



MINISTRY OF FINANCE

MACROECONOMIC
MONITOR
OF CYPRUS

APR
2022



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MACROECONOMIC MONITOR OF CYPRUS

Updated on 21 April 2022

Macro Economy

- In the 4th quarter of 2021, GDP (in seasonally adjusted terms) recorded a positive rate of growth of 5.9%, compared with 5.7% in the 3rd 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 exports and consumption (see graphs 2.1-2.4).

- In March 2022, economic sentiment in Cyprus deteriorated as the Economic Sentiment Indicator (ESI-CypERC) decreased by 9.4 points compared with February 2022 (see graph 1.3). The decrease in the ESI-CypERC resulted from weaker business confidence in services, industry and retail trade, as well as from confidence losses among consumers.

- For the period of January-February 2022, arrivals of tourists totaled 115.865 compared to 8.936 in the corresponding period of 2021, and to 191.214 during the period of January-February 2020 (see graph 6.3). Arrivals from the United Kingdom were the main source of tourism for February 2022, with a share of 25.9% of total arrivals, followed by Greece with 12.2%, Russia with 8.0%, Ukraine with 7.9%, Israel with 7.8% and Poland with 6.4%.

- Employment developments reflect conditions of improved economic activity. Total employment increased by 1.2% in 2021 compared to 2020. The most significant percentage increases were observed in the economic activities of Hotels and Restaurants, Education, Construction, Information and Communication and Professional, Scientific Technical Activities.

- Labour Force Survey (LFS) unemployment, in monthly seasonally adjusted terms, decreased to 6.4% in February 2022 compared to 8.0% in February 2021 (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 16.8% in the 4th quarter of 2021 from a peak of 40.6% in the 3rd quarter of 2013.

- Compensation per employee recorded an increase of 4.7% in 2021 compared with 2020 (see graphs 5.3-5.5).

- Inflation (HICP) in March 2022 recorded an increase of 6.2% compared to an increase of 5.8% in February 2022 (see graph 5.1) and for January-March 2022 it stands at 5.7%. Compared to January-March 2021, the largest changes were noted in Housing, Water, Electricity, Gas and Other Fuels and Transport. Core HICP recorded an increase of 2.6% in January-March 2022 (see graph 5.2).

- Imports of goods recorded an increase of 8.6% in January-February 2022 compared to January-February 2021. 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 33.5%.

- Exports of goods recorded an increase of 54.3% in January-February 2022 compared to January-February 2021. Exports of goods, excluding exports of aircrafts and vessels, exhibit an increase of 42.5%.

External Sector

- The current account (CA) balance (see graph 6.4) recorded an improvement, with the deficit decreasing from €2,177.2 mn (10.1% of GDP) in 2020 to €1,695.8 mn (7.2% of GDP), in 2021. The reduction in the current account deficit resulted from the improved surplus in services and the lower deficit of the secondary income. The aforementioned developments were partly offset by increased deficits in goods and primary income. The resulting deficit adjusted for the impact of Special Purpose Entities (SPEs), that is, classifying SPEs as non-residents, stood at €2,014.3 mn (8.6% of GDP) in 2021, compared with a deficit of €2,092.4 mn (9.7% of GDP) in 2020.

- The international investment position (IIP) (see graph 6.5) recorded an improvement in 2021, presenting a net liability position of €28,786.8 mn, compared with a net liability position of €29,447.0 mn in 2020. With the corresponding data being adjusted for the impact of SPEs, IIP recorded a net liability position of €10,150.0 mn in 2021, compared with a net liability position of €10,839.5 mn, in 2020.

- The gross external debt increased to €192,714.8 mn in 2021 from €190,427.0 mn in 2020. The external assets in debt instruments increased to €133,889.4 mn, up from €124,963.0 mn in 2020. Consequently, net external debt decreased by €6,638.6 mn to €58,825.4 mn, in 2021. Adjusted for the impact of SPEs, gross external debt reached

€68,271.0 mn in 2021, compared to €61,395.8 mn, in 2020. The corresponding net external debt indicator increased to -€3,730.1 mn in 2021, compared with -€946.2 mn in 2020.

Public Finances

- **General government budget balance (GGBB)** recorded a surplus in January-February 2022, of the order of €235.4 mn (0.9% of GDP) compared to a deficit of €54.1 mn (-0.2% of GDP) during the corresponding period the year before (see graph 9.1).
- **General government primary balance (GGPB)** recorded a surplus in January-February 2022, of the order of €315.8 mn (1.3% of GDP) compared to a surplus of €17.7 mn (0.1% of GDP) during the corresponding period the year before (see graphs 9.1-9.2).
- **Total expenditure** exhibited a decrease of about 4.0%, reaching €1,440.4 mn in January-February 2022, compared to €1,500.1 mn during the corresponding period the year before (see graph 9.3).
- **Total revenue** exhibited an increase of about 15.9%, reaching €1,675.8 mn in January-February 2022, compared to €1,446.0 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 3.1%** in the 4th quarter of 2021 compared to the 3rd quarter of 2021 and a decrease of 5.3% compared to the 4th quarter of 2020.
- The CBC's **residential property price index** recorded an **increase of 1.3%** in the 4th quarter of 2021 compared to the 3rd quarter of 2021 and an increase of 2.6% compared to the 4th quarter of 2020. Cumulative from the 1st quarter of 2008 it has exhibited a decline of 21.8% (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 51.6% while **transfers of property** were up by 28.3% in January-March 2022 compared with January-March 2021 (see graph 7.3).
- Monetary Financial Institutions (MFI) **mortgage loans to**

domestic residents for housing **increased by 5.2%** in January 2022 (see graph 7.2).

