



MINISTRY OF FINANCE

MACROECONOMIC
MONITOR
OF CYPRUS

FEB
2021



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MACROECONOMIC MONITOR OF CYPRUS

Updated on 23 February 2021

Macro Economy

- In the 4th quarter of 2020, GDP (in seasonally adjusted terms) recorded a negative rate of growth of 4.5%, compared with a negative rate of 4.7% in the 3rd quarter of 2020 on an annual basis (see graphs 1.1-1.2). The negative GDP growth rate is mainly attributed to the sectors: "Hotels and Restaurants", "Manufacturing", "Transport, Storage and Communication", "Wholesale and Retail Trade, Repair of Motor Vehicles", "Arts, Entertainment and Recreation", "Other Service Activities" (see graphs 3.1-3.4 and 6.1-6.2).

- Developments currently driven by decreases in private consumption, gross fixed capital formation and external demand (see graphs 2.1-2.4).

- In January 2021, economic sentiment in Cyprus deteriorated as the **Economic Sentiment Indicator (ESI-CypERC)** decreased by 5.2 points compared with December 2020. The decrease in the ESI-CypERC resulted from a weakening of economic confidence among businesses and consumers.

- In January 2021, **tourist arrivals decreased at a rate of 95.5%** compared to January 2020 (see graph 6.3). A decrease of 79.5% was recorded in tourist arrivals from Greece and a decrease of 79.7% in tourist arrivals from Germany.

- **Employment** developments reflect conditions of weaker economic activity. Employment in persons recorded a **decrease of 0.3%** in the first nine months of 2020 compared with the same period in 2019. A decrease was recorded in the accommodation and food service activities and in transportation and storage while increases were recorded mainly in construction, professional, scientific and technical activities, education and manufacturing.

- **Labour Force Survey (LFS) unemployment**, in monthly seasonally adjusted terms, **increased to 7.3% in December 2020 compared to 6.3% in December 2019** (see graphs 4.2-4.3). The most affected segment of the population is youth unemployment, although it has been on a downward trend since the 3rd quarter of 2013 falling to 21.3% in 2020Q4 from a peak of 41.1% in the 2nd quarter of 2013.

- **Compensation per employee** recorded a decrease of 1.2% in the first nine months of 2020 compared with the same period in 2019 (see graphs 5.3-5.5).

- **Inflation** (HICP) in January 2021 recorded a decrease of 0.8% compared to a decrease of 0.8% in December 2020 (see graph 5.1). Core HICP recorded an increase of 0.8% in January 2021 (see graph 5.2). All subcategories of HICP presented

a decrease except categories clothing and footwear, health, recreation and culture and restaurants and hotels.

- **Imports of goods recorded a decrease of 8.1%** in January-December 2020 compared to January-December 2019. The decrease in imports is affected by developments in imports of transport equipment (aircrafts and vessels). Imports of goods, excluding imports of aircrafts and vessels, exhibit a decrease of 9.6%.

- **Exports of goods recorded a decrease of 12.6%** in January-December 2020 compared to January-December 2019 due to exports of transport equipment (aircrafts and vessels) occurring in 2019. Exports of goods, excluding exports of aircrafts and vessels, exhibit a decrease of 12.3%.

External Sector

- The **current account (CA)** balance (see graph 6.4) recorded a deterioration, with the deficit increasing from €105.5 mn in 2019Q3, to €784.2 mn in 2020Q3. For the first nine months of 2020, the current account recorded a deficit of €1,676.1 mn (8% of GDP) compared with a deficit of €944.9 mn (4.2% of GDP) in the same period in 2019. The resulting deficit when adjusting the data for the impact of Special Purpose Entities (SPEs), that is, classifying SPEs as non-residents, stood at €1,798.6 mn (8.6% of GDP) in the first nine months of 2020, compared with a deficit of €978.3 mn (4.4% of GDP) in the same period in 2019.

- The **international investment position (IIP)** (see graph 6.5) recorded a slight deterioration at the end of 2020Q3, presenting a net liability position of €27,263.2 mn, compared with a net liability position of €27,023.3 mn in 2020Q2. With the corresponding data being adjusted for the impact of SPEs, IIP recorded a net liability position of €9,337.7 mn at the end of 2020Q3, compared with a net liability position of €8,997.4 mn, at the end of the previous quarter.

- The **gross external debt** decreased to €188,588.8 mn in 2020Q3 from €189,395.9 mn in 2020Q2. The external assets in debt instruments increased to €114,880.9 mn, up from €110,539.4 mn in 2020Q2. Consequently, net external debt decreased by €5,148.6 mn to €73,707.9 mn, over 2020Q3. Adjusted for the impact of SPEs, gross external debt reached €60,325.6 mn at the end of 2020Q3, compared to €60,204.1 mn, at the end of 2020Q2. The corresponding net external debt indicator declined to -€2,880.5 mn, compared with -€2,635.5 mn at the end of the previous quarter.

Public Finances

- **General government budget balance (GGBB)** recorded a deficit in January-November 2020, of the order of €799.1 mn (-3.8% of GDP) compared to a surplus of €566.3 mn (2.5% of GDP) during the corresponding period the year before (see graph 9.1).
- **General government primary balance (GGPB)** recorded a deficit in January-November 2020, of the order of €370.8 mn (-1.8% of GDP) compared to a surplus of €1,042.5 mn (4.7% of GDP) during the corresponding period the year before (see graphs 9.1-9.2).
- **Total expenditure** exhibited an increase of about 10.5%, reaching €8,270.5 mn in January-November 2020, compared to €7,485.2 mn during the corresponding period the year before (see graph 9.3).
- **Total revenue** exhibited a decrease of about 7.2%, reaching €7,471.4 mn in January-November 2020, compared to €8,051.5 mn during the corresponding period the year before (see graph 9.3).

