

**Cyprus Economy Developments  
December 2017  
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% in the 3<sup>rd</sup> quarter of 2017 same as in the 2<sup>nd</sup> quarter of 2017, and 3.7% in 1<sup>st</sup> quarter of 2017. Growth is expected to reach the 3.8% in 2017 and 3.6% in 2018 (IMF's December projections).
- Unemployment decreased to 10.2% in October 2017. It is expected to average at around 11.3% in 2017 and 10.0% in 2018 (IMF's December projections).
- Inflation (HICP) decreased by 0.2% in November 2017 compared to November 2016. For the period January– November 2017, HICP recorded an increase of 0.8% 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 – September 2017, revenue from tourism is estimated to have increased by 13.0% compared to January – September of 2016.
- Property sales have recorded an increase of 21.0% during January – November 2017 (7,197 property sales) compared to the corresponding period of 2016 (5,929 property sales).
- The Turnover Volume Index of Retail Trade for September 2017 increased by 7.3% compared to the corresponding month of the previous year. For the period January – September 2017, the index is estimated to have recorded an increase of 5.5% compared to the same period of 2016.
- In January – October 2017, the total registrations of motor vehicles increased by 31.2% 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 €498.0 million (surplus) from January – October 2017 compared to a surplus of €138.9 million in January – October 2016.
- **General government primary balance (GGPB)**, also known as Primary Balance, during January – October 2017, GGPB stood at €903.3 million (surplus) compared to a surplus of €525.7 million for January – October 2016.

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

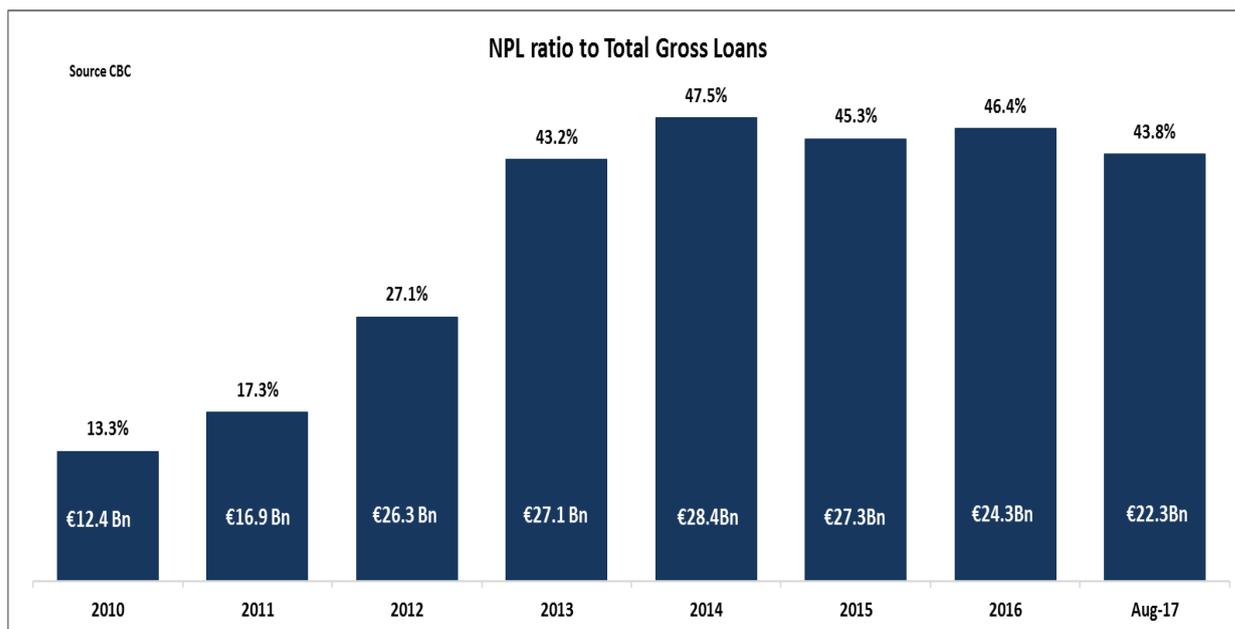
The General Government Debt reached €19.5 billion in September 2017. Following an early partial repayment of a loan by the Central Bank of Cyprus for an amount of €0.6 billion in November 2017, Debt to GDP is predicted to decrease to 99.7% by the end of 2017 (IMF's December projections).

