



MINISTRY OF FINANCE

MACROECONOMIC
MONITOR
OF CYPRUS

NOV
2021

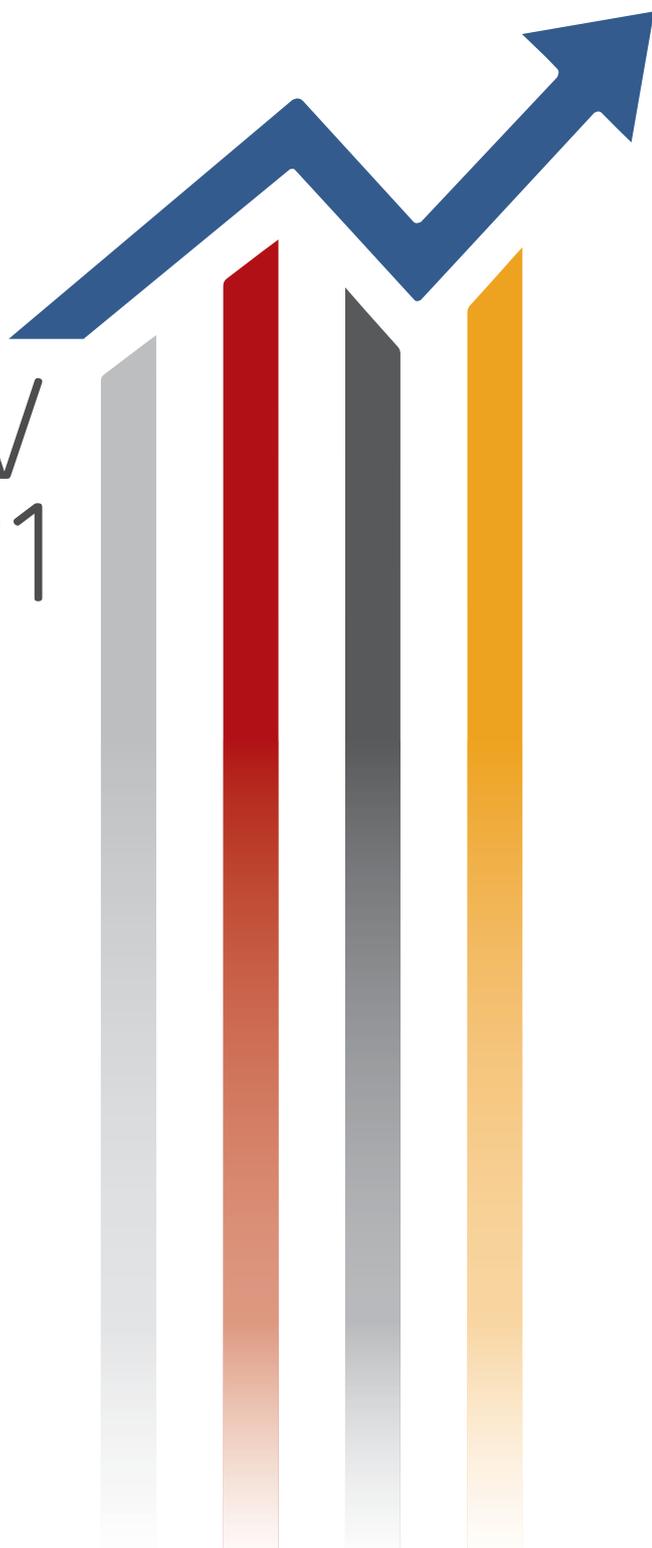


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MACROECONOMIC MONITOR OF CYPRUS

Updated on 19 November 2021

Macro Economy

- In the 3rd quarter of 2021, GDP (in seasonally adjusted terms) recorded a positive rate of growth of 5.3%, compared with 13.3% in the 2nd quarter of 2021 on an annual basis (see graphs 1.1-1.2). The positive 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 (see graphs 2.1-2.4).

- In October 2021, economic sentiment in Cyprus improved as the **Economic Sentiment Indicator (ESI-CypERC)** increased by 2.5 points compared with September 2021 (see graph 1.3). The increase in the indicator was driven by confidence gains in all sectors, despite the deterioration in consumer confidence.

- For the period of January-October 2021, **arrivals of tourists** totaled 1.691.030 compared to 612.975 in the corresponding period of 2020, recording an increase of 175.9%, and a decrease of 54.3% compared to the period of January-October 2019 (3.697.055 arrivals) (see graph 6.3). Arrivals from the United Kingdom were the main source of tourism for October 2021, with a share of 31.8% of total arrivals, followed by Russia with 19.6%, Germany with 7.1%, Poland with 4.1%, Greece with 4.0% and Ukraine with 3.9%.

- **Employment** developments reflect conditions of improved economic activity. Total employment increased by 0.8% for the 1st half of 2021 compared to the corresponding period of 2020. The most significant percentage increases were observed in the economic activities of Hotels and Restaurants, Education, Information and Communication, Construction and Professional, Scientific Technical Activities while significant percentage decreases were observed in the economic activities of Transportation and Storage, Financial and Insurance Activities and Wholesale and Retail Trade.

- **Labour Force Survey (LFS) unemployment**, in monthly seasonally adjusted terms, **decreased to 3.6% in September 2021 compared to 9.1% in September 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 from a peak of 40.4% in the 3rd quarter of 2013.

- **Compensation per employee** recorded an increase of 3.0% in the 1st half of 2021 compared with the 1st half of 2020 (see graphs 5.3-5.5).

- **Inflation (HICP)** in October 2021 recorded an increase of 4.4% compared to an increase of 3.6% in September 2021 (see graph 5.1). For January-October 2021, it stands at 1.8%. For the period January-October 2021, compared to the corresponding period of the previous year, the largest change was noted in Transport. Core HICP recorded an increase of 0.7% in January-October 2021 (see graph 5.2).

- **Imports of goods recorded an increase of 13.2%** in January-September 2021 compared to January-September 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 12.5%.

- **Exports of goods recorded a decrease of 0.2%** in January-September 2021 compared to January-September 2020. Exports of goods, excluding exports of aircrafts and vessels, exhibit an increase of 13.5%.