Banking Sector Developments

- **MFI loans to domestic residents** (private sector) **increased by 3.1%** in February 2022 (see graphs 8.2-8.4). Lending conditions remain tight (see graphs 8.6-8.7).
- **Deposits of domestic residents** held with MFIs (private sector) exhibited an **increase of 6.9%** in February 2022 (see graph 8.1).
- Overall **lending and deposit interest rates** in Cyprus remain low, creating an environment conducive to growth (see graph 8.5). In February 2022, **deposit interest rates** for maturity of up to 1 year marginally increased and of up to 3 months remained unchanged compared with the preceding month. The **lending interest rates** to households for primary residence decreased and the rate for other loans up to €1 mn for businesses increased. The interest rate for bank overdrafts to non-financial corporations increased.
- **NPEs** in October 2021 decreased to €4.28 bn (15.2% 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 ten months was €855.3 mn.
- **Accumulated provisions** increased to 46.7% 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 announced in November 2021 the sell a portfolio of €577 mn of NPEs call Helix 3 to a Credit acquired company.
- The decrease for the period January 2021 to October 2021 was due to the sale of a portfolio of NPLs (BOC), cash repayments of loans, reclassified NPEs as performing facilities and debt to assets (swaps).
- 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 (swaps). 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.

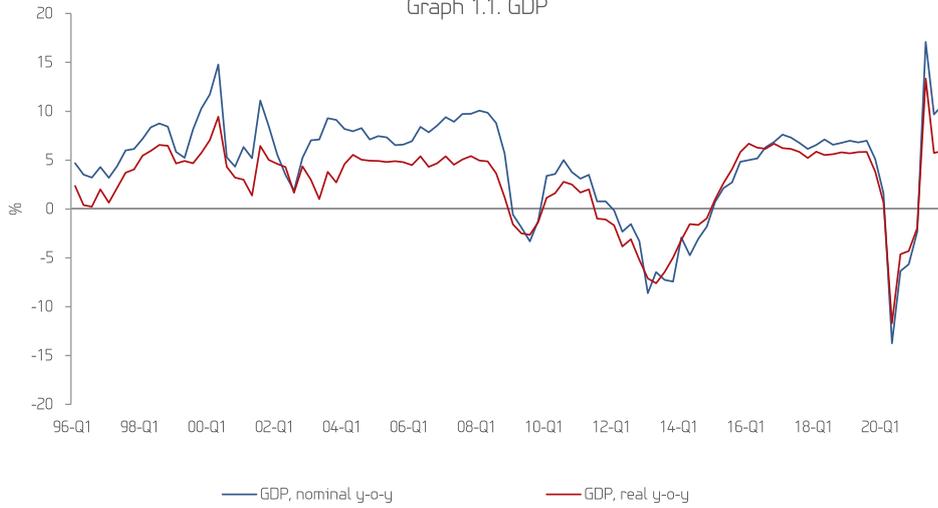
- In 2020, Bank of Cyprus sell to PIMCO LLC a portfolio of NPLs with a gross value of €916 mn in August 2020 (Portfolio A- Project Helix 2) and in January 2021 sell of a gross value of €545 mn (Portfolio B- Project Helix2).

Credit Ratings

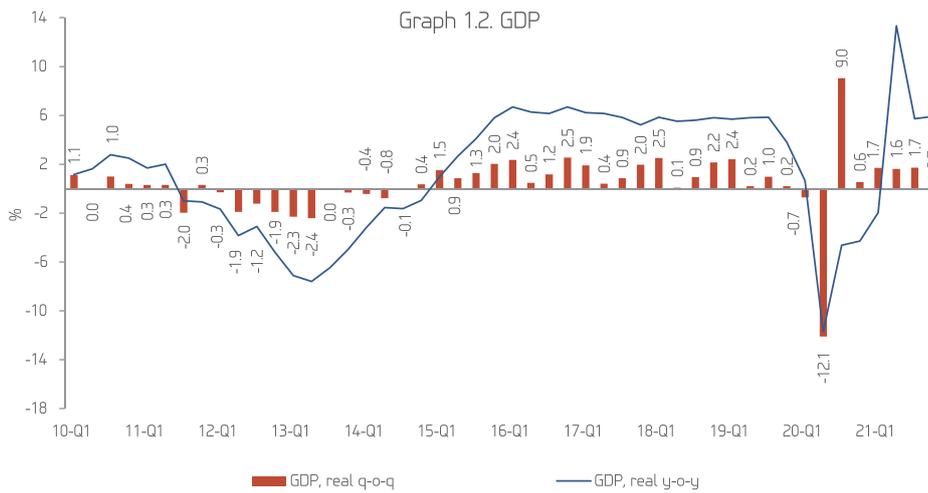
- On 08/04/2022, DBRS Ratings upgraded the Republic of Cyprus's Long-Term Foreign and Local Currency - Issuer Ratings at BBB and changed the trend from positive to stable.
- On 18/03/2022, Fitch Ratings affirmed the Outlook on Cyprus's Long-Term Foreign-Currency Issuer Default Rating (IDR) to stable and the IDR at BBB-.
- On 04/03/2022, Standard & Poor's Ratings affirms Cyprus Ratings at BBB-/A-3 and positive outlook.
- 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

