



MINISTRY OF FINANCE

MACROECONOMIC
MONITOR
OF CYPRUS

APR
2021



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MACROECONOMIC MONITOR OF CYPRUS

Updated on 19 April 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 March 2021, economic sentiment in Cyprus improved significantly, as the **Economic Sentiment Indicator (ESI-CypERC)** increased by 8.9 points compared with February 2021. The increase in the ESI-CypERC was mainly driven by confidence gains in services and among consumers.

- In March 2021 tourist arrivals decreased by 84.1% compared to March 2020 and in January-March 2021, **tourist arrivals decreased at a rate of 92.8%** compared to January-March 2020 (see graph 6.3). Arrivals from Greece were the main source of tourism for the month of March 2021, with a share of 32.2% of total arrivals, followed by France with 10.6% and Germany with 10.5%.

- **Employment** developments reflect conditions of lower economic activity due to the pandemic. Employment in persons recorded a decrease of 0.6% in 2020 compared with 2019. A decrease was recorded in the accommodation and food service activities and in transportation and storage while increases were recorded in construction, professional, scientific and technical activities, education, health and manufacturing.

- **Labour Force Survey (LFS) unemployment**, in monthly seasonally adjusted terms, **increased to 6.8% in February 2021 compared to 6.1% in February 2020** (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 20.1% in 2020Q4 from a peak of 41.1% in the 2nd quarter of 2013.

- **Compensation per employee** recorded a decrease of 3.2% in 2020 compared with 2019 (see graphs 5.3-5.5).

- **Inflation (HICP)** in March 2021 recorded an increase of 0.3% compared to a decrease of 0.9% in February 2021 (see graph 5.1). For January-March 2021, it stands at -0.5%. The

largest changes were noted in Housing, Water, Electricity, Gas and Other Fuels, in Communication and in Food and Non-Alcoholic Beverages. Core HICP recorded an increase of 0.7% in January-March 2021 (see graph 5.2).

- **Imports of goods recorded a decrease of 8.6%** in January-February 2021 compared to January-February 2020. Imports are affected by developments in imports of transport equipment (aircrafts and vessels). Imports of goods, excluding imports of aircrafts and vessels, exhibit a decrease of 12%.

- **Exports of goods recorded a decrease of 24.1%** in January-February 2021 compared to January-February 2020. Exports of goods, excluding exports of aircrafts and vessels, exhibit a decrease of 21%.

External Sector

- The **current account (CA)** balance (see graph 6.4) recorded a deterioration, with the deficit increasing from €1,406.0 mn (-6.3% of GDP) in 2019, to €2,476.4 mn (-11.8% of GDP), in 2020. The resulting deficit adjusted for the impact of Special Purpose Entities (SPEs), that is, classifying SPEs as non-residents, stood at €2,384.5 mn (-11.4% of GDP) in 2020, compared with a deficit of €1,510.0 mn (-6.8% of GDP) in 2019.

- The **international investment position (IIP)** (see graph 6.5) recorded a deterioration in 2020, presenting a net liability position of €29,446.0 mn, compared with a net liability position of €27,252.4 mn in 2019. With the corresponding data being adjusted for the impact of SPEs, IIP recorded a net liability position of €10,837.4 mn in 2020, compared with a net liability position of €8,980.0 mn, in 2019.

- The **gross external debt** increased to €189,307.3 mn in 2020 from €189,212.0 mn in 2019. The external assets in debt instruments increased to €112,421.0 mn, up from €109,001.9 mn in 2019. Consequently, net external debt decreased by €3,323.8 mn to €76,886.2 mn, in 2020. Adjusted for the impact of SPEs, gross external debt reached €59,769.4 mn in 2020, compared to €60,572.6 mn, in 2019. The corresponding net external debt indicator increased to -€869.8 mn, compared with -€998.7 mn in 2019.

Public Finances

- **General government budget balance (GGBB)** recorded a deficit in January-February 2021, of the order of €70.4 mn (-0.3% of GDP) compared to a surplus of €226.0 mn (1.1% of GDP) during the corresponding period the year before (see graph 9.1).
- **General government primary balance (GGPB)** recorded a surplus in January-February 2021, of the order of €1.7 mn (0% of GDP) compared to a surplus of €284.7 mn (1.4% of GDP) during the corresponding period the year before (see graphs 9.1-9.2).
- **Total expenditure** exhibited an increase of about 18.8%, reaching €1,510.3 mn in January-February 2021, compared to €1,271.3 mn during the corresponding period the year before (see graph 9.3).
- **Total revenue** exhibited a decrease of about 3.8%, reaching €1,439.9 mn in January-February 2021, compared to €1,497.3 mn during the corresponding period the year before (see graph 9.3).

Property Market

- Eurostat's **house price index** for Cyprus recorded an **increase of 4.7%** in the 4th quarter of 2020 compared to the 3rd quarter of 2020 and an increase of 2.4% compared to the 4th 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 0.3% while **transfers of property** were up by 26.3% in January-March 2021 compared with January-March 2020 (see graph 7.3).
- Monetary Financial Institutions (MFI) **mortgage loans to domestic residents** for housing **increased by 4.8%** in February 2021 (see graph 7.2).

Banking Sector Developments

- **MFI loans to domestic residents** (private sector) **increased by 2.5%** in February 2021 (see graphs 8.2-8.4). This reflects the still tight lending conditions (see graphs 8.6-8.7).
- **Deposits of domestic residents** held with MFIs (private sector) exhibited an **increase of 1.3%** in February 2021 (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 February 2021, **deposit interest rates** for maturity of up to 1 year remained unchanged and of up to 3 months decreased 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 remained unchanged.
- **NPEs** in December 2020 decreased to €5.1 bn compared to €9.06 bn in December 2019. The decrease for year was €3.9 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 decrease of €715 mn between October and November (Gross Loans and NPEs) was mainly due to write offs that either concern contractual or "accounting" write offs. The percentage of NPEs to Gross Loans decreased from 28% at the end of December 2019 to 17.7% at the end of December 2020.
- **Accumulated provisions** decreased to 46.1% in December 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).

