

Cyprus Economy Developments *April 2017*

Treasury and Correspondent Banking Department

Major recent developments in Cyprus

Cyprus Macroeconomic Developments

- Cyprus' Real GDP growth rate flash estimate for 2016 is 2.8%. Growth is expected to reach the 2.5% in 2017 and 2.3% in 2018 (IMF's April projections).
- Unemployment reached 12.9% in February 2017. It is expected to decrease to 11.6% in 2017 and 10.2% in 2018 (IMF's April projections).
- Inflation (HICP) averaged at 1.5% in March 2017. HICP is expected to be in the area of 1.5% in 2017 and 1.4% in 2018.
- Arrivals of tourists have recorded an increase of 14%, for the period January – March 2017, compared to the corresponding period of 2016.
- For January 2017, revenue from tourism is estimated to have increased by 22% compared to January of 2016.
- Property sales have recorded an increase of 10% during January – March 2017 (1,505 property sales) compared to the corresponding period of 2016.
- In January – March 2017 the total registrations of motor vehicles increased by 38% to 10,334 from 7,475 in the corresponding period of 2016.

Cyprus Fiscal Developments

Developments in public finances continue to exceed expectations.

- **General government budget balance (GGBB)**, also known as Fiscal Balance, stands at €133.0 million (surplus) from January – February 2017 compared to a surplus of €38.6 million in January – February 2016.
- **General government primary balance (GGPB)**, also known as Primary Balance, during January – February 2017, GGPB stood at €196.4 million (surplus) compared to a surplus of €93.5 million for January – February 2016.

Cyprus Public Debt and Financing:

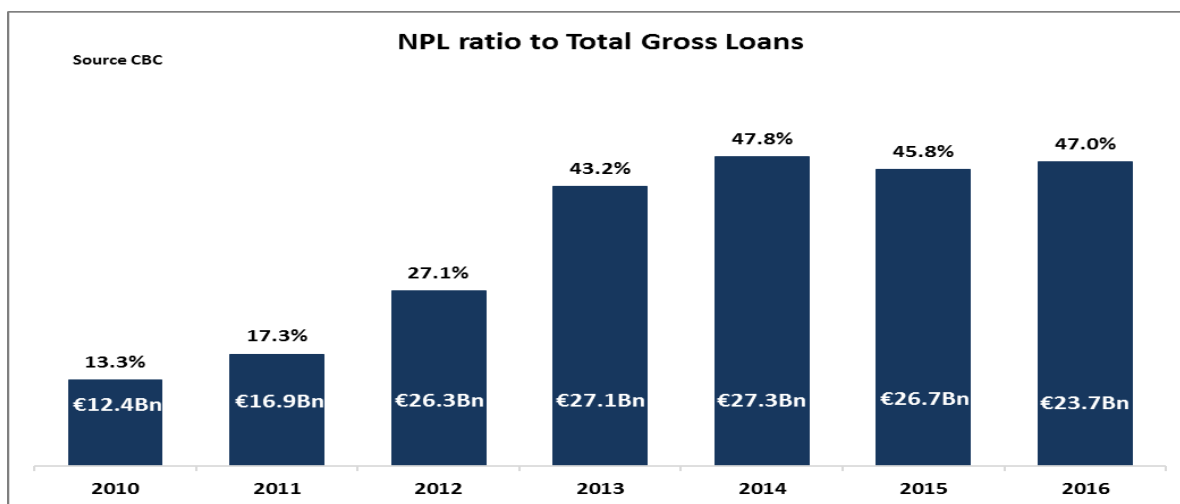
The General Government Debt reached €19.1 billion in December 2016 with the debt to GDP ratio reaching 108%. Debt to GDP is predicted to increase to 109.3% by the end of 2017, mainly due to the accumulation of cash reserves.