External Sector

- The **current account (CA)** balance (see graph 6.4) recorded deterioration, with the deficit increasing from €139.0 mn (-0.6% of GDP) in 2020Q2, to €648.6 mn (-2.8% of GDP), in 2021Q2. This deterioration resulted from the decrease of goods and primary income. The aforementioned adverse developments were partly offset by surplus in services and by lower deficits in secondary income. The resulting deficit when adjusting the data for the impact of Special Purpose Entities (SPEs), that is, classifying SPEs as non-residents, stood at €645.5 mn (-2.8% of GDP) in 2021Q2, compared with a deficit of €409.6 mn (-1.9% of GDP) in 2020Q2. For 2021H1 the deficit stood at €1,453.5 mn (-6.3% of GDP) compared with a deficit of €812.1 mn (-3.8% of GDP) in 2020H1. Adjusted for the impact of SPEs, the deficit stood at €1,269.9 mn (-5.5% of GDP) in 2021H1 compared with a deficit of €945.8 mn (-4.4% of GDP) in 2020H1.

- The **international investment position (IIP)** (see graph 6.5) recorded a slight deterioration at the end of 2021Q2, presenting a net liability position of €29,809.9 mn, compared with a net liability position of €29,240.0 mn in 2021Q1. With the corresponding data being adjusted for the impact of SPEs, IIP recorded a net liability position of €10,664.1 mn at

the end of 2021Q2, compared with a net liability position of €10,304.7 mn, at the end of the previous quarter.

- The **gross external debt** increased to €193,271.5 mn in 2021Q2 from €192,487.7 mn in 2021Q1. A similar trend was also recorded by external assets in debt instruments, which increased to €127,925.5 mn, up from €127,657.0 mn in 2021Q1. Consequently, net external debt increased by €515.3 mn to €65,346.0 mn, over 2021Q2. Adjusted for the impact of SPEs, gross external debt reached €62,630.2 mn at the end of 2021Q2, compared to €61,866.9 mn, at the end of 2021Q1. The corresponding net external debt indicator increased to -€1,786.2 mn, compared with -€2,146.7 mn at the end of the previous quarter.

Public Finances

- **General government budget balance (GGBB)** recorded a deficit in January-September 2021, of the order of €483.4 mn (-2.1% of GDP) compared to a deficit of €599.8 mn (-2.8% of GDP) during the corresponding period the year before (see graph 9.1).

- **General government primary balance (GGPB)** recorded a deficit in January-September 2021, of the order of €116.3 mn (-0.5% of GDP) compared to a deficit of €242.0 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 9.9%, reaching €7,232.3 mn in January-September 2021, compared to €6,578.1 mn during the corresponding period the year before (see graph 9.3).

- **Total revenue** exhibited an increase of about 12.9%, reaching €6,748.9 mn in January-September 2021, compared to €5,978.3 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 1.2%** in the 2nd quarter of 2021 compared to the 1st quarter of 2021 and a decrease of 4.9% compared to the 2nd quarter of 2020.

- The CBC's **residential property price index** recorded an **increase of 0.3%** in the 2nd quarter of 2021 compared to the

1st quarter of 2021 and an increase of 0.2% compared to the 2nd quarter of 2020. Cumulative from the 1st quarter of 2008 it has exhibited a decline of 23.2% (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 21.6% while **transfers of property** were up by 28.5% in January-October 2021 compared with January-October 2020 (see graph 7.3).

- Monetary Financial Institutions (MFI) **mortgage loans to domestic residents** for housing **increased by 5.2%** in September 2021 (see graph 7.2).

Banking Sector Developments

- **MFI loans to domestic residents** (private sector) **increased by 2.7%** in September 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 4.3%** in September 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 September 2021, **deposit interest rates** for maturity of up to 1 year 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 decreased.

- **NPEs** in August 2021 decreased to €4.98 bn (17.4% on gross loans) compared to €5.14 bn (17.7% on gross loans) in December 2020 (€9.06 bn or 28% on gross loans, December 2019). The decrease for the eight months was €136.6 mn.

- **Accumulated provisions** increased to 47.5% 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.

- Bank of Cyprus is in the process to sell a portfolio of €500 mn of NPEs call Helix 3 to potential investors.

- 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.

- In 2020, Bank of Cyprus sell to PIMCO LLC a portfolio of NPLs with a gross value of €916 mn in August 2020 (Portfolio A- Project Helix 2) and in January 2021 sell of a gross value of €545 mn (Portfolio B- Project Helix2).

Credit Ratings

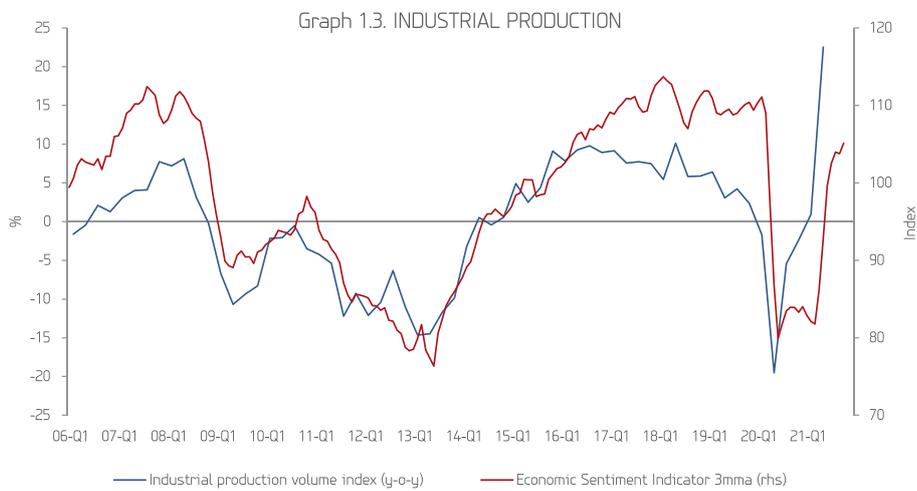
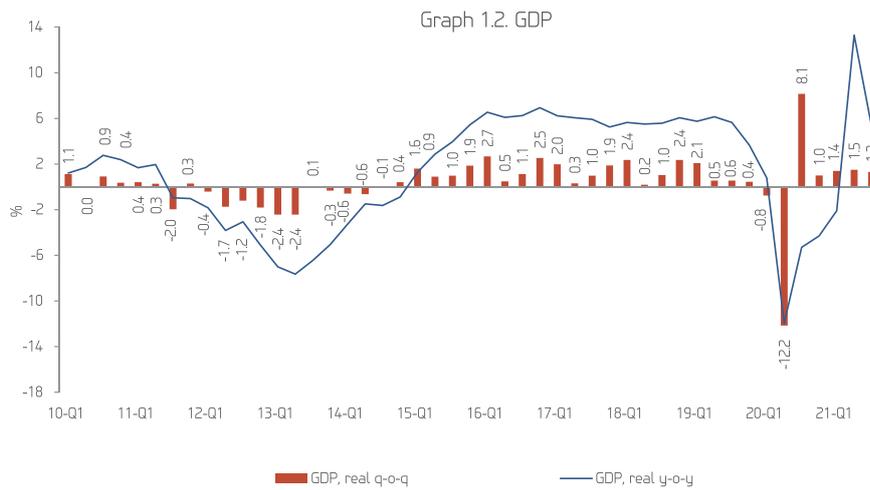
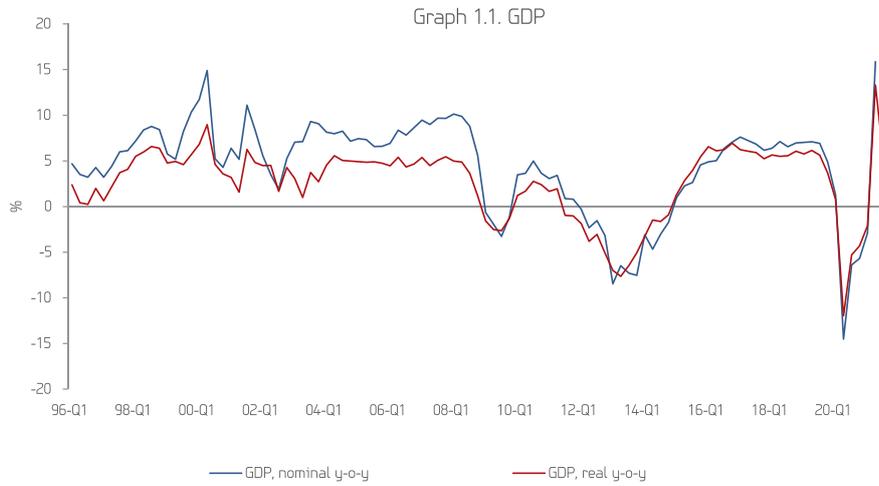
- On 22/10/2021, DBRS Ratings confirmed the Republic of Cyprus’s Long-Term Foreign and Local Currency - Issuer Ratings at BBB (low) and changed the trend from stable to positive.

