

## Major recent developments in Cyprus

### *Cyprus Macroeconomic Developments*

- Following the end of the economic adjustment programme for Cyprus on 31 March 2016, during which the country emerged from recession, stabilised its financial sector, and consolidated its public finances a number of challenges such as the high public debt and the banks' high NPLs remain.
- By 2015, Cyprus' economy returned to growth, and it is expected to grow by 1.5% in 2016 (2.6% in 2016, Q1) and 2% in 2017-2020 (IMF projections), with tourism and professional services still being the main contributors.
- Unemployment is at 11.6% in April 2016 (2016 IMF projection at 14.5%).
- Inflation (HICP) for May 2016 was -1.9% and -2.1% in April 2016. Inflation is expected to rise slowly as domestic price pressures increase and the lower energy price effect starts to fade away (2016 IMF projection at 0.6%).
- Arrivals of tourists have recorded an increase of 21.9%, for the period January – April 2016, compared to the corresponding period of 2015.
- For the period January – March 2016, revenue from tourism is estimated at €147.6 million compared to €124.3 million in the corresponding period of 2015, recording an increase of 18.7%.
- Property sales (2,355 property sales during January to May 2016) have recorded an increase of 25% during the first 5 months of 2016 compared to the corresponding period of 2015.
- In January – April 2016 the total registrations of motor vehicles increased by 28.6% compared to the correspondent 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 €72.6 million from January – April 2016 compared to a deficit of €24.5 million in January – April 2015.
- **General government primary balance (GGPB)**, also known as Primary Balance, during 2015 January-December GGPB stood at €466.5 million (i.e. 2.7% of GDP) compared to a surplus of €455.2 million (2.6% of GDP) during the previous year.

### *Cyprus Public Debt and Financing:*

The General Government Debt has reached €19.1 billion (109% of GDP) as at end 2015 compared to €18.8 billion in 2014, and it is projected to fall to below 90% of GDP in 2020.

- Cyprus is BB-/B1/B+ rated by S&P/Moody's/Fitch agencies.
- Treasury Bills auction of 13-week duration at end May had an average yield of 0.89% and a bid to cover ratio of 1.3.

### Banking Sector

- Deposits in the banking system have stabilized with deposits standing at €46 billion as at April 2016.
- Loans are still on a downward trend. The outstanding amount of loans reached €57.4 billion in April 2016.
- The outstanding amount of Cyprus banks on ECB's Open Market Operations and ELA amount to €3.9 billion (€ 0.7 billion and € 3.2 billion respectively) as at end April 2016, down from its peak of €13.6 billion in September 2012).
- Total New Lending for the period January – April 2016 increased by 38% as compared to the period of January – April 2015. Corporation loans increased by 17%, Consumption loans by 35% and Housing loans by 183%.

| New Loans (excluding Renegotiation)<br>Amounts in € millions | 2010         | 2011         | 2012         | 2013         | 2014         | 2015         | 2015       | 2016       | % Δ             |
|--|--------------|--------------|--------------|--------------|--------------|--------------|------------|------------|-----------------|
|  |              |              |              |              |              |              | Jan-Apr    | Jan-Apr    | Jan-Apr 2015/16 |
| Corporations Loans   | 4,398        | 3,734        | 3,253        | 3,122        | 1,414        | 1,158        | 321        | 375        | 17%             |
| Consumption Loans  | 764          | 693          | 547          | 267          | 89           | 78           | 23         | 31         | 35%             |
| Housing Loans  | 3,017        | 1,907        | 1,518        | 1,399        | 480          | 268          | 48         | 136        | 183%            |
| <b>Total</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>392</b> | <b>542</b> | <b>38%</b>      |

