



MINISTRY OF FINANCE

MACROECONOMIC  
MONITOR  
OF CYPRUS

AUG  
2022



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PIO 239/2022 – Electronic Edition  
ISSN 2672-8192 (online)  
Published by Press and Information Office  
Design: Antimonium Design

# MACROECONOMIC MONITOR OF CYPRUS

Updated on 19 August 2022

## Macro Economy

- In the 2nd quarter of 2022, GDP (in seasonally adjusted terms) recorded a positive rate of growth of 6.1%, compared with 6.0% in the 1st quarter of 2022 on an annual basis (see graphs 1.1-1.2). The positive GDP growth rate is mainly attributed to the sectors: "Hotels and Restaurants", "Transport and Storage", "Information and Communication", "Wholesale and Retail Trade, Repair of Motor Vehicles", "Arts, Entertainment and Recreation", "Other Service Activities" (see graphs 2.1-2.4, 3.1-3.4 and 6.1-6.2).

- In July 2022, economic sentiment in Cyprus improved as the **Economic Sentiment Indicator (ESI-CypERC)** increased by 1.4 points compared with June 2022 (see graph 1.3). The increase in the ESI-CypERC resulted from stronger business confidence in services and industry.

- For the period of January-July 2022, **arrivals of tourists** totaled 1.676.039 compared to 638.292 in the corresponding period of 2021, 320.589 in the period of January-July 2020 and 2.181.994 arrivals in the period of January-July 2019 (see graph 6.3). Arrivals from the United Kingdom were the main source of tourism for July 2022, with a share of 38.2% of total arrivals, followed by Israel with 8.4%, Poland with 4.7%, Germany with 4.7%, Sweden with 4.3% and Greece with 3.4%.

- **Employment** developments reflect conditions of improved economic activity. Total employment increased by 1.9% in the 1st quarter of 2022 compared to the 1st quarter of 2021. The most significant percentage increases were observed in the economic activities of Construction, Real estate activities, Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles and Education.

- **Labour Force Survey (LFS) unemployment**, in monthly seasonally adjusted terms, **decreased to 5.1% in June 2022 compared to 8.8% in June 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 11.7% in the 2nd quarter of 2022 from a peak of 40.6% in the 3rd quarter of 2013.

- **Compensation per employee** recorded an increase of 5.2% in the 1st quarter of 2022 compared with the 1st quarter of 2021 (see graphs 5.3-5.5).

- **Inflation (HICP)** in July 2022 recorded an increase of 10.6% compared to an increase of 9.0% in June 2022 (see graph 5.1) and for January-July 2022 it stands at 7.7%. Compared to January-July 2021, the largest changes were noted in Housing, Water, Electricity, Gas and Other Fuels, Transport

and Food and Non-Alcoholic Beverages. Core HICP recorded an increase of 4.4% in January-July 2022 (see graph 5.2).

- **Imports of goods recorded an increase of 39.5%** in January-June 2022 compared to January-June 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 39.6%.

- **Exports of goods recorded an increase of 36.1%** in January-June 2022 compared to January-June 2021. Exports of goods, excluding exports of aircrafts and vessels, exhibit an increase of 35.8%.

## External Sector

- The **current account (CA)** balance of Cyprus (see graph 6.4) recorded a deterioration, with the deficit increasing from €865.9 mn (-3.7% of GDP) in 2021Q1, to €1,061.8 mn (-4.2% of GDP), in 2022Q1. The increase in the current account deficit resulted mainly from the increase in goods deficit, the increase in secondary income deficit and the decrease in services surplus. The aforementioned adverse developments were partly offset by the decrease in primary income deficit. The resulting deficit when adjusting the data for the impact of Special Purpose Entities (SPEs), that is, classifying SPEs as non-residents, stood at €1,018.8 mn (-4.1% of GDP) in 2022Q1, compared with a deficit of €682.7 mn (-2.9% of GDP) in 2021Q1.

- The **international investment position (IIP)** (see graph 6.5) recorded a small improvement at the end of 2022Q1, presenting a net liability position of €28,008.9 mn, compared with a net liability position of €28,786.8 mn in 2021Q4. With the corresponding data being adjusted for the impact of SPEs, IIP recorded a net liability position of -€8,999.2 mn at the end of 2022Q1, compared with a net liability position of -€10,150.0 mn, at the end of the previous quarter.

- The **gross external debt** decreased to €189,246.7 mn in 2022Q1 from €192,714.8 mn in 2021Q4. The external assets in debt instruments decreased to €132,654.5 mn, up from €133,889.4 mn in 2021Q4. Consequently, net external debt decreased by €2,233.2 mn to €56,592.2 mn, over 2022Q1. Adjusted for the impact of SPEs, gross external debt reached €64,658.8 mn at the end of 2022Q1, compared to €68,271.0 mn, at the end of 2021Q4. The corresponding net external debt indicator decreased to -€5,793.5 mn, compared with -€3,730.1 mn at the end of the previous quarter.

## Public Finances

- **General government budget balance (GGBB)** recorded a deficit in January-June 2022, of the order of €11.4 mn (-0.05% of GDP) compared to a deficit of €750.7 mn (-3.2% of GDP) during the corresponding period the year before (see graph 9.1).
- **General government primary balance (GGPB)** recorded a surplus in January-June 2022, of the order of €186.6 mn (0.7% of GDP) compared to a deficit of €534.2 mn (-2.3% of GDP) during the corresponding period the year before (see graphs 9.1-9.2).
- **Total expenditure** exhibited a decrease of about 1.0%, reaching €4,819.6 mn in January-June 2022, compared to €4,869.4 mn during the corresponding period the year before (see graph 9.3).
- **Total revenue** exhibited an increase of about 16.7%, reaching €4,808.2 mn in January-June 2022, compared to €4,118.7 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 0.5%** in the 1st quarter of 2022 compared to the 4th quarter of 2021 and an increase of 1.1% compared to the 1st quarter of 2021.
- The CBC's **residential property price index** recorded an **increase of 1.1%** in the 1st quarter of 2022 compared to the 4th quarter of 2021 and an increase of 3.2% compared to the 1st quarter of 2021. Cumulative from the 1st quarter of 2008 it has exhibited a decline of 21% (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 39.4% while **transfers of property** were up by 19.9% in January-July 2022 compared with January-July 2021 (see graph 7.3).
- Monetary Financial Institutions (MFI) **mortgage loans to domestic residents** for housing **increased by 5.8%** in June 2022 (see graph 7.2).