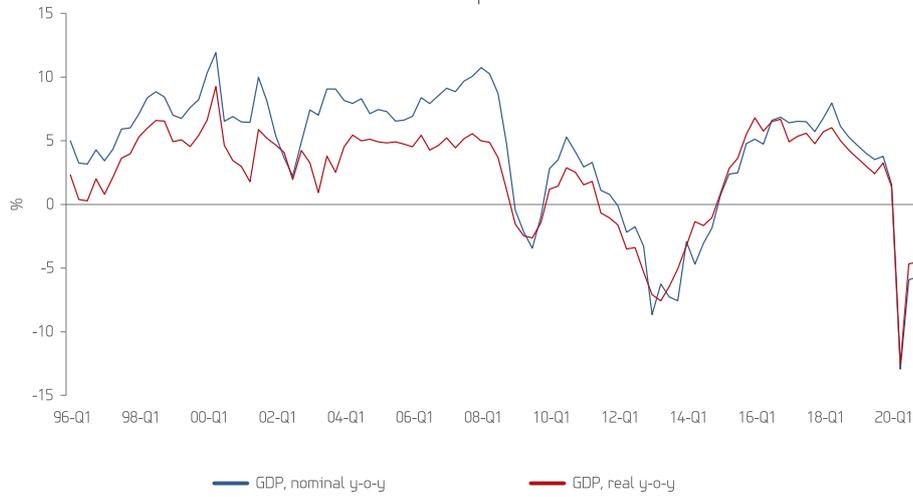
Credit Ratings

- On 26/03/2021, Fitch Ratings affirmed the Outlook on Cyprus's Long-Term Foreign-Currency Issuer Default Rating (IDR) to Stable and the IDR at BBB-.

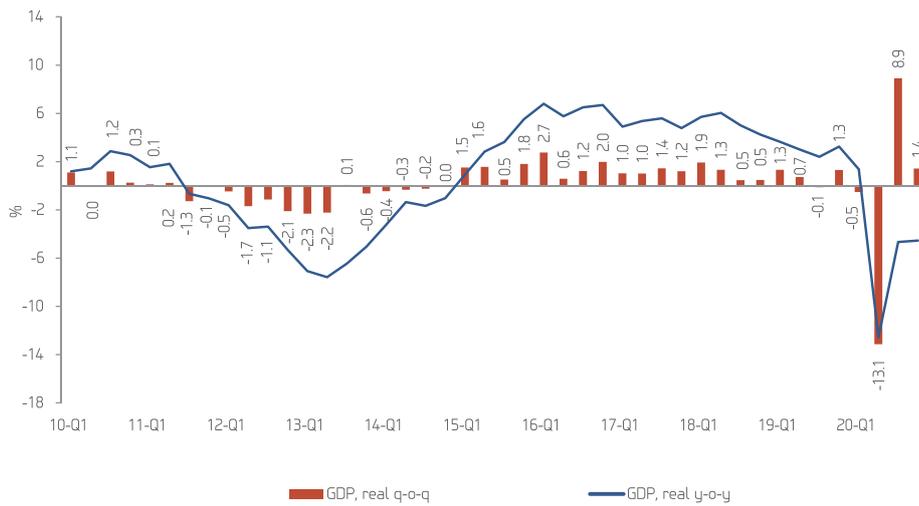
- On 05/03/2021, Standard & Poor's Ratings affirms Cyprus Ratings at 'BBB-/A-3' and stable outlook.
- On 13/11/2020, DBRS Ratings confirmed the Republic of Cyprus's Long-Term Foreign and Local Currency - Issuer Ratings at BBB (low) and the trend to Stable.
- Additionally, on 20/09/2019, Moody's Investors 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

