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Legacy banking sector issues dominate the agenda necessitating drastic action

Key Points

- **The domestic banking sector map is redrawn as Cyprus Cooperative Bank (CCB) is liquidated**
  - **CCB's performing assets are absorbed by Hellenic Bank**
  - **CCB's NPEs under a new state-owned entity**
  - **New shareholders in Hellenic Bank to strengthen its capital base**
  - **An "ESTIA" scheme to protect the most vulnerable borrowers**
  - **Insolvency & repossession legal frameworks revamped ahead of the forthcoming 2018 European-wide stress-tests**
  - **A potential system-wide bank-run and banking crisis was averted**

- **The rating agencies ignore earlier market concerns for CCB and maintain a positive outlook:**
  - **FITCH upgrades the long-term sovereign rating of Cyprus by one notch from BB to BB+**
  - **DBRS upgrades the long-term sovereign rating of Cyprus by one notch from BB low to BB**

- **Growth momentum continues into Q1-2018, with GDP growth performance remaining at a post-Lehman peak**

- **Fiscal performance continues solid as total General Government surplus reaches +1.9% of GDP in the first five months of the year vs. +0.6% during the same period last year**

1. The year started on a solid foot: The latest GDP growth estimate for Q1-2018 - revised upwards by CYSTAT- remains at the highest point of the post-Lehman period, surpassing the most optimistic forecasts

The second and latest estimate of CYSTAT on the seasonally adjusted Q1-2018 GDP reading was revised upwards by 0.2ppts relative to the flash estimate, namely from 0.8% QoQ/3.8% YoY to 1.0% QoQ/4.0% YoY. This strong reading compares to 1.1% QoQ/4.0% YoY in Q4-2017 vs. 0.7% QoQ/3.7% YoY in Q1-2017, up from 1.3% QoQ/3.7% YoY in Q4-2016.

Real GDP growth marked the 12th consecutive positive reading on a both quarterly and annual basis after a previous three-year recession. The GDP growth rate of Q1-2018 is among the highest in EA-19 and EU-28, both on a quarterly and an annual basis (Figure2 & 3) and, for a ninth consecutive quarter in a row, above that of EA-19 (Figure 1). This output performance is the highest during the post-Lehman period, surpassing analysts' expectations and international organizations' full year initial or revised forecasts. It signals the economy has embarked on a faster growth path than previously envisaged. The Cypriot economy is likely to outperform the official forecasts.

The IMF Executive Board confirmed the mission's fact findings and its March optimistic forecasts, while stressing the urgency of dealing with NPEs and highlighting the downside risks for the medium-term outlook

The statement of the IMF Executive Board [1] on the occasion of the conclusion of the second post-program monitoring discussions with Cypriot authorities confirmed the preliminary findings of the IMF mission in late March and elaborated further on the macro-outlook of 2018-2019. The IMF Board took note of the strengthening economic recovery with upbeat activity concentrated in construction, tourism and professional services. Moreover, it now sees GDP growth inching up to 4% in 2018 and 4.2% in 2019. The brisk pace of expansion is underpinned by the ongoing construction projects and partly dented by decelerating private consumption as households step up loan repayments. In the medium term, GDP growth is projected to ease gradually towards 2.5%, as construction projects reach completion.

The IMF Board also stressed the urgency of dealing in a decisive and durable manner with the legacy issues of high private sector indebtness and high NPEs, both of which reflect a continued weak payment discipline. The IMF directors highlighted the need for banks to remain adequately capitalized and provisioned and for loans transferred to the special purpose vehicle to be restructured swiftly. They recommended amending the current framework for insolvency and foreclosure to improve payment discipline. They also emphasized that any scheme aimed at encouraging vulnerable borrowers to begin servicing their loans should be subject to tight eligibility criteria to avoid moral hazard and contain fiscal costs. Finally, the Board urged the authorities to restart macro-critical structural reforms to help diversify the economy, avoiding an excessive concentration of economic

[1] http://www.imf.org/en/News/Articles/2018/06/06/pr18221-imf-executive-board-concludes-second-post-program-monitoring-discussions-with-cyprus

activity in construction. They recommended focusing efforts on strengthening the enforcement of commercial claims and the efficiency of the courts, as well as pursuing privatization so at to attract capital into innovative sectors.

The above optimistic growth forecasts of the IMF mission represented a newer assessment as they were not present in the IMF's earlier flagship publication, namely the April World Economic Outlook (WEO). In the earlier April 2018 WEO (Table 1), the full year 2018 GDP growth was projected lower, at 3.6%, yet up from 2.6% in the October 2017 WEO and 2.3% in the April 2017 WEO. In that same April WEO, the GDP growth forecast of 2019 was even more conservative at 3.0%, contrasting sharply with the June Board forecast of 4.2%. In the same WEO publication, unemployment is forecasted to further decline from a projected 10.0% in 2018 to 9.1% in 2019. The average inflation is expected to remain subdued at 0.4% in 2018, down from 0.7% in 2017, and climb to 1.6% in 2019.

Table 1: IMF World Economic Outlook Forecasts for Cyprus

IMF WEO	2018		2019	
	April WEO Forecast	June Board Forecast	April WEO Forecast	June Board Forecast
GDP growth (%, YoY)	3.6	4.0	3.0	4.2
Consumer Prices (%, average)	0.4	0.2	1.6	1.0
Unemployment (% of Labour Force)	10.0	9.5	9.1	8.0
Current Account Deficit (% of GDP)	-4.1	-5.1	-4.6	-7.2

Source: IMF World Economic Outlook April 2018 & June 2018

In its spring 2018 forecast, the EU Commission upgraded its growth forecasts for Cyprus in 2018-2019, while stressing that risks to the outlook have widened

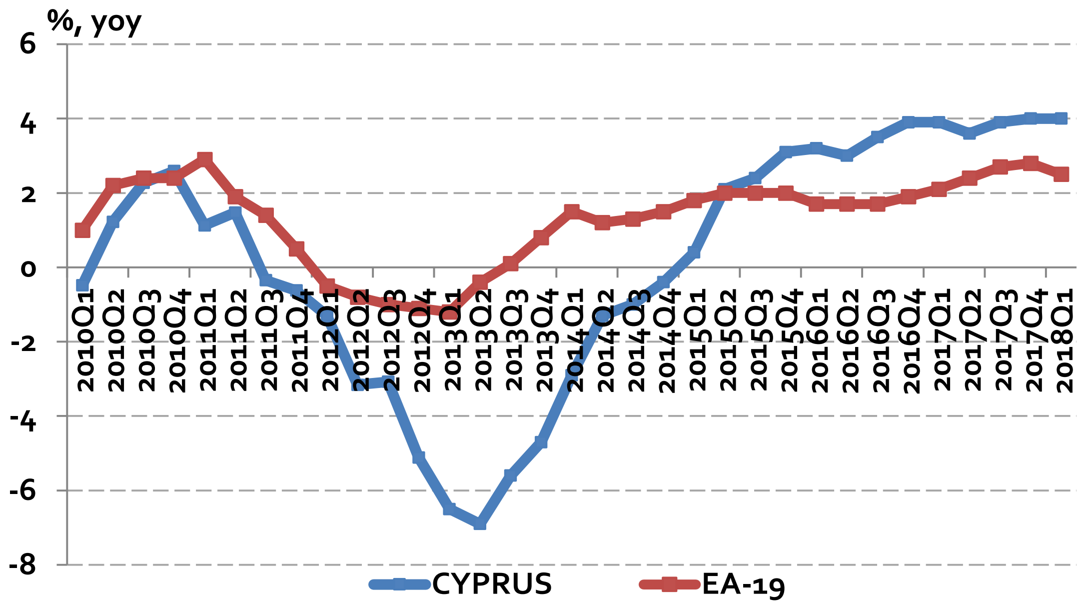
The EU Commission upgraded the GDP growth forecasts for the Cypriot economy in its Spring-forecasts published last May. The EU Commission now sees Cyprus expanding at 3.6% in 2018, up from 3.2% in the Winter-forecasts, and from only 2.9% in the Autumn-forecasts. GDP growth is now forecasted to decelerate to 3.3% in 2019 vs. 2.7-2.8% in the Autumn-Winter forecasts. The growth momentum is expected to remain strong, fueled by foreign-funded investments and solid private consumption, the latter driven by the boost in confidence and disposable incomes following the decline in unemployment. Yet, the EU Commission underlined that the risks to the outlook have widened because of the recent developments in the financial sector. Tourism, a key sector, is faced with both upside and downside risks. On the one hand, the recently expanded capacity of air-transport and accommodation has brightened the outlook of the sector, yet on the other hand the re-opening of neighbor markets has increased competition.

Table 2: EU Commission Forecasts for Cyprus

IMF WEO	2018		2019	
	Autumn/Winter Forecast	Spring Forecast	Autumn/Winter Forecast	Spring Forecast
GDP growth (%, YoY)	2.9/3.2	3.6	2.7/2.8	3.3
Consumer Prices (%, average)	1.1/1.2	0.7	1.4/1.3	1.2
Unemployment (% of Labour Force)	10.0	9.0	9.3	7.1
Current Account Deficit (% of GDP)	-6.2	-9.0	-6.8	-9.7

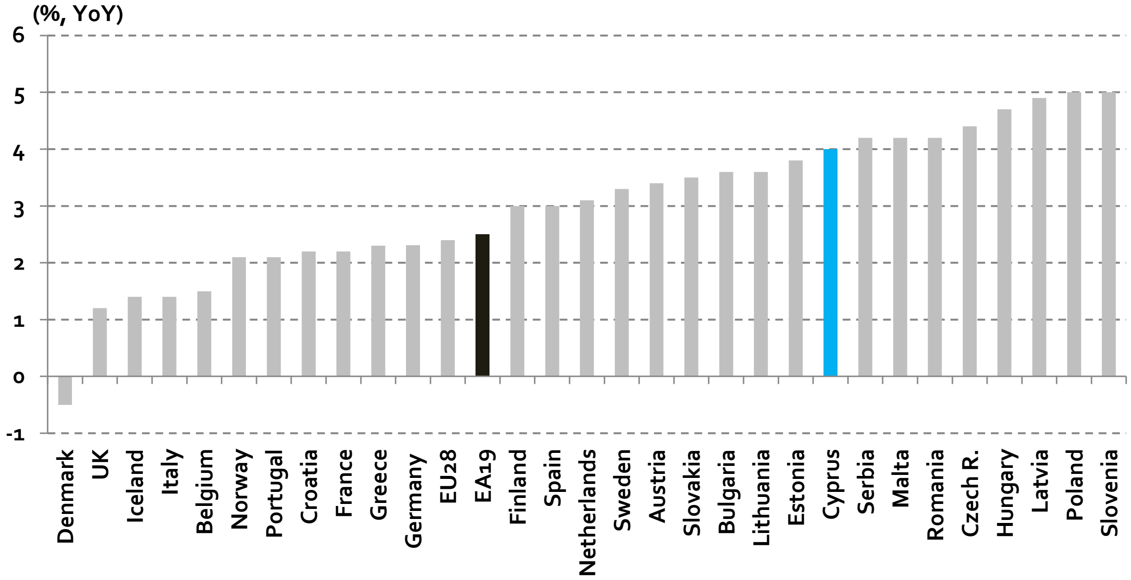
Source: EU Commission forecasts Autumn 2017-Winter 2018-Spring 2018

