

Cyprus Economy Developments October 2018 Treasury and Correspondent Banking Department

Major recent developments in Cyprus

Cyprus Macroeconomic Developments

- Cyprus' Real GDP growth rate (seasonally adjusted) is positive and is estimated at 3.9% in the second quarter of 2018. It recorded a positive rate of growth of 4.1% 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 7.4% in September 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 1.7% in September 2018 compared to September 2017, while compared to August 2018 decreased by 0.8%. For the period January – September 2018, HICP recorded an increase of 0.5% 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).
- Cyprus' current account recorded an improvement with the deficit declining to €391.2 million (1.9% of GDP) in the first half of 2018 from a deficit of €707.8 million (3.6% of GDP) in the first half of 2017. This development was mainly attributed to the trade balance, which recorded a surplus of €85.1 million (0.4% of GDP) in the first half of 2018 compared to a deficit of €316.0 million (1.6% of GDP) in the first half of 2017. Primary and secondary income accounts contributed to the current account deficit by 2.3% of GDP in the first half of 2018 compared to 2.0% of GDP in the first half of 2017.
- Arrivals of tourists have recorded an increase of 7.9%, for the period January – September 2018, compared to the corresponding period of 2017.
- For January – July 2018, revenue from tourism is estimated at €1,461.5 million compared to €1,422.1 million in the corresponding period of 2017, recording an increase of 2.8%.
- In January – September 2018, property sales increased by 21.4% to 6,706 property sales compared to the corresponding period of 2017 (5,523 property sales). The highest number of property sales is recorded in Limassol with 2,488 property sales. The highest percentage increase of property sales is recorded in Famagusta by 37.1%.
- Eurostat's Residential Property Price Index for Cyprus recorded an increase of 1.6% in the 2nd quarter of 2018 (83.74 units) compared to the 2nd quarter of 2017 (82.40 units).
- The Turnover Volume Index of Retail Trade for January – August 2018 is estimated to have recorded an increase of 6.1% compared to January – August 2017.
- In January – September 2018, the total registrations of motor vehicles increased by 15.2% to 37,817, from 32,833 in the corresponding period of 2017. Registration of new cars increased by 0.4% reaching 13,864 registered new cars, whilst the registration of used cars increased by 25.9% reaching 23,953 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 €769.7 million surplus (c. 3.7% of GDP) from January – September 2018 compared to a surplus of €431.2 million (2.2% of GDP) in January – September 2017.
- **General government primary balance (GGPB)**, also known as Primary Balance, during January – September 2018, GGPB stood at €1,125.3 million surplus (c. 5.5% of GDP) compared to a surplus of €824.6 million (4.2% of GDP) for January – September 2017.

Cyprus Public Debt and Financing:

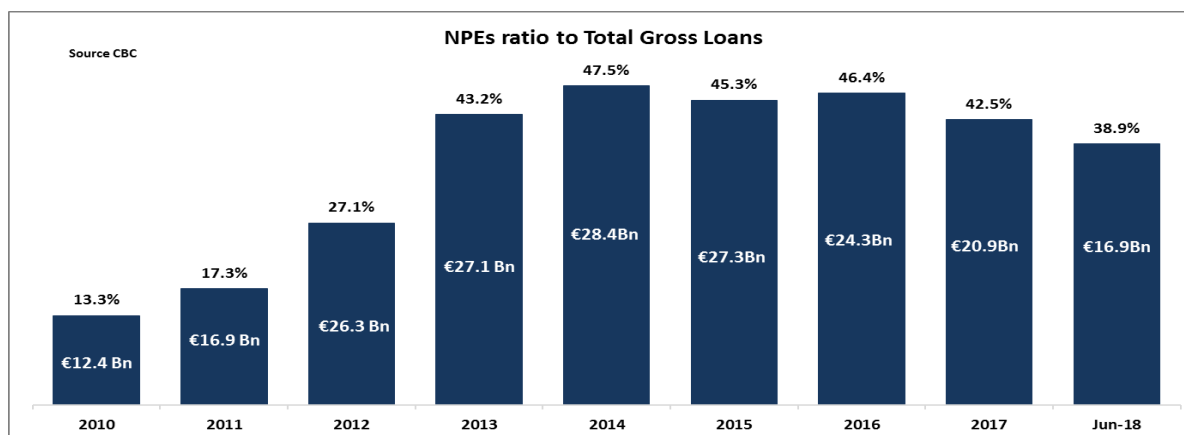
The General Government Debt reached €20.8 billion in June 2018 recording an increase over the end of the 2017 debt stock of €18.7 billion due to the bond issuance as part of the Cyprus Cooperative Bank-Hellenic Bank transaction. The debt to GDP ratio increased from 97.5% in 2017 to 108.5% as at the end of June 2018.