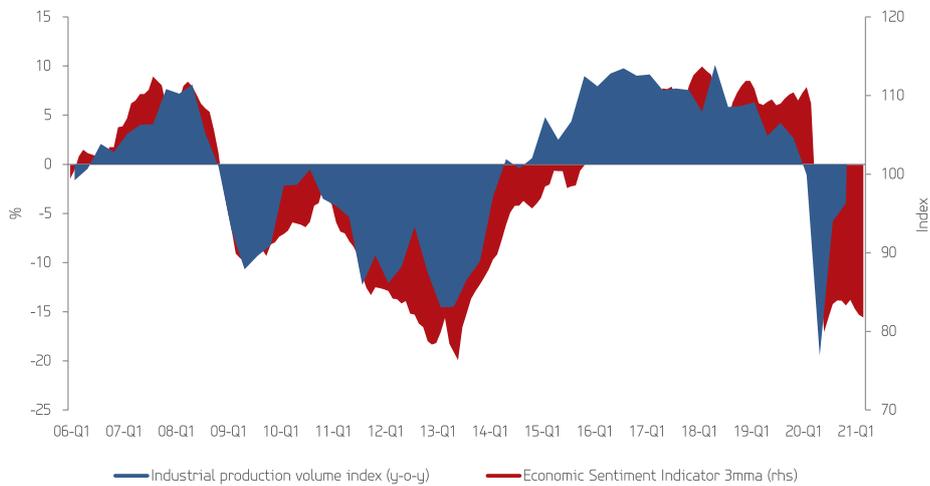
Graph 1.1. GDP



Graph 1.2. GDP



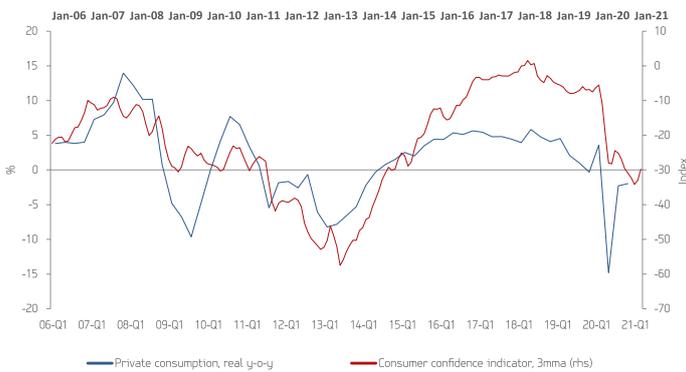
Graph 1.3. INDUSTRIAL PRODUCTION



Sources: Eurostat, DG ECFIN, Cystat

2. CONSUMPTION

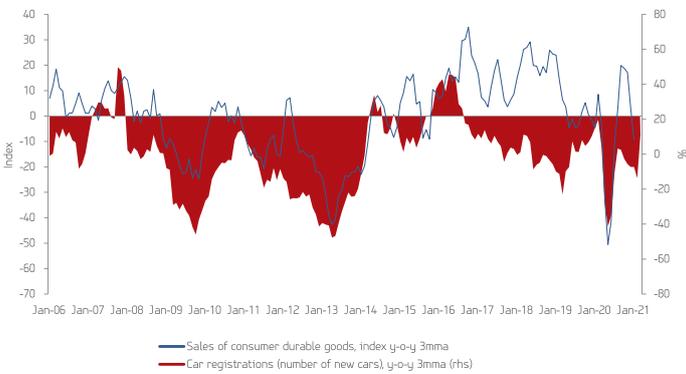
Graph 2.1. CONSUMPTION



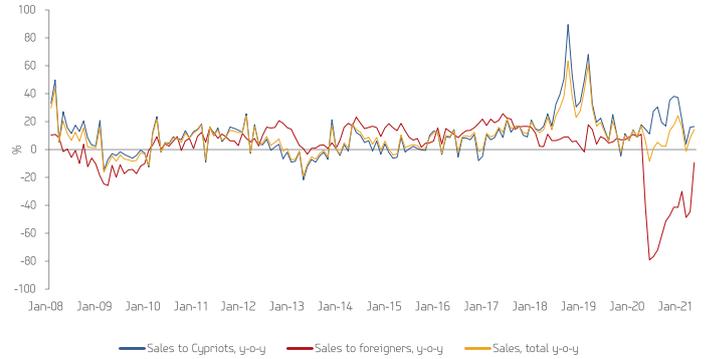
Graph 2.2. RETAIL TRADE



Graph 2.3. CAR REGISTRATIONS



Graph 2.4. CREDIT CARD TRANSACTIONS

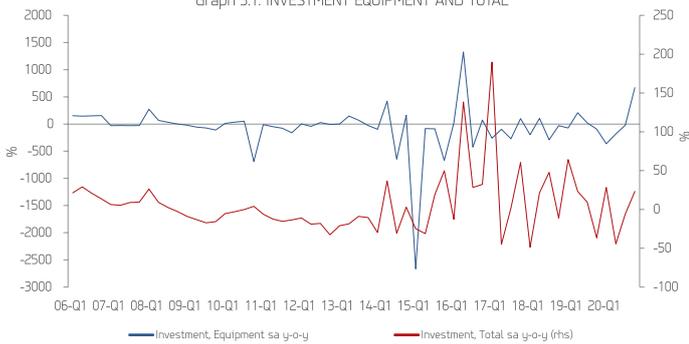


Note: Data for credit card transactions from 2018 onwards were revised based on reclassification of some foreign cards to local cards, thus data are not comparable with the data of the previous years.

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

3. INVESTMENT

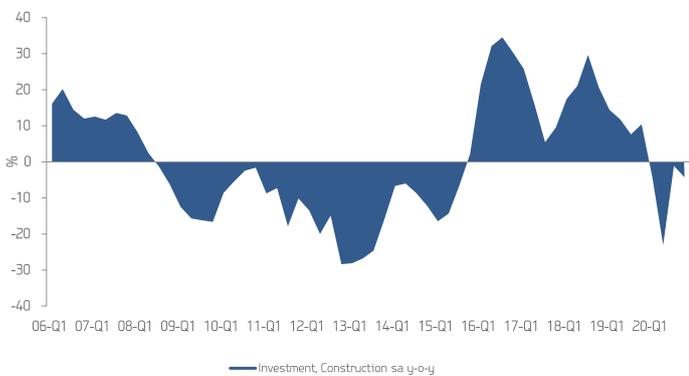
Graph 3.1. INVESTMENT EQUIPMENT AND TOTAL