Property Market

- Eurostat's **house price index** for Cyprus recorded a **decrease of 4.8%** in the 3rd quarter of 2020 compared to the 2nd quarter of 2020 and a decrease of 1.3% compared to the 3rd quarter of 2019.
- The CBC's **residential property price index** recorded a **decrease of 0.4%** in the 3rd quarter of 2020 compared to the 2nd quarter of 2020 and an increase of 1.2% compared to the 3rd quarter of 2019. Cumulative from the 1st quarter of 2008 it has exhibited a decline of 23.7% (see graph 7.1), revealing an adjustment to the conditions of lower domestic and foreign demand.
- According to the Department of Lands and Surveys, **new sale contracts** were down by 30.9% while transfers of property were **down by 12.3%** in January 2021 compared with January 2020 (see graph 7.3).
- Monetary Financial Institutions (MFI) **mortgage loans to domestic residents** for housing **increased by 4.6%** in December 2020 (see graph 7.2).

Banking Sector Developments

- **MFI loans to domestic residents** (private sector) **increased by 3.3%** in December 2020 (see graphs 8.2-8.4). Lending conditions still tight (see graphs 8.6-8.7).
- **Deposits of domestic residents** held with MFIs (private sector) exhibited an **increase of 1.8%** in December 2020 (see graph 8.1).
- Overall **lending and deposit interest rates** in Cyprus continue to decline, creating an environment conducive to growth (see graph 8.5). In December 2020, **deposit interest rates** for maturity of up to 1 year decreased and of up to 3 months remained unchanged compared with the preceding month. The **lending interest rates** to households for primary residence increased and the rate for other loans up to €1 mn for businesses decreased. The interest rate for bank overdrafts to non-financial corporations decreased.
- **NPEs** in October 2020 decreased to €6.3 bn compared to €9.06 bn in December 2019. The decrease for the first ten months was €2.7 bn and was due to write offs of €500 mn of NPEs of Hellenic bank in May, the sale of a portfolio of NPLs (BOC) with a gross value of €916 mn, cash repayments of loans, reclassified NPEs as performing facilities and debt to assets. The percentage of NPEs to Gross Loans decreased from 28% at the end of December 2019 to 21% at the end of October 2020.
- **Accumulated provisions** increased to 54% in October 2020 compared to 53.7% of NPEs in December 2019 and 49.9% as at the end of 2018, thus facilitating restructuring activity with a view to cure NPEs of viable customers.
- In 2020, Bank of Cyprus and Hellenic Bank planned to sell up to €4 bn **NPE portfolios**. Bank of Cyprus announced that has reached an agreement with PIMCO LLC for the sale of a portfolio of NPLs with a gross value of €916 mn in August 2020, (Portfolio A- Project Helix 2) and in January 2021 the sale of a gross value of €545 mn (Portfolio B- Project Helix2).
- In 30st of March 2020, the Ministry of Finance issued the Ministerial Decree regarding the **suspension of installments and interest on credit facilities** for a nine-month period until 31/12/2020 due to the consequences of COVID-19 and issued a complementary Ministerial Decree in 7th of May 2020. A new Ministerial Decree issued in 18 January 2021 regarding the suspension of installments and interest on credit facilities for a six-month period until 30/06/2021. The borrowers who apply for suspension of installments and in-

terest for the whole nine-month period until 31/12/2020 are not eligible to the new Ministerial Decree.

Credit Ratings

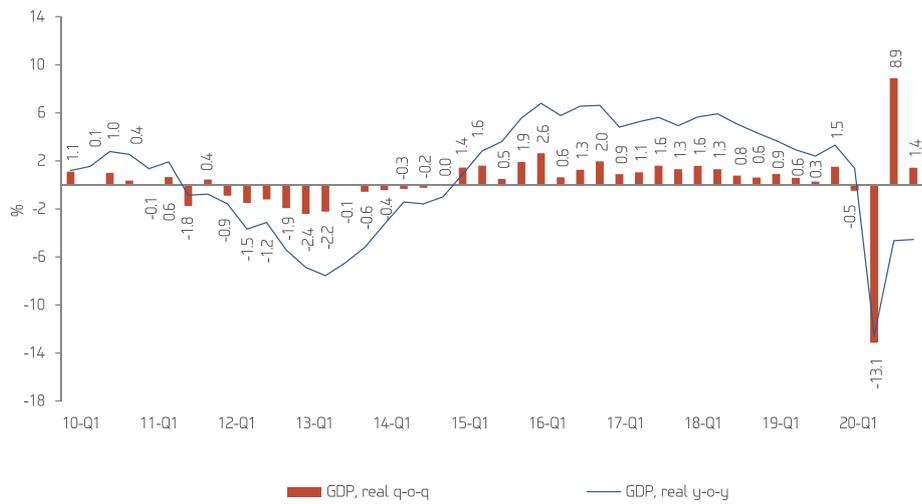
- On 13/11/2020, DBRS Ratings confirmed the Republic of Cyprus's Long-Term Foreign and Local Currency - Issuer Ratings at BBB (low) and the trend to Stable.
- On 02/10/2020, Fitch Ratings affirmed the Outlook on Cyprus's Long-Term Foreign-Currency Issuer Default Rating (IDR) to Stable and the IDR at BBB-.
- On 07/03/2020, Standard & Poor's Ratings affirms Cyprus Ratings at 'BBB-/A-3' and stable outlook.
- Additionally, on 20/09/2019, Moody's Investors Service changed the outlook on the Government of Cyprus's Ba2 ratings to positive from stable. Concurrently, Moody's has affirmed the Ba2 long-term issuer and senior unsecured ratings, and the (P)Ba2 programme ratings. Cyprus's short-term ratings have also been affirmed at Not Prime (NP) and (P)NP.

