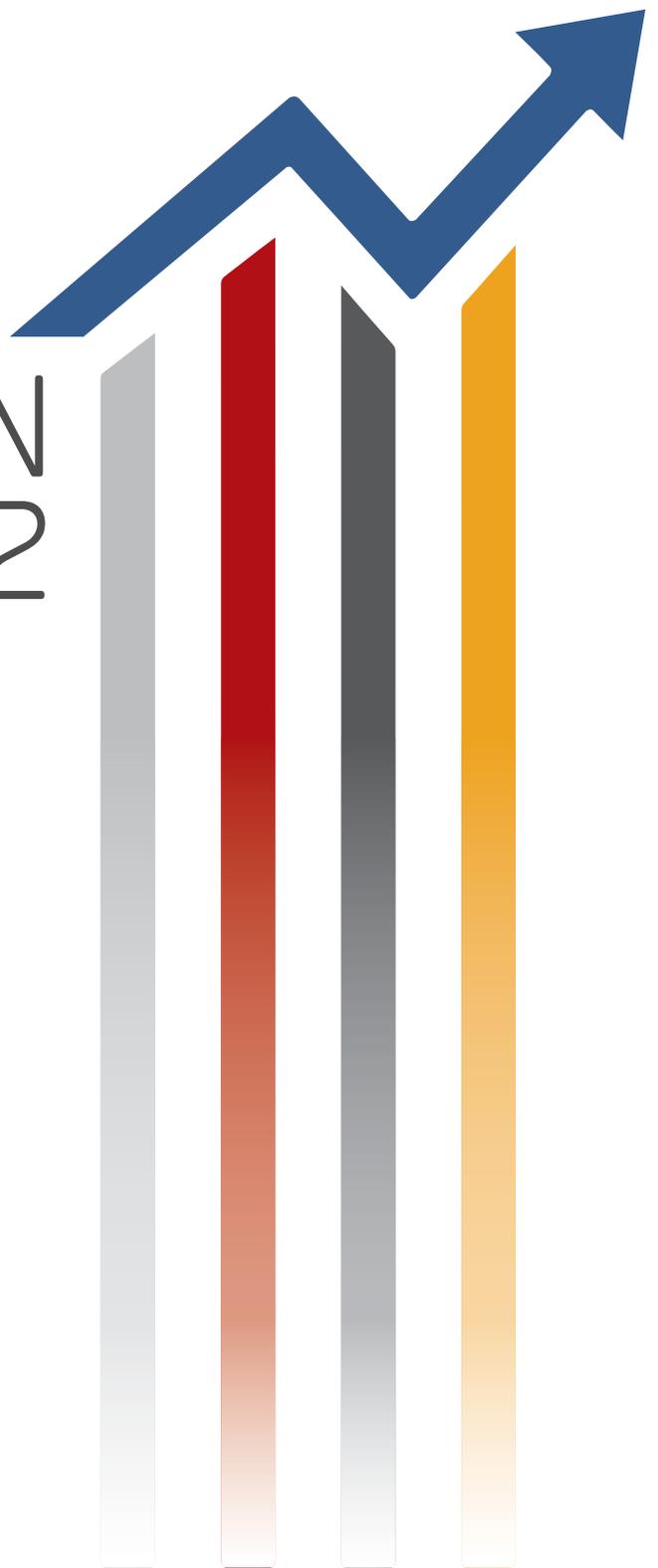




MINISTRY OF FINANCE

MACROECONOMIC  
MONITOR  
OF CYPRUS

JAN  
2022



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# MACROECONOMIC MONITOR OF CYPRUS

Updated on 21 January 2022

## Macro Economy

- In the 3rd quarter of 2021, GDP (in seasonally adjusted terms) recorded a positive rate of growth of 5.6%, 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 exports, public consumption and gross fixed capital formation (see graphs 2.1-2.4).

- In December 2021, economic sentiment in Cyprus improved as the Economic Sentiment Indicator (ESI-CypERC) increased by 2.1 points compared with November 2021 (see graph 1.3). The increase in the ESI-CypERC resulted from stronger business confidence in services, construction and industry.

- For the period of January-November 2021, arrivals of tourists totaled 1.840.003 compared to 621.927 in the corresponding period of 2020, recording an increase of 195.9%, and a decrease of 52.4% compared to the period of January-November 2019 (3.866.447 arrivals) (see graph 6.3). Arrivals from the United Kingdom were the main source of tourism for November 2021, with a share of 22.7% of total arrivals, followed by Germany with 10.0%, Russia with 9.6%, Poland with 8.8%, Greece with 8.5% and Israel with 7.7%.

- Employment developments reflect conditions of improved economic activity. Total employment increased by 1.1% for the 1st nine months 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, Construction, Information and Communication and Professional, Scientific Technical Activities while significant percentage decreases were observed in the economic activities of Financial and Insurance Activities and Transportation and Storage.

- Labour Force Survey (LFS) unemployment, in monthly seasonally adjusted terms, decreased to 6.4% in November 2021 compared to 8.0% in November 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 15.0% in the 3rd quarter of 2021 from a peak of 40.6% in the 3rd quarter of 2013.

- Compensation per employee recorded an increase of 3.5% in the 1st nine months of 2021 compared with the 1st nine months of 2020 (see graphs 5.3-5.5).

- Inflation (HICP) in December 2021 recorded an increase of 4.8% compared to an increase of 4.7% in November 2021 (see graph 5.1). For January-December 2021, it stands at 2.3%. For the period January-December 2021, compared to the corresponding period of the previous year, the largest change was noted in Transport. Core HICP recorded an increase of 1.0% in January-December 2021 (see graph 5.2).

- Imports of goods recorded an increase of 11.8% in January-November 2021 compared to January-November 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 15.9%.

- Exports of goods recorded an increase of 15.3% in January-November 2021 compared to January-November 2020. Exports of goods, excluding exports of aircrafts and vessels, exhibit an increase of 18.6%.

## External Sector

- The current account (CA) balance (see graph 6.4) recorded an improvement, with the deficit decreasing from €616.9 mn (-2.9% of GDP) in 2020Q3, to €144.7 mn (-0.6% of GDP), in 2021Q3. The resulting deficit when adjusting the data for the impact of Special Purpose Entities (SPEs), that is, classifying SPEs as non-residents, stood at €237.4 mn (-1.0% of GDP) in 2021Q3, compared with a deficit of €617.6 mn (-2.9% of GDP) in 2020Q3. For 2021/9M the deficit stood at €1,598.2 mn (-6.9% of GDP) compared with a deficit of €1,429.0 mn (-6.6% of GDP) in 2020/9M.