- On 24/09/2021, Fitch Ratings affirmed the Outlook on Cyprus’s Long-Term Foreign-Currency Issuer Default Rating (IDR) to stable and the IDR at BBB-.

- On 03/09/2021, Standard & Poor’s Ratings affirms Cyprus Ratings at ‘BBB-/A-3’ and changed the outlook to positive from stable.

- On 23/07/2021, Moody’s Investors Service upgraded the Government of Cyprus’s long-term issuer and senior unsecured ratings to Ba1 and changed the outlook to stable from positive.

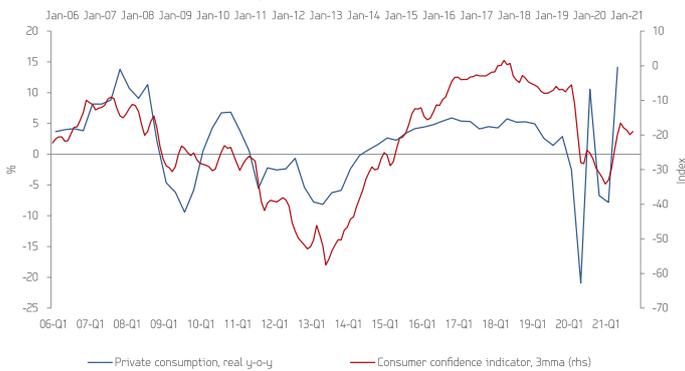
1. OUTPUT



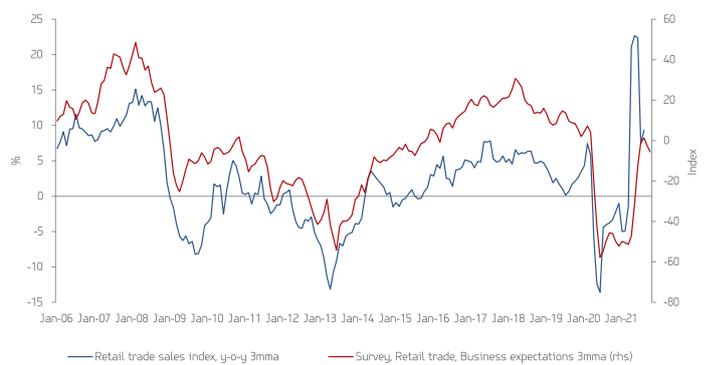
Sources: Eurostat, DG ECFIN, Cystat

2. CONSUMPTION

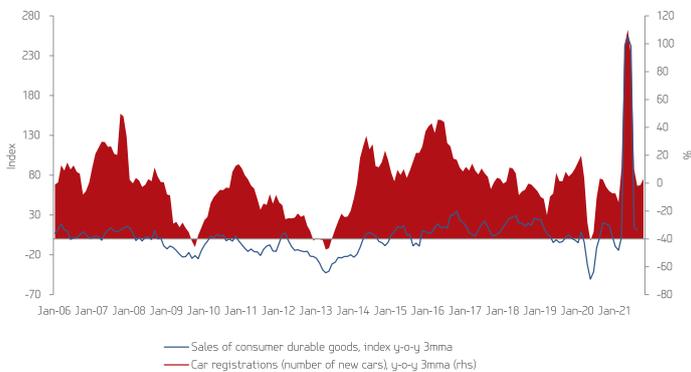
Graph 2.1. CONSUMPTION



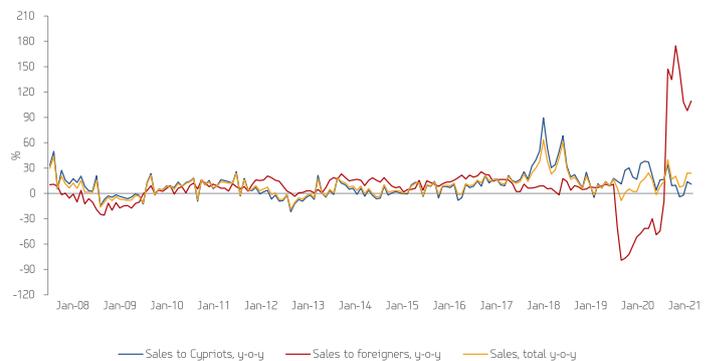
Graph 2.2. RETAIL TRADE



Graph 2.3. CAR REGISTRATIONS



Graph 2.4. CREDIT CARD TRANSACTIONS

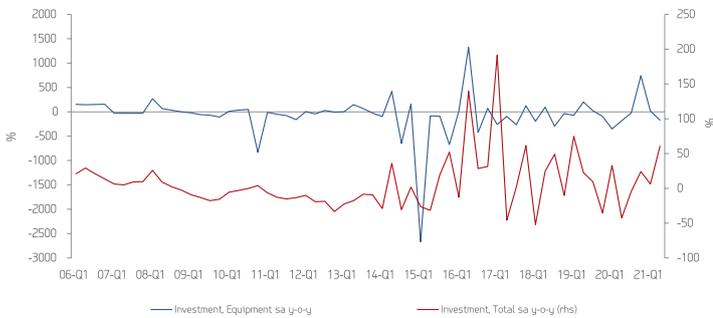


Note: Data for credit card transactions from 2018 onwards were revised based on reclassification of some foreign cards to local cards, thus data are not comparable with the data of the previous years.