1. OUTPUT

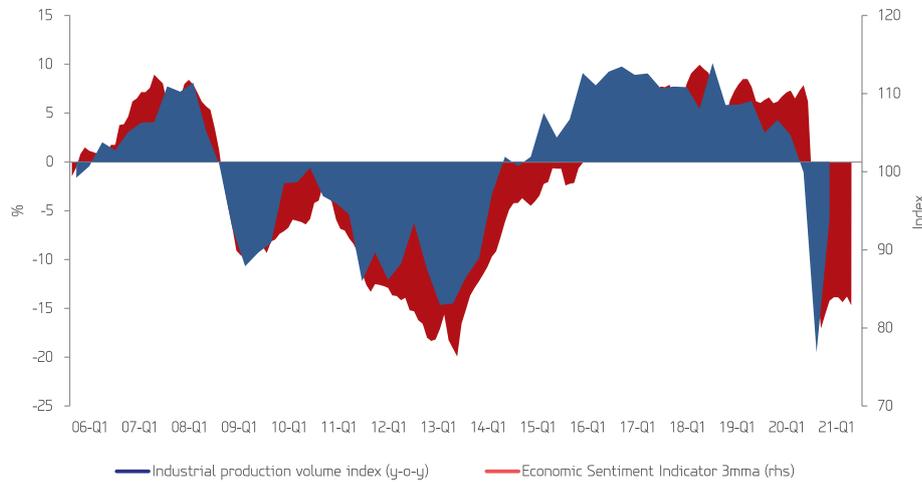
Graph 1.1. GDP



Graph 1.2. GDP



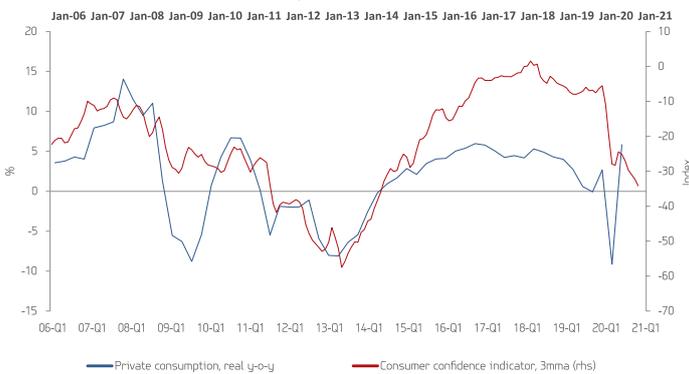
Graph 1.3. INDUSTRIAL PRODUCTION



Sources: Eurostat, DG ECFIN, Cystat

2. CONSUMPTION

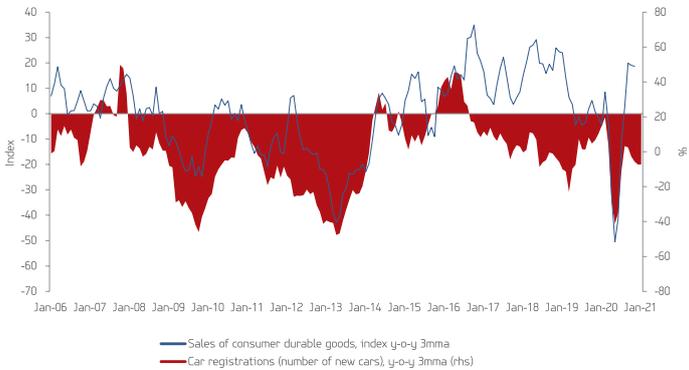
Graph 2.1. CONSUMPTION



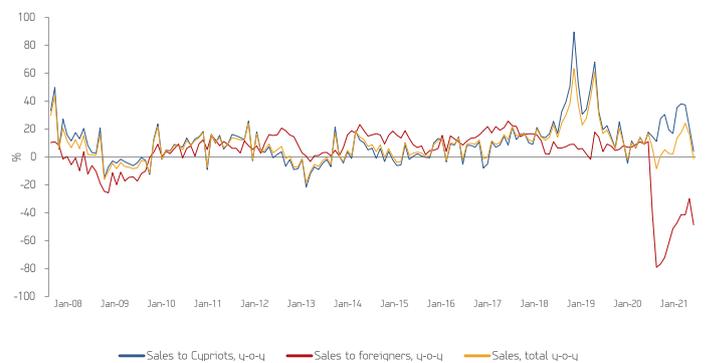
Graph 2.2. RETAIL TRADE



Graph 2.3. CAR REGISTRATIONS



Graph 2.4. CREDIT CARD TRANSACTIONS

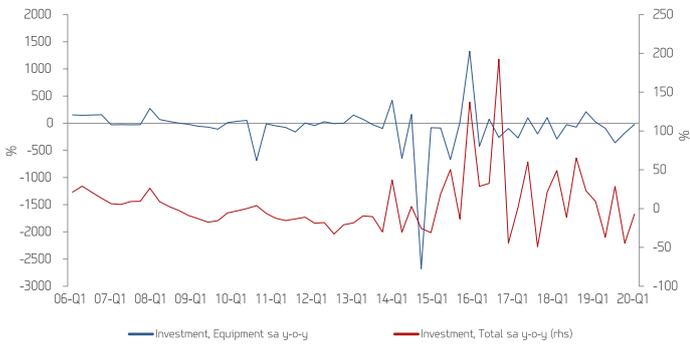


Note: Data for credit card transactions from 2018 onwards were revised based on reclassification of some foreign cards to local cards, thus data are not comparable with the data of the previous years.

