



Covid-19 Developments:

- Cyprus has exited the latest lockdown since late May 2021 and the program of further relaxations will continue through June. Daily new cases have dropped significantly despite the relaxations with the seven day moving average being at 58 from a maximum of 882 in late April.
- Widespread daily testing continues.
- Vaccinations started in late December and have continued at a brisk pace. By the 12th of June almost 60% of the population was vaccinated with at least one dose. More than 40% of the population had completed their vaccinations by that date.

Macroeconomic Environment:

- In the 1st quarter of 2021, GDP (in seasonally adjusted terms) recorded a negative rate of growth of 1.6%, compared with a negative rate of 4.4% in the 4th 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 currently driven by increases in consumption
- In April 2021, economic sentiment in Cyprus improved significantly as the Economic Sentiment Indicator (ESI-CypERC) increased by 9.2 points compared with March 2021. The increase in the ESI-CypERC was driven primarily by large confidence gains in services, and, to a lesser extent, by confidence improvements in retail trade, industry and among consumers.
- For the period of January-April 2021, arrivals of tourists totaled 55.973 compared to 246.556 in the corresponding period of 2020, recording a decrease of 77.3% (see graph 6.3). Arrivals from Russia were the main source of tourism for the month of April 2021, with a share of 41.7% of total arrivals, followed by Greece with 12.8% and Israel with 12.6%
- Employment developments reflect conditions of lower economic activity due to the pandemic. Employment in persons recorded a decrease of 0.6% in 2020 compared with 2019. A decrease was recorded in the accommodation and food service activities and in transportation and storage while increases were recorded in construction, professional, scientific and technical activities, education, health and manufacturing
- Labour Force Survey (LFS) unemployment, in monthly seasonally adjusted terms, increased to 7.1% in March 2021 compared to 6.3% in March 2020.
- Inflation (HICP) in April 2021 recorded an increase of 1.2% compared to an increase of 0.3% in March 2021 (see graph 5.1). For January-April 2021, it stands at -0.1%. For the period January-April 2021, compared to the corresponding period of the previous year, the largest changes were noted in Communication and Housing, Water, Electricity, Gas and Other Fuels. Core HICP recorded an increase of 0.6% in January-April 2021.

- Imports of goods recorded a decrease of 7.6% in January-March 2021 compared to January-March 2020. Imports are affected by developments in imports of transport equipment (aircrafts and vessels). Imports of goods, excluding imports of aircrafts and vessels, exhibit a decrease of 4%.
- Exports of goods recorded a decrease of 25% in January-March 2021 compared to January-March 2020. Exports of goods, excluding exports of aircrafts and vessels, exhibit a decrease of 7.5%

Fiscal Developments:

- General government budget balance recorded a deficit in January-March 2021, of the order of €251.7 mn (-1.1% of GDP) compared to a surplus of €226.9 mn (1.1% of GDP) during the corresponding period the year before.
- General government primary balance recorded a deficit in January-March 2021, of the order of €176.5 mn (-0.8% of GDP) compared to a surplus of €279.7 mn (1.3% of GDP) during the corresponding period the year before
- Total expenditure exhibited an increase of about 19.4%, reaching €2,290.3 mn in January-March 2021, compared to €1,917.5 mn during the corresponding period the year before.
- Total revenue exhibited a decrease of about 4.9%, reaching €2,038.6 mn in January-March 2021, compared to €2,144.4 mn during the corresponding period the year before.

External Sector

- The current account (CA) balance (see graph 6.4) recorded a deterioration, with the deficit increasing from €1,406.0 mn (-6.3% of GDP) in 2019, to €2,476.4 mn (-11.9% of GDP), in 2020. The resulting deficit adjusted for the impact of Special Purpose Entities (SPEs), that is, classifying SPEs as non-residents, stood at €2,384.5 mn (-11.4% of GDP) in 2020, compared with a deficit of €1,510.0 mn (-6.8% of GDP) in 2019.
- The international investment position (IIP) recorded a deterioration in 2020, presenting a net liability position of €29,446.0 mn, compared with a net liability position of €27,252.4 mn in 2019. With the corresponding data being adjusted for the impact of SPEs, IIP recorded a net liability position of €10,837.4 mn in 2020, compared with a net liability position of €8,980.0 mn, in 2019.
- The gross external debt increased to €189,307.3 mn in 2020 from €189,212.0 mn in 2019. The external assets in debt instruments increased to €112,421.0 mn, up from €109,001.9 mn in 2019. Consequently, net external debt decreased by €3,323.8 mn to €76,886.2 mn, in 2020. Adjusted for the impact of SPEs, gross external debt reached €59,769.4 mn in 2020, compared to €60,572.6 mn, in 2019. The corresponding net external debt indicator increased to -€869.8 mn, compared with -€998.7 mn in 2019.