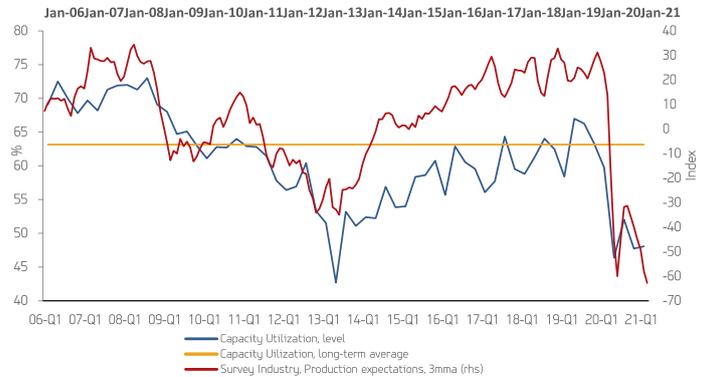
Graph 3.2. BUILDING PERMITS



Graph 3.3. INVESTMENT CONSTRUCTION



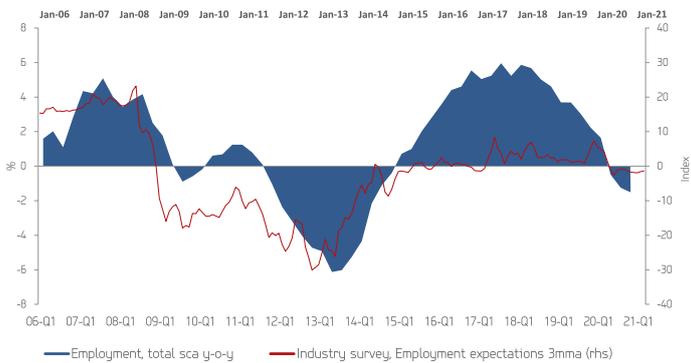
Graph 3.4. CAPACITY UTILIZATION



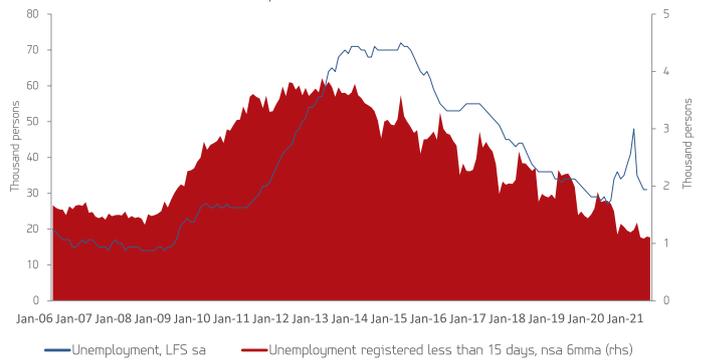
Sources: Cystat, DG ECFIN, CypERC

4. LABOUR MARKET

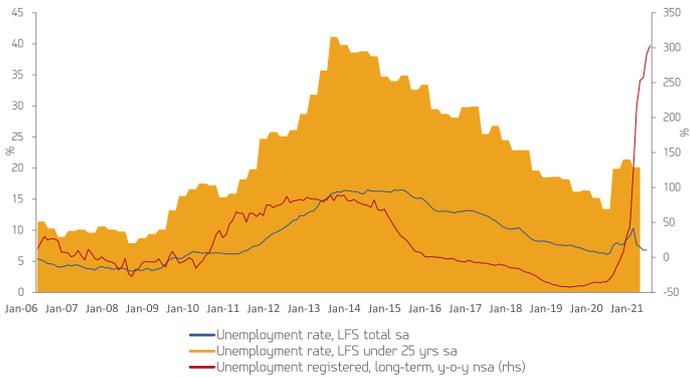
Graph 4.1. EMPLOYMENT



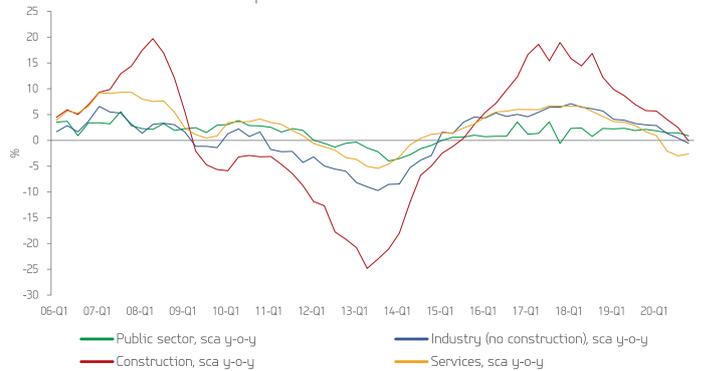
Graph 4.2. UNEMPLOYMENT



Graph 4.3. UNEMPLOYMENT RATE



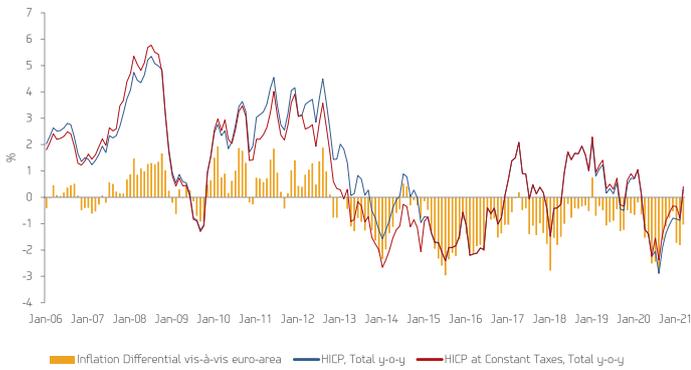