- The international investment position (IIP) (see graph 6.5) recorded a slight improvement at the end of 2021 Q3, presenting a net liability position of €29,761.3 mn, compared with a net liability position of €29,809.9 mn in 2021Q2. With the corresponding data being adjusted for the impact of SPEs, IIP recorded a net liability position of €10,480.4 mn at the end of 2021Q3, compared with a net liability position of €10,664.1 mn, at the end of the previous quarter.

- The gross external debt decreased to €192,395.1 mn in 2021Q3 from €193,271.5 mn in 2021Q2. On the other hand, external assets in debt instruments increased to €132,121.1 mn, up from €127,925.5 mn in 2021Q2. Consequently, net ex-

ternal debt decreased by €5,072.0 mn to €60,274.0 mn in 2021Q3. Adjusted for the impact of SPEs, gross external debt reached €66,816.9 mn at the end of 2021Q3, compared to €62,630.2 mn, at the end of 2021 Q2. The corresponding net external debt indicator reached -€3,021.5 mn, compared with -€1,786.2 mn at the end of the previous quarter.

## Public Finances

- **General government budget balance (GGBB)** recorded a deficit in January-November 2021, of the order of €226.8 mn (-1.0% of GDP) compared to a deficit of €841.0 mn (-3.9% of GDP) during the corresponding period the year before (see graph 9.1).
- **General government primary balance (GGPB)** recorded a surplus in January-November 2021, of the order of €201.7 mn (0.9% of GDP) compared to a deficit of €431.0 mn (-2.0% of GDP) during the corresponding period the year before (see graphs 9.1-9.2).
- **Total expenditure** exhibited an increase of about 8.2%, reaching €8,858.8 mn in January-November 2021, compared to €8,185.3 mn during the corresponding period the year before (see graph 9.3).
- **Total revenue** exhibited an increase of about 17.5%, reaching €8,632.0 mn in January-November 2021, compared to €7,344.4 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 2.4%** in the 3rd quarter of 2021 compared to the 2nd quarter of 2021 and an increase of 2.2% compared to the 3rd quarter of 2020.
- The CBC's **residential property price index** recorded an **increase of 0.5%** in the 3rd quarter of 2021 compared to the 2nd quarter of 2021 and an increase of 1.2% compared to the 3rd quarter of 2020. Cumulative from the 1st quarter of 2008 it has exhibited a decline of 22.8% (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 29.9% while **transfers of property** were up by 25.9% in January-December 2021 compared with

January-December 2020 (see graph 7.3).

- Monetary Financial Institutions (MFI) **mortgage loans to domestic residents** for housing **increased by 5.4%** in November 2021 (see graph 7.2).

## Banking Sector Developments

- MFI **loans to domestic residents** (private sector) **increased by 2.5%** in November 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 6.0%** in November 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 November 2021, **deposit interest rates** for maturity of up to 1 year and of up to 3 months remained unchanged 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 decreased. The interest rate for bank overdrafts to non-financial corporations decreased.
- **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

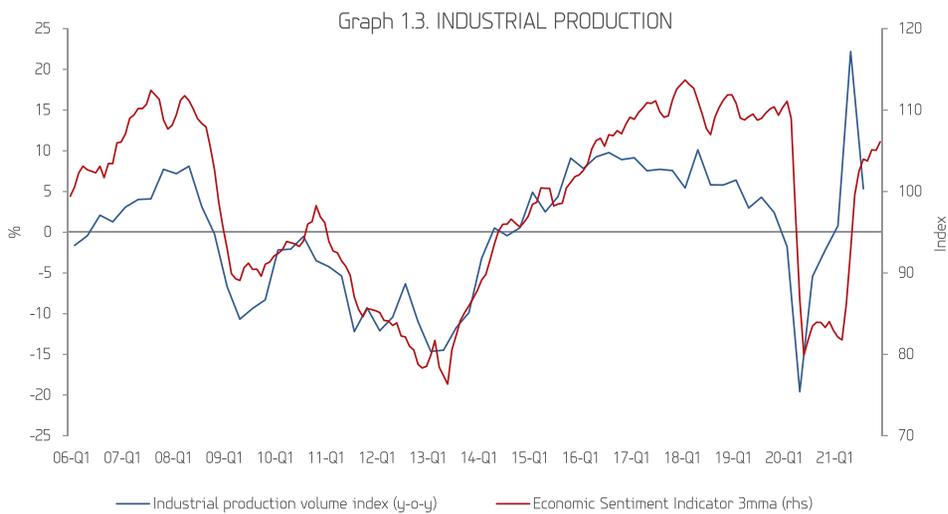
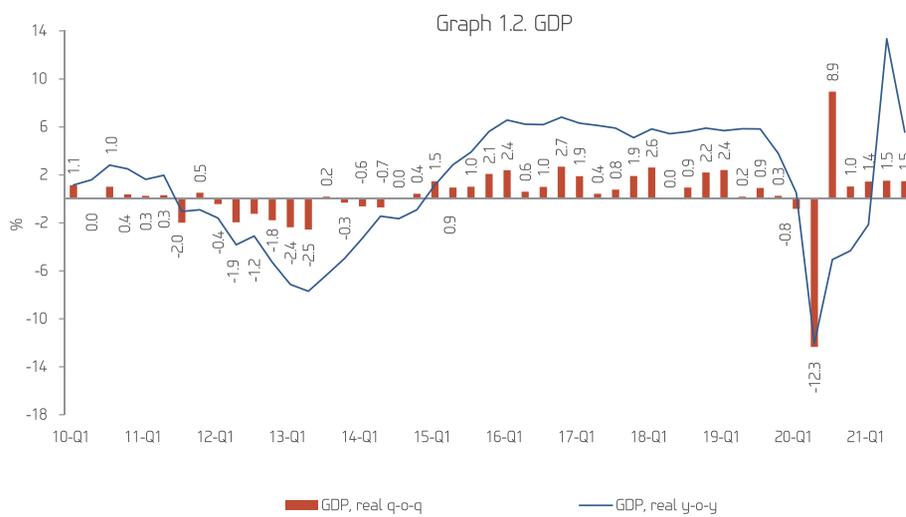
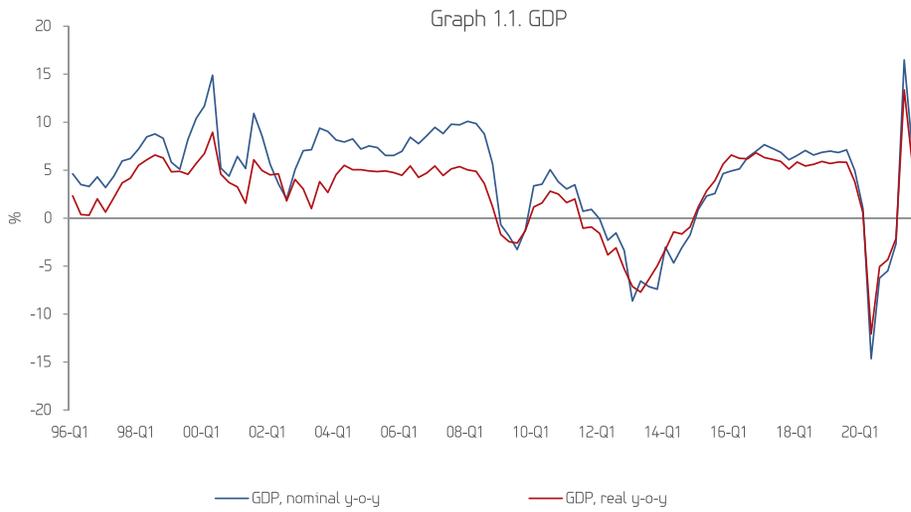
- On 22/10/2021, DBRS Ratings confirmed the Republic of Cyprus’s Long-Term Foreign and Local Currency - Issuer Ratings at BBB (low) and changed the trend from stable to positive.

