

Major recent developments in Cyprus

Cyprus Macroeconomic Developments

- Cyprus' Real GDP recorded a positive rate of growth of 3.6% in the 2nd quarter of 2017 (flash estimate), and 3.6% in the 1st quarter of 2016. Growth is expected to reach the 2.7% in 2017 and 2.5% in 2018 (IMF's June projections).
- Unemployment reached 10.8% in June 2017. It is expected to average at around 11.8% in 2017 and 10.7% in 2018 (IMF's June projections).
- Inflation (HICP) decreased by 0.1% in July 2017 compared to July 2016. For the period January– July 2017, HICP recorded an increase of 1.0% compared to the correspondent period of the previous year. It is expected to be in the area of 1.5% in 2017 and 1.4% in 2018.
- Arrivals of tourists have recorded an increase of 15.0%, for the period January – July 2017, compared to the corresponding period of 2016.
- For January – June 2017, revenue from tourism is estimated to have increased by 20.0% compared to January – June of 2016.
- Property sales have recorded an increase of 20.0% during January – July 2017 (4,349 property sales) compared to the corresponding period of 2016.
- In January – July 2017 the total registrations of motor vehicles increased by 31.0% to 25,896 from 19,766 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 €62.5 million (surplus) from January – June 2017 compared to a deficit of €42.4 million in January – June 2016.
- **General government primary balance (GGPB)**, also known as Primary Balance, during January – June 2017, GGPB stood at €287.5 million (surplus) compared to a surplus of €176.6 million for January – June 2016.

Cyprus Public Debt and Financing:

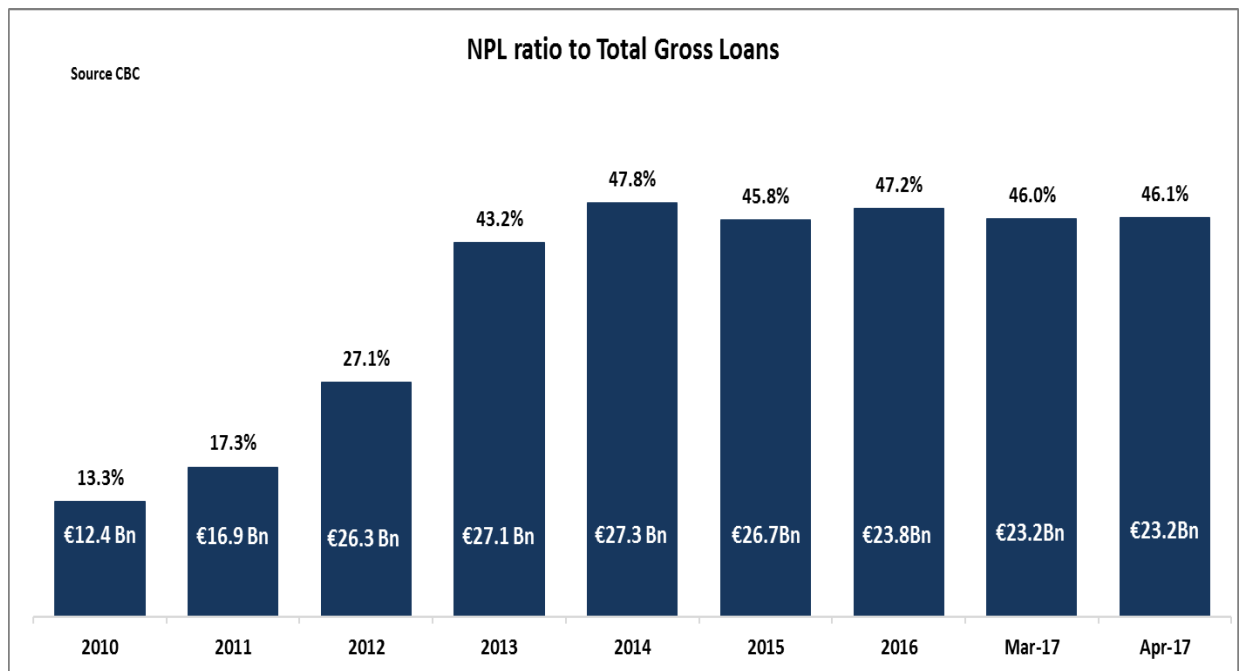
The General Government Debt reached €19.7 billion in June 2017. Debt to GDP is predicted to decrease to 106.8% by the end of 2017.

