

Cyprus Economy Developments October 2016

Treasury and Correspondent Banking Department

Major recent developments in Cyprus

Cyprus Macroeconomic Developments

- Cyprus' Real GDP growth rate is expected to grow by 2.8% in 2016 and by 2.2% in 2017 (IMF's October projections). The actual growth during Q1 and Q2 2016 was 2.6% and 2.9% respectively.
- Unemployment is at 11.6% in July 2016 (2016 IMF projection at 13.0%).
- Inflation (HICP) for August 2016 was -0.6% and -0.4% in July 2016 (2016 IMF projection at -1%).
- Arrivals of tourists have recorded an increase of 19.2%, for the period January – August 2016, compared to the corresponding period of 2015.
- For the period January – July 2016, revenue from tourism is estimated at €1,233.4 million compared to €1,073.0 million in the corresponding period of 2015, recording an increase of 15%.
- Property sales (4,644 property sales during January – September 2016) have recorded an increase of 31.6% during the first 9 months of 2016 compared to the corresponding period of 2015.
- In January - August 2016 the total registrations of motor vehicles increased by 32.4% to 22,250, from 16,799 in 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, stands at €11.4 million (surplus) from January – August 2016 compared to a surplus of €118.8 million in January – August 2015.
- **General government primary balance (GGPB)**, also known as Primary Balance, during January-August 2016 GGPB stood at €340.8 million (surplus) compared to a surplus of €472.3 million for January-August 2015.

Cyprus Public Debt and Financing:

The General Government Debt has slightly decreased to €18.7 billion as at June 2016 compared to €19.1 billion in 2015, and it is projected to fall to 94.6% of GDP by 2020.

- Cyprus is BB/B1/B+ rated by S&P/Moody's/Fitch agencies.
- Treasury Bills auction of 13-week duration beginning of October had an average yield of 0.47% and a bid to cover ratio of 3.02.

Banking Sector

- Deposits in the banking system have not only shown signs of stabilization during the recent months but also recorded an increase of €0.9 billion in August 2016, reaching the amount of €47.9 billion.
- Loans are still on a downward trend. The outstanding amount of loans reached €54.5 billion in August 2016.

- The outstanding amount of Cyprus banks on ECB's Open Market Operations and ELA, amount to €2.2 billion (€ 0.7 billion and € 1.5 billion respectively) as at end August 2016, down from its peak of €13.6 billion in September 2012).
- Total New Lending for the period January – August 2016 increased by 26% compared to the period of January – June 2015. Corporation loans increased by 6%, Consumption loans by 34% and Housing loans by 130%.
- The NPLs are on a downward trend (even though they're still in high levels) and amount €24.7 million as at June 2016 compared to €27.0 million in June 2015. However, Cyprus Banking NPLs ratio has increased from 45.8% as at end 2015 to 49.4% as at June 2016 mainly due to the decrease of outstanding loans from €62.8 billion as at end 2015 to €54.4 billion in June 2016.

| NPLs | | | | |
|------------------------------|---------------|---------------|---------------|---------------|
| Amounts in € millions | 2014 | 2015 | Jun-15 | Jun-16 |
| General Government | 62 | 48 | 72 | 54 |
| Other Financial Corporations | 1,019 | 681 | 831 | 359 |
| Non Financial Corporations | 13,667 | 13,266 | 13,499 | 11,961 |
| Households | 12,579 | 12,691 | 12,602 | 12,326 |
| Total | 27,328 | 26,685 | 27,004 | 24,699 |

