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TRIP NOTES: CYPRUS

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Trip Notes: Cyprus

Key notes from our recent trip to Nicosia: April 27th- 28th

In late April, we traveled to Nicosia in order to participate in the Cyprus Investment & Asset Management Conference where we met with high-level officials from the Central Bank, the Finance Ministry, the IMF, think tanks as well as market participants from the domestic financial sector. The present trip note attempts to offer our readers a cohesive overview of current conditions in the domestic economy and markets as well as the outlook ahead. Our visit coincided with the successful tapping of international bond markets by the Republic of Cyprus for the second time since June 2014. In the first section we discuss the progress of the Cypriot Economy within the economic adjustment programme in the last couple of years, next we delve into the short & medium term unaddressed challenges. Finally we talk about the medium term growth drivers and the need for a comprehensive post-MoU growth strategy with renewed emphasis on the comparative advantages of Cyprus.

Key points

- **After three consecutive years of recession, the economy of Cyprus bottomed out in 2014. In the first quarter of 2015, GDP registered the first positive growth on a quarterly and an annual basis since Q2-2011.**
- **A timid recovery is already underway, driven by the resilience of the export-oriented professional services and tourism sectors. GDP growth is projected to be marginally positive in 2015 and accelerate further in 2016.**
- **Cyprus has made significant adjustment progress within the programme in a number of areas including and not limited to restoring the health of the banking sector, the complete lift of capital controls, the fixing of the public finances and the addressing of earlier macroeconomic imbalances**
- **Yet there are still pending issues and challenges that remain unaddressed that may hinder economic recovery in the short and medium term**
- **An urgent solution to the complicated issue of NPLs is of high systemic importance in order to generate new credit**
- **The approval of the long delayed foreclosures and insolvency legislation put the programme back fully on track paving the way for the release of further official funding**
- **The faster than expected fiscal consolidation plus the unused programme funds designated for the recapitalization of the co-operative banking sector implies a large pool of funds that can be used as a buffer, thus eliminating the risk of any additional funding needed**
- **Cyprus ought to prepare more diligently for the post-Troika era, coming up with its growth model and rigorously implement the set of reforms compatible with it**

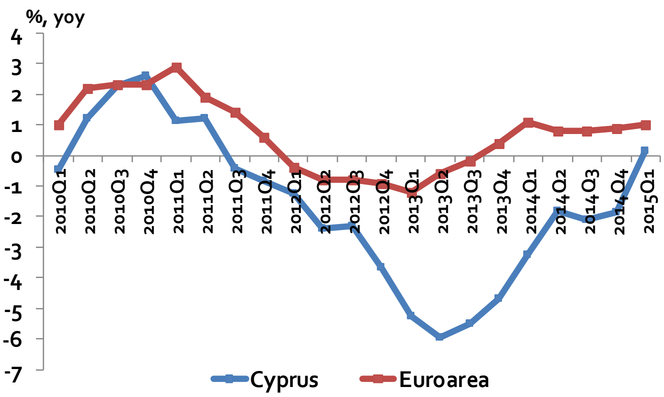
Cypriot Economy: a turnaround story within the Economic Adjustment Programme

Following Greece, Ireland and Portugal, Cyprus entered an €10bn official borrowing arrangement with ESM-IMF in liaison with an Economic Adjustment Programme [1] (the programme in what follows) under dramatic conditions in March 2013. Ever since, Cyprus has completed successfully four reviews within the programme. So far, the authorities have made use of about €6.75 bn out of the €10bn package. The endorsement of the long delayed insolvency framework by the parliament has paved the way for the completion of the combined (5th-6th) pending reviews at the staff level.

Macroeconomic outturns have so far come out better than expected in the initial and revised programme forecasts. Firstly, the recession of 2013-2015 has turned out milder. The cumulative output losses amounted to 7.5pps vs. 13.5pps in the programme[2]. A large part of the difference stems from the fact that the wealth effect of the bail-in and the spillover effects to the domestic economy were widely overestimated. From a demand point of view, private consumption remained resilient as both consumers and corporates used part of their precautionary savings to smooth out consumption. On the supply side, economic activity in the sectors of tourism and professional services remained relatively resilient as both of them are less credit dependent but also more extrovert and internationally competitive.