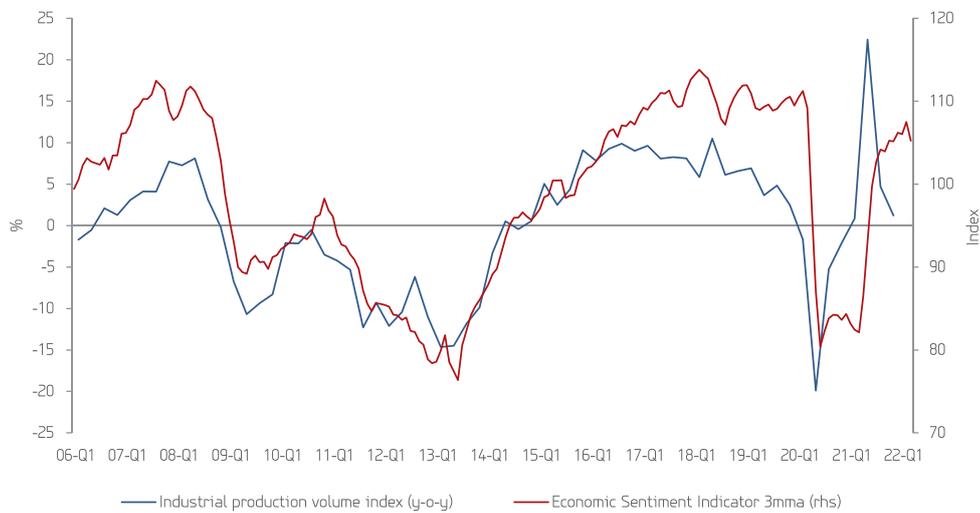
Graph 1.1. GDP



Graph 1.2. GDP



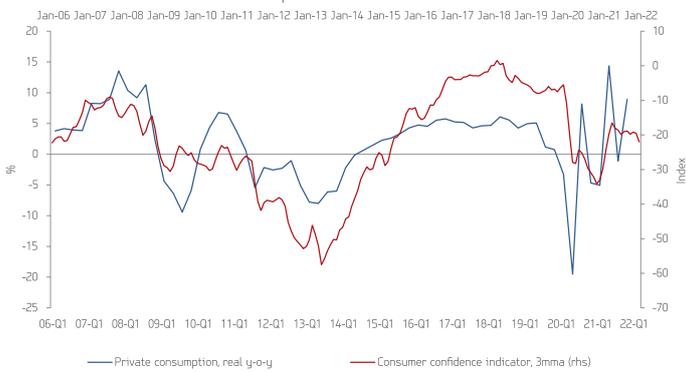
Graph 1.3. INDUSTRIAL PRODUCTION



Sources: Eurostat, DG ECFIN, Cystat

2. CONSUMPTION

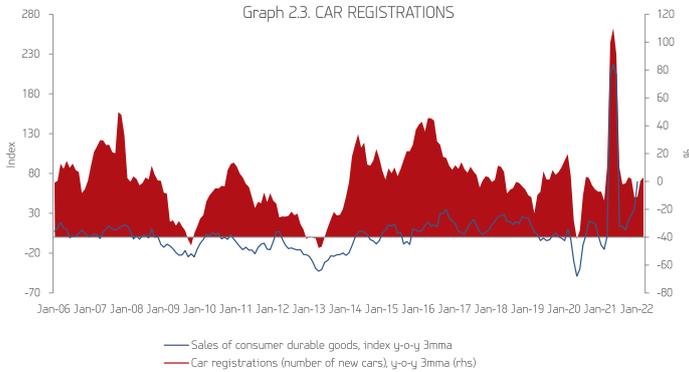
Graph 2.1. CONSUMPTION



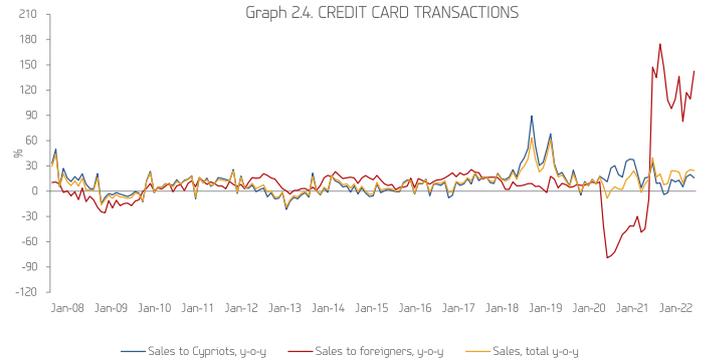
Graph 2.2. RETAIL TRADE



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.

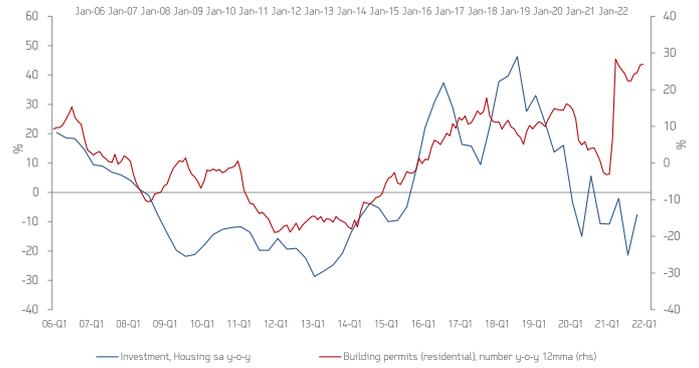
Sources: Eurostat, DG ECFIN, Cystat, JCC Payment Systems Ltd

3. INVESTMENT

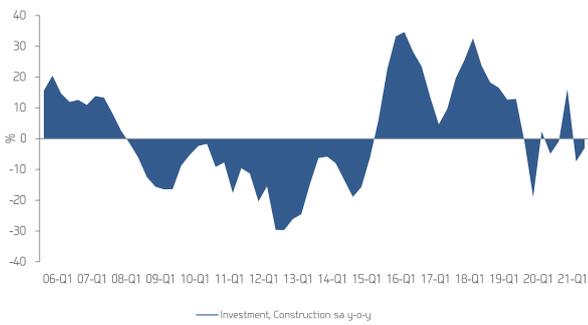
Graph 3.1. INVESTMENT EQUIPMENT AND TOTAL