- 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.

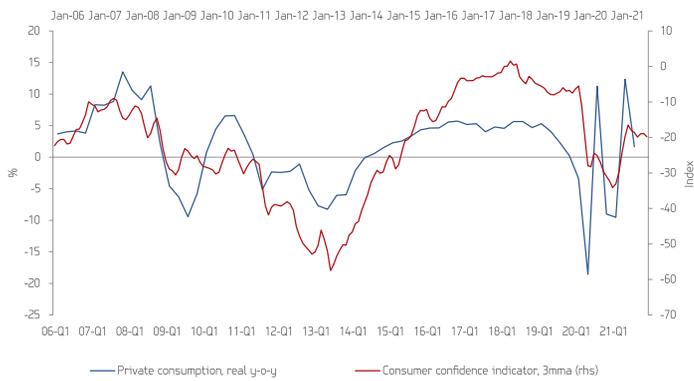
# 1. OUTPUT



Sources: Eurostat, DG ECFIN, Cystat

## 2. CONSUMPTION

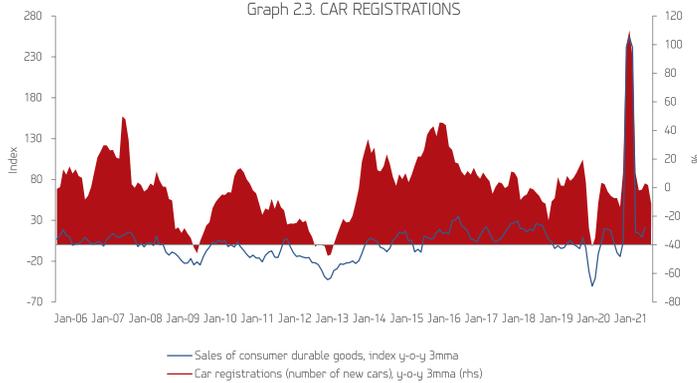
Graph 2.1. CONSUMPTION



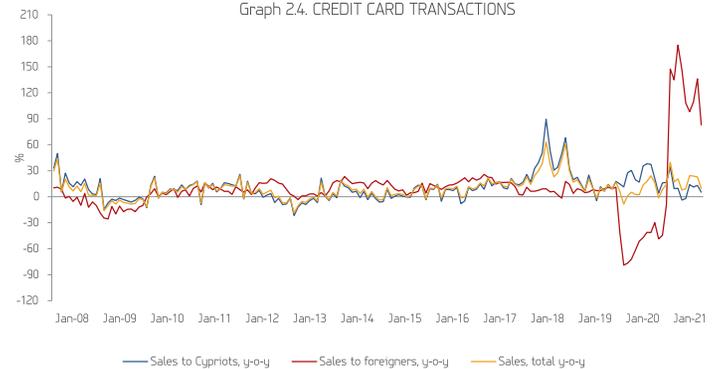
Graph 2.2. RETAIL TRADE



Graph 2.3. CAR REGISTRATIONS



Graph 2.4. CREDIT CARD TRANSACTIONS

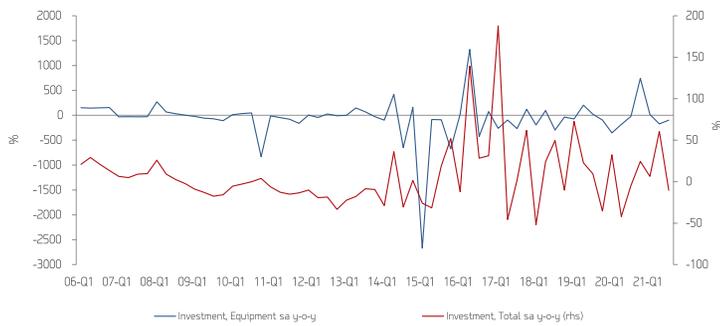


Note: Data for credit card transactions from 2018 onwards were re-vised based on reclassification of some foreign cards to local cards, thus data are not comparable with the data of the previous years.