- Cyprus is BB+/B1/BB- rated by S&P/Moody's/Fitch agencies, with stable outlook by S&P and unchanged rating by Moody's and Fitch (Positive Outlook). S&P rating agency has upgraded Cyprus to BB+ from BB on the 17th of March 2017, whilst Moody's and Fitch rating agencies have left the ratings unchanged (on the 24th of March and 21st of April respectively).
- Treasury Bills auction of 13-week duration beginning of April 2017 had an average yield of - 0.08% and a bid to cover ratio of 1:1.89.

Banking Sector

- The capital position has been strengthened. CET1 capital ratio of the Cypriot banking sector reached 16.1% on 31/12/2016 (15.6% on 31/12/2015 and 14.2% on 31/12/2014).
- Deposits in the banking system are on an upward trend during the recent months. They recorded an increase of €0.3 billion in March 2017, reaching the amount of €49.6 billion.
- The amount of Loans is decreasing. The outstanding amount of loans reached €55.0 billion in March 2017 compared to €55.2 billion in December 2016.
- Restructurings reached €13.6 billion in December 2016 (€14.6 billion on 31/12/2015, and €13.5 billion on 31/12/2014). Data shows that 73% of fixed-term loan restructurings undertaken, abide by the new repayment schedule agreed as part of the restructuring.
- The outstanding amount of Cyprus banks on ECB's Open Market Operations, amount to €0.87 billion as at end March 2017, down from its peak of €13.6 billion in September 2012
- The NPLs (Exhibit 1) are on a downward trend (even though they're still in high levels) and amount to €23.7 billion as at December 2016 compared to €26.7 billion in December 2015. However, Cyprus Banking NPLs ratio has increased from 45.8% as at end 2015 to 47.0% as at December 2016 mainly due to the decrease of outstanding loans from €62.8 billion as at end 2015 to €55.2 billion in December 2016.

Exhibit 1: NPL ratio to Total Gross Loans



Cyprus GDP by Activity, 2016/15

The increase of the real GDP (2.8%) is mainly attributed to the following sectors: “Construction” (by 9.3%), “Manufacturing” (by 6.1%), “Mining and quarrying & Water supply, sewerage, waste management and remediation activities” (by 5.9%), “Public administration and defense, compulsory social security & Human health and social work activities” (by 5.8%), “Wholesale and retail trade, repair of motor vehicles and motorcycles & Accommodation and food service activities” by (4.6%). Negative growth rate was recorded by the "Financial and Insurance activities" (by -5.0%) and “Information and Communication” (by -0.3%). These are indicated in Table 1.

Table 1: GDP by Activity

	Actual Figures 2016, € million	Real % Δ 2016/15
Agriculture, forestry and fishing	359.9	1.9%
Mining and quarrying & Water supply; sewerage, waste management and remediation activities	1,118.1	5.9%
Manufacturing	778.6	6.1%
Construction	607.1	9.3%
Wholesale and retail trade; repair of motor vehicles and motorcycles & Accommodation and food service activities	4,080.2	4.6%
Information and communication	765.2	-0.3%
Financial and insurance activities	1,689.2	-5.0%
Real estate activities	1,607.0	2.1%
Professional, scientific and technical activities & Administrative and support service activities	1,590.5	5.8%
Public administration and defence; compulsory social security & Human health and social work activities	3,186.7	2.0%
Arts, entertainment and recreation & Activities of households as employers	684.4	1.8%
GDP at Market Prices	17,901.0	2.8%

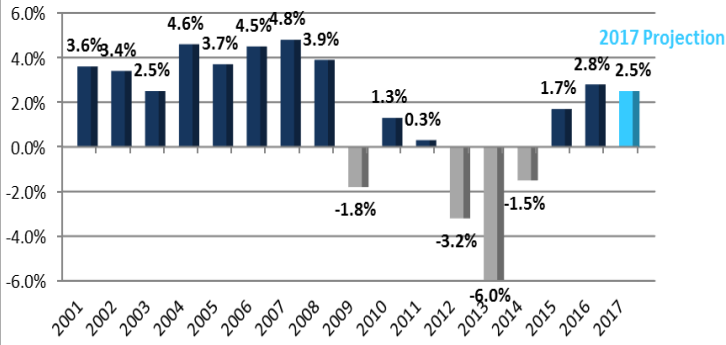
Table 2: Major Microeconomics Indicators 2016 Actuals Figures and 2017/18 Projections.

