



MINISTRY OF FINANCE

MACROECONOMIC
MONITOR
OF CYPRUS

JUL
2021

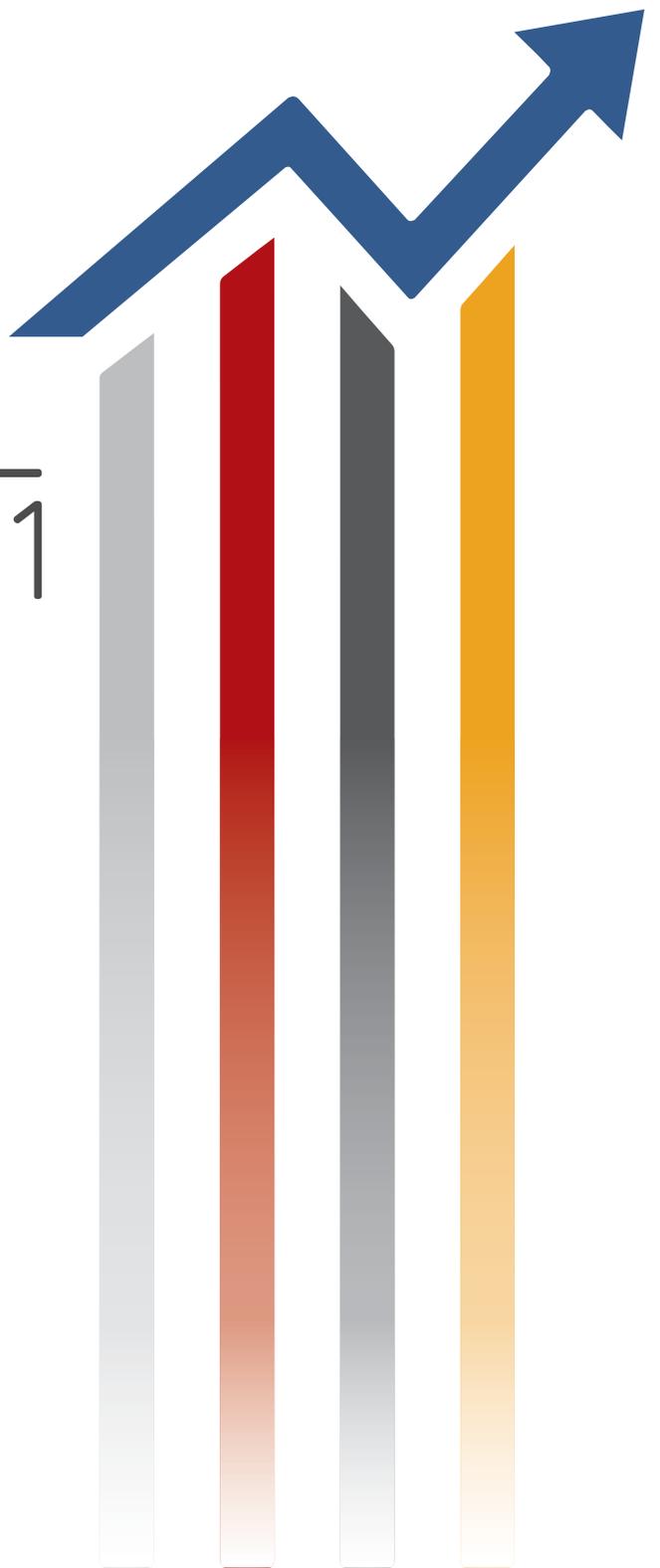


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MACROECONOMIC MONITOR OF CYPRUS

Updated on 20 July 2021

Macro Economy

- In the 1st quarter of 2021, GDP (in seasonally adjusted terms) recorded a negative rate of growth of 1.6%, compared with a negative rate of 4.4% in the 4th 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 (in seasonally adjusted terms) currently driven mainly by increases in consumption and gross fixed capital formation and, to a lesser extent, in external demand (see graphs 2.1-2.4).

- In June 2021, economic sentiment in Cyprus improved as the **Economic Sentiment Indicator (ESI-CypERC)** increased by 6.2 points compared with May 2021 (see graph 1.3). The increase in the ESI-CypERC was mainly driven by confidence gains in services and among consumers.

- For the period of January-June 2021, **arrivals of tourists** totaled 340,984 compared to 255,675 in the corresponding period of 2020, recording an increase of 33.4%, and a decrease of 79.1% compared to the period of January-June 2019 (see graph 6.3). Arrivals from Russia were the main source of tourism for June 2021, with a share of 45.8% of total arrivals, followed by Israel with 7.4%, Ukraine with 6.5%, Greece with 5.5%, Poland with 5.0% and the United Kingdom with 4.2%.

- **Employment** developments reflect conditions of lower economic activity due to the pandemic. Total employment increased by 0.3% for the 1st quarter of 2021 compared to the corresponding quarter of 2020. The most significant percentage increases were observed in the economic activities of Information and Communication, Education, Professional, Scientific Technical Activities while significant percentage decreases were observed in the economic activities of Transportation and Storage and Other Service Activities.

- **Labour Force Survey (LFS) unemployment**, in monthly seasonally adjusted terms, **increased to 9.9% in May 2021 compared to 7.8% in May 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 18.5% in the 1st quarter of 2021 from a peak of 41.1% in the 2nd quarter of 2013.

- **Compensation per employee** recorded a decrease of 3.6% in the 1st quarter of 2021 compared with the 1st quarter of 2020 (see graphs 5.3-5.5).

- **Inflation (HICP)** in June 2021 recorded an increase of 2.2% compared to an increase of 1.5% in May 2021 (see graph 5.1). For January-June 2021, it stands at 0.6%. For the period January-June 2021, compared to the corresponding period of the previous year, the largest positive change was noted in Transport. Core HICP recorded an increase of 0.5% in January-June 2021 (see graph 5.2).