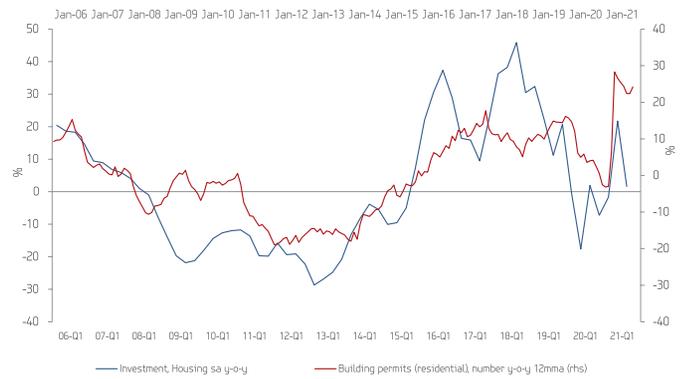
Sources: Eurostat, DG ECFIN, Cystat, JCC Payment Systems Ltd

### 3. INVESTMENT

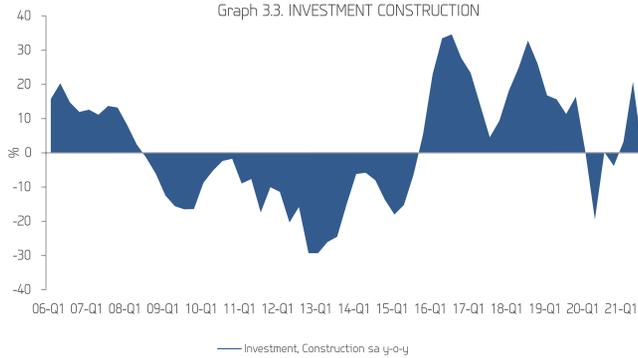
Graph 3.1. INVESTMENT EQUIPMENT AND TOTAL