Graph 4.4. EMPLOYMENT BY SECTORS



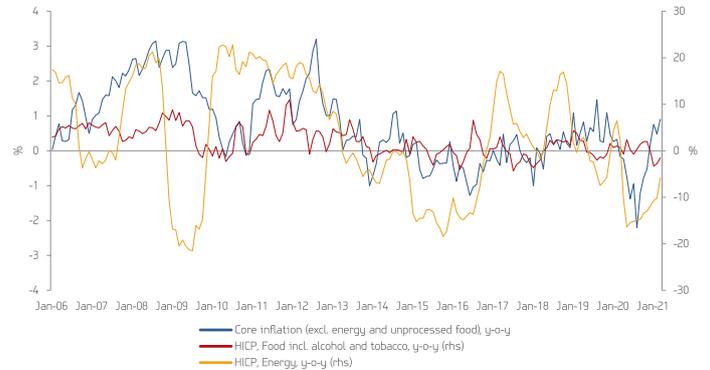
Sources: Eurostat, DG ECFIN, Cystat

5. INFLATION / WAGES

Graph 5.1. HICP INFLATION



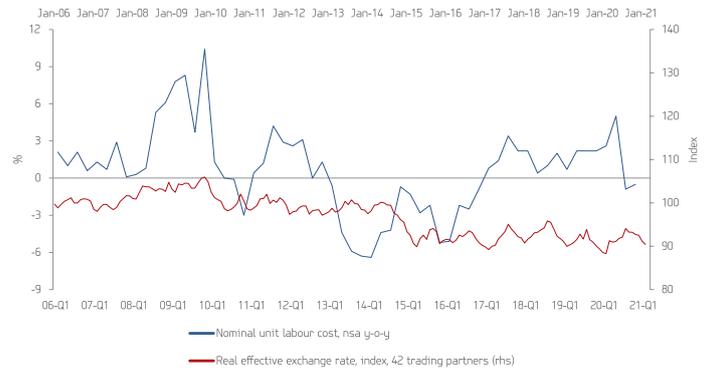
Graph 5.2. HICP INFLATION COMPONENTS



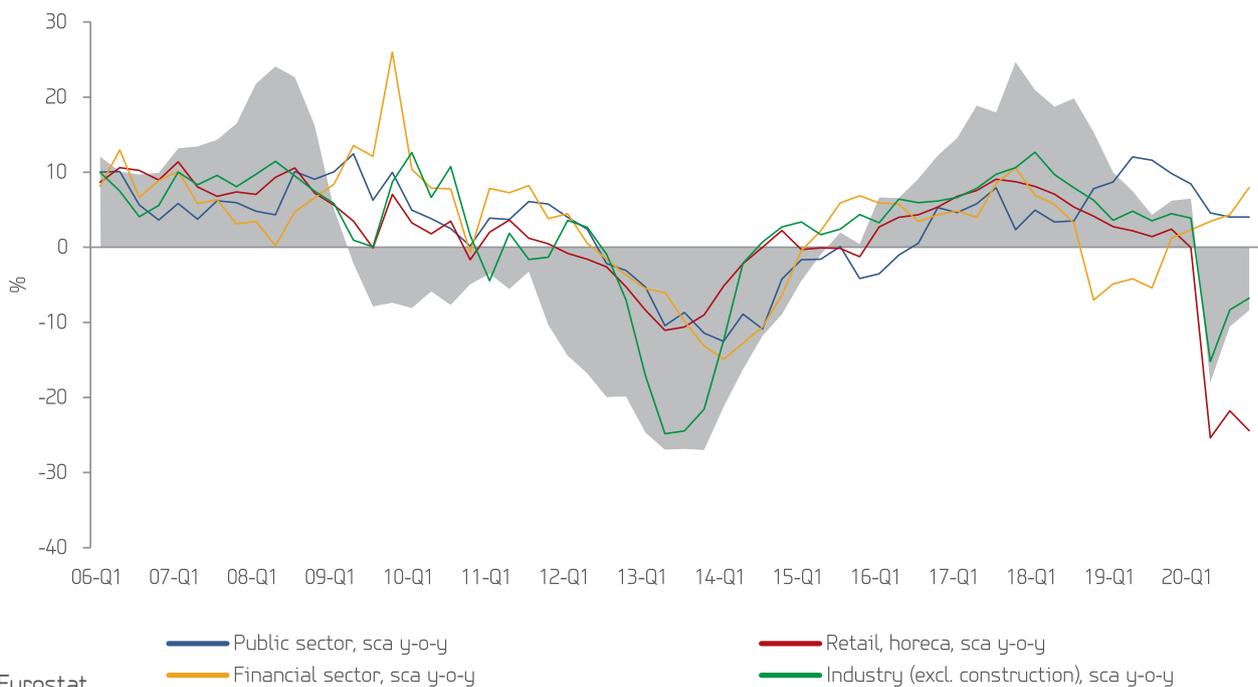
Graph 5.3. PRODUCTION AND WAGES



Graph 5.4. COMPETITIVENESS



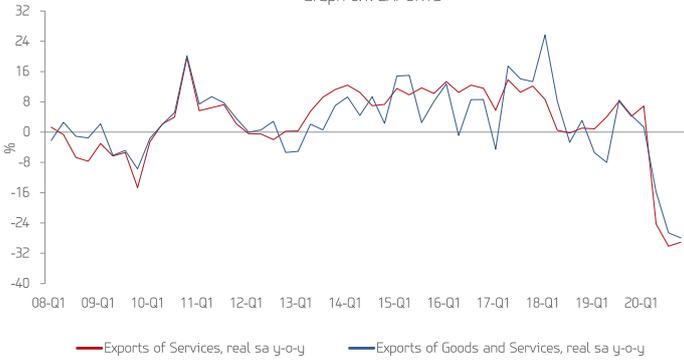
Graph 5.5. WAGE DEVELOPMENTS BY SECTORS



Source: Eurostat