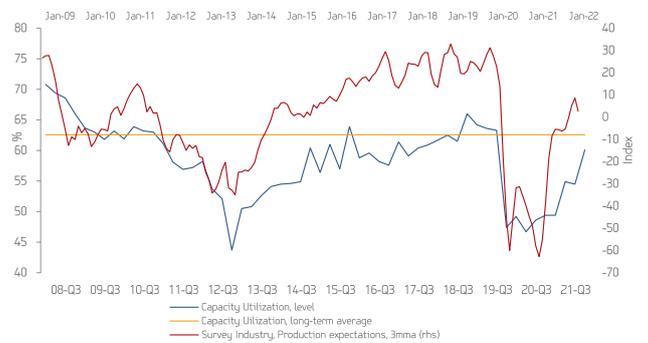
Graph 3.2. BUILDING PERMITS



Graph 3.3. INVESTMENT CONSTRUCTION



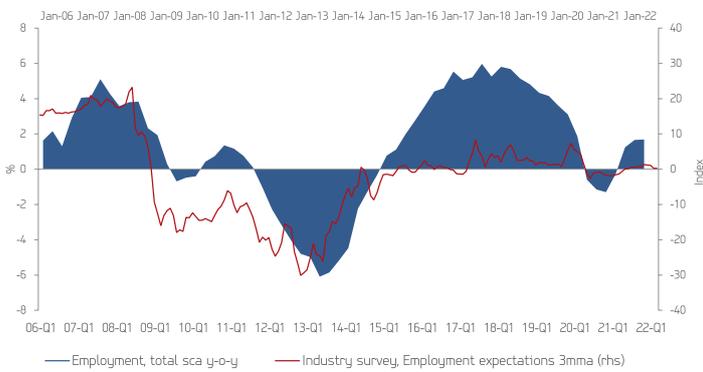
Graph 3.4. CAPACITY UTILIZATION



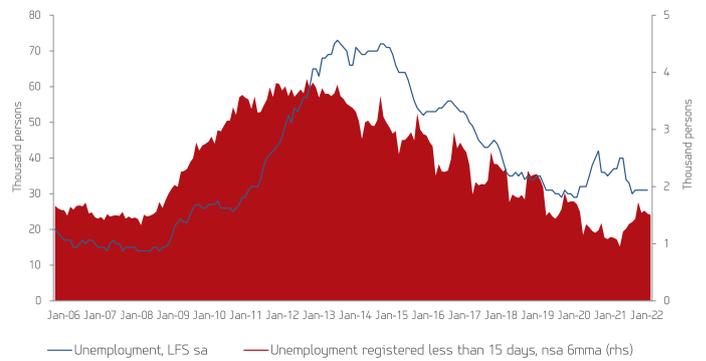
Sources: Cystat, DG ECFIN, CypERC

4. LABOUR MARKET

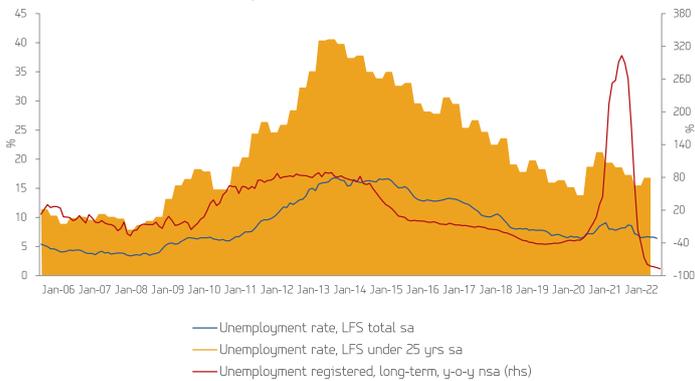