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

3. INVESTMENT

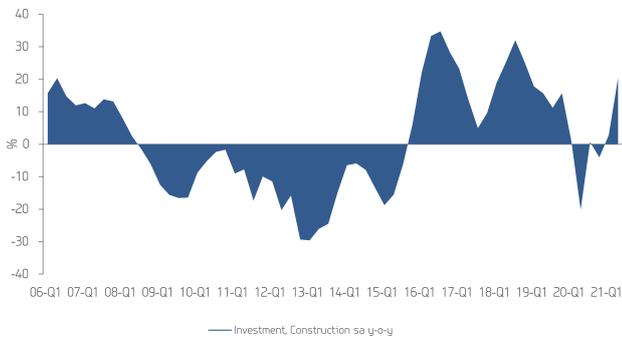
Graph 3.1. INVESTMENT EQUIPMENT AND TOTAL



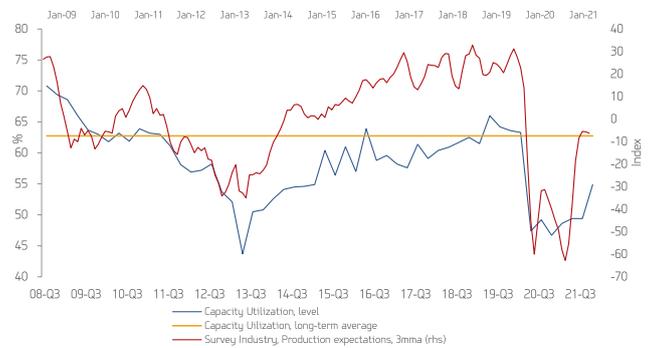
Graph 3.2. BUILDING PERMITS



Graph 3.3. INVESTMENT CONSTRUCTION



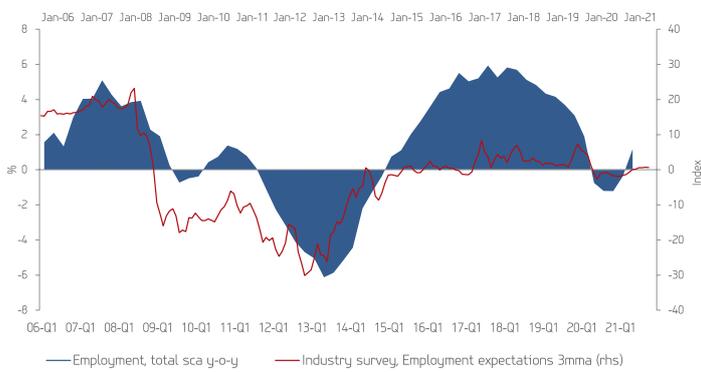
Graph 3.4. CAPACITY UTILIZATION



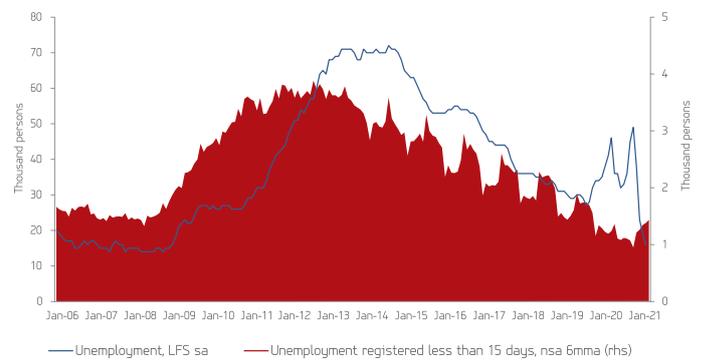