After spending two years in the programme, the economy is showing tangible signs of a turnaround. The economic environment has stabilized while the first green shoots have become more visible. In Q1-2015, the economy posted the first positive growth rate on a quarterly and yearly basis since Q2-2011. GDP growth expanded by +1.5% qoq/+0.2% yoy in Q1-2015 up from -0.3% qoq/-1.8% yoy in Q4-2014 vs. -0.4% qoq/-3.2% yoy in Q1-2014. In our discussions on the full year growth prospects, we reiterated our view for marginally positive growth in 2015. However, we concluded that the risks are heavily skewed to the downside. The main source of concern stems from the external sector headwinds. The negative spillovers from the unfolding recession in Russia and the Russia-Ukraine conflict cast shadow on the official projections of the external sector variables. In addition, the ongoing private sector deleveraging and the fiscal consolidation threaten to maintain the contribution of consumption to growth slightly negative. On the positive side, the implementation of EIB and private sector investment projects in the areas of infrastructure and marine tourism create optimism that investments are going to be a positive surprise as well.

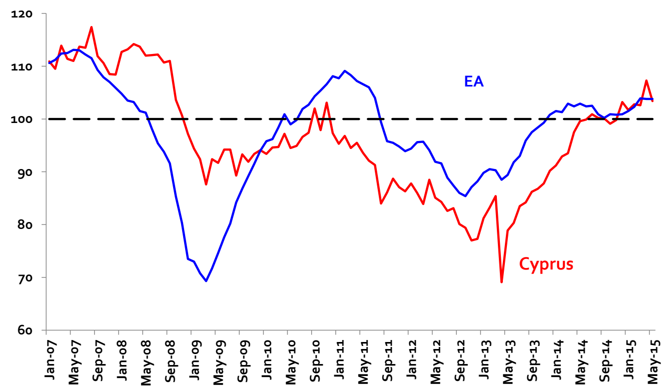
Figure 1: Growth performance Cyprus vs. Euroarea 2010-2015



Source: Eurostat, National Statistics, Eurobank Research

The Economic Sentiment Index (ESI) has been on an improving trend since May 2013, recovering above pre-Lehman era levels (May 2015: 103.4). In addition, the deposits base has stabilized and capital controls have been fully lifted as a result of the normalization of the financial conditions. Moreover, the fiscal and external accounts adjustment is fast and impressive by any standards of comparison.

Figure 2: Economic Sentiment Index (ESI) Cyprus vs. Euroarea 2007-15



Source: European Commission, Eurobank Research

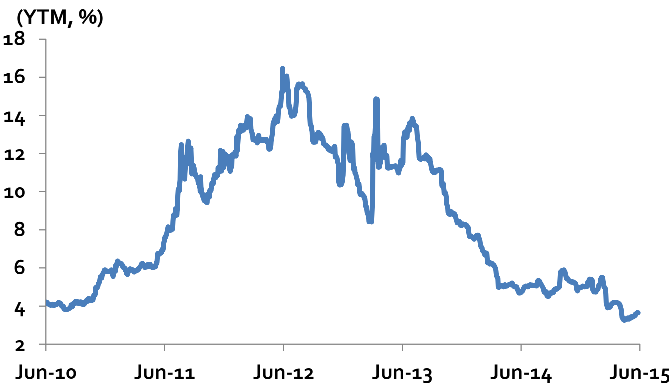
More importantly, the aforementioned progress is closely followed and acknowledged by rating agencies. Having upgraded the rating by one notch in last October (from B to B+), S&P revised the outlook to positive on March 27th. Accordingly, the compression of yield spreads has led to a gradual restoration of access to the financial

