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The Cypriot Economy in 2016

2015: Out of the woods
2016: Change of speed
2017: Momentum sustained

Key points

- **In 2016 the Cypriot economy took off, solidifying and speeding up the previous year's recovery, leaving far behind the crisis years**
- **In 2016 Cyprus also exited the 2013 Economic Adjustment Program**
- **There is consensus among private and official forecasters the growth momentum will carry into 2017, with risks – in our view - skewed to the upside**
- **Trend growth is likely to remain solid over the following years, assuming reforms continue hand in hand with growth preserving macroeconomic policies**
- **The main risks ahead are concentrated in the financial sector and the ability to quickly reduce the high NPL ratio**

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1. Key Achievements in 2016

The past year was a good year for Cyprus. The country demonstrated its commitment to fiscal prudence and continued having access to the international markets at affordable rates. It made a clean exit from its Economic Adjustment Program, while earning acknowledgement for its progress from the sovereign rating agencies. Solid progress was achieved in almost every area. Economic indicators confirmed the economy embarked on a fast growth recovery track. There was visible improvement in sentiment and in labor market conditions, indicating the recovery is broad-based and affects most of the population. At the same time, there was an intense effort to address the legacies of the banking crisis-the high NPLs ratio and ELA funding, with banking sector conditions stabilizing further.

More specifically,

i. Real GDP growth is expected to have expanded by at least +2.8% YoY in 2016, up from +1.7% YoY in 2015, and after three years of recession and a cumulative drop of 10.5% over 2012-2014. This is among the highest growth rates among Euro area members and 1.6 times higher than the projected growth rate of Euroarea in 2016
ii. From a demand point of view, growth was broadly driven primarily by the ongoing rebound in private consumption, itself being driven by improvement in Economic Sentiment
iii. Indeed, economic activity is highly correlated with sentiment, which has been on an improving trend over the past three years. The Economic Sentiment Index (ESI) improved to 113.3 in December2016, up from 106.7 in December 2015, reaching levels very close to the levels prior to Lehman Brothers international crisis (recorded at 117.8)
iv. Prices continued to decline: Cyprus registered the second highest deflation in EU-28 behind Bulgaria. Deflation prevailed for most of 2016. The annual average HICP stood at -1.2% YoY in 2016 up from -1.5% YoY in 2015, driven by lower world energy prices on an annual basis for most of the outgoing year
v. Labor market conditions improved further in 2016. The unemployment rate declined for a third consecutive year in a row from 15.0% in 2015 to 13.3% in 2016. Yet this percentage still remains the third highest in EU-28 behind Greece and Spain. Unemployment was on a steep declining trend in the first half of 2016 but deteriorated in the second half, more visibly in the last quarter of the year
vi. Fiscal discipline and prudence was maintained for yet another year in 2016. According to the latest budget execution data, the general government budget on a cash basis ended in a surplus of €9.1mn or 0.1% of projected GDP in 2016, up from a balanced position in 2015,[1] -0.2% of GDP in 2014 and -4.9% of GDP in 2013.

[1] The 2015 deficit excludes the recapitalization costs of the co-operative banks, which would otherwise bring the 2015 deficit to -1.1% of GDP.