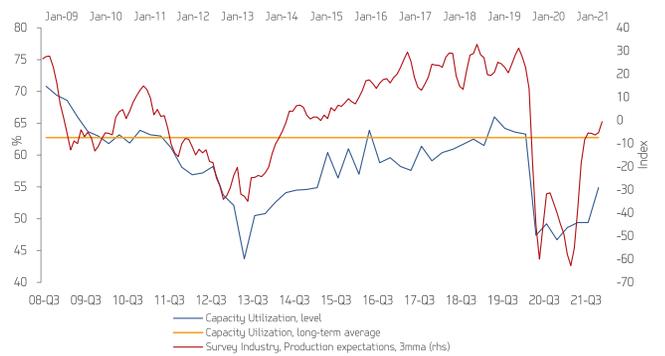
Graph 3.2. BUILDING PERMITS



Graph 3.3. INVESTMENT CONSTRUCTION



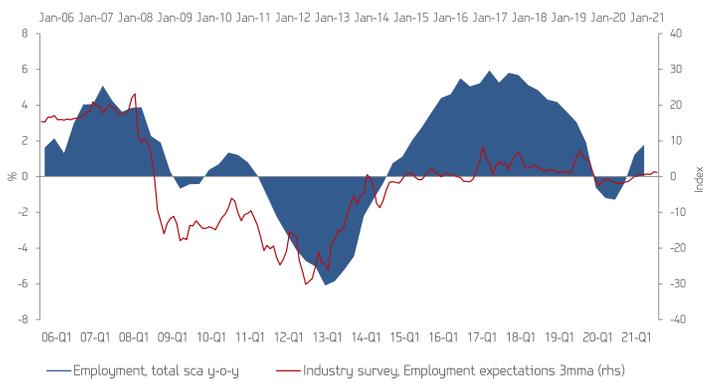
Graph 3.4. CAPACITY UTILIZATION



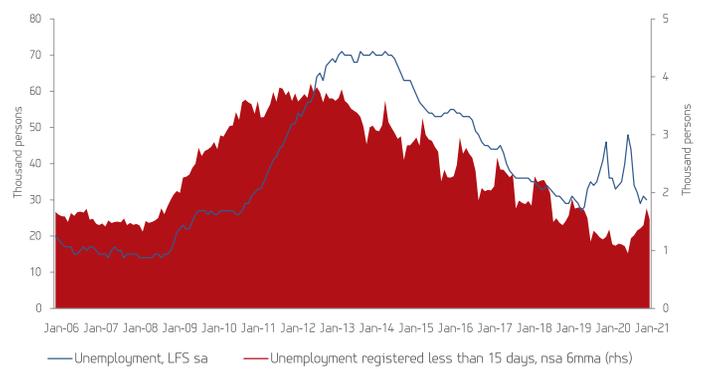
Sources: Cystat, DG ECFIN, CypERC

## 4. LABOUR MARKET

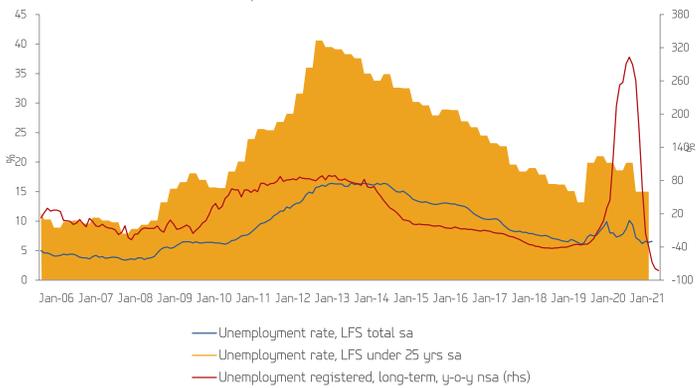
Graph 4.1. EMPLOYMENT



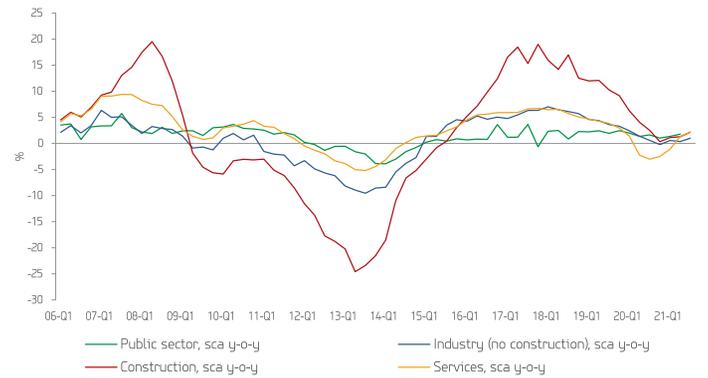
Graph 4.2. UNEMPLOYMENT



Graph 4.3. UNEMPLOYMENT RATE

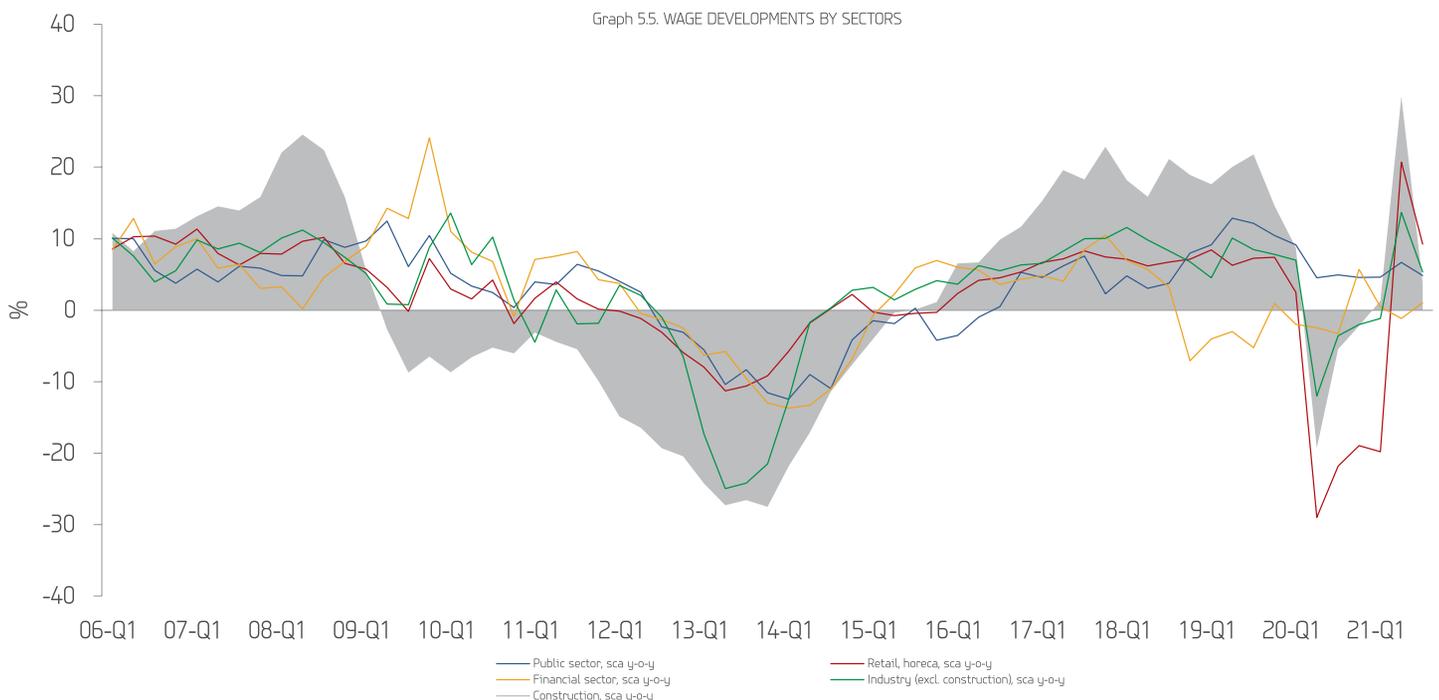
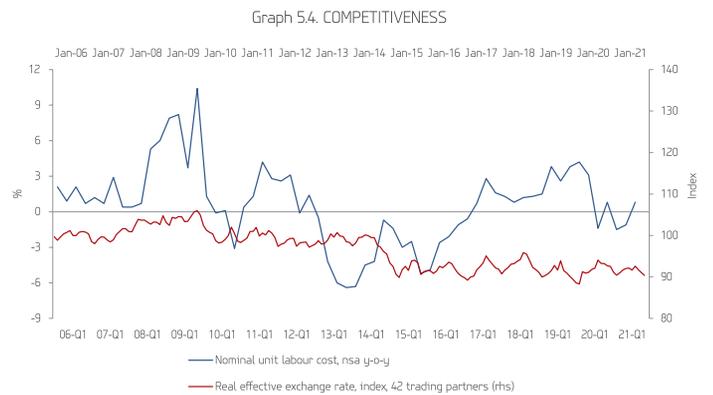
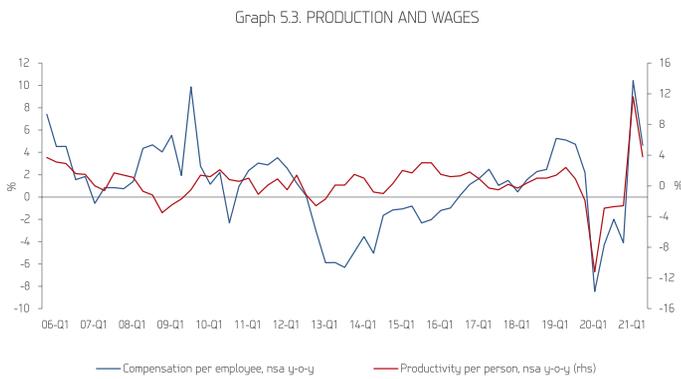
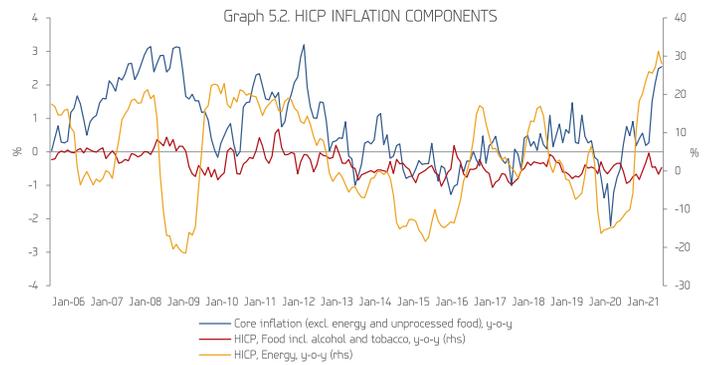
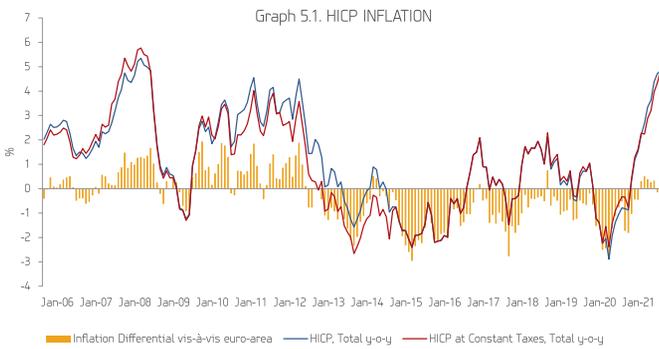