[1] For a more detailed analysis of the events between the two critical Eurogroup meetings of March 16–March 31, 2013 and the impact of the Eurogroup decisions on the local economy, see the Eurobank reports by Monokroussos (2013):"Eurogroup reaches last-minute agreement on Cyprus; worst-case scenario averted," March 26, available at: http://www.eurobank.gr/Uploads/Reports/New%20Europe%20Cyprus%20March%2026.pdf
and Gkionis & Monokroussos (2013):"Notes from out Trip to Limassol & Nicosia, Cyprus, 14-16 April 2013," available at: http://www.eurobank.gr/Uploads/Reports/Cyprus%20Trip%20notes%2030%20April%202013.pdf

[2] The full year contraction of 2013 came at -5.4% vs. -8.7% in the initial programme forecast. The full year contraction of 2014 came at -2.3% vs. an initial forecast of -4.8% (in May 2013).

markets. On April 28th, the Republic tapped international markets for the second time since June 2014. Cyprus raised €1bn selling a new 7Y bond at a yield of 4%. The faster than expected come-back to the financial markets has reduced the dependency on programme financing and improved the public debt profile. Previous costlier domestic short-term borrowing has been replaced with cheaper long-term denominated external funding. As a result, the weighted average maturity increased to 8 years in Q4-2014 and the weighted average debt servicing cost declined to 2.9% in Q3-2014 down from 4.2% in 2012.

Figure 3: 10Y Government Bond Yield



Source: Bloomberg, Eurobank Research

Cyprus accomplishments within the programme and the underlying reasons for the robust performance

Next, Cyprus has made a lot of progress in addressing earlier incurred macroeconomic imbalances[3]. From that point of view, Cyprus has accomplished a relatively fast internal and external adjustment within the internal devaluation framework to address the disequilibria of the past. The significant decline in the compensation per employee has led to a unit labor cost adjustment and subsequently to a decrease of the REER in ULC terms. The cumulative decline of the REER in ULC terms from its peak at Q3-2011 has reached 16.3% in Q2-2015. The current account deficit, an illustration of the loss of price competitiveness and overheating in the past years, has declined from its pre-crisis peak at 15.6% of GDP in 2008 to -3.5% in 2014.

Cyprus has also achieved an impressive fiscal adjustment effort during the last two years. The fiscal adjustment has been driven by both primary expenditures cuts but also tax revenue overperformance. The revenues overperformance reflects improved tax collection, revenue enhancing measures but also the less than expected drop in tax revenues which reflects the milder recession. The budget execution performance has been consistently outperforming targets. A general government primary surplus of 2.8% of GDP in cash terms has been achieved in 2014 two years ahead of schedule vs. a primary deficit of -1.9% in 2013 (downwardly revised from a revised target of -3.2% of GDP adjusted for the pension funds compensation). Accordingly, the general government achieved an almost balanced position in 2014: The general government deficit in cash basis declined from -4.9% of GDP in 2013 to only -0.2% of GDP in 2014, and is projected to widen modestly to -1.5% of GDP in 2015 mainly because of one-off factors (the winding up of Cyprus Airways). In addition, the hefty revision of GDP nominal figures following the adoption of ESA2010 (by 10%, the highest in EU-28) improved the public debt to GDP ratio even further. As a result, the public debt to GDP ratio peaked at 107% in 2014 and is expected to drop below 100% by 2016 (99% vs. 124% previously).

More importantly, the repair of the financial sector has advanced further in the post-bail in era. Additional capital injections enabled domestic banks to pass the ECB stress tests in autumn 2014 (System CET1:14.8% in Sep2014). After the recapitalization of the domestic banking sector with bail-in resources, Bank of Cyprus was further able to strengthen its capital base through a €1bn capital increase, Hellenic Bank was recapitalized with private sector funds (€100mn through private funds from three major investors in November 2013), the Co-operative sector used only €1.5bn out of the designated €2.5bn leaving an €1bn buffer for banking sector purposes intact.