Sources: Cystat, DG ECFIN, CypERC

4. LABOUR MARKET

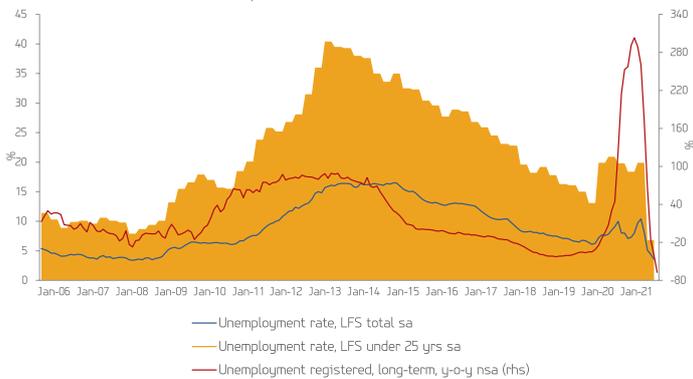
Graph 4.1. EMPLOYMENT



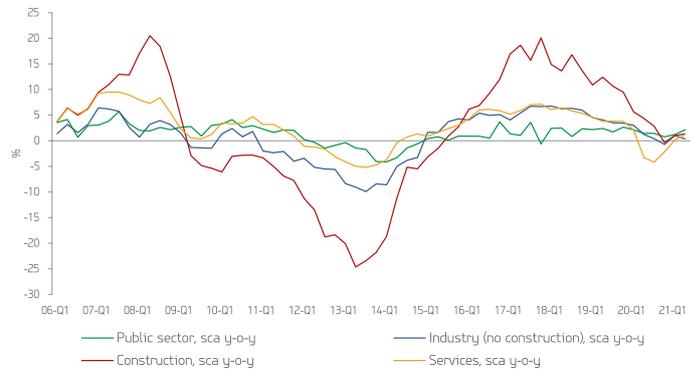
Graph 4.2. UNEMPLOYMENT



Graph 4.3. UNEMPLOYMENT RATE



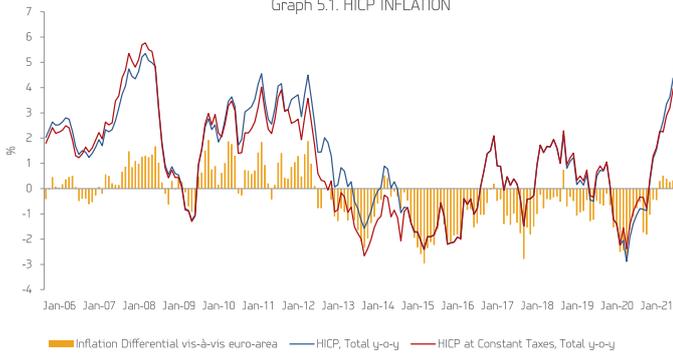
Graph 4.4. EMPLOYMENT BY SECTORS



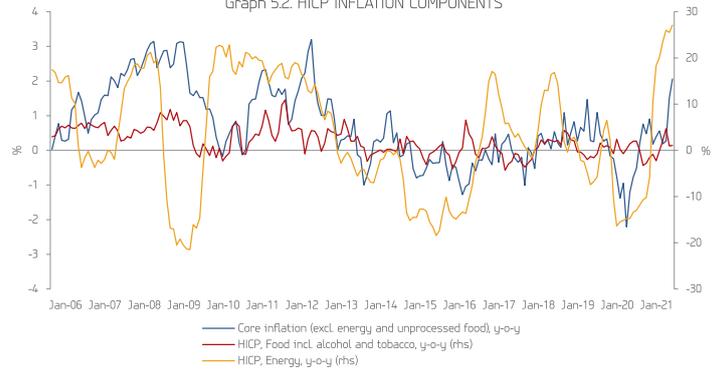
Sources: Eurostat, DG ECFIN, Cystat

5. INFLATION / WAGES

Graph 5.1. HICP INFLATION