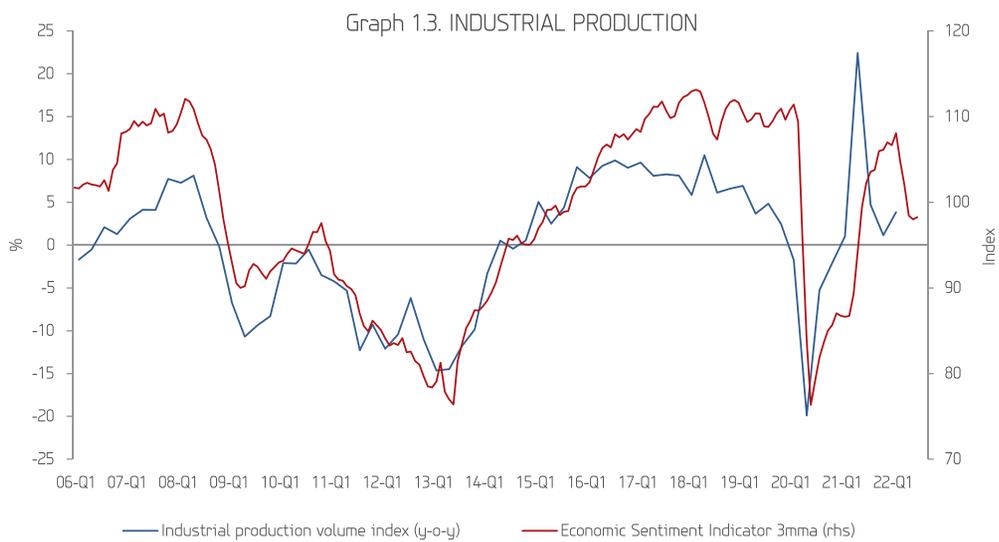
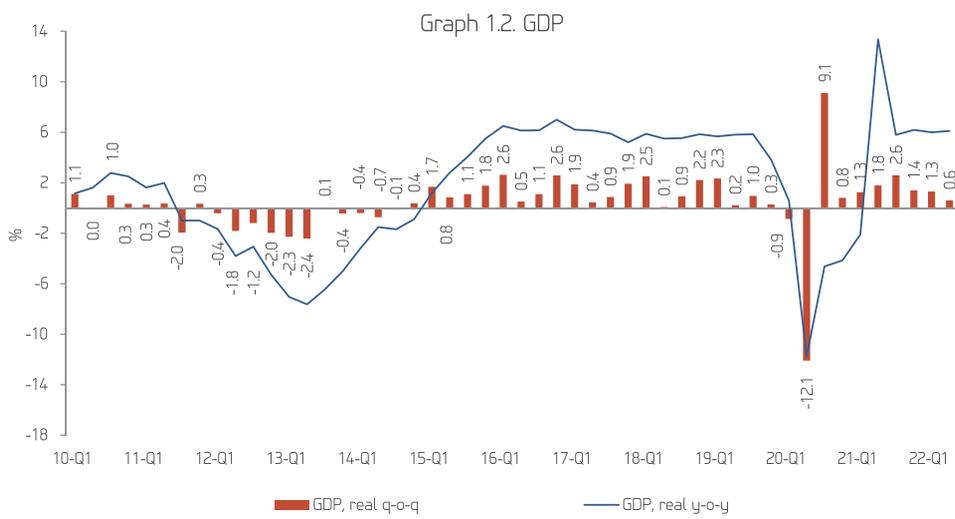
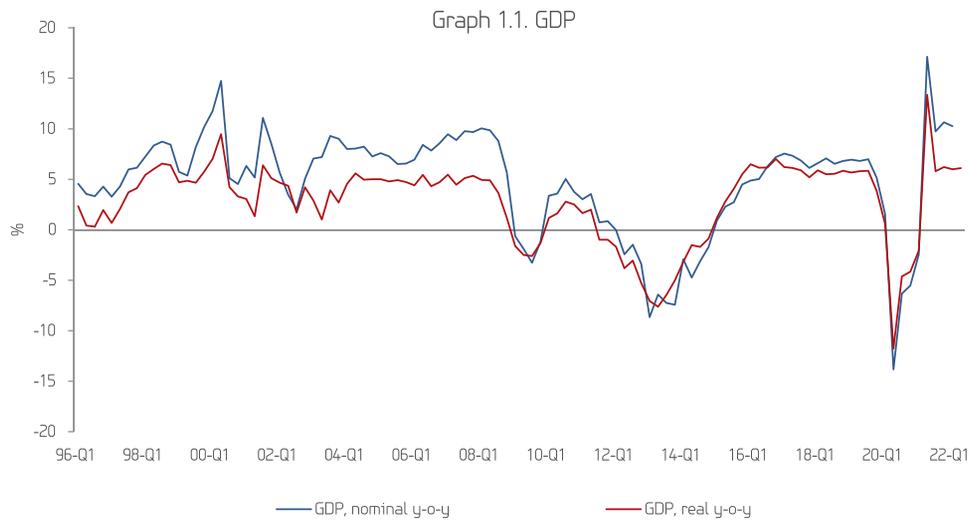
## Banking Sector Developments

- **MFI loans to domestic residents** (private sector) **increased by 3.3%** in June 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 3.1%** in June 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 June 2022, **deposit interest rates** for maturity of up to 1 year remained unchanged and of up to 3 months marginally decreased compared with the preceding month. The **lending interest rates** to households for primary residence 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 March 2022 decreased to €2.94 bn (11.4 % on gross loans) compared to €3.02 bn (11.1% on gross loans) in December 2021. The gross loans decreased in the first quarter of 2022.
  - The decrease for the first quarter of 2022 was due to debt to assets (swaps) and reclassified NPEs as performing facilities.
- **Accumulated provisions** increased to 46.1% in March 2022 compared to 43.4% in December 2021 compared to 53.7% of NPEs in December 2019 thus facilitating restructuring activity with a view to cure NPEs of viable customers.
  - The decrease for 2021 was €2.12 bn and was due to the sale of a portfolio of NPEs to credit acquiring companies (BOC €545 mn, Portfolio B- Project Helix2, €577 mn of NPEs call Helix 3), cash repayments of loans, reclassified NPEs as performing facilities and debt to assets (swaps).

