

**Cyprus Economy Developments**  
**October 2017**  
**Treasury and Correspondent Banking Department**

### Major recent developments in Cyprus

#### *Cyprus Macroeconomic Developments*

- Cyprus' Real GDP recorded a positive rate of growth of 3.7% and 3.5% in the 1<sup>st</sup> and 2<sup>nd</sup> quarters of 2017 respectively (flash estimate), and 3.0% in 2016. Growth is expected to reach the 3.4% in 2017 and 2.6% in 2018 (IMF's October projections).
- Unemployment reached 10.7% in August 2017. It is expected to average at around 11.8% in 2017 and 10.7% in 2018 (IMF's October projections).
- Inflation (HICP) decreased by 0.1% in September 2017 compared to September 2016. For the period January– September 2017, HICP recorded an increase of 0.9% compared to the correspondent period of the previous year. It is expected to be in the area of 0.8% in 2017 and 0.7% in 2018 (IMF's October projections).
- Arrivals of tourists have recorded an increase of 15.0%, for the period January – September 2017, compared to the corresponding period of 2016.
- For January – July 2017, revenue from tourism is estimated to have increased by 15.0% compared to January – July of 2016.
- Property sales have recorded an increase of 19.0% during January – September 2017 (5,523 property sales) compared to the corresponding period of 2016 (4,644 property sales).
- The Turnover Volume Index of Retail Trade for August 2017 increased by 6.8% compared to the corresponding month of the previous year. For the period January – August 2017, the index is estimated to have recorded an increase of 5.0% compared to the same period of 2016.
- In January – September 2017 the total registrations of motor vehicles increased by 29.0% to 32,833 from 25,375 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 €431.5 million (surplus) from January – August 2017 compared to a surplus of €12.1 million in January – August 2016.
- **General government primary balance (GGPB)**, also known as Primary Balance, during January – August 2017, GGPB stood at €774.5 million (surplus) compared to a surplus of €336.0 million for January – August 2016.

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

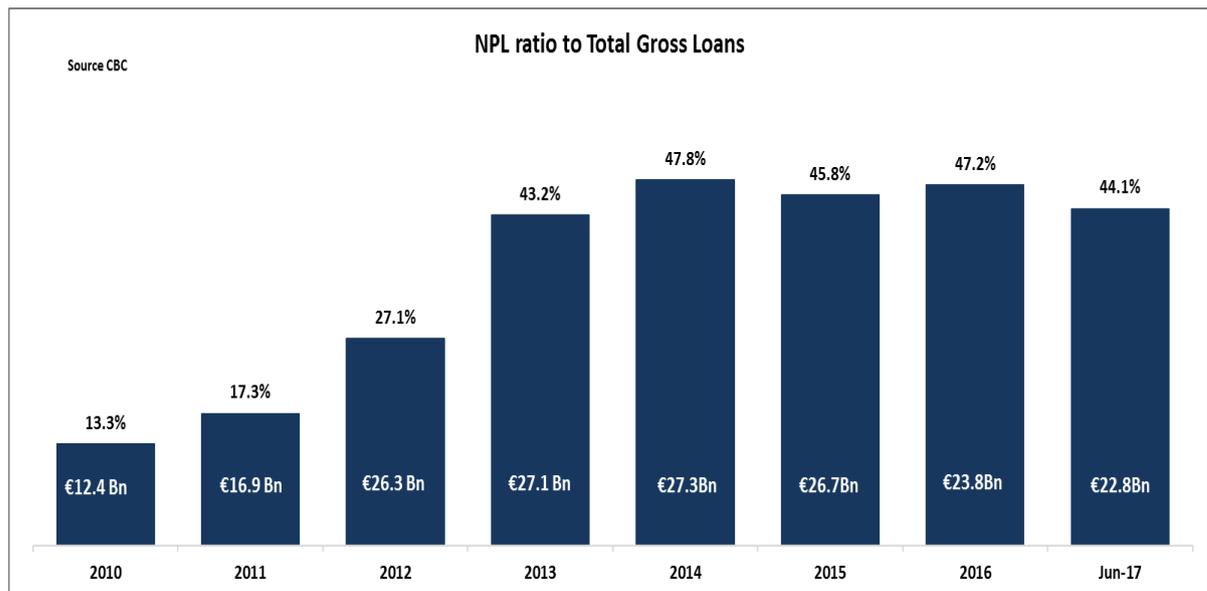
The General Government Debt reached €19.3 billion in July 2017. Debt to GDP is predicted to decrease to 105.5% by the end of 2017. (IMF's October projections)

- Cyprus is BB+/Ba3/BB/BB (low) rated by S&P/Moody's/Fitch/DBRS agencies, with positive outlook by S&P, Moody's and Fitch and stable outlook by DBRS.
- Latest Treasury Bills auction of 13-week duration value 6<sup>th</sup> of October 2017 had an average yield of -0.06% and a bid to cover ratio of 1:2.32.