Graph 4.1. EMPLOYMENT



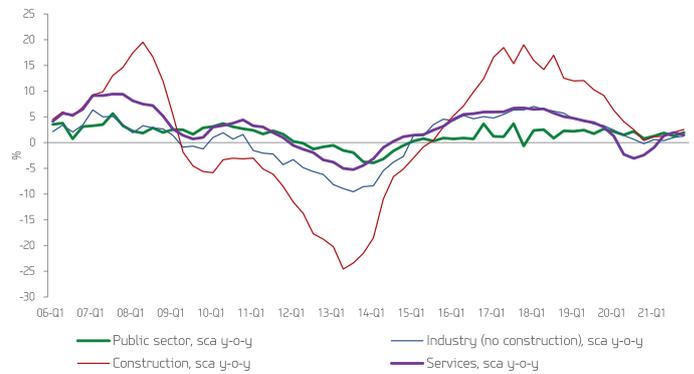
Graph 4.2. UNEMPLOYMENT



Graph 4.3. UNEMPLOYMENT RATE

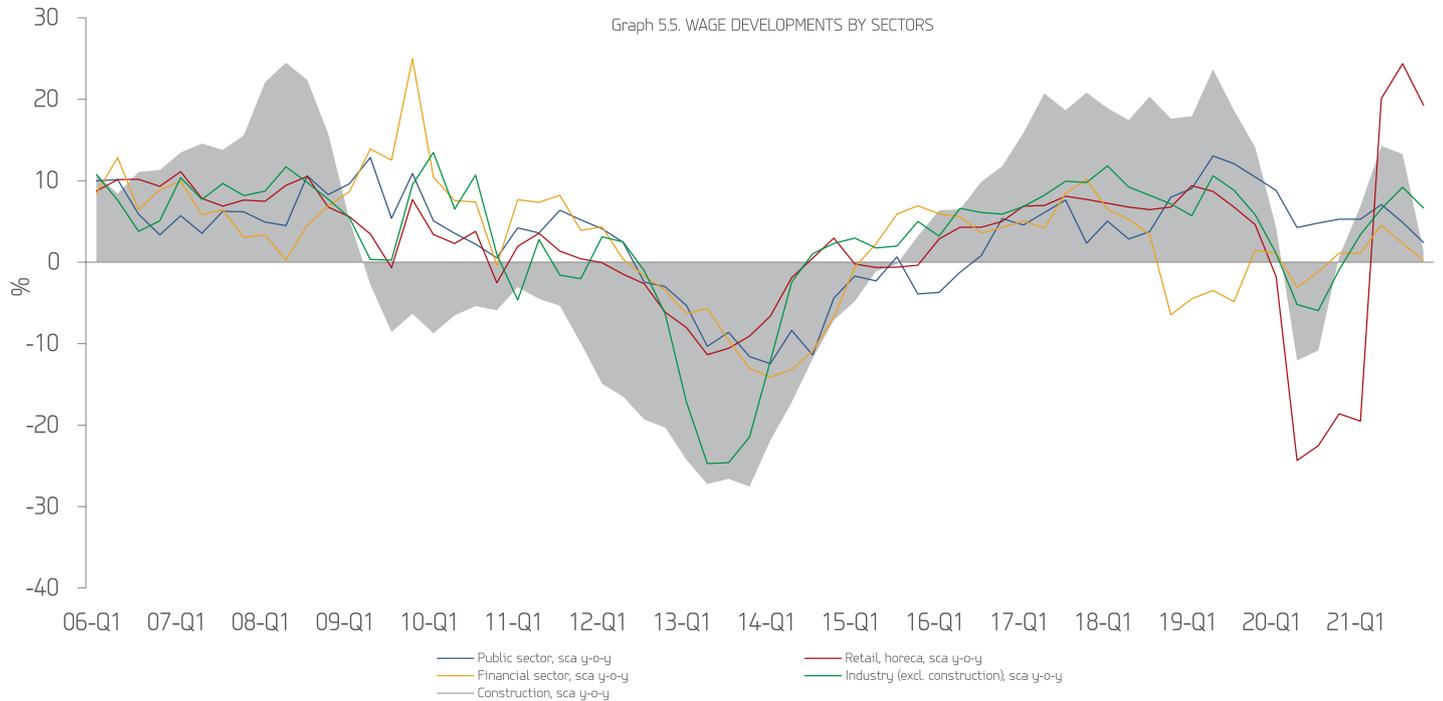
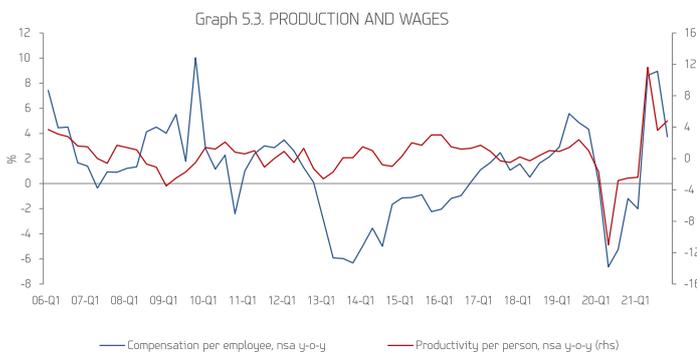
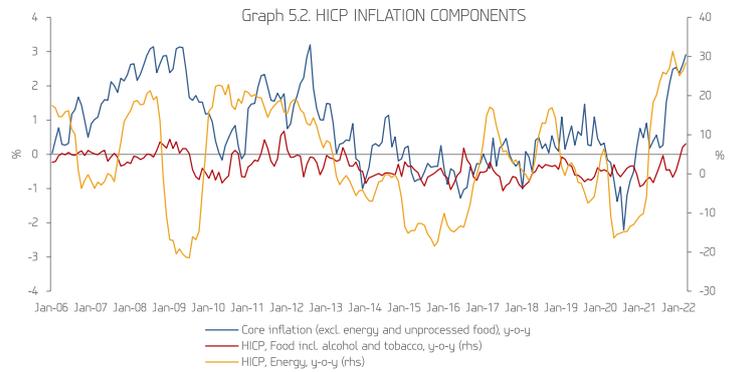
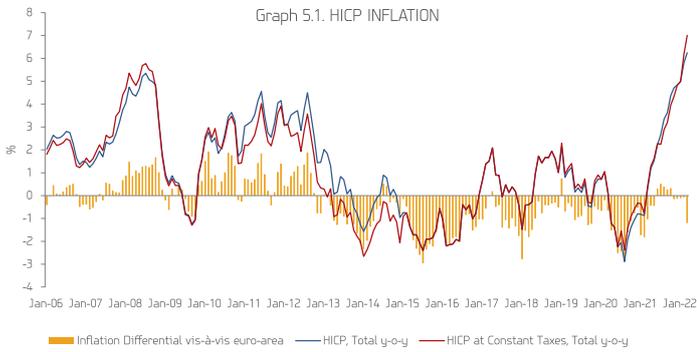