Figure 1: Real GDP growth Cyprus vs Euroarea

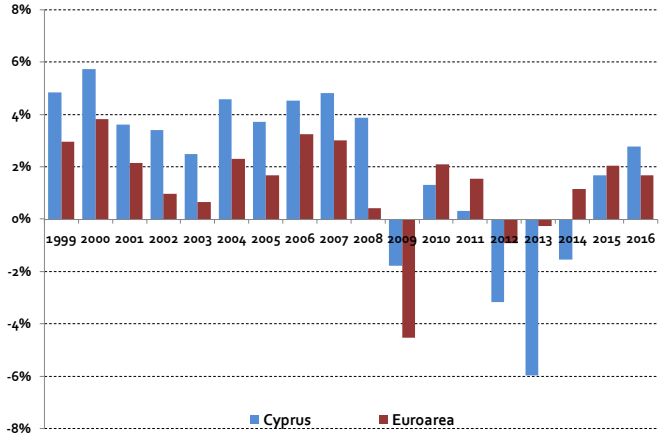


Figure 2: Real GDP growth by demand components

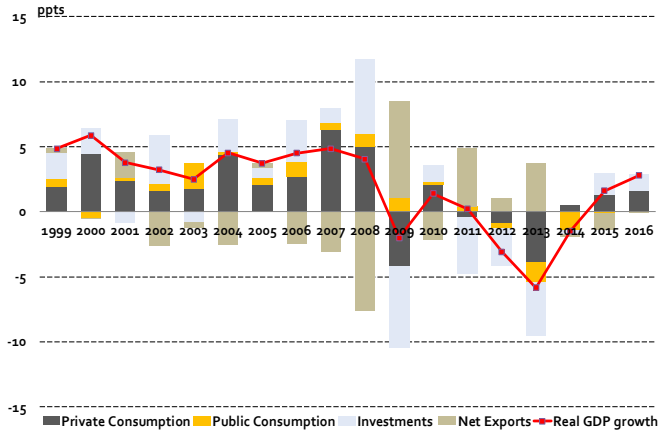


Figure 3: Real GDP growth & ESI Index in Cyprus

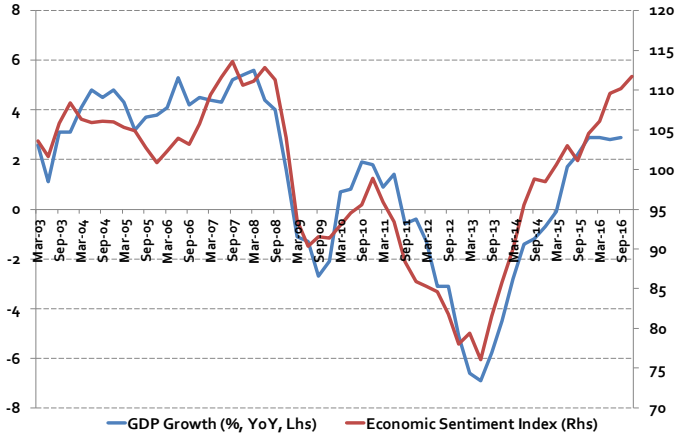


Figure 4: Harmonized Inflation Rate in Cyprus vs. Euroarea

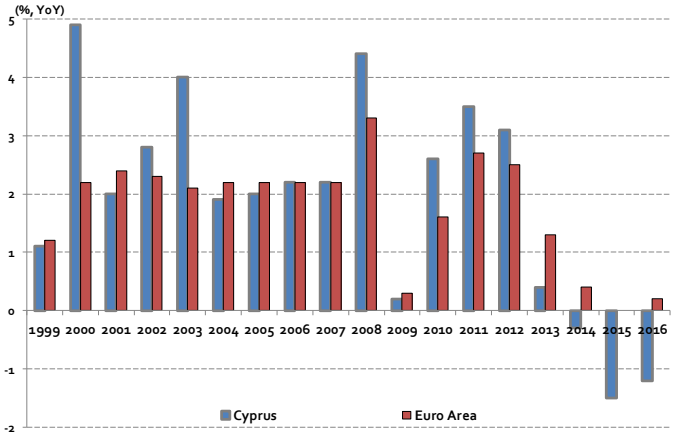


Figure 5: General Government Deficit and Debt

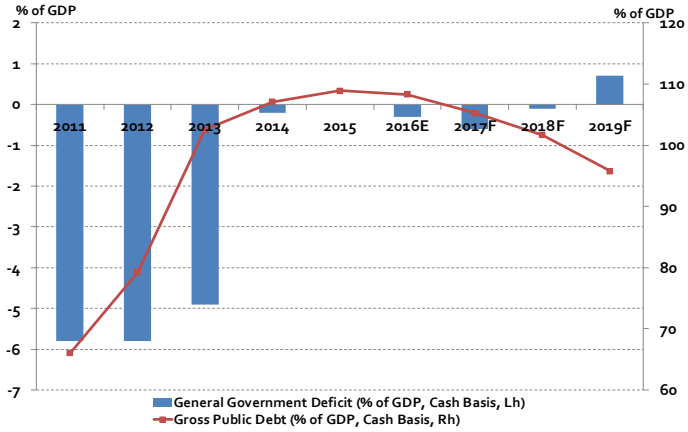
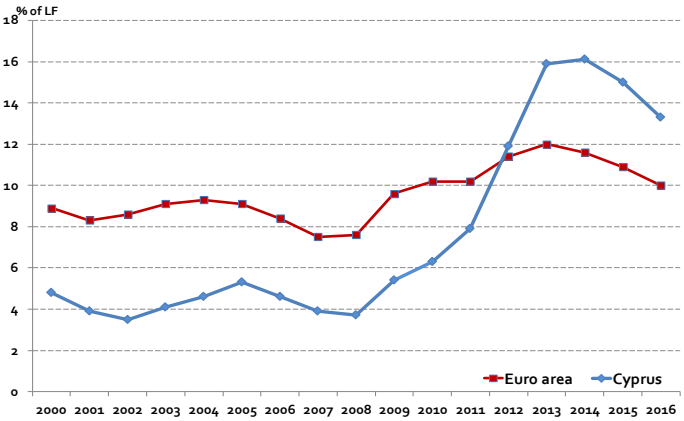


Figure 6: Unemployment Rate in Cyprus vs. Euroarea



Source: Eurostat, Ministry of Finance, Eurobank Research

1.1 Cyprus exits the Economic Adjustment Program

The past year marked the country's clean exit from its Economic Adjustment Program. Cyprus resorted to official borrowing from its European partners and the IMF under dramatic conditions in March 2013. It was the fourth EMU country in need of financial assistance, following Greece, Ireland and Portugal. At the time, Cyprus signed a €10bn borrowing arrangement with the European Stability Mechanism and the International Monetary Fund. The agreement was accompanied by a detailed Economic Adjustment Programme (the "program" in what follows). Since March 2013, Cyprus successfully completed nine reviews according to the IMF disbursement schedule, and seven reviews according to the ESM schedule.[2] Cyprus ended up borrowing only about €7.3bn out of the available €10bn under the program. The ESM disbursed €6.3bn and the IMF another €1bn.

Following the exit from the European program, the Cypriot government asked to terminate the IMF portion of the program, which was scheduled to expire in mid-May. The request was approved and as a result, Cyprus became the third country after Portugal and Ireland to have made a "clean" exit from its economic adjustment program. That is to say, there was no successor program as the country had already established access to international markets in order to re-finance its public debt.

From now on, Cyprus is subject to the usual post program monitoring from official lenders twice a year, until at least 75% of the financial aid is paid back.

1.2 Cyprus taps international markets at affordable rates

On July 19th, four months after the program exit, the Ministry of Finance raised €1bn by issuing 7-year bonds with a 3.75% coupon at a 3.8% yield. From a historical point of view, this is the lowest coupon rate the Republic ever achieved in a benchmark bond debt issuance. Investors' bids were strong. The issue was oversubscribed 2.5 times.

Earlier, and within the first year of its MoU program, Cyprus was already a credible borrower and had made the fastest come-back to international markets among other Euro Area program countries. Cyprus had issued bonds three times in the international markets, once in June 2014 and then again in April 2015 and in October 2015.[3]

The faster than expected come-back to financial markets, not only reduced the dependency on programme financing, but also improved the public debt profile.

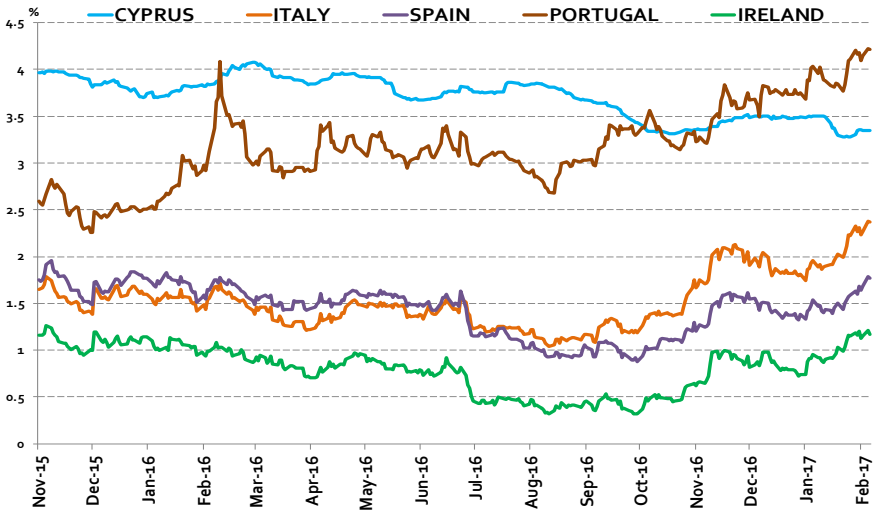
[2] The last ESM review (the 8th) is not considered to have been completed successfully