## Banking Sector

- Deposits in the banking system are on an upward trend during the recent months. However they have recorded a slight decrease in September 2017, reaching the amount of €49.0 billion, compared to €49.1 billion in August 2017 and €49.0 billion as at the end of 2016.
- The amount of Loans is decreasing. The outstanding amount of loans has decreased to €52.6 billion in September 2017 compared to €55.2 billion in December 2016.
- Restructurings were €12.9 billion at 31/05/2017 (€13.5 billion on 31/12/2016, and €14.2 billion at 31/12/2015). Data show that 69% 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 as at end September 2017, 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 €22.8 billion as at June 2017 compared to €23.8 billion in December 2016 and €26.7 billion in December 2015. However, Cyprus Banking NPLs ratio has decreased slightly from 45.8% as at end 2015 to 44.1% as at June 2017, mainly due to the decrease of outstanding loans from €60.2 billion as at end 2015 to €54.3 billion in June 2017.

Exhibit 1: NPL ratio to Total Gross Loans



- Total New Lending for the period January – August 2017 has increased by 64.0% compared to the period of January – August 2016. Corporation loans increased by 76.0%, Consumption loans by 60.0% and Housing loans by 33.0%. Total new lending for the period January – August 2017 amounts to €1.94 billion compared to €1.18 billion of the corresponding period of 2016. Detailed figures are illustrated in table 1.

Table 1: New Loans (excluding renegotiation)

| New Loans (excluding Renegotiation)<br>Amounts in € millions | 2009               | 2010         | 2011         | 2012         | 2013         | 2014         | 2015         | 2016         | Jan-Aug 2016 | Jan-Aug 2017 | %Δ Jan-Aug 2017/16 |
|--|--------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------------|
|  | Corporations Loans | 4,953        | 4,398        | 3,734        | 3,253        | 3,122        | 1,414        | 1,158        | 1,304        | 791          | 1,395              |
| Consumption Loans  | 1,273              | 764          | 693          | 547          | 267          | 89           | 78           | 118          | 67           | 107          | 60%                |
| Housing Loans  | 2,098              | 3,017        | 1,907        | 1,518        | 1,399        | 480          | 268          | 543          | 325          | 433          | 33%                |
| <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>1,965</b> | <b>1,183</b> | <b>1,935</b> | <b>64%</b>         |

### S&P Global Ratings: Outlook on Cyprus Revised To Positive; 'BB+/B' Ratings Affirmed

On September 15, 2017, S&P Global Ratings revised the outlook on the long-term sovereign credit ratings on the Republic of Cyprus to positive from stable. At the same time, they affirmed the 'BB+/B' foreign and local currency long- and short-term sovereign credit ratings. The outlook revision reflects the real GDP projection to grow by 3% on average over 2017-2020 and it's considered higher than their previous expectation of 2.5% over the same period, and well above the forecast euro area average of 1.7%. The budgetary position to remain in surplus over the forecast horizon, without factoring in any further discretionary measures. Even if there were some fiscal slippage in the run-up to the 2018 presidential election, S&P expects public finances to subsequently consolidate, leading to a decline in general government debt.

### Fitch Upgrades Cyprus to 'BB'; Outlook Positive

On October 20, 2017, Fitch Ratings has upgraded Cyprus's long term foreign currency issuer default rating to 'BB' from 'BB-'. The outlook is positive. The key rating drivers are the strong improvement that Cyprus is experiencing in the performance of and outlook for its public finances. The economic recovery has broadened and GDP growth has consistently outperformed forecasts over recent years. Fitch now forecasts an average 3.5% GDP growth in 2017 and 2018. The recovery is also reflected in the labour market, where unemployment rate has declined to 10.6% in 2Q17 from a post-crisis peak of 16% in 2014.