	2016 (Actuals)	2017 (Projections)*	2018 (Projections)*
<i>Real GDP</i>	2.80%	2.50%	2.30%
<i>Consumer Prices</i>	-1.20%	1.50%	1.40%
<i>Unemployment</i>	13.30%	11.30%	10.20%
<i>Debt to GDP</i>	108%	109.30%	107.40%
<i>General Government Balance</i>	-0.50%	-0.30%	-0.50%
<i>General Government Primary Balance</i>	3.0% €531.9 million	2.20%	2.20%

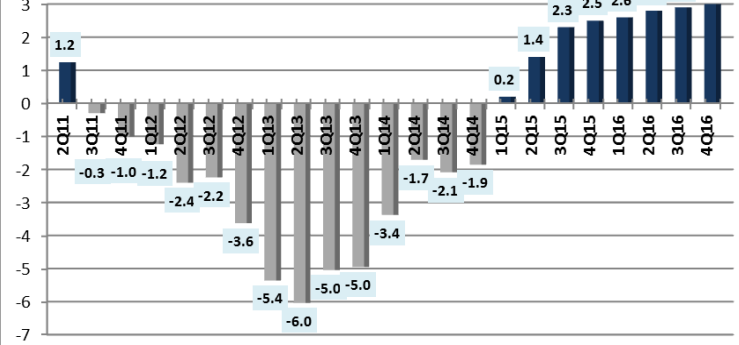
* IMF'S April 2017, Projections

Appendix 1 offers a graphical presentation of the key Cyprus Economy figures.

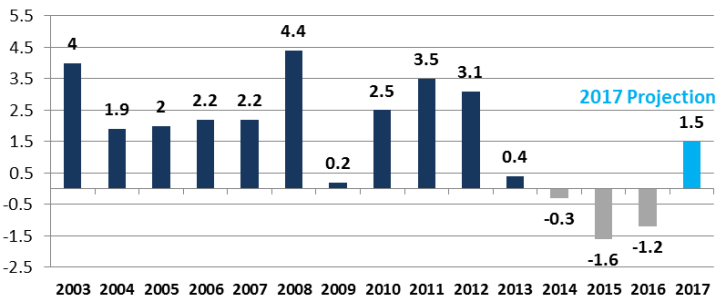
Real Growth (%)



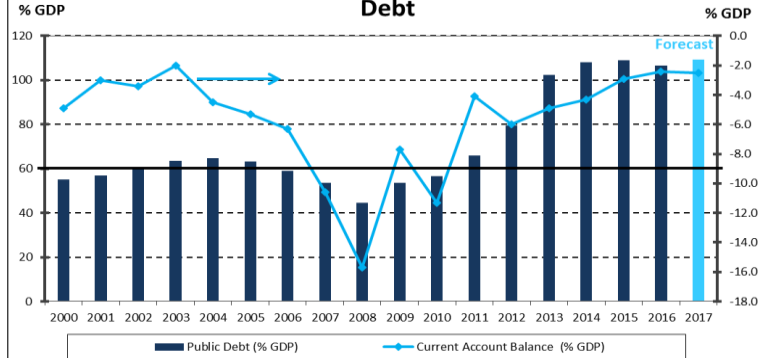
Quarterly Real GDP Growth Rate %



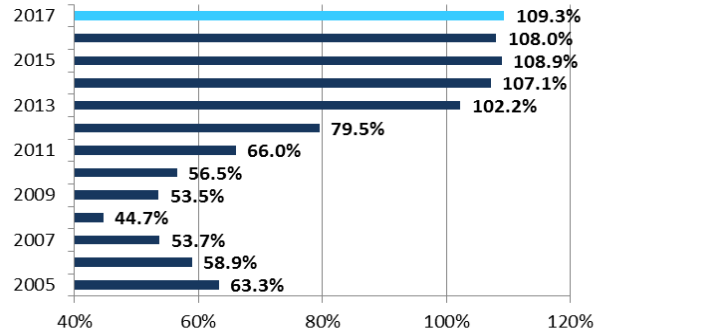
HICP, Change Compared with Corresponding Previous Year's period