Graph 4.4. EMPLOYMENT BY SECTORS



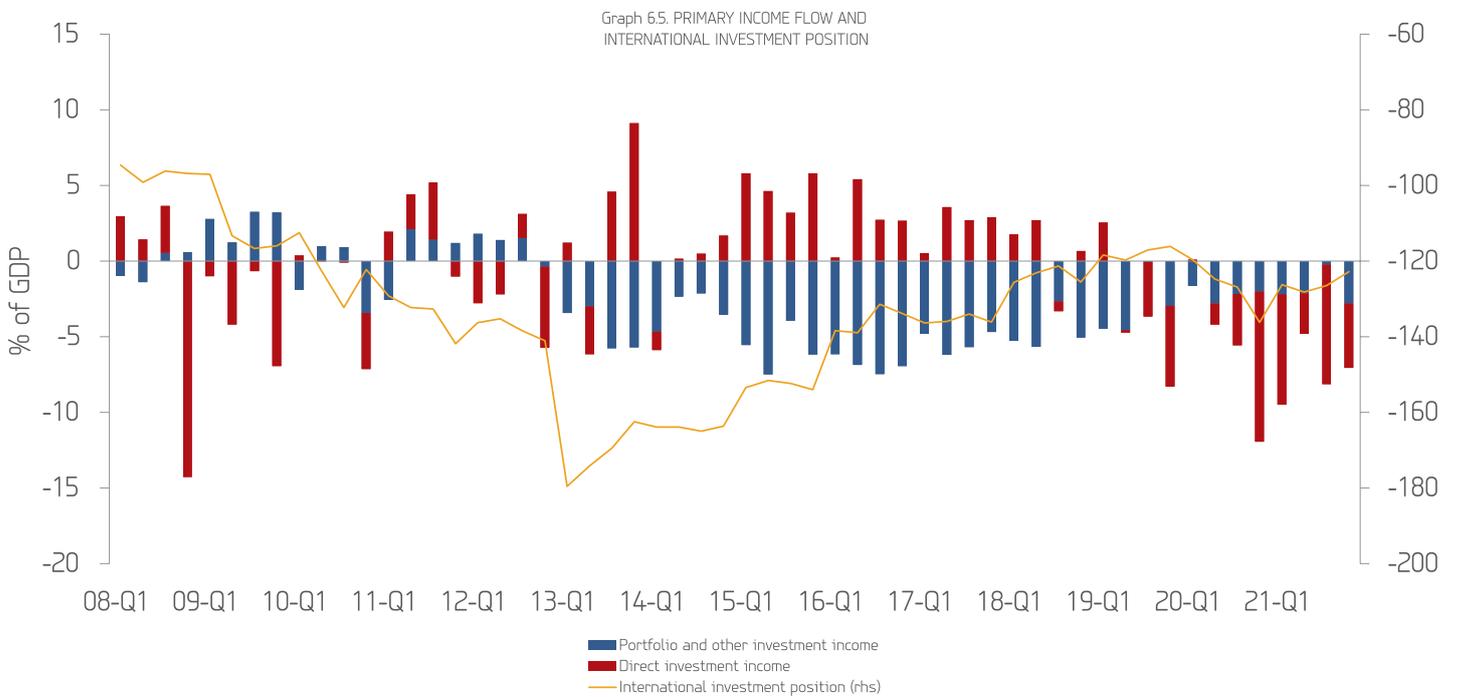
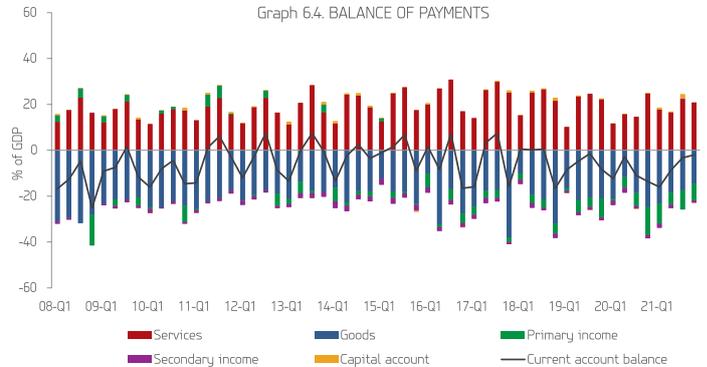
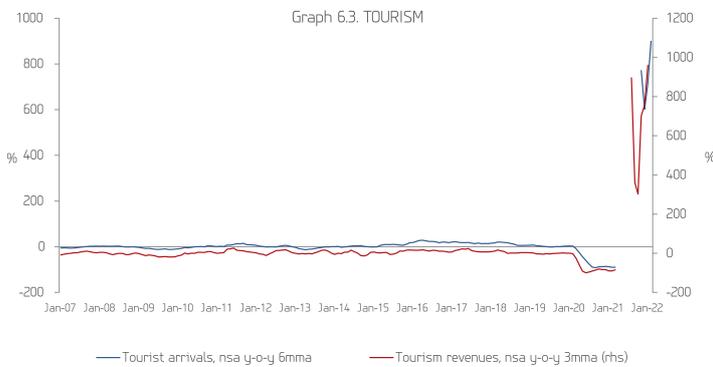
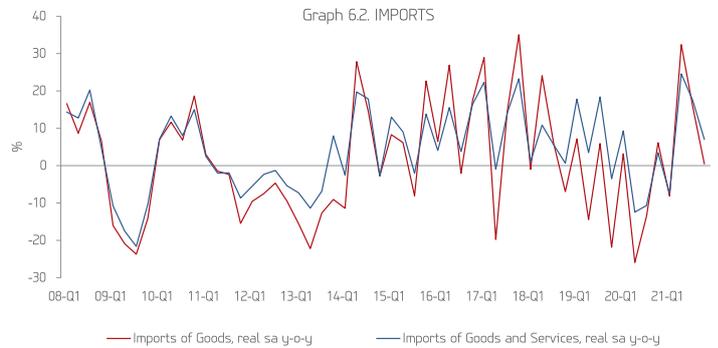
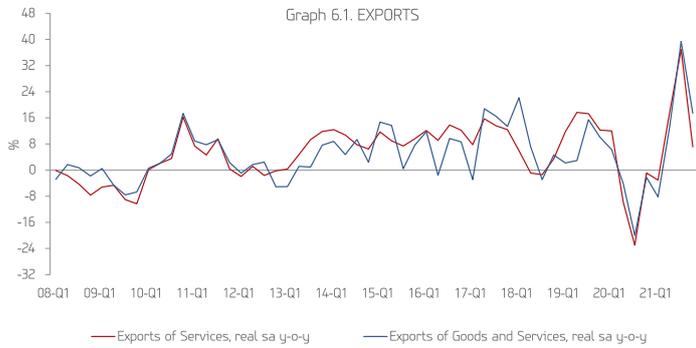
Sources: Eurostat, DG ECFIN, Cystat

5. INFLATION / WAGES



Source: Eurostat

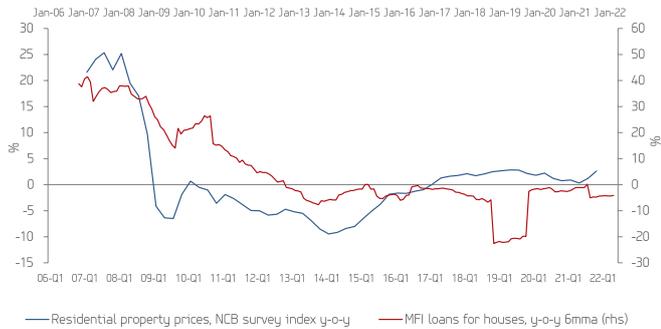
6. EXTERNAL SECTOR



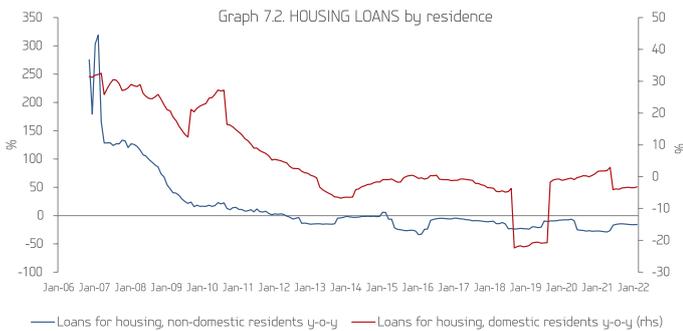
Sources: Cystat, CBC

7. HOUSING

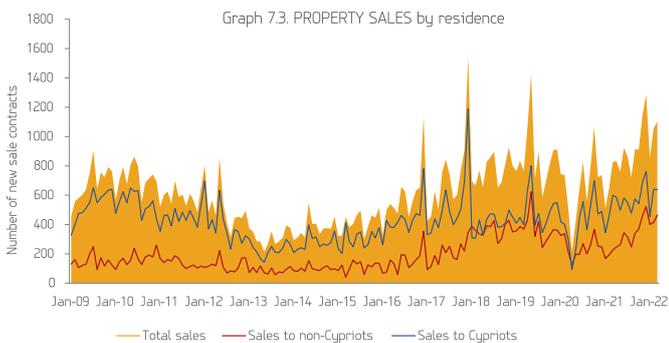
Graph 7.1. HOUSE PRICES AND HOUSING LOANS