The downsizing of the domestic banking sector led total assets to decline at 425% of GDP in 2014 down from 633% in 2012, lower than other established financial hubs, but still above the EU-28 average. Therefore, the progress in restructuring and recapitalization of the financial sector had a positive impact on depositors' confidence in the system, so that the deposits base broadly stabilized at €46.5bn. The deposits base stabilization allowed for the fourth stage of the agreed roadmap[4] for the full lift of capital controls in early April[5].

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[3] For an extensive analysis on the macroeconomic imbalances incurred in the pre-crisis years see the Eurobank report by: Anastassatos, T., Gkionis, I. and Monokrousos, P. (2013). Cyprus at a turning point, Economy & Markets, VIII(5), July, available at: http://www.eurobank.gr/Uploads/Reports/EconomyMarketsJuly13.pdf

[4] The Ministry of Finance introduced a four stage roadmap for the abolition of capital controls in August 2013. The first three included the relaxation of internal payment restrictions, the abolition of cash withdrawal limits and the opening of new accounts, the fourth referred to the full lift of capital controls for payments and transfer of funds abroad.

[5] In a media address on April 3rd, the President of the Cyprus Republic Mr. Nikos Anastasiadis announced a package of measures aimed at fully restoring confidence in the banking system and stimulating the domestic economy. The package included 1) the full lift of capital controls effective from Monday April 6th. 2) the

The faster than expected fiscal consolidation plus the unused programme funds designated for the recapitalization of the co-operative banking sector imply a large pool of funds that can be used as a buffer, thus eliminating the risk of any additional funding needed. In addition, the better than anticipated fiscal performance reduces the financing needs of the government, which in turn will most probably minimize the necessity of additional adjustment measures in 2017-18 in order to achieve the medium term primary surplus target of 3%. Provided that structural reforms advance even further, extra budget savings could emerge. As a result, those funds could be utilized to support public investments thus providing some more flexibility for fiscal policy to become more growth friendly.

Overall, Cyprus strong performance in the program has its roots in the institutional quality of the country, the relative high efficiency of the public sector and the high level of ownership of the program by the authorities. Starting from the latter, the authorities have shown strong commitment to the programme conditionalities so far, and have established a strong track of timely and continued policy implementation. The quantitative targets have been met ahead of time and by a wide margin. The level of ownership of the program is high despite the politically difficult decisions.

Last but not least, the institutional and administrative capacity of Cyprus is very close to the EU average, which implies that the executive body is in a relative favorable position to carry out the necessary structural reforms. Cyprus has a relative well-functioning government sector and high administrative capacity to carry out structural reforms. This is revealed in a number of perception indices[6] published by world-renowned institutions which measure the quality of institutions. At the same time, political and social tensions have been moderate despite painful decisions. Cypriots have shown great adaptability and composure due to the dramatic episodes in the recent history.

Cyprus unaddressed short and medium term challenges

Despite the progress made, there are still pending and unaddressed issues. Meeting quantitative targets doesn't necessary mean there is room for complacency. The progress in those areas will determine whether Cyprus will develop a reinforced base for sustainable growth in the medium and long term.

deployment of extra €280mn for infrastructure projects from the budget 3) the acceleration of the implementation of the EIB projects in Cyprus €162mn of 4) programs to subsidize employment worth €58mn 5) measures in the area of urban planning aimed to stimulate real estate investments

[6] The Government Effectiveness Index, the Corruption Perception Index and the Rule of Law, World Bank & Transparency International

Addressing NPLs is an issue of high systemic priority

The issue of non-performing loans (NPLs) was a focal point in our discussions. The non-performing loans ratio reached 47.5% in 2014, close to the fifty percent threshold. This is among the highest ratios following any recent banking crisis after Ukraine (1998) and Iceland (2008). More importantly, it is not entirely justified by the deterioration in economic activity and the subsequent rise in unemployment and the disposable income decline. The latter implies that a number of strategic defaulters have emerged primarily as a result of the bail-in event.