6. EXTERNAL SECTOR

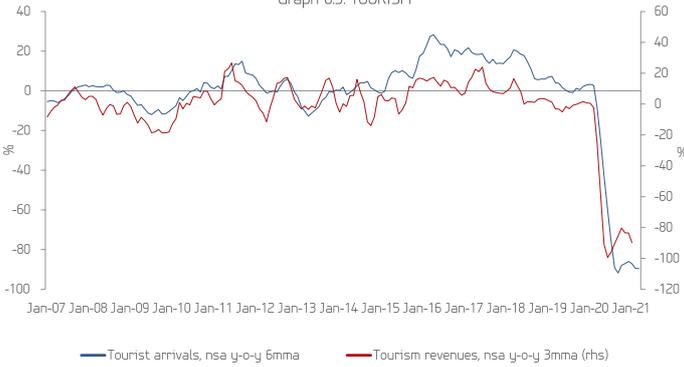
Graph 6.1. EXPORTS



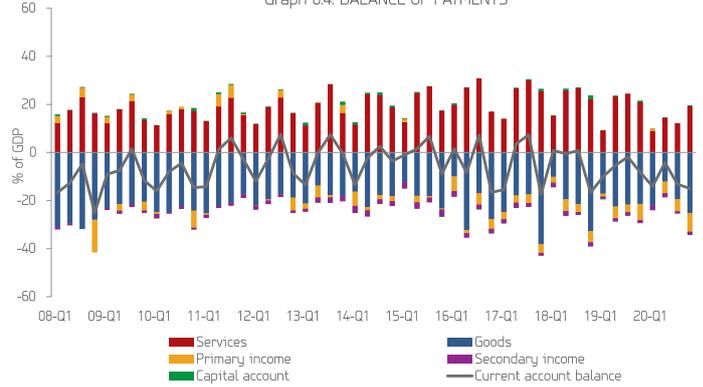
Graph 6.2. IMPORTS



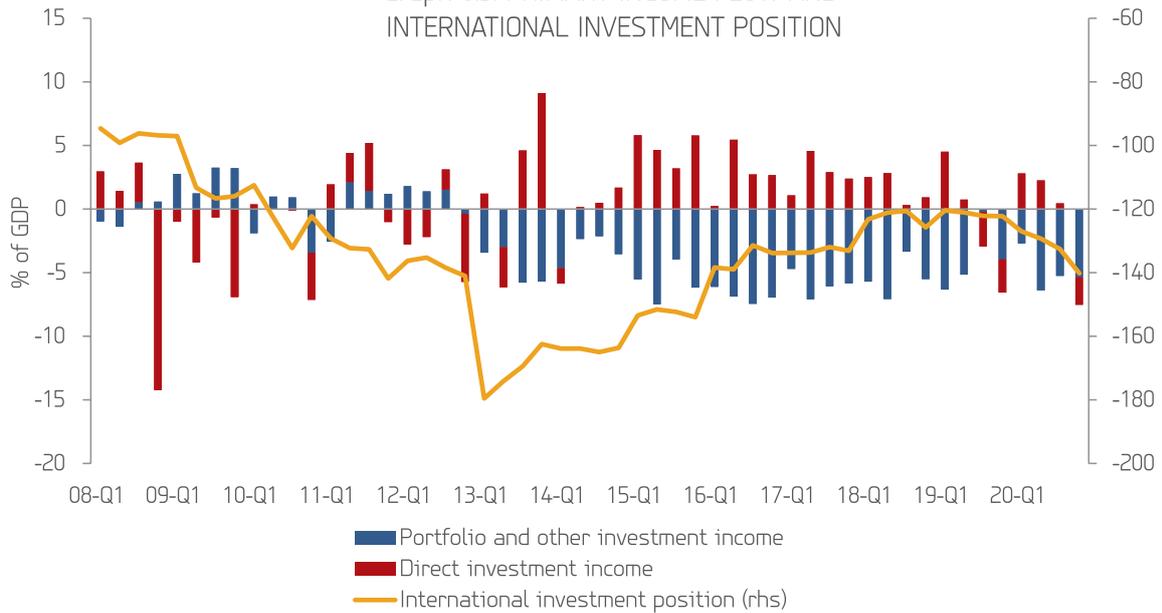
Graph 6.3. TOURISM



Graph 6.4. BALANCE OF PAYMENTS



Graph 6.5. PRIMARY INCOME FLOW AND INTERNATIONAL INVESTMENT POSITION



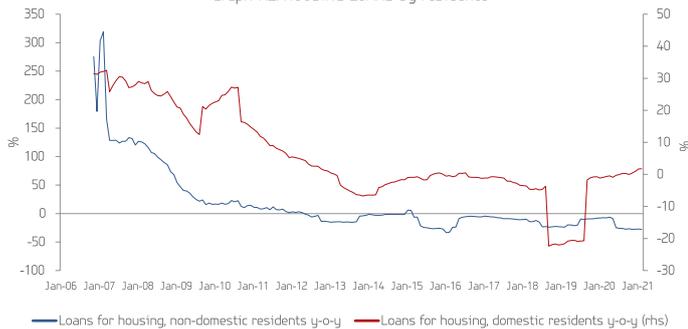
Sources: Cystat, CBC

7. HOUSING

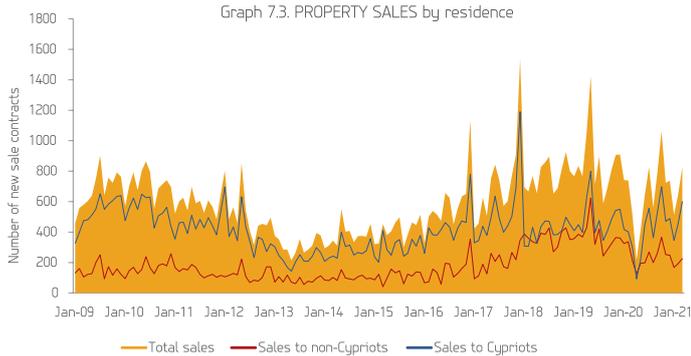
Graph 7.1. HOUSE PRICES AND HOUSING LOANS



