REPUBLIC OF CYPRUS
MINISTRY OF FINANCE
PUBLIC DEBT MANAGEMENT OFFICE

Newsletter no. 31/2020
December 2020

Covid-19 Developments:

- During the first wave of the pandemic in Cyprus, with the first cases appearing in early March, virus was successfully contained due to swift measures (including a lockdown) and extensive testing. However, the second wave which is considered to have commenced in mid-September, sparked increased cases similar to the global situation, prompting the authorities to take measures in November.
- Despite the increased number of cases in the second wave, Cyprus ranks 5th lowest in the EU at cases per 100.000, 4th in terms of tests conducted per 100.000, and with the smallest number of deaths (8 per 100.000).
- The macroeconomic and fiscal effects of the pandemic will be significant. So far macroeconomic and fiscal effects appear to be in line with the initial projections included in the Stability Program issued in May where GDP contraction is expected to be 7% and the fiscal deficit to be around 5%.

Macroeconomic Environment:

- In the 3rd quarter of 2020, GDP (in seasonally adjusted terms) recorded a negative rate of growth of 4.4%, compared with a negative rate of 12.3% in the 2nd quarter of 2020 on an annual basis. The negative GDP growth rate is mainly attributed to the sectors: Hotels and Restaurants, Manufacturing, Construction, 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 October 2020, economic sentiment in Cyprus deteriorated slightly as the Economic Sentiment Indicator (ESI-CypERC) decreased by 1.6 points compared with September 2020. The decrease in the ESI-CypERC resulted from weaker business confidence in services, retail trade and, to a smaller degree, in industry.
- During January-October 2020, tourist arrivals decreased at a rate of 83.4% compared to January-October 2019. A decrease of 57.2% was recorded in tourist arrivals from Germany, a decrease of 60.5% from Greece and an 82% decrease from the UK.
- Employment developments reflect conditions of weaker economic activity. Employment in persons recorded an increase of 0.6% in the first half of 2020 compared with the same period in 2019. A decrease was recorded in the accommodation and food service activities while increases were recorded mainly in construction, professional, scientific and technical activities and manufacturing.
- Labour Force Survey (LFS) unemployment, in monthly seasonally adjusted terms, increased to 8.0% in September 2020 compared to 6.6% in September 2019. 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 19.9% in 2020Q3 from a peak of 41.1% in the 2nd quarter of 2013.
- Compensation per employee recorded a decrease of 1.4% in the first half of 2020 compared with the same period in 2019.
- Inflation (HICP) in October 2020 recorded a decrease of 1.4% compared to a decrease of 1.9% in September 2020. For 2020 so far it stands at -1.1%. Core HICP stood at -0.7% in January-October 2020. All subcategories of HICP presented a decrease except categories food and non-alcoholic beverages, health, communication, recreation and culture and education.
- Imports of goods recorded a decrease of 12.3% in January-September 2020 compared to January-September 2019. The decrease in imports is affected by developments in imports of transport equipment (aircrafts and vessels). Imports of goods, excluding imports of aircrafts and vessels, exhibit a decrease of 11.1%.

- Exports of goods recorded a decrease of 11.6% in January-September 2020 compared to January-September 2019 due to exports of transport equipment (aircrafts and vessels) occurring in 2019. Exports of goods, excluding exports of aircrafts and vessels, exhibit a decrease of 11.9%.
- The current account (CA) balance recorded an improvement, with the deficit decreasing from €307.9 mn in 2019Q2, to €182.0 mn, in 2020Q2. For the first half of 2020 the current account deficit is €891.8 mn (4.3% of GDP) compared to €839.4 mn (3.8% of GDP) in the same period in 2019. The resulting deficit when adjusting the data for the impact of Special Purpose Entities (SPEs), that is, classifying SPEs as non-residents, stood at €1,019.6 mn (4.9% of GDP) in the first half of 2020, compared with a deficit of €915.9 mn (4.1% of GDP) in the same period in 2019.
- The international investment position (IIP) recorded a slight deterioration at the end of 2020Q2, presenting a net liability position of €27,015.4 mn, compared with a net liability position of €26,735.4 mn in 2020Q1. With the corresponding data being adjusted for the impact of SPEs, IIP recorded a net liability position of €8,989.5 mn at the end of 2020Q2, compared with a net liability position of €8,684.6 mn, at the end of the previous quarter.
- The gross external debt increased to €189,395.9 mn in 2020Q2 from €188,841.8 mn in 2020Q1. Consequently, net external debt decreased by €426.4 mn to €78,856.5 mn, over 2020Q2. Adjusted for the impact of SPEs, gross external debt reached €60,204.1 mn at the end of 2020Q2, compared to €59,526.8 mn, at the end of 2020Q1. The corresponding net external debt indicator declined to -€2,635.5 mn, compared with -€3,645.0 mn at the end of the previous quarter.