- **Imports of goods recorded an increase of 10.1%** in January-May 2021 compared to January-May 2020. Imports are affected by developments in imports of transport equipment (aircrafts and vessels). Imports of goods, excluding imports of aircrafts and vessels, exhibit an increase of 10.7%.

- **Exports of goods recorded a decrease of 19.2%** in January-May 2021 compared to January-May 2020. Exports of goods, excluding exports of aircrafts and vessels, exhibit an increase of 10.5%.

External Sector

- The **current account (CA)** balance (see graph 6.4) recorded deterioration, with the deficit increasing from €751.5 mn (-3.6% of GDP) in 2020Q1, to €922.0 mn (-4.2% of GDP), in 2021Q1. The increase resulted mainly from the significant decrease in primary income and, to a much lesser extent, the larger deficit in goods. The aforementioned adverse developments were partly offset by lower deficits in secondary income and higher surplus in services. The resulting deficit when adjusting the data for the impact of Special Purpose Entities (SPEs), that is, classifying SPEs as non-residents, stood at €706.0 mn (-3.2% of GDP) in 2021Q1, compared with a deficit of €611.1 mn (-2.9% of GDP) in 2020Q1.

- The **international investment position (IIP)** (see graph 6.5) recorded a slight deterioration at the end of 2021Q1, presenting a net liability position of €30,145.1 mn, compared with a net liability position of €29,446.0 mn in 2020Q4. With the corresponding data being adjusted for the impact of SPEs, IIP recorded a net liability position of €11,208.6 mn at the end of 2021Q1, compared with a net liability position of €10,837.4 mn, at the end of the previous quarter.

- The **gross external debt** increased to €192,088.2 mn in 2021Q1 from €189,307.3 mn in 2020Q4. The external assets in debt instruments increased to €114,375.4 mn, up from

€112,421.0 mn in 2020Q4. Consequently, net external debt increased by €826.6 mn to €77,712.8 mn, over 2021Q1. Adjusted for the impact of SPEs, gross external debt reached €62,132.7 mn at the end of 2021Q1, compared to €59,769.4 mn, at the end of 2020Q4. The corresponding net external debt indicator increased to -€450.3 mn, compared with -€869.8 mn at the end of the previous quarter.

Public Finances

- **General government budget balance (GGBB)** recorded a deficit in January-May 2021, of the order of €512.2 mn (-2.3% of GDP) compared to a deficit of €368.6 mn (-1.8% of GDP) during the corresponding period the year before (see graph 9.1).

- **General government primary balance (GGPB)** recorded a deficit in January-May 2021, of the order of €314.7 mn (-1.4% of GDP) compared to a deficit of €221.3 mn (-1.1% of GDP) during the corresponding period the year before (see graphs 9.1-9.2).

- **Total expenditure** exhibited an increase of about 13.5%, reaching €3,930.2 mn in January-May 2021, compared to €3,462.9 mn during the corresponding period the year before (see graph 9.3).

- **Total revenue** exhibited an increase of about 10.5%, reaching €3,418.0 mn in January-May 2021, compared to €3,094.3 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 5.8%** in the 1st quarter of 2021 compared to the 4th quarter of 2020 and a decrease of 5.8% compared to the 1st quarter of 2020.

- The CBC's **residential property price index** recorded an **increase of 0.5%** in the 1st quarter of 2021 compared to the 4th quarter of 2020 and an increase of 0.9% compared to the 1st quarter of 2020. Cumulative from the 1st quarter of 2008 it has exhibited a decline of 23.4% (see graph 7.1), revealing an adjustment to the conditions of lower demand.

- According to the Department of Lands and Surveys, **new sale contracts** were up by 37.6% while **transfers of property**

were up by 52.2% in January-June 2021 compared with January-June 2020 (see graph 7.3).

- Monetary Financial Institutions (MFI) **mortgage loans to domestic residents** for housing **increased by 5.3%** in May 2021 (see graph 7.2).

Banking Sector Developments

- MFI **loans to domestic residents** (private sector) **increased by 2.3%** in May 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 3.8%** in May 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 May 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 increased.

- **NPEs** in April 2021 increased to €5.16 bn compared to €5.14 bn in December 2020 (€9.06 bn December 2019). The increase for the first four months was €25 mn.

- The decrease for 2020 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** increased to 47.4% compared to 46.3% in December 2020 compared to 53.7% of NPEs in December 2019 thus facilitating restructuring activity with a view to cure NPEs of viable customers.

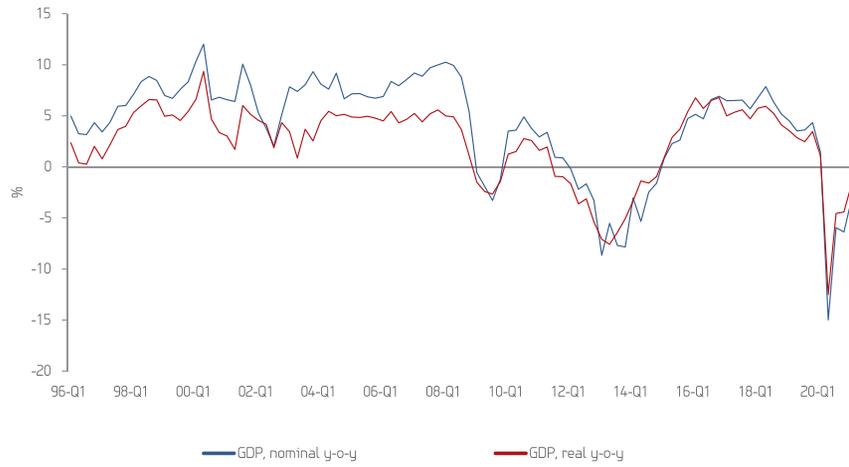
- In 2020, Bank of Cyprus announced that has reached an agreement with PIMCO LLC for the sale of a portfolio of NPLs with a gross value of €916 mn in August 2020 (Portfolio A- Project Helix 2) and in January 2021 the sale of a gross value of €545 mn (Portfolio B- Project Helix2).

