



Macroeconomic Environment:

- In the 3rd quarter of 2016, GDP (in seasonally adjusted terms) recorded a positive rate of **growth** of 2.9% compared to 2.8% in the 2nd quarter of 2016 on an annual basis. The GDP increase is broad-based and is mainly attributed to sectors: hotels and restaurants, professional, scientific and technical activities, retail and wholesale trade, manufacturing, construction and transport. Negative growth rate was recorded in the financial services sector and information and communication sector.
- Developments are currently driven by improving private consumption, gross fixed capital formation as well as net exports.
- The **economic sentiment** indicator by CypERC increased by 3.1 points in December 2016 compared to the preceding month as a result of the pickup of business confidence in services, retail trade and construction.
- **Exports** of goods decreased by 2.5% in January-November 2016 compared to January-November 2015, mainly due to the transfer of economic ownership of mobile transport equipment that was recorded as exports, with total value of €159 mn in January 2015. Excluding this one-off transaction exports of goods exhibited an increase of 8.1%.
- **Imports** of goods increased by 13.6% in January-November 2016 compared to January-November 2015 mainly due to the transfer of economic ownership of mobile transport equipment, with total value of €563 mn in May 2016 recorded as imports. Excluding this one-off transaction imports of goods exhibited an increase of 1.6%.
- During 2016 **tourist arrivals** increased at a rate of 20% compared to 2015. An increase of 49% was recorded in tourist arrivals from Russia, a 15% increase from Greece, and an 11% increase from the UK and Germany.
- The **current account balance** in the first nine months of 2016 recorded a deficit of €78 mn (-0.4% of GDP) compared with a deficit of €316 mn (-1.8% of GDP) in the first nine of 2015 mainly due to improvement in the services balance. Excluding the one-off transactions in imports and exports of mobile transport equipment the current account balance recorded a surplus of €485 mn (2.7% of GDP) during the reference period of 2016 compared with a deficit of €475 mn (-2.7% of GDP) during the corresponding period of 2015.
- **Inflation** (HICP) for December 2016 stood at 0.1% compared to -0.8% in November 2016. For 2016 it averaged at -1.2%.
- Labour Force Survey (LFS) **unemployment**, in monthly seasonally adjusted terms, decreased to 13.2% in November 2016 compared to 14.2% in November 2015.
- **Compensation per employee** in the first nine months of 2016 marginally decreased by around 0.1% compared to the first nine months of 2015. The observed wage adjustment is expected to help maintain a downward trend in unemployment.

Banking Sector:

- The **capital position** has been strengthened. CET1 capital ratio of the Cypriot banking sector reached 16.0% on 30/09/2016 (15.6% on 31/12/2015 and 14.2% on 31/12/2014).

- **Non-performing loans** continued their downward trend in absolute terms in 2016 (€24.7 bn on 30/09/2016, down from €27.3 bn on 31/12/2015 and €28.4 bn on 31/12/2014).
- **Provisions** on non-performing loans continued increasing as a % of the NPLs, reaching 39.5% on 30/09/2016 (38.3% on 31/12/2015 and 34% on 31/12/2014).
- **Restructurings** reached €13.6 bn in September 2016 (€14.2 bn on 31/12/2015, and €12.9 bn on 31/12/2014). Data shows that over 72% of fixed-term loan restructurings undertaken, abide by the new repayment schedule agreed as part of the restructuring.
- **ELA** obtained by Bank of Cyprus was fully repaid in January 2017 (had peaked at €11.4 bn in April 2013), confirming the strengthening of the Bank, and the restoration of confidence towards the Cyprus' banking system.
- **Deposits** in the banking system have been on a rising trend since the second half of 2015 with deposits increasing from €44.5 bn in June 2015 to €49 bn in November 2016.
- Total **loans** continued their decreasing trend, being €54 bn in November 2016, down from €63 bn in December 2015, mainly due to write offs in the context of debt restructurings.
- Despite the overall decline of loans, new **lending** is on an upward trend. Loans demand is increasing, although banks apply strict criteria in supplying new credit. As a consequence, new lending during the first 8 months of 2016 reached €0.8 bn (of which €0.6 bn housing loans), in comparison to €0.7 bn for the corresponding period of 2015 (of which € 0.4 bn housing loans).
- Since mid January 2017 the **Bank of Cyprus'** shares are listed and traded both at the London Stock Exchange and the Cyprus Stock Exchange. Moreover, the bank issued €250 mn unsecured and subordinated Tier 2 Capital Notes, with a coupon of 9.25% and a ten-year maturity, with an option to call at 5 years. The book was oversubscribed by 2.4 times. Most investors were UK-based fund managers.
- The Cyprus Securities and Exchange Commission approved on 22nd December 2016 the **Cooperative Central Bank** prospectus ahead of its intended listing on the Cyprus Stock Exchange. The bank intention is to take all necessary measures to prepare for a possible listing of its shares either on the CSE's main market or alternative market in case the preconditions for a main market listing by the end of 2017 are not met.
- An extraordinary General Meeting of Cooperative Central Bank shareholders on 30 December 2016 approved the legal merger of the 18 cooperative credit institutions with the Cooperative Central Bank.

