

## Cyprus Economy Developments June 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 4.0% in the first quarter of 2018. Growth is expected to reach 4.0% in 2018 and 4.2% in 2019 (IMF's June projections).
- Unemployment decreased to 8.6% in April 2018. It is expected to average at around 9.5% in 2018 and 8.0% in 2019 (IMF's June projections).
- Inflation (HICP) increased by 1.0% in May 2018 compared to May 2017. For the period January– May 2018, HICP recorded a decrease of 0.3% compared to the correspondent period of the previous year. HICP is expected to be around 0.2% in 2018 and 1.0% in 2019 (IMF's June projections).
- Arrivals of tourists have recorded an increase of 14.5%, for the period January – May 2018, compared to the corresponding period of 2017.
- For January – March 2018, revenue from tourism recorded an increase of 14.5% compared to January – March of 2017.
- In January – May 2018, property sales increased by 30.5% (3,612 property sales) compared to the corresponding period of 2017 (2,767 property sales). The highest property sales is recorded in Limassol (1,323 property sales). The highest percentage increase of property sales is recorded in Nicosia by 51.0%.
- The Turnover Volume Index of Retail Trade for January – April 2018 is estimated to have recorded an increase of 8.5% compared to the corresponding period of the previous year.
- In January – May 2018, the total registrations of motor vehicles increased by 21.1% to 21,526 from 17,769 in the corresponding period of 2017. Registration of new cars increased by 6.0% reaching 8,363 registered new cars, whilst the registration of used cars increased by 33.0% reaching 13,163 registered used cars.

#### *Cyprus Fiscal Developments*

Developments in public finances continue to exceed expectations.

- **General government budget balance (GGBB)**, also known as Fiscal Balance, stands at €386.9 million surplus (1.9% of GDP) from January – May 2018 compared to a surplus of €115.9 million (0.6% of GDP) in January – May 2017.
- **General government primary balance (GGPB)**, also known as Primary Balance, during January – May 2018, GGPB stood at €544.3 million surplus (2.6% of GDP) compared to a surplus of €288.7 million (1.5% of GDP) for January – May 2017.

#### *Cyprus Public Debt and Financing:*

The General Government Debt reached €18.7 billion in December 2017. Debt to GDP has decreased to 98.4% in 2017. On the 3<sup>rd</sup> 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 (CCB) along with an additional amount of €150.0 million from the government's cash reserves. Following the sale of CCB operations, an issuance of government bonds for a total nominal amount of €1.0 billion is expected to take place in

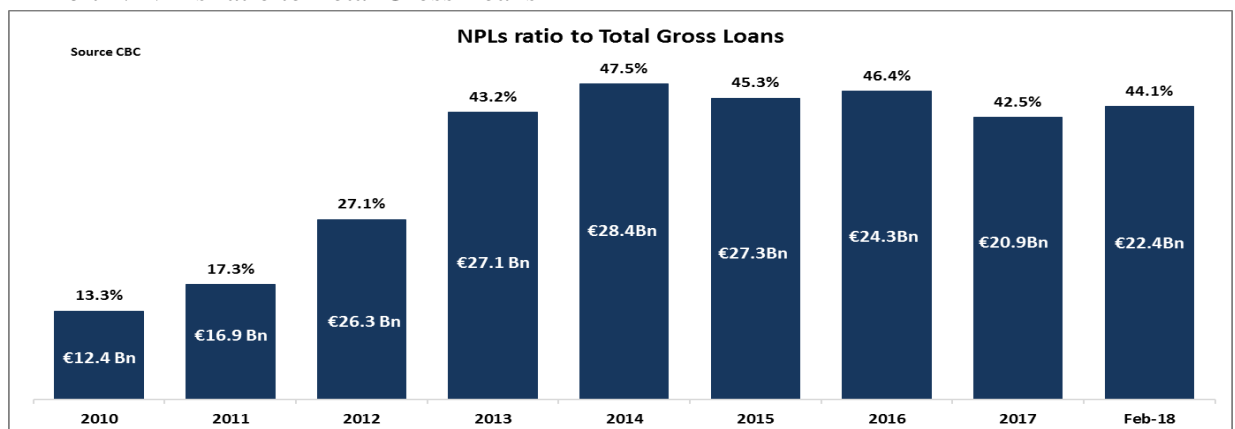
2018. According to Cyprus finance minister, public debt won't exceed 110.0% of GDP in 2018 on CCB state aid given a strong GDP growth and a budget surplus at end of 2018. Furthermore, Cyprus plans is to refinance the above bonds that Hellenic bank took from CCB with international debt issues over a 5 year period.