- 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 value 1<sup>st</sup> of December 2017 had an average yield of -0.10% and a bid to cover ratio of 1:2.57.

## Banking Sector

- Deposits in the banking system are on an upward trend since the second half of 2015. In October 2017, deposits amounted €49.5 billion, compared to €49.0 billion in September 2017 and at the end of 2016.
- The amount of Loans is decreasing. The outstanding amount of loans has decreased to €52.5 billion in October 2017 compared to €55.2 billion in December 2016.
- Restructurings were €12.7 billion at 31/06/2017 (€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 €0.83 billion as at end October 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 €22.3 billion as at August 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 43.8% as at August 2017, mainly due to the decrease of outstanding loans from €60.2 billion as at end 2015 to €50.9 billion in August 2017.

Exhibit 1: NPL ratio to Total Gross Loans



- Total New Lending for the period January – October 2017 has increased by 51.0% compared to the period of January – October 2016. Corporation loans increased by 57.0%, Consumption loans by 60.0% and Housing loans by 35.0%. Total new lending for the period January – October 2017 amounts to €2.45 billion compared to €1.62 billion of the corresponding period of 2016. Detailed figures are illustrated in table 1.

Table 1: New Loans (excluding renegotiation)

<b>New Loans (excluding Renegotiation)</b> Amounts in € millions	2009	2010	2011	2012	2013	2014	2015	2016	Jan-Oct 2016	Jan-oct 2017	%Δ Jan-Oct 2017/16
Corporations Loans	4,953	4,398	3,734	3,253	3,122	1,414	1,158	1,479	1,116	1,752	57%
Consumption Loans	1,273	764	693	547	267	89	78	112	86	138	60%
Housing Loans	2,098	3,017	1,907	1,518	1,399	480	268	543	415	559	35%
<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>1,617</b>	<b>2,449</b>	<b>51%</b>

### *IMF Executive Board Concludes 2017 Article IV Consultation with Cyprus*

On December 13, 2017, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation<sup>1</sup> with Cyprus. The Cypriot economy has achieved an impressive turnaround since the 2012–13 banking crisis. GDP growth has been accelerating for three consecutive years on strong foreign demand, reaching 3.9% (year-on-year) during the first nine months of 2017 and it is expected to persist for the next several years, underpinned by ongoing large construction projects and (albeit undesirable) weak payment discipline alongside the slow progress of the crisis legacies in the form of extremely high private sector debt and nonperforming loans (NPLs) and elevated public debt have yet to be eliminated that will support consumption. Rising labour demand has sharply lowered the unemployment rate to 10.3% as of September. Emergency liquidity assistance to banks has been fully repaid. Gains in cost competitiveness and strong foreign demand have narrowed the underlying current account deficit (excluding large one-off imports). The fiscal primary balance has swung from a large deficit to a surplus of 3.0% of GDP in 2016, supported by earlier reforms and revenue from the robust recovery, and is expected to increase further this year.

However, this strong growth cycle could be threatened by excessive concentration of activity into construction and real estate and by potentially-volatile capital flows. Persistently slow resolution of NPLs would keep financial sector vulnerabilities elevated. Growth prospects could be significantly boosted if development of offshore hydrocarbon deposits proves financially viable.