## Credit Ratings

- On 19/08/2022, Moody's Investors Service affirmed Cyprus' Ba1 ratings and changed the outlook to positive from stable.
- 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.

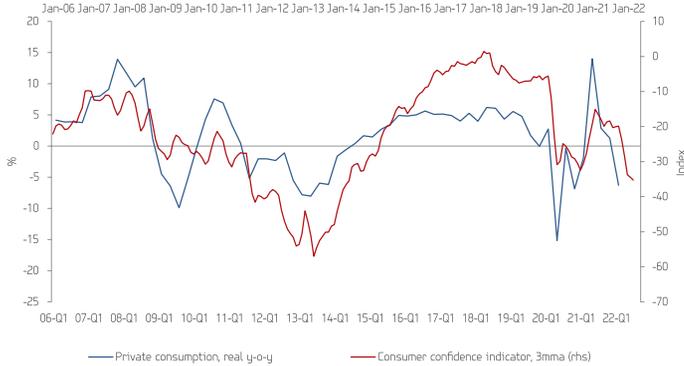
# 1. OUTPUT



Sources: Eurostat, DG ECFIN, Cystat

## 2. CONSUMPTION

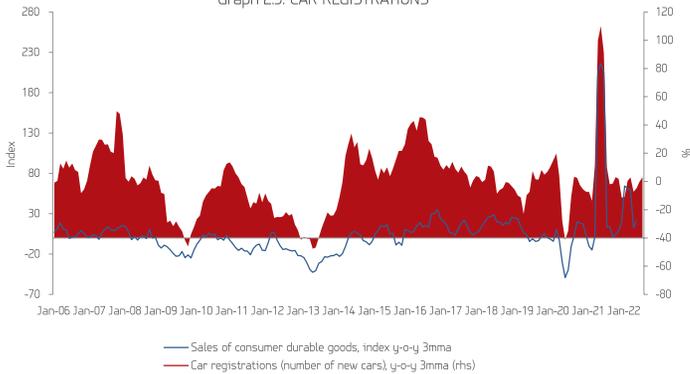
Graph 2.1. CONSUMPTION



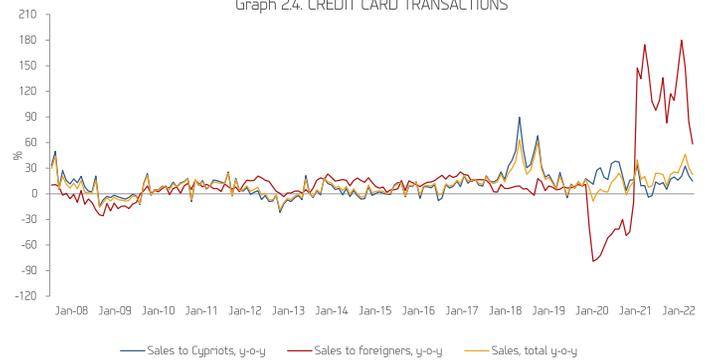
Graph 2.2. RETAIL TRADE



Graph 2.3. CAR REGISTRATIONS



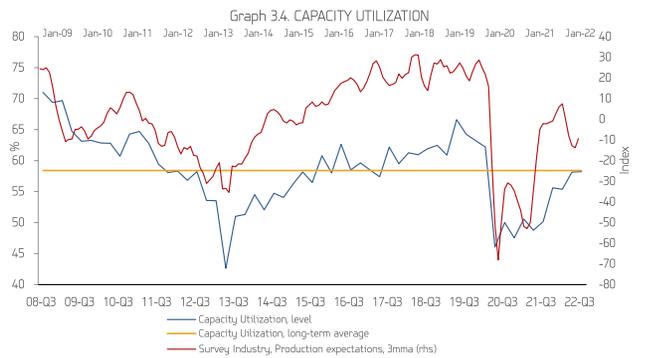
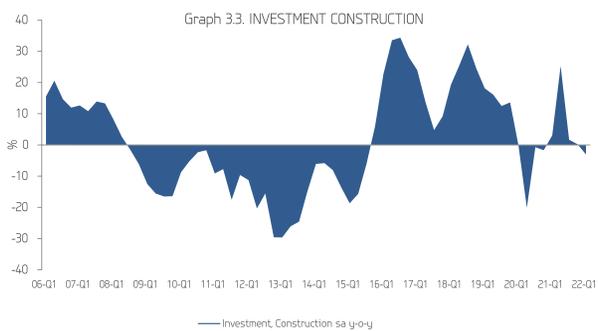
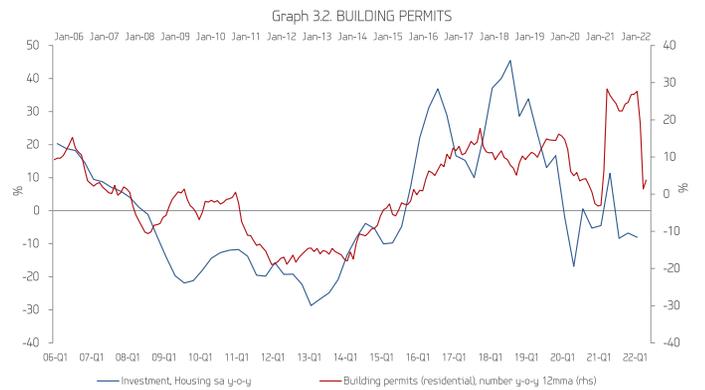
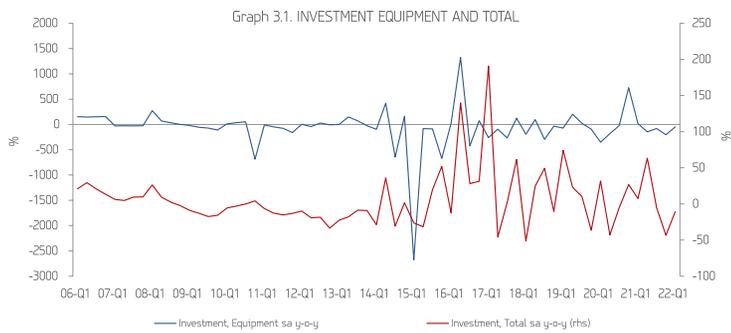
Graph 2.4. CREDIT CARD TRANSACTIONS