Graph 4.4. EMPLOYMENT BY SECTORS



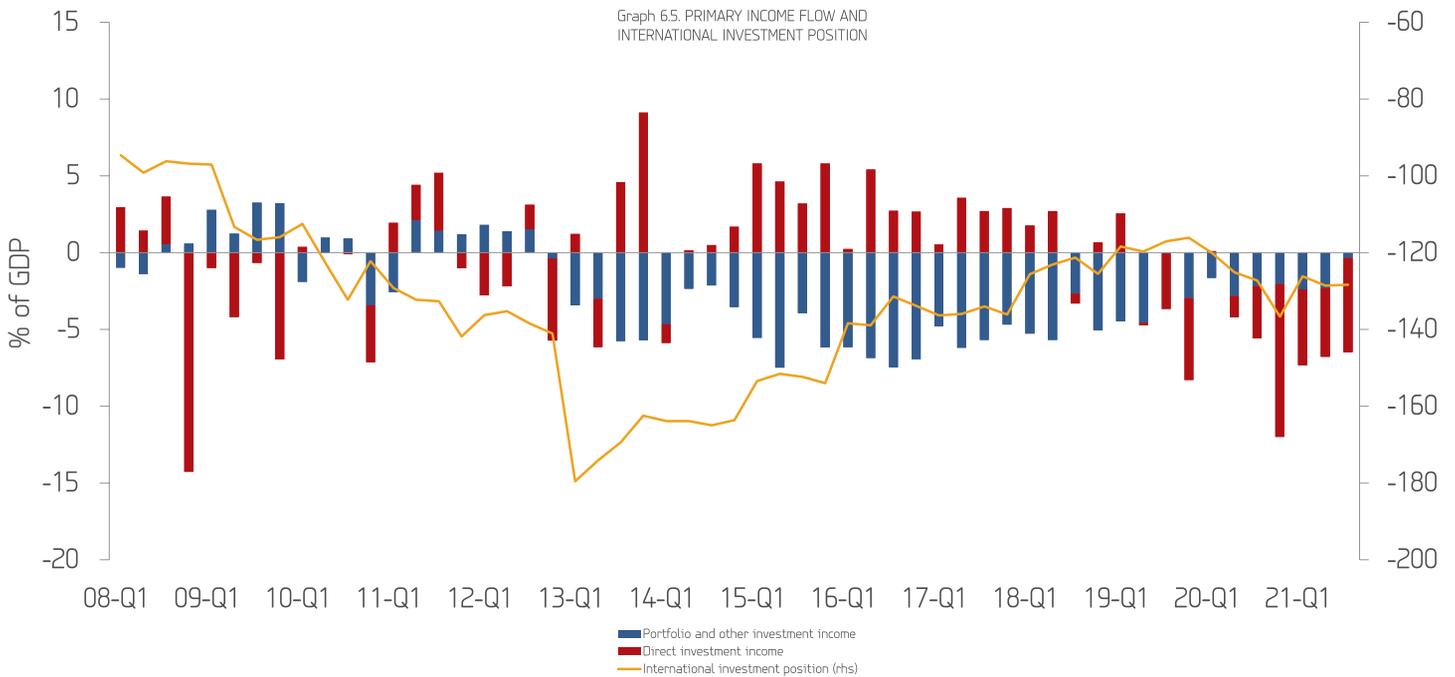
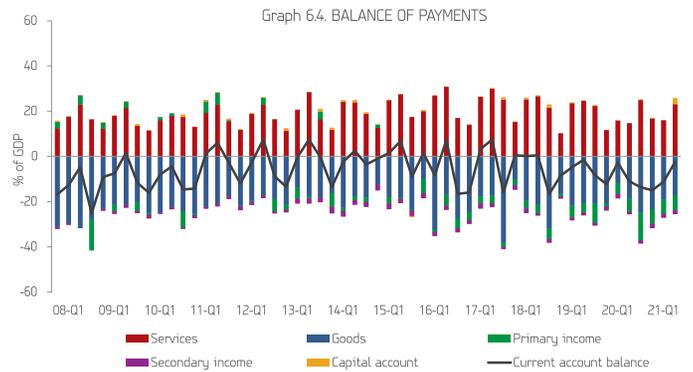
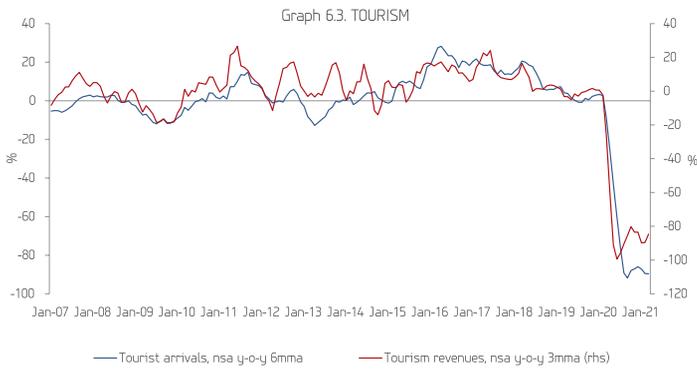
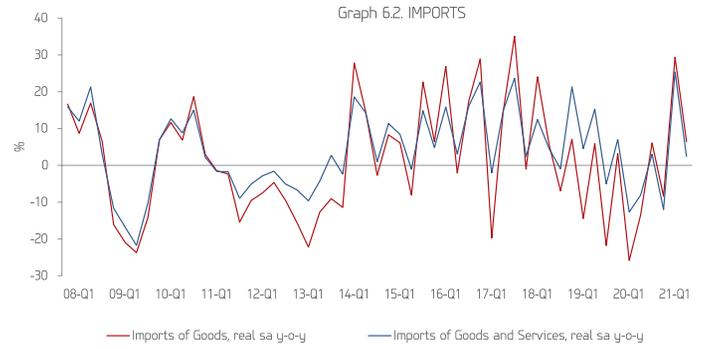
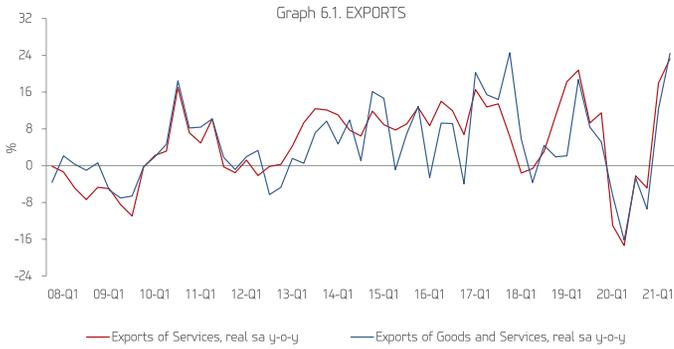
Sources: Eurostat, DG ECFIN, Cystat

