

Major recent developments in Cyprus

Cyprus Macroeconomic Developments

- Cyprus will be exiting the Financial Assistance Program agreed with the EU at the end of March 2016. Furthermore, Cyprus has ended its IMF bailout program before term following a request by the Cyprus Authorities. The IMF's 36-month arrangement was scheduled to expire on May 14, 2016. During the program, Cyprus has utilized approximately €7.2 billion (at low interest rates around 1.2%). Approximately €2.8 billion remained unutilized.
- Overall Cyprus' economy is back on a growth track and its banking system on a more solid footing.
- The Cyprus Economy expanded by 1.6% during 2015. It is predicted that 2016 growth will be 1.5% (IMF's January projection).
- Unemployment is at 15.3% in January 2016 (2016 projection at 14.5%).
- Inflation (HICP) for February 2016 was -2.2% and -1.1% in January 2016 (2016 projection of 0.6%).
- Exports of goods increased by 19% in 2015 mainly due to the transfer of economic ownership of mobile transport equipment. Trade balance deficit decreased by 8% during 2015 compared to 2014 (from €3.7 billion to €3.4 billion).
- In 2015 tourist arrivals increased by 9% compared to 2014. An increase of 43.3% was recorded in tourist arrivals from Israel, a 30% increase from Germany, a 19.5% increase from the UK and a 38.2% increase from Greece. On the other hand a 17.6% decrease was recorded in arrivals from Russia. For the period January – February 2016 arrivals of tourists have recorded an increase of 23.9% compared to the corresponding period of 2015.
- For the period January – December 2015 revenue from tourism is estimated at €2.1 billion compared to €2 billion in the corresponding period of 2014, recording an increase of 4.4%.
- Property Sales increased by 9% in 2015 compared to 2014 (from 4,527 to 4,952). Property sales have recorded an increase of 46% during the first 2 months of 2016 compared to the corresponding period of 2015.
- Registration of Motor vehicles increased by 16% in 2015 compared to 2014. In January-February 2016, the total registrations of motor vehicles increased by 25.4% compared to the corresponding period of 2015.

Cyprus Fiscal Developments

Developments in public finances continue to exceed expectations.

- **General government budget balance (GGBB)**, also known as Fiscal Balance, during **2015 January-December** GGBB stood at 82.5 million (i.e. 0.5% of GDP) compared to a deficit of €43 million during of the previous year, excluding the amount of €175 million for the recapitalization of the Co-op Bank.
- **General government primary balance (GGPB)**, also known as Primary Balance, during **2015 January-December** GGPB stood at 466.5 million (i.e. 2.7% of GDP) compared to a surplus of €455.2 million (2.6% of GDP) during the previous year.

Cyprus Public Debt and Financing:

The General Government Debt is estimated to have reached €19.1 billion (109% of GDP) as at end 2015 compared to €18.8 billion in 2014.

- Cyprus is BB-/B1/B+ rated by S&P/Moody's/Fitch agencies.
- Treasury Bills auction of 13-week duration at end February had an average yield of 0.58% (up from 0.48% in January) and a bid to cover ratio of 1.17.
- On the 27th of October 2015, Cyprus has proceeded with an international 10 year bond issue of €1 billion (with a total requested by investors amount of €3.3 billion) with a yield of 4.25%. Its yields (on the Secondary Markets) exhibited an increase since the beginning of the year from 3.70% to 3.90%.
- As from the 1st of April 2016, Cyprus Government Bonds will not be considered eligible for the purpose of the Eurosystem's monetary policy operations by ECB, as Cyprus will be neither under an economic adjustment program nor Cyprus' rating will be at an investment status. Furthermore, Cyprus Government Bonds will be excluded from the ECB's QE program.
- Until the end of November 2015 an amount of €285 million (with an average remaining maturity years of 5.66) Cyprus Government Bonds has been purchased by ECB under the QE program.
- The debt maturity profile shows a concentration of maturities in certain years (mainly 2019 and 2020) even though the average term to maturity of debt exceeds the 8 years.
- Cyprus has mainly covered its financing needs until the year 2018. However, as existing debt (including ESM-IMF and bilateral loans) will be maturing over time, as from 2018, it will have to be refinanced mainly from the international markets (inevitably at higher borrowing interest rates currently standing at around 4.25%), i.e. meeting its interest payments will be more expensive. This is a major vulnerability that reiterates the necessity of Cyprus paying down its debt (through privatizations) and therefore decreasing its high debt levels, rather than allowing it to be gradually reduced through organic growth.

