



MINISTRY OF FINANCE

MACROECONOMIC
MONITOR
OF CYPRUS

MAY
2022

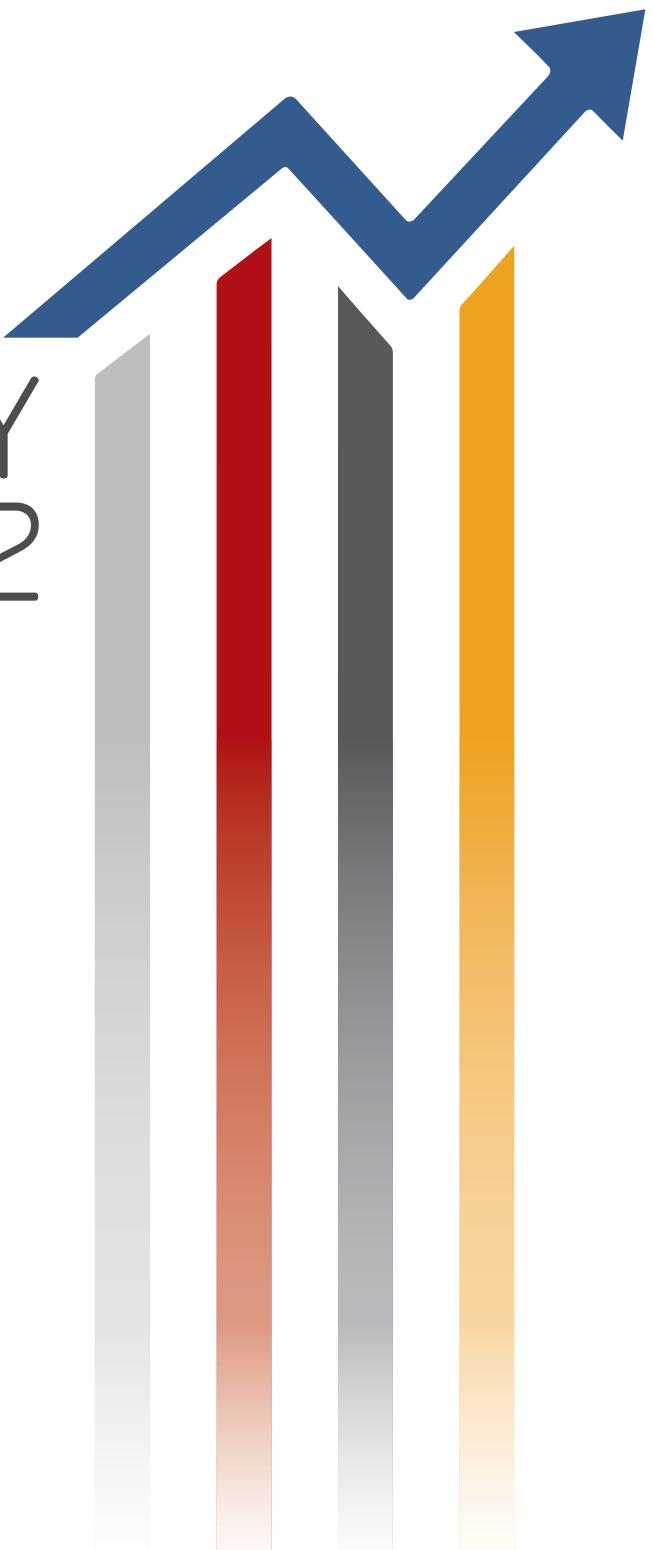


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MACROECONOMIC MONITOR OF CYPRUS

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Macro Economy

• In the 1st quarter of 2022, GDP (in seasonally adjusted terms) recorded a positive rate of growth of 5.6%, compared with 5.9% in the 4th 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", "Transport and Storage", "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 April 2022, economic sentiment in Cyprus improved as the **Economic Sentiment Indicator (ESI-CypERC)** increased by 2.8 points compared with March 2022 (see graph 1.3). The increase in the ESI-CypERC resulted from stronger business confidence in services, retail trade and industry.

• For the period of January-March 2022, **arrivals of tourists** totaled 244,705 compared to 17,747 in the corresponding period of 2021, 246,556 during the period of January-March 2020, and to 357,475 during the period of January-March 2019 (see graph 6.3). Arrivals from the United Kingdom were the main source of tourism for March 2022, with a share of 34.8% of total arrivals, followed by Greece with 9.9% Israel with 8.6%, Germany with 8.2% and Poland with 7.6%.

• **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 5.9% in March 2022 compared to 8.2% in March 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 16.0% in the 1st quarter of 2022 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 April 2022 recorded an increase of 8.6% compared to an increase of 6.2% in March 2022 (see graph 5.1) and for January-April 2022 it stands at 6.4%. Compared to January-April 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 3.3% in January-April 2022 (see graph 5.2).

• **Imports of goods** recorded an increase of 28.1% in January-March 2022 compared to January-March 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 39.4%.

• **Exports of goods** recorded an increase of 41.3% in January-March 2022 compared to January-March 2021. Exports of goods, excluding exports of aircrafts and vessels, exhibit an increase of 39.9%.