Credit Ratings

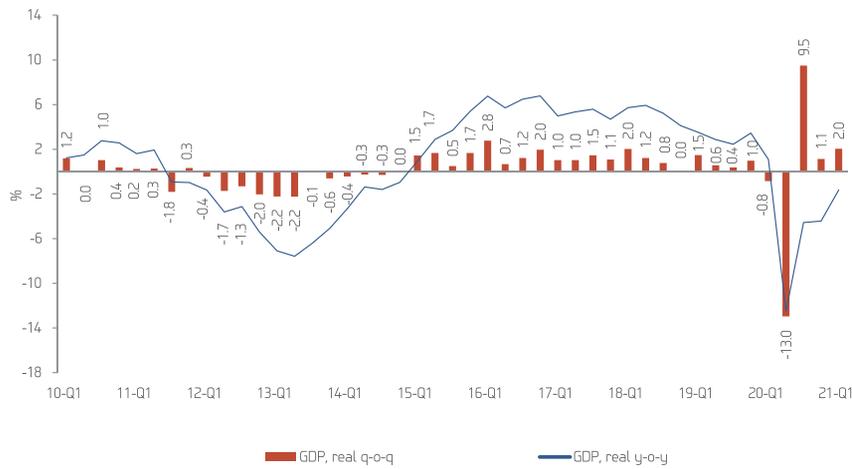
- On 14/05/2021, DBRS Ratings confirmed the Republic of Cyprus's Long-Term Foreign and Local Currency - Issuer Ratings at BBB (low) and the trend to Stable.
- On 26/03/2021, Fitch Ratings affirmed the Outlook on Cyprus's Long-Term Foreign-Currency Issuer Default Rating (IDR) to Stable and the IDR at BBB-.
- On 05/03/2021, Standard & Poor's Ratings affirms Cyprus Ratings at 'BBB-/A-3' and stable outlook.
- 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