Graph 7.2. HOUSING LOANS by residence

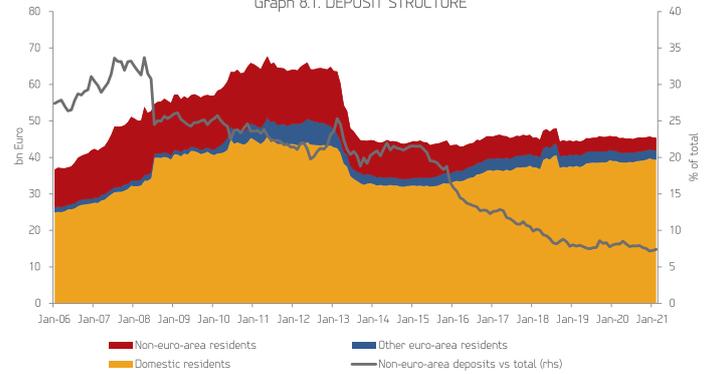


Graph 7.3. PROPERTY SALES by residence

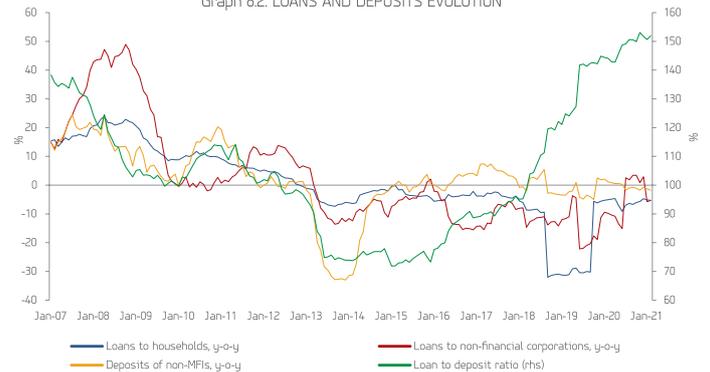


8. FINANCIAL SECTOR

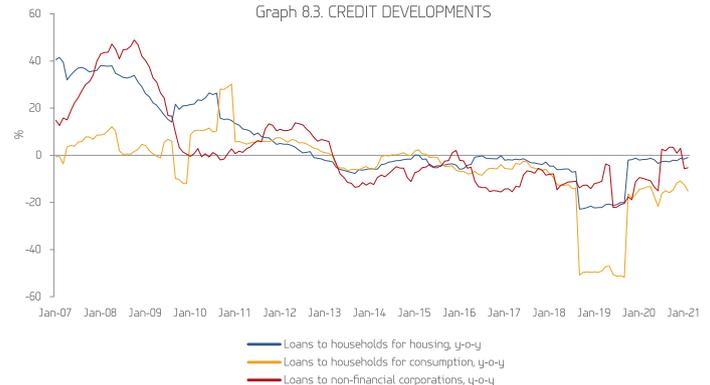
Graph 8.1. DEPOSIT STRUCTURE



Graph 8.2. LOANS AND DEPOSITS EVOLUTION



Graph 8.3. CREDIT DEVELOPMENTS



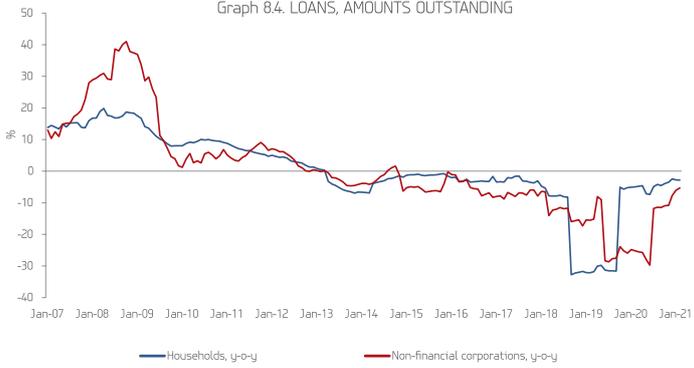
Note: According to the relevant modifications to the codification of the term "Alien" in the Land Information System, the way the statistics are presented has been modified. Therefore, the suggestion of the Department of Lands and Surveys is to avoid the comparison of the specific data from 2018 onwards,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

Sources: CBC, Dep. of Lands and Surveys

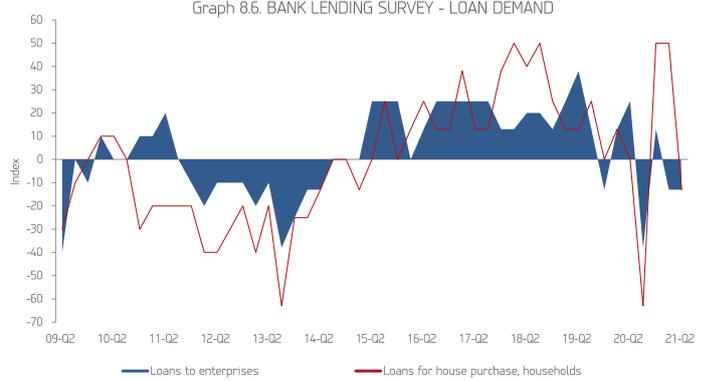
Source: CBC, EMMI

8. FINANCIAL SECTOR

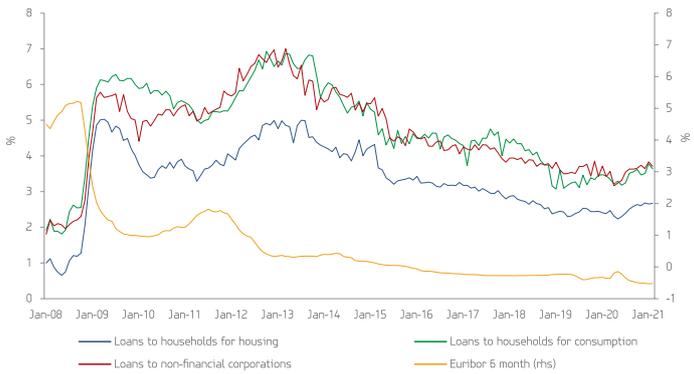
Graph 8.4. LOANS, AMOUNTS OUTSTANDING



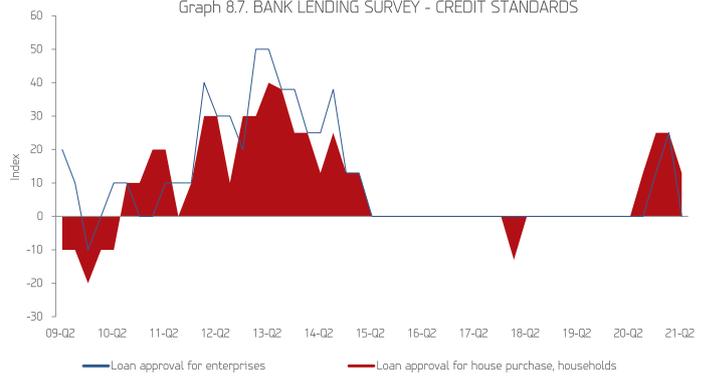
Graph 8.6. BANK LENDING SURVEY - LOAN DEMAND