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

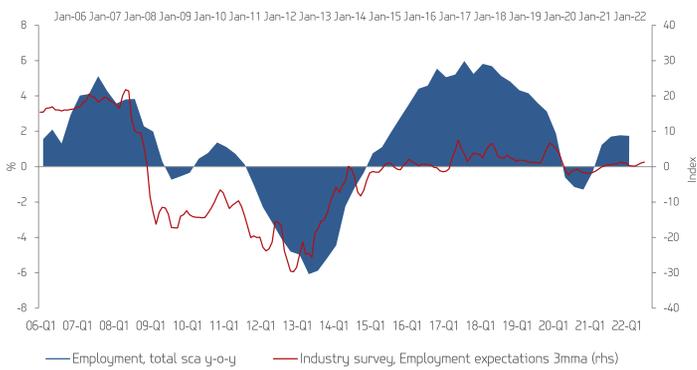
## 3. INVESTMENT



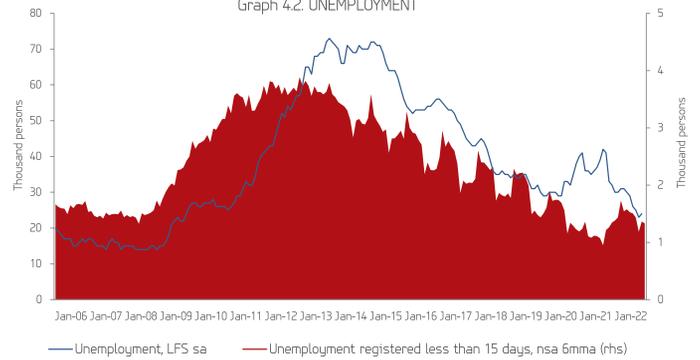
Sources: Cystat, DG ECFIN, CypERC

## 4. LABOUR MARKET

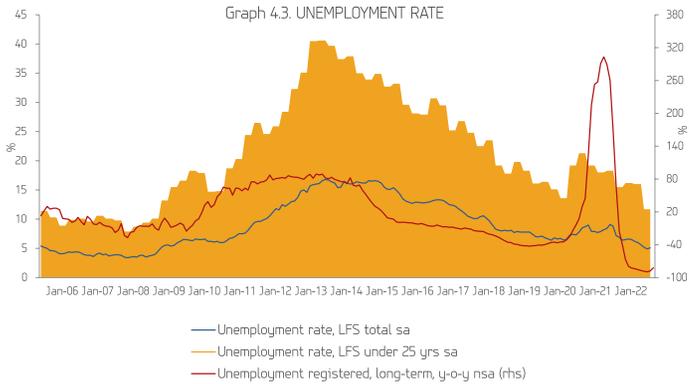
Graph 4.1. EMPLOYMENT



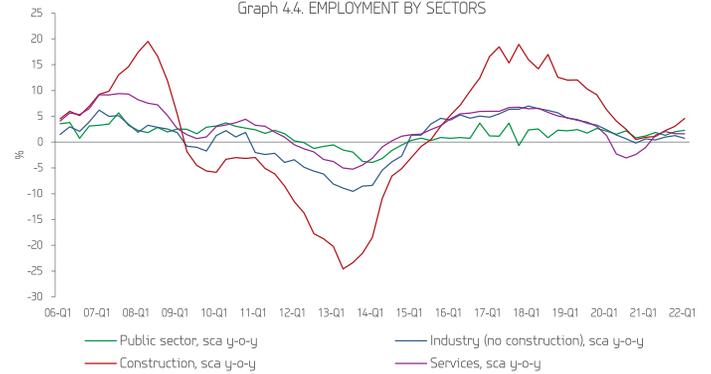
Graph 4.2. UNEMPLOYMENT



