



Macroeconomic Environment:

- In the 4th quarter of 2014, GDP (in seasonally adjusted terms) contracted by -2% compared with -2% in the 3rd quarter of 2014 on an annual basis and for 2014 as a whole it has contracted by -2.3%.
- The business operating environment remains constrained, given that lending to non-financial corporations is subdued and interest rates are still relative to economic conditions high and we assume the negative trends to dissipate significantly in 2015 with a gradual restoration of lending at more affordable rates.
- The economic sentiment indicator by CypERC decreased by 0.2 points in March 2015 compared to February 2015 and still remaining in the negative territory. This decrease is due to a worsening climate in retail trade and among consumers.
- Exports of goods increased by 131.8% in January 2015 compared to January 2014, mainly due to the transfer of economic ownership of mobile transport equipment with total value of €158.6 mn.
- In January-February 2015 tourist arrivals increased by 7.7% compared to January-February 2014. An increase of 73.5% was recorded in tourist arrivals from Israel, a 30% increase from Germany, a 1.5% increase from the UK and a 7% increase from Greece. On the other hand a 5.2% decrease was recorded in arrivals from Russia.
- Inflation (HICP) for February 2015 was -0.8% compared to -0.7% in January 2015 and for 2015 so far it stands at -0.7%.
- Labour Force Survey (LFS) unemployment, in monthly seasonally adjusted figures, increased from 15.6% in February 2014 to 16.3% in February 2015. The most affected segment of the population is youth, although it has been on a downward trend since January 2014.
- Compensation per employee in 2014 declined by about 4.7% compared to 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:

- Restrictive Measures on financial transactions have been abolished on the 5th April 2015 (inclusive) with the termination of the Enforcement of Temporary Restrictive Measures on Transactions in case of Emergency 35th Decree on Restrictive Measures and the Enforcement of Temporary Restrictive Measures on Transactions of Foreign Banks in case of Emergency 28th Decree on Restrictive Measures for International Banks issued by the Minister of Finance.
- Banking Institutions generally managed to reduce their operational costs and improve their profitability, as well as increasing their CET.
- Deposits exhibit a small increase, reversing prior decreasing trend. Bank of Cyprus and Cooperative Central Bank suffered outflow of deposits in the first 11 months of 2014 but the trend has now been reversed. During the last 4 months Bank of Cyprus, Cooperative Central

Bank and Hellenic Bank showed an increase of over €1.2 bn, partly benefiting from the outflows from Greek subsidiaries. The system in total had an increase of over €800 mn during this period.

- Provision of loans remains subdued. Excluding extraordinary transactions, loans remained stagnant.
- Credit institutions continue to focus on Non Performing Loans 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.
- Bank of Cyprus exhibited a lower loss for the year 2014 in relation to 2013 (€321 mn against €2068 mn). Net interest income increased by €87mn, expenses decreased by €131 mn, various impairments decreased by €210 mn, and loss from discontinued operations decreased by €1074mn.
- Hellenic Bank had a lower loss for the year 2014 in relation to 2013 (€118 mn against €190 mn). Net interest income increased by €17 mn, expenses decreased by €9 mn, and loss from discontinued operations decreased by €32 mn. Provisions for loans remained in excess of €300mn, although slightly decreased (by €6 mn).

Cooperative Credit Institutions:

- Publication of the consolidated unaudited accounts for 2014.
(<http://www.coopbank.com.cy/content/The%20Bank/mielegmenesoikonomikeskatastaseis30032015.pdf>)
- The Cooperative Central Bank published in March 2015 the fourth quarterly report describing the progress in the implementation of the restructuring plan.
(<http://www.coopbank.com.cy/content/The%20Bank/deiktesapodosisrevised30032015.pdf>)

Fiscal Developments:

- Developments in public finances continue to exceed expectations.
- Fiscal results for 2014 were slightly revised since the previous newsletter. General government budget balance (GGBB) during 2014 was marginally negative of the order of €43.5 mn (-0.2% of GDP) compared to a deficit of €891 mn (-4.9% of GDP) in the previous year.
- General government primary balance (GGPB) was in surplus during 2014, of the order of €454.7 mn (2.6% of GDP) compared to a deficit of €327 mn (-1.8% of GDP) during the previous year.
- Total revenue exhibited a positive rate of growth of about 6.7%, reaching €7,053 mn during 2014, compared to €6,610 mn during the year before.
- Total expenditure exhibited a negative rate of growth of about 5.4%, reaching €7,097 mn during 2014, compared to €7,501 mn during the year before.
- General government budget balance (GGBB) during January-February 2015 was marginally negative of the order of €4 mn (-0.0% of GDP) compared to a surplus of €84 mn (0.5% of GDP) The deterioration in the budget balance vis-à-vis the corresponding period of the year before is attributed to seasonal and temporary factors.

- General government primary balance (GGPB) was in surplus during January-February 2015, of the order of €74 mn (0.5% of GDP) compared to a surplus of €180 mn (1.0% of GDP) during the corresponding period of the previous year.
- Total revenue exhibited a negative rate of growth of about 8.8%, reaching €979 mn the period under review, compared to €1,074 mn during the corresponding period of the previous year.
- Total expenditure exhibited a positive rate of growth of about 1.2%, reaching €905 mn during January-February 2015, compared to €894 mn during the corresponding period the year before.

Public debt and financing:

- The General Government Debt at the end of 2014 (preliminary data) stood at €18.8 bn. At the end of December 2013 it was €18.4 bn.
- On the 27th of March S&P's changed the rating Outlook of the Republic of Cyprus from stable to positive (Credit Rating is currently B+).
- Treasury Bills auctions continued during the period March to April with two 13-week Treasury Bills auctions which were both oversubscribed while at the same time yields dropped significantly with the average yield in the last auction being 2.68% from 3.4% in the beginning of the year.
- The good fiscal results and the comfortable cash position of the government allows the Debt Management Office to proceed with its target of reducing the outstanding stock of Treasury Bills from €700 mn at the beginning of the year to €500 mn by the end of 2015.
- Long term bond yields exhibited a significant decrease in the months of February and March as the market reacted to the QE decision by the ECB and the better than expected results of the Cyprus economy in 2014. Secondary market yields in the reference period dropped below 4% for the first time since 2011.

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/95A274A53E0C33E9C2257E0E00213673/\\$file/Macro%20Monitor%20-%20January%202015.pdf?OpenElement](http://www.mof.gov.cy/mof/mof.nsf/All/95A274A53E0C33E9C2257E0E00213673/$file/Macro%20Monitor%20-%20January%202015.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 cannot, however, be excluded