[3] A private placement of a six year international bond for a nominal value of €100.000.000 at a coupon rate of 6.50% took place on April 30th, 2014, http://www.mof.gov.cy/mof/mof.nsf/All/4234E193570C579AC2257CCA00446B80/$file/Press%20Release%20EMTN%2030%2004%202014%20FINAL.pdf

Previous costlier domestic short-term borrowing has been replaced by cheaper long-term external funding. The weighted average maturity was 7.2 years in Q4-2016, up from 4.7 years in Q4-2012. The maturity of marketable debt has also gone up to 5.2 years in Q4-2016, up from 4.7 years in Q4-2015 and 2.7 years in Q4-2012. Interestingly, the weighted average debt servicing cost has also declined to a projected 2.7% in Q4-2015 down from 2.9% in Q4-2014, 4.2% in Q4-2012, and 3.8% in Q4-2010.

Cyprus does not face any significant repayment obligations prior to 2019. As of the end of March 2016, the amounts to be repaid in 2016, 2017 and 2018 standed at €767mn, €453mn and €873mn respectively, and most of the maturing bonds are held by domestic financial institutions. However, a large portion of the outstanding debt stock- around €4bn or one fifth of total outstanding public debt- is maturing within the period 2019-2020. The recent €1bn issuance will allow the Ministry of Finance to buy-back bonds of those maturities, thus reducing the required future new debt issuance of 2019-2020.

Figure 7
Generic 10 Year Government Bond Yields in Euro Area Periphery



Source: Bloomberg, Eurobank Research

1.3 Rating agencies acknowledge the progress made by Cyprus

Cyprus has embarked on a virtuous cycle of sovereign rating upgrades. Two out of the three main rating agencies upgraded the sovereign rating of Cyprus in their latest assessment reports. In their autumn report updates, Standard and Poors (S&P) and Fitch upgraded the long-term sovereign credit ratings of the Republic by one notch. Specifically, on September 16, S&P upgraded the sovereign credit rating of Cyprus from B+ to BB- with a positive outlook. Fitch upgraded the sovereign credit rating of Cyprus on October 21, from B+ to BB- with a positive outlook.

The ratings path of government bonds still has some way to go before reaching investment grade status. Two and three more upward notches are required by S&P and Fitch respectively, while four notches are still required by Moody's. As a result, Cyprus cannot join ECB's Quantitative Easing Program (QE). Earlier, when Cyprus was still in an official Economic Program with its lenders, an ECB waiver allowed participation in the QE. The Economic Program and the waiver no longer exist.

Interestingly, presently Cyprus is the only economy in the Euro Area Periphery whose outlook is positive. The positive outlook implies that rating agencies could upgrade Cyprus in the next few months, provided that the government stays focused on structural reforms.

Yet, the risk of complacency following the exit from the Adjustment Program is material. There are a few pending important structural reforms of the economic adjustment program, which would allow the Cypriot economy not to backtrack. Particularly, parliamentary approval of the Bill setting a cap on the public sector wage bill, essentially linking the expenditure expansion with the GDP growth performance, is still pending. And as time moves on and the economy improves, it becomes increasingly unlikely the Bill will be voted into Law.

Table 1

Foreign Currency Long Term Sovereign Ratings of Cyprus

Moody's	S&P	Fitch	DBRS	Rating Description
Aaa	AAA	AAA	AAA	Prime
Aa	AA	AA	AA	High Grade
A	A	A	A	Upper Medium Grade
Baa	BBB	BBB	BBB	Lower Medium Grade
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	
Caa	CCC	CCC	CCC	
Ca	CC	CC	CC	
Ca	C	C	C	
C	D	D	D	Default

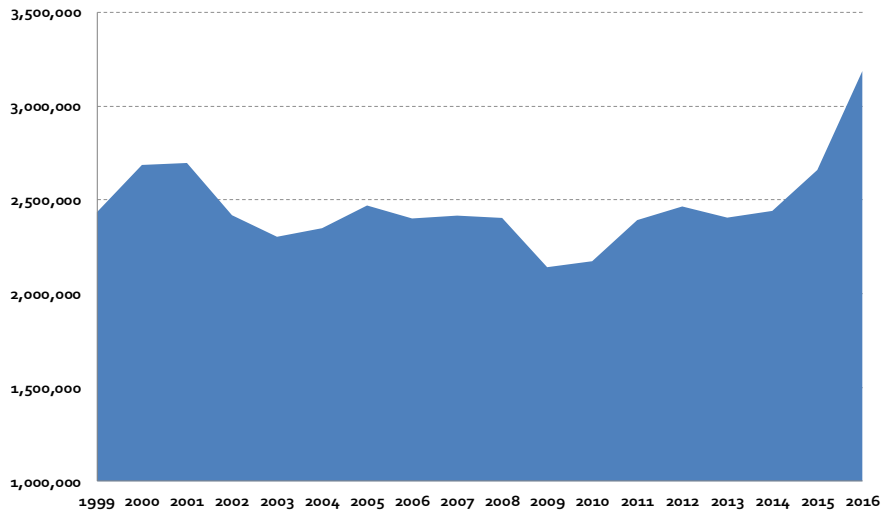
Source: Rating Agencies
(Upgrade within the last review is marked with green color. Affirmation is marked with grey color)

1.4 Cyprus Tourism: Historic record in 2016 with a 20% increase in arrivals

The positive momentum of the tourism sector continued all the way to the last month of 2016. Tourist arrivals expanded by 12.2% YoY in the month of December 2016 to 87.9 thousand, up from 78.3 thousand in same month a year earlier (December2015). The month of December 2016 was the eighteen consecutive month with a positive rate of increase on an annual basis. Overall, during the full year, tourist arrivals increased by +19.8% YoY to reach 3.2mn in FY2016 vs. 2.7mn in FY2015, setting an all-time record high in the history of the Republic. According to the Cyprus Tourism Organization, the outgoing year was "*a landmark year which will remain in history as the most successful year compared with any previous seasons*".