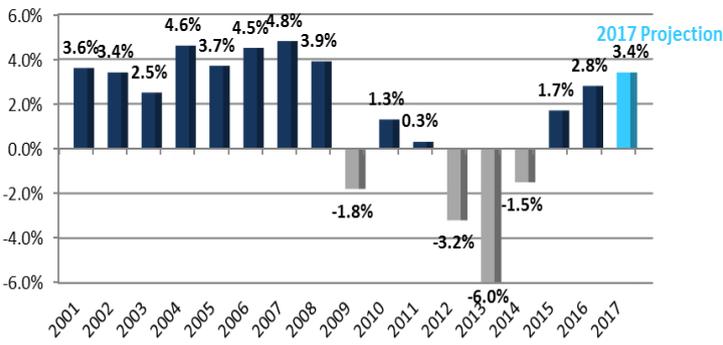
Table 2: Major Macroeconomic Indicators 2016 Actuals Figures and 2017/18/19 Projections

|   | 2016 (Actuals)          | 2017 (Projections)* | 2018 (Projections)* | 2019 (Projections)* |
|---|-------------------------|---------------------|---------------------|---------------------|
| <b>Real GDP</b>                           | 2.80%                   | 3.40%               | 2.60%               | 2.20%               |
| <b>Consumer Prices</b>                    | -1.20%                  | 0.80%               | 0.70%               | 2.00%               |
| <b>Unemployment</b>                       | 13.30%                  | 11.80%              | 10.70%              | 9.90%               |
| <b>Debt to GDP</b>                        | 107.8%                  | 105.50%             | 102.00%             | 96.40%              |
| <b>General Government Balance</b>         | -0.30%                  | 0.90%               | 0.30%               | 0.50%               |
| <b>General Government Primary Balance</b> | 2.30%<br>€531.9 million | 3.30%               | 2.70%               | 3.00%               |

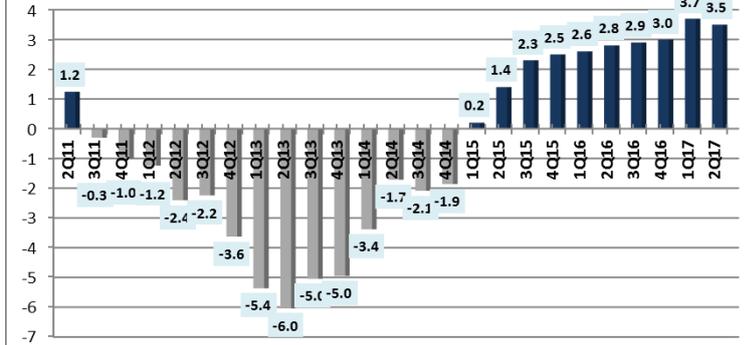
\* IMF's October 2017 Projections

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

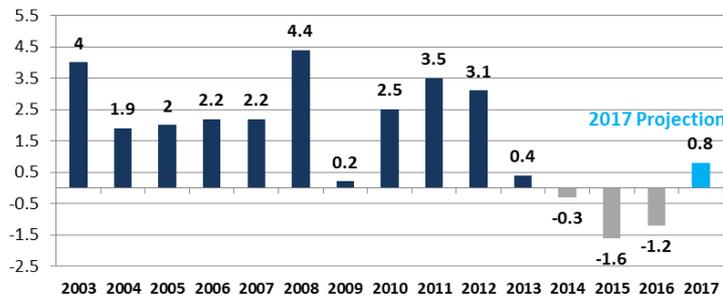
### Real Growth (%)



