule for Treasury Bills auctions covering the first half of 2015 has been made public in late January 2015

<http://www.mof.gov.cy/mof/pdmo/pdmo.nsf/All/574E50BF5F27A973C2257CBE00280B9F?OpenDocument>

- Long term bond yields have been relatively volatile during the period December 2014-January 2015. Long term bond yields rose in December with the announcement of the Greek elections and the lack of a review statement by the troika on the Cypriot program. Yields fell sharply in January after the ECB decision on QE but in late January and early February have begun rising again due to uncertainty about Greece and the continued stalemate regarding the foreclosure legislation issue in Cyprus which is delaying the further disbursement of additional funds by the IMF/ESM.

Contacts:

Public Debt Management Office, Ministry of Finance, Nicosia 1439, Cyprus

pdm@mof.gov.cy ; www.mof.gov.cy/pdmo ; Tel: +357 22 601182 ; Fax: +357 22 602749

Links:

Macroeconomic monitor:

[http://www.mof.gov.cy/mof/mof.nsf/All/DDE0F0B042BCB554C2257DC80042E7A6/\\$file/Macro%20Monitor%20-%20November%202014.pdf?OpenElement](http://www.mof.gov.cy/mof/mof.nsf/All/DDE0F0B042BCB554C2257DC80042E7A6/$file/Macro%20Monitor%20-%20November%202014.pdf?OpenElement)

Public Debt Quarterly Bulletin:

[http://www.mof.gov.cy/mof/pdmo/pdmo.nsf/All/F0C650FEBD5E4C11C225788D00208D2A/\\$file/CY%20Qrt%20Bulletin%20Q4_2014.pdf](http://www.mof.gov.cy/mof/pdmo/pdmo.nsf/All/F0C650FEBD5E4C11C225788D00208D2A/$file/CY%20Qrt%20Bulletin%20Q4_2014.pdf)

Replication is permitted, provided that the source is stated.

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