

Cyprus Economy Developments April 2018 Treasury and Correspondent Banking Department

Major recent developments in Cyprus

Cyprus Macroeconomic Developments

- Cyprus' Real GDP (seasonally adjusted) recorded a positive rate of growth of 3.9% during 2017. The increased activity was broad based and is mainly attributed to sectors: hotels and restaurants, retail and wholesale trade, construction and manufacturing. Growth is expected to reach 3.6% in 2018 and 3.0% in 2019 (IMF's April projections).
- During 2017, most sectors of economic activity performed strongly in terms of their real gross value added. Tourism, trade and transport contributed 25.2% to the GDP whilst Financial, professional and administrative services contributed 21.7% and Public administration, defence, education and healthcare contributed 19.8%.
- Unemployment decreased to 9.6% in February 2018. It is expected to average at around 10.0% in 2018 and 9.1% in 2019 (IMF's April projections).
- Inflation (HICP) decreased by 0.4% in March 2018 compared to March 2017. For the period January– March 2018, HICP recorded a decrease of 0.8% compared to the correspondent period of the previous year. HICP is expected to be around 0.4% in 2018 and 1.6% in 2019 (IMF's April projections).
- Cyprus' current account deficit stands at €1,291 billion (6.7% of GDP) for the period January to December 2017, compared to a deficit of €889 million (4.9% of GDP) for the year 2016. The increase in the current account deficit is due to high import content of domestic demand especially for construction materials.
- Arrivals of tourists have recorded an increase of 29.3%, for the period January – March 2018, compared to the corresponding period of 2017.
- For January – December 2017, revenue from tourism recorded an increase of 12.0% compared to January – December of 2016. In January 2018, revenue from tourism is estimated to have increased by 8.0% compared to January 2017.
- In January – February 2018, property sales increased by 55.0% (1,361 property sales) compared to the corresponding period of 2017 (879 property sales).
- The Turnover Volume Index of Retail Trade for January – February 2018 is estimated to have recorded an increase of 6.9% compared to the corresponding period of the previous year.
- In January – March 2018, the total registrations of motor vehicles increased by 25.8% to 13,002 from 10,334 in January – March 2017.

Cyprus Fiscal Developments

Developments in public finances continue to exceed expectations.

- **General government budget balance (GGBB)**, also known as Fiscal Balance, stands at €340.5 million surplus (1.7% of GDP) from January – March 2018 compared to a surplus of €202.9 million (1.1% of GDP) in January – March 2017.
- **General government primary balance (GGPB)**, also known as Primary Balance, during January – March 2018, GGPB stood at €428.5 million surplus (2.1% of GDP) compared to a surplus of €295.4 million (1.5% of GDP) for January – March 2017.

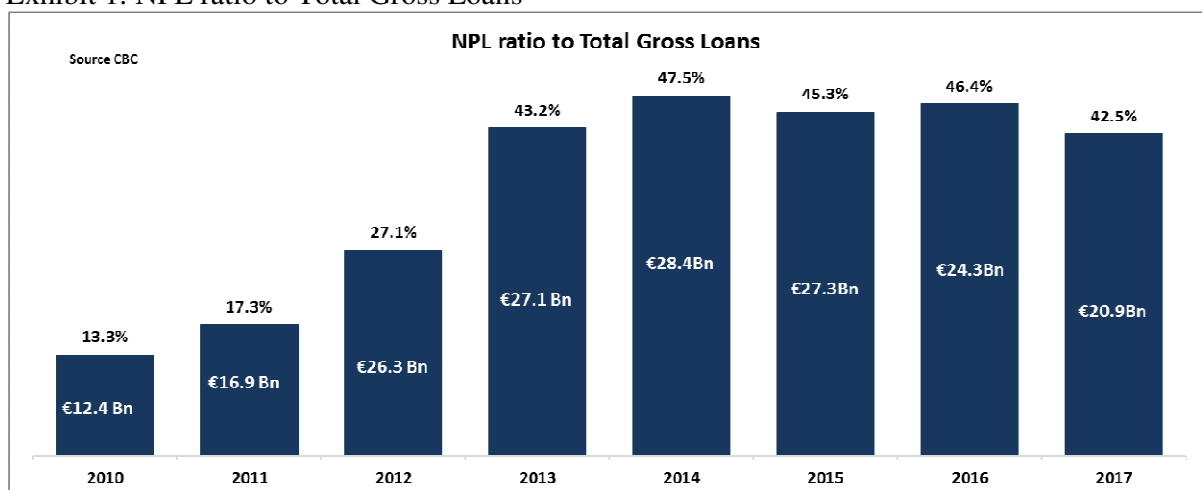
The General Government Debt reached €18.7 billion in December 2017. Debt to GDP has decreased to 98.4% in 2017. On the 3rd of April 2018 the Republic of Cyprus has proceeded with the issuance of government bonds for a total nominal amount of €2.35 billion maturing between 15 to 20 years which have been deposited to the Cyprus Cooperative Bank along with an additional amount of €150 million from the government's cash reserves.