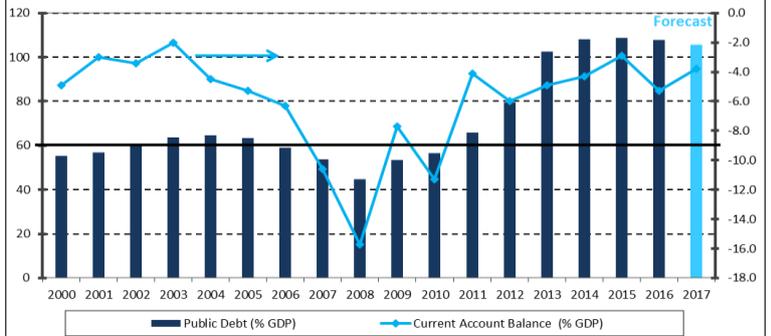
### Quarterly Real GDP Growth Rate %



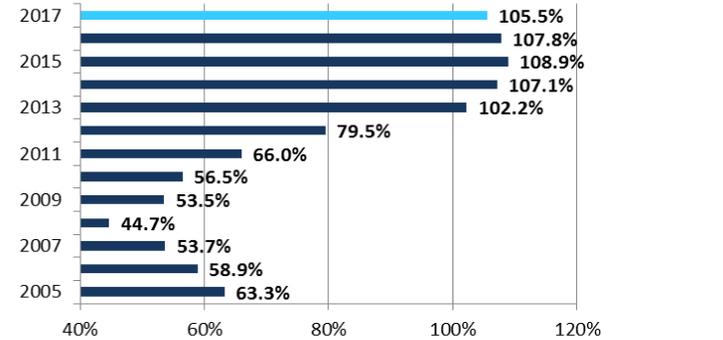
### HICP, Change Compared with Corresponding Previous Year's period



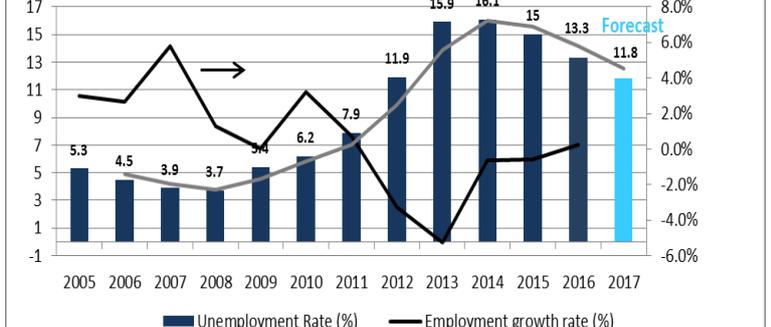
### General Government Current Account Balance and Debt



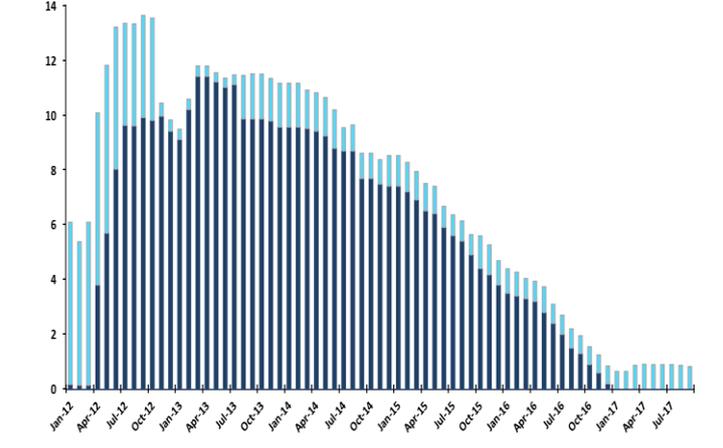
### Public Debt as a % of GDP



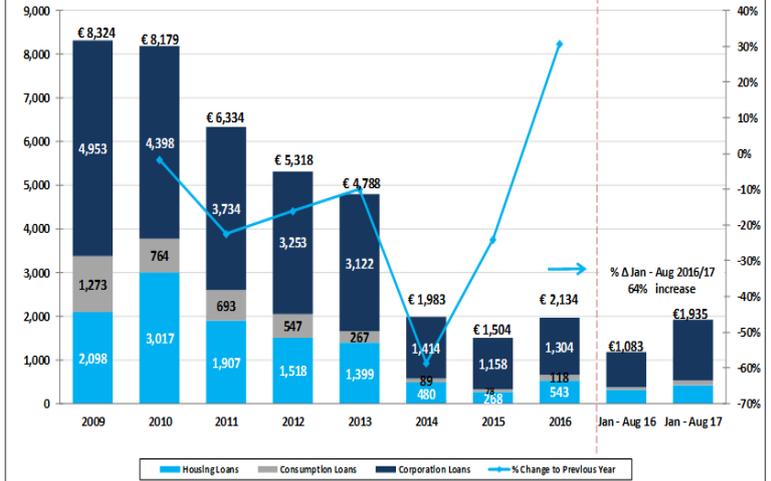
### Unemployment Rate and Employment Growth Rate (%)



### EUR bn



### New Lending and % change to Previous Year





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