The change in the methodology used weighted negatively in the recalculation of the NPLs ratio. The old definition was based on the amount of loans overdue for more than 90 days, but not covered by collateral. The new definition is more conservative by the IFRS standards raising the volume of NPLs including restructured loans that at the time of restructuring were classified in NPLs or were arrears for more than 60 days. In addition, the conservative methodology includes clauses that inflate NPLs. For instance, one NPL triggered from the same debtor renders all his outstanding loans as NPLs.

Addressing the complicated issue of non-performing loans is of high systemic priority. The high levels of NPLs deters banks from extending new lending, thus leading to a more prolonged period of limited credit supply and hinder economic recovery. More importantly, it creates distortions in the economy, as resources are trapped in unproductive assets. Most of the NPLs originate from the downturn of the real estate market (mortgage or construction loans).

To mitigate the impact on the banking sector balance sheets, banks increased their provisions. However, the increase of provisions failed to keep up with the rise of NPLs so that the provisions coverage ratio stood at 31% in Q3-2014 vs. 38.7% in 2013, much lower than the EU average. In addition, banks have mobilized human resources creating specialized units. The Central Bank has also published the Directive on Arrears Management aiming to introduce the international best practice by all domestic credit institutions. The banking sector needs time and resources to build capacity to handle NPLs and also solve the problem adequately.

To address the issue of NPLs from a structural point of view, the right incentives for banks and borrowers ought to be in place. To do so, banks need to be equipped with the appropriate legal framework. The previous framework was outdated and time consuming, thus not effective in protecting property rights and the enforcement of contracts as the procedure to facilitate restructuring or liquidation was a time consuming and costly one. The new framework, a subject of intense political deliberations, will provide banks the necessary tool for addressing strategic defaulters and allow for effective debt-restructuring, essential for the resolution of NPLs.

The thorny issue of putting into effect an efficient assets foreclosure framework in line with the programme conditionalities met political resistance. The parliament approved legislation that made the implementation of the foreclosures legislation conditional upon adopting the insolvency framework. The insolvency framework, a set of bills complementary to the foreclosures legislation, is designed to balance borrowers' rights with their obligations to lenders, offering them protection from foreclosure under certain circumstances. Linking the foreclosures bill with the insolvency framework may have helped partially cushion political reactions within the parliament, but has also delayed procedures putting the endorsement of the fifth review temporarily off-track. The fifth review was adopted on the staff level in last June, approved by the ESM board in early December but not endorsed by the IMF board.

On April 18th, the parliament of Cyprus endorsed the new corporate and personal insolvency framework with a majority of 33 votes in favor and 23 against. The new framework will put the program back on track and provide access to additional financing. More importantly, the legislation will allow Cyprus to benefit from the ECB QE program. Even though the size of the expected ECB bond buy-backs seems not to exceed €500mn, it still represents a sizeable proportion of the outstanding stock (around 25%).

The focus has shifted to the effective implementation of the new framework. The effectiveness of the recently approved legal framework will be reviewed and revisited by the Troika in the coming months. The Troika has expressed reservations with respect to the effective implementation of these frameworks, will need further adjusting and strengthening, based on experience over the coming months and international best practices.

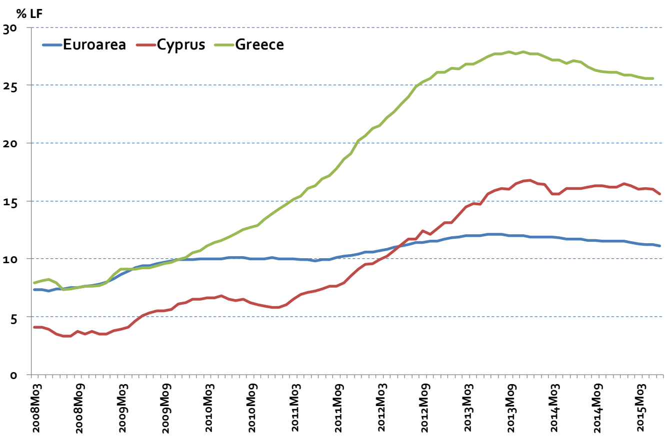
Furthermore, there are two pending issues that will most probably get more attention in the next review. The first one refers to the legislation to facilitate the sale of bank loans to foreign institutional investors and private funds through securitization. The creation of a new market for non-performing assets will allow banks to dispose of them, thus cleaning up their balance sheets more quickly and efficiently.