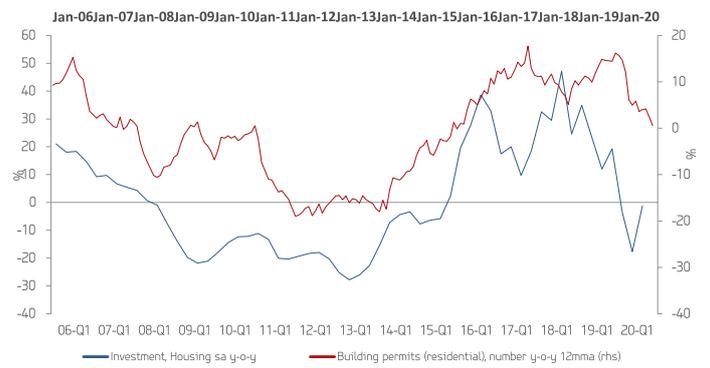
Sources: Eurostat, DG ECFIN, Cystat, JCC Payment Systems Ltd

3. INVESTMENT

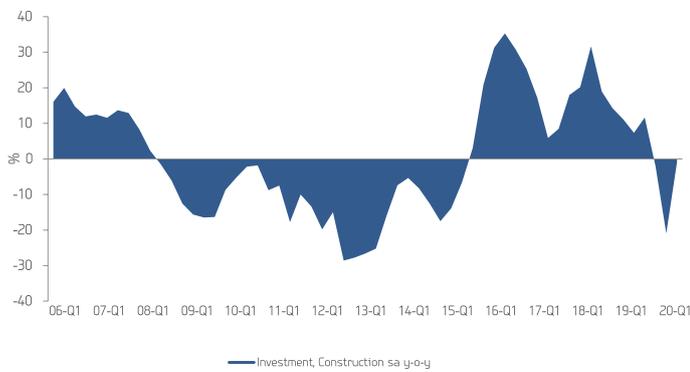
Graph 3.1. INVESTMENT EQUIPMENT AND TOTAL