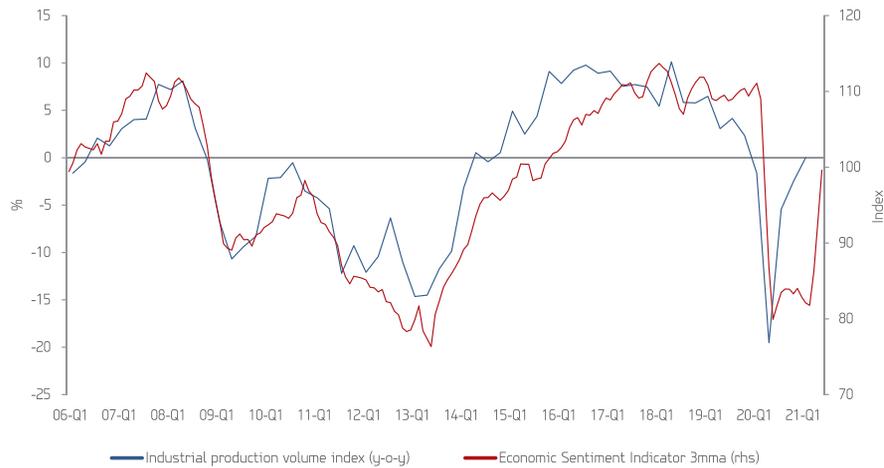
Graph 1.1. GDP



Graph 1.2. GDP



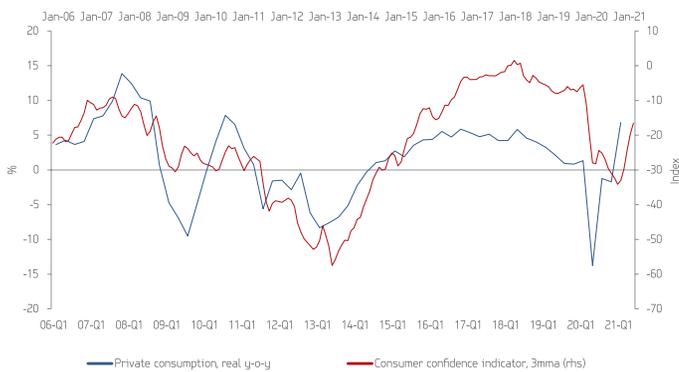
Graph 1.3. INDUSTRIAL PRODUCTION



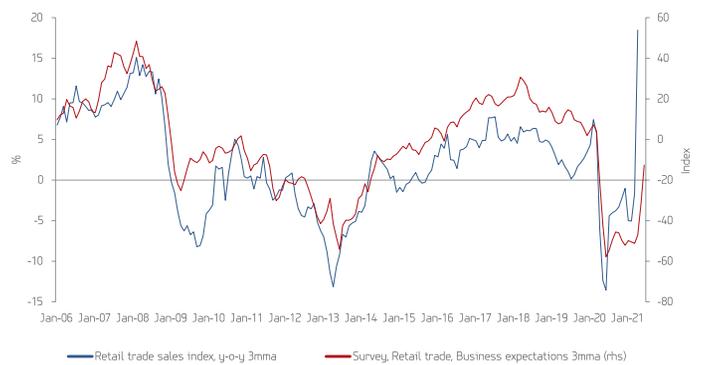
Sources: Eurostat, DG ECFIN, Cystat

2. CONSUMPTION

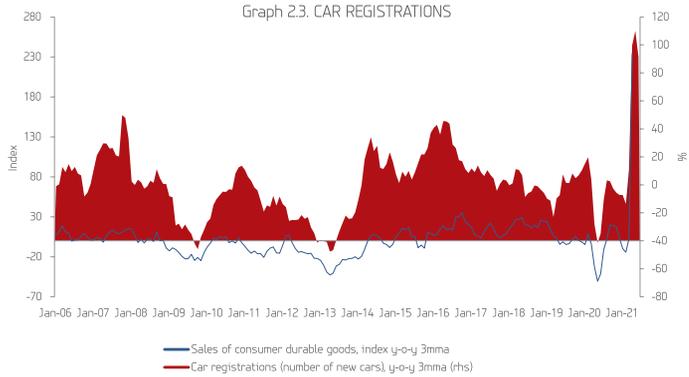
Graph 2.1. CONSUMPTION



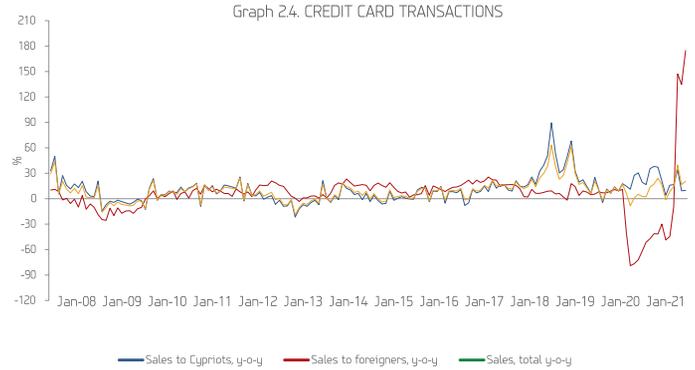
Graph 2.2. RETAIL TRADE



Graph 2.3. CAR REGISTRATIONS



Graph 2.4. CREDIT CARD TRANSACTIONS

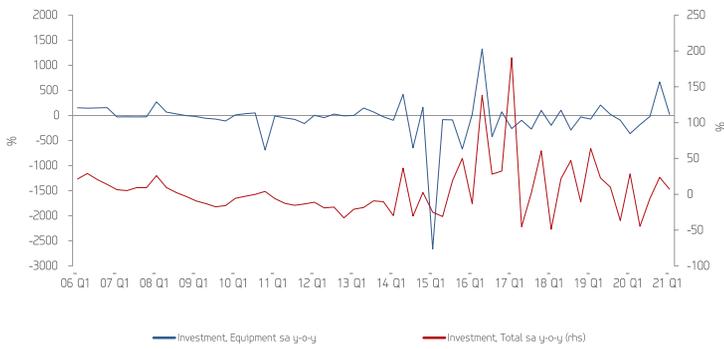


Note: Data for credit card transactions from 2018 onwards were revised based on reclassification of some foreign cards to local cards, thus data are not comparable with the data of the previous years.

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

3. INVESTMENT

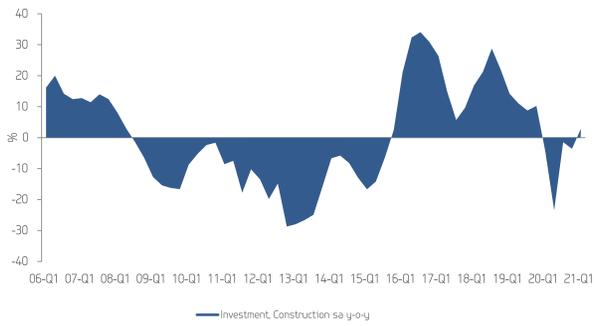
Graph 3.1. INVESTMENT EQUIPMENT AND TOTAL