Banking Sector

- Deposits in the banking system have mostly stabilized and have been on a rising trend throughout the second half of the year with deposits standing at €46.1 billion in January 2016 compared to €46 billion in December 2015.
- Loans are still on a modest decreasing trend, due to the deleveraging efforts by banks. The outstanding amount of loans reached €59.5 billion in January 2016 compared to €62.8 billion in December 2015.
- The outstanding amount of Cyprus banks on ECB's Open Market Operations and ELA amount to €4.3 billion (€0.9 billion and €3.4 billion respectively) as at end January 2016, down from its peak of €13.6 billion in September 2012).
- Non-performing loans (NPLs) have stabilized at the level of around 47.3% as at end September 2015. However, the ratio is around 60% for the core banks in Cyprus (equivalent to 150% of Cyprus' GDP). Work must continue with determination to secure the reduction of the NPL ratio to healthier levels. This includes the rigorous and swift implementation of the insolvency framework and foreclosure laws adopted in 2015 together with further

measures including the legislation on sale of assets and effective use of the full range of the available NPL management tools.

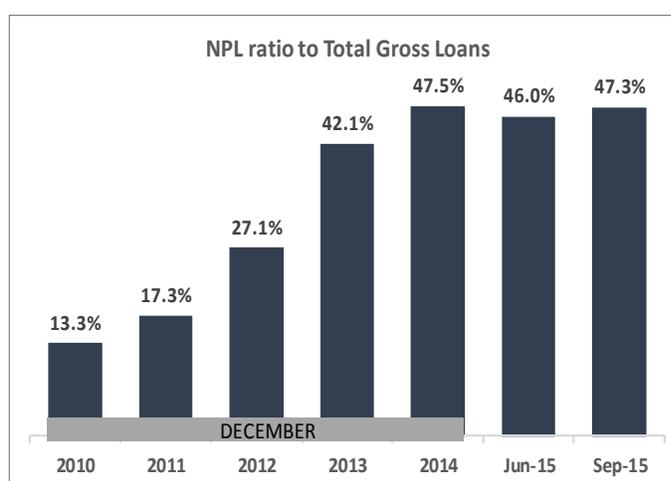
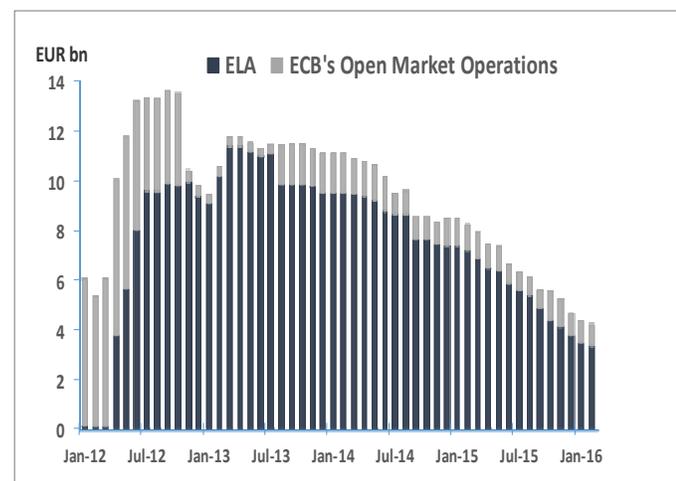
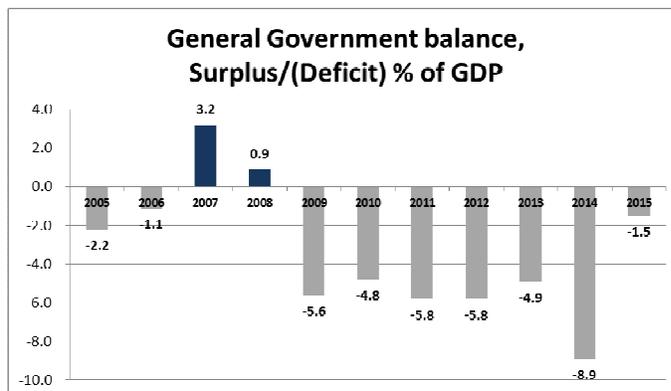
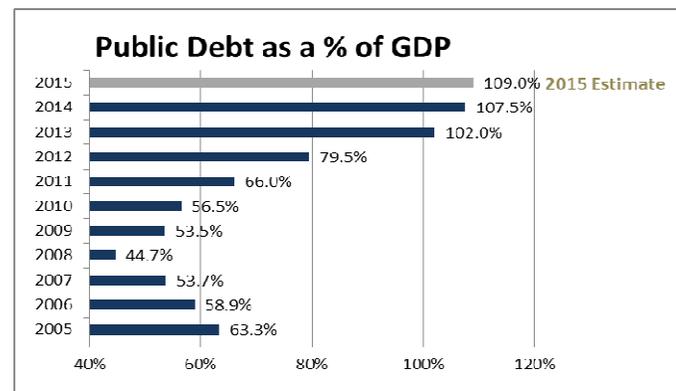
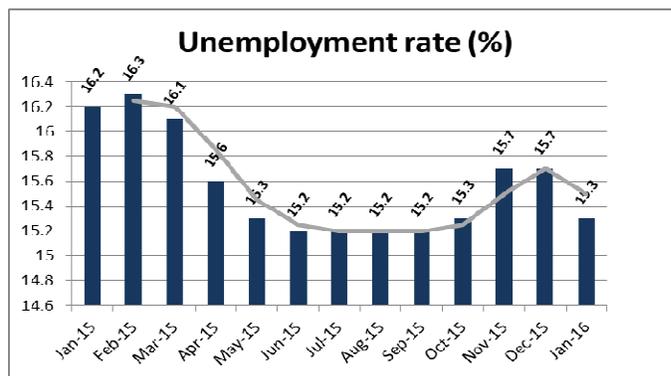
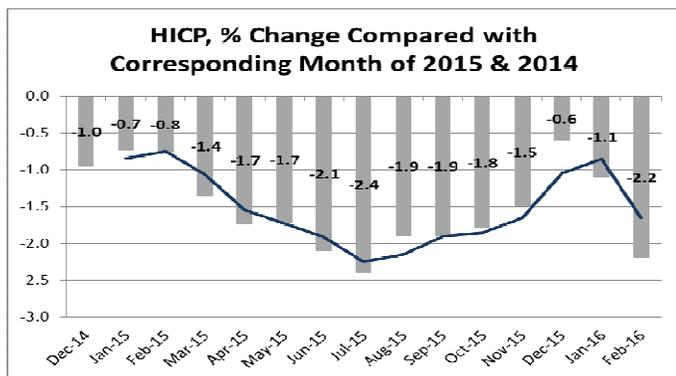
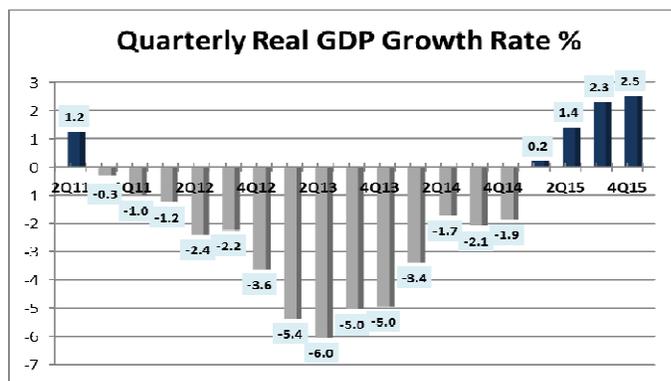
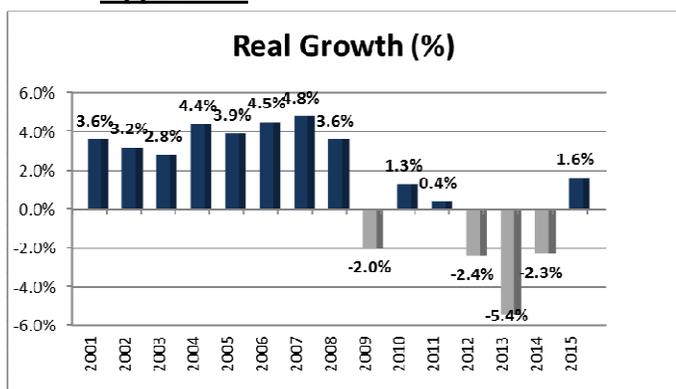
Cyprus' Major Challenges and Economic Forecasts