## 5. INFLATION / WAGES



Source: Eurostat

## 6. EXTERNAL SECTOR



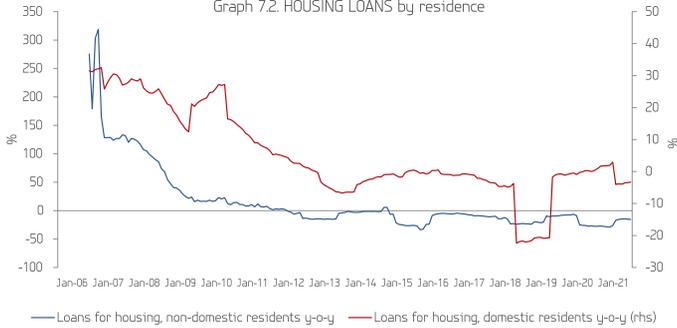
Sources: Cystat, CBC

## 7. HOUSING

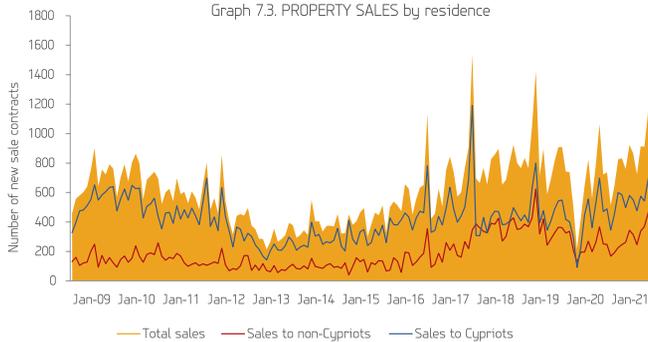
Graph 7.1. HOUSE PRICES AND HOUSING LOANS



Graph 7.2. HOUSING LOANS by residence



Graph 7.3. PROPERTY SALES by residence

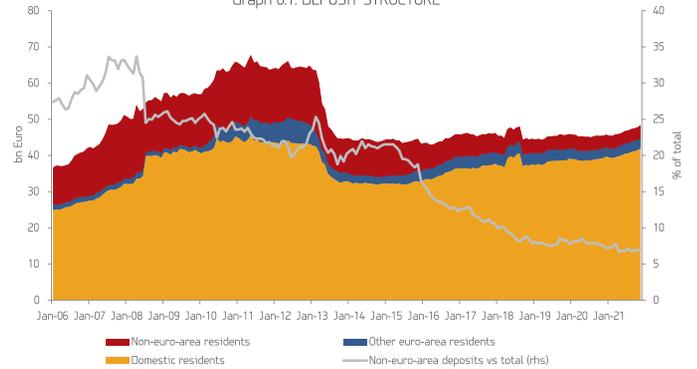


Note: According to the relevant modifications to the codification of the term "Alien" in the Land Information System, the way the statistics are presented has been modified. Therefore, the suggestion of the Department of Lands and Surveys is to avoid the comparison of the specific data from 2018 onwards,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