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-March 2022, of the order of €239.3 mn (1.0% of GDP) compared to a deficit of €137.4 mn (-0.6% of GDP) during the corresponding period the year before (see graph 9.1).
- General government primary balance (GGPB) recorded a surplus in January-March 2022, of the order of €321.7 mn (1.3% of GDP) compared to a deficit of €68.8 mn (-0.3% of GDP) during the corresponding period the year before (see graphs 9.1-9.2).
- Total expenditure exhibited a decrease of about 3.2%, reaching €2,212.6 mn in January-March 2022, compared to €2,284.7 mn during the corresponding period the year before (see graph 9.3).
- Total revenue exhibited an increase of about 14.2%, reaching €2,451.9 mn in January-March 2022, compared to €2,147.3 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 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 40.1% while transfers of property were up by 16.7% in January-April 2022 compared with January-April 2021 (see graph 7.3).
- Monetary Financial Institutions (MFI) mortgage loans to domestic residents for housing increased by 5.6% in March 2022 (see graph 7.2).

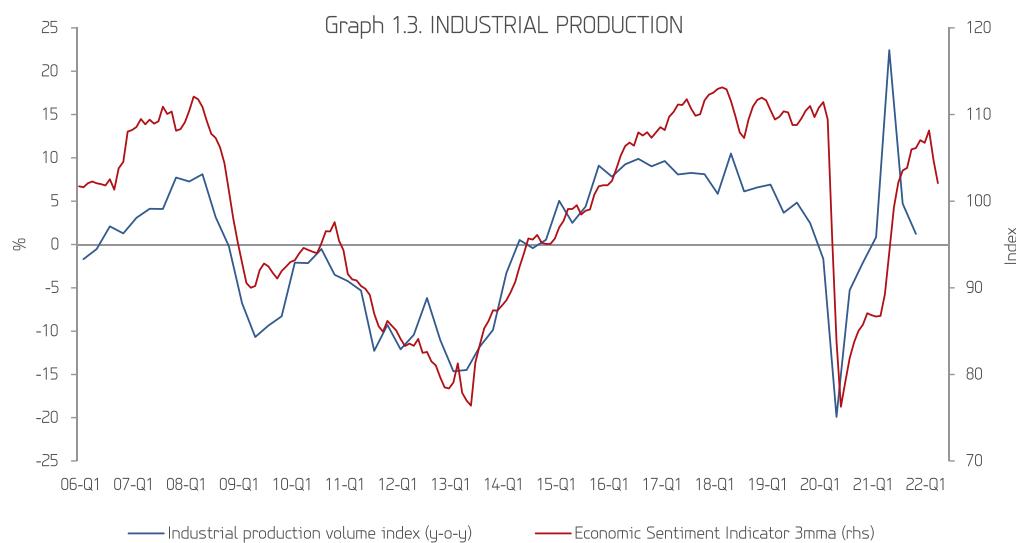
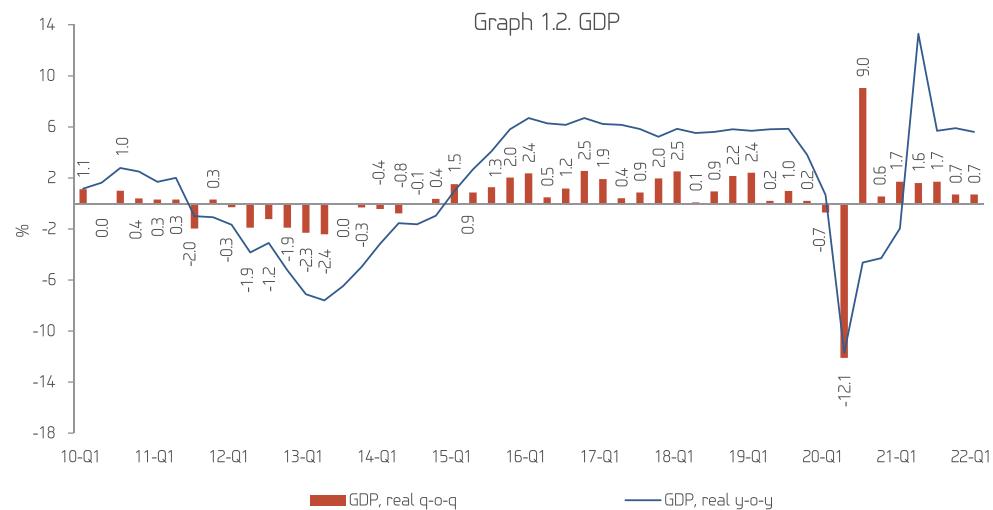
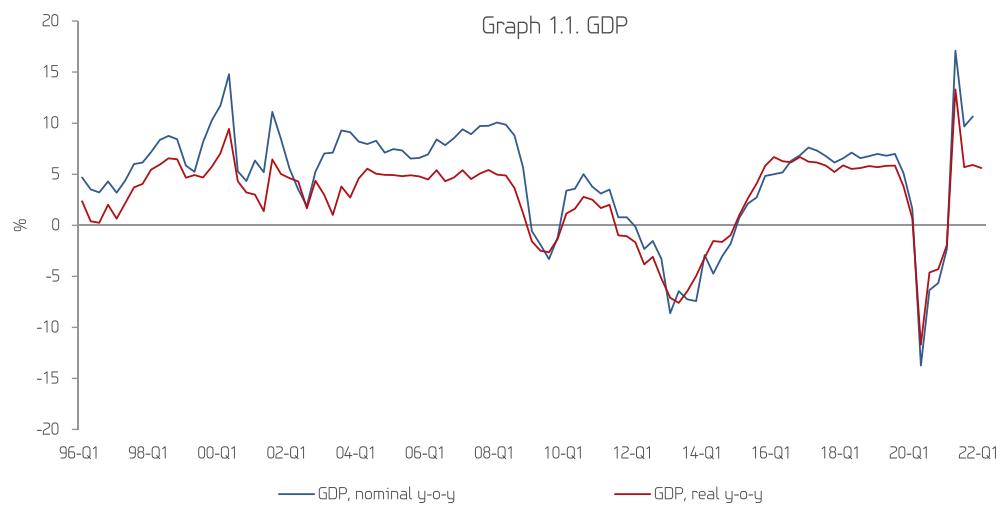
Banking Sector Developments