A double digit increase was recorded from across all foreign markets. A sharp increase of +48.9% YoY, +50.9% YoY, +23% YoY and +36.2% YoY was recorded in tourist arrivals from Russia, Israel, Ukraine and Lebanon in the same period. Tourist arrivals from traditional markets such as Germany (+10.5% YoY) and UK (+11.2% YoY) faired also relatively well. In addition, tourism revenues expanded robustly by +12.7% YoY in Jan-Oct 2016 to €2.2bn, up from €1.98bn the same period last year.

Figure 8
Tourist arrivals 1999-2016



Source: CYSTAT

1.5 The banking sector in Cyprus: Further normalization

- **Intense effort to address NPEs**

According to the data released by the Central Bank of Cyprus, the stock of non-performing exposures (NPEs) declined by €2.6bn in the first ten months of 2016, bringing the cumulative decline to 11.9% over the period from December 2014 to October2016. The decline in NPEs reflects three main factors: increased voluntary private debt repayments, the migration of successful restructurings to performing facilities after the completion of the observance or probation period, plus write-offs and settlements through immovable property exchange.

At the same time, the stock of total loans also decreased by €8.6bn during the same period. The cumulative decline was 13.3% in the period from December 2014 to October 2016. This deleveraging of the private sector clouds the information provided by the reported NPE ratio. The ratio of NPEs increased to 49.5% in October2016 compared to 45.8% in December 2015 and 47.8% in December2014. Yet the deterioration in the ratio does not mirror a further rise in the size the nominal value of non-performing loans in euros – those have actually declined, but rather the ongoing private sector deleveraging, which impacts the size of total loans in the denominator of the NPE ratio. The drop in the denominator is larger than the drop in the numerator of the NPE ratio, leading to an increase in the NPE ratio.

Recall that based on the EBA conservative definition, a restructured loan is classified as an NPE for a probation period of at least 12 months, even if, following the restructuring, it is serviced properly and on time without incurring arrears. This way, a large fraction of the restructured loans, which are performing, are still classified in the category of NPEs (€10.1bn out of €13.6bn in October 2016). However, as time moves on, more of those loans will be reclassified as performing and the NPE ratio is expected to begin declining.

Overall, banks have demonstrated mixed performance in the achievement of their restructuring targets in 2016-Q3. The Central Bank uses a set of four indicators to monitor the compliance of banks in the NPEs restructuring process. In its statement, the Central Bank noted that there is an over-performance of the target for the first indicator ("Proposed sustainable solutions") and a smaller over-performance for the third indicator ("Loans that have been restructured and present arrears of less than 8 days") pointing to the huge effort that is being made in sustainable restructuring of loans in arrears over 90 days. Specifically, the target for the first indicator was set at 14.6% and the actual realization was 18.7%. The target for the third indicator was 72.4% whereas the actual realization was 72.7%.

Risks remain as under-performance was observed in the second indicator ("Concluded sustainable solutions"), whose target was 15% and the actual realization was only 10.2%. A smaller under-performance was also observed in the target of the fourth indicator ("Loans that presented arrears of 31-90 days at the beginning of the quarter but by the

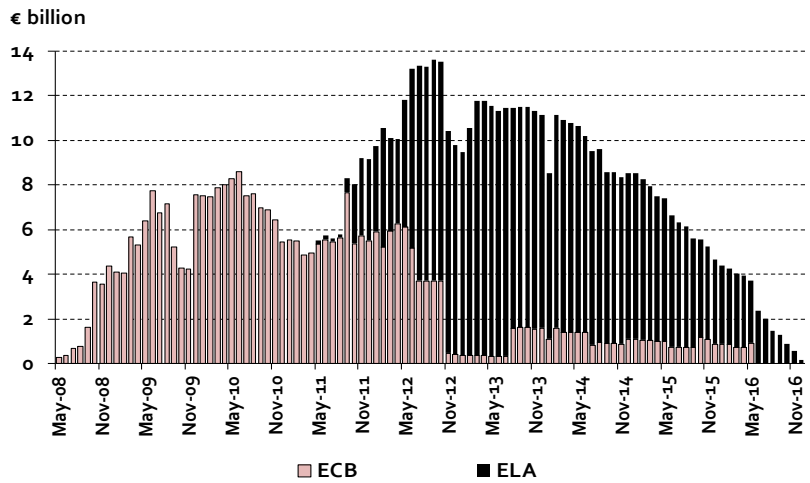
end of the quarter do not present any arrears"), which was 44% whereas the actual realization was 41.3%.

The NPL ratio in Cyprus is among the highest recent ratios in Europe. This is worrisome, yet not unexpected. It is a phenomenon that typically follows a banking crisis, as it already happened earlier in Ukraine (1998) and Iceland (2008). It can be overcome. In particular, it appears that a number of strategic defaulters have emerged, most probably as a result of the bail-in event of March 2013. Those strategic defaulters can be pressured to begin repaying their debts, especially as the economy keeps growing. Most of the NPLs also originate directly or indirectly from the downturn of the real estate market (mortgage or construction loans), which has shown signs of stabilization.

- **Reliance on ELA funding eliminated**

Bank funding through Emergency Liquidity Assistance (ELA) is an expensive source funds and its elimination provides comfort for the future profitability of the banking system. Cyprus has made extensive use of ELA funding since October 2011. On the way to the dramatic events of March 2013, the dependence on ELA funding - a contingency liability on the sovereign balance sheet- grew to peak at €11.4 bn in March 2013. Subsequently, in an ECB controversial move, the ELA funding of Laiki Bank was folded into the Bank of Cyprus when they merged into a single entity. Yet, since then, the shareholders' capital increase, the disposal of overseas operations, the redemption of the recapitalization of Laiki Bank bond, the decline of total loans on the asset side of the balance sheet, and the steady increase of domestic deposits resulted in the swift decline of ELA funding and its eventual full repayment in January 2017, while the regular financing from ECB operations stood at around €0.6bn.