Fiscal Developments:

- General government budget balance (GGBB) recorded a deficit in January-June 2020, of the order of €804.6mn (4.0% of GDP) compared to a surplus of €240.5mn (1.1% of GDP) in the corresponding period the year before.
- General government primary balance (GGPB) recorded a deficit in January-June 2020, of the order of €603.0mn (3.0% of GDP) compared to a surplus of €427.0mn (1.9% of GDP) in the corresponding period the year before.
- Total revenue exhibited a decrease of about 13.7%, reaching €3,500.0mn in January-June 2020, compared to €4,054.0mn in the corresponding period the year before.
- Total expenditure exhibited an increase of about 12.9%, reaching €4,304.6mn in January-June 2020, compared to €3,813.5mn in the corresponding period the year before.

Banking Sector:

- The reduction in non-performing exposures (NPEs) continued in 2020 as NPE dropped to €6.6 bn on 31/07/20 (21.9% of gross loans) from €9.1 bn on 31/12/19 (28.0% of gross loans), the accumulated provisions being 55.6% of NPEs (compared to 55.3% in 2019), and restructurings being €4.2 bn (14.1% of gross loans).
- Total deposits exhibit a small decrease of €795mn or 1.6% since December 2019, being at €47.94 bn at end October 2020, down from €48.73 bn in December 2019. The decrease is mainly in 'rest of the world residents' (decrease is €420mn or 6.3%), followed by non-residents from EU (decrease €299mn or 10.5%) and residents (€76mn or 0.2%).
- The CBC's residential property price index recorded an increase of 0.9% in the 2nd quarter of 2020 compared to the 1st quarter of 2020 and an increase of 2.2% compared to the 2nd quarter of 2019. Cumulative from 2010Q1 which serves as benchmark, it has exhibited a decline of 20.6%, revealing an adjustment to the conditions of lower domestic and foreign demand.
- Bank of Cyprus, Cyprus' largest bank, announced the following results and main indices for the nine months ended 30 September 2020: €122mn net loss (net loss €70mn in 2019), fully loaded CET1 ratio 14.7%, capital adequacy ratio 18.2%, excess liquidity €4.1bn, and net loans to deposits 63%. NPLs consist 21% of the gross loans, of which 59% are covered by provisions.

- Hellenic Bank, the second largest lender, announced the following results and main indices 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 the spread of COVID-19, borrowers with loans less than 30 days of arrears in both licensed credit institutions and credit acquisition companies, could apply for suspension of installments and interest on their credit facilities until end 2020. As at June 19th, 50,586 borrowers applied for loan suspension, with a gross carrying amount of €11.75bn, and suspended credit facilities of €1.34 bn.

<u>Public debt and financing:</u>

- In July a decision was made to tap the markets once again in order to further increase the cash reserves of the Republic on the face of the unprecedented uncertainty created by the pandemic and due to the very supportive market environment that was prevalent at the time. The Public Debt Management Office proceeded with the following financing transactions:
    - On July 7 two taps of existing bonds were issued in a double tranche transaction (value date 14 July). A tap of the 5-year bond maturing on the 3rd of December (XS1989405425) of €500 mn issued at MS+70 bps (0.349%) and a tap on the 20-year bond maturing on the 21st January 2040 (XS2105097393) of €500 mn issued at MS+140 bps (1,493%).
- Public debt rose to €25,4 bn at end September 2020 (Central Government) from €20,9 bn at the end of 2019.
- After the sharp increase of bond yields during the period March-April 2020, as with most European sovereign bonds, the situation stabilized in May and since then all government bond yields have been following a downward trend. This trend was reinforced in July with the decisions regarding the EU recovery fund. Yields of the sovereign bonds of the Republic are currently at their minimum levels.
- The 10 year yield of the Republic exhibited a low level on the 24th of February at 0.435% and a maximum level on the 22nd of April at 2.173%. Currently it is trading at 0.197%.
- The yield at the monthly 13-week Treasury Bill auctions turned positive in March. However, the latest auction in November 2020, was in the negative area, recording a weighted average yield of -0.04%.
- The European Commission approved in late August the provision of funding to the Republic of €479 mn through the SURE scheme, with an average maturity of 15 years. This funding is related to increased expenditure related to supporting employment during the pandemic. €250mn were received in November, and the remaining amount is expected in early 2021.
- Currently liquid assets are significant and are adequate to cover the financing needs of the Republic until at least December 2021.

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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

Quarterly Debt Bulletin Q3-2020
https://www.mof.gov.cy/mof/pdmo/pdmo.nsf/page04_arch_en/page04_arch_en?OpenDocument

Macroeconomic Monitor November 2020
http://mof.gov.cy/en/publications/economic-development-bulletins/65/569/?ctype=ar

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