- Cyprus is BB+/Ba3/BB-/BB (low) rated by S&P/Moody's/Fitch/DBRS agencies, with stable outlook by S&P and DBRS, and positive outlook by Moody's and Fitch. On the 28th of July 2017, Moody's upgraded the Republic of Cyprus's long-term foreign and local currency issuer ratings from B1 to Ba3 and maintained the outlook at Positive. The short-term ratings have been affirmed, at Not Prime (NP) and (P) NP.
- Latest Treasury Bills auction of 13-week duration value 1st of September 2017 had an average yield of -0.04% and a bid to cover ratio of 1:1.73.

Banking Sector

- Deposits in the banking system are on an upward trend during the recent months. However they recorded a slight increase in July 2017, reaching the amount of €48.8 billion, compared to €48.5 billion in June 2017 and €49.0 billion as at the end of 2016.
- The amount of Loans is decreasing. The outstanding amount of loans reached €53.6 billion in July 2017 compared to €55.2 billion in December 2016.
- Restructurings were €13.05 billion at 31/03/2017 (€13.45 billion on 31/12/2016, and €14.15 billion at 31/12/2015). Data shows that 72% of fixed-term loan restructurings undertaken, 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 €0.90 billion as at end July 2017, down from its peak of €13.6 billion in September 2012.
- The NPLs (Exhibit 1) are on a downward trend (even though they're still in high levels) and amount to €23.2 billion as at April 2017 compared to €26.7 billion in December 2015. However, Cyprus Banking NPLs ratio has increased from 45.8% as at end 2015 to 46.1% as at April 2017, mainly due to the decrease of outstanding loans from €60.2 billion as at end 2015 to €52.4 billion in April 2017.

Exhibit 1: NPL ratio to Total Gross Loans



- Total New Lending for the period January – June 2017 has increased by 65.0% compared to the period of January – June 2016. Corporation loans increased by 81.0%, Consumption loans by 60.0% and Housing loans by 27.0%.

Table 1: New Loans (excluding renegotiation)

New Loans (excluding Renegotiation)									Jan-Jun 2016	Jan-Jun 2017	%Δ Jan-Jun 2017/16
Amounts in € millions	2009	2010	2011	2012	2013	2014	2015	2016			
Corporations Loans	4,953	4,398	3,734	3,253	3,122	1,414	1,158	1,479	610	1,102	81%
Consumption Loans	1,273	764	693	547	267	89	78	112	50	80	60%
Housing Loans	2,098	3,017	1,907	1,518	1,399	480	268	543	237	301	27%
Total	8,324	8,179	6,334	5,318	4,788	1,983	1,504	2,134	897	1,483	65%

Moody's upgrades government bond ratings of Cyprus to Ba3; maintains a positive outlook

On the 28th of July 2017, Moody's Investors Service has upgraded the long-term issuer rating of Cyprus Government of as well as all senior unsecured bond and program ratings to Ba3 and (P) Ba3 from B1 and (P) B1, respectively. The outlook has been maintained at positive. The short-term ratings have been affirmed, at Not Prime (NP) and (P) NP. The key drivers for the rating action are the improvements in economic resilience that have occurred over the past two years and that seem likely to continue in the medium term, and the consistent fiscal outperformance and continuing favorable fiscal outlook for Cyprus. The decision to maintain a positive outlook on the rating of Cyprus reflects Moody's view that improvements in economic resilience and continuing fiscal outperformance are likely to be sustained, with a reduction in the debt-to-GDP ratio as well as a fall in the stock of non-performing loans held by the banks.