Figure 9
ELA plus ECB funding dependence



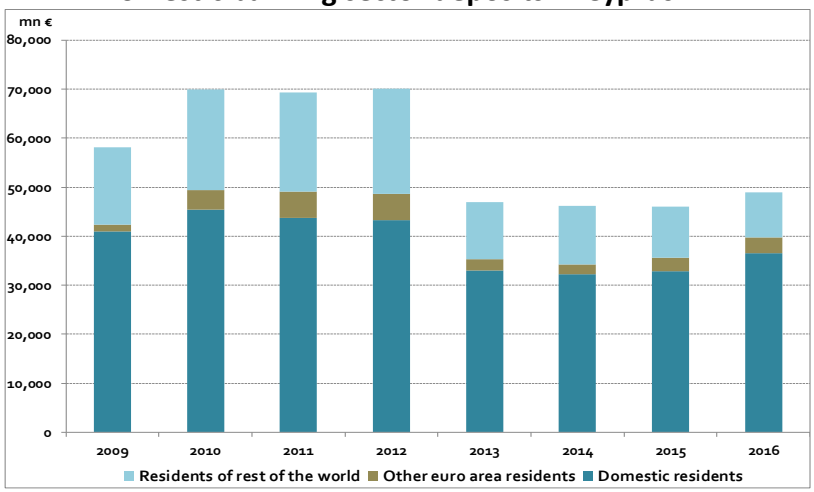
Source: Bloomberg, Central Bank of Cyprus, Eurobank Research

- **Deposits expand on an annual basis for the first time in three years**

Cypriots seem to have recovered from the wounds of the crisis and have begun to trust their banking system. The stock of banking sector deposits in 2016 recorded the first increase on an annual basis for the first time in three years. The outstanding amount of deposits increased to €49bn in 2016 up from €46bn in 2015, €47bn in 2013 and €70.2bn in 2012. The increase was driven by the rise of the resident deposits segment by €3.7bn (from €32.9bn in 2015 to €36.5bn in 2016).

Non-resident deposits decreased by €0.6bn (from €13.1bn in 2015 to €12.5bn in 2016). This reflects the combined effect of an increase in the segment of other Euro area resident deposits but also a decrease in the deposits stock of non-residents of the rest of the world. The segment of other Euro area residents increased from €2.7bn to €3.2bn (registering an increase by €0.5bn in 2016 for a second consecutive year in a row on top of €0.8bn in 2015). The deposits of the non-residents from the rest of the world declined further by €1.1bn down to €9.2bn in 2016 vs. €10.4 n in 2015.

Figure 10
Domestic banking sector deposits in Cyprus



Source: Central Bank of Cyprus, Eurobank Research

2. Macroeconomic Outlook 2017: A new year full of hope but also with a lot of challenges

The New Year finds the economy in a more solid position to be able to address the challenges ahead. The key question is whether Cyprus will be able to achieve sustainable growth rates in the medium term.[4] To do so, there is still need for a comprehensive post-MoU growth strategy for which policymakers ought to make a diligent preparation. The earlier Economic Adjustment Program with the lenders had already described the necessary but not the sufficient conditions for medium and long-term growth.

A new growth strategy ought to rely on the key comparative advantages of the island. Cyprus enjoys comparative advantages such as low corporate tax rates, a key geostrategic position in the Mediterranean Sea, a speedy facilitation of international businesses, and quality human capital. Cyprus has the ability turn the recent crisis into a lasting opportunity. Authorities ought to define and rigorously implement reforms, which are compatible with such a new growth paradigm.

The perspective of international organizations for 2017-2018

Both the European Commission and the IMF, in their semi-annual updates, have brought their FY2016 projections closer to the reality of a solid recovery. They have also upgraded their 2017-2018 growth outlook relative to their previous forecasts. Their assessment of next year's outlook is common. They both anticipate GDP growth to have peaked in FY2016 and to decelerate slightly thereafter, in 2017-2018. In addition, they both anticipate labor market conditions to improve further, deflation to end in the outgoing year and thus a mild reflation to appear in 2017-2018.

EU Commission: According to its autumn forecasts, Cypriot full year GDP growth is now projected at 2.8% in 2016, up from +1.6% in the spring forecasts. GDP growth is expected to ease in the next two years from its current reading, albeit remain robust. The report envisages GDP growth of 2.5% in 2017 and 2.3% in 2018, up from 1.7% in 2017 and 2.0% in 2018 in the spring forecasts. Growth is seen driven by private consumption and investment, the latter benefiting from a stabilizing housing market. Tourism is expected to support growth but not to be as buoyant as in the preceding period. Accordingly, unemployment will further decline to 12.5% in 2016, 11.1% in 2017 and 10% in 2018. After staying in negative territory in 2016 at -1.1%, average inflation is forecasted to rise to +0.7% in 2017 and further to +1.3% in 2018.

IMF World Economic Outlook: According to the most recent WEO Outlook of October, full year GDP growth is now projected at 2.8%, up from 1.6% in the April publication. GDP growth is expected to ease to 2.2% in 2017 and inch up to 2.3% in 2018. Accordingly, unemployment will further decline from a projected 13.0% in 2016, to 11.1% in 2017 and

[4] For an extensive analysis on the future growth model and the long-term economic policies of Cyprus see the Eurobank report by Hardouvelis (2014): "Overcoming the crisis in Cyprus", available at: http://www.eurobank.gr/Uploads/Reports/20January2014Q.pdf

10% in 2018. After staying in negative territory in 2016 at -1.0%, average inflation is forecasted to rise to +0.5% in 2017 and further to +1.5% in 2018. At the time of writing, the article IV report of the most recent IMF mission in Cyprus was anticipated.

We consider the international organizations forecasts to be conservative. Given their past track record within the expired economic adjustment program, both organizations have tended to consistently underestimate GDP growth. In our view, both organizations underestimate the robust dynamics of the Cypriot economy and the lasting impact of the structural adjustment that was achieved.

On the other hand, the forecasts of the domestic institutions are more realistic. Both the government and the Central Bank forecasts are built around a 2.8% growth forecast in 2017. The **University of Cyprus** is even more optimistic.[5] Real GDP is forecasted to grow by 3.1% in 2017, up from a projected 2.9% in 2016.