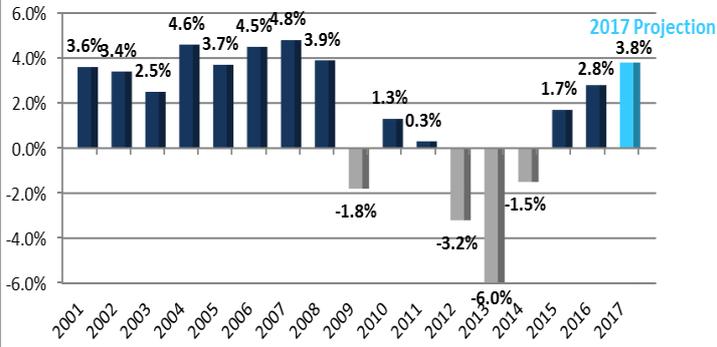
Table 2: Major Macroeconomic Indicators 2016 Actuals Figures and 2017/18/19 Projections

	2016 (Actuals)	2017 (Projections)*	2018 (Projections)*	2019 (Projections)*
<i>Real GDP</i>	2.8%	3.8%	3.6%	2.9%
<i>Consumer Prices</i>	-1.2%	0.8%	0.7%	1.1%
<i>Unemployment</i>	13.3%	11.3%	10.0%	9.1%
<i>Debt to GDP</i>	107.8%	99.7%	95.5%	90.9%
<i>General Government Balance</i>	-0.3%	1.0%	1.1%	1.4%
<i>General Government Primary Balance</i>	2.3% €531.9 million	3.4%	3.5%	3.8%

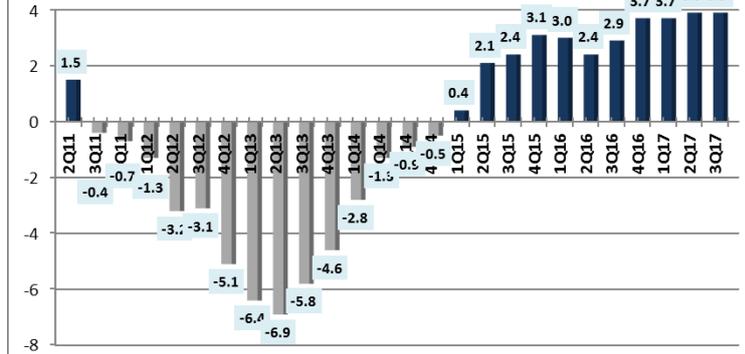
\* IMF's December 2017 Projections

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

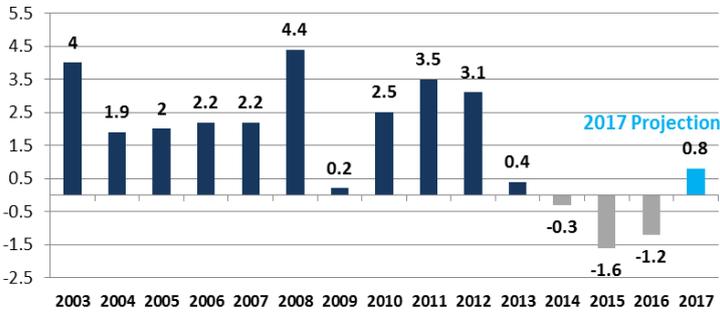
### Real Growth (%)