Figure 1: GDP growth (YoY) in Cyprus above that in EA19 since Q3-2015



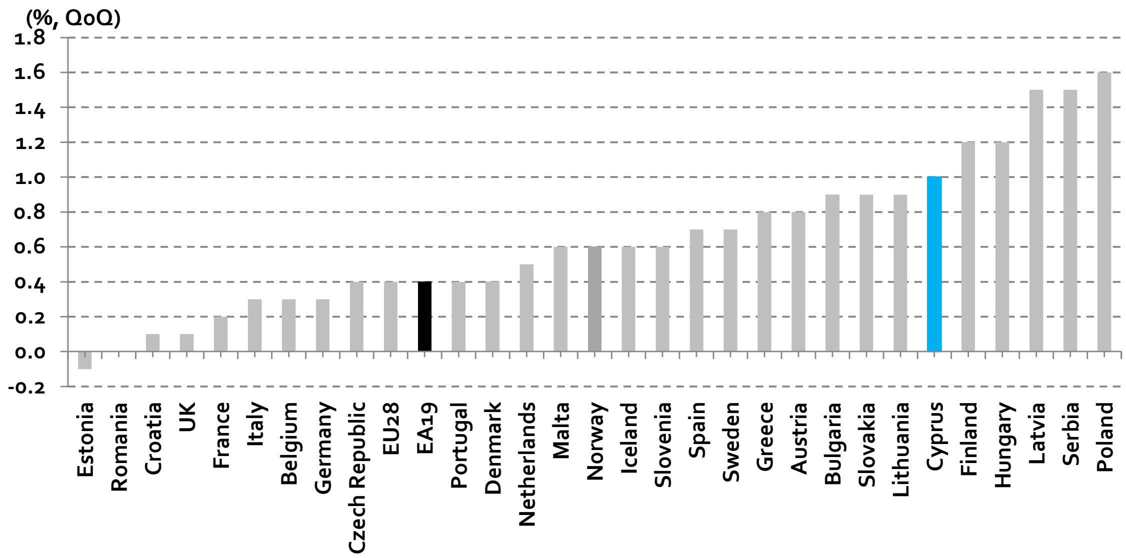
Source: Eurostat, CYSTAT, Eurobank Research

Figure 2: First Quarter GDP growth (YoY) in Cyprus among the highest in EA19 & EU28



Source: Eurostat, CYSTAT, Eurobank Research

Figure 3: Third Quarter GDP growth (QoQ) in Cyprus above EA19 & EU28



Source: Eurostat, CYSTAT, Eurobank Research

2. Net exports have a strong positive contribution in first quarter's GDP growth, taking the lead from investments

From a demand point of view, consumption was strong for yet another quarter. The consumption rebound continued into Q1-2018, making a +3.3ppts contribution to GDP growth. Final consumption expanded by 0.4% QoQ /+4.0% YoY in Q1-2018, down from +1.8% QoQ/+4.4% YoY in Q4-2017, and up from 0.0% QoQ/+3.6% YoY in Q3-2017 compared to +0.8% QoQ/+3.0% YoY in Q1-2017. The consumption rebound is underpinned by a number of factors, which all boil down to the rise of disposable incomes and the propensity to consume, namely: The strong sentiment improvement mirroring the earlier lasting progress within the programme, a flourishing tourism sector, improved labor market conditions, further property market stabilization, the impact from the fiscal relaxation and the acceleration of public consumption in Q4-2017& Q1-2018.

As far as the other growth components, there are two points to make. First, investments' performance was weaker than previous quarters. Having reached an all-time high in Q4-2017, investment spending in Q1-2018, at constant prices, was cut in half on an annual basis compared to Q1-2017 (-53.2% YoY), thereby having a significant negative contribution to GDP growth which reached -11.2 ppts. Looking deeper into the component statistics of investments, we conclude that this extraordinary outcome was mainly driven by divestments of transportation equipment, which is most probably due to sales of ships. Second, the negative investments' performance was more than offset by the net exports' positive contribution, a trend we witnessed again in Q2-2017. The contribution of net exports amounted to 12.5ppts. In Q1-2018 we actually witnessed a combined effect from both exports rising by +16.8% QoQ/+24.3% YoY, and imports remaining contained at 3.8% YoY. The hefty increase in export activity reflects a sizeable increase in the exports of goods' volume (+104.4% QoQ/+243.7% YoY). By contrast, exports of services failed to impress (-0.7% QoQ/+3.5% YoY) mainly because the tourist season had not yet kicked in.

On the supply side, GDP dynamics were shaped by the steady performance of key sectoral pillars of the economy. Output in the combined sectors of "wholesale and retail trade, transport, accommodation and food service activities," expanded by +5.5% YoY in Q1-2018, compared to +4.8% YoY in Q4-2017, and up from +5.3% YoY in Q3-2017 compared to +4.0% YoY in Q1-2017. The performance of these national accounts items reflects largely the robust private consumption dynamics and is being reinforced by the performance of the flourishing tourism industry, primarily in the summer months.

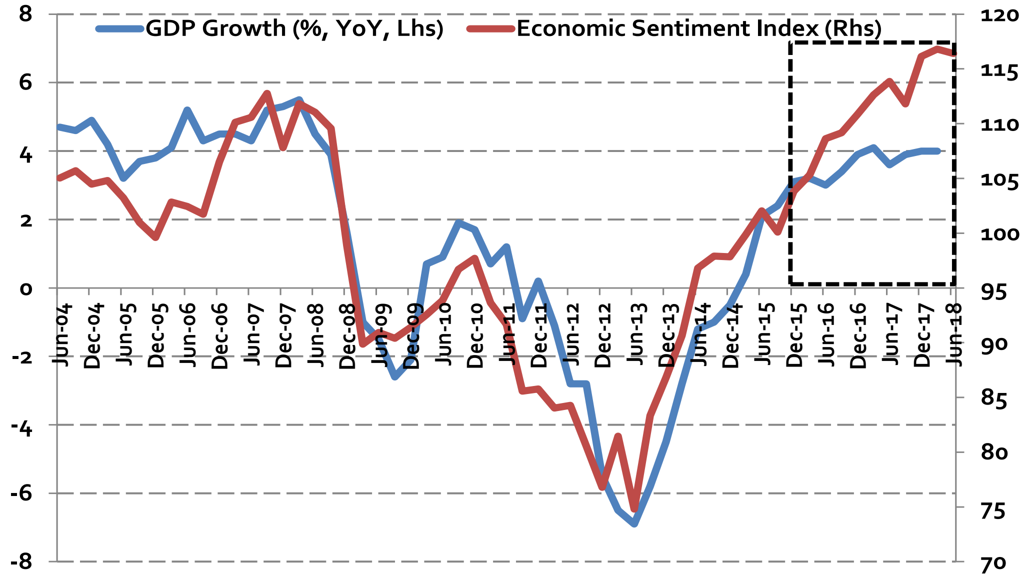
Manufacturing remained strong at 8.3% YoY in Q1-2018, down from +9.9% YoY in Q4-2017 vs. +8.7% YoY in Q3-2017 compared to +6.0% YoY in Q1-2017. In contrast, professional services slowed down to +3.5% YoY in Q3-2017 compared to +3.2% YoY in Q2-2017 vs. +3.3% YoY in Q1-2017 (down from +6.1% YoY in Q4-2016, +5.3% YoY in Q3-2016). Furthermore, construction accelerated its dynamic double-digit recovery, expanding by +16.1% YoY in Q1-2018 vs. +19.9% YoY in Q4-2017 compared to +22.6% YoY in Q3-2017 down from 35.5% YoY in Q1-2017.

Financial Services is the exception to the upward momentum: They remained a drag on economic recovery, recording negative growth for a sixth quarter in a row. Nevertheless, the pace of contraction has slowed down in the last quarters to negligible levels. Financial services contracted by -0.8% YoY in Q1-2018, -0.7% YoY in Q4-2017 compared to -0.9% YoY in Q3-2017, down in absolute terms from -2.7% YoY in Q1-2017. The negative contribution to GDP growth by the financial sector reflects largely the bank restructuring activities (debt to asset swaps), write-offs and the ongoing deleveraging.

3. Real economy indicators performed relatively well in Q2-2018, yet the deterioration of expectations and sentiment makes us cautious for the short-term prospects of economic activity

Economic activity indicators were still on an upward trend in Q2-2018. High frequency and leading indicators were performing very well. On the other hand, the sentiment slump in May-June doesn't bode well for the GDP reading of Q2 and the short-term prospects of economic activity. Economic sentiment and economic growth are highly correlated. The slump in sentiment raises a flag on growth, yet it may not necessarily signal lower growth ahead. The evolving negative case of Cyprus Cooperative Bank (CCB) of the last few months may have had an independent negative impact on sentiment, unrelated to the prospects of the economy.

Figure 4: Economic Sentiment & Economic Growth in Cyprus



Source: Eurostat, CYSTAT, Eurobank Research

More specifically:

- **Sentiment:** The ESI Index slumped in June on top of the decline recorded in May. In more detail, ESI declined further by 5.8 points to 107.8 in June, down from 113.6 in May, compared to 116.6 in April, retrenching back to the levels recorded in August 2017.

- **Retail Trade:** Retail sales, except for motor vehicles and motorcycles, expanded in volume terms by +6.5% YoY in April, bringing the year performance to April at +8.5%. Similarly, retail sales in value terms expanded by +5.2% YoY in September, bringing the year performance to May at +5.9% YoY.

- **Credit-card transactions**: The value of credit-card transactions expanded by 17.1% YoY by Cypriots and 17.4% YoY by foreigners in 5M2018 (JCC Payments Ltd).

- **Tourism:** The positive momentum in the tourism industry continued in 1H-2018. Tourist arrivals increased by +12.4% YoY in 1H-2018. The arrivals' monthly reading of June is the highest ever recorded for that month. Similarly, tourism revenues expanded by 6.9% YoY in Jan-April2018.

- **Industrial sector**: After expanding on average by 7.4% YoY Q3 & Q4-2017, industrial production on a calendar - not seasonally adjusted- terms, slowed down to 3.2% YoY in Q1-2018 and rebounded to 6.3% YoY in April. After climbing last February to its highest pre-crisis level of June 2008 – the highest since April 2013, industrial confidence gradually retreated to lower levels in the following months. As of June, industrial confidence retrenched back to levels seen in March 2016 when Cyprus exited the programme.

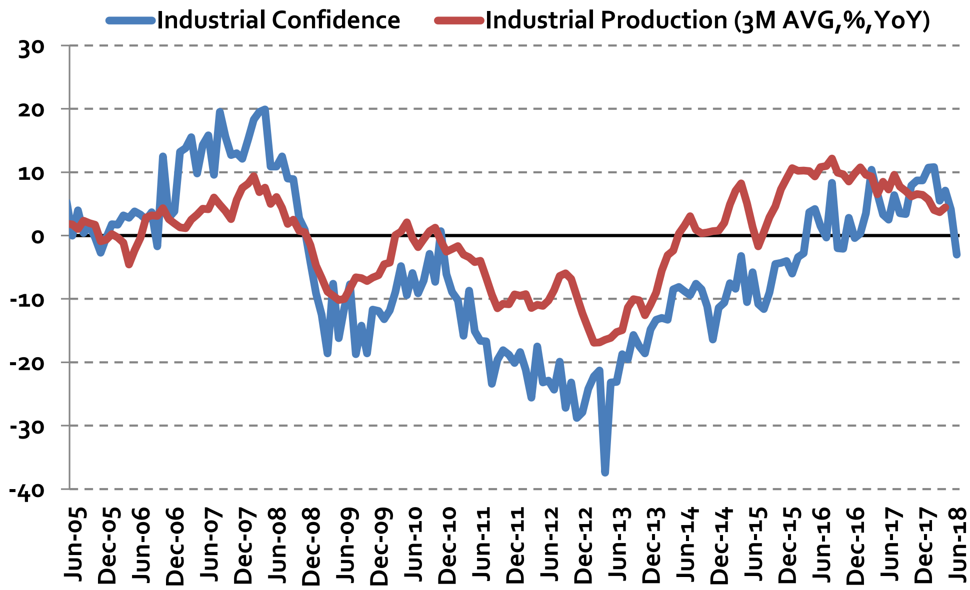
- **Labor market**: Unemployment continued its downward trend in 5M-2018, reaching new multi-month lows and converging fully to the EA19 average. The unemployment rate in seasonally adjusted terms declined further to 8.4% in May, down from 11.4% in May 2017 and from its peak of 17.0% in October 2013.

- **Deposits**: The sizeable liquidity injection- the total amount reached €2.5bn-of the Cypriot government in CCB maintained deposit growth in positive territory in April-May. From a macro-prudential point of view, the government intervention was instrumental in stabilizing depositor sentiment and securing all CCB depositors - who are primarily domestic residents - by fully guaranteeing all deposits from any theoretical risk.