The second one refers to the issues related with the Land Registry. The Land Registry is the only institution responsible to determine the property values as well as for the issuance and transfer of the title deeds. The Land Registry is currently confronted with a backlog of many requests which complicates things further in terms of the required collateral repossession and foreclosures procedures. In addition, many property sales from developers (mortgage properties) have taken place without the issuance of a title for the buyer in order to avoid the high transfer tax

Unemployment peaked but still remains at elevated levels

On the flipside, the implementation of the programme in Cyprus has also had social costs. The increase in unemployment- a pan European disease- was among the direct consequences of the adjustment process. Unemployment jumped to 15.9% in 2013 up from 11.9% in 2012 and only 3.7% in 2008. This is the fourth highest rate in EU-28 after Greece, Spain and Croatia. Unemployment peaked at 16.8% in October 2013 and embarked on a decreasing path ever since, bringing the average rate at 16.1% in 2014. The latest reading stood visibly lower at 15.6% in April 2015 vs. 16.1% in April 2014.

Figure 3: Unemployment rate in Cyprus vs Euroarea 2008-2015



Source: Eurostat, National Statistics, Eurobank Research

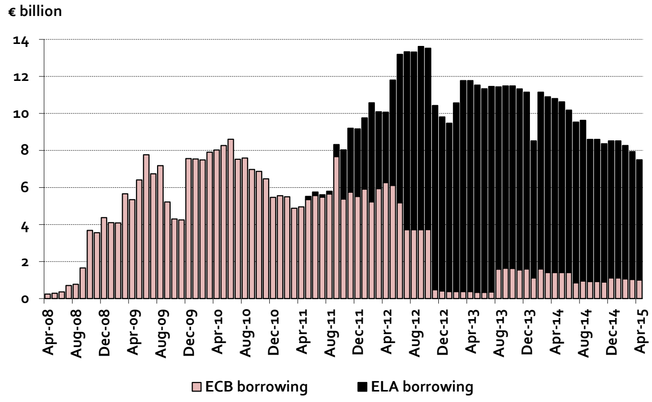
Against a background of price and wage flexibility, employment contraction eased from -4.2% and -5.2% in 2012 and 2013 respectively to -1.9% in 2014. The losses in employment were partially offset by the rise in part-time employment. Finally, emigration of the labor force helped cushioning the rise in unemployment (emigration expanded by 18k and 25k in 2012 and 2013 respectively). Key challenges in the period ahead include the reduction of the youth unemployment (36% of the LF in 2014) and the long-term unemployment (almost half of unemployment in 2014 is of long-term nature).

ELA funding is still very large relative to the size of the economy

Another issue of attention is that of Emergency Liquidity Assistance (ELA) funding. Cyprus 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 over time to peak at €11.4 bn in March 2013. The ELA funding of Laiki Bank was folded into the Bank of Cyprus when they merged into one entity.

However, the capital increase, the disposal of overseas operations and the redemption of the recapitalization of Laiki Bank resulted in ELA funding declining to €6.5bn in April 2015, while the regular financing from ECB operations stood at €1bn. Yet the outstanding amount is still very large for the size of the economy (37.4% of projected GDP in 2015).