- MFI loans to domestic residents (private sector) increased by 3.2% in March 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 5.1% in March 2022 (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 March 2022, deposit interest rates for maturity of up to 1 year decreased and of up to 3 months remained unchanged 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 January 2022 increased to €3.03 bn (11.7% on gross loans) compared to €3.02 bn (11.1% on gross loans) in January 2021. The decrease for 2021 was €2.12 bn.
- Accumulated provisions increased to 44% in January 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 the period for 2021 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).
- The decrease for 2020 and was due to sell of portfolios 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.

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



Sources: Eurostat, DG ECFIN, Cystat

2. CONSUMPTION

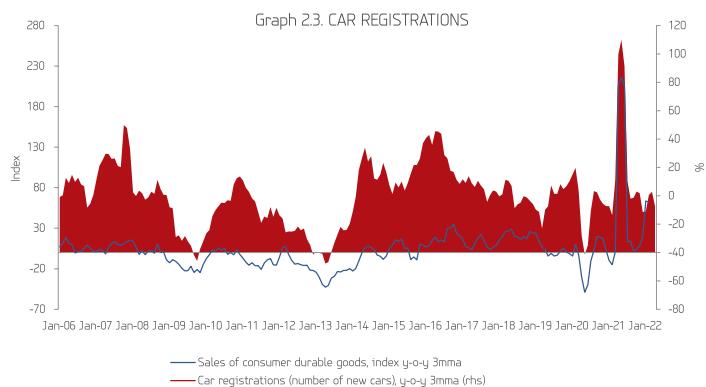
Graph 2.1. CONSUMPTION



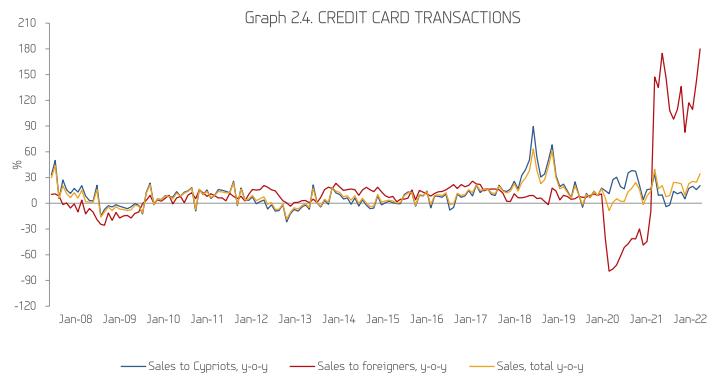
Graph 2.2. RETAIL TRADE



Graph 2.3. CAR REGISTRATIONS



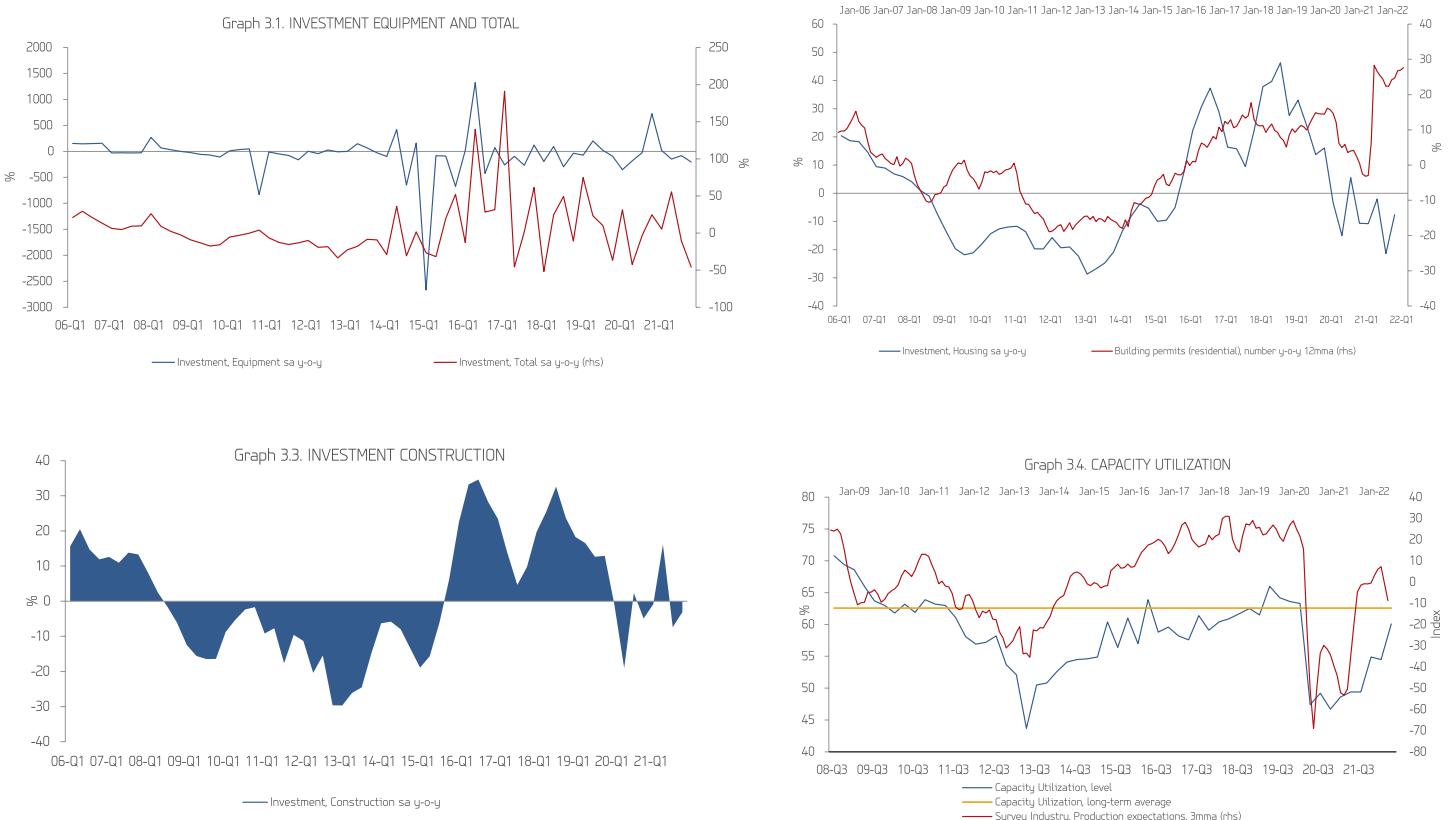
Graph 2.4. CREDIT CARD TRANSACTIONS



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

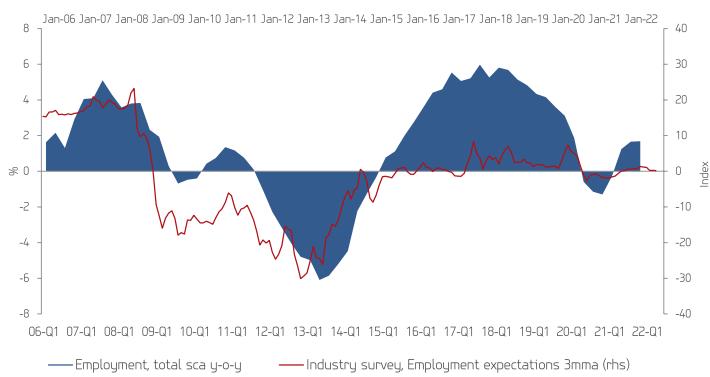
3. INVESTMENT