- **Property-market**:
  - **Construction:** The latest building permits release predisposes for a continuation in the construction output rebound. According to CYSTAT, the total value of building permits issued in the first four months of the year increased by 27.5% YoY, while the total area of building permits rose by 24.5% YoY. During the period January – April 2018, 1,984 building permits were issued, up from 1,861 in the corresponding period of the previous year.
  - **Real estate transactions & prices:** The number of real-estate market sale contracts has risen by 30.5% YoY in 5M-2018 (from 2,767 to 3,868: Department of Lands and Surveys). Property prices were on an increasing path in Q4-2017 & Q1-2018. The Residential Property Price Index (RPPI) recorded its sixth quarterly increase and the fourth annual increase in Q4-2017 since 2009 (Central Bank of Cyprus). The House

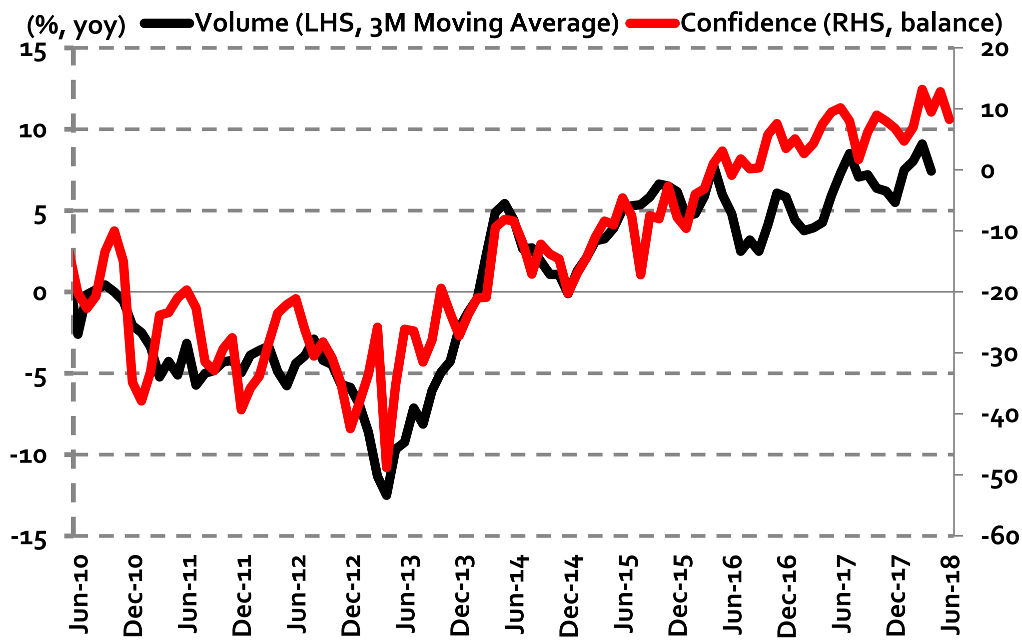
Price Index (HPI), another metric calculated and published by CYSTAT, is in positive territory since Q4-2016. The HPI expanded on an annual basis by -1.8% QoQ/+3.7% YoY in Q1-2018 up from +2.4% QoQ/+2.4% YoY in Q4-2017 compared to -3.0% QoQ/+2.4% YoY in Q1-2017. The Cypriot reading is close to that of EA-19 (+4.5% YoY).

Figure 5A: Industrial Production & Confidence in Cyprus



Source: Eurostat, CYSTAT, Eurobank Research

Figure 5B: Retail Trade & Confidence in Cyprus



Source: Eurostat, CYSTAT, Eurobank Research

4. The privatization process of Cyprus Co-operative Bank (CCB) culminates in a drastic change of the domestic banking sector map

In all previous issues of the present Monitor, we have consistently focused on the banking sector problems and the challenge of NPEs for a small economy like Cyprus. In the earlier March issue, we reiterated our view that NPEs render the domestic banking sector vulnerable to negative external shocks. An illustration of the above is the recent crisis in the Cyprus Co-operative Bank (CCB), which erupted at the time of writing of our previous report. At that time, we expressed our view that the crisis was going to be defused on the grounds of accumulated policymaking experience, a stronger fiscal position and an empowered banking system with adequate capital and liquidity compared to the 2013 dramatics events. Indeed, the events which followed - and we analyze in the following paragraphs - confirmed our earlier expressed view.

The rapidly evolving case of the Cyprus Co-operative Bank (CCB) dominated the agenda in Q2-2018 and is expected to keep our attention in the medium-term. The privatization process of CCB, initiated by the government in late March, resulted in its ultimate liquidation. The liquidation involves the acquisition of its performing assets by Hellenic Bank and the transfer of NPEs to a state-owned entity, which is set up for that purpose. On top, the Cypriot government introduced the "ESTIA" subsidy scheme to help vulnerable groups of borrowers, while the insolvency and foreclosures frameworks were further reformed for the first time since 2014-2015.

Most details of the plan are finalized, yet the case is still evolving. The execution plan in progress is subject to risks and uncertainties. Ongoing developments are of paramount importance for the future of the Cypriot economy. The CCB case is a game changer in many ways:

First, in contrast to the "Laiki" or Popular Bank case of 2013, the liquidation of CCB takes place in an orderly fashion. CCB's market exit occurs without any costs to its depositors, whether households or non-financial corporations. They are all protected. The 2016 EU bail-in principle was not implemented. Hence, no negative wealth or sentiment effects occurred, no negative impact on the economy from a loss in deposits. This is because the European authorities acknowledged that CCB's restructuring began well before EU bail-in rules (BBRD and SRMR) entered into force. As a result, CCB's liquidation process was interpreted as an exclusively Cypriot event, that is to say, it remained governed by national law and was managed by the Cypriot authorities. The local handling of liquidation also increased flexibility and ensured swift implementation.

Second, the acquisition of new assets by Hellenic Bank changes the banking map, rendering Hellenic Bank the second largest bank in Cyprus in terms of assets, deposits and employees. CCB's absorption by Hellenic Bank entails significant challenges from an operational and human resources point of view, particularly because of the large number of employees in CCB. Note that for the acquisition to take place, Hellenic Bank also has to raise new funds by attracting new shareholders. This would strengthen its capital base and will likely take the form of FDI.

Third, the CBB liquidation triggered the long-waited reform of the foreclosures and insolvency frameworks, which are expected to foster further stability and improve the long-term viability of the banking sector. Banks are now equipped with more efficient tools to handle the pressing issue of their NPEs and go after strategic defaulters. The timing is very important as well. Cypriot banks will soon go through SSM's 2018 stress testing exercise with fewer legacy problems and brighter prospects, hence requiring less capital in the end of the exercise. The value of their collaterals is now higher, mirroring their increased ability to recover value.

Last but not least, it is important to take note of the fiscal costs of the transaction. The cost of CCB's liquidation is transferred to the tax-payer, which will weigh on public debt and it's servicing. The general government gross debt is now expected to have reached 110% of GDP, up from 97.5% in 2017. Moreover, the annual cost of the ESTIA scheme will also weigh on the fiscal outcomes of the following years. The latter increases the importance of prudent budget execution and underlines the need for sound economic policies in the mid-term in order not to derail public debt dynamics. Note also that a new state-owned entity is set up to work out CCB's NPEs, which increases the management challenges. The entity's success in working out NPEs will be key to reducing the net cost for the tax payer. It ought to be run by private sector specialists in an efficient and professional manner, far away from political interventions that would induce moral hazard. This is quite probable, given the expected tight supervision of the agency by EU officials. The EU Commission approved CCB's resolution under EU state aid rules, thus the Cypriot agency will be closely monitored by an independent monitoring trustee.

4.1. Hellenic Bank announced the transaction details of the acquisition of Cyprus Cooperative Bank's (CCB) specific assets and liabilities

On June 29, 2018, Hellenic Bank – up to that point the third largest bank in Cyprus - announced it signed with the Cyprus Cooperative Bank (CCB) a business transfer agreement, allowing it to acquire CCB's performing assets. It also announced a capital subscription agreement with Bravo Strategies III, a specialized fund owned by PIMCO. More specifically, the Hellenic Bank will acquire specific assets and liabilities of CCB's balance sheet. The total assets' perimeter, that is, the value of total assets prior to fair value adjustments, amounts to €10.3bn, comprising c. €4.6bn net loans (of which c. €4.1bn net performing loans), c. €4.1bn face value of Cypriot government bonds and €1.6bn in cash. The liabilities' side consists primarily of customer deposits (€9.7bn).

The acquired performing loan portfolio consists of 45% mortgage loans, 33% consumer loans, 15% business loans and 7% public- sector loans. On top, Hellenic Bank also acquired €0.5bn in non-performing loans. Under the terms of the acquisition, CCB will provide an asset protection scheme, which will be counter-guaranteed by the Cypriot government. The insurance is against probable impairments in the future and involves the acquired €0.5bn in non-performing loans plus up to €2.1bn of high-risk performing loans. Subsequently, Hellenic Bank will pay €74mn for the assets' perimeter. The assessed net asset value of this perimeter is €247mn, hence it has a P/NAV multiple of 0.30x.

According to Hellenic Bank's statement, Hellenic Bank will raise €150mn in new equity at a subscription price of €0.70 per share, with €100mn "via a pre-emptive rights issue" and another €50mn via a private placement by the PIMCO fund, on the condition of prior shareholders' approval at an extraordinary meeting. The deal with PIMCO can be cancelled by PIMCO if any of the parties is placed under sanctions or if Cyprus loses access to international markets. The acquisition will render Hellenic Bank the second largest bank in Cyprus with a combined market share of 22% in total performing loans and 32% in customer deposits. At the same time, it will remove a total of close to €6bn in NPEs from the domestic banking sector balance sheet, resulting in an orderly exit of CCB from the market.

Observe the resolution of CCB's NPEs - worth a bit less than €6bn - would now come under the responsibility of the Cypriot government, which will establish a separate entity for that purpose. As a result, once the transaction is completed, the NPE ratio of the banking system is expected to decline to 37% from 43% at the end of March 2018. On the other hand, this would potentially increase public debt in the future by the amount of money not recovered from those NPEs. The above Cypriot government measures, aimed at facilitating the liquidation of CCB under domestic national law, were not performed in isolation. They were previously pre-approved by the European Commission.

4.2. The cabinet of Ministers approved the "ESTIA" scheme aiming at reducing the high NPEs volume in the Cypriot banking sector, by supporting the most vulnerable borrowers

On July 3rd, the cabinet of Ministers approved the "ESTIA" scheme and the Ministry of Finance proposal to set up a NPLs management entity. The "ESTIA" scheme aims at reducing the high NPEs volume in the Cypriot banking sector while supporting the most vulnerable borrowers.

The "ESTIA" scheme foresees a subsidy approximately equal to a third of the monthly installment, after the restructuring of the eligible borrowers' loans. In order for borrowers to be eligible, they must have an annual family income of less than €50,000 and total assets that do not exceed 125% of the mortgage value. The scheme provides for a specific pre-determined loan restructuring process, which includes a readjustment of the loan outstanding balance to the value of the mortgage, an adjustment of interest rates between 2.5%-3.5% and an extension of several years for repayment. The scheme will also cover business loans secured by borrower`s primary residence. According to preliminary estimations, around 15,000 borrowers will be eligible for the scheme. The funding will be included in the government budget of 2019. The project is expected to cost around €815mn cumulatively for the next 25 years. Finally, the scheme will be managed by the Cyprus Land Development Corporation.

4.3. Parliament amends the insolvency and foreclosures framework

The insolvency and foreclosures frameworks – which were first introduced during the program period - proved inadequate in helping banks address the high volume of NPEs. Use of the existing insolvency and foreclosures frameworks has been limited. The sale of foreclosed assets has been poor while eligible borrowers lack interest in using the insolvency framework. Hence, the amendments had specific targets: (i) to improve the sustainability of loan obligations by encouraging their restructuring; (ii) to create an efficient secondary market of loan sales; (iii) to ease the possibility of forced sales as a credible threat to strategic defaulters; (iv) to initiate the use of electronic auctions; (v) to minimize the delays in loan transfers; and of course, (vi) to protect the vulnerable citizens.

