



Macroeconomic Environment

1. The economy contracted by 5.5% during the first three quarters of 2013. The contraction was not as steep as the one projected in the baseline scenario of the original Memorandum of Understanding which assumed an annual contraction of 8.7% (the current projection is 7.7%).
2. Unemployment increased to 17% in October 2013 from 13.2% in October 2012.
3. Tourist arrivals declined by 2.5% but revenues from tourism show a small increase.
4. Compensation per employee in the 1st half of 2013 declined by 4.6% contributing to a decline of nominal unit labour cost and improving competitiveness.
5. Inflation remains subdued. As measured by the HICP, it decreased at a rate of -0.5% in October 2013 compared to 0.3% in September 2013, and for the period January-October 2013 it stood at 0.7% compared to the same period in 2012.
6. The current account balance in the 1st half of 2013 was in deficit of €150,3 mn (0.9% of GDP) compared to €652,7 mn (3.7% of GDP) during the same period in 2012.
7. The income account recorded a deficit of €95.2 mn in the first half of 2013 compared to a deficit of €145,6 mn for the same period in 2012.
8. Exports of goods increased by 11.4% in the period January to September 2013 compared to the same period in 2012.

Banking sector

Bank of Cyprus

- Fully recapitalised Bank of Cyprus (BoC) thus allowing the bank to exit the resolution process and to access ECB refinancing operations.
- Cleared the appointment of BoC's new Board of Directors and its Chief Executive Officer after ensuring their fitness and probity.
- Completed the assessment of BoC's restructuring plan.

Hellenic Bank

- Successfully recapitalised Hellenic Bank (HB) through private sources.

Cooperative Credit Institutions

- The €1.5bn earmarked for the recapitalisation of Cooperative Credit Institutions (CCI's) was disbursed to the Republic of Cyprus in September 2013.
- Cleared the appointment of the Board of Directors of the Central Cooperative Bank (CCB).
- Set up a specialized unit under the Ministry of Finance to manage the state's future stake in the sector.
- The restructuring plan for the sector is in the process of being finalized.
- Started the consolidation of the sector by merging 38 CCIs into 9 entities.

Fiscal Developments

1. General Government Primary Balance (GGPB) was in surplus reaching €88,3 mn during the period January-October 2013 compared to a deficit of €100,4 mn during the corresponding period of the year before. As a percentage to GDP, the GGPB during the period under review is estimated at 0,5% compared to a deficit of -0,6% during the period January-October 2012.
2. General Government Budget Balance (GGBB) was in deficit reaching €381,6 mn during the period January-October 2013 comparing to a deficit of €643,4 mn of the corresponding period the year before. As a percentage to GDP, the GGBB during the period under review is estimated at -2.3% compared to a deficit of -3.6% during the period January-October 2012.
3. Preliminary headline figures show an improvement in the period January-October of about 1½ p.p. of GDP compared with the corresponding period of last year. The improvement is attributed to a prudent implementation of the Budget during 2013.
4. One-off factors such as signature fees for the exploration of hydrocarbon reserves as well as higher dividend income from CBC are broadly counter balanced by increased outlays for gratuities and compensation to provident and pension funds with deposits at ex-Laiki Bank.
5. Total revenue reached €5,3 bn in line with forecast during the period January-October 2013 exhibiting a decline of 1,8% vis-à-vis the corresponding period of the year before.
6. Total expenditure reached €5,7 bn during the period January-October 2013 exhibiting a decline of 5% vis-à-vis the corresponding period of the year before.
7. Compensation of employees in the period January-October fell to €2 bn compared to €2,2 bn the corresponding period the year before exhibiting a decline of close to 10%.

Public debt and financing

1. Public debt increased to €18.4 bn by end September 2013 from €16.9 bn at the end of June 2013. This is due to the €1.5 bn borrowed for the recapitalisation of the cooperative sector.
2. Short term debt yields have been following a slightly downward trend during Q3 dropping from 5.06% at the end of Q2 to 4.79%.
3. Long term bond yields have dropped significantly during the period September to November 2013 and are close to the lowest values achieved in 2013.
4. Next Programme disbursements are scheduled in December 2013 from the ESM (€100 mn) and the IMF (74.3 mn SDR; est. around €85 mn depending on exchange rate).
5. S&P's upgraded the Republic of Cyprus on the 29th of November from CCC+(stable outlook) to B-(stable outlook).

Other issues

Privatisation of State-Owned Enterprises

1. The Privatisation Plan of the government, which includes the possible options of privatising CyTA (Telecommunications), EAC (Electricity), CPA (commercial activities of ports) and a number of other SOEs, has been approved by the Council of Ministers on 5th December 2013.
2. The actual privatisation procedures for each SOE to be privatised will commence at the beginning of next year. Procedures will pay due attention to market developments and will proceed in a way that will maximize effectiveness and, in parallel, public revenues.

3. In addition, the Bill regarding the institutional and legislative framework for privatisations in Cyprus is at the final stages of preparation, and will be submitted to the House of Representatives in January 2014.

Public Sector Reform

Integration of tax departments: A project has begun for the integration of the two tax departments (Inland Revenue and VAT Departments) in order to achieve better efficiency in tax collection. The ultimate objective of the project is to set up a single agency that will be more cost-efficient for the local and international tax-payers.

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 (copy and paste full address):

Macroeconomic monitor:

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

Main economic indicators:

[http://www.mof.gov.cy/mof/mof.nsf/All/EDDFB684FA44F5B9C2257C3C002DF8CE/\\$FILE/Macro%20Figures%2020052016%20website%20%20November%202013EN.pdf?OpenElement](http://www.mof.gov.cy/mof/mof.nsf/All/EDDFB684FA44F5B9C2257C3C002DF8CE/$FILE/Macro%20Figures%2020052016%20website%20%20November%202013EN.pdf?OpenElement)

Public Debt Quarterly Bulletin:

<http://www.mof.gov.cy/mof/pdmo/pdmo.nsf/All/F0C650FEBD5E4C11C225788D00208D2A?OpenDocument>

Roadmap on relaxation of capital controls:

[http://www.mof.gov.cy/mof/mof.nsf/All/3766C4D62B9EDE71C2257BC2002E22E9/\\$file/Roadmap%20Presentatio nLHM07%2008%202012ENG%20\[Compatibility%20Mode\].pdf](http://www.mof.gov.cy/mof/mof.nsf/All/3766C4D62B9EDE71C2257BC2002E22E9/$file/Roadmap%20Presentatio nLHM07%2008%202012ENG%20[Compatibility%20Mode].pdf)