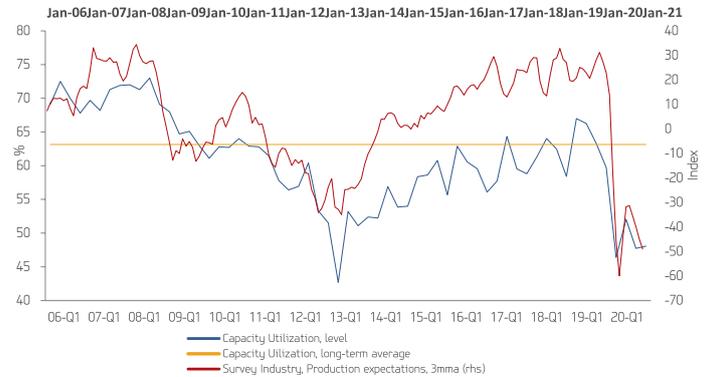
Graph 3.2. BUILDING PERMITS



Graph 3.3. INVESTMENT CONSTRUCTION



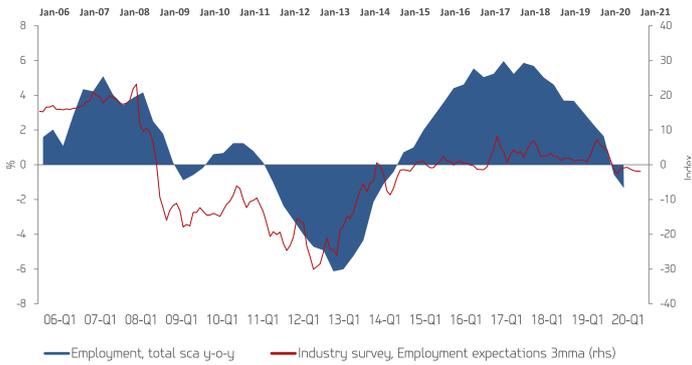
Graph 3.4. CAPACITY UTILIZATION



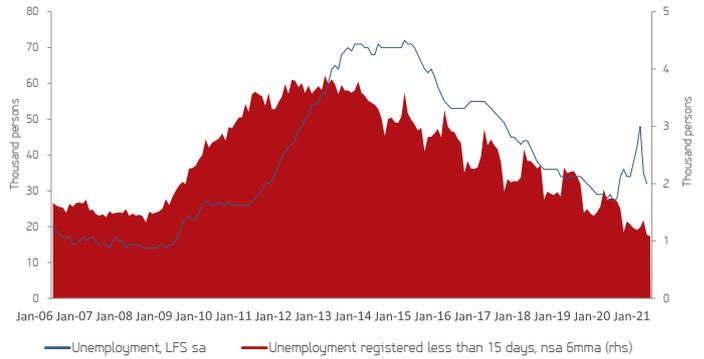
Sources: Cystat, DG ECFIN, CypERC

4. LABOUR MARKET

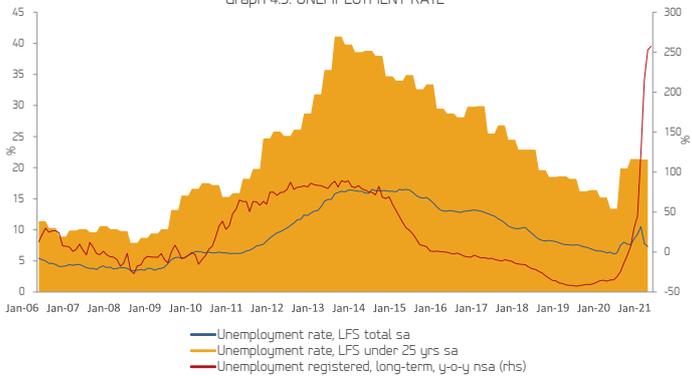
Graph 4.1. EMPLOYMENT



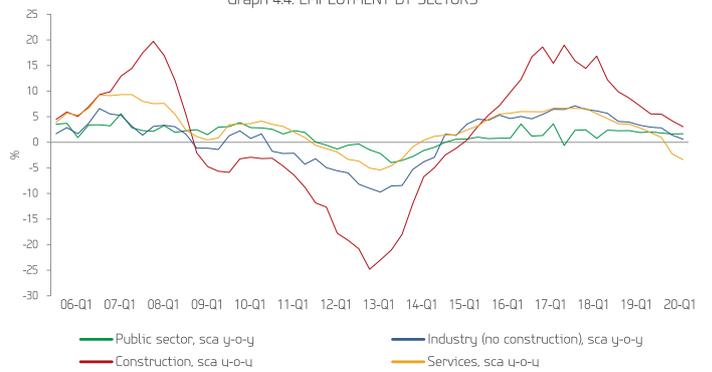
Graph 4.2. UNEMPLOYMENT



Graph 4.3. UNEMPLOYMENT RATE



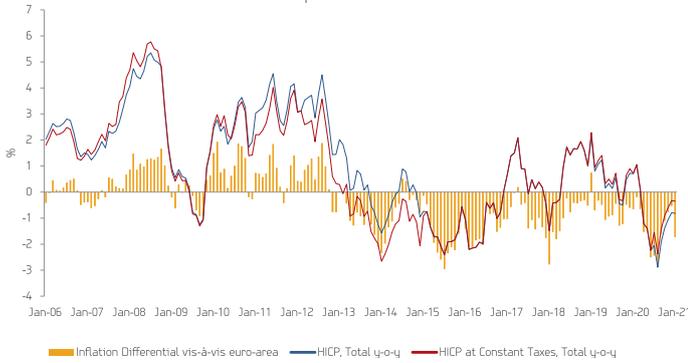
Graph 4.4. EMPLOYMENT BY SECTORS



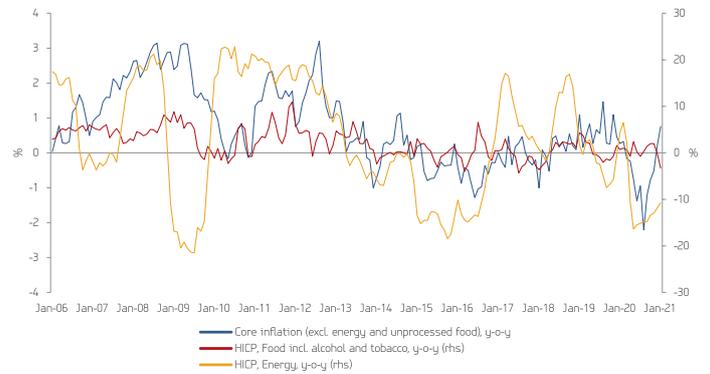
Sources: Eurostat, DG ECFIN, Cystat

5. INFLATION / WAGES

Graph 5.1. HICP INFLATION



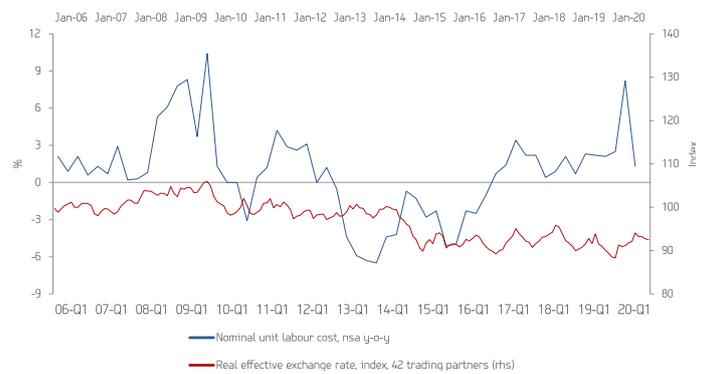
Graph 5.2. HICP INFLATION COMPONENTS



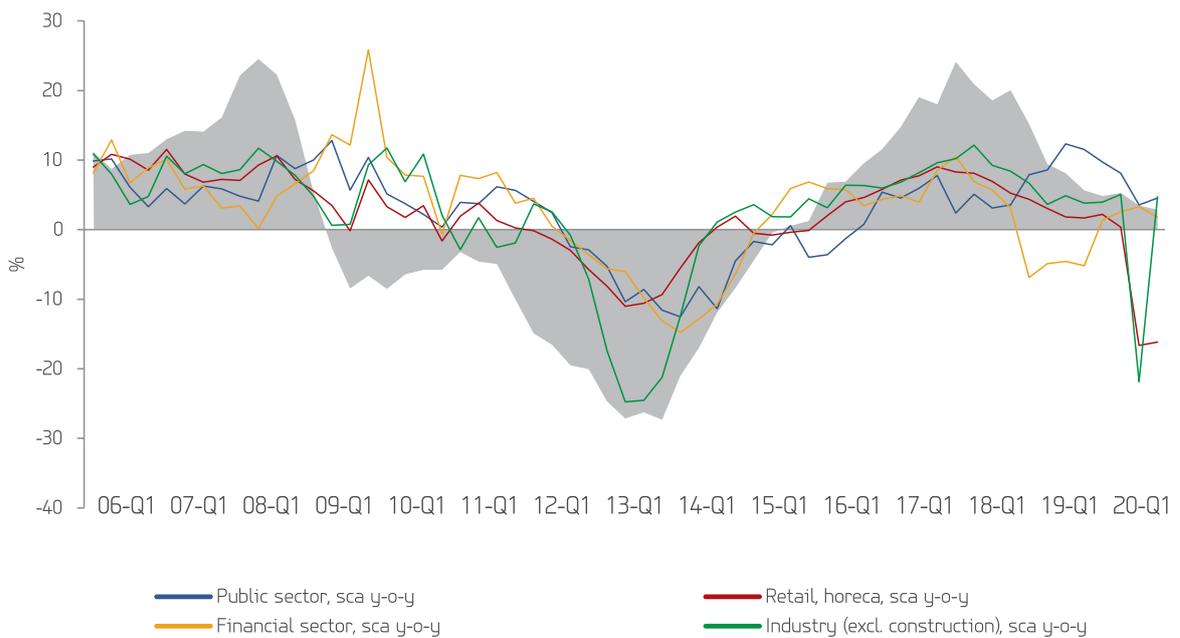