Graph 7.2. HOUSING LOANS by residence



Graph 7.3. PROPERTY SALES by residence

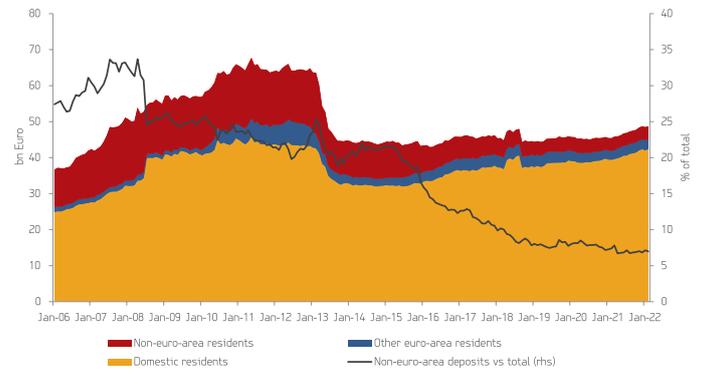


Note: According to the relevant modifications to the codification of the term "Alien" in the Land Information System, the way the statistics are presented has been modified. Therefore, the suggestion of the Department of Lands and Surveys is to avoid the comparison of the specific data from 2018 onwards,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

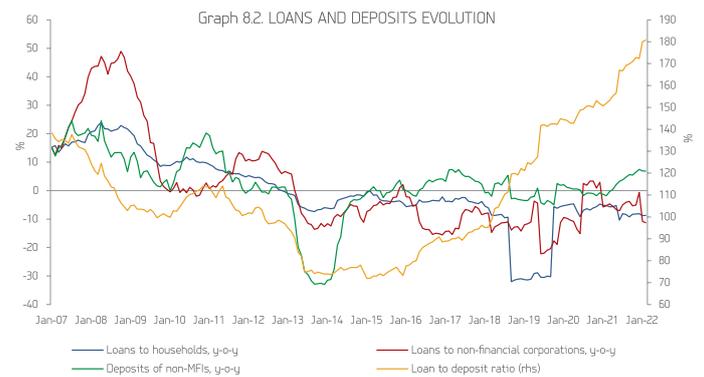
Sources: CBC, Dep. of Lands and Surveys

8. FINANCIAL SECTOR

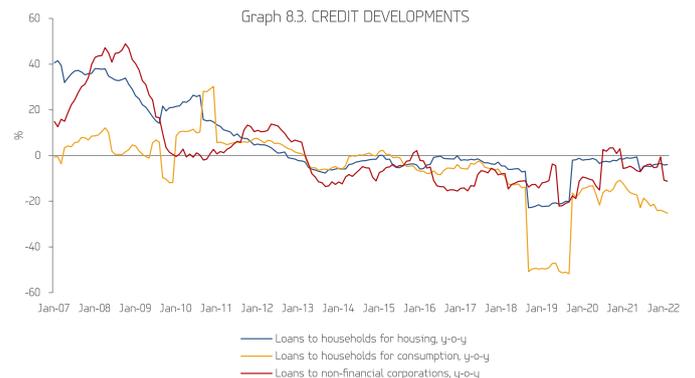
Graph 8.1. DEPOSIT STRUCTURE



Graph 8.2. LOANS AND DEPOSITS EVOLUTION

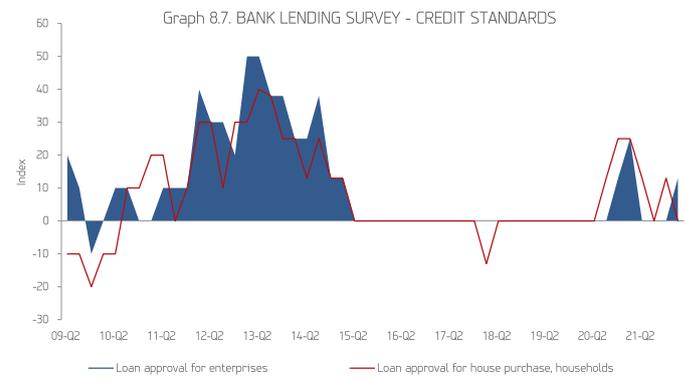
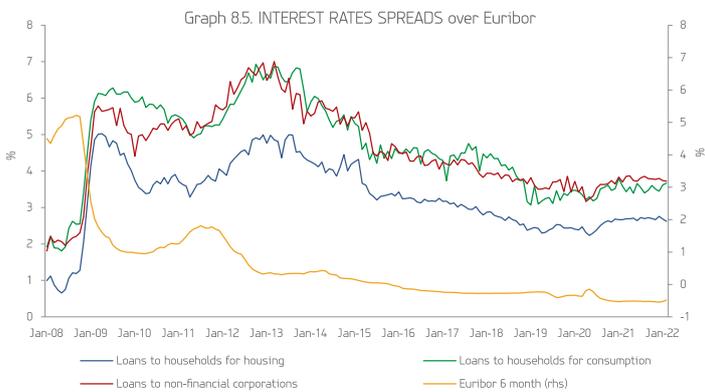
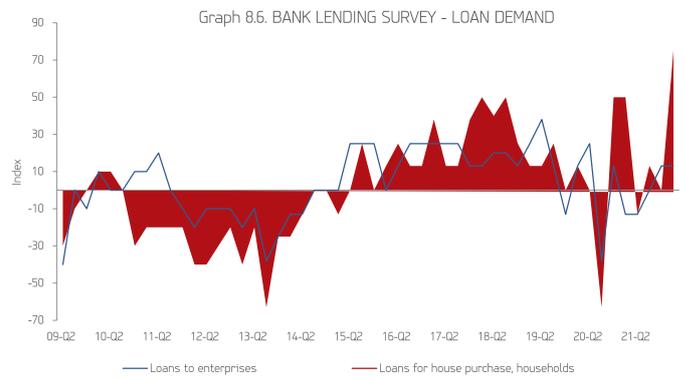
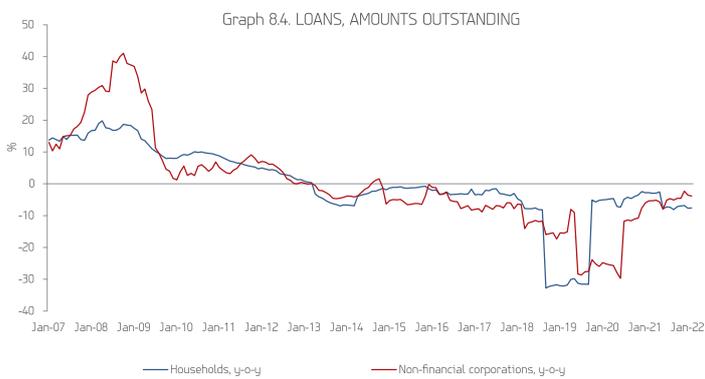