Figure 4: ELA & ECB borrowing 2008-2015



Source: Bloomberg, ECB, Eurobank Research

The spillovers from the Russia-Ukraine conflict

Cyprus is heavily exposed to the developments in the Russian economy through the significant trade ties. Cyprus has a sizeable trade deficit with the rest of the world which is offset by the trade surplus with Russia. The trade surplus with Russia[7] is heavily reliant on the positive balance of services (+5.9% of GDP in 2014 vs. 7% of GDP in 2013) because the balance of goods is negligible (+0.6% of GDP in 2014 vs. 0.9% of GDP in 2013). Russia is the largest export market for tourism and business services. Tourist arrivals from Russia have been growing over the past years. Despite the financial sector turbulence and the rise of the corporate tax rate (from 10% to 12.5%), Cyprus has maintained its status as a prominent international business and financial services hub. A cluster of high caliber professionals provide an array of diverse and interacting business services (consultant, lawyer, accounting etc.) to Russian corporations registered in Cyprus.

Stronger push for the structural reforms agenda

A key component of the programme conditionalities is the implementation of structural reforms. Structural reforms are essential to improve the efficiency of the economy and set the economy back on a sustainable path. Reforms in the areas of revenue administration, public financial management, the pension system (increase of contributions and statutory age) and the welfare system (the introduction of Guaranteed Minimum Income) have advanced and become operational. Yet there is still need for a follow up on them through secondary legislation, close monitoring and further adjustments. Additional reform initiatives in the healthcare system and energy sector are still in the pipeline. Finally, there is still a lot of work to be done in the areas of regulated professions, an important step in adopting fully the Services Directive.

Need to timely implement the privatization plan

The implementation of the privatizations plan, a key component of the overall programme, has been advancing slowly in the recent months. The privatization plan refers primarily to the sale of the state-owned public utilities (assets widely known as semi-government organizations): the Telecomm Utility (CYTA), the Electricity Authority (EAC) and the Port Authority (CPA). After the adoption of the law in the parliament (back in June 2014), a privatization unit has been created in line with the MoU requirements.

The privatization process is about to reach decisive stage where the political commitment will be tested in the parliament in the coming period. The process is politically sensitive because multiple stakeholders (government, parliament, political parties, and unions) are involved. The government has committed that several steps ought to be taken in order not to undermine the worker rights (e.g. voluntary retirement schemes). In addition, legislation needs to be approved in the parliament for the transformation of the semi-government organizations to private entities and then begin the tender process.

Three privatization projects are in the pipeline. The project of privatization of the telecom company CYTA is at a more mature stage: the advisers for this project have been selected. The project of EAC is more complicated and time consuming because an energy adviser needs to come in and advise on restructuring, legal unbundling and corporatization options. Consultations with Troika for making a detailed plan for the separation and privatization of the commercial operations of the CPA are expected to take place in the following months.

The benefits from the privatization process are not limited only to the sale revenues. Efficiency gains are going to accrue from a structural point of view. According to the programme, revenues of €1.4bn are anticipated to lower the public debt. More importantly, the successful process will most probably foster more competition with multiple benefits for the domestic economy (attracting FDI inflows, creating jobs etc.).

[7] Eurostat data: Balance of Payments data according to BOP6, National accounts data ESA2010

Cyprus: Medium-term growth drivers

Lastly, our attention turned to the medium growth prospects of the economy. Almost two and a half years after Cyprus entered the programme, the economy has turned page. The recession stopped and the economy stabilized in 2015, in line with the programme forecasts. The economy has returned to growth in the first quarter of 2015. Cyprus will most likely achieve a marginally positive full year growth in 2015 after three consecutive years of recession. The implementation results are broadly satisfactory. Macroeconomic imbalances have been nearly eliminated. Structural reforms are advancing albeit at a slow pace of implementation. The credibility of implemented policies and the stability of the financial sector have been restored.

For more than a decade and before the Lehman Brothers collapse in 2008, Cyprus enjoyed robust and uninterrupted growth. The growth model was built around domestic demand, primarily private consumption, financed by rapid credit expansion. On the supply side, the growth model was overly reliant on services, both financial and business, plus real estate and construction. This type of business model diverted attention from traditional industries such as tourism, rendering the economy more vulnerable to financial crises and sudden stops of capital inflows.

