



Macroeconomic Environment:

- **In the 1st quarter of 2017, GDP** (in seasonally adjusted terms) **recorded a positive rate of growth of 3.3% compared with 2.9% in the 4th quarter of 2016** on an annual basis. The increased activity was broad based and is mainly attributed to sectors: hotels and restaurants, professional, scientific and technical activities, retail and wholesale trade, manufacturing and construction. Negative growth rate was recorded in the financial services sector.
- Developments are currently driven by increases in **private consumption and gross fixed capital formation**.
- The economic sentiment indicator deteriorated slightly by 0.8 points in June 2017 compared to the preceding month, as a result of a relatively weaker confidence in the prospects of the construction sector and among consumers.
- **Imports of goods increased by 8.1%** in January-May 2017 compared to January-May 2016. The increase in imports is influenced by imports of transport equipment (airplanes and vessels).
- **Exports of goods decreased by 14.4%** in January-May 2017 compared to January-May 2016 due to exports of transport equipment (vessels) occurred in the latter period.
- During January-June 2017 **tourist arrivals increased at a rate of 16.6%** compared to the corresponding period of 2016. An increase of 53.2% was recorded in tourist arrivals from Germany; an 11.3% increase was recorded from Russia, a 9.7% increase from the UK and a 6.4% increase from Greece.
- The **current account balance** in the 1st quarter of 2017 recorded **a deficit of €721 mn (-3.9% of GDP)** compared with a surplus of €73 mn (0.4% of GDP) in the 1st quarter of 2016. This deterioration is mainly due to the trade balance of goods attributed to imports of transport equipment (airplanes and vessels). 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 June 2017 stood at 0.9% while for January-June 2017 it averaged at 1.2%. Core HICP inflation between January-June 2017 was 0%. 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 11.0% in May 2017 compared to 12.8% in May 2016. The most affected segment of the population is youth unemployment, although it has been on a downward trend since the 3rd quarter of 2013 falling to 24.8% in the 1st quarter of 2017 from the peak of 39.9% in the 2nd quarter of 2013. Particularly challenging is also the relatively high long-term unemployed.
- **Compensation per employee** decreased by around 0.4% in the 1st quarter of 2017 compared to the 1st quarter of 2016. The observed 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 16.0% at 31/03/2017 (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 €23.7 bn at 31/03/2017, 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 31/3/2017 (42% on 31/12/2016 and 38% on 31/12/2015).
- **Restructurings** were €13.05 bn at 31/03/2017 (€13.45bn on 31/12/2016, and €14.15 bn at 31/12/2015). Data show that over 72% of undertaken fixed-term loan restructurings 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 €49.1 bn in May 2017.
- Total **loans** continued their decreasing trend, being €54.1 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** is on an upward trend. New loans towards Non-Financial Corporations during the first five months of 2017 reached €1036 mn (total 2016: €2334 mn), while towards Households reached €472 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.
- The **Cooperative Central Bank** applied for listing at the Cyprus Stock Exchange in June 2017.
- **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 (NPL and REO Portfolio), *retaining ownership* of the said portfolios.
- Eurostat's **house price index** for Cyprus increased by 3.1% in the fourth quarter of 2016 compared to the third quarter of 2016, being 73.5 (basis of 100, is the 2010Q1).

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 five months of 2017** general government **budget balance was in surplus** of the order of €114 mn (0.6% of GDP) compared to a surplus of €25 mn (0.1% of GDP) during the same period of the year before.
- General government **primary balance was in surplus during the January-May 2017** of the order of €289 mn (1.5% of GDP) compared to a surplus of 194 mn (1.1% of GDP) during the same period of the year before.
- **Total revenue** exhibited a positive rate of growth of about 6% reaching €2,746 mn during the first five months of 2017 compared to €2,592 mn during the same period of 2016.
- **Total expenditure** exhibited an increase of about 2.5% reaching €2,632 mn during the first five months of 2017 compared to €2,567 mn during the same period of the year before.

Public debt and financing:

- The General Government **Debt** reached €19.3 bn in May 2017 exhibiting no change since the beginning of the year.
- Available **cash** covers the financing needs up to end 2018.
- In June Cyprus issued a new 7-year 2.75% **benchmark bond** of €0.85 bn with a simultaneous offer for switch or sale of outstanding international bonds due in 2019 and 2020. A nominal amount of €515 mn or 37% of the outstanding bonds was switched.
- In July Cyprus proceeded with partial early repayment of the **loan by the IMF** which had been granted in the period of the economic adjustment programme (2013-2016). The prepayment of the order of €0.3 bn reduced the outstanding balance of the loan to €0.7 bn. The prepayment related to tranches carrying a higher interest rate than the current market rates.
- The yield at the monthly 13-week **Treasury Bill** auctions continue to be negative. In the latest auction in July the average yield was -0.05% and the bid-to-cover ratio was 2.0.
- The next **sovereign rating** reviews are scheduled for 28 July by Moody's and 15 September by Standard & Poor's.

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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 June 2017

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

Fiscal accounts Q1-2017:

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