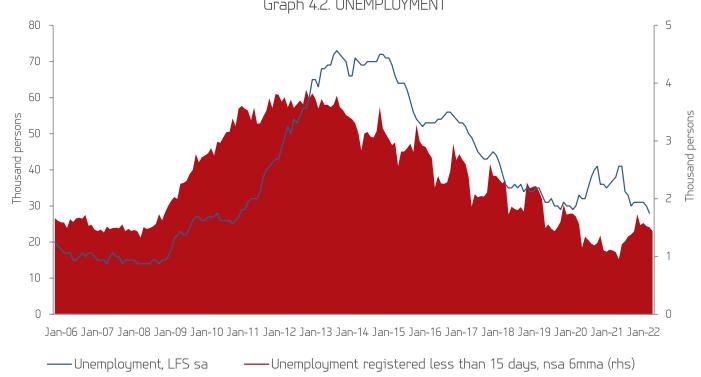
Sources: Cystat, DG ECFIN, CypERC

4. LABOUR MARKET

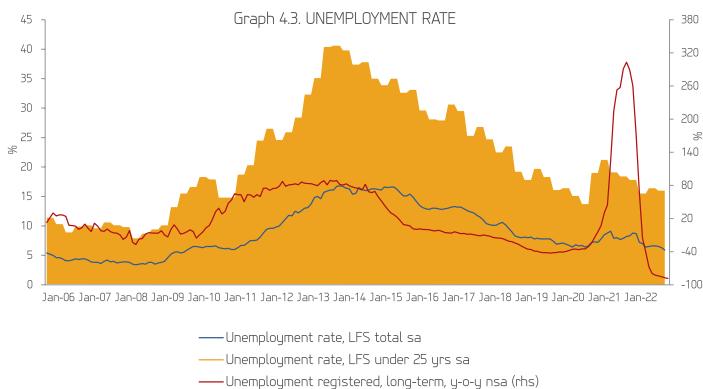
Graph 4.1. EMPLOYMENT



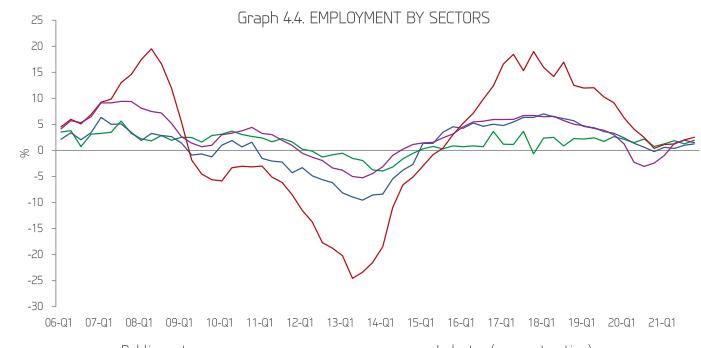
Graph 4.2. UNEMPLOYMENT



Graph 4.3. UNEMPLOYMENT RATE

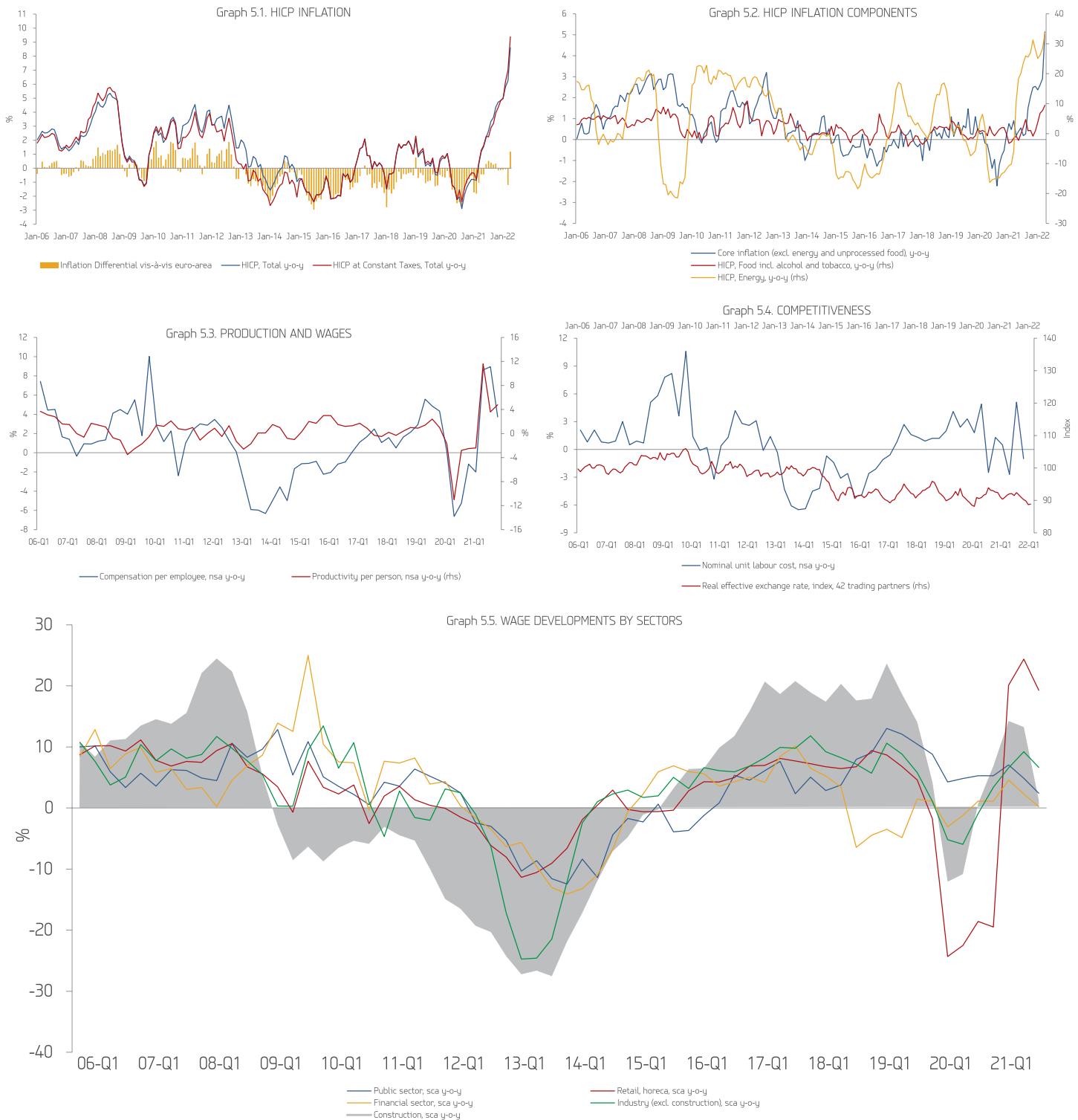


Graph 4.4. EMPLOYMENT BY SECTORS



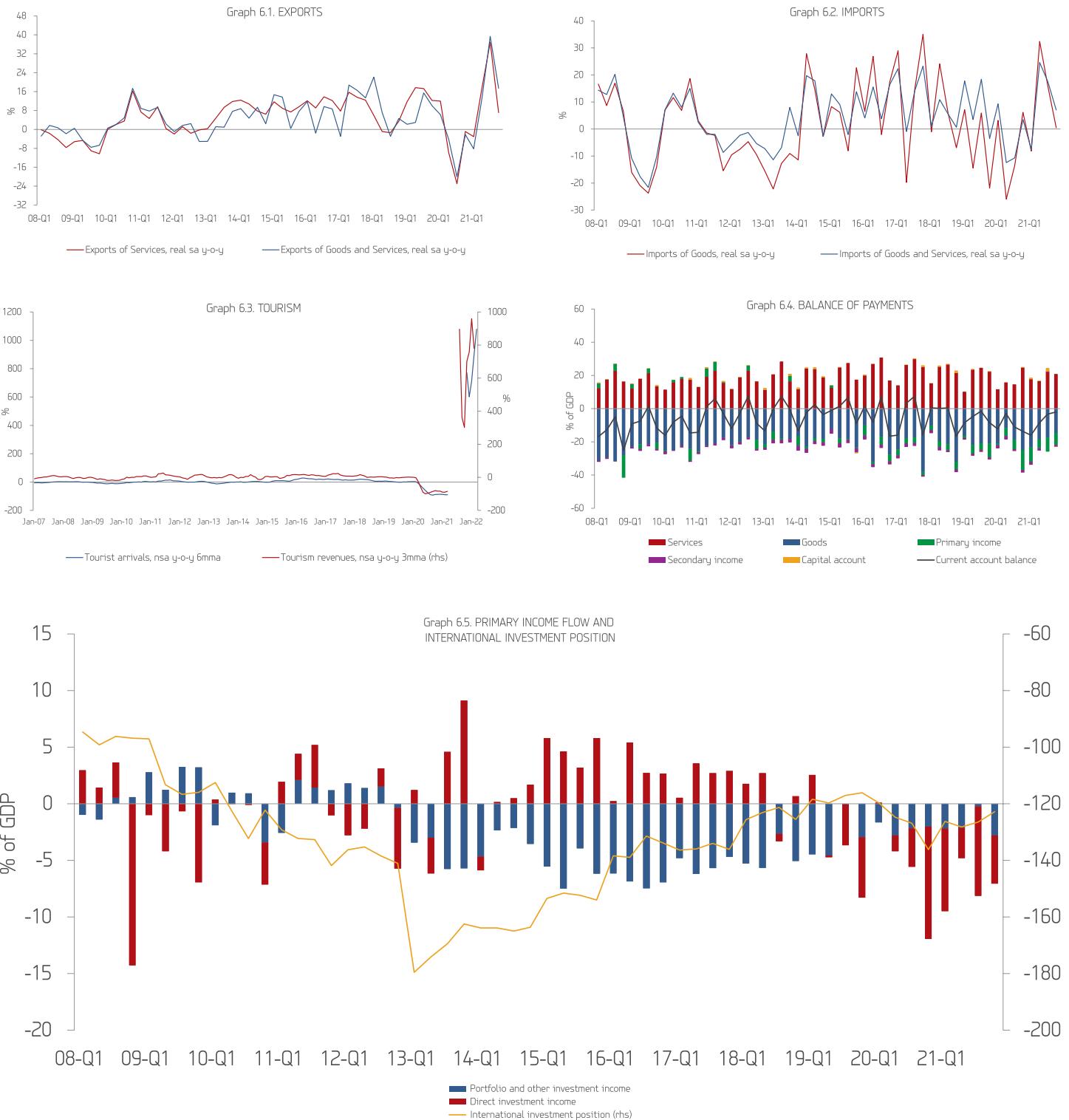
Sources: Eurostat, DG ECFIN, Cystat