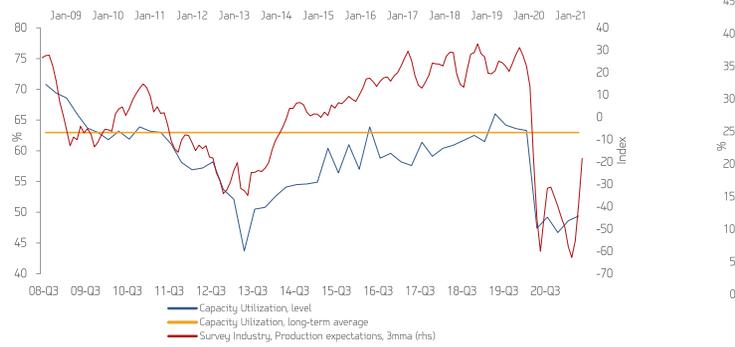
Graph 3.2. BUILDING PERMITS



Graph 3.3. INVESTMENT CONSTRUCTION



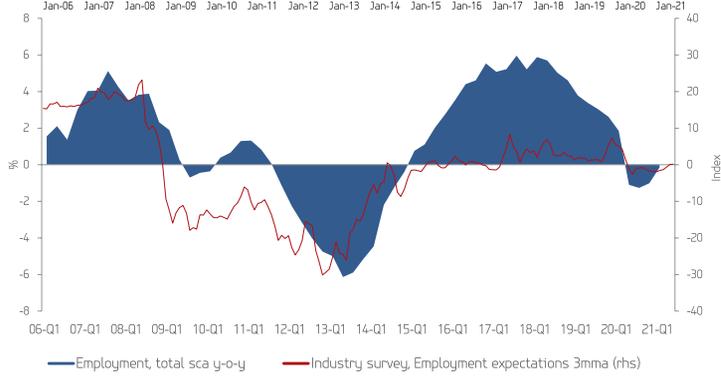
Graph 3.4. CAPACITY UTILIZATION



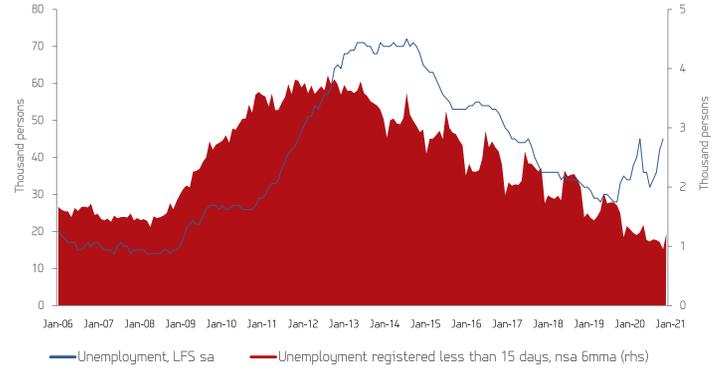
Sources: Cystat, DG ECFIN, CypERC

4. LABOUR MARKET

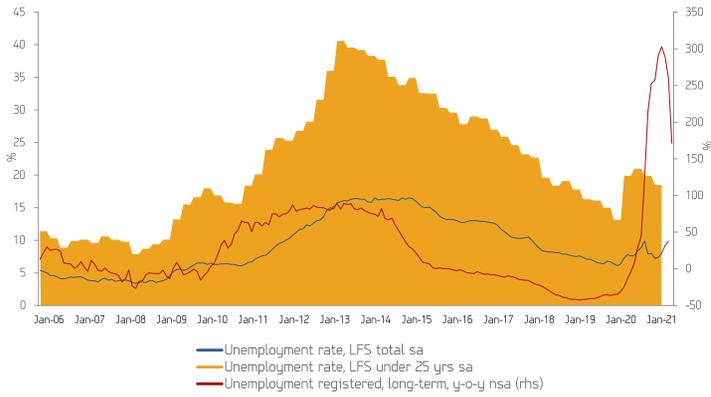
Graph 4.1. EMPLOYMENT



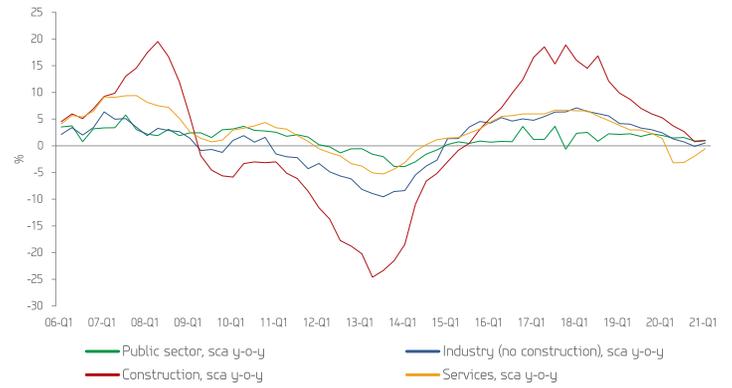
Graph 4.2. UNEMPLOYMENT



Graph 4.3. UNEMPLOYMENT RATE



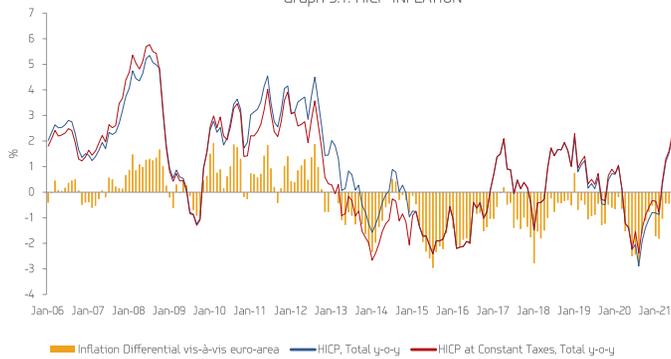
Graph 4.4. EMPLOYMENT BY SECTORS



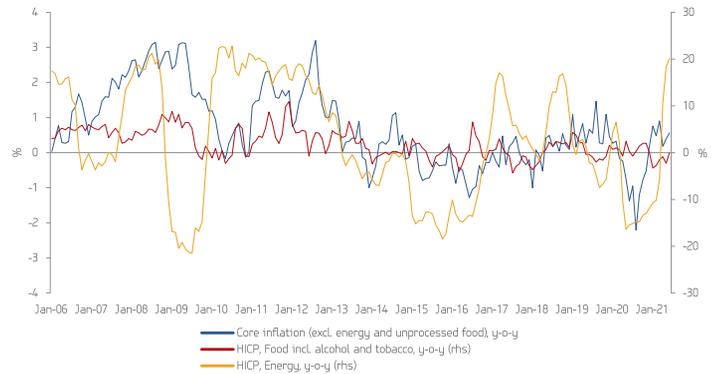
Sources: Eurostat, DG ECFIN, Cystat

5. INFLATION / WAGES