In our view, solid real GDP growth performance is expected to continue in 2017-2018 driven by a number of factors:

1) Recovering private consumption due to sustained strong improvement in consumer confidence, mirroring the graduation from the Program and the envisaged fiscal relaxation. The latter comes at the expense of reducing public debt to GDP ratio less rapidly in the medium term.
2) Sustained strong revenues from the flourishing tourism industry, mirroring the enrichment of its tourist product and the evolving geopolitical crisis in the neighboring competing countries.
3) Further normalization in banking sector conditions, as domestic banks, equipped with more liquidity from increased deposits and with more support to their balance sheets from viably restructured NPEs, are now more capable to restore lending to the economy.
4) Finally, partial – yet somewhat limited - progress in the implementation of pending structural reforms, prescribed in the expired Economic Adjustment Program and the efficiency gains already accrued to the economy.

Ceteris paribus, **we anticipate GDP growth to average 3% in 2017-2018.**

Risks and challenges to our forecast view do exist. The downside risks stem from:

- a resurfacing of core Euro Area political and sovereign crisis, given the heavy political calendar of next year,
- or a more protracted recession in Russia- the second most important trading partner of Cyprus and a source of high-end tourism,
- the potential impact from Brexit
- a more pronounced Euro Area - the main trade partner of Cyprus - growth slowdown, and, finally,
- reform fatigue and, potentially, a backtracking from prudent macroeconomic policies ahead of the forthcoming Presidential elections in 2018.

[5] https://www.ucy.ac.cy/erc/documents/EconomicOutlook_Jan17.pdf

Table 2
International Organizations & Domestic Institutions Official forecasts

2016	IMF WEO		European Commission	
	April Forecast	October Forecast	Spring Forecast	Autumn Forecast
GDP growth (%, YoY)	+1.6	+2.8	+1.7	+2.8
Consumer Prices (%, average)	+0.6	-1.0	-0.7	-1.1
Unemployment (% of Labour Force)	14.2	13.0	13.4	12.5
Current Account Deficit (% of GDP)	-4.8	-0.9	-4.2	-2.8

2016	Central Bank *(Quarterly Bulletin)*		Government (SP &Budget Plan)	
	June Forecast	December Forecast	May Forecast	October Forecast
GDP growth (%, YoY)	+2.7	+2.8	+2.2	+2.7
Consumer Prices (%, average)	-0.9	-1.2	-0.7	-0.9
Unemployment (% of Labour Force)	13.1	12.8	13.5	12.5
Current Account Deficit (% of GDP)	n/a	n/a	-3.4	-3.4

2017	IMF WEO		European Commission	
	April Forecast	October Forecast	Spring Forecast	Autumn Forecast
GDP growth (%, YoY)	+2.0	+2.2	+2.0	+2.5
Consumer Prices (%, average)	+1.3	-0.5	+1.0	+0.7
Unemployment (% of Labour Force)	13.0	11.6	12.4	11.1
Current Account Deficit (% of GDP)	-4.7	-3.7	-4.6	-3.3

Source: EU Commission Spring & Autumn Forecasts, IMF World Economic Outlook April & October 2016

2017	Central Bank *(Quarterly Bulletin)*		Government (SP &Budget Plan)	
	June Forecast	December Forecast	May Forecast	October Forecast
GDP growth (%, YoY)	+2.9	+2.8	+2.5	+2.8
Consumer Prices (%, average)	+1.0	+0.9	+0.5	+0.5
Unemployment (% of Labour Force)	11.2	10.7	12.5	11.0
Current Account Deficit (% of GDP)	n/a	n/a	-3.2	-3.2

Table 3

Time line of Event in Cyprus 2008-2016

Jan 1st, 2008	Cyprus enters EMU
Feb 17th, 2008	First Round of Presidential Elections in Cyprus
Feb 24th, 2008	Run off round between DISY candidate Kasoulidis and AKEL candidate Christofias. Christofias elected President with 53.36% of the vote
Jan 13th, 2011	Moody's places Cyprus on negative watch for the first time
Jan 17th, 2011	Fitch places Cyprus on negative watch for the first time
Feb 24th, 2011	Moody's downgrade to A2
Mar 30th, 2011	S&P downgrade to A-
May 16th, 2011	Moody's places Cyprus on negative watch again
May 31st, 2011	First Fitch downgrade to A-
July 11th, 2011	Ammunitions explosions in Naval Base Mari. 50% of the power generation capacity is destroyed
July 27th, 2011	Moody's downgrade to Baa1
Oct 27th, 2011	EU leaders summit decision on 50% haircut on Greek public debt
Aug 10th, 2011	Fitch downgrade to BBB
Nov 4th, 2011	Moody's downgrade to Baa3
Dec 16th, 2011	Fitch places Cyprus on negative watch again
Jan 13th, 2012	S&P downgrade to BB+, the first rating agency to rank Cyprus below investment grade
Jan 27th, 2012	Fitch downgrade to BBB-
Mar 13th, 2012	Moody's downgrade to below investment grade (Ba1)
May 3th, 2012	Panicos Dimitriades took office as the new Central Bank governor to replace Orphanides
Jun 13th, 2012	Moody's downgrade to Ba3
Jun 25th, 2012	FITCH downgrade to BB+, below investment grade
Jun 25th, 2012	Cyprus application to ESM
Jul 1st, 2012	Begins Cyprus Presidency of the European Union Council
Jul 25th, 2012	Troika submitted the terms of the bail-out program for Cyprus. The Cypriot government expressed disagreement over those terms and continued negotiations with Troika
Sep27th, 2012	Central Bank of Cyprus commissions PIMCO to carry out the an independent due diligence exercise
Nov16th,2012	Moody's downgrade to B3
Nov21st, 2012	FITCH downgrade to BB-
Nov22nd, 2012	Statement on the European Commission website on behalf of Troika claims progress towards agreement on key policies of a macroeconomic adjustment program
Nov 30th, 2012	Christofias administration announced agreement reached with Troika on bail-out terms with only the financial sector package pending
Dec 13th, 2012	Euro-Group statement took notice of the progress made at the staff level
Jan 10th, 2013	Moody's downgrade to Caa3
Jan 25th, 2013	FITCH downgrade to B
Feb 17th, 2013	First Round of Presidential Elections in Cyprus
Feb 24th, 2013	Run off round between DISY candidate Anastasiades and AKEL candidate Mallas. Anastasiades elected President with 57.48% of the vote
Feb 28th, 2013	Anastasiades administration is sworn in
Mar 15-16th,2013	First Euro-Group: agreement to impose a levy on all (insured &uninsured) depositors (6.7%<100,000 9.9>100,000 to collect €5.8bn) in all banks- Capital controls imposed
Mar 19th,2013	Parliament rejects the bank levy bill, part of the bail-out agreement conditionalities, with a majority of 36 MPs against, 19MPs abstained, 1 absent
Mar25th,2013	Second Euro-Group: agreement to bail-in the uninsured depositors of Laiki and Bank of Cyprus only, resolve Laiki and fold the good bank into Bank of Cyprus. Program money will not be utilized to recapitalize the domestic banking sector except for a provision of 1.5bn for Co-operative sector.
Mar 26th,2013	Fitch places Cyprus on negative watch again
Apr 2-3rd,2013	Michalis Sarris resigns from the post of Minister of Finance; Harris Georgiades appointed Minister.
Apr 24th,2013	ESM Board of Directors grants stability support to Cyprus
May 13th,2013	ESM disbursement of €2bn in cash
Jun 3th,2013	FITCH downgrade to B-
Jun 26th,2013	ESM disbursement of €1bn in cash
Jun 28th,2013	Interim report of the Independent Commission on the future of the Cypriot banking sector

