



Covid-19 Developments:

- Cyprus is dealing with relative stability regarding covid-19 since August 2021.
- Widespread daily testing continues, and several measures designed to tackle the pandemic remain in place. By mid - November 2021, around 81% of adult population completed their vaccination scheme. As of 27th September, a third dose is being administered to the population.

Macroeconomic Environment:

- In mid - October 2021, the Statistical Service of Cyprus (Cystat) revised the National Accounts data for years 2017-2019 and revised the estimate for the year 2020. This has led among others to an increase in GDP (in nominal terms) of €707.7 mln in 2020 compared to the April 2021 data. This will have in turn a positive base effect on the 2021 estimated GDP figure. The revised data were transmitted first to Eurostat for validation before being published.
- In the 2nd quarter of 2021, GDP (in seasonally adjusted terms) recorded a positive rate of growth of 12.9%, compared with a negative rate of 2.1% in the 1st quarter of 2021 on an annual basis. The positive GDP growth rate is mainly attributed to the sectors: Hotels and Restaurants, Construction, Manufacturing, Transport, Storage and Communication, Wholesale and Retail Trade, Repair of Motor Vehicles, Arts, Entertainment and Recreation, Other Service Activities.
- Developments (in seasonally adjusted terms) currently driven mainly by increases in consumption and gross fixed capital formation.
- In August 2021, economic sentiment in Cyprus improved as the Economic Sentiment Indicator (ESI-CypERC) increased by 3.0 points compared with July 2021. The increase in the ESI-CypERC resulted from stronger business confidence in services and, to a smaller degree, from confidence gains in retail trade and among consumer.
- For the period of January-August 2021, arrivals of tourists totalled 960.150 compared to 424.850 in the corresponding period of 2020, recording an increase of 126.0%, and a decrease of 64.9% compared to the period of January-August 2019 (2.735.839 arrivals). Arrivals from Russia were the main source of tourism for August 2021, with a share of 27.2% of total arrivals, followed by the United Kingdom with 22.9%, Poland with 7.1%, Ukraine with 4.6%, Greece with 3.9% and Germany with 3.2%.
- Employment developments reflect conditions of lower economic activity due to the pandemic. 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 5.2% in August 2021 compared to 7.9% in July 2020. 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 20.1% in the 2nd quarter of 2021 from a peak of 40.3% in the 3rd quarter of 2013.

- Compensation per employee recorded an increase of 2.8% in the 1st half of 2021 compared with the 1st half of 2020.
- Inflation (HICP) in August 2021 recorded an increase of 3.3% compared to an increase of 2.7% in July 2021. For January-August 2021, it stands at 1.2%. For the period January-August 2021, compared to the corresponding period of the previous year, the largest positive change was noted in Transport. Core HICP recorded an increase of 0.5% in January-August 2021.
- Imports of goods recorded an increase of 11.4% in January-July 2021 compared to January-July 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 12.8%.
- Exports of goods recorded a decrease of 7.1% in January-July 2021 compared to January-July 2020. Exports of goods, excluding exports of aircrafts and vessels, exhibit an increase of 13.8%.

Fiscal Developments:

- General government budget balance (GGBB) recorded a deficit in January--July 2021, of the order of €684.9 mn (-3.1% of GDP) compared to a deficit of €686.5 mn (-3.3% of GDP) during the corresponding period the year before.
- General government primary balance (GGPB) recorded a deficit in January-July 2021, of the order of €363.0 mn (-1.7% of GDP) compared to a deficit of €383.8 mn (-1.8% of GDP) during the corresponding period the year before.
- Total expenditure exhibited an increase of about 9.2%, reaching €5,700.6 mn in January-July 2021, compared to €5,222.3 mn during the corresponding period the year before.
- Total revenue exhibited an increase of about 10.6%, reaching €5,015.7 mn in January-July 2021, compared to €4,535.8 mn during the corresponding period the year before.

External Sector

- The current account (CA) balance recorded deterioration, with the deficit increasing from €751.5 mn (-3.6% of GDP) in 2020Q1, to €922.0 mn (-4.2% of GDP), in 2021Q1. The increase resulted mainly from the significant decrease in primary income and, to a much lesser extent, the larger deficit in goods. The aforementioned adverse developments were partly offset by lower deficits in secondary income and higher surplus in services. The resulting deficit when adjusting the data for the impact of Special Purpose Entities (SPEs), that is, classifying SPEs as non-residents, stood at €706.0 mn (-3.2% of GDP) in 2021Q1, compared with a deficit of €611.1 mn (-2.9% of GDP) in 2020Q1.
- The international investment position (IIP) recorded a slight deterioration at the end of 2021Q1, presenting a net liability position of €30,145.1 mn, compared with a net liability position of €29,446.0 mn in 2020Q4. With the corresponding data being adjusted for the impact of SPEs, IIP recorded a net liability position of €11,208.6 mn at the end of 2021Q1, compared with a net liability position of €10,837.4 mn, at the end of the previous quarter.
- The gross external debt increased to €192,088.2 mn in 2021Q1 from €189,307.3 mn in 2020Q4. The external assets in debt instruments increased to €114,375.4 mn, up from €112,421.0 mn in 2020Q4. Consequently, net external debt increased by €826.6 mn to €77,712.8 mn, over 2021Q1. Adjusted for the impact of SPEs, gross external debt reached €62,132.7 mn at the end of 2021Q1, compared to €59,769.4 mn, at the end of 2020Q4. The corresponding net external debt indicator increased to -€450.3 mn, compared with -€869.8 mn at the end of the previous quarter.