Some of the specific measures in the law are the following:

- The securitization framework of NPEs is legally established. The securitization allows the transfer of the loans to special purpose vehicles, which can issue bonds and stocks to buy them from the banks.
- The direct sale of NPEs to investors is made easier by allowing investors/buyers to have easy access to the original loan agreement and to borrowers' collateral. Prior to a loan sale, the bank can use the borrower's deposits to reduce the size of the loan obligation.
- The foreclosures framework becomes stricter and more efficient: A house with market value higher than 350 thousand euro is no longer protected from liquidation even when it is the primary residence of the borrower. The owner of collateral can no longer thwart its liquidation by submitting an application to the courts. Only the courts themselves have this prerogative. Electronic auctions of collateral are possible. A collateral supporting multiple loans can be legally partitioned into pieces supporting each loan separately.
- The insolvency framework is upgraded. Only sustainable loans are included. Individuals with loans up to 500 thousand can make use of the framework.

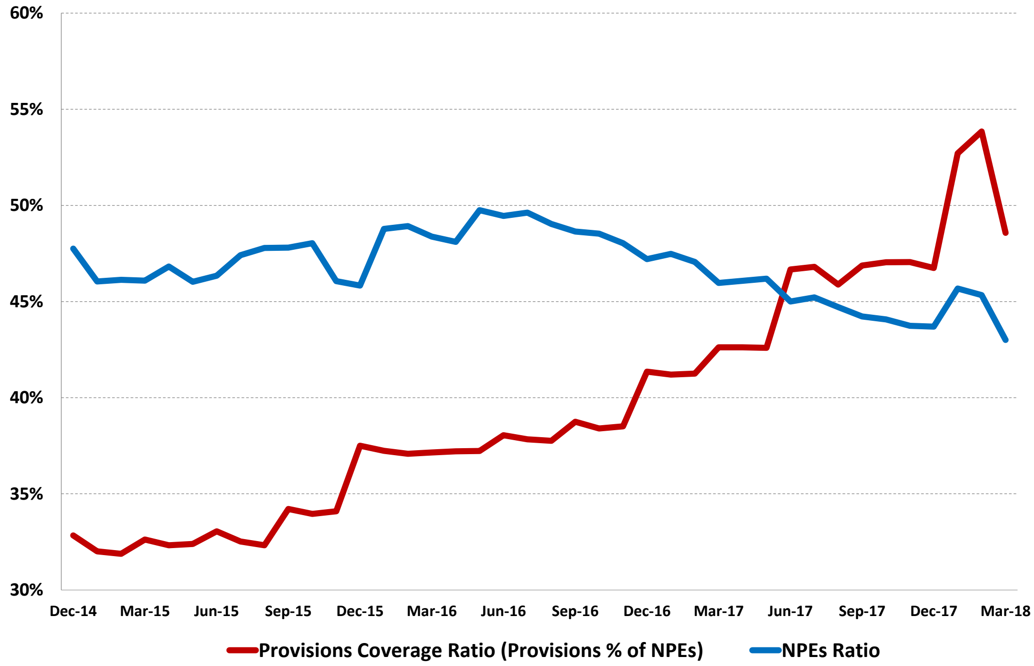
4.4. The stock of NPEs declined by €2.1bn in March bringing the NPEs ratio down to 43%

According to data released by the Central Bank of Cyprus, the stock of non-performing exposures (NPEs) declined by €2.1bn in March relative to February, bringing the stock of NPEs down by 27.1% over the period from December 2014 to March 2018. The decline in NPEs reflects three main factors: (i) increased repayments, (ii) the migration of successful restructurings to performing loans after the completion of the observance period, and (iii) write-offs and settlements through immovable property exchange.

Deleveraging of the banking sector continues. Total loan exposures (performing plus non-performing) decreased by €2.2bn from €48,512mn in February 2018 to €46,332mn in March 2018, which is a slightly larger drop than the decrease in their non-performing component alone.

Despite the deleveraging, the ratio of NPEs (non-performing to total exposures) declined a bit, from 45.3% in February 2018 to 43.0% in March 2018, compared to 43.7% in December 2017, 47.2% in December 2016, 45.8% in December 2015 and 47.8% in December 2014. Recall that according to the EBA conservative definition, a restructured NPE is still classified as an NPE for a probation period of at least 12 months, even if it is properly serviced without incurring new arrears. As a result, a large fraction of the restructured loans are still classified as NPEs (€8.3bn out of €11.4bn in March 2018).

Figure 6: Banking sector Provisions Coverage & NPE ratio



Source: Central Bank of Cyprus, Eurobank Research

NPEs remain the elephant in the room, as we have consistently highlighted in all our previous reports. This is so despite the intense restructuring effort of the banks and the continuing decline in the stock of bad loans. Recall that according to the European Banking Authority (EBA) conservative definition, a restructured NPL is still classified as an NPE for a probation period of at least 12 months, even if it is properly serviced without incurring new arrears. As a result, the NPE ratio is even higher and remains extremely high in the case of Cyprus. As of December2017, the ratio in Cyprus is the second highest in the Euro Area behind Greece. It is important to note that the stock of NPEs is a lot larger when measured relative to the size of the economy. As of March 2018, the NPEs as a percentage of projected 2018 GDP stood at 98% - below the 100% threshold - compared to 107.1% in December 2017- down from 130.7% in December 2016, compared to 150.3% in December 2015 and 154.7% in December 2014.

5. **Rating agencies ignore market concerns for CCB, maintaining a positive outlook for the country. FITCH and DBRS were the last to upgrade the long-term sovereign rating of Cyprus.**

On April 20th, FITCH upgraded the long-term sovereign rating of Cyprus by one notch from BB to BB+ maintaining a positive outlook. The rating agency cited the improvement in terms of external financing flexibility following the country's exit from the economic adjustment program in March 2016, which is evidenced in both the government's ability to tap international bond markets and the large FDI inflows in the construction, tourism, energy and education sectors.
FITCH currently forecasts real GDP growth to remain robust in the coming years and average 3.4% in 2018-19, supported by a dynamic tourism sector and buoyant construction activity. Finally, the agency took note of the recent developments in Cyprus Co-operative Bank (CCB), identified the weakness of the banking sector as a risk to public finances and linked future positive or negative developments in addressing asset quality concerns as key drivers for future rating actions.

On May 25th, DBRS upgraded the long-term sovereign rating of Cyprus by one notch from BB (Low) to BB with a positive outlook (they call it "trend"). The rating agency cited the decline in the banking system NPLs and the better-than expected fiscal performance. The stock of corporate NPLs declined by 36% in the Apr2015-Dec2017 period and the stock of household NPLs declined by 16% in the Feb2015-Dec2017, bringing the NPLs ratio of the banking system down to 42.5% of total loans in December 2017, compared to the 49.0% peak in May 2016.

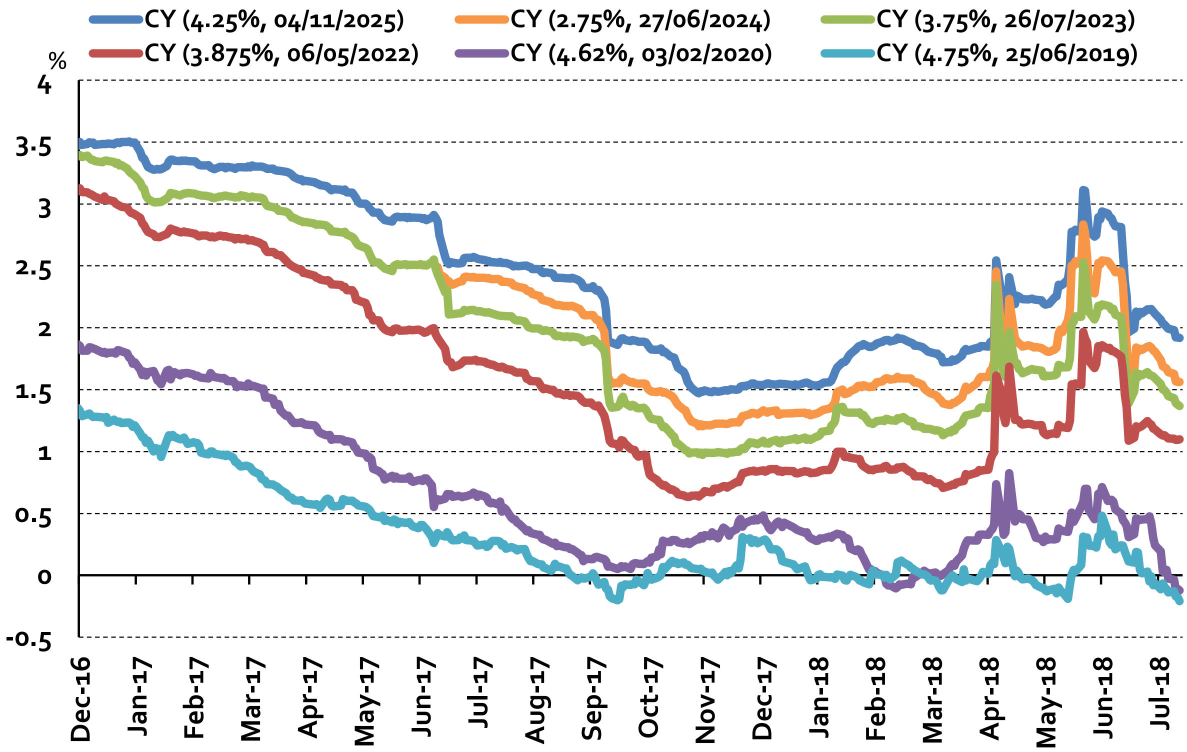
Despite their decline, the agency cited the NPLs as the main risk to financial stability and a major rating challenge for Cyprus. DBRS currently forecasts real GDP growth to remain robust in the coming years and average 4.0% in 2018-19, driven by important investment projects, exports, and consumption. So far, growth has been broad-based, with tourism, shipping, professional services, manufacturing, and construction all making a contribution. Meanwhile, fiscal performance is expected to remain positive so that the government budget will maintain a healthy surplus above 1.5% of GDP over the next four years, supported by strong revenues and contained expenditure.

Earlier, on March 17, 2018, S&P affirmed the long-term sovereign rating of Cyprus at BB+ with a positive outlook. According to S&P, the positive outlook reflects an expectation the agency could raise the ratings on Cyprus over the next 12 months if it were to observe greater momentum in reducing the country's vulnerabilities, particularly those related to the banking sector and the high indebtedness of the private sector, and as long as economic growth continues to support a general government debt reduction. The agency currently forecasts GDP growth to average 2.8% in 2018-2021, supported by investment activity and service exports, while private consumption decelerates as households increase debt servicing. It is worthwhile pointing out that S&P was the first rating agency to downgrade Cyprus to junk status in January 2012.

During the past year, all rating agencies acknowledged the improvement of Cyprus macroeconomic fundamentals. All major rating agencies upgraded their long-term sovereign rating of Cyprus, awarding at least one notch in their respective rankings. Two of them, FITCH and DBRS awarded a one notch upgrade so far in 2018 as well. More importantly, all of them seem to ignore the market concerns throughout the procedure of the privatization / liquidation of CCB. Following CCB's resolution, they all have assigned a positive outlook on the long-term sovereign rating, which implies there is high probability of further upgrades in the near future. A new round of reviews by the rating agencies is expected by S&P (September 14), Fitch (October 19), Moody's (July 27), and DBRS (November 23).

Following the last round of assessments, there still remains a slight divergence of views between the rating agencies on the sovereign rating of Cyprus (Table 3). The distance from government bond investment grade status is one notch for S&P (currently at BB+, last upgrade in mid-March 2017) and for Fitch (currently at BB+, last upgrade in late April this year), two notches for DBRS (currently at BB, last upgrade in late May this year) and three notches for Moody's (currently at Ba3). The lack of investment grade status prevents Cyprus from qualifying to join ECB's Quantitative Easing (QE) program. Earlier, when Cyprus was still in a Program, an ECB waiver allowed participation in QE. The Program and the waiver no longer exist.