Jul 9th-15th, 2013	ESM disbursement of €600mn & €100mn in cash
Jul 30th, 2013	Bank of Cyprus exit from resolution status, recapitalized with 47.5% conversion of uninsured deposits to equity
July 31th, 2013	Staff teams from the Troika visited Nicosia during July 17-31 for the 1st quarterly review
Aug 8th, 2013	Ministry of Finance announcement on a capital restrictions roadmap removal in agreement with official lenders
Sep 5th, 2013	IMF appoints a resident representative in Cyprus
Sep 10th,2013	General Meeting of the new shareholders in Bank of Cyprus convenes to elect a new Board of Directors
Sep 12th,2013	Cyprus and Russia agreement on the restructuring of the 2011 bilateral €5bn loan
Sep 16th,2013	IMF Completes First Review Under EFF Arrangement and Approves €84.7 Million Disbursement
Sep 27th,2013	ESM disbursement of 1.5bn in floating rate notes
Nov 7th,2013	Staff teams from the Troika visited Nicosia during October 29-November 7 for the 2nd quarterly review
Dec15th-19th,2013	ESM disbursement of 350mn &100mn in cash
Dec20th,2013	IMF Completes Second Review Under EFF Arrangement for Cyprus and Approves €83.5 mn Disbursement
Feb 11th,2014	Staff teams from the Troika visited Nicosia during January 29-February 11 for the 3rd quarterly review
Mar10th-11th, 2014	Panicos Dimitriades resigns from Governor-Chrystalla Georghadji announced as successor
Mar 28th, 2014	IMF Completes Third Review Under the EFF and Approves €83.3mn Disbursement
Apr4th,2014	ESM disbursement of 150mn in cash
Apr 25th,2014	S&P upgrade to B
May 17th,2014	Staff teams from the Troika visited Nicosia during May 6-17 for the 4th quarterly review
Jun 30th,2014	IMF Completes Fourth Review Under the EFF for Cyprus and Approves €84mn Disbursement
Jul 25th,2014	Staff teams from the Troika visited Nicosia during July 15-24 for the 5th quarterly review
Jul 29th,2014	Successful €1bn rights issue of Bank of Cyprus with the participation of EBRD and Wilbur Ross
Sept 6th,2014	The Parliament endorsed the foreclosure bills with a majority of 47 votes and 7 against
Oct 24th,2014	S&P upgrade to B+
Oct 25th,2014	IMF Executive Board Concludes the 2014 annual Article IV Consultation with Cyprus
Oct 26th,2014	Announcement of the comprehensive SSM assessment results of four systemic Cyprus banks
Nov 14th,2014	Moody's downgrade to B3
Feb 6th,2015	Staff teams from the Troika visited Nicosia during January 27-February 6 for the quarterly review (no staff level agreement was reached given the suspension of an effective application of the foreclosures framework)
Apr 06th,2015	Full lift of capital controls
Apr 18th,2015	The Parliament endorsed the insolvency framework bills with a majority of 33 votes and 23 against
Apr 26th,2015	Election of Mustafa Akinci in the post of Turkish-Cypriot leader
May 20th, 2015	Based on the recent Troika visit in the island staff-level agreement has been reached on policies that could serve as a basis for completion of the pending reviews.
Jun 19th,2015	IMF Completes Fifth, Sixth & Seventh Reviews of Cyprus' EFF and Approves €278.4 mn Disbursement
Jul 27th,2015	Staff teams from the Troika visited Nicosia during July 14-24 for the 8th quarterly review
Aug 15th,2015	CYSTAT announced the flash estimate of Q2-2015 which showed the second positive QoQ growth
Sep8th,2015	S&P upgrade to BB-
Sep23rd,2015	IMF Completes Eighth Review of Cyprus' EFF and Approves €126mn Disbursement
Sep 25th,2015	S&P upgrade to BB-
Oct10th,2015	ESM disbursement of €500mn in cash
Oct23th,2015	FITCH upgrade to B+
Nov15th,2015	Moody's upgrade to B1
Nov16th,2015	Staff teams from the Troika visited Nicosia during November 3-13 for the 9th quarterly review
Jan27th,2016	IMF Completes Ninth Review of Cyprus' EFF and Approves €126.3mn Disbursement
Mar7th, 2016	Ministry of Finance asks IMF for the early termination of EFF arrangement & Euro-Group supports Cyprus graduation from the economic adjustment program. The last prior action of the completion of the review (CYTA corporatization) was not satisfied
May22nd, 2016	Parliamentary elections: The ruling right-wing party DHSY gained 37.6% (18 seats), the main opposition left-wing party AKEL gained 25.7% (16 seats), and DHKO gained 14.5% (9 seats)
Sep16th, 2016	S&P upgrade to BB
Sep30th, 2016	Draft Budget Plan submitted to the Parliament
Oct21st, 2016	FITCH upgrade to BB-
Oct 17th, 2016	Draft Budget Plan of 2017 submitted to EU Council of Ministers
Oct 25th, 2016	EU Commission sends a letter to the Cypriot Minister of Finance expressing its concern over a significant fiscal relaxation of the fiscal stance next year
Oct 27th, 2016	The Cypriot Minister of Finance replies to the EU Commission rebutting its arguments on fiscal relaxation and the calculation of the output gap in the case of Cyprus