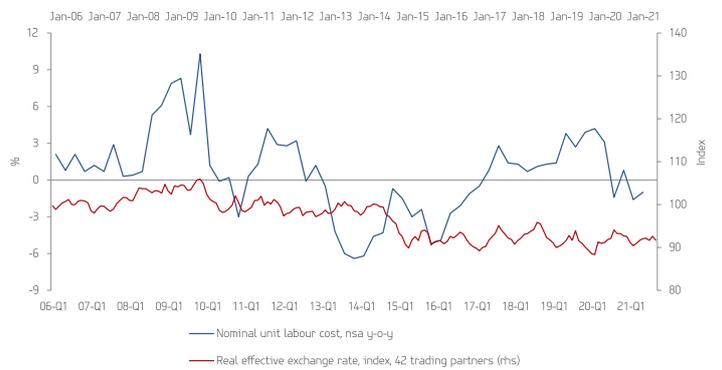
Graph 5.2. HICP INFLATION COMPONENTS



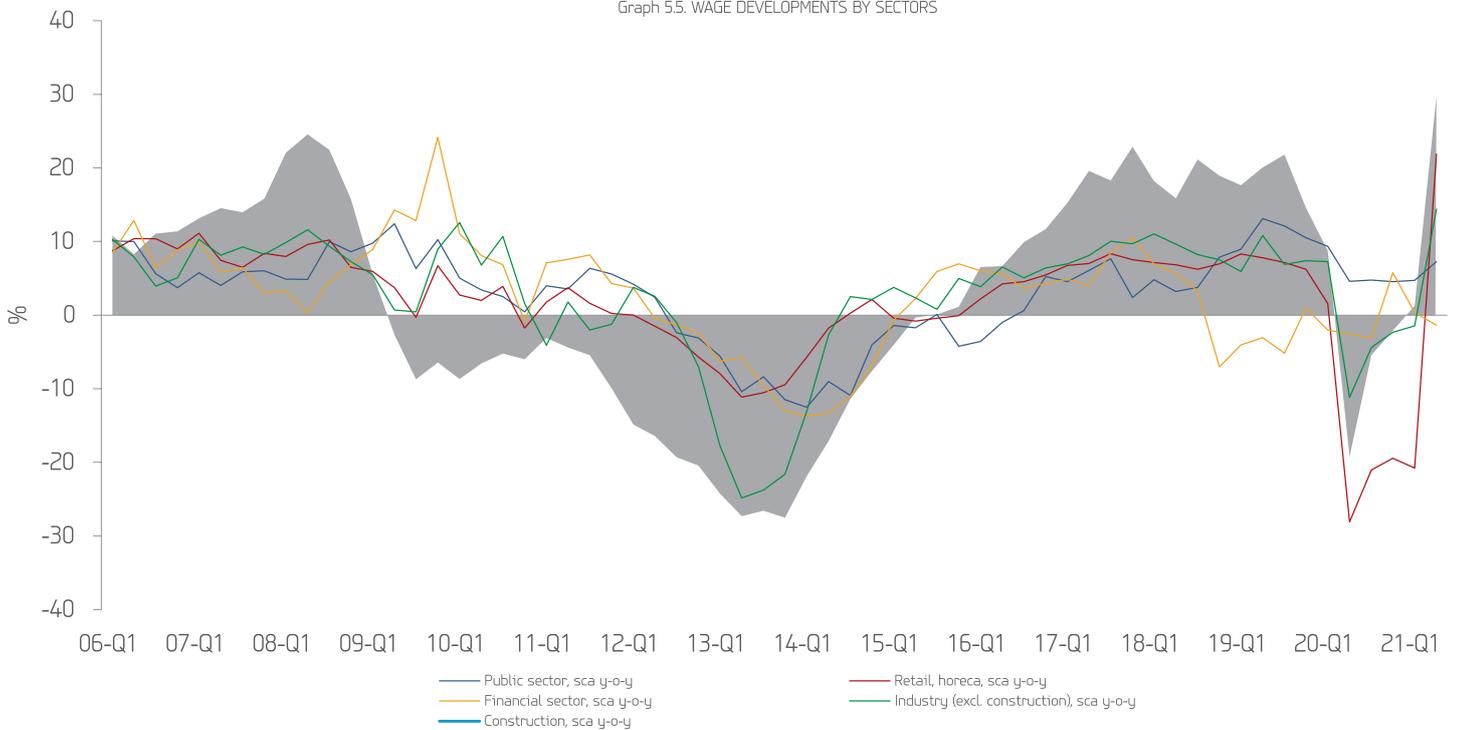
Graph 5.3. PRODUCTION AND WAGES



Graph 5.4. COMPETITIVENESS

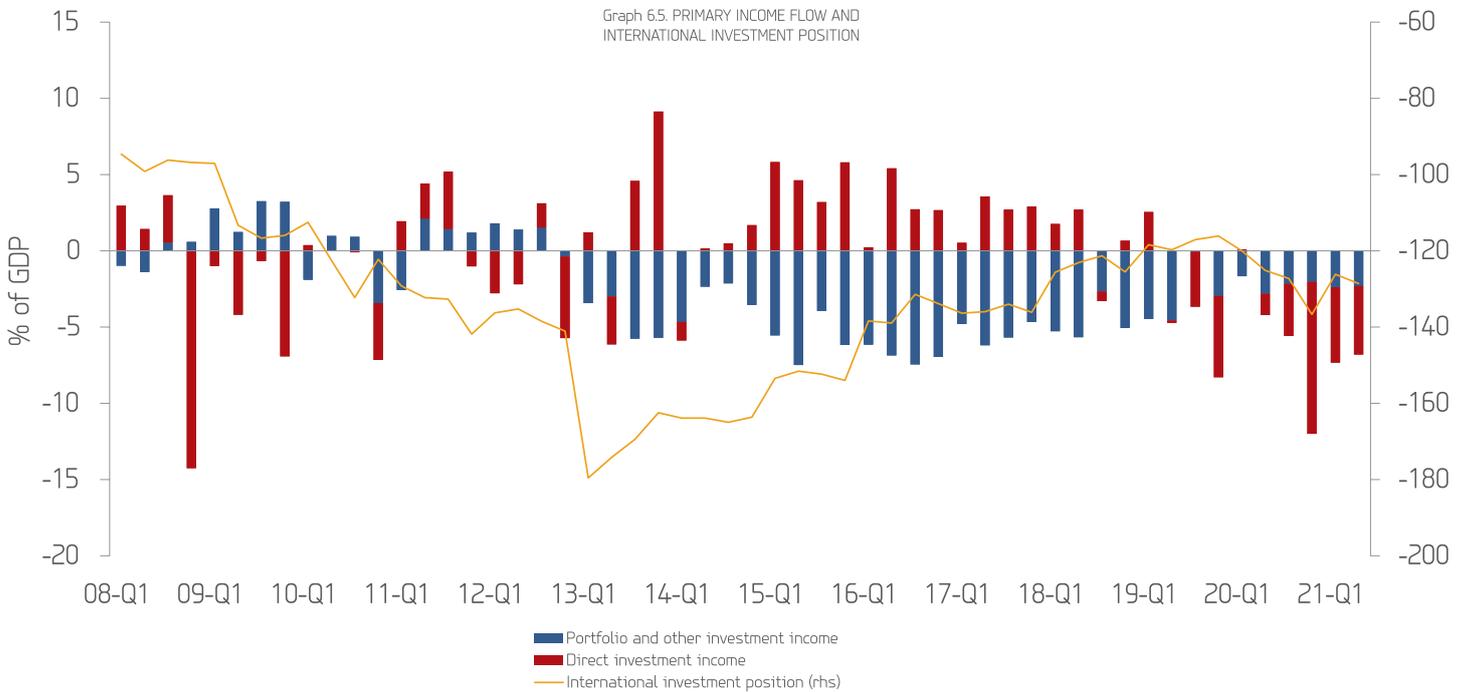
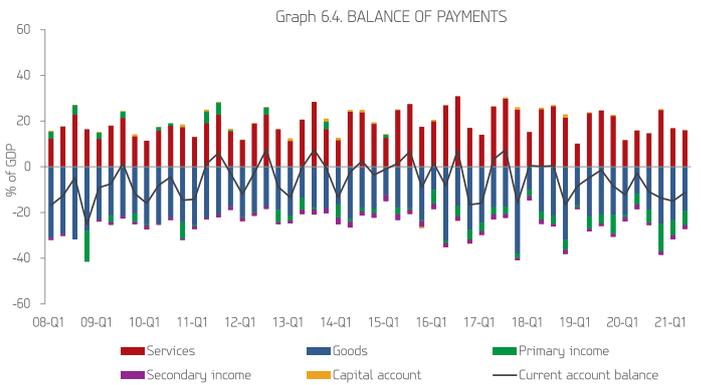
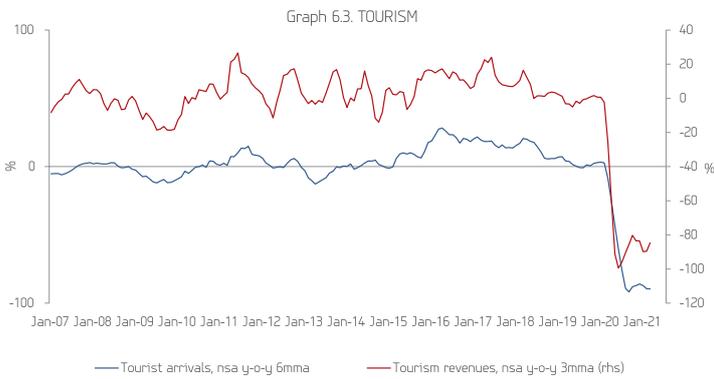
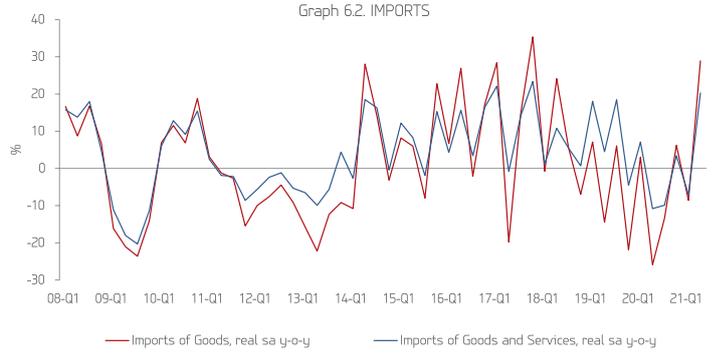
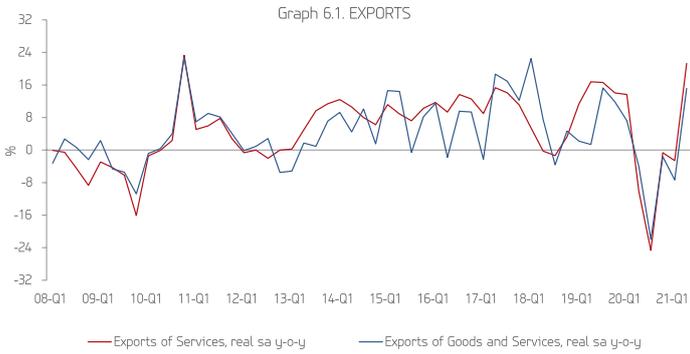