Standard & Poor's Rating Agency Upgrade

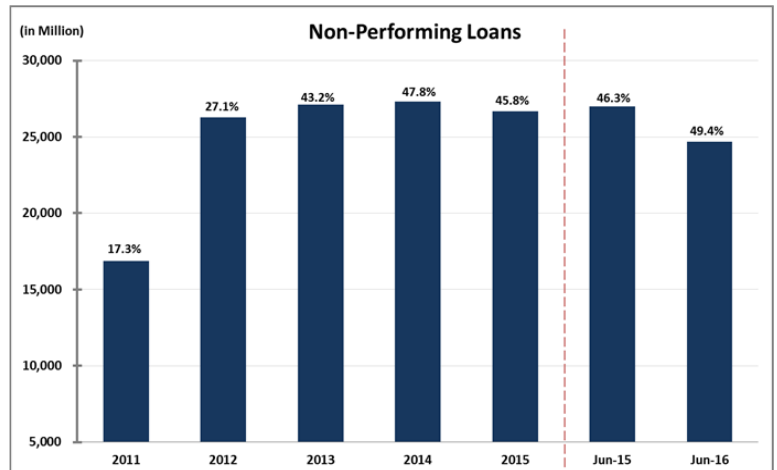
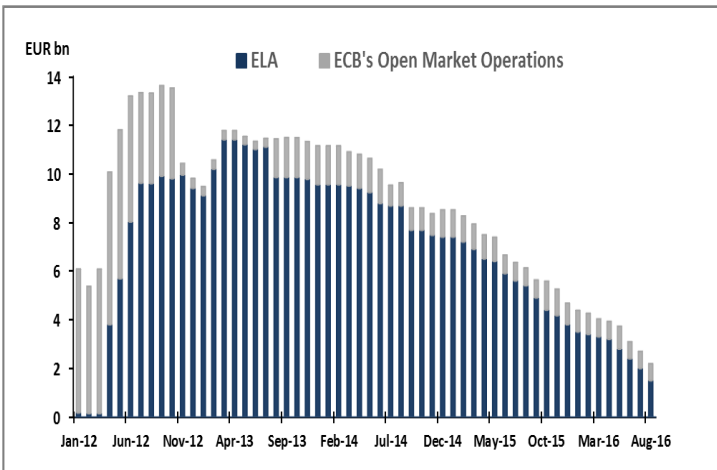
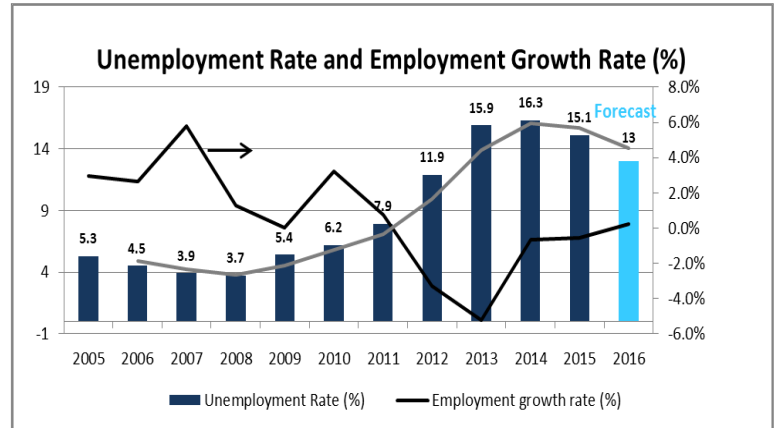
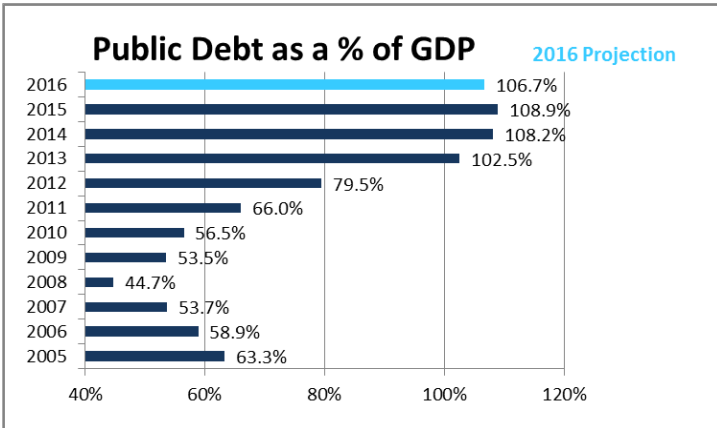
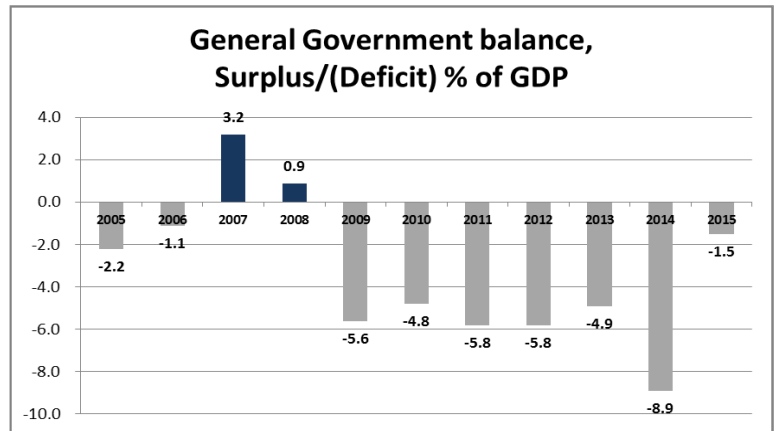
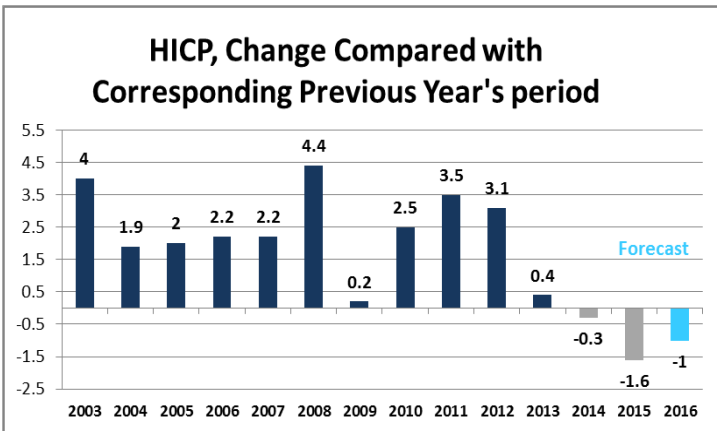
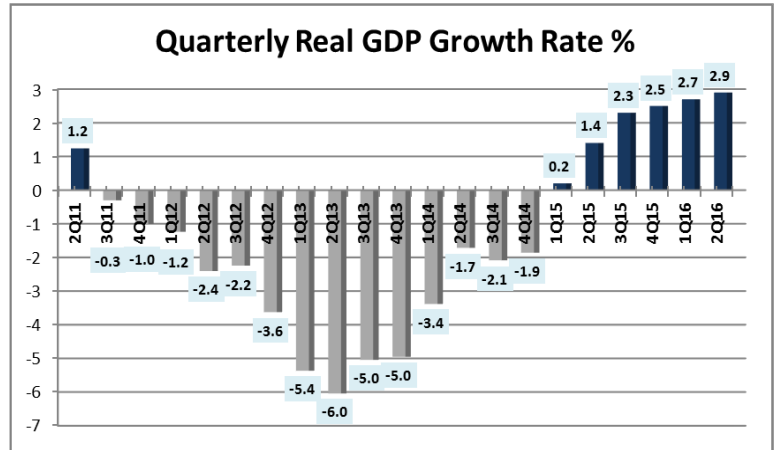
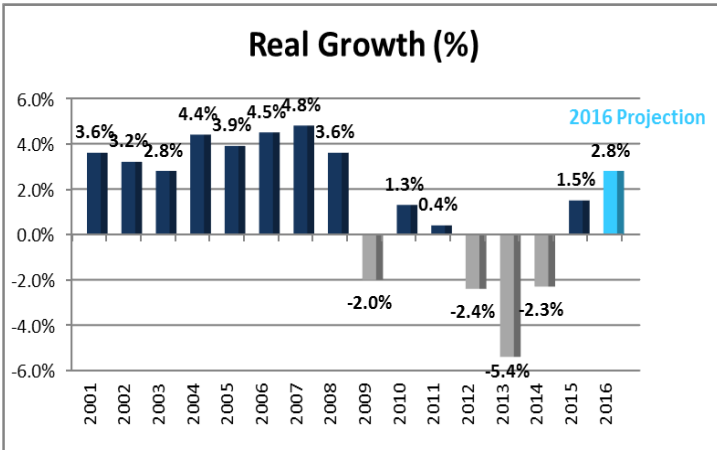
- Following Cyprus' stronger-than-expected economic growth and its further debt reduction, as well as steady improvement in the banking sector's asset quality in recent years, S&P Global Ratings Agency raised its foreign and local currency long-term sovereign credit ratings on the Republic of Cyprus to 'BB' from 'BB-' on the 16th of September 2016. The outlook is positive. The positive outlook reflects their view that they could upgrade Cyprus within the next 12 months if its reduction of currently high levels of non-performing loans accelerates, indicating a convergence of Cyprus' credit and monetary conditions, including the monetary transmission mechanism, with those of the Eurozone.

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

| | 2015 (Actuals) | 2016 (Projections)* | 2017 (Projections)* |
|---|---|---------------------|---------------------|
| <i>Real GDP</i> | 1.5% | 2.8% | 2.2 |
| <i>Consumer Prices</i> | -1.6% | -1.0% | 0.5% |
| <i>Unemployment</i> | 14.9% | 13.0% | 11.6% |
| <i>Debt to GDP</i> | 108.9% | 106.7% | 105.3% |
| <i>General Government Balance</i> | -1.4% € 257.5 million (€ 82.5 +€ 175 million) | -0.5% | 0.6% |
| <i>General Government Primary Balance</i> | € 466.5 million 1.4% | 2.0% | 1.9% |

* IMF'S October 2016, Projections

Appendix





USB BANK PLC

Treasury & Correspondent Banking P.O. Box 28510, 2080 Nicosia, Cyprus Telephone 22883344

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.