Graph 4.3. UNEMPLOYMENT RATE



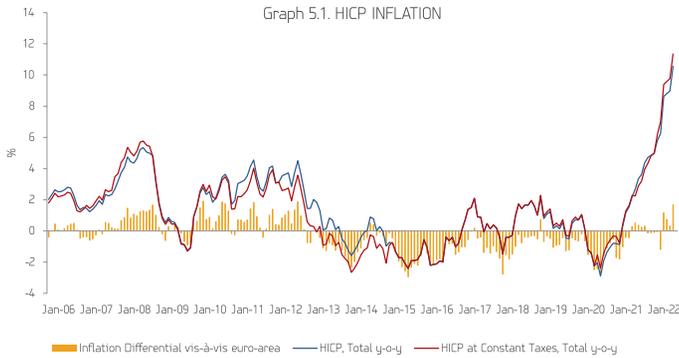
Graph 4.4. EMPLOYMENT BY SECTORS



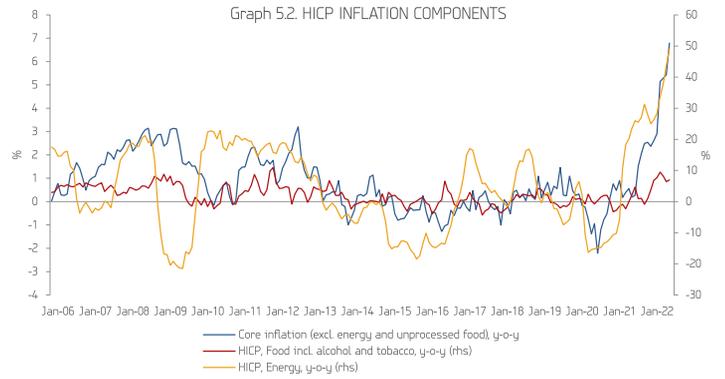
Sources: Eurostat, DG ECFIN, Cystat

## 5. INFLATION / WAGES

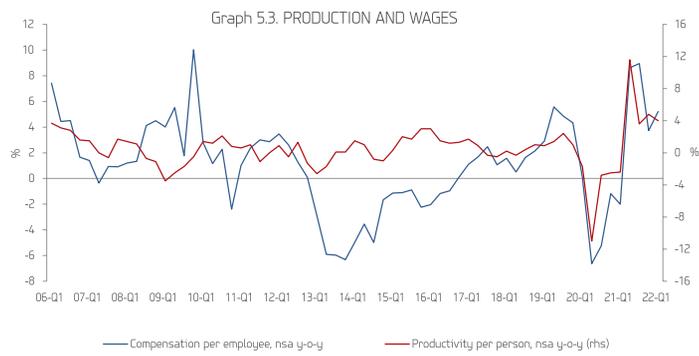
Graph 5.1. HICP INFLATION



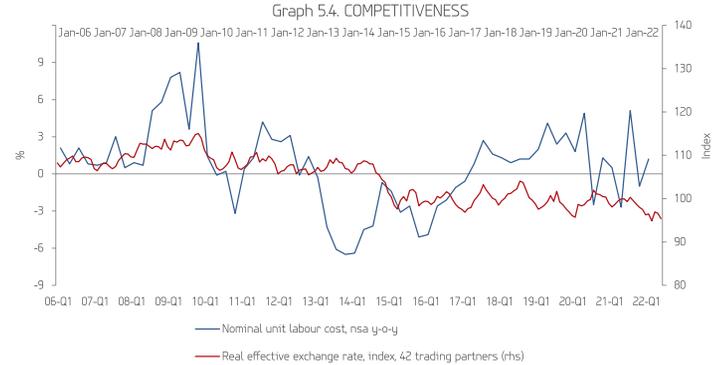