Graph 5.5. WAGE DEVELOPMENTS BY SECTORS



Source: Eurostat

6. EXTERNAL SECTOR



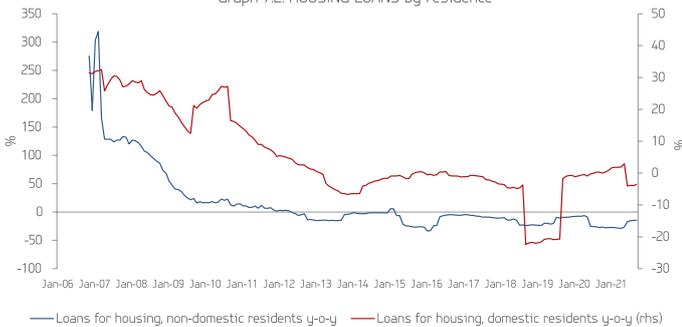
Sources: Cystat, CBC

7. HOUSING

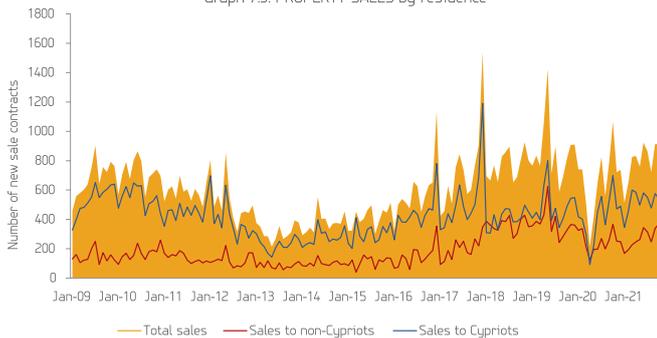
Graph 7.1. HOUSE PRICES AND HOUSING LOANS



Graph 7.2. HOUSING LOANS by residence

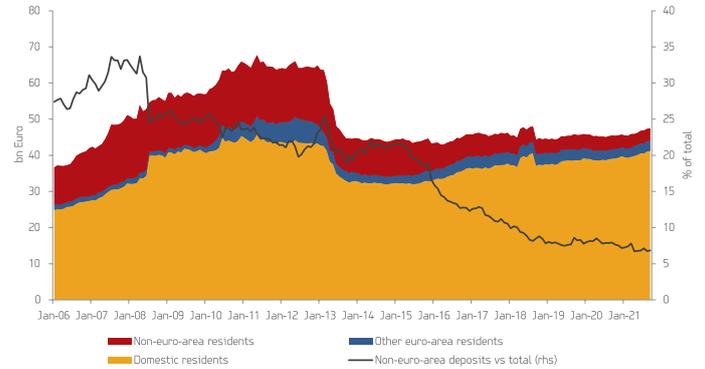


Graph 7.3. PROPERTY SALES by residence

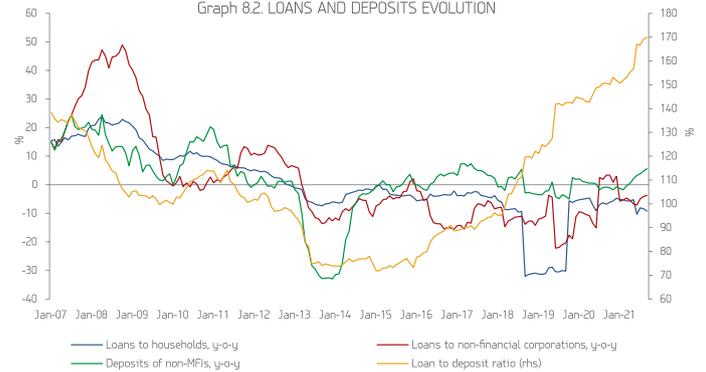


8. FINANCIAL SECTOR

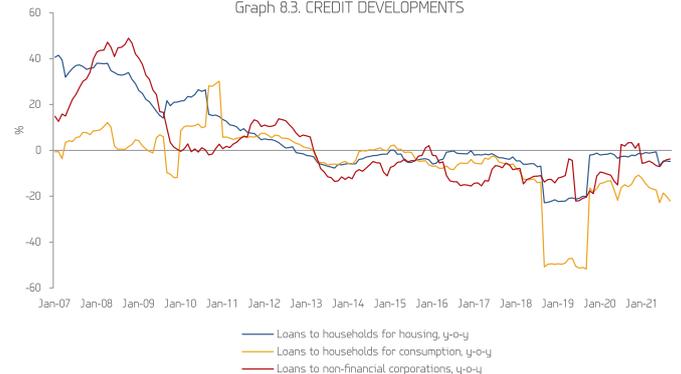
Graph 8.1. DEPOSIT STRUCTURE



Graph 8.2. LOANS AND DEPOSITS EVOLUTION



Graph 8.3. CREDIT DEVELOPMENTS

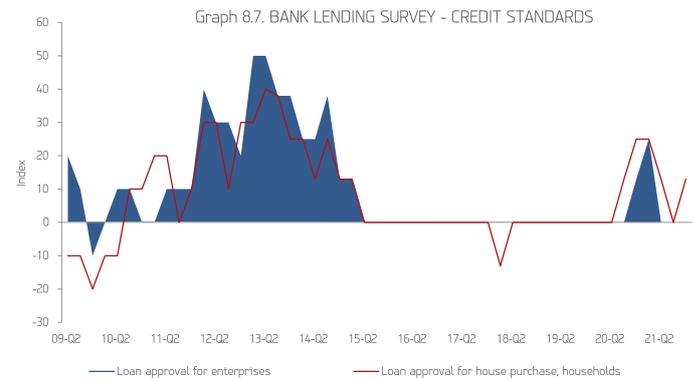
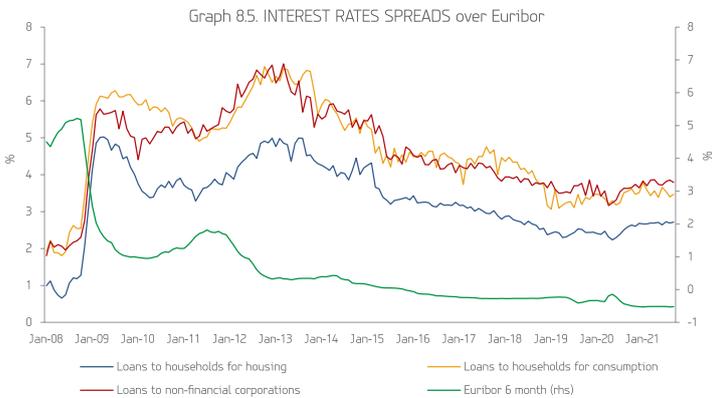
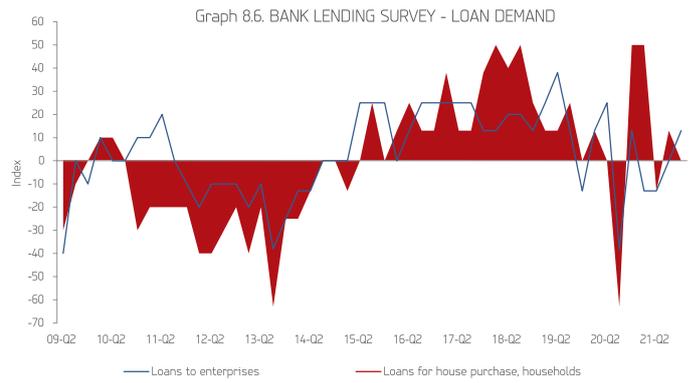
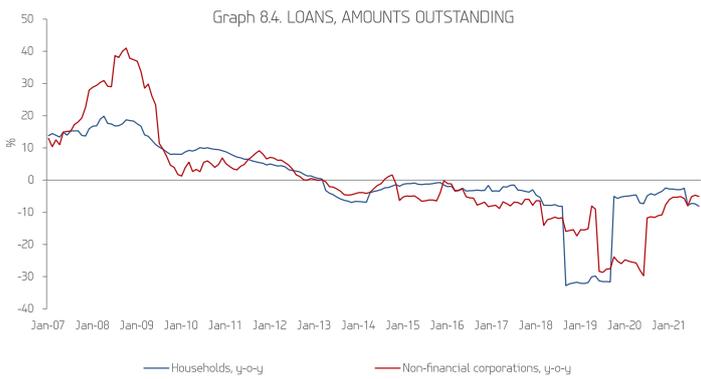


