



#### Macroeconomic Environment:

- The flash estimate for the Q1-2018 real **growth** rate is 3.8%, in seasonally adjusted terms, building on the previous quarters' growth momentum. Real GDP growth for 2017 in seasonally adjusted terms is estimated at 3.9%. The increased activity was broad based and is mainly attributed to sectors: hotels and restaurants, retail and wholesale trade, construction, and manufacturing.
- Developments are currently driven by increases in **gross fixed capital formation and private consumption**.
- **Imports of goods** increased by 5.3% in January-February 2018 compared to January-February 2017. **Exports of goods** increased by 10.4% in January-February 2018 compared to January-February 2017.
- During the period January-March 2018 **tourist arrivals** increased at a rate of 29.3% compared to January-March 2017. An increase of 24.3% was recorded in tourist arrivals from the UK, an 18.1% increase from Greece, an 88% increase from Germany, while a 5.4% decrease was recorded from Russia.
- The **current account (CA)** balance deteriorated in 2017, recording a deficit of €1,291 mn (-6.7% of GDP) compared with a deficit of €889 mn (-4.9% of GDP) in 2016. The deterioration was mainly attributed to a deterioration of the trade balance in goods, with imports of goods, mostly ships and aircraft, being significantly higher in 2017 compared with 2016. To a lesser extent, it was negatively affected by the deterioration recorded in portfolio income within the primary income category. In contrast, the services sector recorded an improvement, mainly through the travel and telecommunications/computer/ information categories. It is important to highlight that, excluding the so-called SPEs, entities registered in Cyprus predominantly operating in the shipping industry but with little or no interaction in the domestic economy, the CA records a deficit of -1.5% of GDP in 2017 compared to a deficit of -0.2% of GDP the year before.
- **Inflation (HICP)** in March 2018 decreased by 0.4% compared to a decrease of 0.4% in February 2018. All subcategories of HICP presented a decrease except categories of health, transport, education and restaurants and hotels.
- Labour Force Survey (LFS) **unemployment**, in monthly seasonally adjusted terms, decreased to 9.6% in February 2018 compared to 12.6% in February 2017. The most affected segment of the population is youth unemployment, although it has been on a downward trend since the 3<sup>rd</sup> quarter of 2013 falling to 23.1% in 2017Q4 from the peak of 40.5% in the 3<sup>rd</sup> quarter of 2013. Particularly challenging is also the relatively high long-term unemployment.
- **Compensation per employee** increased by 0.7% in 2017 compared to 2016.

#### Banking Sector:

**The Government, as the major shareholder of the Cyprus Cooperative Bank has initiated the process of selling the whole or part of the assets and the liabilities of the CCB.** The request for proposals has been issued in mid-March; the transaction is anticipated to be completed in the coming weeks.

In order to facilitate the transaction, the Government issued in April nine domestic-law bonds for a total nominal amount €2.35 bn maturing between 15-20 years through private placement at market terms. The proceeds have been deposited by the Government with an account at the Cyprus Cooperative Bank. Against this deposit, the Bank has pledged to the State its full portfolio of Non-Performing Facilities with a Gross Book Value of €7.5 bn, itself collateralized with assets valued at €10 billion at current market prices.

- The **capital position** has recently declined, following increased provisioning for non-performing exposures (NPEs), remaining at adequate level. CET1 capital ratio of the Cypriot banking sector reached 14.9% at 31/12/2017 (15.9% at 31/12/2016 and 15.7% at 31/12/2015).
- **Non-performing exposures** continued their downward trend in absolute terms dropping to €20.9 bn on 31/12/2017, down from €24.3 bn at 31/12/2016 and €27.3 bn at 31/12/2015). However, the implementation of IFRS9 led to the non-performing exposures increasing to €22.5 bn at end January 2018.
- **Provisions** on non-performing exposures continued increasing as a share of the NPEs, reaching 53.2% on 31/1/2018 up from 47.3% on 31/12/2017 following the implementation of IFRS9 (42.4% on 31/12/2016 and 38.3% on 31/12/2015).
- **Restructurings** were €12.2 on 31/01/2018 (€13.5bn on 31/12/2016, and €14.2 bn at 31/12/2015). Data show that 68% of undertaken fixed-term loan restructurings abide by the new repayment schedule agreed as part of the restructuring.
- **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 €48.7 bn in February 2018.
- Total **loans** continued their decreasing trend, being €51.1 bn in February 2018, down from €60.2 bn in December 2015, mainly due to write offs in the context of debt restructurings.
- Despite the overall decline of loans and strict criteria in supplying new credit, **new lending** (including loans transferred from other banks) seems to have stabilized to the 2016 levels, and up from the 2015 levels. During 2017 new loans towards Non-Financial Corporations reached €2,346 mn (2016: €2,334 mn), while those towards Households reached €1,175 mn (2016: €1,281 mn). The respective figures for the first two months of 2018, were €89 mn and €107 mn.
- **Hellenic Bank** has executed a 10-year service level agreement with APS Cyprus, an independent company, for the management of the Bank's non-performing loan and real estate portfolio retaining ownership of the said portfolios. Furthermore, in January Hellenic Bank entered into an agreement to sell a non-performing loan portfolio of €145 million predominantly non-retail exposures to B2Kapital Cyprus Ltd, a wholly owned subsidiary of B2Holding ASA, a Norwegian corporation listed on the Oslo Stock Exchange.
- Eurostat's **house price index** for Cyprus increased to 74.3 in the first nine months of 2017 compared to the 73.5 on 31/12/2016 (basis of 100: Q1-2010).