Nov 11th, 2016	Moody's affirmed sovereign long-term rating at B1 but changed the outlook from stable to positive
Nov 15th, 2016	EU Commission adopts an official opinion on the Cypriot budget of 2017 assessing that it is at risk of non-compliance with the requirements of the SGP
Dec 6th, 2016	Eurogroup agrees with the EU Commission assessment and welcomes the commitments of Cyprus, in such circumstances, to implement the measures necessary to ensure that the 2017 budget will be compliant with the rules of the preventive arm of the SGP
Dec 7th, 2016	Parliament approved the Budget of 2017 with 28 votes for and 25 against
Dec 18th, 2016	Municipal elections

Eurobank Cyprus
Research

Economic Indicators	Description	Source	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
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
GDP (%YoY)	Constant Prices	Eurostat	4.6	3.9	4.5	4.9	3.7	-2	1.4	0.4	-2.4	-5.9	-2.5	1.6
Households and NPISHs Final Consumption Expenditure (YoY%)	Constant Prices	Eurostat	7.6	3.4	4.8	10.3	7.6	-6.2	2.6	0.5	-0.8	-5.9	0.6	1.9
General Government Final Consumption Expenditure (YoY%)	Constant Prices	Eurostat	1.2	2.8	7.0	3.3	5.7	6.4	-2.1	1.3	-3.7	-4.1	-9	1.1
Gross Fixed Capital Formation (YoY%)	Constant Prices	Eurostat	4.3	6.8	21.1	7.9	9.0	-13.7	-5.1	-9.3	-20.5	-15.2	-18	14
Exports of Goods and Services (YoY%)	Constant Prices	Eurostat	2.5	2.1	1.3	5.3	-0.7	-4.3	4.3	4.1	-1.1	1.8	-0.5	1.9
Imports of Goods and Services (YoY%)	Constant Prices	Eurostat	6.9	1.6	5.7	10.5	12.5	-15.0	6.2	-3.1	-4.4	-3.0	2.0	4.0
GDP	Current Prices, SA ,mil	Cyprus Statistical Service	13,767	14,731	15,879	17,375	18,822	18,482	19,118	19,547	19,469	18,065	17,394	17,421
GDP (%YoY)	Current Prices, SA ,mil	Cyprus Statistical Service	7.8	6.9	8.6	9.6	4.7	-2.5	5.3	0.5	-0.9	-8.9	-1.3	0.9
Labour Market														
Unemployment Rate	NSA	Cyprus Statistical Service		5.3	4.6	3.9	3.7	5.3	6.2	7.9	11.8	15.9	16.1	15.0
Labor Productivity	Per hour worked, % Change	Eurostat	2.6	2.2	3.2	-0.7	0.0	-1.2	1.1	0.7	1.1	1.6	0.4	0.9
Unit Labor Costs	Index, 2010=100	Eurostat	84.2	86.1	88.0	90.6	94.5	99.7	100.0	101.7	101.7	98.3	95.0	93.4
Unit Labour Cost Growth Total Economy	YoY%	Eurostat	1.5	2.3	2.2	3.0	4.3	5.5	0.3	1.7	0.0	-3.3	-3.3	-1.7
Short-term business statistics														
Economic Sentiment Index (ESI)	EoP, SA	EU Commission	106.3	99.8	108.1	108.4	97	93.8	97.1	85.7	76.6	89.6	102.7	106.7
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	
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
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
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
Industrial Production General Index	NSA	Cyprus Statistical Service	103.2	102.7	103.5	111.0	109.9	102.8	100.3	92.5	75.2	69.9	72.8	77.3
Industrial Production General (%YoY)	NSA	Cyprus Statistical Service	3.7	-0.5	0.8	7.2	-1.0	-6.5	-2.4	-7.8	-18.7	-7.0	-9.6	7.8
European Commission Capacity Utilization Cyprus SA	SA	Cyprus Statistical Service	70.0	72.6	66.8	71.3	69.4	63.0	63.9	58.1	53.7	50.8	54.5	61.1
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	
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	
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	
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	
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
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
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
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
Gross Household Saving Rate	% of Gross Disposable Income	Eurostat	8.7	9.7	10.0	6.3	6.0	9.4	7.3	5.4	0.6	-4.1	-10.8	
International Trade & Balance of payments														
Current account balance (%GDP)	BMP6	Eurostat					-15.6	-7.7	-10.7	-4.0	-5.6	-4.5	-4.5	-3.6
Current Account, Goods & Services Net Balance (%GDP)	BMP6	Eurostat					-12.9	-5.4	-6.6	-3.1	-1.1	1.1	0.7	-1.4
Current Account, Primary Income Net Balance (%GDP)	BMP6	Eurostat					-2.5	-1.3	-3.0	0.3	-3.1	-3.5	-2.8	0.3
Current Account, Secondary Income Net Balance (%GDP)	BMP6	Eurostat					-0.3	-1.1	-1.0	-1.1	-1.4	-2.1	-2.4	-2.6
Imports of Goods (%GDP)	BMP6	Eurostat					42.6	35.0	37.1	35.8	33.7	31.3	32.3	32.5
Exports of Goods (%GDP)	BMP6	Eurostat					12.2	13.2	14.0	15.5	15.6	15.0	16.1	14.3
Imports of Services (%GDP)	BMP6	Eurostat					20.9	19.6	19.9	19.6	20.4	25.9	27.0	28.9
Exports of Services (%GDP)	BMP6	Eurostat					38.4	36.0	36.4	36.8	37.4	43.2	43.9	45.7
Financial Account (%GDP)	BMP6	Eurostat					-18.7	-8.5	-9.2	-0.7	-2.9	-3.4	-4.6	0.5
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	-5.5	-4.8	-5.7	-5.8	-4.9	-8.9	-1.0
General Government Debt EDP Procedure (% GDP)		Cyprus Statistical Service	64.7	63.4	59.3	54.1	45.3	54.1	56.3	65.8	79.3	102.5	108.2	108.9
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
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
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
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
Market Indicators														
10Y Gov Bond Yield Rate	%, Middle Rate	Bloomberg	5.8	5.2	4.1	4.5	4.6	4.6	4.6	5.8	7.0	6.5	6.0	4.5
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	85.7	67.75