5. INFLATION / WAGES



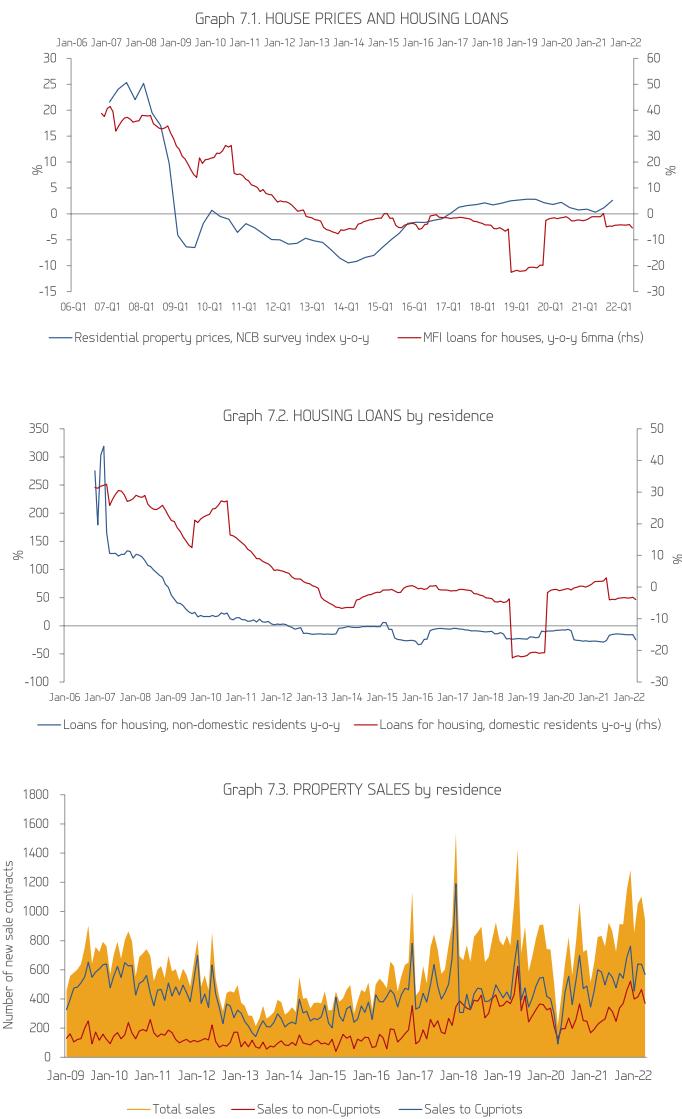
Source: Eurostat

6. EXTERNAL SECTOR



Sources: Cystat, CBC

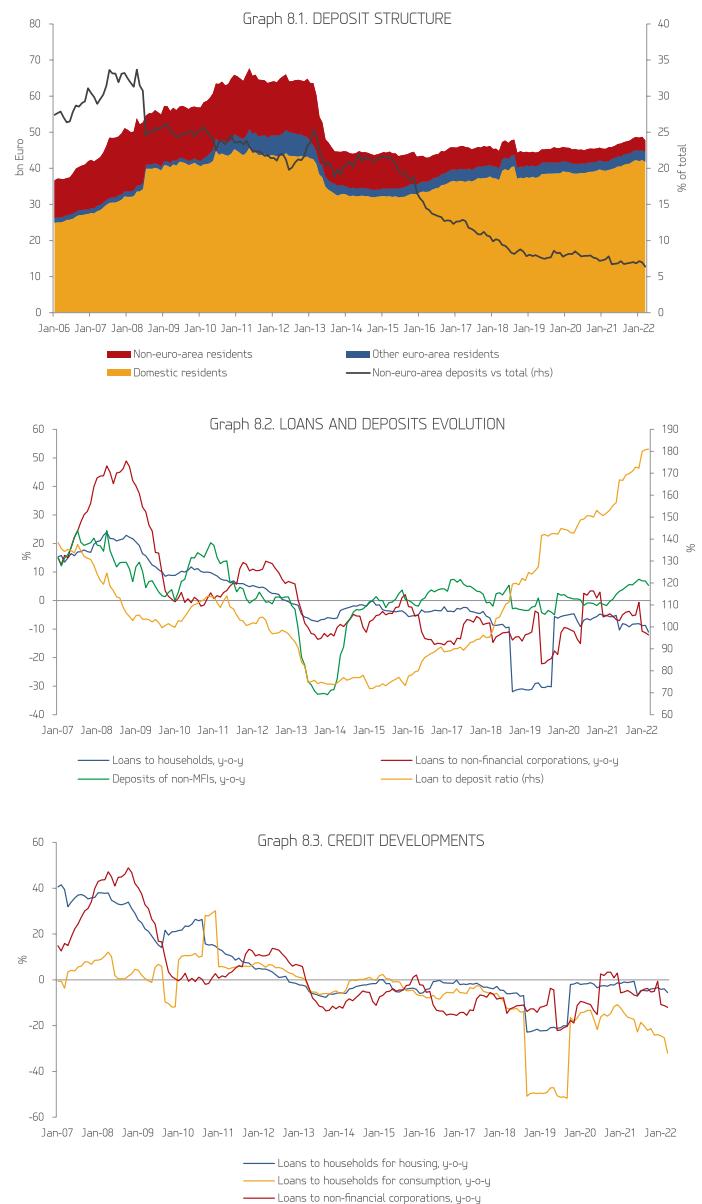
7. HOUSING



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.

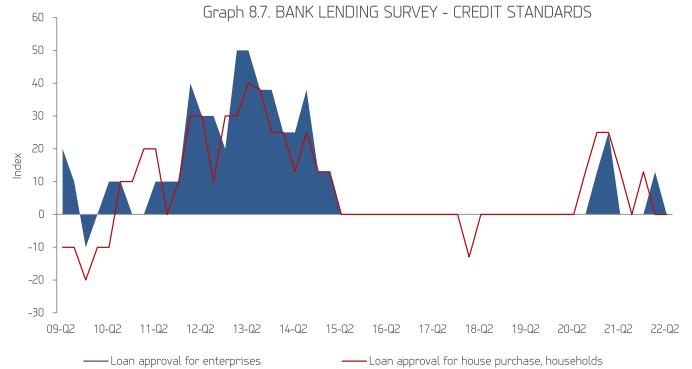
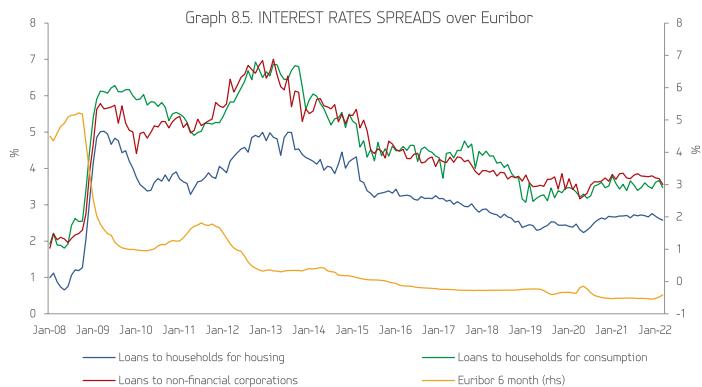
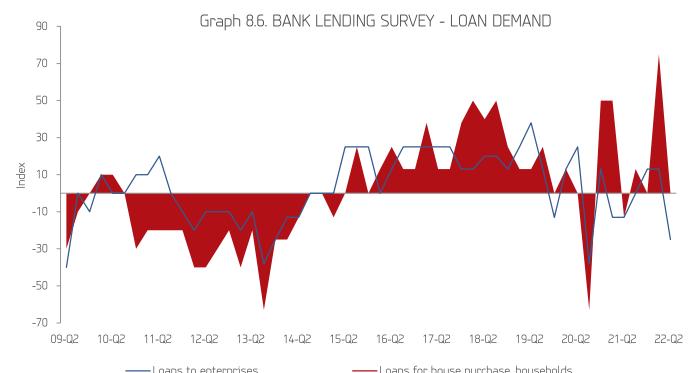
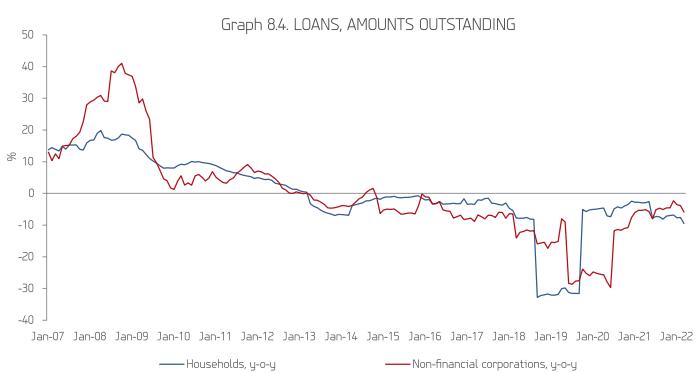
Sources: CBC, Dep. of Lands and Surveys