Graph 5.3. PRODUCTION AND WAGES



Graph 5.4. COMPETITIVENESS



Graph 5.5. WAGE DEVELOPMENTS BY SECTORS



Source: Eurostat

6. EXTERNAL SECTOR

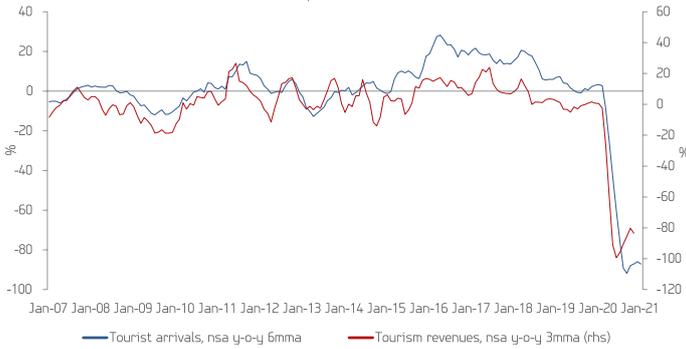
Graph 6.1. EXPORTS



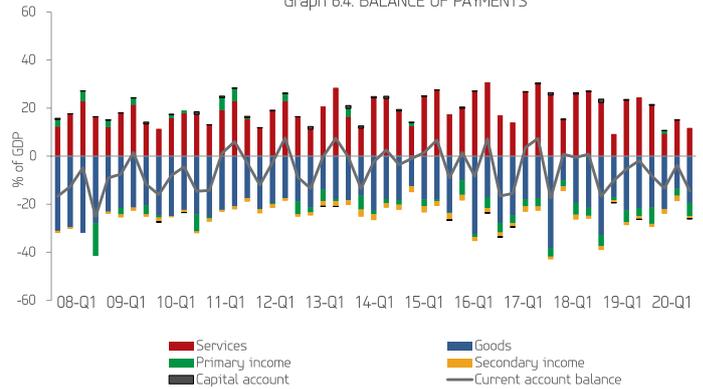
Graph 6.2. IMPORTS



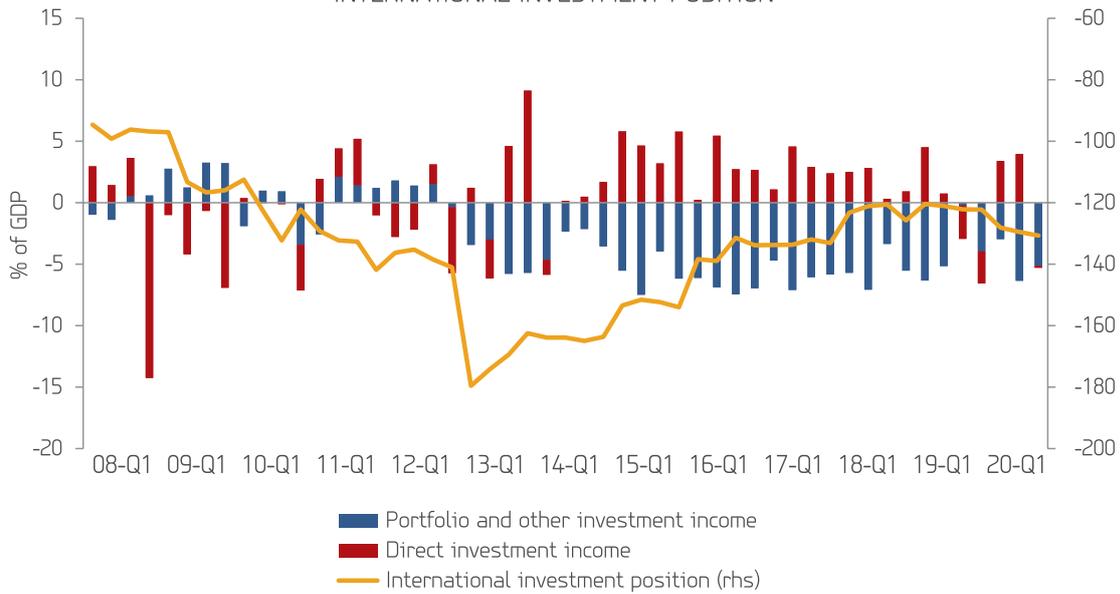
Graph 6.3. TOURISM



Graph 6.4. BALANCE OF PAYMENTS



Graph 6.5. PRIMARY INCOME FLOW AND INTERNATIONAL INVESTMENT POSITION



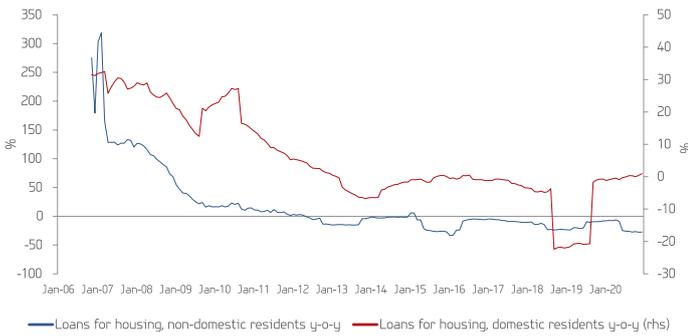
Sources: Cystat, CBC

7. HOUSING

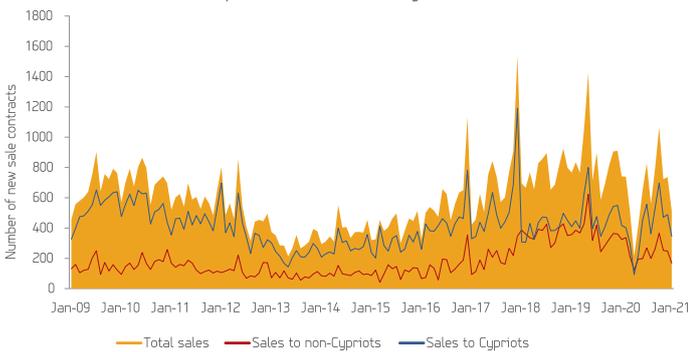
Graph 7.1. HOUSE PRICES AND HOUSING LOANS



Graph 7.2. HOUSING LOANS by residence



Graph 7.3. PROPERTY SALES by residence

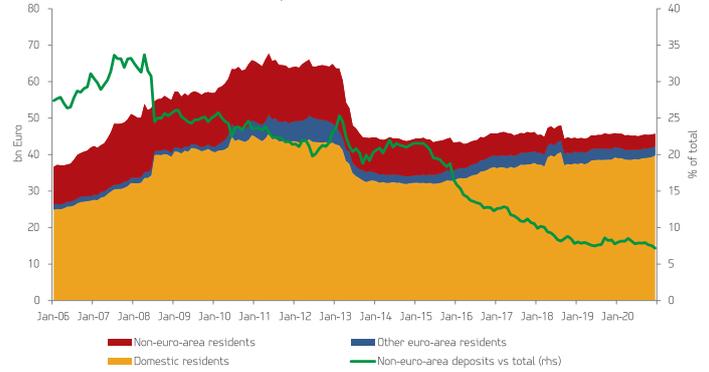