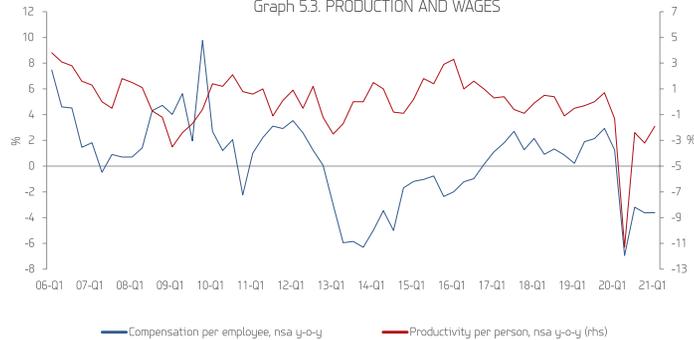
Graph 5.1. HICP INFLATION



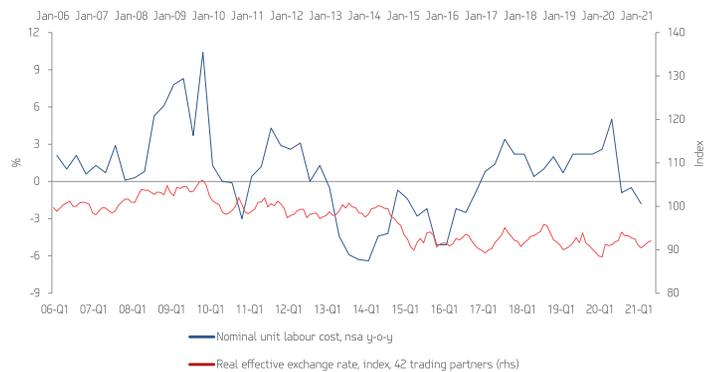
Graph 5.2. HICP INFLATION COMPONENTS



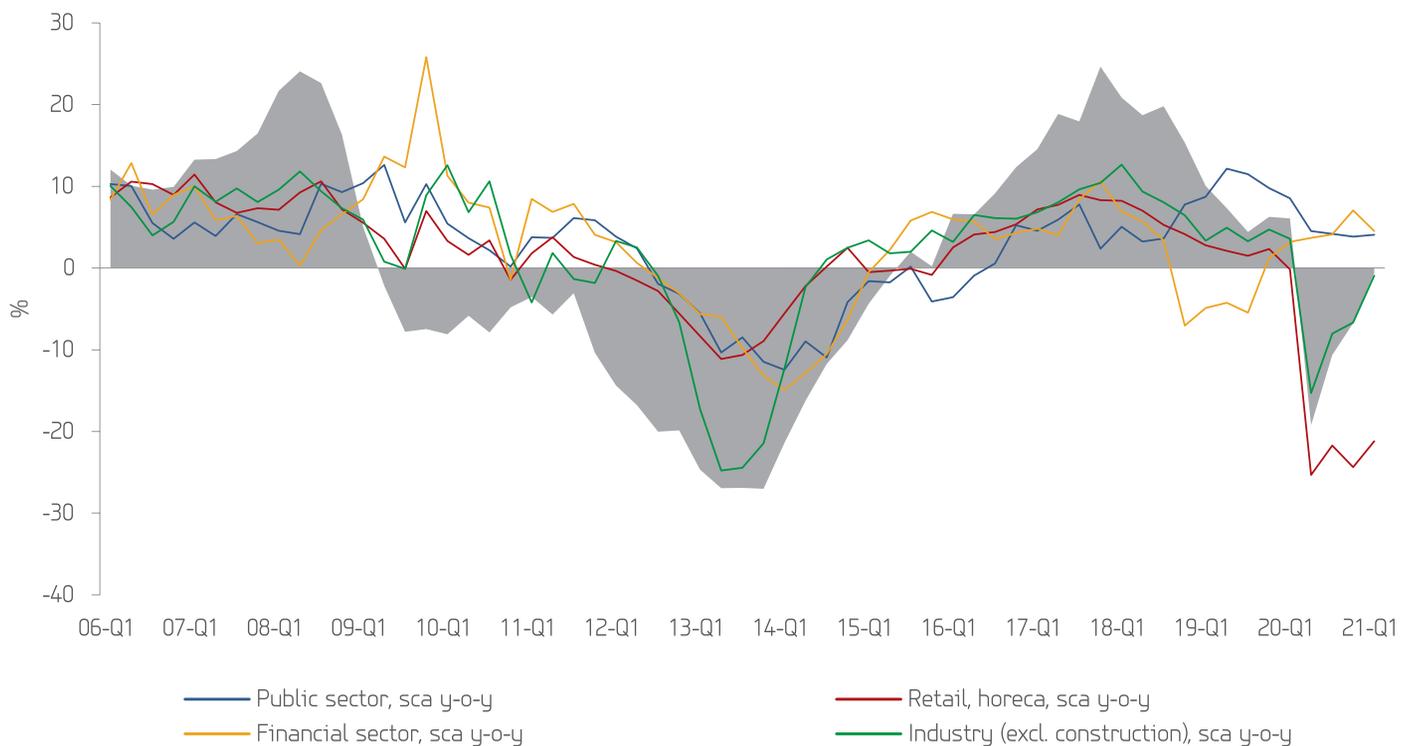
Graph 5.3. PRODUCTION AND WAGES



Graph 5.4. COMPETITIVENESS



Graph 5.5. WAGE DEVELOPMENTS BY SECTORS



Source: Eurostat

6. EXTERNAL SECTOR

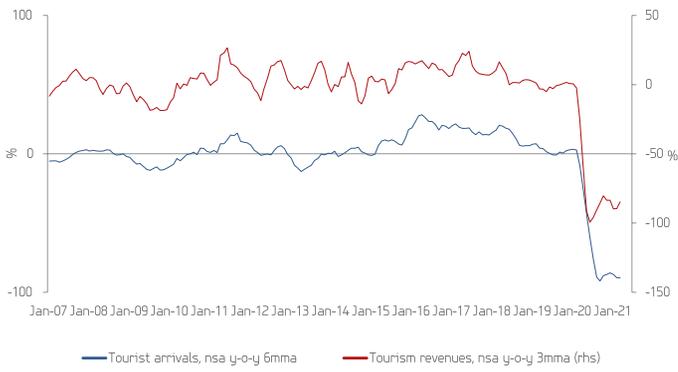
Graph 6.1. EXPORTS



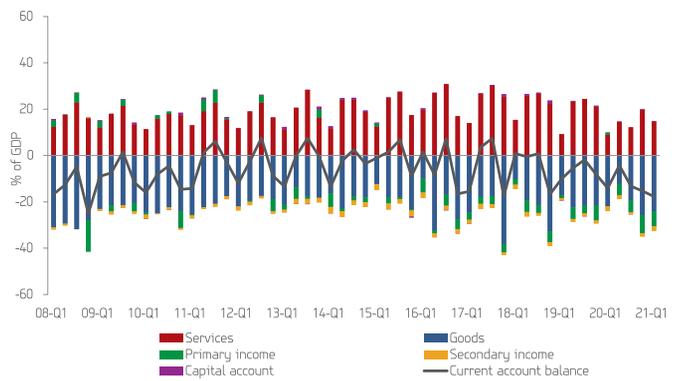
Graph 6.2. IMPORTS



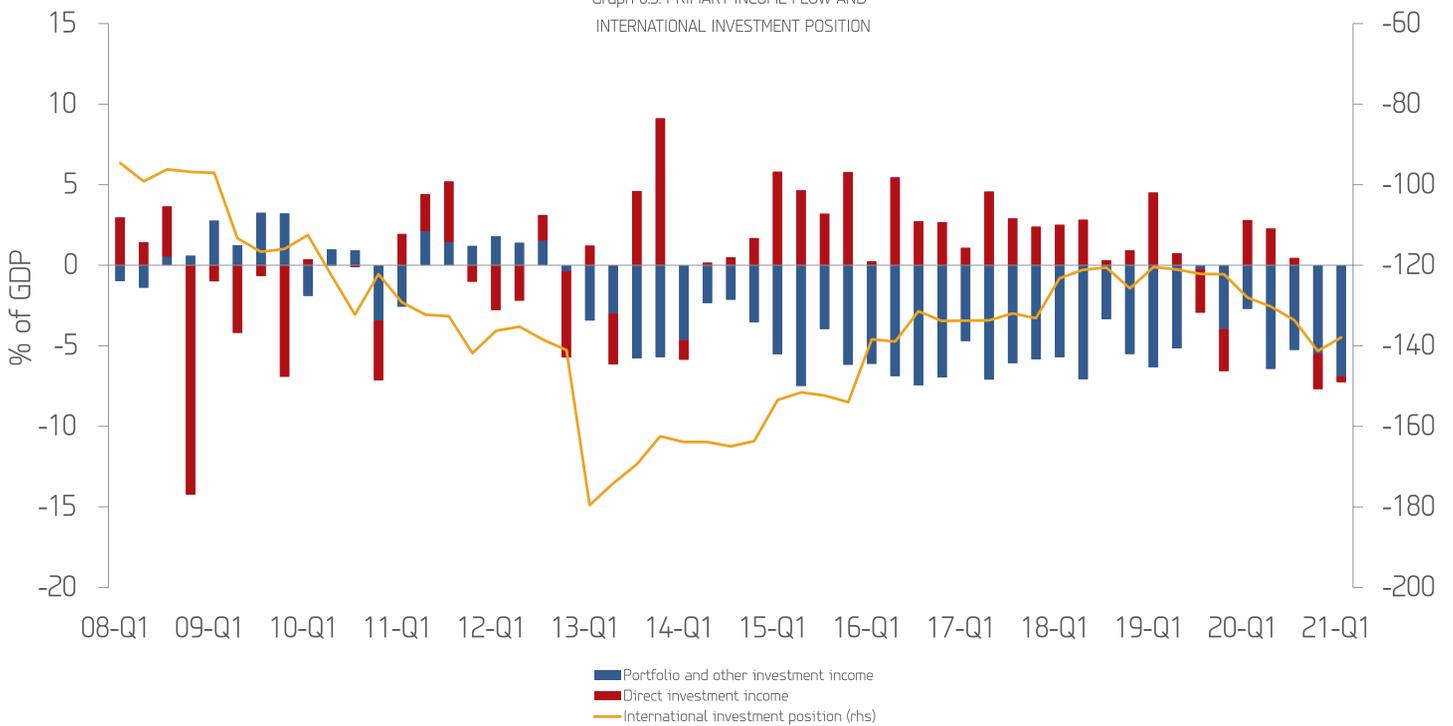
Graph 6.3. TOURISM



Graph 6.4. BALANCE OF PAYMENTS



Graph 6.5. PRIMARY INCOME FLOW AND INTERNATIONAL INVESTMENT POSITION