Graph 5.2. HICP INFLATION COMPONENTS



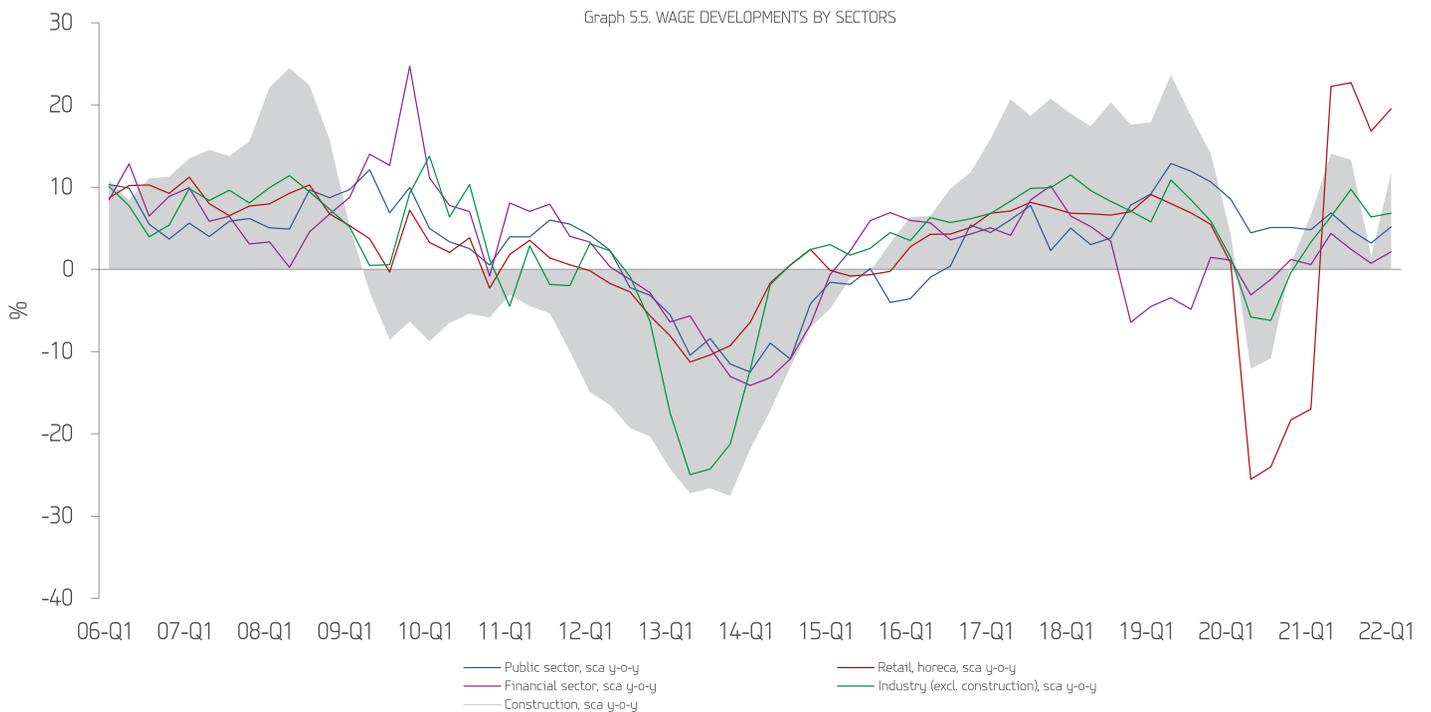
Graph 5.3. PRODUCTION AND WAGES



Graph 5.4. COMPETITIVENESS

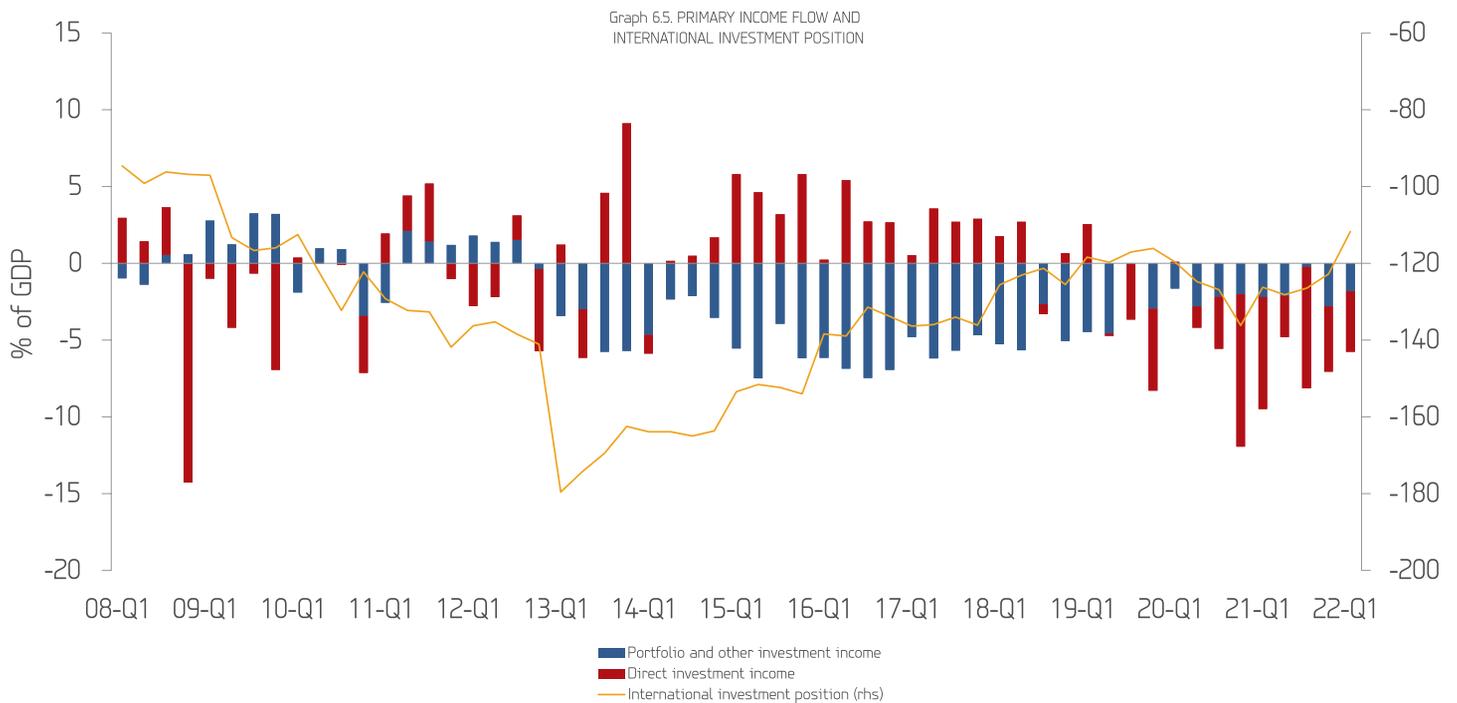
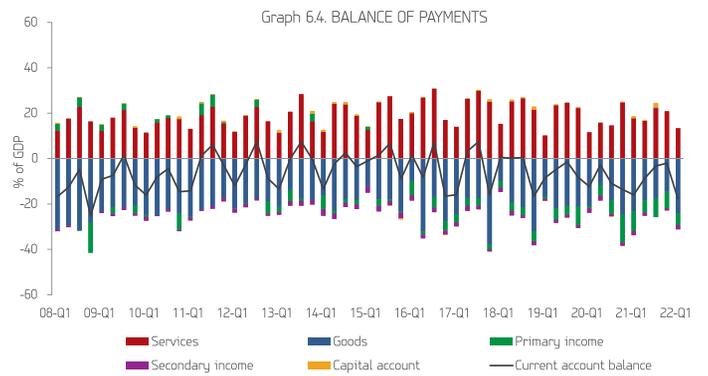
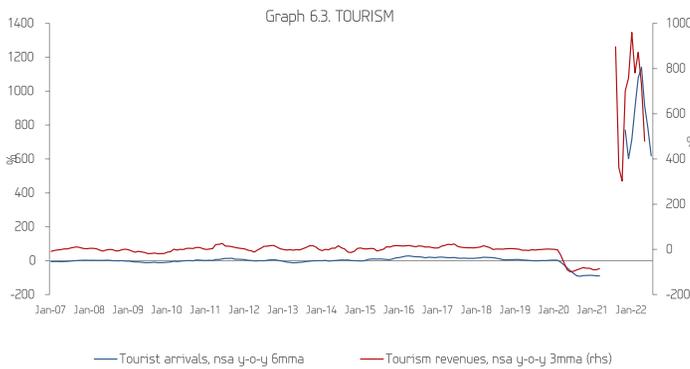
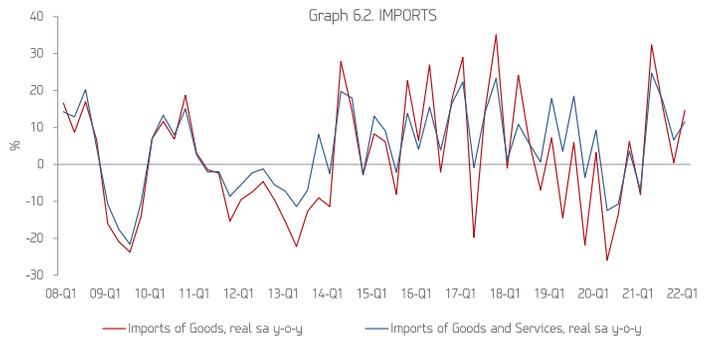
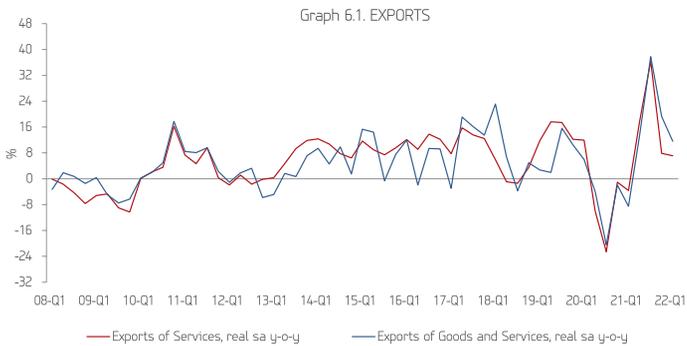