Note: According to the relevant modifications to the codification of the term "Alien" in the Land Information System, the way the statistics are presented has been modified. Therefore, the suggestion of the Department of Lands and Surveys is to avoid the comparison of the specific data from 2018 onwards, with the data of the previous years.

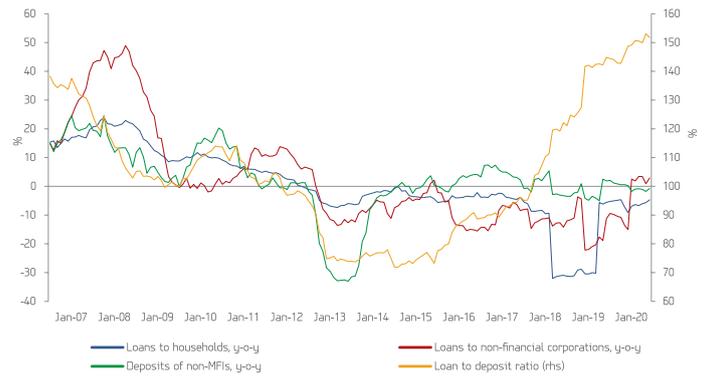
Sources: CBC, Dep. of Lands and Surveys

8. FINANCIAL SECTOR

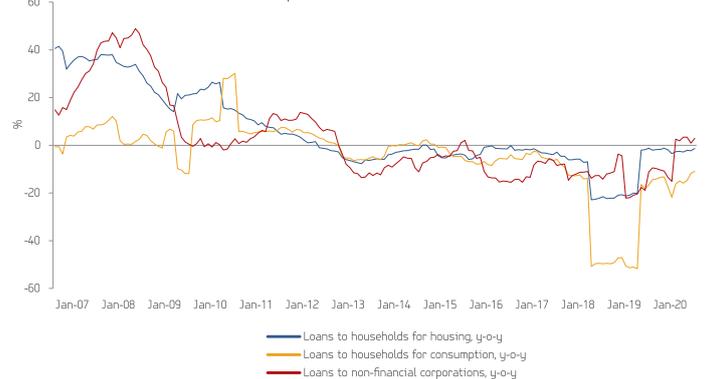
Graph 8.1. DEPOSIT STRUCTURE



Graph 8.2. LOANS AND DEPOSITS EVOLUTION



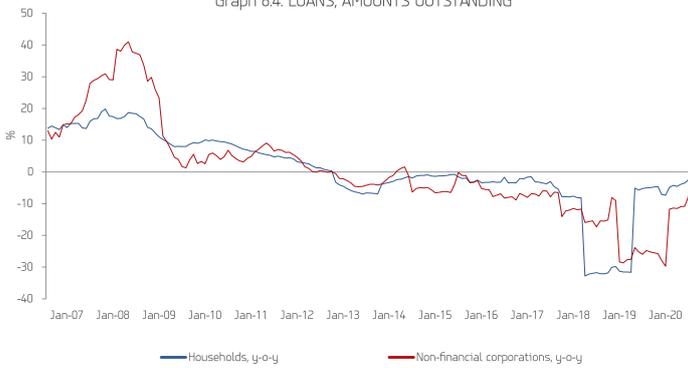
Graph 8.3. CREDIT DEVELOPMENTS



Source: CBC, EMMI

8. FINANCIAL SECTOR

Graph 8.4. LOANS, AMOUNTS OUTSTANDING



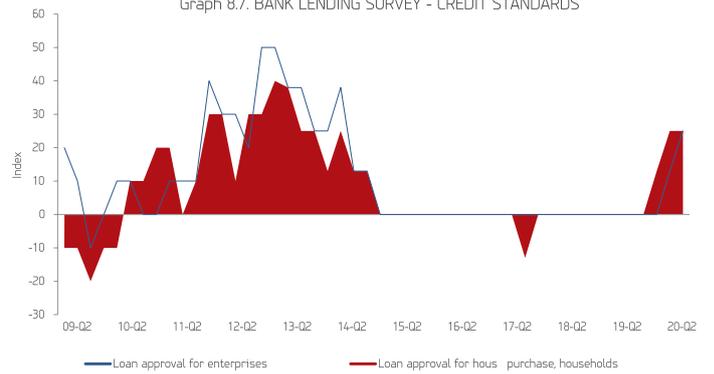
Graph 8.6. BANK LENDING SURVEY - LOAN DEMAND