- Cyprus is BB+/Ba3/BB+/BB 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 1<sup>st</sup> of June 2018 had an average yield of -0.27% and a bid to cover ratio of 1:1.48.

### Banking Sector

- Deposits in the banking system amounted to €50.9 billion in May 2018 compared to €49.4 billion as at the end of 2017. The increase of deposits is mainly explained by the deposit of an amount of €2.5 billion by the Cyprus Government, with the Cyprus Cooperative Bank in April 2018.
- Loans continue the downward trend. The outstanding amount of loans has decreased to €48.8 billion in May 2018 from €51.4 billion in December 2017.
- Restructurings were €12.2 billion at 31/01/2018 (€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 €0.83 billion in May 2018, down from its peak of €13.6 billion in September 2012.
- The NPLs (Exhibit 1) amounted to €22.4 billion as at February 2018 compared to €20.9 billion in December 2017 and €24.3 billion in December 2016. The increase in NPLs is mainly due to implementation of the new International Financial Reporting Standard (IFRS) 9 as from 1<sup>st</sup> of January 2018. However, Cyprus Banking NPLs ratio has decreased slightly from 46.4% as at end of 2016 to 44.1% as at February 2018, mainly due to the decrease of total facilities (Gross) from €52.4 billion as at end of 2016 to €50.8 billion in February 2018.

Exhibit 1: NPLs ratio to Total Gross Loans



- Total New Lending for the period January – April 2018 has decreased by 10.0% compared to the period of January – April 2017. Housing loans increased by 40.0%, consumption loans remained unchanged and Corporation loans decreased by 24.0%. Total new lending for the period January – April 2018 amounts to €901.0 million compared to €1,004.0 million of the corresponding period of 2017. Detailed figures are illustrated in Table 1.

Table 1: New Loans (excluding renegotiation)

New Loans (excluding Renegotiation) Amounts in € millions	2009	2010	2011	2012	2013	2014	2015	2016	2017	Jan - Apr 2017	Jan - Apr 2018	%Δ Jan - Apr 2018/17
	Consumption Loans	1,273	764	693	547	267	89	78	112	169	55	55
Housing Loans	2,098	3,017	1,907	1,518	1,399	480	268	543	723	195	273	40%
Corporations Loans	4,953	4,398	3,734	3,253	3,122	1,414	1,158	1,479	2,143	754	573	-24%
<b>Total</b>	<b>8,324</b>	<b>8,179</b>	<b>6,334</b>	<b>5,318</b>	<b>4,788</b>	<b>1,983</b>	<b>1,504</b>	<b>2,134</b>	<b>3,035</b>	<b>1,004</b>	<b>901</b>	<b>-10%</b>

### *DBRS Upgrades Republic of Cyprus to BB, Trend Remains Positive*

On May 25, 2018, DBRS Ratings Limited (DBRS) upgraded the Republic of Cyprus's Long-Term Foreign and Local Currency - Issuer Ratings from BB (low) to BB and maintained the Positive trend. The upgrade is driven by the decline in Cypriot banks' non-performing loans (NPLs) and Cyprus's better-than-expected fiscal performance. An upgrade in the ratings would come from Cyprus' demonstration to sustain healthy economic growth and a sound of fiscal position, which would support the downward trajectory in the public debt ratio. Important progress on privatisations could also put upward pressure on the ratings. Moreover, Cyprus' ability to significantly reduce vulnerabilities in the private sector, including a material reduction of non-performing loans, would be positive for the ratings. However, a period of significantly weak growth, combined with large fiscal imbalances, could lead to a change in the trend back to Stable. A reversal of the downward trajectory in NPLs could also be negative.

