



#### Macroeconomic Environment:

- **In the 2<sup>nd</sup> quarter of 2017, GDP** (in seasonally adjusted terms) **recorded a positive rate of growth of 3.5% compared with 3.7% in the 1<sup>st</sup> quarter of 2017** on an annual basis. The increased activity was broad based and is mainly attributed to sectors: hotels and restaurants, retail and wholesale trade, construction, and manufacturing. Negative growth rate was recorded by the sector financial and insurance activities.
- Developments are currently driven by increases in **private consumption and gross fixed capital formation**.
- **Imports of goods increased by 3.6%** in January-July 2017 compared to January-July 2016. The increase in imports is influenced by imports of transport equipment (airplanes and vessels). Excluding imports of transport equipment, imports of goods exhibit an increase of 21.3%.
- **Exports of goods increased by 0.1%** in January-July 2017 compared to January-July 2016 due to exports of transport equipment (vessels) occurred in the latter period. Excluding exports of transport equipment, exports of goods exhibit an increase of 32.3%.
- During January-August 2017 **tourist arrivals increased at a rate of 14.7%** compared to the corresponding period of 2016. An increase of 55.9% was recorded in tourist arrivals from Germany, an 8.6% increase from the UK, a 7.1% increase from Greece and a 4.7% increase from Russia.
- The **current account balance** in the 1<sup>st</sup> quarter of 2017 recorded a **deficit of €721 mn (-3.8% of GDP)** compared to a surplus of €73 mn (0.4% of GDP) in the corresponding period of 2016. This deterioration is mainly due to the trade balance of goods attributed to imports of transport equipment (airplanes and vessels). Excluding this component the current account balance exhibits a deficit of 2% of GDP in the 1<sup>st</sup> quarter of 2017 compared to a deficit of around 1% of GDP in the corresponding period of 2016. The remaining categories of the CA (services, primary income and secondary income) recorded small improvements which mitigated, to a small extent, the deterioration recorded in goods.
- **Inflation (HICP)** in August 2017 increased by 0.5% compared to a decrease of 0.1% in July 2017. For 2017 so far it stands at 1.0%. Core HICP inflation stood at 0.1% during January-August 2017. All subcategories of HICP presented an increase except categories of alcoholic beverages and tobacco, clothing and footwear, furnishings, household equipment and supplies and communication.
- **Labour Force Survey (LFS) unemployment**, in monthly seasonally adjusted terms, decreased to **10.8% in July 2017 compared to 13.0% in July 2016**. Youth unemployment fell to 20.4% in the 2<sup>nd</sup> quarter of 2017 from the peak of 39.9% in the 2<sup>nd</sup> quarter of 2013.
- **Compensation per employee** increased by around 0.4% in the 1<sup>st</sup> half of 2017 compared to the 1<sup>st</sup> half of 2016. The observed benign wage adjustment is expected to help maintaining a downward trend in unemployment.

#### Banking Sector:

- The **capital position** has been strengthened. CET1 capital ratio of the Cypriot banking sector reached 15.0% at 30/06/2017 (16.1% at 31/12/2016 and 15.6% at 31/12/2015).
- **Non-performing exposures (NPEs)** continued their downward trend in absolute terms reaching €23.5 bn at 31/05/2017, down from €24.3 bn at 31/12/2016 and €27.3 bn at 31/12/2015).
- **Provisions** on non-performing exposures continued increasing as a share of the NPEs, reaching 43% at 31/5/2017 (42% on 31/12/2016 and 38% on 31/12/2015).