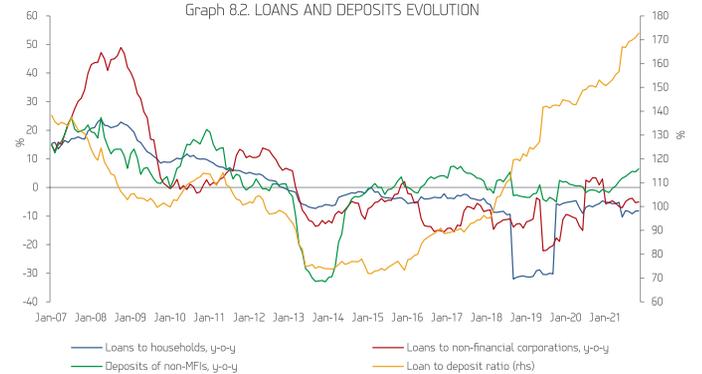
Sources: CBC, Dep. of Lands and Surveys

## 8. FINANCIAL SECTOR

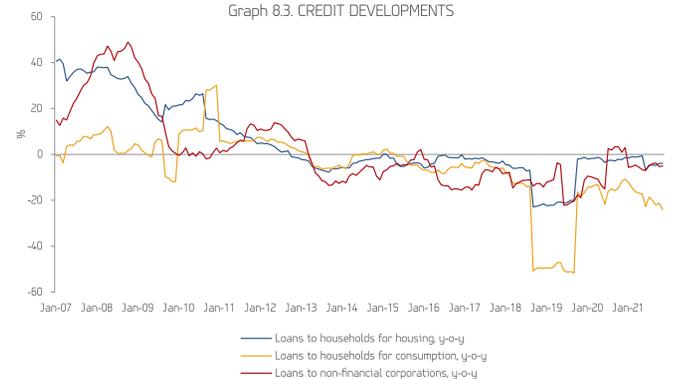
Graph 8.1. DEPOSIT STRUCTURE



Graph 8.2. LOANS AND DEPOSITS EVOLUTION



Graph 8.3. CREDIT DEVELOPMENTS



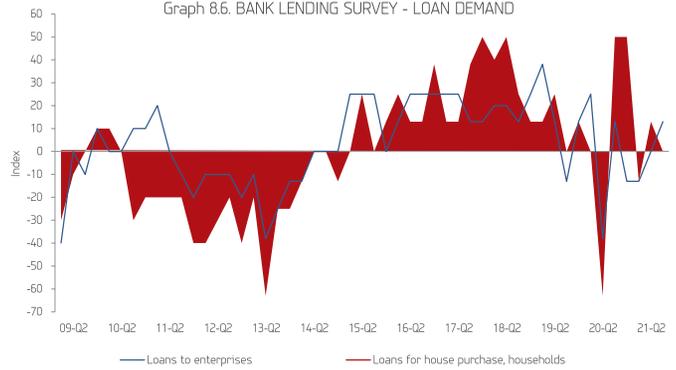
Source: CBC, EMMI

## 8. FINANCIAL SECTOR

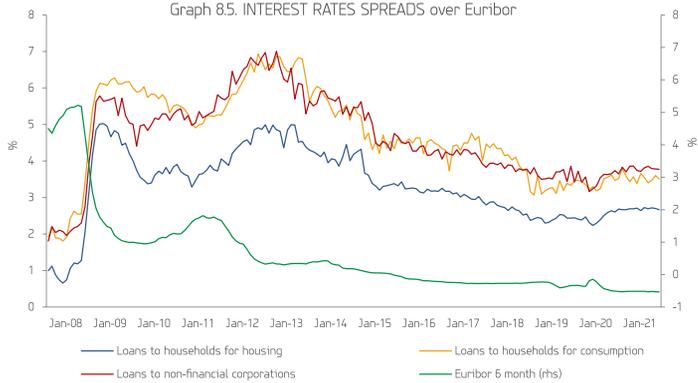
Graph 8.4. LOANS, AMOUNTS OUTSTANDING



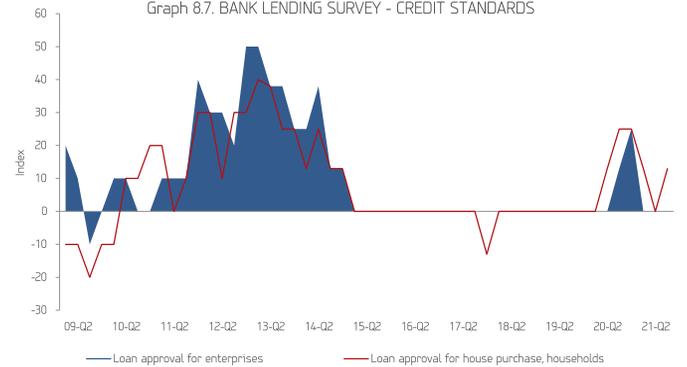
Graph 8.6. BANK LENDING SURVEY - LOAN DEMAND



Graph 8.5. INTEREST RATES SPREADS over Euribor



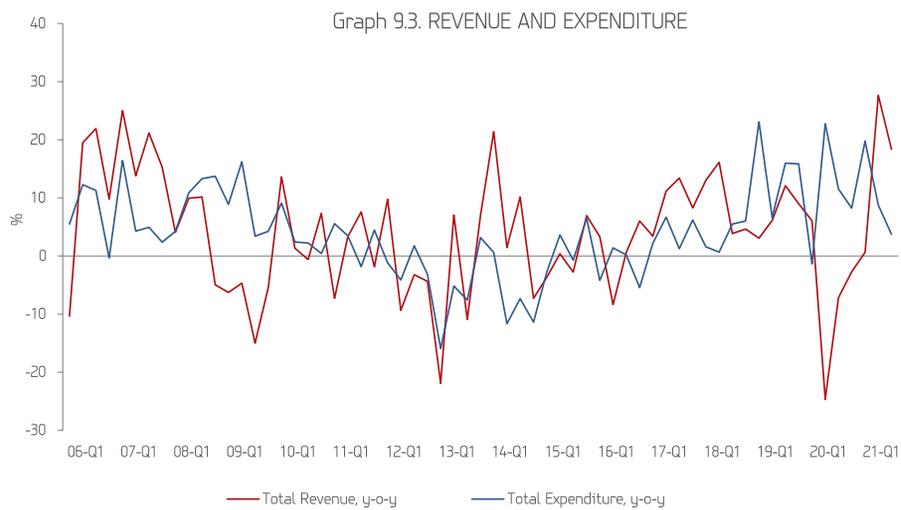
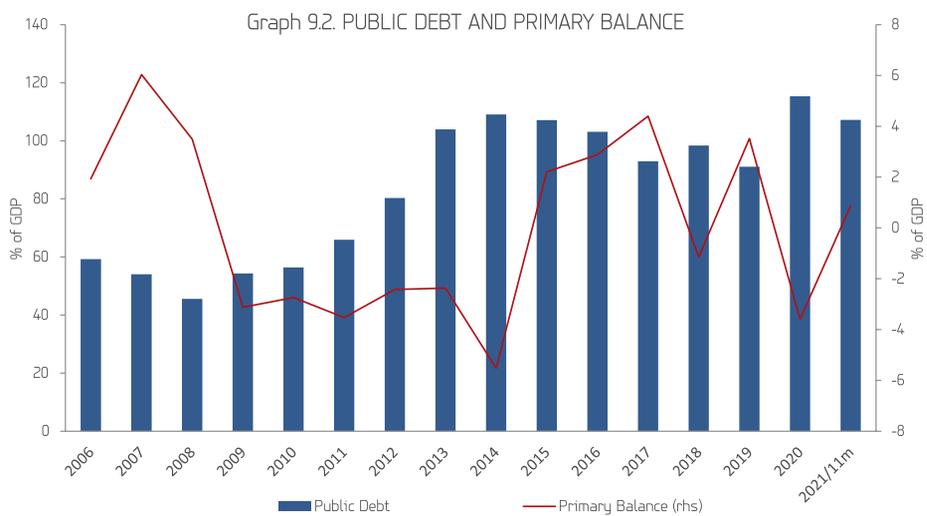
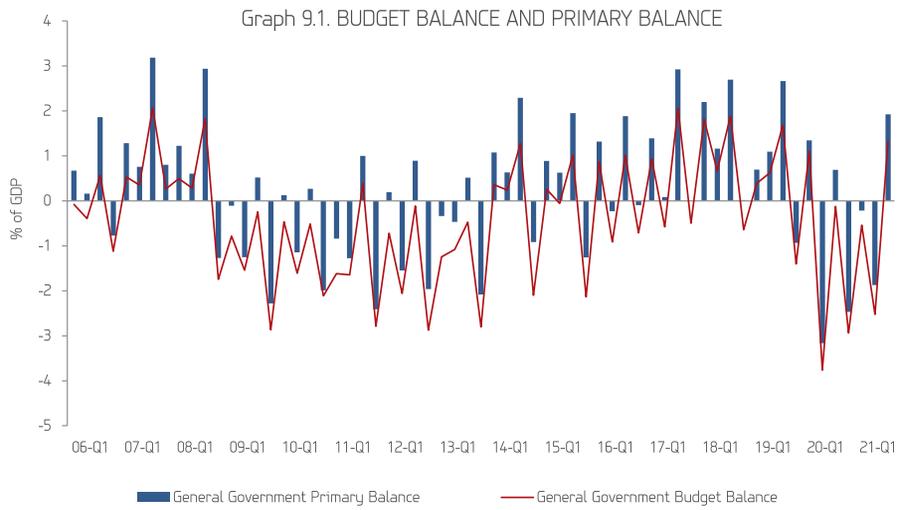
Graph 8.7. BANK LENDING SURVEY - CREDIT STANDARDS



Sources: CBC, EMMI

Source: ECB

## 9. PUBLIC SECTOR



Sources: Ministry of Finance, Cystat