Figure 7A: Annualized Yields to Maturity of outstanding Cypriot Government Bonds



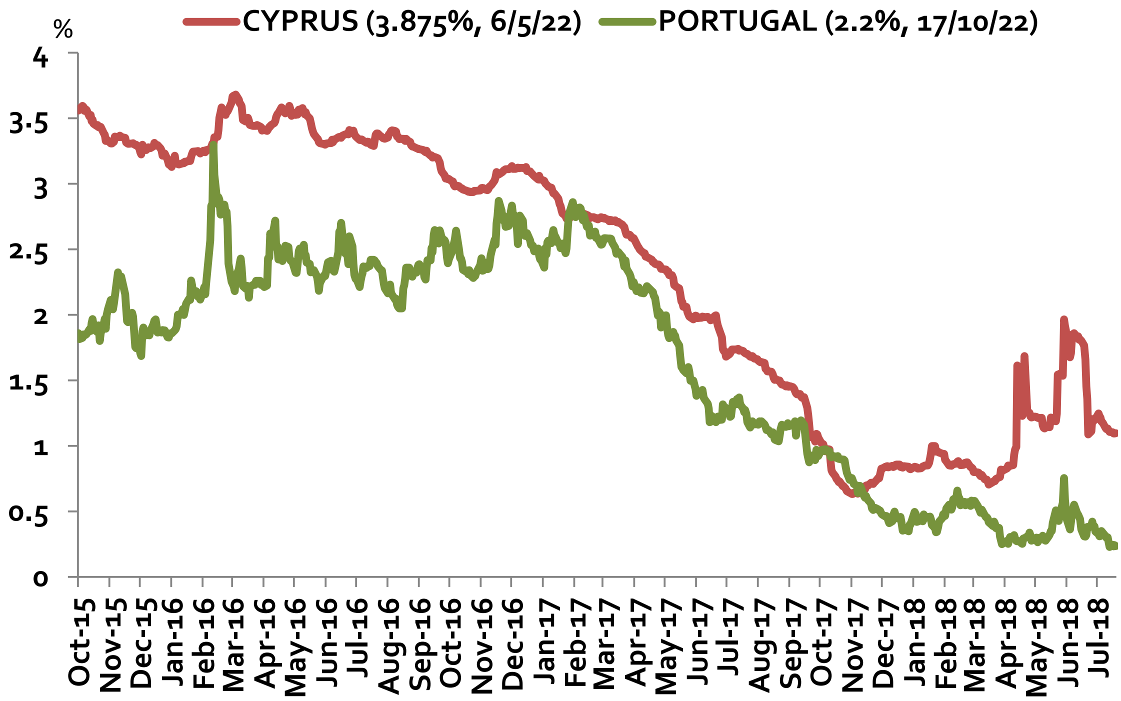
Source: Bloomberg, Eurobank Research

Note: The maturity of each bond declines as we move from left to right on the diagram. The first observation is on December 15, 2016 and the last observation is on July 19, 2018. On that date, the longest 04/11/2025 bond had a maturity of 7 & 1/4 years. At the other end, the shortest 25/06/2019 bond had a maturity of 11 months.

Despite not participating in ECB's QE, the medium-term Cypriot bond yields were on a declining trend since March 2016, which was interrupted for six months by market fears for the CCB resolution. Yet upon the parliamentary approval of the state guarantees for the asset protection scheme attached to the CCB assets acquired by of Hellenic Bank and the revamping of the foreclosure and repossession frameworks in early to mid-July, government yields declined sharply (Figures 7A-7B).

Overall, Cyprus still enjoys uninterrupted access to international capital markets. In late June 2017, Cyprus tapped international markets with a new 7Y-Eurobond for the second time after exiting from the Economic Adjustment Programme in March 2016. It was issued at the lowest cost ever achieved in a benchmark bond issuance.

Figure 7B: Annualized Yields to Maturity of Government Bonds maturing in 2022: Cyprus vs. Portugal



Source: Bloomberg, Eurobank Research
Note: The Cypriot bond matures in May 2022 and the Portuguese about six months later, in October 2022.

Table 3

Foreign Currency Long Term Sovereign Ratings of Cyprus

Moody's	S&P	Fitch	DBRS	Rating Description
Aaa	AAA	AAA	AAA	Prime
Aa1	AA+	AA+	AA High	High Grade
Aa2	AA	AA	AA	
Aa3	AA-	AA-	AA Low	
A1	A+	A+	A High	Upper Medium Grade
A2	A	A	A	
A3	A-	A-	A Low	
Baa1	BBB+	BBB+	BBB High	Lower Medium Grade
Baa2	BBB	BBB	BBB	
Baa3	BBB-	BBB-	BBB Low	
Ba1	BB+	BB+	BB High	Non-Investment Grade
Ba2	BB	BB	BB	
Ba3	BB-	BB-	BB Low	
B1	B+	B+	B High	
B2	B	B	B	
B3	B-	B-	B Low	
Caa1	CCC+	CCC+	CCC High	
Caa2	CCC	CCC	CCC	
Caa3	CCC-	CCC-	CCC Low	
Ca	CC	CC	CC High	
			CC	
			CC Low	
	C	C	C High	
			C	
			C Low	
C	SD	DDD	D	Default
C	D	DD		
C	D	D		

Source: Rating Agencies
(Upgrade within the last review is marked with green color. Affirmation is marked with grey color)

6. Interpreting the latest Cypriot Economic News (March-June 2018)

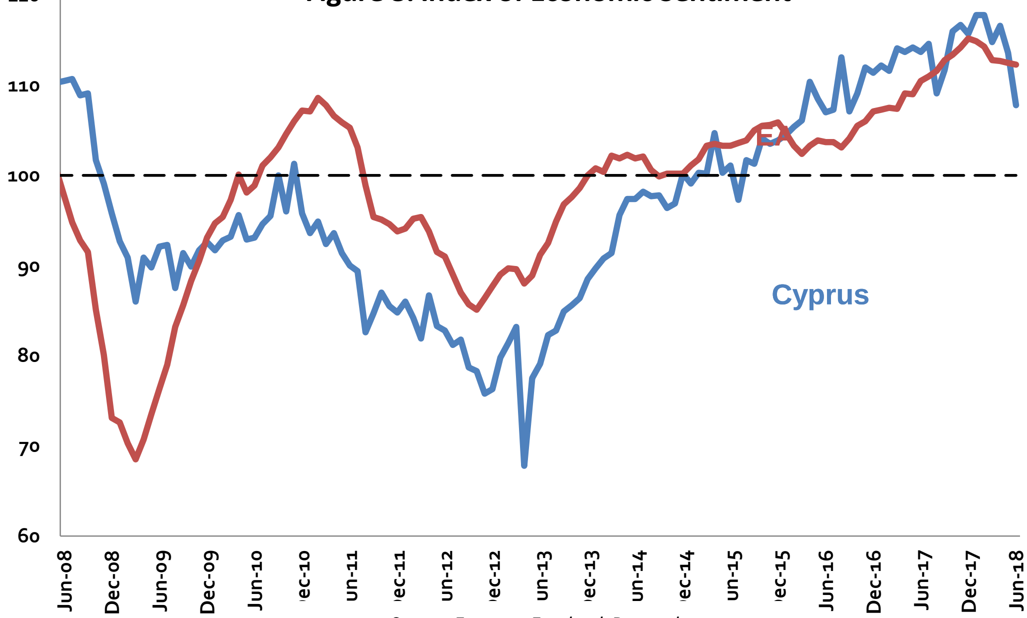
High-frequency indicators performed relatively well in Q2 with an economic sentiment slump the visible exception to the overall picture

Economic Sentiment Index (ESI Index)
Confidence slumps in June, retrenching back to levels recorded in August 2017

The ESI Index slumped in June on top of the decline recorded in May. In more detail, ESI declined further by 5.8 points to 107.8 in June, down from 113.6 in May, compared to 116.6 in April, retrenching back to the levels recorded in August 2017. The deterioration of expectations was broad based among all components. The more pronounced deterioration in expectations came from the services and industry components, which contracted by 16.3 and 6 points respectively. Consumer sentiment, retail and construction declined by 5.5, 3.8 and 1.4 points respectively.

Despite the decline, the ESI index still stands at a relatively high level. The ESI index had reached a new pre-Lehman Brothers period peak in January-February 2018 at 117.8 (the previous pre-Lehman period peak stood at 117.3, which was recorded in August 2007). The decline obviously doesn't bode well for the GDP growth reading of Q2. Yet, we remain cautious in interpreting the ESI reading as a leading indicator of a more pronounced slowdown for the short-term economic activity prospects given that in August2017 we had witnessed a decline of similar size. Summing up, the ESI Index stands above its long-term average. The improvement recorded in the past four years – a total of 40.3 points since the crisis period in April 2013 - is still the highest among all countries in EU-28 over the same sample period. Sentiment improvement has been one of the key drivers of the consumption rebound, which feeds into output growth.

Figure 8: Index of Economic Sentiment



Source: Eurostat, Eurobank Research

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Consumer prices (HICP)

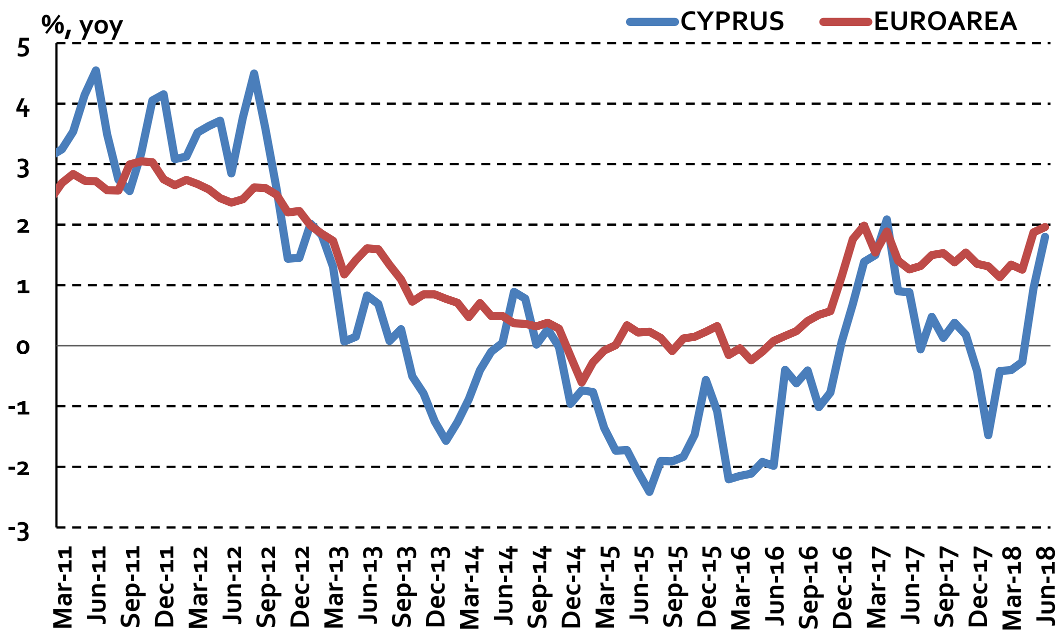
After a temporary disinflation break in late 2017-early 2018, inflation reemerged in Q2-2018

Consumer prices, measured by HICP, re-entered in positive territory in May 2018 and according to Eurostat's initial estimates climbed further in June 2018. Having jumped to a multi month high at +1.0% MoM/+2.1% YoY in April2017, compared to only +0.3% MoM/+0.1% YoY in December2016, HICP dived again in negative territory in late 2017-early 2018. After a five month disinflation break between December 2017 – April 2018, HICP came at +1.4% MoM/+1.0% YoY in May2018, up from +1.1% MoM/-0.3% YoY in April 2018, compared to +0.9% MoM/-0.4% YoY in March 2018, +1.2% MoM/-0.4% YoY in February2018 and -1.9% MoM/-1.5% YoY in January2018.

The biggest increases on an annual basis was observed in the categories of "*Transportation*" (-0.8% MoM/+3.4% YoY in May vs. +2.4% MoM/-0.5% YoY in April). The category of "*Utilities*" recorded the third highest annual increase (+1.1% MoM/+1.5% YoY in May vs. +0.8% MoM/-0.8% YoY in April). The rise in both categories is driven by the spike in world energy prices while the rise in "utilities" reflects also the subsequent increase in the local electricity tariffs by the state-owned energy company. "*Restaurants & Hotels*" was the category with the sharpest monthly increase and the second highest annual increase (-6.3% MoM/+1.3% YoY in November vs. -4.8% MoM/+3.1% YoY in October compared to-2.8% MoM/+3.6% YoY in September vs. +2.4% MoM/+3.1% YoY in August). The increase in "restaurants & hotels" most probably reflects the beginning of the increased demand for catering and accommodation services during high-season.