- Cyprus is BB+/Ba3/BB+/BB (low) rated by S&P/Moody's/Fitch/DBRS agencies, with a positive outlook.
- Latest Treasury Bills auction of 13-week duration with settlement date the 30th of April 2018 had an average yield of -0.26% and a bid to cover ratio of 1:2.40.

Banking Sector

- Deposits in the banking system amounted to €48.0 billion in March 2018 compared to €49.4 billion as at the end of 2017.
- Loans continue the downward trend. The outstanding amount of loans has decreased to €48.7 billion in March 2018 from €51.4 billion in December 2017.
- Restructurings were €12.4 billion at 30/09/2017 (€13.5 billion on 31/12/2016, and €14.2 billion at 31/12/2015). Data show that 68.0% of undertaken fixed-term loan restructurings 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 €0.93 billion in March 2018, down from its peak of €13.6 billion in September 2012.
- The NPLs (Exhibit 1) are on a downward trend (even though they are still at high levels) and amount to €20.9 billion as at December 2017 compared to €24.3 billion in December 2016 and €27.3 billion in December 2015. However, Cyprus Banking NPLs ratio has decreased slightly from 45.3% as at end 2015 to 42.5% as at December 2017, mainly due to the decrease of total facilities (Gross) from €60.2 billion as at end 2015 to €49.2 billion in December 2017.

Exhibit 1: NPL ratio to Total Gross Loans



- Total New Lending for the period January – February 2018 has increased by 6.0% compared to the period of January – February 2017. Housing loans increased by 73.0%. Consumption loans decreased by 4.0% and Corporation loans by 11.0%. Total new lending for the period January – February 2018 amounts to €426.0 million compared to €402.0 million of the corresponding period of 2017. Detailed figures are illustrated in Table 1.

Table 1: New Loans (excluding renegotiation)

New Loans (excluding Renegotiation)										%Δ Jan-Feb		
Amounts in € millions	2009	2010	2011	2012	2013	2014	2015	2016	2017	Jan - Feb 17	Jan - Feb 18	2018/17
Consumption Loans	1,273	764	693	547	267	89	78	112	169	28	27	-4%
Housing Loans	2,098	3,017	1,907	1,518	1,399	480	268	543	723	78	135	73%
Corporations Loans	4,953	4,398	3,734	3,253	3,122	1,414	1,158	1,479	2,143	296	264	-11%
Total	8,324	8,179	6,334	5,318	4,788	1,983	1,504	2,134	3,035	402	426	6%