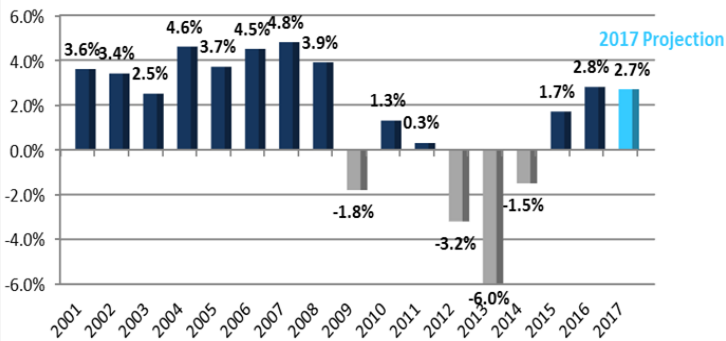
Table 2: Major Microeconomics Indicators 2016 Actuals Figures and 2017/18 Projections.

	2016 (Actuals)	2017 (Projections)*	2018 (Projections)*
<i>Real GDP</i>	2.80%	2.70%	2.50%
<i>Consumer Prices</i>	-1.20%	1.50%	1.40%
<i>Unemployment</i>	13.30%	11.80%	10.70%
<i>Debt to GDP</i>	107.8%	106.80%	105.10%
<i>General Government Balance</i>	-0.30%	0.60%	-0.20%
<i>General Government Primary Balance</i>	2.30% €531.9 million	3.00%	2.30%

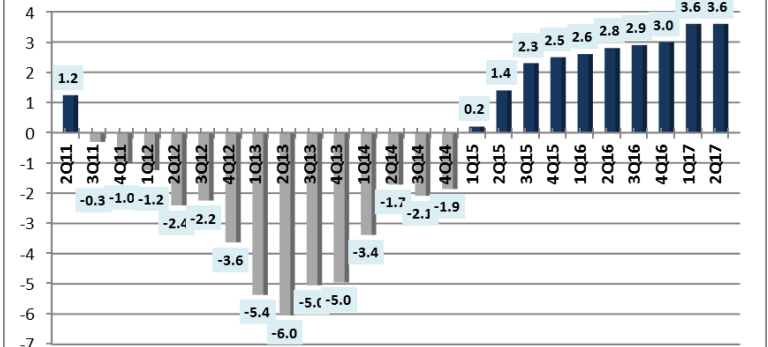
* IMF'S June 2017, Projections

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

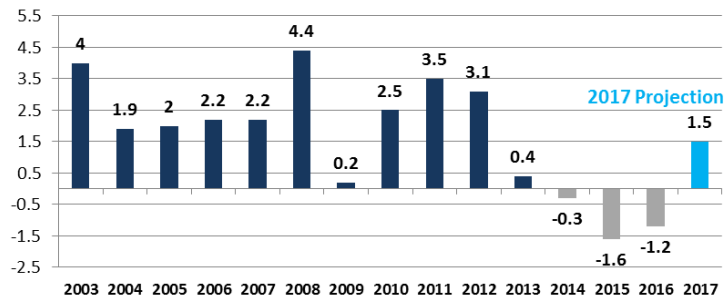
Real Growth (%)