Graph 5.5. WAGE DEVELOPMENTS BY SECTORS



Source: Eurostat

## 6. EXTERNAL SECTOR



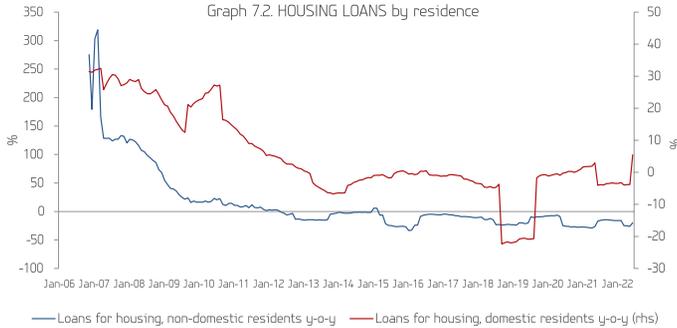
Sources: Cystat, CBC

## 7. HOUSING

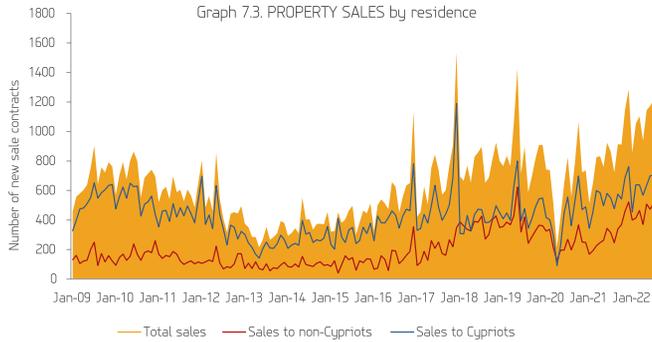
Graph 7.1. HOUSE PRICES AND HOUSING LOANS



Graph 7.2. HOUSING LOANS by residence



Graph 7.3. PROPERTY SALES by residence

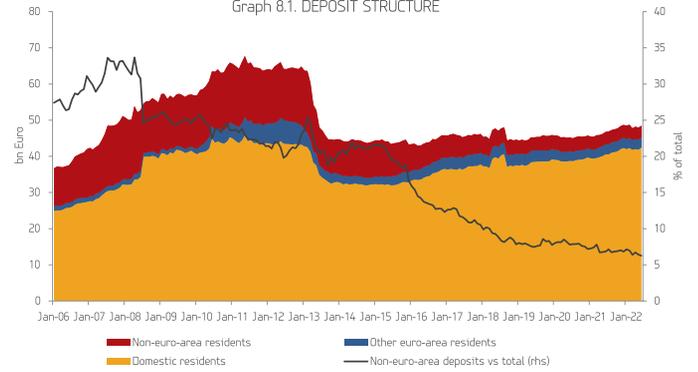


Note: According to the relevant modifications to the codification of the term "Alien" in the Land Information System, the way the statistics are presented has been modified. Therefore, the suggestion of the Department of Lands and Surveys is to avoid the comparison of the specific data from 2018 onwards,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