Fiscal Developments:

- General government **budget balance** was in surplus during the period January-November 2016 of about €66 mn (0.4% of GDP) compared to a surplus of €12 mn during the same period of the year before (0.1% of GDP). General government **primary balance** was in surplus during the period under review of about €509 mn (2.9% of GDP) compared to a surplus of €472 mn (2.7% of GDP) during January-November 2015.
- Total **revenue** exhibited a positive rate of growth of the order of 0.7% during the period under review, reaching €5,947 mn compared to €5,908 mn the year before. Taxes on production and imports exhibited a positive rate of growth of the order of 4.5%, current taxes on income and wealth increased by 1.1% and social contributions increased by 3.6%, reflecting the improved economic and labor market conditions. Other current resources declined by 12.3% mainly due to a smaller dividend payment by €40 mn from the Central Bank of Cyprus.
- Total **expenditure** recorded a decline of the order of 0.3% during January-November 2016, reaching €5,881 mn compared to €5,896 mn the year before. Intermediate consumption and compensation of employees exhibited a decline of the order of 0.9% and 2.9% respectively, whereas social transfers increased by 4.6% compared to the year before.

Public debt and financing:

- The General Government **Debt** reached €19.7 bn in November 2016 exhibiting an increase by €0.7 bn since the start of the year. The increase has been diverted mainly to the accumulation of cash reserves.
- Available **cash** covers the financing needs up to the first quarter of 2018.
- The **yields** at the benchmark bonds most recently followed a downward path. The 2023 bond (most recent issuance) has currently a spread vs. Bunds around 306 bps down from 335 bps in early November while the spread of the 2025 bond (longest point on curve) has reduced to 312 bps from 345 bps in early November.
- The yield at the monthly 13-week Treasury Bill auction declined to a record all-time low of 0.02% in the January auction. The bid-to-cover ratio was 400%.
- In December the Public Debt Management Office concluded the year's **liability management** operations with a buyback of €300 mn of a domestic bond due in 2019. In total debt buybacks of the year reached €548 mn and were conducted on domestic bonds due mainly in 2019-2020 (85% nominal of amount) and 2021-2023 (15% of nominal amount). The weighted average coupon of rebought bonds was 4.91%.
- In December DBRS revised the **outlook** of the Republic of Cyprus sovereign to positive from stable while maintaining the B rating. Cyprus' outlook is now rated positive by all main agencies.

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Links:

Macroeconomic monitor:

http://www.mof.gov.cy/mof/mof.nsf/page23_en/page23_en?OpenDocument

Fiscal accounts:

[http://www.mof.gov.cy/mof/mof.nsf/All/1ED09DA4B021888FC22580A3002DE7D1/\\$file/PPS%2012%20-%20fiscal%20-%20budgetary%20developments%20-%2030.12.2016.pdf?OpenElement](http://www.mof.gov.cy/mof/mof.nsf/All/1ED09DA4B021888FC22580A3002DE7D1/$file/PPS%2012%20-%20fiscal%20-%20budgetary%20developments%20-%2030.12.2016.pdf?OpenElement)

Public debt quarterly bulletin:

[http://www.mof.gov.cy/mof/pdmo/pdmo.nsf/All/F0C650FEBD5E4C11C225788D00208D2A/\\$file/CY%20Qrt%20Bulletin%20Q3_2016%20%CE%95%CE%9D.pdf](http://www.mof.gov.cy/mof/pdmo/pdmo.nsf/All/F0C650FEBD5E4C11C225788D00208D2A/$file/CY%20Qrt%20Bulletin%20Q3_2016%20%CE%95%CE%9D.pdf)

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