### *Sale of Co-op operations not state aid, EU Commission says*

The European Commission has approved, under EU rules, Cypriot measures to facilitate the liquidation of Cyprus Cooperative Bank (CCB) under national law. They involve the sale of some CCB assets and deposits to Hellenic Bank. Non-governmental deposits will remain fully protected at all times. This transaction will remove approximately €6.0 billion of non-performing loans from the Cypriot banking sector and thereby contribute to its recovery and allow the government to collect the non-performing loans it acquired with the transaction and so reduce the burden to the taxpayer.

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

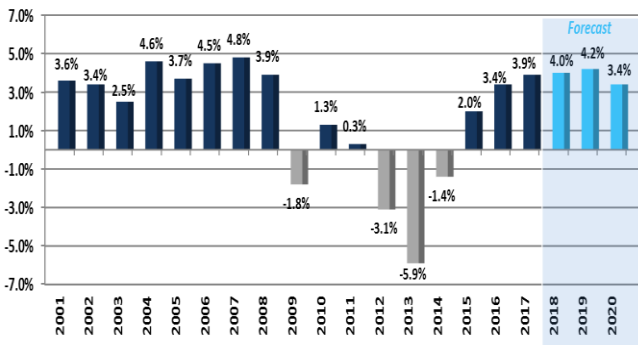
	2017 (Actuals)	2018 (Projections)*	2019 (Projections)*	2020 (Projections)*
<i>Real GDP</i>	3.9%	4.0%	4.2%	3.4%
<i>Consumer Prices</i>	0.7%	0.2%	1.0%	2.2%
<i>Unemployment</i>	11.1%	9.5%	8.0%	7.0%
<i>Debt to GDP**</i>	98.4%	106.1%	97.8%	89.9%
<i>General Government Balance</i>	1.9%	2.1%	2.1%	1.7%
<i>General Government Primary Balance</i>	4.5%	4.5%	4.5%	4.1%

\* IMF's June 2018 Projections

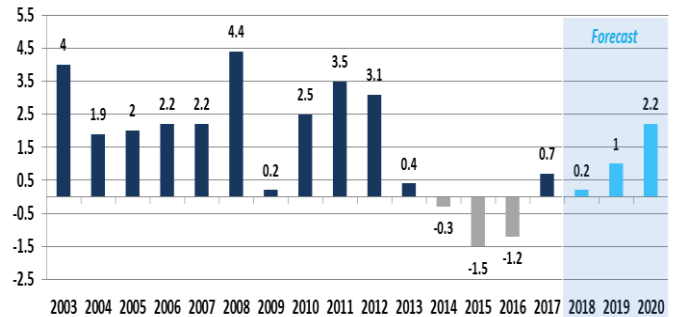
\*\* Prior to the expected issuance of €1.0 billion for CCB

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

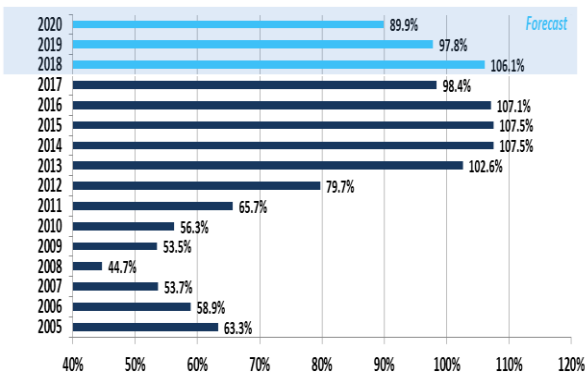
**Real Growth (%)**



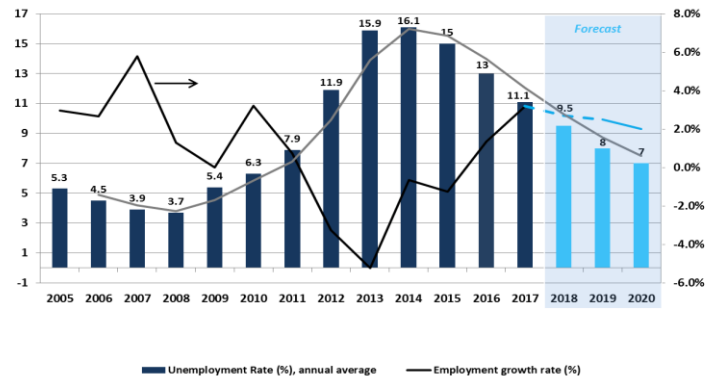
**HICP, % change to correspondent year**