Banking Sector:

- Reduction in non-performing exposures (NPEs) continued in 2020 and 2021, as NPEs dropped from €9.1 bn on 31/12/19 (28.0% of gross loans) to €5.2 bn on 28/2/21 (18.0% of gross loans), the accumulated provisions being 50.0% of NPEs (compared to 55.3% in 2019), and restructurings of €3.5 bn (12.1% of gross loans). Banks continued deleveraging efforts, with cumulative sales of loans from June 2018 until April 2021 reaching €5.5 bn.

- Total deposits at end April 2021 stand at €48.4 bn, compared to €48.2 bn in December 2020. Since December 2020, there was a minor decrease of €0.2 bn in domestic residents, a small increase of €0.4 bn in ‘non-EU residents’, and ‘EU non-residents’ remained stable.
- The CBC’s residential property price index recorded a decrease of 0.2% in the 4th quarter of 2020 compared to the 3rd quarter of 2020 and an increase of 0.8% compared to the 4th quarter of 2019. Cumulative from the 1st quarter of 2010 (benchmark) it has exhibited a decline of 21.1%, revealing an adjustment to the conditions of lower domestic and foreign demand.
- Bank of Cyprus, Cyprus’ largest bank, announced the following results for the 1st quarter of 2021: €8mn net profit, fully loaded ratios of CET1 13.1% and of capital adequacy 16.8% (increased by 0.2% when accounting for Helix 2A/2B’ NPE portfolios, sold in 2021), excess liquidity €4.9bn, net loans to deposits 61%, €487mn new lending, and NPEs consisting 16% of gross loans, with 59% covered by provisions. In April 2021, it issued €300mn Tier 2, which will increase its capital ratios by c.1%.
- Hellenic Bank, second largest bank, announced the following results for the 1st quarter of 2021: net profit €13 mn, fully loaded CET1 ratio 19.4%, fully loaded capital adequacy ratio 21.8%, excess liquidity €5.6 bn, net loans to deposits 43%, €166 mn new lending, and NPEs consisting 15.8% of gross loans, with 60% covered by provisions.

Public debt and financing:

- General Government debt is estimated to be at €24.8 bn at the end April 2021 (General Government), which is about at the same level as at the end of 2020. This is due to the maturity of €1.25 billion of 52 weeks T-Bills issued in April 2020 as a precaution for the effects of the pandemic.
- During Q1 of 2021 yields of the Republic’s bonds reached their lowest levels in February 2021 but then started to rise in line with all European markets continued to drop following the trend of other European sovereigns. This was linked to the expectations about rising inflation in Europe in 2021. In the past few weeks as inflation expectations have been revised and the ECB has committed to continuing its accommodative stance this rise has been partly offset. Yields remain at very low levels with all bonds of the Republic up to a maturity of six years are trading in the negative area.
- During this year, the 10 year yield of the Republic (2030 maturity) exhibited a low level on the 5th of January at 0.125% and a maximum level on the 19th of May at 0.591%. Currently it is trading at 0.297% (13 June 2021).
- The yield at the monthly 13-week Treasury Bill auctions continued to drop since Q4 2020. The latest auction in February 2021 recorded a weighted average yield of -0.34%. Participation by domestic banks has been quite strong and expected to continue
- 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 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 Q4-2020

[https://www.mof.gov.cy/mof/pdmo/pdmo.nsf/All/15F7630C99F9E981C22586A20034261E/\\$file/CY%20Qrt%20Bulletin%20Q4%202020%20EN.pdf](https://www.mof.gov.cy/mof/pdmo/pdmo.nsf/All/15F7630C99F9E981C22586A20034261E/$file/CY%20Qrt%20Bulletin%20Q4%202020%20EN.pdf)

Macroeconomic Monitor May 2021

http://mof.gov.cy/assets/modules/wnp/articles/202101/819/docs/moc_may_2021_en.pdf

Cyprus Recovery and Resilience Plan

<http://www.dgepcd.gov.cy/dgepcd/dgepcd.nsf/All/OA8F355CE59D6403C22586A4002C8A56?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 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.