The attractiveness of the tourist product declined over time. Cyprus ranked 29th in terms of "value for money" in 2013 down from 20th in 2007. Nevertheless, tourism is still an important source of growth (22.1% of GDP in 2013) with strong multiplier impact on a number of domestic sectors, and a significant generator of revenue and employment (22.1% of total employment in 2013). The crisis provides an opportunity for Cyprus to reinvigorate the tourist industry and improve the image of Cyprus as a tourist destination, continuously upgrade, enrich and diversify the tourist product in order to reduce seasonality, boost revenues and increase employment in the sector in the near future.

On the other hand, the confirmation of the natural gas reservoir in Block 12 has opened up new possibilities for Cyprus. Even though the revised estimates for the gas findings are lower than the initial evaluation (from a gross mean of 7tcf to around 5tcf), it has been confirmed that those are still marketable to exploit. Those can be utilized to address the domestic energy consumption needs and sales to the neighboring Egypt and Jordan. Additional quantities from other blocks may be needed to strengthen the commercial viability of the project. In any case, the gas findings are a novel opportunity for the island albeit it would take a bigger time horizon span (after 2020) for the direct benefits of exploration to accrue. Making Cyprus an offshore energy hub will upgrade the geopolitical status of the island but also provide an alternative solution for energy security in Europe

After a sharp output decline in 2012-2014, it is apparent that Cyprus has entered a new growth path. The economy showed some flexibility in addressing the shock of the banking crisis. Yet the key question is whether Cyprus will be able to achieve sustainable growth rates in the medium term[8]. To do so, there is still need for a comprehensive post-MoU growth strategy for which policymakers ought to make a diligent preparation. The programme describes the necessary but yet not sufficient conditions for medium and long-term growth. The new growth strategy should rely on the key comparative advantages of the island. Cyprus enjoys comparative advantages such as the low corporate tax rate, the key geostrategic position of the island in the Mediterranean Sea, the facilitation of international business, quality human capital. From that point of view, Cyprus could turn the crisis into an opportunity. Authorities should define and rigorously implement reforms that are compatible with this new growth paradigm.

Cyprus: Macro & Market Data

	2013	2014	2015f	2016f
Real GDP (yoy%)	-5.4	-2.3	0.4	1.4
Private Consumption	-6.0	0.4	-0.1	1.1
Public Consumption	-4.9	-8.7	-2.1	-0.8
Gross Capital Formation *(Fixed)*	-17.1	-18.8	1.3	3.6
Exports	-5.0	5.7	1.5	1.5
Imports	-13.6	8.1	-0.1	1.0
Inflation (yoy%)				
HICP (annual average)	0.4	-0.3	-0.8	0.9
HICP (end of period)	-1.3	-1.0	-0.5	1.1
Fiscal Accounts (%GDP) - *ESA2010*				
General Government Balance	-4.9	-8.8	-1.1	-0.1
Gross Public Debt	102.2	107.5	106.7	108.4
Primary Balance	-1.8	-6.0	1.7	2.6
Labor Statistics				
Unemployment Rate (LFS, %)	15.9	16.1	16.2	15.1
Wage Growth *(total economy)*	-6.0	-4.7	-0.3	1.1
External Accounts				
Current Account (% GDP)	-3.0	-5.1	-3.9	-4.2
Net FDI (EUR bn)	0.2	1.1	0.7	0.7
FDI / Current Account (%)	55%	127%	104%	106%
Domestic Credit	**2011**	**2012**	**2013**	**2014**
Total Credit (%GDP)	351.4	373.5	351.4	356.0
Credit to Enterprises (%GDP)	159.5	171.1	160.2	150.1
Credit to Households (%GDP)	138.8	138.9	140.0	143.5
Private Sector Credit (yoy)	4.8%	-0.5%	-6.0%	-3.2%
Loans to Deposits (%)	98.9%	103.3%	135.3%	133.5%

Source: National Sources, Eurostat, IMF, Eurobank Research

[8] 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

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