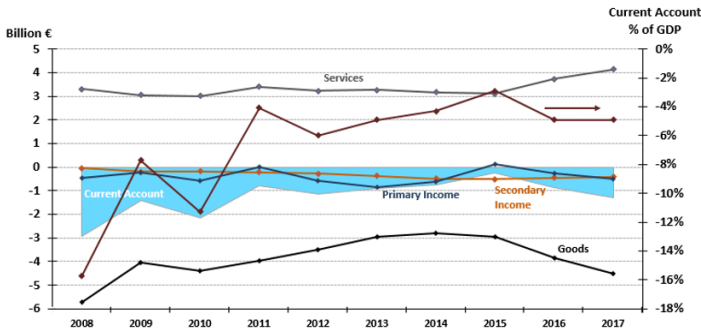
**Public Debt as a % of GDP**



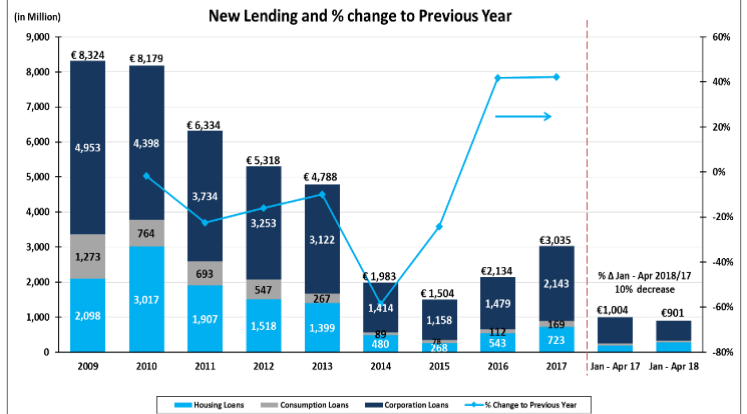
**Unemployment Rate and Employment Growth Rate (%)**



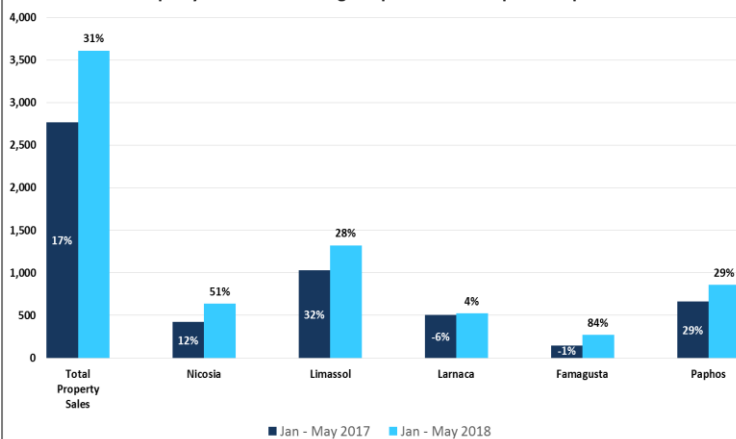
**Cyprus Current - Account and Component Balances**



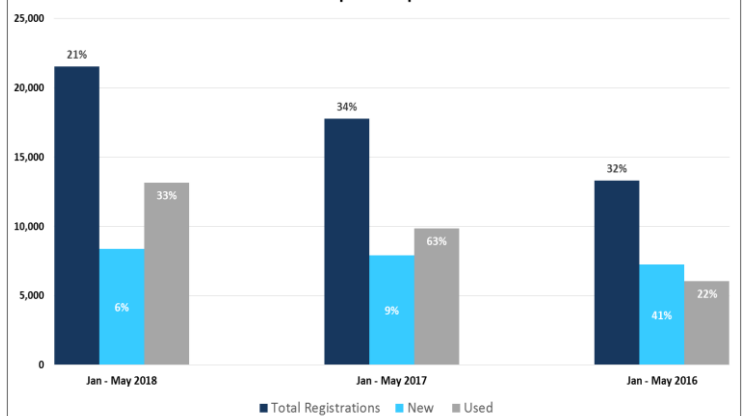
**New Lending and % change to Previous Year**



**Property Sales and % change to previous correspondent period**



**Total Registration of Motor Vehicles and % change to previous correspondent period**





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