Note: According to the relevant modifications to the codification of the term "Alien" in the Land Information System, the way the statistics are presented has been modified. Therefore, the suggestion of the Department of Lands and Surveys is to avoid the comparison of the specific data from 2018 onwards,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

Sources: CBC, Dep. of Lands and Surveys

Source: CBC, EMMI

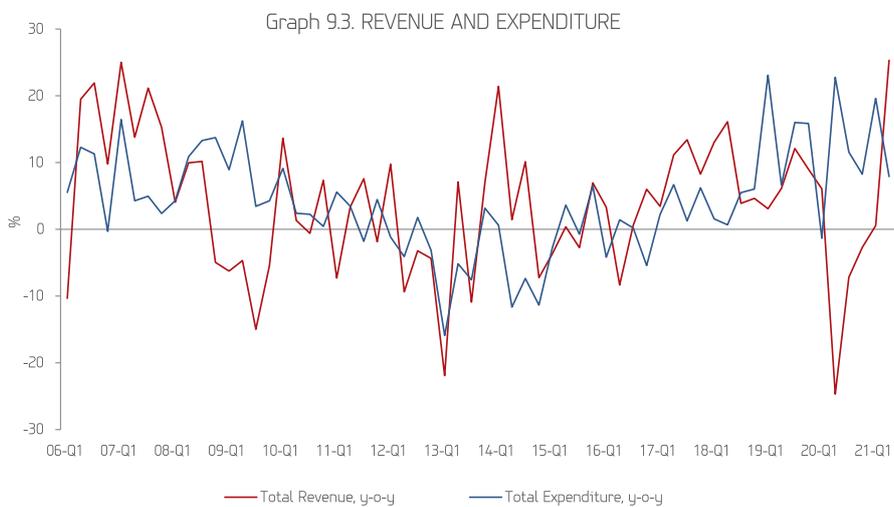
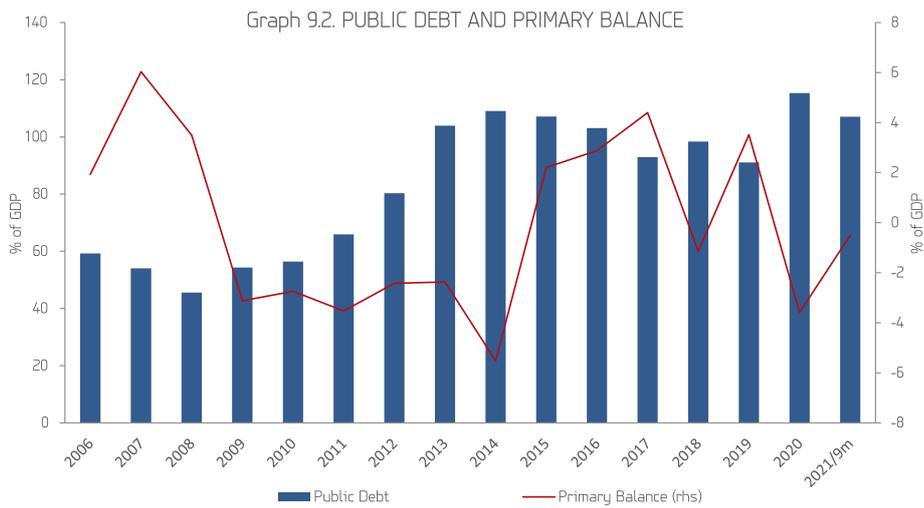
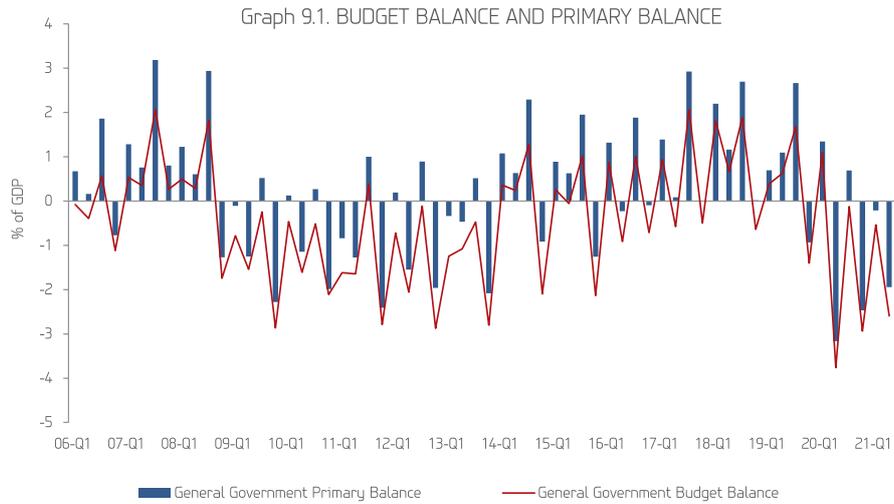
8. FINANCIAL SECTOR



Sources: CBC, EMMI

Source: ECB

9. PUBLIC SECTOR



Sources: Ministry of Finance, Cystat