Graph 8.5. INTEREST RATES SPREADS over Euribor



Graph 8.7. BANK LENDING SURVEY - CREDIT STANDARDS

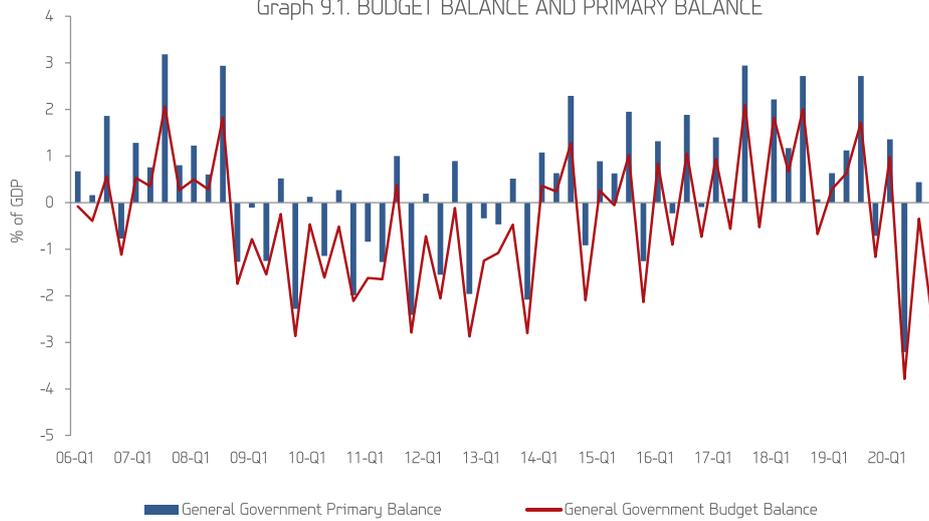


Sources: CBC, EMMI

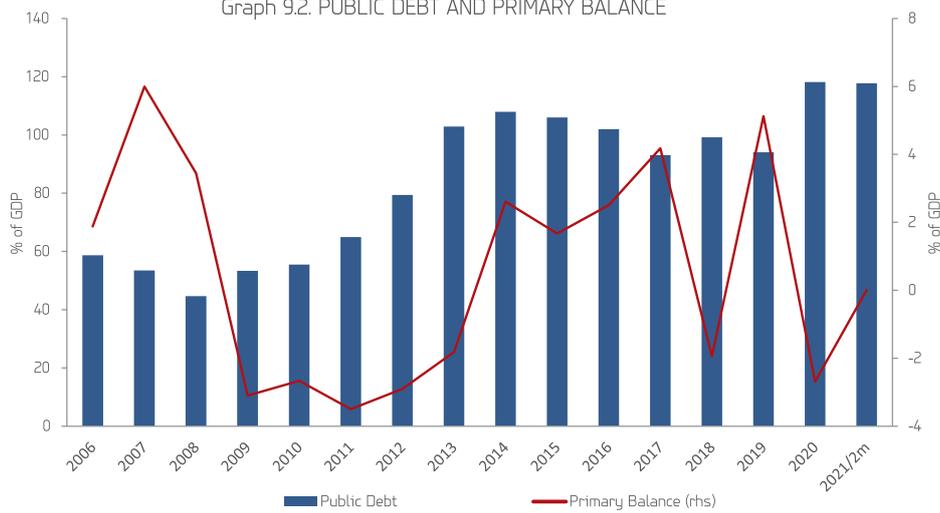
Source: ECB

9. PUBLIC SECTOR

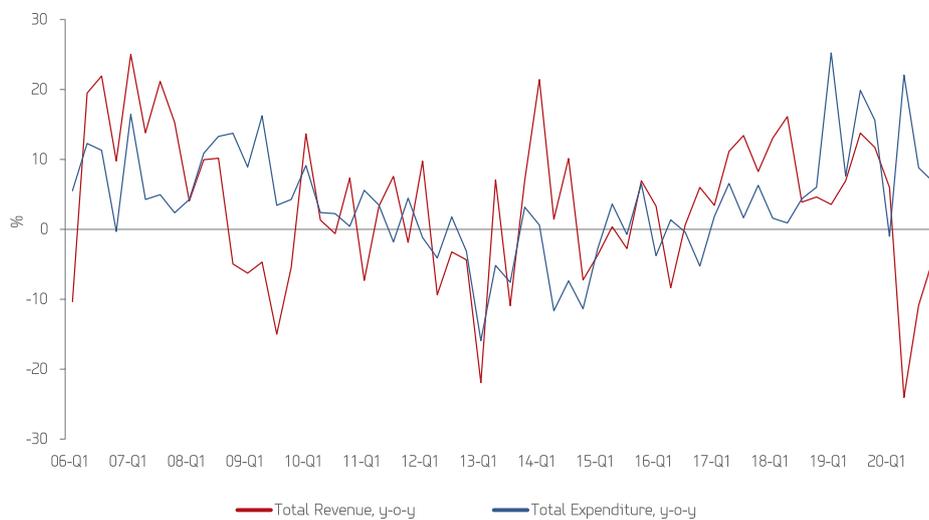
Graph 9.1. BUDGET BALANCE AND PRIMARY BALANCE



Graph 9.2. PUBLIC DEBT AND PRIMARY BALANCE



Graph 9.3. REVENUE AND EXPENDITURE



Sources: Ministry of Finance, Cystat