#### Fiscal Developments, 2017 and January-March 2018:

- General government **budget balance** was in surplus in 2017 of the order of €361 mn (1.9% of GDP), compared to a surplus of €82 mn (0.5% of GDP) the year before. General government **primary balance** was in surplus in 2017 of the order of €841 mn (4.5% of GDP), compared to a surplus of €547 mn (3% of GDP) the year before. The above **overperformance** reflects the improving economic environment and labour market conditions.
- General government **budget balance** was in surplus during the first quarter of 2018 of the order of €341 mn (1.7% of GDP), compared to a surplus of €203 mn (1.1% of GDP) during the same period of the year before. General government **primary balance** was in surplus during the first quarter of 2018 of the order of €429 mn (2.1% of GDP), compared to a surplus of €295 mn (1.5% of GDP) the year before.
- **Total revenue** increased in absolute terms to €1,883 mn during this period from €1,716 mn in the year before, exhibiting a positive rate of growth of 9.7%.
  - revenue from taxes on production and imports reached €786 million compared to €681 million the year before, exhibiting a positive rate of growth of 15.6% attributed mainly to an increase in VAT receipts by 24.9%.

- revenue from taxes on income and wealth increased by 11.2% from €402 million during January-March 2017 to €448 million during the period under review, reflecting the increase both in the employment levels and in salaries.
- social contributions recorded a positive rate of growth of 3.2%, reaching €433 million during the first quarter of 2018 compared to €420 million the year before, reflecting improving conditions in the labour market.
- other current recourses reached €210 million, compared to €149 million during the first quarter of the year before, exhibiting a positive rate of growth of 41%.
- **Total expenditure** exhibited a positive rate of growth of 1.9% during the first quarter of 2018 reaching €1,543 million from €1,513 million during the same period of the year before.
  - compensation of employees recorded a positive rate of growth of about 6.1%, reaching €552 million compared to €520 million the year before, mainly attributed to an increase in gratuity payments during the period under review, as well as to increases in the employment level in the education and health sectors and in security forces, which took place during the 3<sup>rd</sup> quarter of 2017.
  - intermediate consumption recorded a marginal increase of 0.6% during period January-March 2018 compared to the same period of the year before, reaching €129 million from €128 million.
  - social transfers recorded a marginal increase of 0.8%, reaching €598 million during the period under review compared to €594 million during the same period of the year before.
  - subsidies exhibited a positive rate of growth of 2.5 % during the period under review (€8.2 million) compared to the same period of the year before (€8 million).
  - gross fixed capital formation exhibited a negative rate or growth of 13.7%, from €51 million during the first quarter of 2017 to €44 million during the year under review

#### Public debt and financing:

- The General Government **Debt** reached €18.7 bn in December 2017, recording a decline over the end 2016 debt stock of €19.4 bn. The debt-to-GDP ratio declined from 106.6% in 2016 to 97.5% at end year 2017.
- Available **cash** covers the financing needs up to H1-2019.
- The Cyprus Government international bonds have recently experienced a volatility episode, with yields in the most liquid bonds (2022s, 2023s, 2024s, 2025s) moving upwards abruptly on 13<sup>th</sup> April by about 60-95 bps. Since then the yield direction reversed covering most of the increase, still trading higher than prior to the episode.
- The yield at the monthly 13-week **Treasury Bill** auctions continue to be negative. The latest auction of April recorded a record low yield of -0.25% and a bid-to-cover ratio of 2.8.
- On 20<sup>th</sup> April Fitch upgraded Cyprus by one notch to BB+ maintaining the positive outlook. The next **rating** reviews are scheduled for 25<sup>th</sup> May (DBRS: BBL positive) and 27<sup>th</sup> July (Moody's: Ba3 positive).

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#### **New publications:**

Quarterly Debt Bulletin Q4-2017

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

Macroeconomic Monitor March 2018

<http://mof.gov.cy/en/publications/economic-development-bulletins/65/1-macroeconomic-monitor-of-cyprus-2018>

Stability Programme 2018-2021

[http://mof.gov.cy/assets/modules/wnp/articles/201805/402/docs/stability\\_programme\\_2018\\_2021\\_final.pdf](http://mof.gov.cy/assets/modules/wnp/articles/201805/402/docs/stability_programme_2018_2021_final.pdf)

Fiscal accounts Jan-Mar 2018:

<http://www.cystat.gov.cy/mof/cystat/statistics.nsf/All/84131BD757FB8596C225827C00239AC7?OpenDocument&sub=2&sel=1&e=&print>

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