As of May, the rise of energy prices and prices of services accounted for 0.4ppts and 0.8ppts of HICP inflation respectively, the volatile food (fruit and vegetables) another 0.2ppts while non-energy industrial goods subtracted 0.3 ppts from the headline respectively. Having emerged out of a four year deflation, the average annual HICP climbed to 0.7% YoY in 2017 up from -1.2% YoY in the 2016, -1.4% YoY in 2015 and -0.7% YoY in 2014. However, it temporarily declined again to -0.8% YoY in Q1-2018 only to rebound to 0.8% YoY in Q2-2018 (accounting for the Eurostat estimate of June 2018 at 1.8% YoY).

Figure 9: HICP in Cyprus vs. EA-19



Source: Eurostat, Eurobank Research

Deposits & Loans

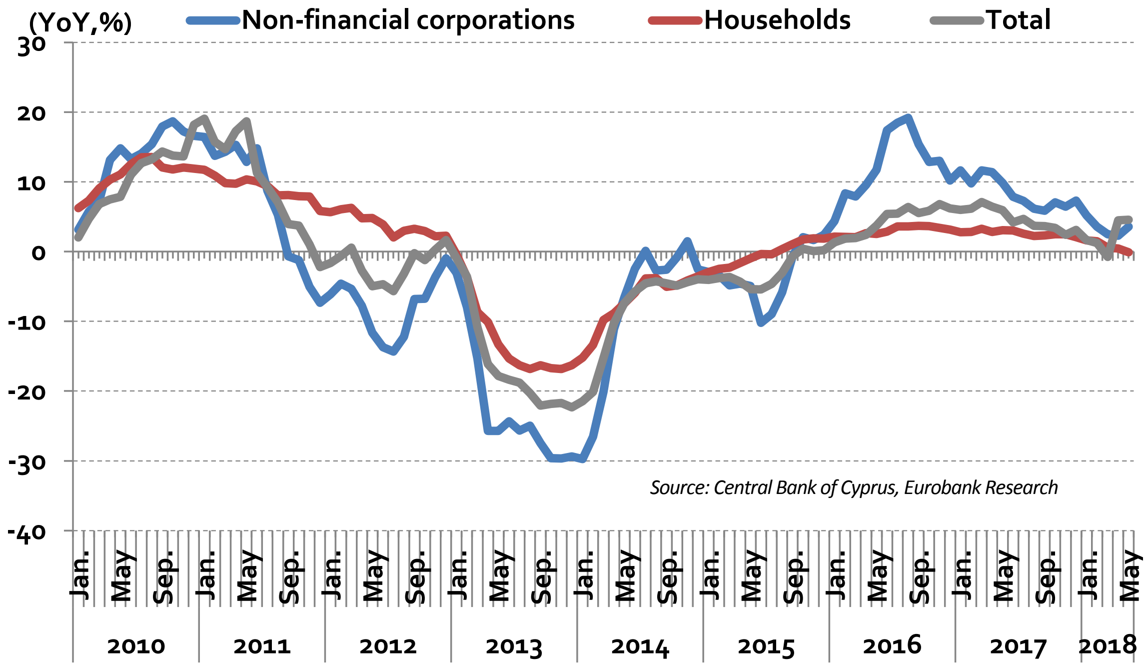
The Cypriot government's recent deposit in CCB provides a strong boost to the stock of banking sector deposits in April-May2018

The Central Bank of Cyprus published on June 27th the Monetary and Financial Statistics (MFS) of May.[2] From a flow point of view, total deposits recorded a net increase of €201.2mn in May on top of a net substantial increase of €2,386.4mn in April, up from a substantial net decrease of €642.9 in March and €553.3 in January, plus a net decrease of €29.2mn in February. The substantial increase of April can be attributed to the deposit placed by the Cypriot government to CCB equal to €2.5bn.

The annual rate of expansion in deposits - which has been in positive territory since October2015 with the exception of only one month in March2018 – climbed to 4.6% YoY in May up from 4.5% YoY in April, -0.8% YoY in March, 3.1% YoY in Dec2017, compared to 6.2% YoY in Dec2016 and only 0.2% YoY in Dec2015. Total deposits stood at €50.9bn in May compared to €50.5bn in April vs. €48.0bn in March, €48.7bn in February, €48.6bn in January and €49.4bn in December 2017, compared to €49.0bn in December 2016 and €45.97bn in December 2015.[3]

Total loans in May exhibited a net decrease of €66.8mn, on top of a net decrease of €100.0mn in April and €155.7mn in March. The annual growth rate of contraction narrowed to -1.8% YoY in May compared to -2.0% YoY in April, -2.0% YoY in March, compared to -1.7% YoY in December 2017 and -10.7% YoY in December 2016. A substantial part of these repayments concern previous transfers of loans from non-resident MFIs and are not related to the domestic economic activity. The outstanding amount of loans reached €48.8bn in May down from €48.6bn in April and €48.7bn in March compared to €51.4bn in December 2017 and €55.3bn in December 2016.

Figure 10: Annual growth of deposits



[2] https://www.centralbank.cy/images/media/xls/2ndMFSJune2018eng.xls
[3] The Central Bank is using ECB methodology to calculate the annual growth with a special formula taking into account the monthly transactions

Residential Property Price Index (RPPI)-Q4-2017

The RPPI Index recorded in Q4-2017 the fourth increase on an annual basis since 2010

The Central Bank of Cyprus published in mid-April the residential property price index (RPPI) for Q4-2017. On a quarterly basis, the RPPI increased by +0.4% QoQ, recording the sixth consecutive quarterly rise since 2009, unchanged vs. Q3-2017, +0.5% QoQ in Q2-2017, compared to +0.3% QoQ in Q1-2017. The quarterly rise reflects the combined effect of an increase in both flat apartments and house prices by +0.9% QoQ and +0.2% QoQ respectively. On an annual basis, the RPPI recorded the fourth increase since Q1-2010. The RPPI Index expanded by +1.5% YoY in Q4, showing the second such increase since 2008 (Figure 10B). This was up from +1.4% YoY in Q3-2017, +1.1% YoY in Q2-2017, +0.2% YoY in Q1-2017 up from -0.9% YoY in Q4-2016, -1.3% YoY in Q3-2016 compared to -1.7% YoY in Q2-2016, -1.6% YoY in Q1-2016, and smaller in absolute terms than -1.8% YoY in Q4-2015, -3.7% YoY in Q3-2015 and -5.0% YoY in Q2-2015.

Overall, the RPPI trajectory in the past quarters, in combination with other high frequency data from the construction industry hint towards further recovery of the real estate sector. Having expanded with double digits throughout 2017, construction output still increased by 5.1% YoY in Q1-2018, notwithstanding the outstanding performance in Q1-2017 (+45.5% YoY) that had a negative base effects impact on the first quarter's reading.

Figure 11A: RPPI Index (2010Q1=100)

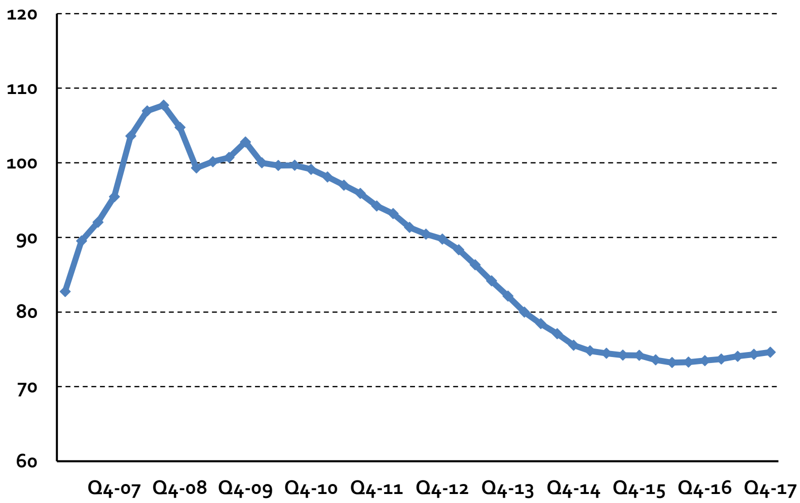
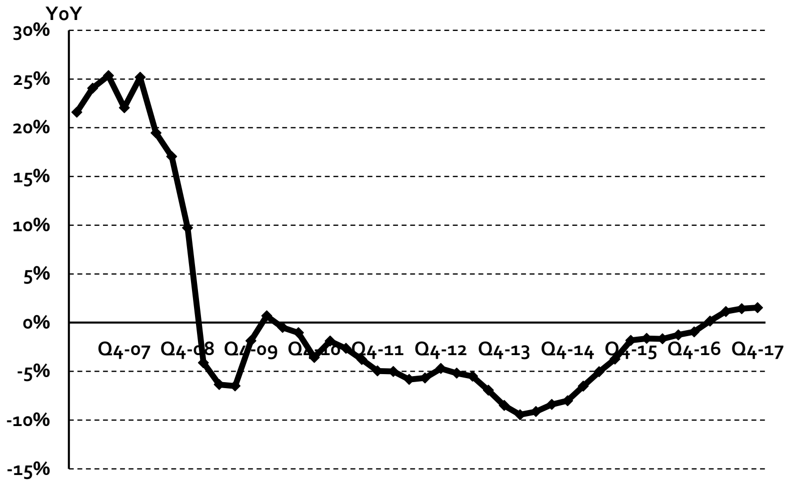


Figure 11B: RPPI Index (%, YoY)



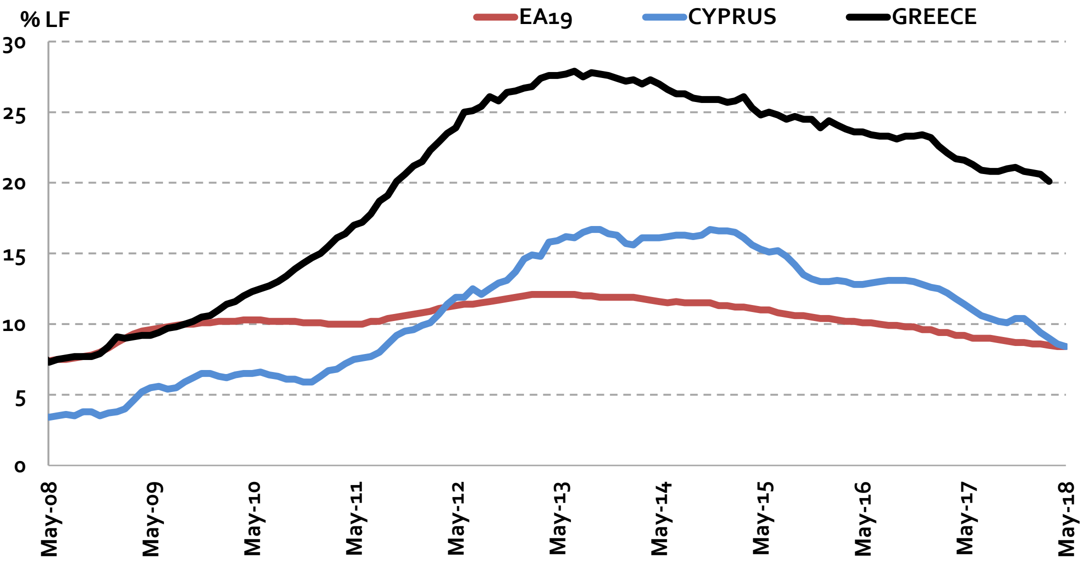
Source: Central Bank of Cyprus, Eurobank Research

Unemployment

Unemployment reaches new multi-month lows in Q2-2018, converging to the EA19 average