- Cyprus is rated “BBB-” by S&P with stable outlook, “Ba2” by Moody’s with a stable outlook, “BBB-” by Fitch with a stable outlook and “BB” by DBRS with a positive outlook.
- Latest Treasury Bills auction of 13-week duration that took place on the 29th of October 2018 with settlement date the 2nd of November 2018 had an average yield of -0.22% and a bid to cover ratio of 1:0.9.

Banking Sector

- Deposits in the banking system amounted to €47.4 billion in September 2018 compared to €51.1 billion in August 2018 and €49.4 billion as at the end of 2017. The decrease is mainly attributed to the €3.6 billion deposits of the Cyprus Government, previously held with the Cooperative Central Bank (CCB), which remained with Cooperative Asset Management Company (SEDIPES) as a result of the agreement between CCB and Hellenic Bank.
- The outstanding amount of loans in September 2018 exhibited a net increase of €0.25 billion compared to August 2018. Nevertheless, the outstanding amount of loans decreased by €6.3 billion in September 2018 and reached €39.7 billion. This is mainly attributed to €6.0 billion non-performing loans of CCB which remained to SEDIPES as a result of the above agreement between CCB and Hellenic Bank.
- Restructurings were €11.3 billion at 31/05/2018 (€11.9 billion on 31/12/2017 and €13.5 billion on 31/12/2016). 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 September 2018, down from its peak of €13.6 billion in September 2012.
- The Non-Performing Exposures (NPEs) (Exhibit 1) amounted to €16.9 billion as at June 2018 compared to €20.9 billion in December 2017 and €24.3 billion in December 2016. The Cyprus banking NPEs ratio has decreased from 42.5% as at end of 2017 to 38.9% as at June 2018. The downward trend in NPEs can be attributed mainly to the sale of loans, the reclassification of loans as debt instruments held for sale, the successful completion of the probation period of restructured loans and their reclassification as performing, write-offs, repayments and settlement of debt through swaps with immovable property that is expected to be sold with the aim of a faster cash collection.

Exhibit 1: NPEs ratio to Total Gross Loans



- Total New Lending for the period January – September 2018 decreased by 6.0% compared to the period of January – September 2017. Housing loans increased by 28.0%, consumption loans increased by 2.0%, whilst Corporation loans decreased by 17.0%. Total new lending for the period January – September 2018 amounts to €2,137.0 million compared to €2,271.0 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-Sep 2017	Jan-Sep 2018	%Δ Jan-Sep 2018/17
	Consumption Loans	1,273	764	693	547	267	89	78	112	169	122	124
Housing Loans	2,098	3,017	1,907	1,518	1,399	480	268	543	723	495	632	28%
Corporations Loans	4,953	4,398	3,734	3,253	3,122	1,414	1,158	1,479	2,143	1,654	1,381	-17%
Total	8,324	8,179	6,334	5,318	4,788	1,983	1,504	2,134	3,035	2,271	2,137	-6%

S&P Global Ratings: Ratings on Cyprus raised to ‘BBB-/A-3’ on Growth Prospects and Banking Sector Consolidation; Outlook Stable

On September 14, 2018, S&P Global Ratings raised its long- and short-term foreign and local currency sovereign credit ratings on Cyprus to 'BBB-/A-3' from 'BB+/B'. The outlook is stable. The stable outlook balances the view of Cyprus' strong growth prospects against its still highly leveraged public and private balance sheets. According to S&P, the upgrade reflects their views that the Cypriot economy will continue to grow at a solid pace through 2021, their forecast horizon, enabling the government to alleviate its debt burden. Measures by Cypriot policymakers to markedly reduce the stock of non-performing assets in the banking system via financial support and legislative changes have improved the sector's health and are likely to facilitate further recovery efforts. Any additional financial state support to the banking sector will only moderately affect the sovereign balance sheet. S&P global ratings could consider raising the ratings on Cyprus over the next two years if the economy deleveraged significantly, or if the banking sector reduced its non-performing exposures (NPEs) materially and its financial conditions improved.

Fitch Ratings upgrades Cyprus to ‘BBB-’; Outlook Stable

On October 19, 2018, Fitch Ratings has upgraded Cyprus' Cyprus' sovereign rating to investment grade to ‘BBB-’ from ‘BB+’. The outlook is stable. Fitch said the upgrade reflects the buoyant fiscal revenue and prudent fiscal policy, which will see Cyprus record a fiscal surplus of 2.7% of GDP in 2018. The ratio of non-performing exposures (NPEs) to total loans fell significantly in the first half of 2018, partly supported by the announced securitisation by Bank of Cyprus of gross NPEs. Fitch expects private sector deleveraging will accelerate, however, as enforcement of new legal amendments, improving earnings and recovering house prices foster debt repayment. Economic growth will likely remain resilient to a faster resolution in NPEs as rising wages, a dynamic labour market and high household savings will help preserve disposable income and smooth consumption.

Table 2: Major Macroeconomic Indicators: 2017 Actual Figures, 2018/19/20 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>	97.5%	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

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Appendix 1: Graphical presentation of the key Cyprus Economy figures.