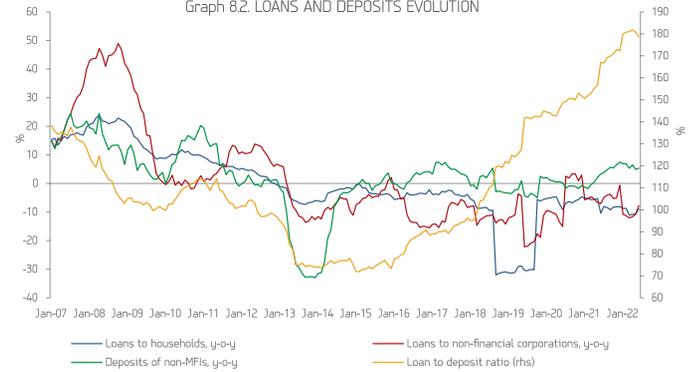
Sources: CBC, Dep. of Lands and Surveys

## 8. FINANCIAL SECTOR

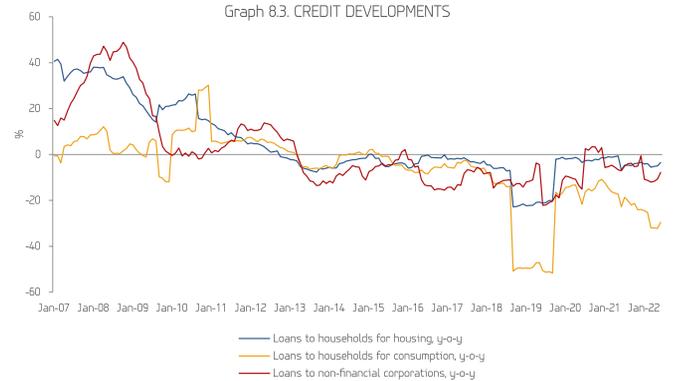
Graph 8.1. DEPOSIT STRUCTURE



Graph 8.2. LOANS AND DEPOSITS EVOLUTION



Graph 8.3. CREDIT DEVELOPMENTS



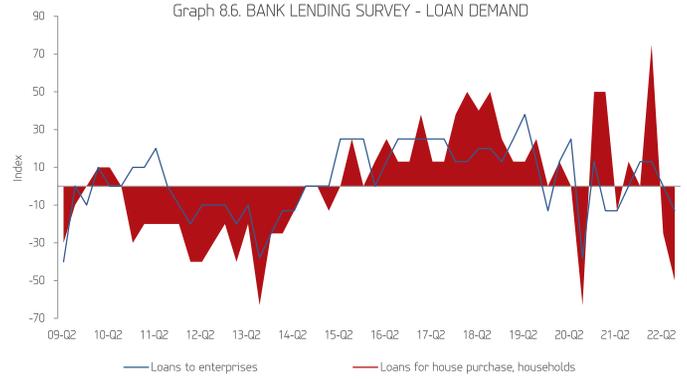
Source: CBC, EMMI

## 8. FINANCIAL SECTOR

Graph 8.4. LOANS, AMOUNTS OUTSTANDING



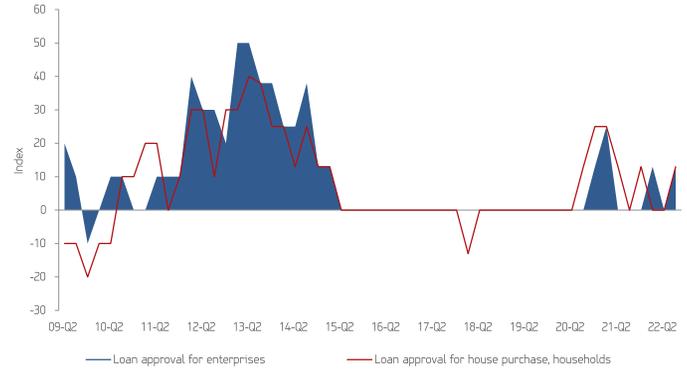
Graph 8.6. BANK LENDING SURVEY - LOAN DEMAND



Graph 8.5. INTEREST RATES SPREADS over Euribor



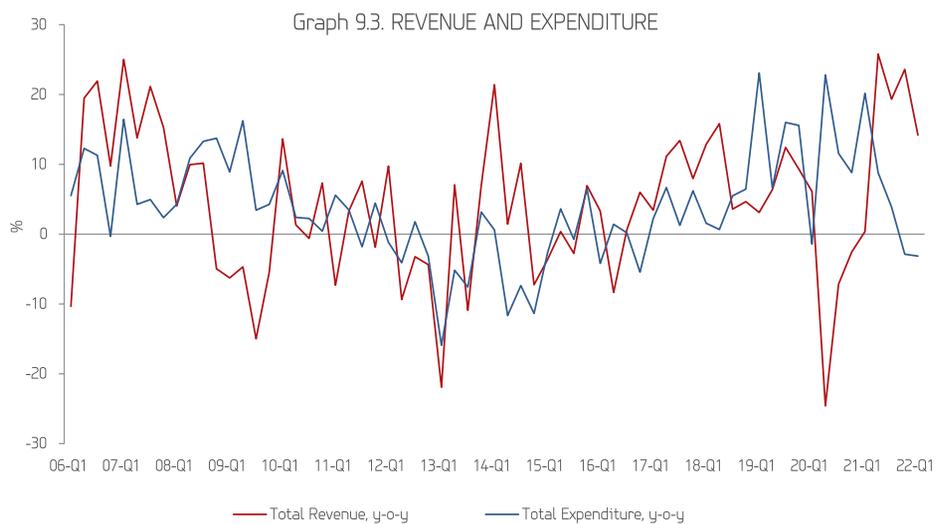
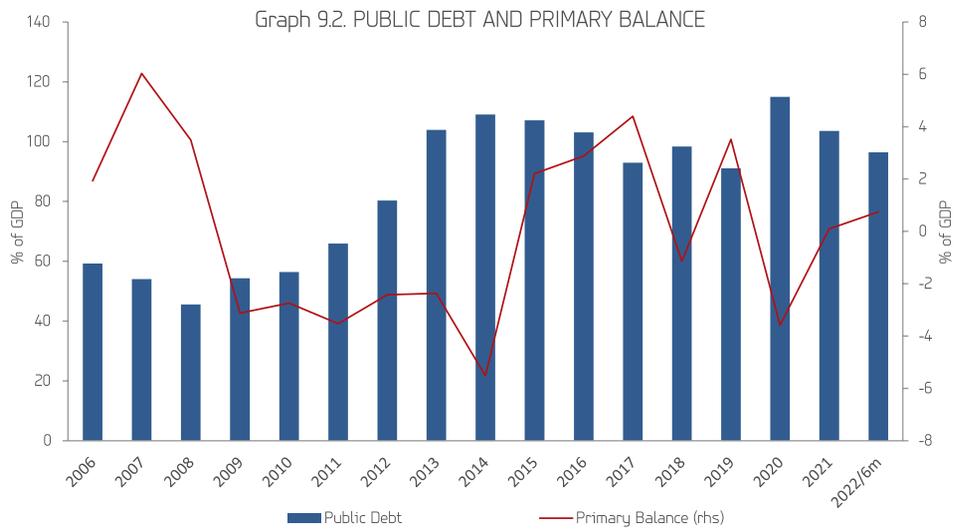
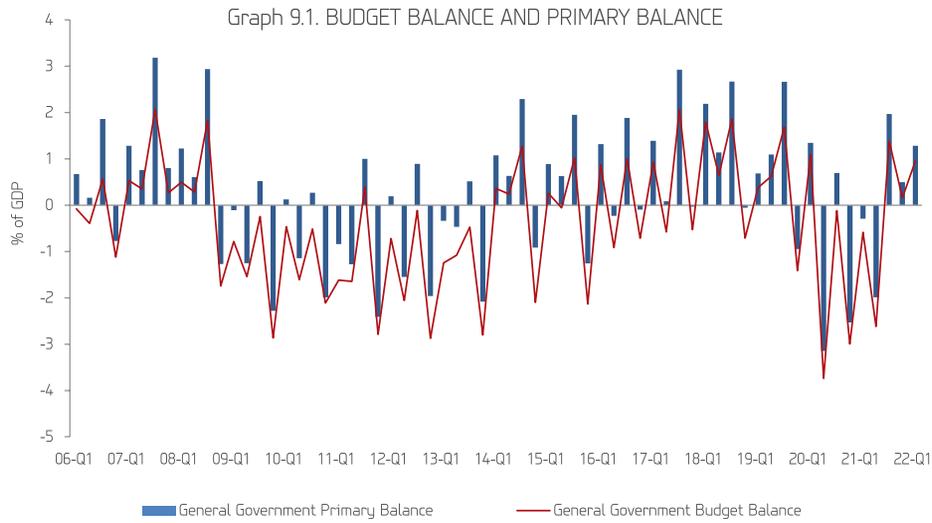
Graph 8.7. BANK LENDING SURVEY - CREDIT STANDARDS



Sources: CBC, EMMI

Source: ECB

## 9. PUBLIC SECTOR



Sources: Ministry of Finance, Cystat