### Cyprus' Major Challenges and Economic Forecasts

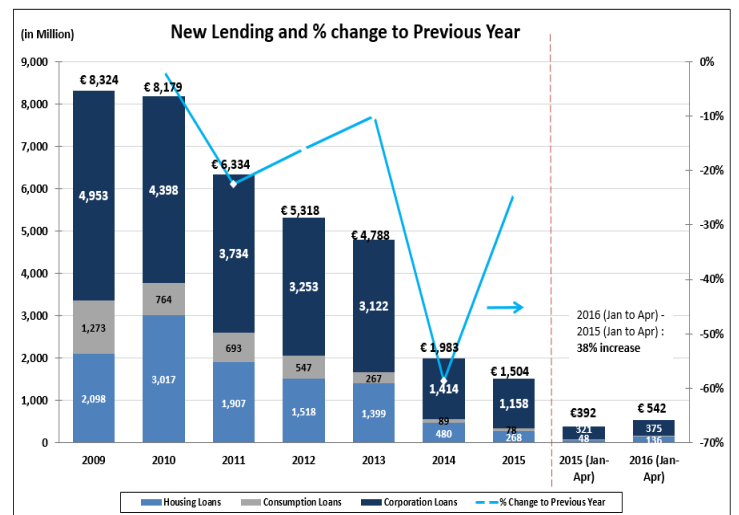
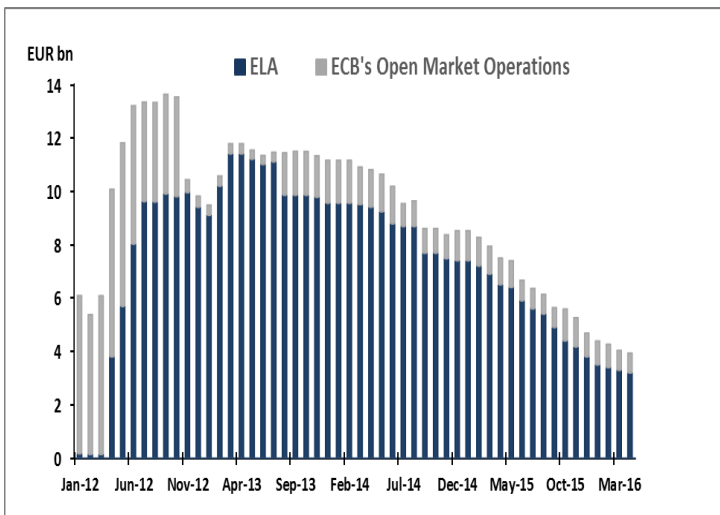
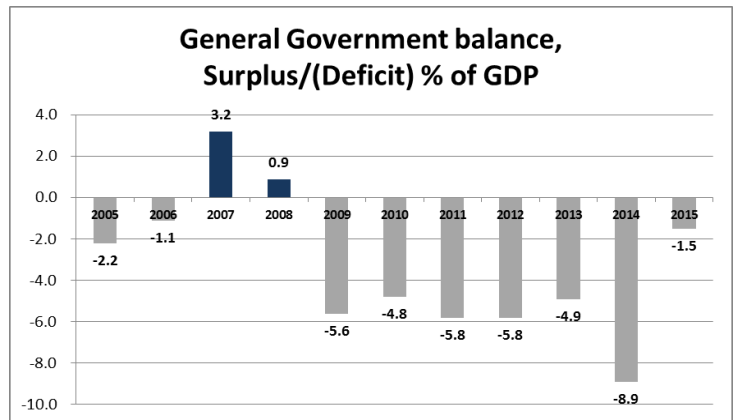
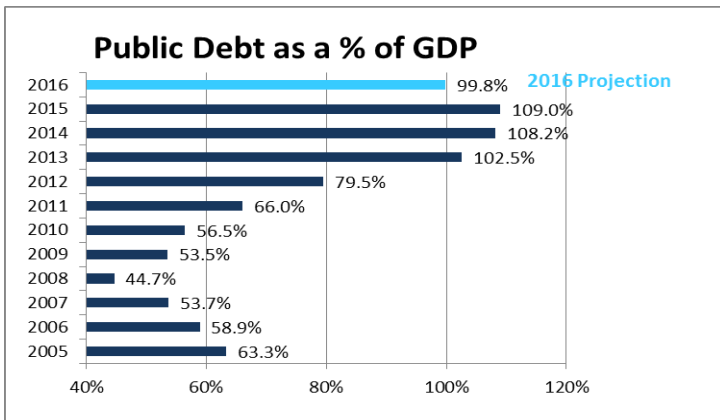
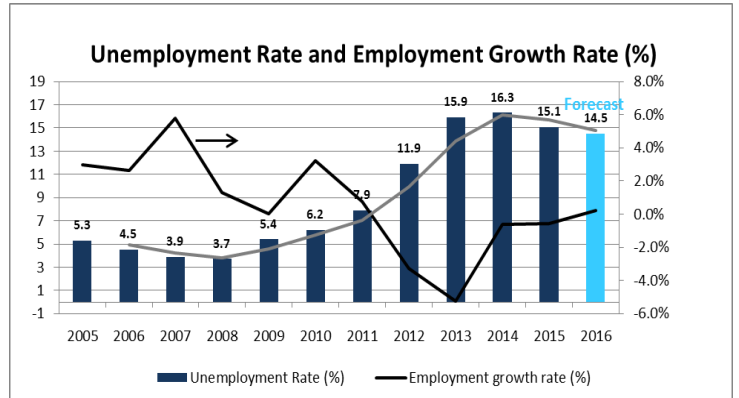
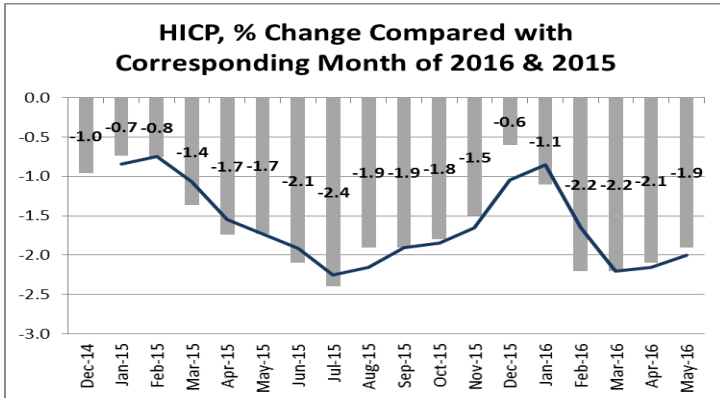
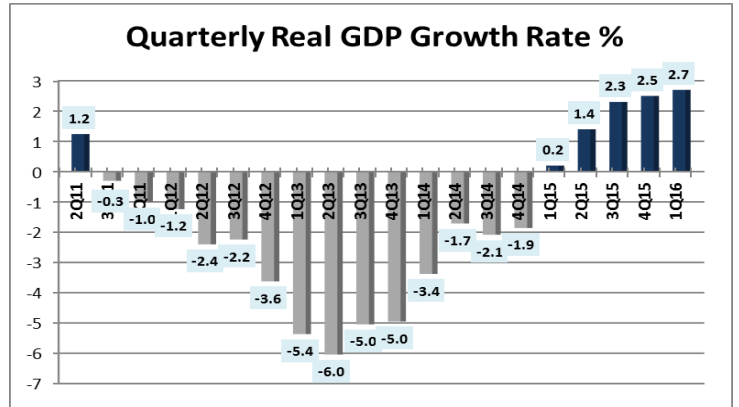
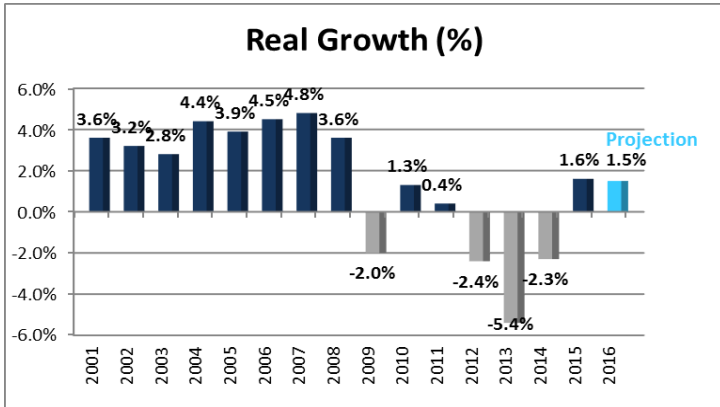
- Structural changes such as the public administration wage bill legislation (a legislation that is pending for approval by the Parliament) and the privatization of the Cyprus Telecommunications Authority (CYTA) are of utmost importance that will have a positive impact on the country's high public debt. According to the European Commission's paper (April 2016), CYTA and the Electricity Authority of Cyprus (EAC) are marked by high prices and are still relatively shielded from competition.
- Unemployment rose sharply from about 5% before the crisis to around 16% in 2013 and 2014. However, the trend reversed in 2015. Following a negative employment growth rate since 2012, employment is now growing. However, employment growth remains relatively low, and below what would be needed to absorb a significant proportion of current job-seekers.

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

|   | 2015 (Actuals)                                      | 2016 (Projections)* | 2017 (Projections)* |
|---|---|---------------------|---------------------|
| <i>Real GDP</i>                           | 1.6%  | 1.5%                | 2                   |
| <i>Consumer Prices</i>                    | -1.6%   | 0.6%                | 1.3%                |
| <i>Unemployment</i>                       | 15.7%   | 14.5%               | 13.2%               |
| <i>Debt to GDP</i>                        | 109%  | 99.8%               | 95.7%               |
| <i>General Government Balance</i>         | -1.5%<br>€ 257.5 million<br>(€ 82.5 +€ 175 million) | 0.0%                | 0.8%                |
| <i>General Government Primary Balance</i> | € 466.5 million<br>2.7%                             | 2.5%                | 3%                  |

\* IMF'S January 2016, Projections

## Appendix 1





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