8. FINANCIAL SECTOR



Source: CBC, EMMI

8. FINANCIAL SECTOR

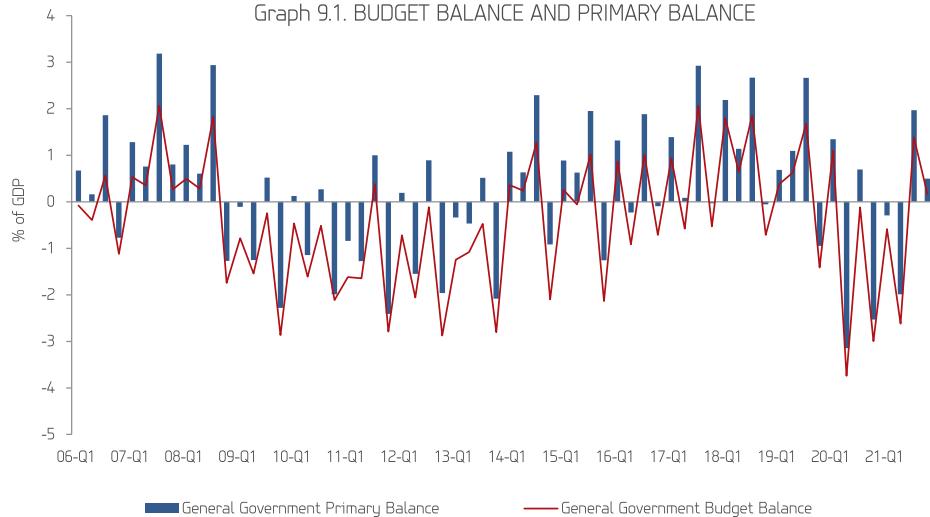


Sources: CBC, EMMI

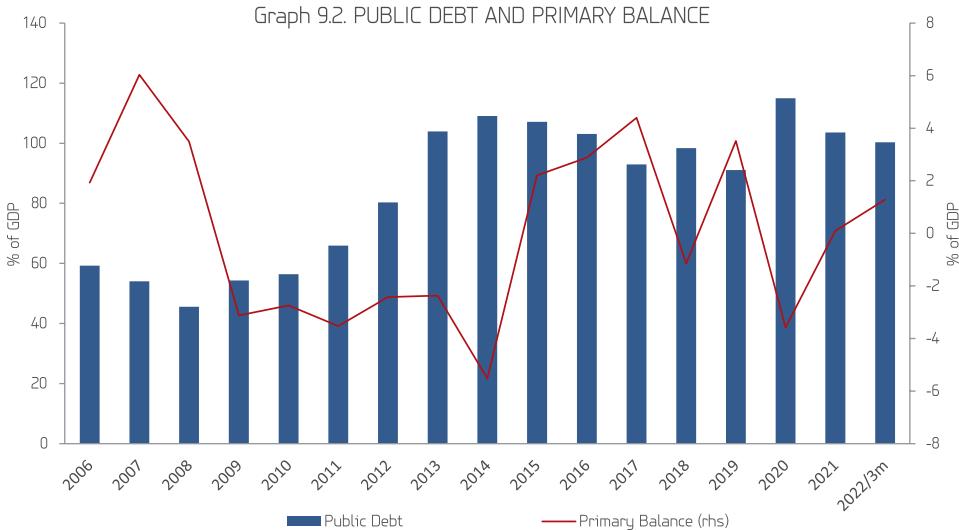
Source: ECB

9. PUBLIC SECTOR

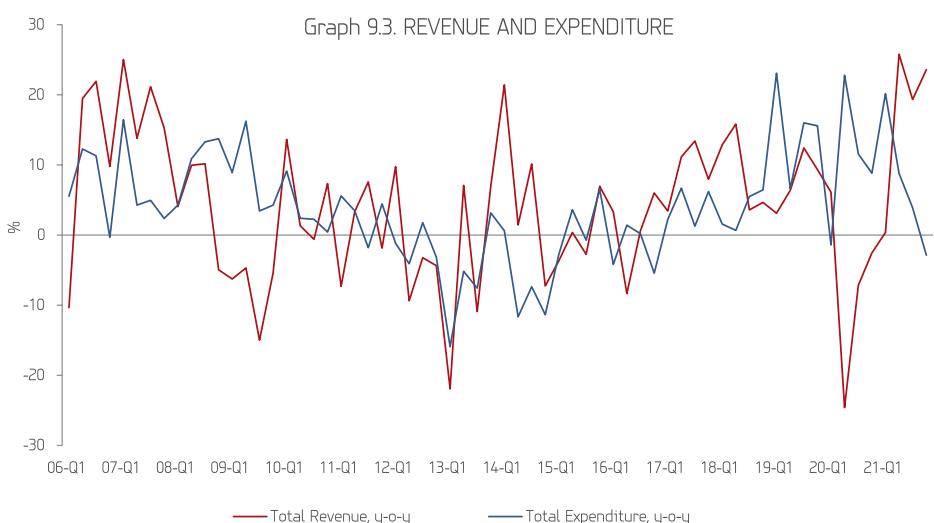
Graph 9.1. BUDGET BALANCE AND PRIMARY BALANCE



Graph 9.2. PUBLIC DEBT AND PRIMARY BALANCE



Graph 9.3. REVENUE AND EXPENDITURE



Sources: Ministry of Finance, Cystat