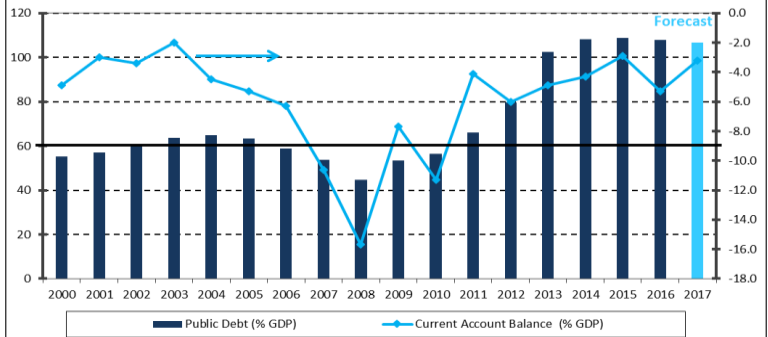
Quarterly Real GDP Growth Rate %



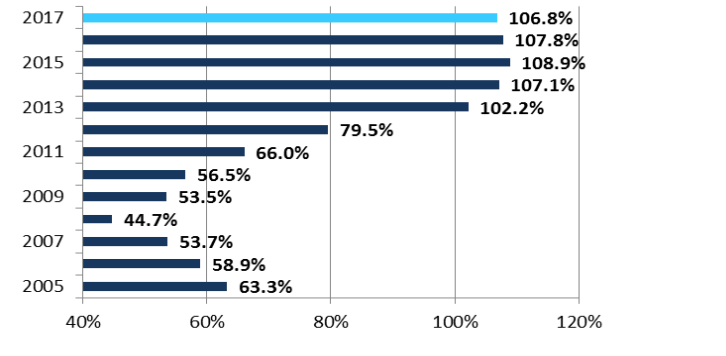
HICP, Change Compared with Corresponding Previous Year's period



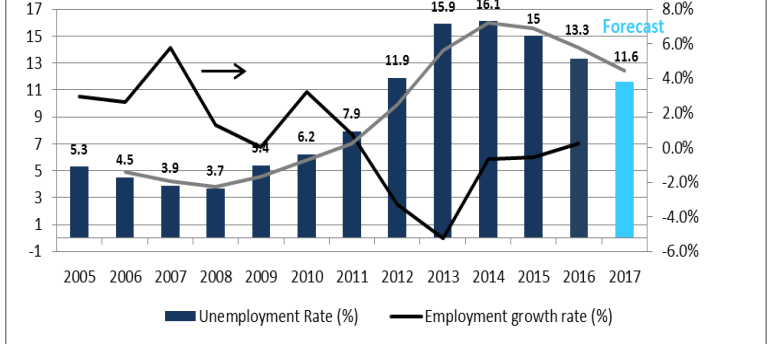
General Government Current Account Balance and Debt



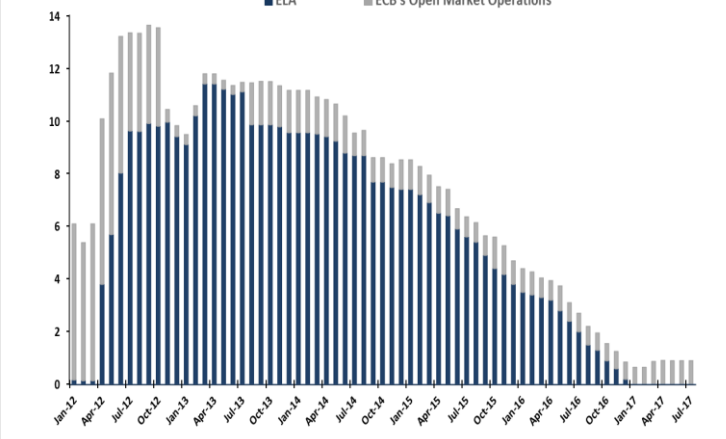
Public Debt as a % of GDP



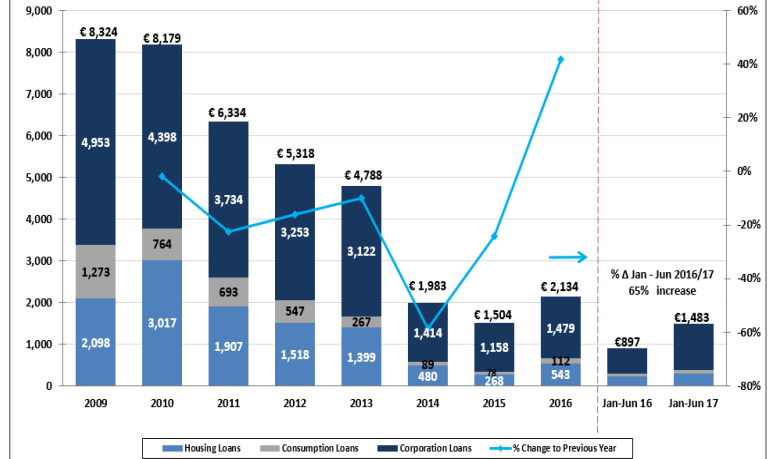
Unemployment Rate and Employment Growth Rate (%)



EUR bn



New Lending and % change to Previous Year





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