Graph 8.5. INTEREST RATES SPREADS over Euribor



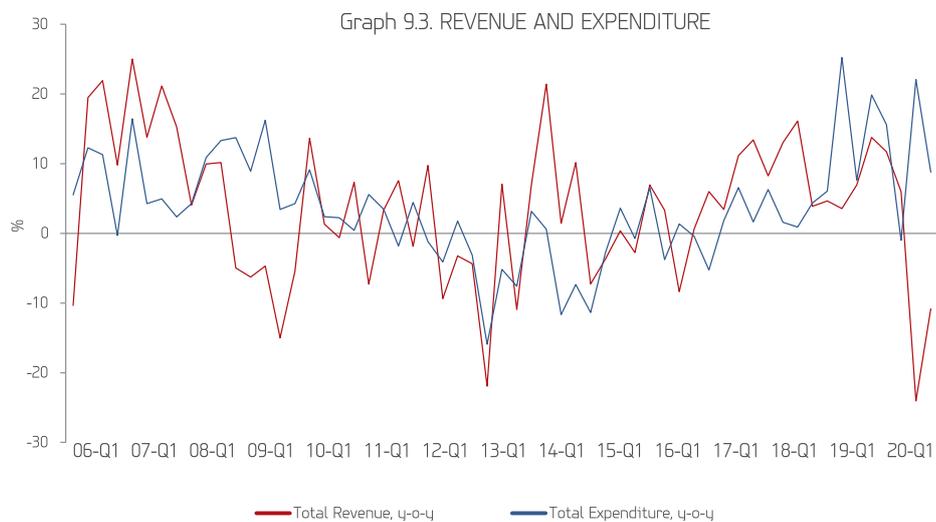
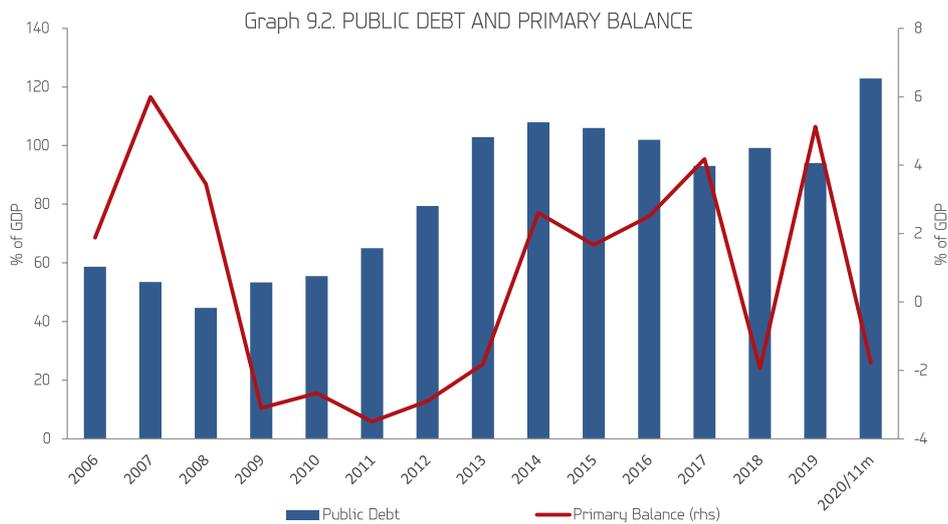
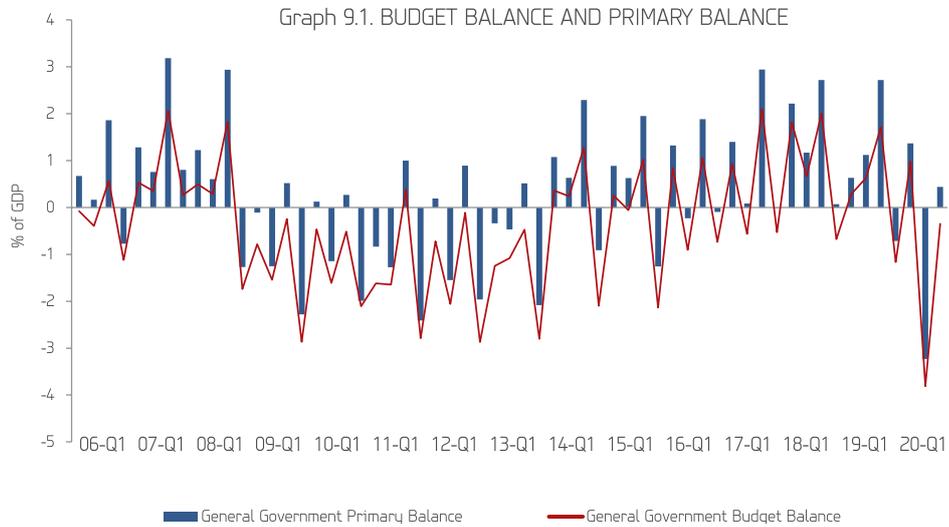
Graph 8.7. BANK LENDING SURVEY - CREDIT STANDARDS



Sources: CBC, EMMI

Source: ECB

9. PUBLIC SECTOR



Sources: Ministry of Finance, Cystat