Sources: Cystat, CBC

7. HOUSING

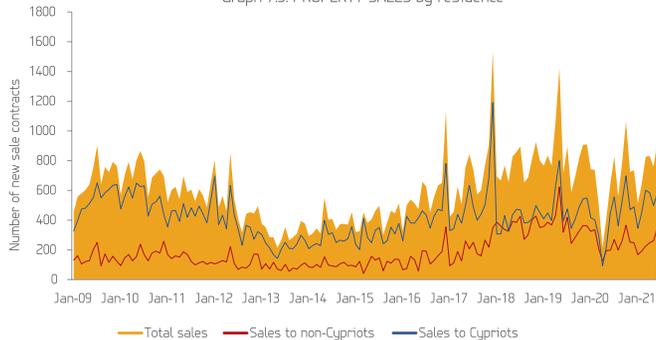
Graph 7.1. HOUSE PRICES AND HOUSING LOANS



Graph 7.2. HOUSING LOANS by residence



Graph 7.3. PROPERTY SALES by residence

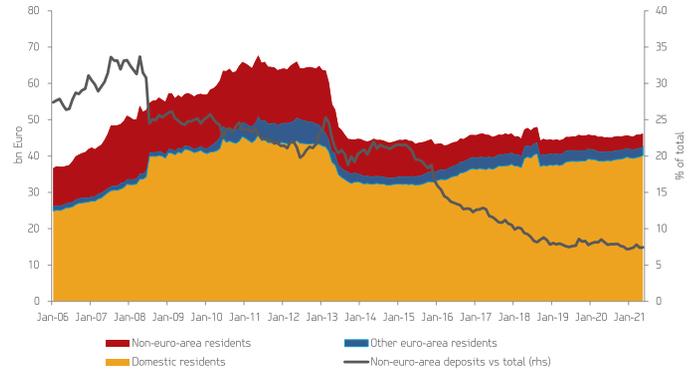


Note: According to the relevant modifications to the codification of the term "Alien" in the Land Information System, the way the statistics are presented has been modified. Therefore, the suggestion of the Department of Lands and Surveys is to avoid the comparison of the specific data from 2018 onwards,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

