



Covid-19 Developments:

- Cyprus has been in lockdown since late December 2020 when daily new cases reached their maximum (907). Since then as the situation improved there has been a steady relaxation of restrictions with more relaxations scheduled for the 16th of March 2021.
- Testing is at extremely high levels with total tests reaching 1.7 million per 1 million of population.
- Vaccinations started in late December and are picking up pace as more vaccines become available under the EU procurement program. By the 5th of March 11.4% of the population was vaccinated. This includes the over 70 age group, health care professionals and workers in nursing homes. Currently people over 67 are being vaccinated.

Macroeconomic Environment:

- The Cypriot economy contracted by 5,05% in 2020 beating projections for deeper recession amid the coronavirus pandemic, according to a flash estimate by the Statistical Service of Cyprus (Cystat). It is noted that the forecasted **contraction** was -5.5% by the Ministry of Finance, -5.8% by the European Commission, -6.2% by the Cyprus Central Bank and -6.4% by the IMF.
- In the 4th quarter of 2020, GDP (in seasonally adjusted terms) recorded a negative rate of growth of 4.5%, compared with a negative rate of 4.7% in the 3rd quarter of 2020 on an annual basis. The negative 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”.
- Developments are currently driven by deceleration in consumption and decreases in investment and external demand.
- In January 2021, economic sentiment in Cyprus deteriorated as the Economic Sentiment Indicator (ESI-CypERC) decreased by 5.2 points compared with December 2020. The decrease in the ESI-CypERC resulted from a weakening of economic confidence among businesses and consumers.
- In January 2021, tourist arrivals decreased at a rate of 95.5% compared to January 2020. A decrease of 79.5% was recorded in tourist arrivals from Greece and a decrease of 79.7% in tourist arrivals from Germany.
- Labour Force Survey (LFS) unemployment, in monthly seasonally adjusted terms, increased to 7.3% in December 2020 compared to 6.3% in December 2019.
- Inflation (HICP) in January 2021 recorded a decrease of 0.8% compared to a decrease of 0.8% in December 2020. Core HICP recorded an increase of 0.8% in January 2021.
- Imports of goods recorded a decrease of 8.1% in January-December 2020 compared to January-December 2019.
- Exports of goods recorded a decrease of 12.6% in January-December 2020 compared to January-December 2019 due to exports of transport equipment (aircrafts and vessels) occurring in 2019.

Fiscal Developments:

- General government budget balance (GGBB) recorded a deficit in January-December 2020, of the order of €1,059 mn (-5.0% of GDP) compared to a surplus of €325.9 mn (1.5% of GDP) during the corresponding period the year before.
- General government primary balance (GGPB) recorded a deficit in January-December 2020, of the order of €564.1 mn (-2.7% of GDP) compared to a surplus of €836.4 mn (3.8% of GDP) during the corresponding period the year before.
- Total expenditure exhibited an increase of about 11.5%, reaching €9,946.6 mn in January-December 2020, compared to €8,917.1 mn during the corresponding period the year before.
- Total revenue exhibited a decrease of about 3.8%, reaching €8,887.7 mn in January-December 2020, compared to €9,243.0 mn during the corresponding period the year before.

Banking Sector:

- Reduction in non-performing exposures (NPEs) continued in 2020 as NPEs dropped from €9.1 bn on 31/12/19 (28.0% of gross loans) to €6.3 bn on 31/10/20 (20.9% of gross loans), the accumulated provisions being 56.7% of NPEs (compared to 55.3% in 2019), and restructurings of €4.1 bn (13.5% of gross loans). Banks continued deleveraging efforts, with cumulative sales of loans from June 2018 until mid - February 2021 reaching €5.5 bn.
- Total deposits at end January stand at €47.9 bn, down from €48.7 bn in December 2019 (decrease 1.6%). The decrease occurred in 'non-EU residents' (€666 mn or 10.0%) and 'EU non-residents' (€366 mn or 12.9%), whereas residents remained stable, with a small increase of €240 mn or 0.6%.
- The CBC's residential property price index recorded a decrease of 0.4% in the 3rd quarter of 2020 compared to the 2nd quarter of 2020 and an increase of 1.2% compared to the 3rd quarter of 2019. Cumulative from the 1st quarter of 2008 it has exhibited a decline of 23.7%, revealing an adjustment to the conditions of lower domestic and foreign demand.
- Bank of Cyprus, Cyprus' largest bank, announced the following preliminary financial results for the year ended 31 December 2020, incorporating the sale (January 2021) of Helix 2B' NPE portfolio of €545 mn (total €1.5 bn NPE sales since December 2019): €171 mn net loss (net loss €70 mn in 2019), fully loaded CET1 ratio 15.2%, capital adequacy ratio 18.7%, excess liquidity €4.2bn, net loans to deposits 60%, and €1.4bn new lending. NPLs now consist 16% of gross loans / 7% of net loans, with 62% NPEs covered by provisions.
- Hellenic Bank, the second largest bank, announced the following results for the nine months ended 30 September 2020: net profit of €40.0 mn (net profit €108 mn for 2019), CET1 ratio 20.06%, capital adequacy ratio 22.51%, cost to income ratio 66.7%, liquidity coverage ratio of 454% and net loans to deposits ratio 42.5%. NPLs consist 24.5% of the gross loans, of which 45.9% are covered by provisions, whereas when excluding loans covered by the Asset Protection Scheme granted by the government in 2018 as part of the acquisition of the CCB performing balance sheet, NPL ratio drops to 17.6%, and NPL coverage rises to 58.6%.
- Under the emergency measures announced by the Government in order to control spread of COVID-19, 50,586 borrowers with loans less than 30 days of arrears in licensed credit institutions and credit acquisition companies, applied for suspension until end 2020, of installments and interest on their loans. These loan suspensions had a gross carrying amount of €11.75bn, and suspended credit facilities of €1.34 bn. Since 1st January 2021, this measure has been abolished.

Public debt and financing:

- Public debt is estimated to be at €24.8 bn at end December 2020 (General Government), 118% of GDP, from €20.9 bn at the end of 2019.
- On the 2nd of February 2021 a new syndicated transaction was launched by the Public Debt Management Office (value date February 9). A new 5-year bond was issued with a yield of MS+48 bps 0.053% and a 0% coupon (XS2297209293). The new issue was very well received with significant investor' interest, with the final order book being more than €7.5 bn.
- During Q4 2020 yields of the Republic's bonds continued to drop following the trend of other European sovereigns. This trend continued until early-mid February when the sell-off of European sovereigns took place and yields increased. The increase was somewhat reversed in late February to early March and yields have begun to stabilize again. Yields are still lower than their January 2020 levels.
- During the last year, the 10 year yield of the Republic (2030 maturity) exhibited a low level on the 15th of December at 0.119% and a maximum level on the 22nd of April at 2.173%. Currently it is trading at 0.405% (5 March 2021).
- The yield at the monthly 13-week' Treasury Bills auctions continued to drop since Q4 2020. However, the latest auction in February 2021 recorded a weighted average yield of -0.24%.
- Currently liquid assets are significant and are adequate to cover the financing needs of the Republic for 2021 and part of 2022.

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New publications:

Public Debt Management Annual Report 2019

[https://www.mof.gov.cy/mof/pdmo/pdmo.nsf/All/8C06D5A595CD697EC225856800317C74/\\$file/Annual%20PDM%20Report%202019%20EN%2030%2004%202020%20FINAL.pdf?OpenElement](https://www.mof.gov.cy/mof/pdmo/pdmo.nsf/All/8C06D5A595CD697EC225856800317C74/$file/Annual%20PDM%20Report%202019%20EN%2030%2004%202020%20FINAL.pdf?OpenElement)

Quarterly Debt Bulletin Q3-2020

https://www.mof.gov.cy/mof/pdmo/pdmo.nsf/page04_arch_en/page04_arch_en?OpenDocument

Macroeconomic Monitor February 2021

http://mof.gov.cy/assets/modules/wnp/articles/202101/819/docs/moc_feb_2021_en.pdf

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 December 2020:

<http://mof.gov.cy/en/economic-indicators/public-finances/public-finance-developments/fiscal-developments-2020>

The information has been compiled and verified to the best of our knowledge. The possibility of a factual mistake cannot, however, be excluded.