Banking Sector:

- Reduction in non-performing exposures (NPEs) continued, as NPEs dropped from €9.1 bn on 31/12/19 (28.0% gross loans) to €5.0 bn on 31/8/21 (17.4% gross loans), accumulated provisions being 50.8% of NPEs, and restructurings €4.2bn (14.5% gross loans). Banks continue deleveraging efforts. Sale of 'Helix 2 and 3' portfolios by BoC, decreasing NPEs to around €3 bn, has not yet been accounted for.
- Total deposits at end October 2021 stand at €50.5 bn, compared to €48.2 bn in December 2020. Since December 2020, there were increases of €1.7 bn in domestic residents, €0.3 bn in 'non-EU residents' and €0.3 bn in 'EU non-residents'.
- CBC's Residential Property Price Index (RPPI – apartments and houses) recorded a quarterly increase of 0.3% in 2021Q2, following an increase of 0.5% in 2021Q1, and had an annual increase of 0.2%. Cumulative from 1st quarter 2010 (benchmark), RPPI it has exhibited a decline of 20.5%, revealing an adjustment to the conditions of lower domestic and foreign demand.
- Bank of Cyprus, Cyprus' largest bank, announced these results for the 1st half of 2021 following sale of Helix 2 NPE portfolio: €1mn net profit, CET1 14.1%, Capital adequacy 19.2%, excess liquidity €5.7bn, net loans to deposits 59%, €894 mn new lending, NPEs at 14.6% gross loans with 60% covered by provisions. In April, it issued €300mn Tier 2, increasing capital ratios by c.1%. The sale of 'Helix 3' NPEs portfolios, concluded in November 2021, which will decrease the Bank's NPEs to €0.9bn and single digits as a portion of gross loans (9%), is not yet presented in results. It is noted that at its peak in 2014, NPEs had reached €15 bn or 63% of gross loans.
- Hellenic Bank, second largest bank, announced these results for the 1st half of 2021: net profit €21 mn, CET1 19.7%, Capital Adequacy 22.0%, excess liquidity €6.1 bn, net loans to deposits 41.5%, €388 mn new lending, NPEs at 22.0% gross loans (15.1% after excluding NPEs covered by government's Asset Protection Scheme, APS), with 46.5% covered by provisions (59.4% after excluding APS' NPEs). It is in discussions to sell a €700 mn NPE portfolio ('Project Starlight'), bringing its NPEs to gross loans to single-digit levels (excluding APS loans). It is also in discussions to sell its NPEs servicer.

Public debt and financing:

- General Government debt is estimated at €24.8 bn at end August 2021 (General Government), which is about at the same level as at the end of 2020. By the end of 2021 it is expected to be €24.1 bn.
- Yields of the Republic's bonds have followed an upward trajectory since September which is attributed mainly to the observed rise in inflation and the overall expectation of future rate rises.
- During this year, the 10year yield (2030 maturity) exhibited a minimum level on 20th of August at 0.104% and maximum on 19th of May at 0.591%. On the 10th of November 2021, it traded at 0.311%.
- Yields of the monthly 13-week Treasury Bill auctions continued to drop. The latest auction in October 2021, recorded a record negative yield of -0.42%. Participation by domestic banks remains strong.
- Currently liquid assets are significant and are adequate to cover the financing needs of the Republic for 2021 and a significant part of 2022.
- On the 22nd of October the rating agency DBRS changed the outlook of the rating of the Republic of Cyprus from stable to positive. The credit rating remains at BBB(L).

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New publications:

Public Debt Management Annual Report 2020

[https://www.mof.gov.cy/mof/pdmo/pdmo.nsf/All/D2ABB8EB6E89BF5CC22586B80039411A/\\$file/Annual%20Report%202020_EN.pdf](https://www.mof.gov.cy/mof/pdmo/pdmo.nsf/All/D2ABB8EB6E89BF5CC22586B80039411A/$file/Annual%20Report%202020_EN.pdf)

Quarterly Debt Bulletin Q3-2021

[https://www.mof.gov.cy/mof/pdmo/pdmo.nsf/All/EDECACED1518E1B3C22587920035DF24/\\$file/CY%20Qrt%20Bulletin%20Q3%202021%20EN.pdf](https://www.mof.gov.cy/mof/pdmo/pdmo.nsf/All/EDECACED1518E1B3C22587920035DF24/$file/CY%20Qrt%20Bulletin%20Q3%202021%20EN.pdf)

Macroeconomic Monitor September 2021

<http://mof.gov.cy/en/publications/economic-development-bulletins/65/819/?ctype=ar>

Cyprus Recovery and Resilience Plan

<http://www.dgepcd.gov.cy/dgepcd/dgepcd.nsf/All/0A8F355CE59D6403C22586A4002C8A56?OpenDocument>

Economic Developments 2020 and Prospects 2021-2023 (in Greek only)

<http://mof.gov.cy/en/publications/economic-developments-and-prospects/759/?ctype=ar>

Fiscal accounts September 2021:

<http://mof.gov.cy/en/economic-indicators/public-finances/public-finance-developments/public-finance-developments-2021>

The information has been compiled and verified to the best of our knowledge.