Graph 8.3. CREDIT DEVELOPMENTS



Source: CBC, EMMI

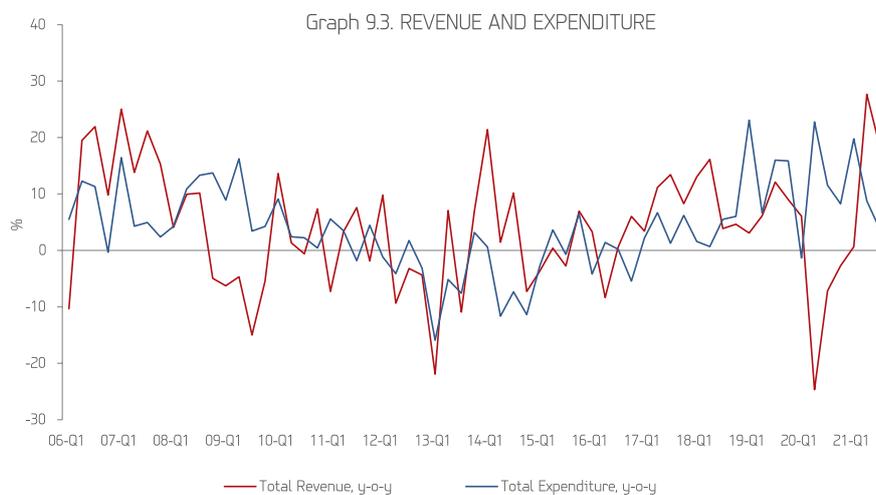
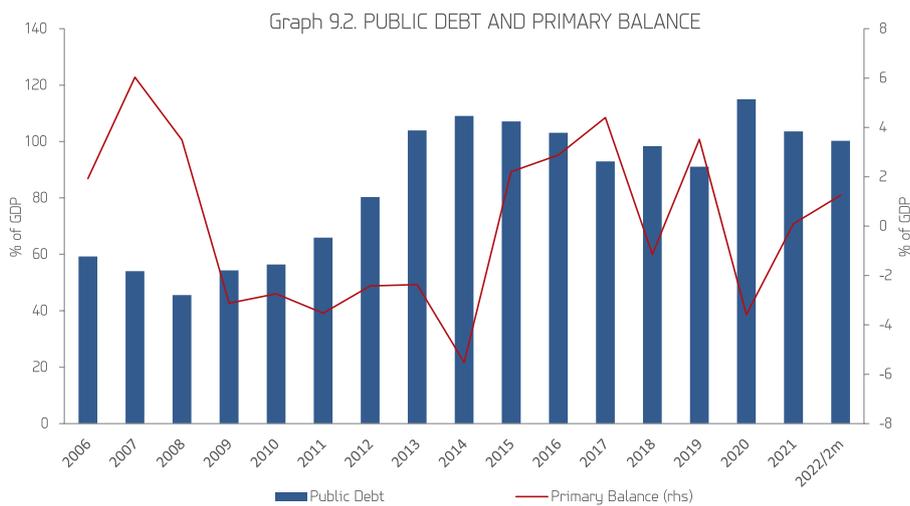
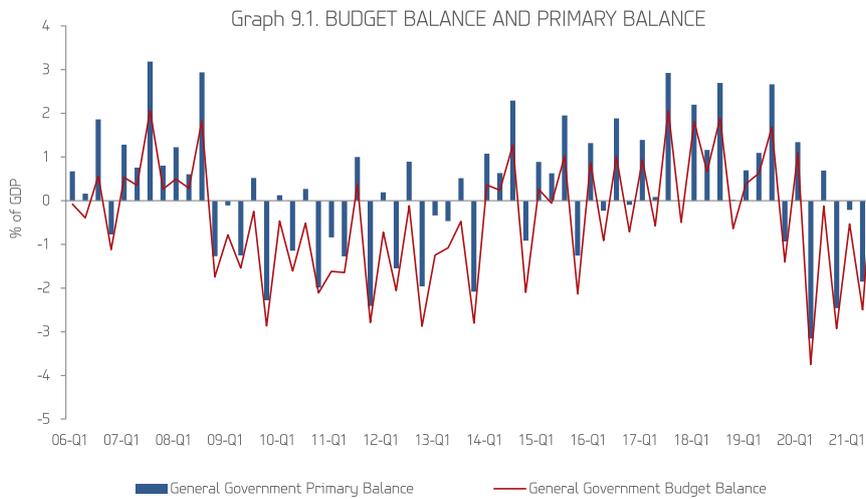
8. FINANCIAL SECTOR



Sources: CBC, EMMI

Source: ECB

9. PUBLIC SECTOR



Sources: Ministry of Finance, Cystat