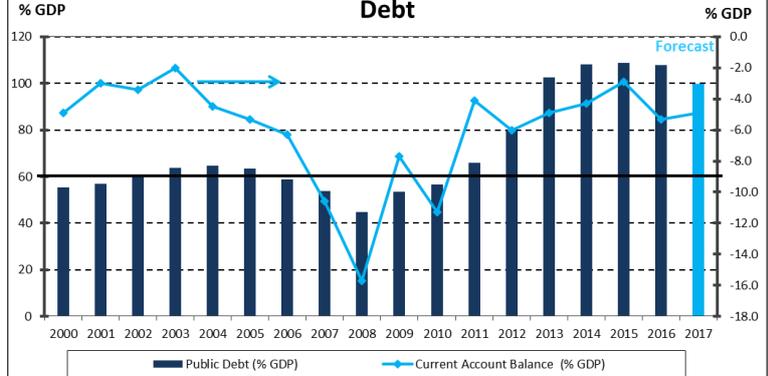
### Quarterly Real GDP Growth Rate %



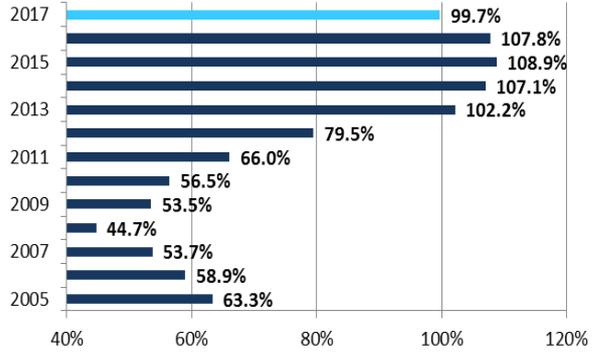
### HICP, Change Compared with Corresponding Previous Year's period



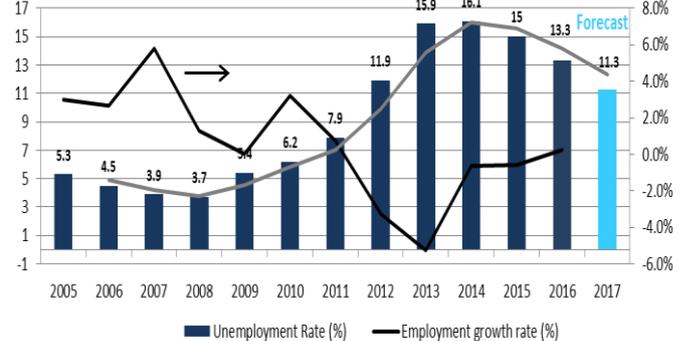
### General Government Current Account Balance and Debt



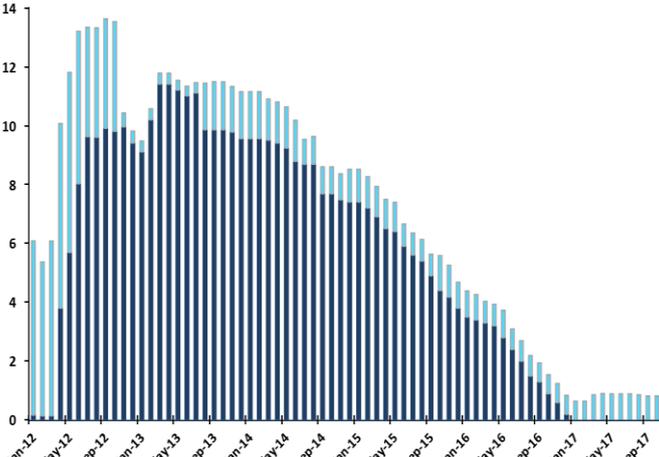
### Public Debt as a % of GDP



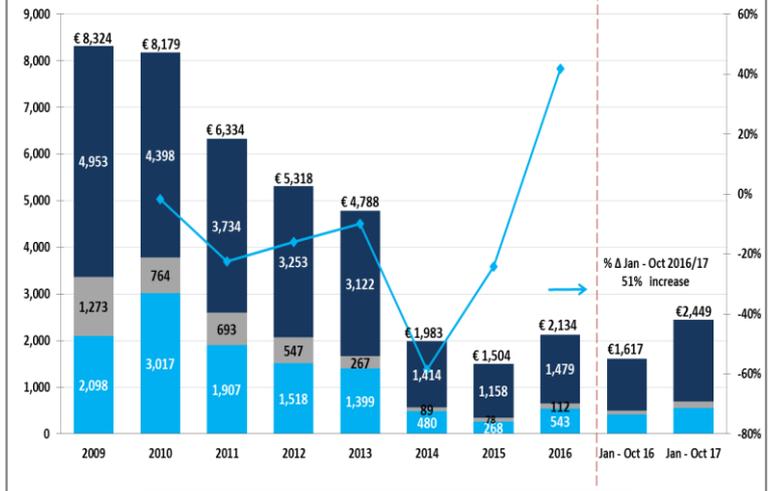
### Unemployment Rate and Employment Growth Rate (%)



### EUR bn



### New Lending and % change to Previous Year





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