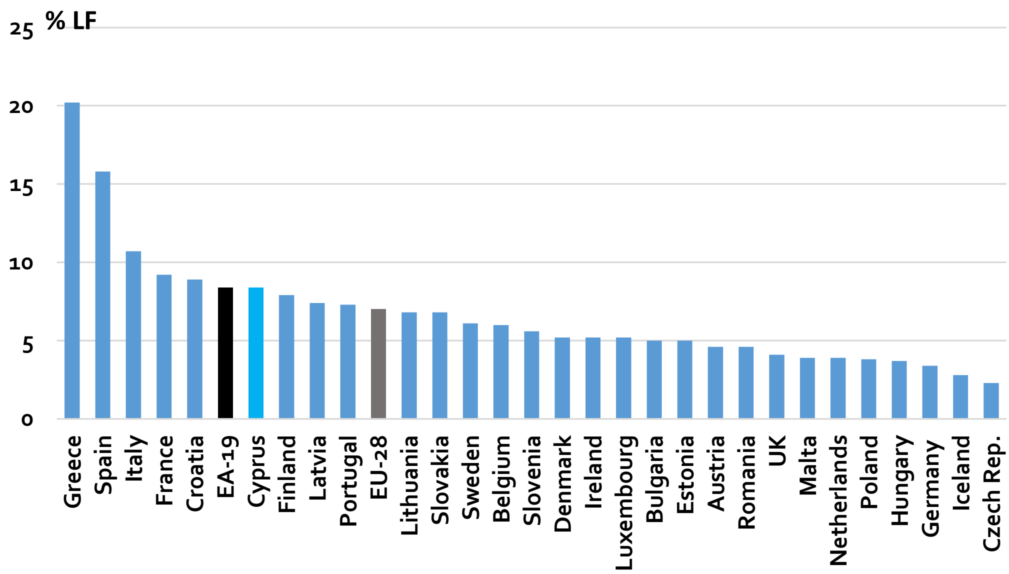
According to the latest Labor Force Survey (LFS), unemployment on a seasonally adjusted basis declined further to 8.4% in May-down from 8.6% in April-compared to 9.0% in March, 10.4% in December 2017, 13.1% in December 2016, 13.1% in October 2016, and 17% at its peak in October 2013. Overall, Cyprus recorded the highest unemployment decline (by 2 ppts) in EU-28 in the first five months of 2018, so that unemployment now has fully converged to that of Euro Area (See Figure 11). In the previous year 2017, Cyprus had recorded the fifth highest decrease in unemployment in EU-28. Despite the improving trend, unemployment in Cyprus is still the sixth largest (behind Greece, Spain, Italy, France and Croatia) in EU-28. Youth & Long-term unemployment are a source of concern and require more attention.

Figure 12a: Unemployment rate



Source: Eurostat, Eurobank Research

Figure 12b: Unemployment rate across EU-28 (May-2018)

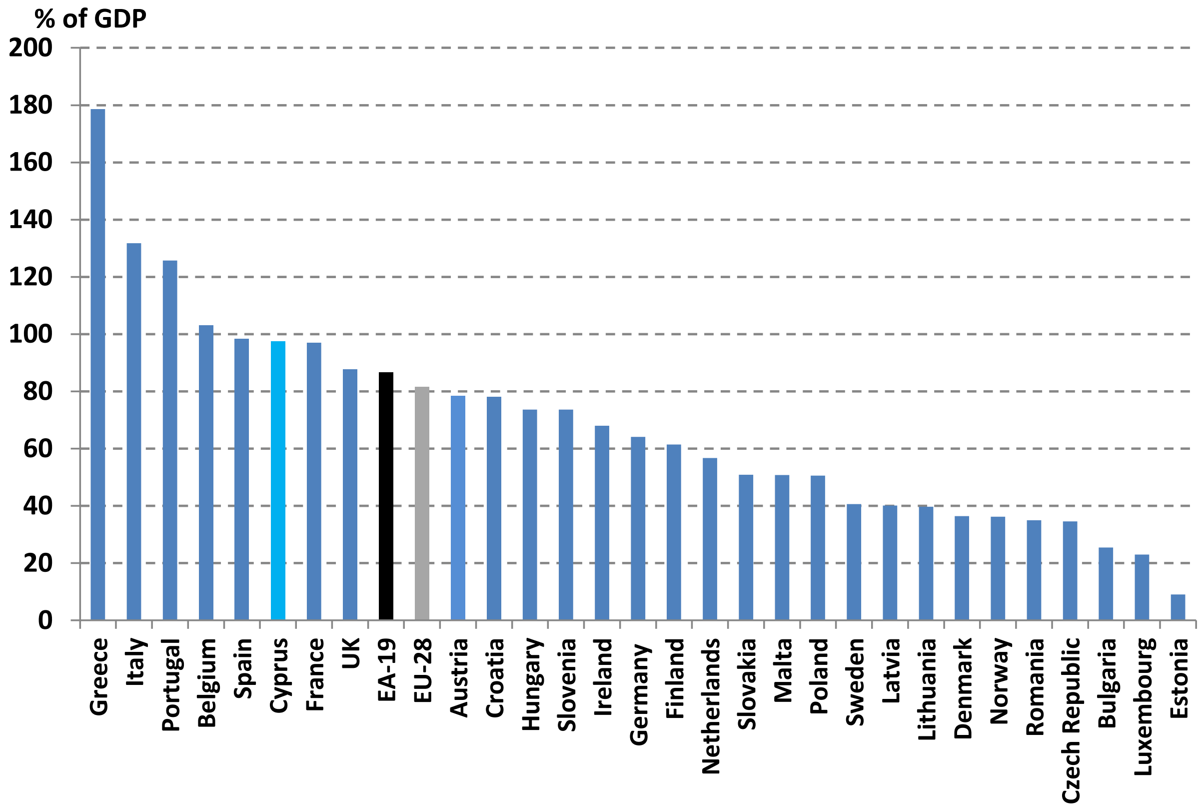


Q4-2017 General Government Deficit and Public Debt (ESA2010 terms)
Cyprus improves temporarily in the public indebtness ratio in Eurostat ranking

On April 24, Eurostat announced the provisional data for the fiscal deficit and public debt in the last quarter of 2017.[4] In ESA2010 terms, Cyprus recorded a €130.5mn general government deficit in Q4-2017 which is approximately -2.7% of the GDP in the same quarter, switching from an earlier surplus of €398.1mn or 7.9% of the *GDP in the same quarter* in Q3-2017, compared to a balanced position in Euro Area and a EU-28 deficit of 0.8% respectively in the same period.

As a result, the general government debt as percentage of GDP declined to 97.5% of GDP or €18.7bn in Q4-2017, compared to 102.5% of GDP or €19.5bn in Q3-2017, down from 105.7% or €19.8bn in Q2-2017, compared to 106.0% or €19.6bn in Q1-2017, down from 107.8% or €19.4bn in Q4-2016. Cyprus' ranking among EU-28 members improved: As of Q4-2017, the Cypriot government debt as a percentage of GDP was the sixth highest, behind that of Greece (178.6%), Italy (131.8%), Portugal (125.7%), Belgium (103.1%), and Spain (98.3%). The public debt of Cyprus is primarily in the form of loans (62.5% of total) and debt securities (34.3% of total).

Figure 13: General Government Debt across EU-28 members in Q4-2017



Source: Eurostat, Eurobank Research

[4] http://ec.europa.eu/eurostat/documents/2995521/8824854/2-24042018-AP-EN.pdf/2e4cce59-7d36-4894-b21e-9f2c14b81630

January-May 2018 Budget execution

The budget was in surplus in the first five months of 2018

The budget was in surplus during the first five months of 2018. The consolidated government surplus increased to €386.9mn in 5M-2018, up from €115.9mn in 5M-2017. As a percentage of GDP, the consolidated government surplus came at +1.9% in 5M-2018, compared to +0.6% of GDP in 5M-2017. The primary surplus stood at +2.7% of GDP in 5M-2018 compared to +1.5% of GDP during the same period a year ago. Total revenues improved by +11.9% YoY, driven by double digit growth in VAT revenues collection (+26.1% YoY) and social security contributions (+9.9% YoY). On the other hand, total expenditure remained relatively contained in an election year, expanding by +2.1% YoY driven by higher spending on public wages (+3.8% YoY), social benefits (+4.0% YoY) and current transfers (+3.2% YoY). On the other hand, spending items such as interest payments (-8.9% YoY) and capital expenditure (-5.0% YoY) decreased.

Table 4: General Government Budget Execution

General Government Adjusted Budget Balance on cash basis (January-May 2018)		
in % GDP	January-May 2017	January-May 2018
I. Government Budget and SSF		
Total Revenue	**13.9%**	**14.3%**
Current revenue	13.8%	14.0%
Direct Taxes	3.6%	3.7%
Indirect Taxes	5.6%	6.3%
of which, VAT	3.4%	4.0%
Social security contributions	2.4%	2.6%
Non-tax revenue	2.2%	1.5%
Capital Revenue	0.0%	0.0%
Grants	0.1%	0.3%
Total Expenditure	**13.1%**	**12.6%**
Current expenditure	12.7%	12.3%
Wages and Salaries	3.5%	3.4%
Goods and services	0.7%	0.7%
Subsidies	0.2%	0.2%
Social Security payments	3.1%	3.0%
Pensions	1.2%	1.1%
Social Pensions	0.1%	0.1%
Current transfers	3.0%	2.8%
Non-allocated	0.0%	0.1%
Interest payments	0.9%	0.8%
Capital expenditure	0.4%	0.3%
Balance (I)	**0.8%**	**1.7%**
II. Other General Government Bodies		
including		
Local Authorities	0.0%	-0.1%
Semi-public Entities	0.0%	0.0%
Other Entities	0.1%	0.1%
Balance (II)	0.1%	0.0%
III. ESA 2010 adjustments		
Balance (III)	-0.3%	0.2%
III. General Government Balance		
Budget Balance (I+II+III)	**0.6%**	**1.9%**
Primary Balance (excl. interest)	**1.5%**	**2.7%**
Cyprus GDP (Mrd EURO-CYP)	17,901.4	18,717.0

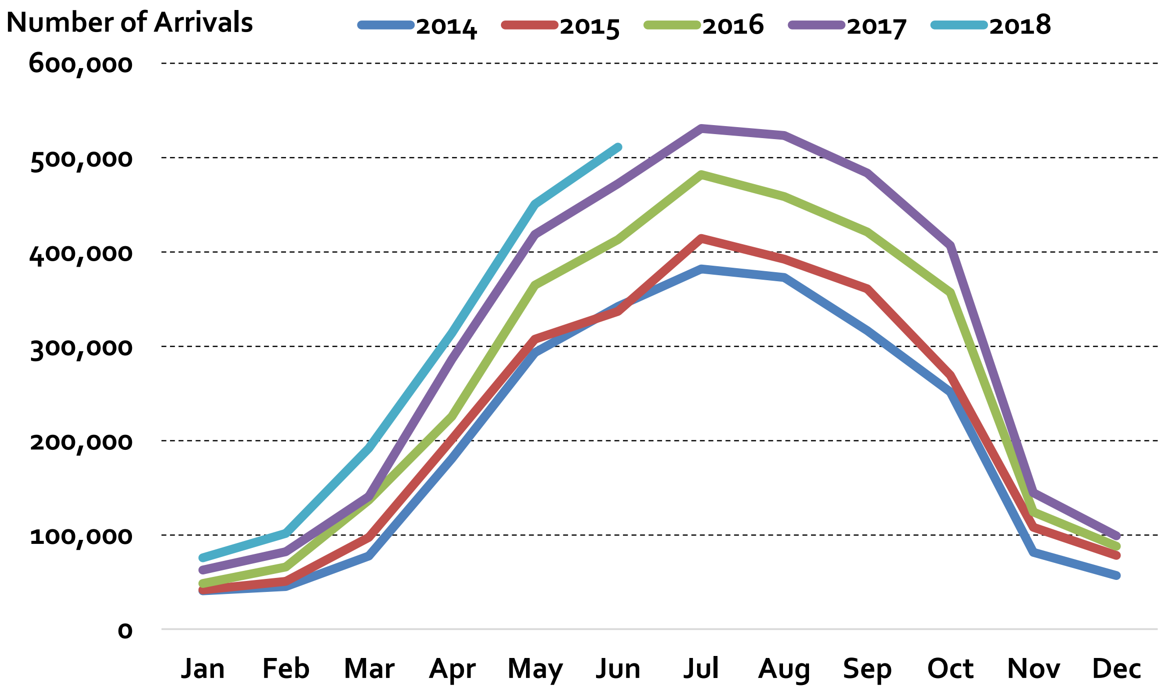
Source: Ministry of Finance, Eurobank Research

Tourism arrivals (January-June2018) & revenues (January-April 2018)
Poised for another year of records in tourism arrivals

The positive momentum in the tourism sector continued into 1H-2018. Tourist arrivals expanded by 8.2% YoY in the month of June 2018 to 511.0 thousand, up from 472.5 thousand in same month a year earlier (June 2017). The month of June was the thirty sixth consecutive month with a positive rate of increase on an annual basis. This sets a new record as it was the highest volume of tourist arrivals ever recorded in Cyprus during June.