Fitch upgrades Cyprus to 'BB+'; Outlook Positive

On April 20, 2018, Fitch Ratings upgraded Cyprus's Long-Term Foreign-Currency Issuer Default Rating (IDR) to 'BB+' from 'BB'. The Outlook is Positive. According to Fitch, the upgrade reflects the key following key drivers. Cyprus's fiscal performance has benefited from a very strong cyclical economic recovery, and prudent fiscal policy. A dynamic labour market and sustained economic momentum will support revenues while the recent agreement with trade unions limiting the payroll rise to nominal GDP growth and the hiring freeze adopted in the public sector will help contain current spending. Private sector debt and non-performing exposures (NPEs) remain high and are still weighing on new lending. The recovery relies largely on foreign-financed investments, which should minimise any contraction in domestic demand. The weakness of the banking sector remains a risk to public finances and weighs on Cyprus's credit profile. The government deposited €2.5 billion in Cyprus Cooperative Bank (CCB) in April 2018 to alleviate depositors' concerns ahead of the expected sale of the state's majority stake in the bank and following a recent outflow of deposits from CCB which will lead to an increase of debt to GDP ratio. In addition, the Cypriot authorities intend to launch a new "Estia" scheme which would apply to the banks' problem housing loans to vulnerable groups, currently estimated at €3 billion. The scheme will rely on loan restructurings and state subsidies to incentivise borrowers' repayment.

