

A long-haul journey out of the woods



General Information

GDP	USD19.560bn (World ranking 107, World Bank 2015)
Population	1.17mn (World ranking 158, World Bank 2015)
Form of state	Republic
Head of government	Nicos ANASTASIADES
Next elections	2018, presidential



Strengths

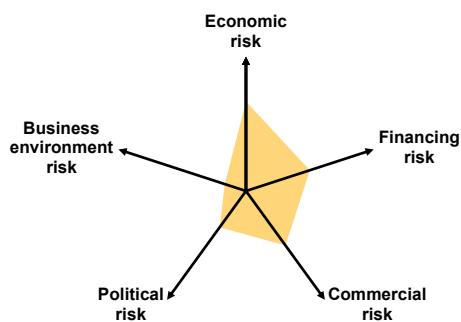
- Strong and stable business environment inside the Eurozone
- Attractive fiscal system for corporates (12.5% corporate tax rate, the lowest in the EU along with Ireland)
- Highly skilled and English-speaking workforce
- Diversity of trade partners and access to Middle Eastern, European and Asian markets

Weaknesses

- Overreliance on the services sector, especially tourism, financial services and real estate
- Very high gross external debt due to significant non-resident bank deposits
- High public debt
- Still fragile banking sector due to the high share of non-performing loans

Country Rating

B2



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports	Rank	Imports
Egypt	14% 1	19% Greece
Greece	10% 2	7% China
Israel	10% 3	7% Germany
Poland	7% 4	7% United Kingdom
Malaysia	7% 5	6% Italy

By product (% of total)

Exports	Rank	Imports
Refined Petroleum Products	29% 1	15% Refined Petroleum Products
Pharmaceuticals	9% 2	9% Ships
Ships	7% 3	6% Toiletries
Telecommunications Equipmer	5% 4	5% elecommunications Equipment
Basic Organic Chemicals	4% 5	4% Cars And Cycles

Source: Chelem (2015)



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Economic Overview

Strong growth momentum for the second consecutive year

After the return to growth in 2015 following three years of recession, the economy continued to strengthen in 2016, with GDP growth reaching a robust +2.8%, the highest level since 2008. Tourism was one of the main drivers of the economy with revenues exceeding 13% of GDP in 2016. This allowed a strong rebound in total exports of goods and services (volume): +3.6% in 2016. The economy's competitiveness was reinforced in some sectors as wages declined. The lower euro also played its part since Cyprus' main trading partners are outside the Eurozone (e.g. Egypt, China and Israel).

Private consumption grew by +2.9% in 2016 (up from +1.9% a year earlier). The construction sector and fixed investments were significant contributors to GDP growth as well thanks to important acquisitions of transport equipment which boosted total investment growth.

Inflation remained negative until the end of 2016. Better economic prospects and rising commodity prices boosted prices and we expect inflation to climb to +1.5% on average in 2017. This should be supportive for higher turnover growth.

Overall growth is expected to be strong in 2017 and 2018, with +2.8% and +2.5% respectively. These figures outreach by far the Eurozone average forecasts of +1.9% and +1.7%. Private consumption should be the main driver for growth thanks to strong employment growth and resilient purchasing power despite the rise in inflation.

Successful emergence from a deep banking crisis, but vulnerabilities remain

Cyprus exited the EUR10bn bailout program in March 2016. The program helped the country recover from the 2013 severe banking crisis when it was teetering on the brink of bankruptcy. Financing conditions have improved since 2014 (see Figure 3).

However, credit continues to contract as private sector deleveraging is far from complete. Though on a downward trend, non-financial corporations and households' debt are among the highest in the EU: 225% and 130% of GDP respectively. In addition, the banks are still restructuring their impaired assets.

Yet non-performing loans remain very high and a portion of previously restructured loans tend to re-default. This hampers the sound functioning of the banking sector. In 2016, almost half of total gross loans (47%) were non-performing, 10pp above the Greek NPL stock. The lack of a secondary market for loans and a loan securitization framework at the local or European level make restructuring slower and more painful.

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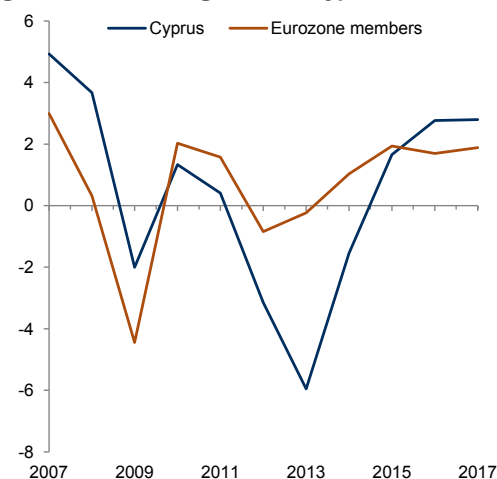
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Figure 1 - Key economic forecasts

	2015	2016	2017f	2018f
GDP growth (% change)	1.7	2.8	2.7	2.5
Inflation (% average)	-2.1	-1.4	1.5	1.4
Fiscal balance (% of GDP)	-1.2	0.4	0.2	0.5
Public debt (% of GDP)	107.5	108.0	107.0	103.0
Current account (% of GDP)	-2.9	-5.2	-5.9	-6.0

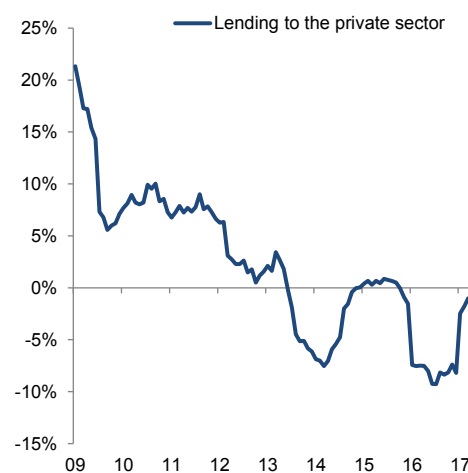
Sources: National sources, IHS, Euler Hermes

Figure 2 - Real GDP growth of Cyprus and Eurozone



Sources: National sources, IHS, Euler Hermes

Figure 3 - Lending to private sector, y/y



Sources: National sources, IHS, Euler Hermes