Overall, the number of tourist arrivals increased by 14.5% YoY in 1H-2018 (1,645,149 vs. 1,463,206 in the same period last year). Tourist arrivals from Eastern Europe countries such as Poland (+66.0% YoY) and Ukraine (+46.3 YoY) and Nordic countries such as Finland (+48.3% YoY) and Sweden (+20.9% YoY) recorded a hefty increase. Tourist arrivals from some traditional markets such as Germany (+9.0% YoY), Greece (+15.6% YoY), Israel (+2.5% YoY), and UK (+9.7% YoY) had a mediocre performance in 1H-2018. In addition, tourist arrivals from niche markets such as Russia (-4.7% YoY) were weak. Although too soon to tell, tourism revenues also expanded by +6.9% YoY in January-April 2018 to €382.5.mn, up from €357.7mn compared to the same month last year. However, the corresponding statistics for expenditure per person are on a declining trend. The expenditure per person for January – April 2018 reached €559,36, compared to €625,32 in the corresponding period of the previous year, recording a decrease of 10.5%. In fact, the expenditure per person/per day for the period of January – April 2018 compared to the period of January – April 2017 also recorded a decrease of 6.3% (from €71,06 to €66,61). Overall, the tourism industry is poised for another year of records in 2018 contributing to the GDP growth rebound of the Cypriot economy.

Figure 14: Tourism Arrivals



Source: CYSTAT, Eurobank Research

Eurobank Cyprus Research

Economic Indicators	Description	Source	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
National Accounts																
Population	Number	Eurostat	722,893	733,067	744,013	757,916	776,333	796,930	819,140	839,751	862,011	865,878	858,000	847,008	848,319	854,802
GDP (%YoY)	Constant Prices	Eurostat	4.6	3.7	4.5	4.8	3.9	-1.8	1.3	0.3	-3.1	-5.9	-1.4	2.0	3.4	3.9
Households and NPISHs Final Consumption Expenditure (YoY%)	Constant Prices	Eurostat	7.2	3.5	4.4	10.2	7.9	-6.4	3.3	-0.7	-1.3	-5.9	0.7	2.6	3.3	4.2
General Government Final Consumption Expenditure (YoY%)	Constant Prices	Eurostat	1.2	2.8	7.0	3.3	5.7	6.4	1.2	2.1	-1.8	-8.1	-7.2	-2.8	-0.4	2.7
Gross Fixed Capital Formation (YoY%)	Constant Prices	Eurostat	4.7	6.9	21.0	7.8	8.8	-13.6	-2.6	-12.1	-20.5	-12.9	-17.5	13.6	35.0	27.8
Exports of Goods and Services (YoY%)	Constant Prices	Eurostat	2.3	2.1	1.3	5.3	-0.7	-4.1	4.5	5.6	-2.7	2.1	4.2	5.8	4.0	3.4
Imports of Goods and Services (YoY%)	Constant Prices	Eurostat	6.9	1.6	5.7	10.5	12.5	-15.0	8.0	-3.0	-4.4	-4.8	4.6	7.4	6.8	10.1
GDP	Current Prices, SA ,mil	Cyprus Statistical Service	13856.4	14822.3	16000.0	17511.6	19006.2	18673.5	19299.5	19731.0	19489.7	18140.5	17605.6	17742.0	18219.1	19213.8
GDP (%YoY)	Current Prices, SA ,mil	Cyprus Statistical Service	7.9	7.0	8.0	9.5	8.5	-1.8	3.4	2.2	-1.2	-6.9	-3.0	0.8	2.7	5.5
Labour Market																
Unemployment Rate	% active population	Eurostat	4.6	5.3	4.6	3.9	3.7	5.4	6.3	7.9	11.9	15.9	16.1	15.0	13.0	11.1
Labor Productivity	Real, Per employee, % Change	Eurostat	0.6	0.1	2.6	0.4	0.3	-1.8	0.8	0.3	0.1	0.0	0.4	0.5	0.1	0.3
Unit Labor Costs	Index, 2010=100	Eurostat	82.3	87.7	89.1	90.4	93.0	100.2	100.0	101.8	103.4	97.9	94.0	92.4	91.6	91.8
Unit Labour Cost Growth Total Economy	YoY%	Eurostat	1.6	6.5	1.6	1.5	2.9	7.7	-0.2	1.8	1.6	-5.3	-4	-1.7	-0.8	0.2
Short-term business statistics																
Economic Sentiment Index (ESI)	EoP, SA	EU Commission	106.3	98.4	106.4	106.9	95.8	92.6	95.8	84.8	76.3	88.5	100.2	103.9	113.3	115.7
Industry	EoP, SA	EU Commission	-36.4	-26.2	-31.8	-40.8	-39.2	-40.5	-46.7	-61.3	-43.9	-20.2	-10.0	-4.0	-0.4	8.7
Construction	EoP, SA	EU Commission	-4.4	-32.7	2.7	-7.9	-27.5	-38.8	-44	-51.5	-56.5	-54.5	-49.8	-30.3	-27.4	-24.3
Retail trade	EoP, SA	EU Commission	3.3	5.2	0.7	11.2	-12.8	-22.5	-22.6	-29.0	-31.8	-19.1	-10.6	-1.6	8.5	10.0
European Commission Services Confidence Indicator Cyprus	EoP, SA	EU Commission	14.4	6.1	15	8.7	1.8	-3.6	3.6	-25.2	-40.7	-24.2	11.4	8.2	28.4	36.5
Industrial Production General Index	NSA	Eurostat	134.7	136	136.7	142.9	148.8	135.3	132.9	122.8	110.6	95.7	95.1	100	109.3	118.2
Industrial Production General (%YoY)	NSA	Eurostat	1.5	1	0.5	4.5	4.1	-9.1	-1.8	-7.6	-9.9	-13.5	-0.6	5.2	9.3	8.1
European Commission Capacity Utilization Cyprus SA	SA	Cyprus Statistical Service	69.9	72.5	66.7	71.2	69.4	63.0	63.9	58.1	53.7	50.8	54.5	61.1	59.6	59.1
Housing and Real Estate																
Building Permits	Number	Cyprus Statistical Service	8252.0	9098.0	9794.0	9521.0	8896.0	8950.0	8777.0	7506.0	7172.0	5341.0	4933.0	5014.0	5354.0	5728.0
Value of permits	mil €	Cyprus Statistical Service	1994.6	2288.9	2473.4	2782.3	2904.6	2815.8	2639.5	2065.1	1632.3	1141.0	859.5	1071.4	1047.1	1719.8
Area of permits	(Thousand Sqm)	Cyprus Statistical Service	3015.7	3417.0	3507.5	3612.8	3689.1	3136.5	2917.9	2253.0	1499.9	1044.8	784.9	881.1	1157.6	1542.7
Dwelling Units	Number	Cyprus Statistical Service	15743.0	18770.0	18915.0	20486.0	20082.0	16688.0	14312.0	8839.0	5879.0	4141.0	2855.0	3197.0	3649.0	4939.0
Personal/Household Sector																
Credit for Consumption	mil €	ECB MFIs Statistics		2,577	2,848	3,118	4,261	4,770	3,390	3,371	3,341	3,039	2,794	2,792	2,583	2,486
Lending for House Purchase	mil €	ECB MFIs Statistics		4,140	5,450	6,989	8,584	10,492	12,033	12,658	12,772	11,943	11,747	11,735	11,587	11,187
Other Lending Cyprus	mil €	ECB MFIs Statistics		5,645	5,676	6,111	6,366	5,600	7,381	7,855	8,025	7,558	7,433	7,099	6,736	6,274
Total MFI Loans to Non-MFIs Domestic Residents	Monetary & Financial Statistics	Central Bank of Cyprus		25,005	27,511	33,995	43,452	45,681	49,403	52,870	53,936	50,082	49,583	51,201	45,310	43,116
Total deposits of Non-MFIs held with MFIs Domestic Residents	Monetary & Financial Statistics	Central Bank of Cyprus		24,874	27,401	32,294	39,462	41,012	45,379	43,748	43,317	32,973	32,283	32,868	36,586	37,807
Gross Household Saving Rate	% of Gross Disposable Income	Eurostat	8.7	11.5	11.6	6.2	5.0	9.2	6.5	6.4	3.7	-1.8	-6.3	-5.0	-2.3	N/A
International Trade & Balance of payments																
Current account balance (%GDP)	BMP6	Eurostat					-15.5	-7.7	-11.3	-4.1	-6.0	-4.9	-4.3	-1.5	-4.9	-6.7
Current Account, Goods & Services Net Balance (%GDP)	BMP6	Eurostat					-12.8	-5.4	-7.3	-2.9	-1.5	1.8	2.1	0.8	-0.8	-2.0
Current Account, Primary Income Net Balance (%GDP)	BMP6	Eurostat					-2.5	-1.3	-3	0	-3	-4.7	-3.6	0.6	-1.6	-2.5
Current Account, Secondary Income Net Balance (%GDP)	BMP6	Eurostat					-0.3	-1.0	-1.0	-1.1	-1.4	-2.1	-2.7	-2.9	-2.5	-2.2
Imports of Goods (%GDP)	BMP6	Eurostat					42.2	34.7	36.8	35.5	33.6	31.2	31.9	33	35.5	36.4
Exports of Goods (%GDP)	BMP6	Eurostat					12.0	13.1	13.9	15.3	15.6	15.0	15.9	16.2	14.2	12.9
Imports of Services (%GDP)	BMP6	Eurostat					20.7	19.4	20.7	20.4	21.3	25.7	28.1	30.8	30.0	30.1
Exports of Services (%GDP)	BMP6	Eurostat					38.1	35.7	36.3	37.6	37.8	43.7	46.1	48.3	50.5	51.7
Financial Account (%GDP)	BMP6	Eurostat					-18.5	-8.4	-8.6	-1.2	-2.1	-1.9	-7.1	-1.6	-7.4	-2.1
Government Finance & Debt																
General Government Deficit (-) or Surplus (+) (% GDP)	including Coops banks' recap	Cyprus Statistical Service	-3.7	-2.2	-1.0	3.2	0.9	-5.4	-4.7	-5.7	-5.6	-5.1	-9.0	-1.3	0.3	1.8
General Government Debt EDP Procedure (% GDP)		Cyprus Statistical Service	64.1	62.8	58.7	53.5	45.1	53.8	56.3	65.7	79.7	102.6	107.5	107.5	106.6	97.5
Prices																
CPI (%YoY)	Annual Average	Cyprus Statistical Service	2.3	2.6	2.5	2.4	4.7	0.3	2.4	3.3	2.4	-0.4	-1.4	-2.1	-1.4	0.5
Cyprus HICP All Items (% YoY)	Annual Average	Eurostat	1.9	2.0	2.2	2.2	4.4	0.2	2.6	3.5	3.1	0.4	-0.3	-1.5	-1.2	0.7
Tourism																
Tourist & Excursionist Arrivals	Number	Cyprus Statistical Service	2,349,007	2,470,057	2,400,919	2,416,075	2,403,744	2,141,187	2,172,993	2,392,223	2,464,903	2,405,387	2,441,231	2,659,400	3,186,531	3,652,073
Revenue From Tourism	mil €	Cyprus Statistical Service	1,678,419	1,718,302	1,755,252	1,858,106	1,792,787	1,493,246	1,549,801	1,749,306	1,927,600	2,082,400	2,023,400	2,112,100	2,363,400	2,639,100
Market Indicators																
10Y Gov Bond Yield Rate	%, EMU criterion series	Eurostat	6.3	4.1	4.3	4.6	4.6	4.6	4.6	7.0	7.0	6.0	6.0	3.9	3.6	1.6
Cyprus Stock Exchange Index	EoP, Composite Index		1012.27	1704.76	3900.39	4820.72	1101.42	1597.23	1055.21	295.94	114.86	103.31	85.70	67.75	66.41	69.50