- **Restructurings** were €12.9 bn at 31/05/2017 (€13.5bn on 31/12/2016, and €14.2 bn at 31/12/2015). Data show that 69% 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 €48.8 bn in July 2017.
- Total **loans** continued their decreasing trend, being €53.6 bn in May 2017, down from €62.7 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) is on an upward trend. New loans towards Non-Financial Corporations during the first seven months of 2017 reached €1446 mn (total 2016: €2334 mn), while towards Households reached €673 mn (total 2016: €1281 mn).
- Since 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.
- **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.
- During **Cyprus Cooperative Bank** EGM on July 17, the shareholders approved: (i) the creation of an NPE platform in cooperation with the Spanish Altamira Asset Management; (ii) the introduction of 6.036.000.000 ordinary shares in the Main Market of the Cyprus Stock Exchange at a listing price of EUR 0.10; (iii) the renaming of "Cooperative Central Bank" to "Cyprus Cooperative Bank". The agreement with Altamira constitutes a landmark for the bank in its efforts to reduce the high stock of NPEs (EUR 7.2bn), in line with European banking standards.
- The Cooperative Cyprus Bank has appointed Citibank as an investment advisor in view of its upcoming capital raising which should materialize by July 2018. Based on the bank's restructuring plan the government's shareholding of 99% should be reduced at levels below 25% by 2020.
- Eurostat's **house price index** for Cyprus increased to 73.7 in the first quarter of 2017 compared to the 73.5 at 31/12/2016 (basis is Q1-2010).

#### Fiscal Developments:

- General government **budget balance was in surplus in 2016** of the order of €64 mn (0.4% of GDP) compared to a deficit of €209 mn (-1.1% of GDP) in 2015.
- General government **primary balance was in surplus during 2016** of the order of €529 mn (2.6% of GDP) compared to a surplus of €299 mn (1.7% of GDP) during the year before.
- During the **first seven months of 2017** general government **budget balance was in surplus** of the order of €215 mn (1.2% of GDP) compared to a deficit of €91 mn (-0.5% of GDP) during the same period of the year before.
- General government **primary balance was in surplus during the period January-July 2017** of the order of €548 mn (3% of GDP) compared to a surplus of €223 mn (1.2% of GDP) during the same period of the year before.
- **Total revenue** exhibited a positive rate of growth of about 12% reaching €4,126 mn during the first seven months of 2017 compared to €3,685 mn during the same period of 2016.
- **Total expenditure** exhibited an increase of about 3.6% reaching €3,911 mn during the first seven months of 2017 compared to €3,776 mn during the same period of the year before.

### Public debt and financing:

- The General Government **Debt** reached €19.3 bn in July 2017.
- Available **cash** covers the financing needs of 2018 and partially of 2019.
- The Cyprus 2024 **bond** (most recent issuance) has rallied since its launch in June from 2.61% down to 1.60%, whilst the yield of the Cyprus 2025 bond (longest point) has declined from 2.30% in mid September to 1.94% at the end of September.
- The yield at the monthly 13-week **Treasury Bill** auctions continue to be negative. The latest auction of September recorded an average yield of -0.04% and a bid-to-cover ratio of 1.7.
- Standard & Poor's revised the **rating outlook** from stable to positive on 15<sup>th</sup> September, retaining the rating at BB+. The next reviews of the year are scheduled by Fitch on 20<sup>th</sup> October, Moody's on 17<sup>th</sup> November and DBRS on 1<sup>st</sup> December 2017.

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### **New publications:**

Public Debt Management Annual Report 2016  
<http://www.mof.gov.cy/mof/pdmo/pdmo.nsf/All/FF9F9CCE6F27A2DCC225782B002F21CC?OpenDocument>

Stability Programme 2017-2020  
<http://mof.gov.cy/en/publications/stability-programme>

Macroeconomic monitor August 2017  
<http://mof.gov.cy/en/publications/economic-development-bulletins/65>

Fiscal accounts Q2- 2017:  
[http://www.cystat.gov.cy/mof/cystat/statistics.nsf/economy\\_finance\\_12main\\_en/economy\\_finance\\_12main\\_en?OpenForm&sub=2&sel=1](http://www.cystat.gov.cy/mof/cystat/statistics.nsf/economy_finance_12main_en/economy_finance_12main_en?OpenForm&sub=2&sel=1)

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