- The disbursement of the most recent bailout tranche of €275 million has not been approved, as prior action under the current review has not been completed (required bill for the privatization of the Cyprus Telecommunications Authority has not been passed by the Parliament).
- Public administration reform (the goal is to ensure that the wage bill does not once again outpace the overall economy as it did before the crisis) and other structural reforms (health reform, competition and labour markets) discussed during the programme, would cement the improvements in public finance and support sustained economic growth.
- Cyprus is a small open economy, and is therefore dependent on external demand and capital inflows from abroad. Cyprus should work to build more resilience and flexibility. This reinforces the need to shore up the banks by continuing to work down the large stock of NPLs, and to maintain primary fiscal surpluses to lower public debt. Another important task for Cyprus is to continue to carry out its privatization strategy as its public debt, at around 109% of GDP, is also a vulnerability. It is also critical to further reduce the unemployment rate, which stands at over 15% by implementing growth-enhancing structural reforms which keep the output growing.
- **Appendix 1** offers a graphical presentation of the key Cyprus Economy figures and Banking Sector's Deposits evolution.

	<i>2014 (Actuals)</i>	<i>2015 (Actuals)</i>	<i>2016 (Projections)*</i>
<i>Real GDP</i>	-2.3%	1.6%	1.5%
<i>Consumer Prices</i>	-0.3%	-1.6%	0.6%
<i>Unemployment</i>	16.2%	15.7%	14.5%
<i>Debt to GDP</i>	107.1%	109%	99.8%
<i>General Government Balance</i>	-0.1%	-1.5% €257.5 million (€82.5 + €175 million)	0.0%
<i>General Government Primary Balance</i>	1.4%	€466.5 million 2.7%	2.5%

* IMF's January 2016 Projections

Appendix 1





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