Sources: CBC, Dep. of Lands and Surveys

8. FINANCIAL SECTOR

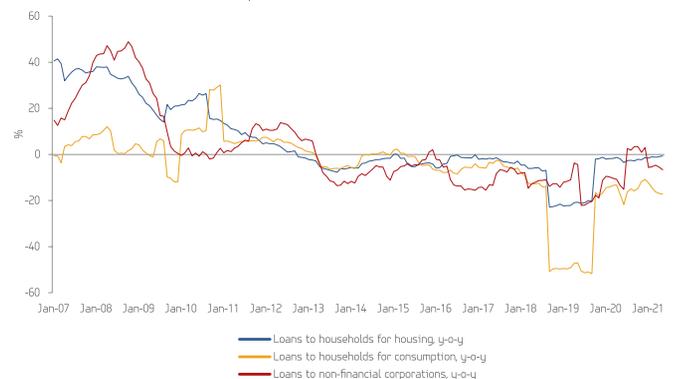
Graph 8.1. DEPOSIT STRUCTURE



Graph 8.2. LOANS AND DEPOSITS EVOLUTION



Graph 8.3. CREDIT DEVELOPMENTS



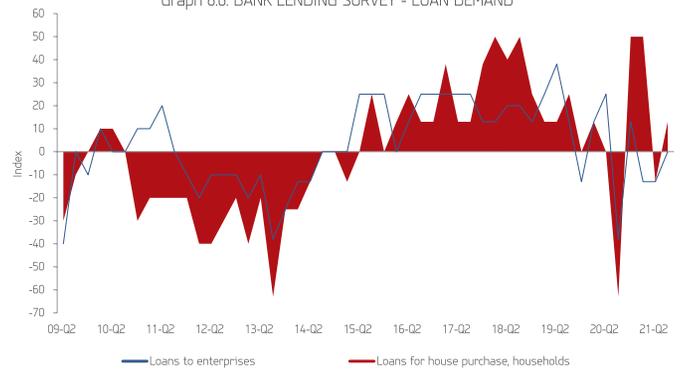
Source: CBC, EMMI

8. FINANCIAL SECTOR

Graph 8.4. LOANS, AMOUNTS OUTSTANDING



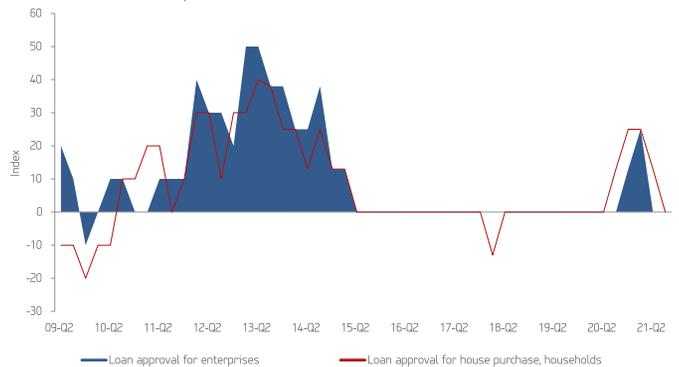
Graph 8.6. BANK LENDING SURVEY - LOAN DEMAND



Graph 8.5. INTEREST RATES SPREADS over Euribor



Graph 8.7. BANK LENDING SURVEY - CREDIT STANDARDS

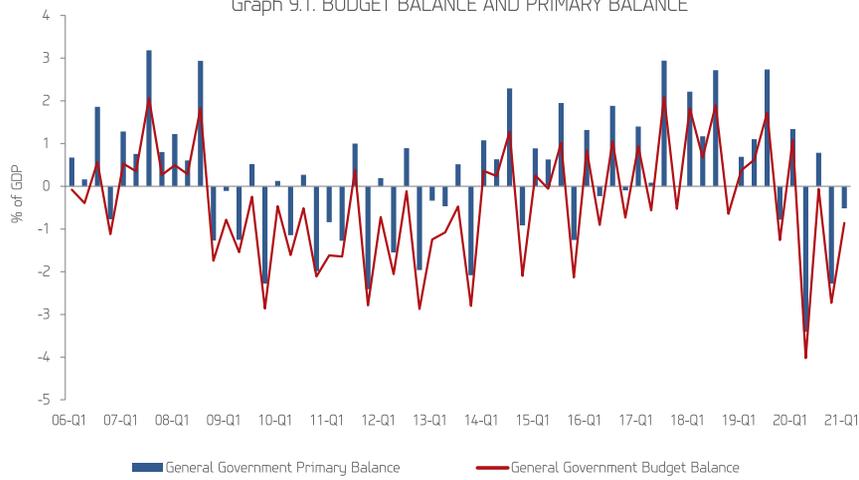


Sources: CBC, EMMI

Source: ECB

9. PUBLIC SECTOR

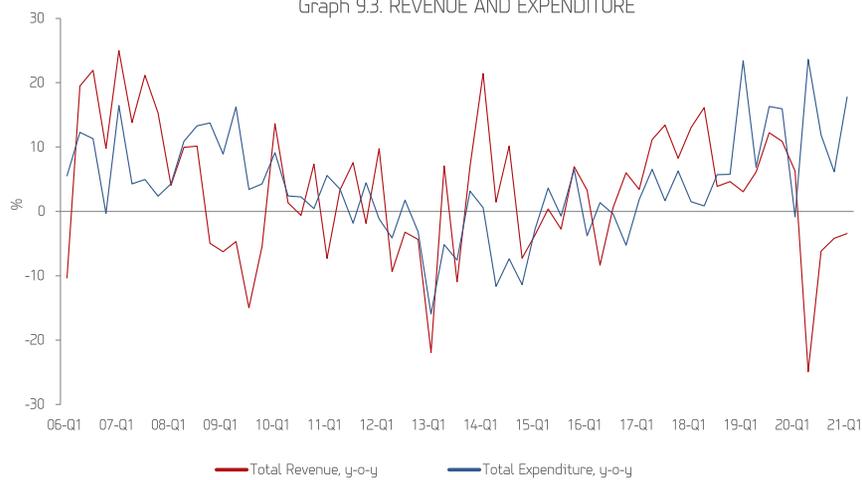
Graph 9.1. BUDGET BALANCE AND PRIMARY BALANCE



Graph 9.2. PUBLIC DEBT AND PRIMARY BALANCE



Graph 9.3. REVENUE AND EXPENDITURE



Sources: Ministry of Finance, Cystat