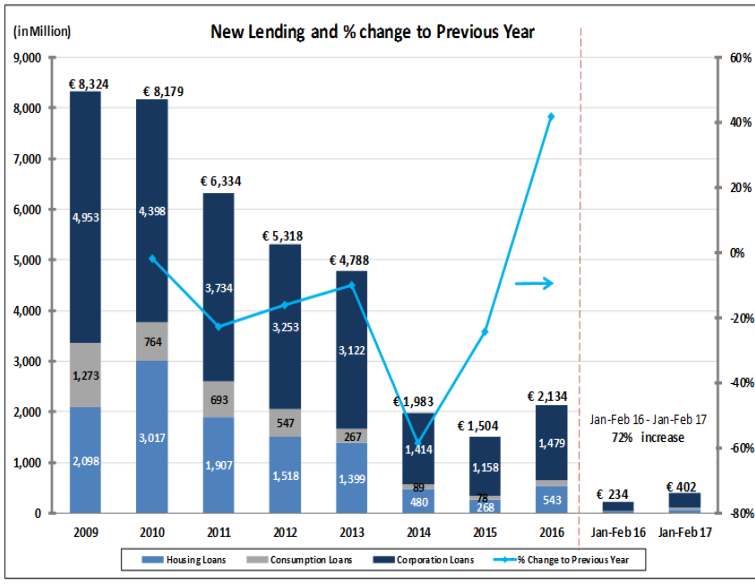
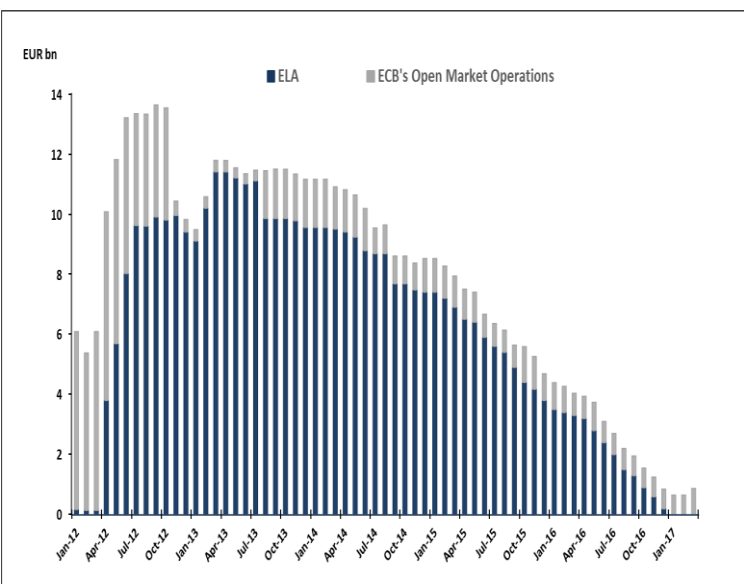
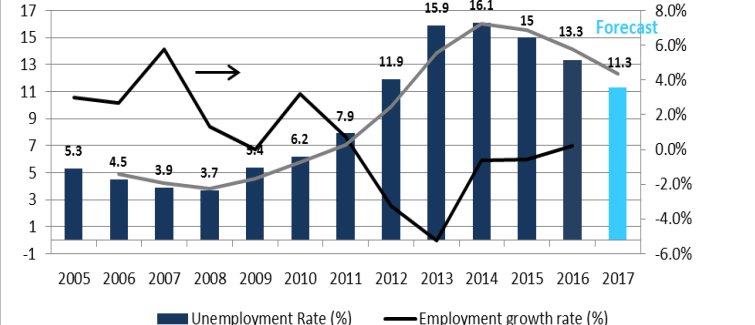
General Government Current Account Balance and Debt



Public Debt as a % of GDP



Unemployment Rate and Employment Growth Rate (%)





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