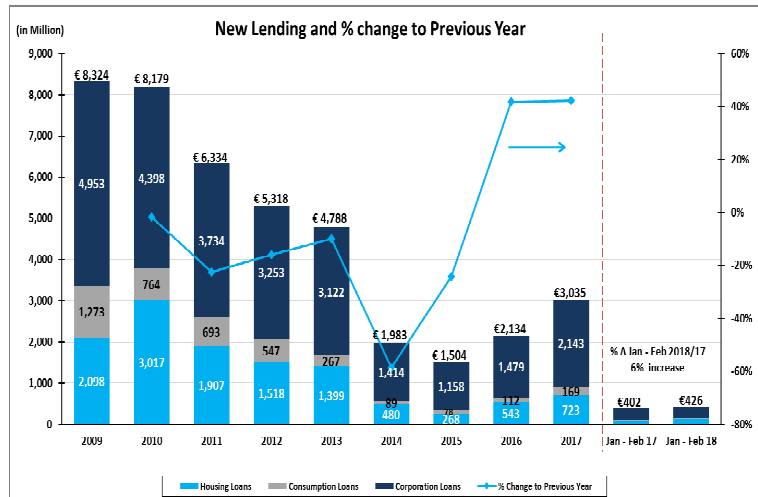
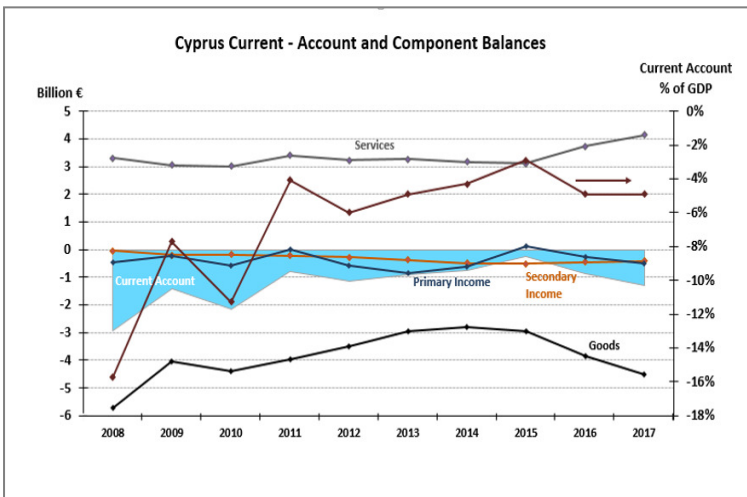
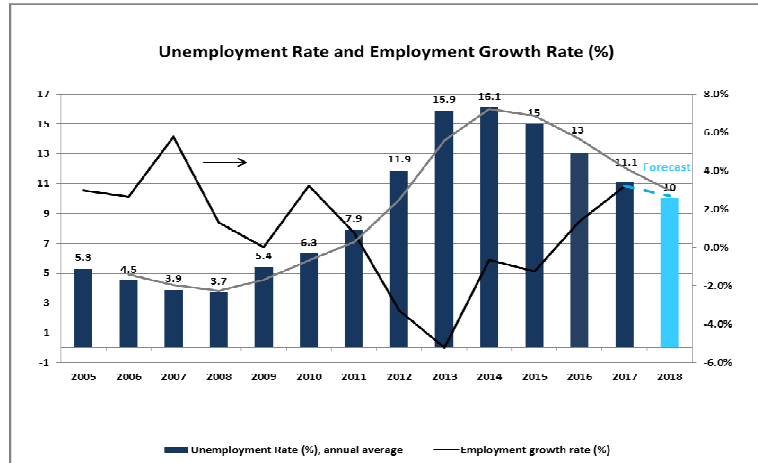
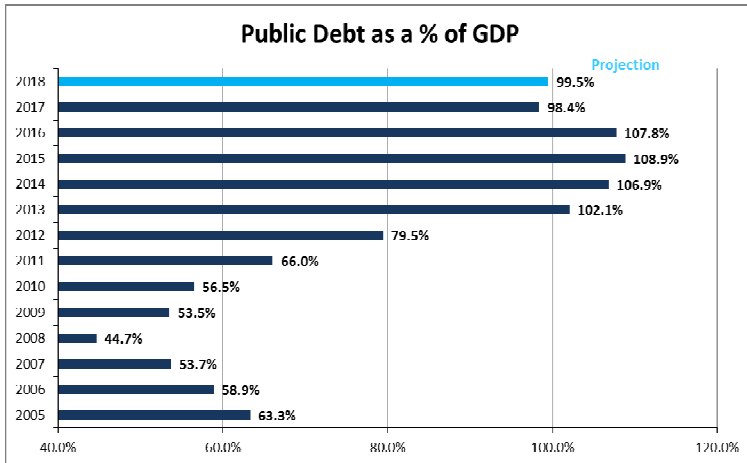
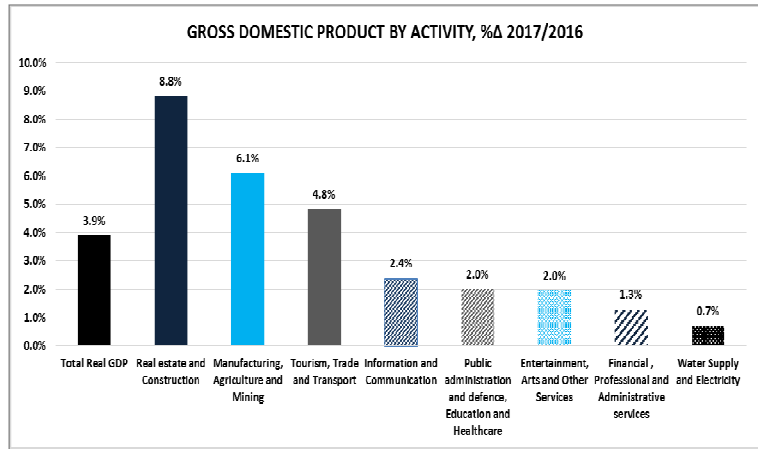
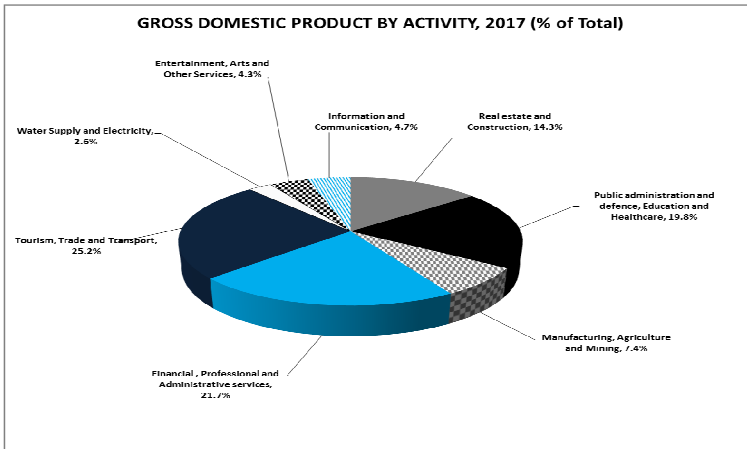
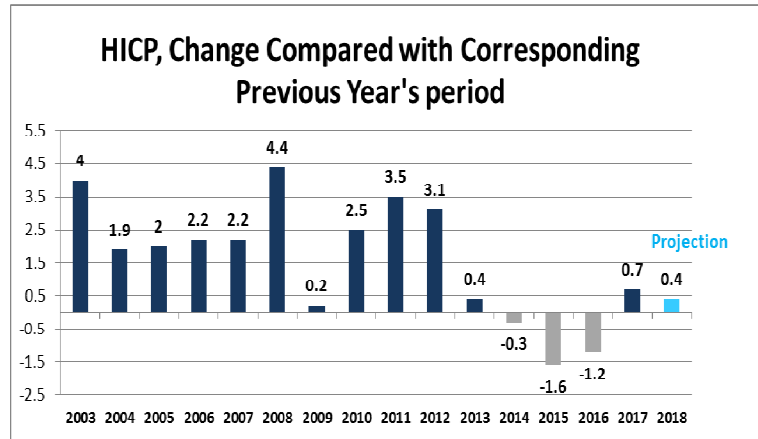
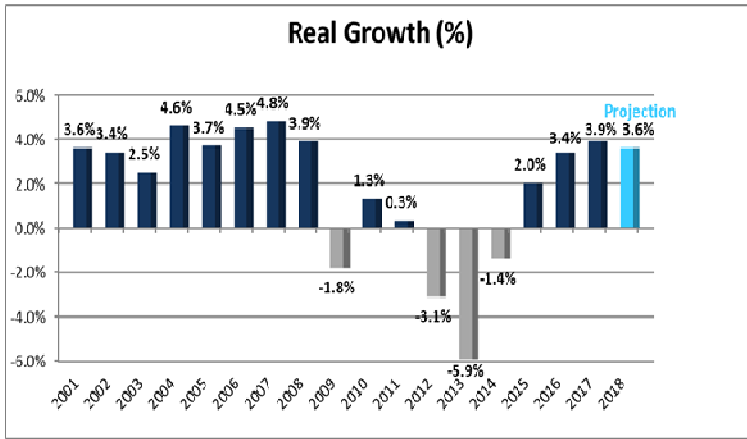
Table 2: Major Macroeconomic Indicators: 2017 Actual Figures and 2018/19 Projections

	2017 (Actuals)	2018 (Projections)	2019 (Projections)
<i>Real GDP*</i>	3.9%	3.6%	3.0%
<i>Consumer Prices*</i>	0.7%	0.4%	1.6%
<i>Unemployment*</i>	11.3%	10.0%	9.1%
<i>Debt to GDP**</i>	98.4%	95.5%	90.9%
<i>General Government Balance**</i>	1.9%	1.1%	1.4%
<i>General Government Primary Balance**</i>	4.5%	3.5%	3.8%

*IMF's April 2018 Projections

** IMF's December 2017 Projections (prior to the issuance of €2.35 billion for CCB)

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





USB BANK PLC

Treasury & Correspondent Banking P.O. Box 28510, 2080 Nicosia, Cyprus Telephone 22883417

The content of the current publication is exclusively informative and does not intend to influence or encourage specific actions. In addition to that, it is by no means binding for USB Bank PLC.