



Republic of Cyprus

Market Communication

Macro/ fiscal developments 2020:

The COVID-19 pandemic had significant consequences for Cyprus as for the global economy and has affected both the macroeconomic situation and public finances due to the increased public expenditure to deal with the effects of the pandemic and the significant reduction in revenue as economic growth registered a reversal due to lockdowns and overall reduction in economic activity.

However, the overall downturn has proven less severe than what was anticipated in March 2020 and this is a testament to both the resiliency of the Cyprus economy and the effectiveness of the fiscal measures taken by the government in order to ameliorate the effects of the pandemic on the real economy.

In the Stability Programme 2020-2023 prepared in April 2020, the Ministry of Finance projected a contraction of the economy during 2020 of 7% compared to the year before, fiscal deficit of around 4.3% and unemployment increasing to 9% from 7.1% in 2019.

The latest estimates prepared by the Ministry of Finance in October 2020 (actual figures will come later in 2021) project a contraction of the economy of 5.5%, a fiscal

deficit of 4.5%, and unemployment at 8%. These estimates are at the lower end of the projections prepared at the beginning of the pandemic.

Debt-to-GDP ratio rose materially in 2020 as the Republic issued significant amounts of debt in order to finance the additional expenditure and further enhance cash buffers to deal with the uncertainty and instability created by the Pandemic. Debt-to-GDP ratio at the end of 2020 is estimated at around 119% from 94% in 2019 but it should be noted that the Government has accumulated sizeable cash reserves (estimated at over 17% of GDP) in 2020, to deal with any further negative developments, which explain the increase. The weighted average cost of public debt continued to drop in the current landscape of historically low rates and is estimated to be at 1.8% in 2020.

Macro/ fiscal prospects 2021:

Given the uncertainty still surrounding both the evolution of COVID-19 pandemic and any quantification of its economic impact, and taking into account the continued roll-out of the vaccination programmes globally, accurately projecting for the future macroeconomic and fiscal trajectory remains difficult.

In this context in its October 2020 the Ministry of Finance is forecasting that the economy will rebound strongly in 2021 with GDP exhibiting a projected increase in the real growth rate at 3.5%-4.0% while in 2022-2023 the growth rate is expected to remain positive. As the economy moves into recovery the labour market conditions are expected to improve, with the unemployment rate dropping back to 7% in 2021.

The main policy objective of the government remains the safeguarding of the macroeconomic stability in order to facilitate growth and job creation, and to preserve a fiscal policy geared towards high primary surpluses in order to facilitate a swift decline of debt-to-GDP ratio at a satisfactory pace.

Based on the budget approved by Parliament in late January 2021, which includes additional measures for support of the economy in 2021 of around 1.5% of GDP and taking into account the second wave of the pandemic and its consequences on the economy, the budget deficit for 2021 is currently projected to hover around 2.7%-3.0% of GDP. As the effects of the pandemic recede in 2022-2023 the government budget is projected to record small deficits of less than 1%.

Public debt is projected to decline slightly in 2021 since the Government could reduce the high level of its cash buffer as the effects of the pandemic and related uncertainty decline. Debt-to-GDP ratio in 2021 is projected to decline to 111%-113% and is expected to continue its downward trend in the following years. The cost of servicing the public debt is also expected to further decline as relatively expensive debt will mature in 2021 and be replaced by debt bearing a lower cost.

Cyprus: Selected macro and fiscal indicators

| | 2019 (actual) | 2020 ¹ (projections) | 2021 ² (projections) |
|----------------------------------|------------------|------------------------------------|------------------------------------|
| GDP (nominal values) (€million.) | €22,287 | €20,861 | N/A |
| Real growth rate (% GDP) | 3.2% | -5.5% ³ | 3.5%-4.0% |
| Fiscal Balance (%GDP) | 1.7% | -4.5% ⁴ | [-2.7%]-[-3.0%] |
| Public Debt (% GDP) ⁵ | 94% | 119% ⁶ | 111%-113% |
| Unemployment (% of Work force) | 7.1% | 8% | 7% |
| Inflation (% Change in CPI) | 0.5% | -0.6% | 1.0% |

1 Public finances actual data expected to be available by the end-February 2021. The outcome of 2020 GDP is expected by mid-March 2021.

2 Projections for 2021 subject to revisions after the availability of economic indicators within the coming months.

3 <http://mof.gov.cy/en/economic-indicators/macroeconomics/main-economic-indicators/gdp-growth-rate-2019q4-2020q3>

4 http://mof.gov.cy/assets/modules/wnp/articles/202002/587/docs/fisc_budg_dev_080121.pdf

5 http://mof.gov.cy/assets/modules/wnp/articles/201908/483/docs/pd_2010q4_2020q3_en.pdf

6 [https://www.mof.gov.cy/mof/pdmo/pdmo.nsf/All/B0E88D4BE683AA03C22586320033B8AF/\\$file/200930_outstanding%20Debt.pdf](https://www.mof.gov.cy/mof/pdmo/pdmo.nsf/All/B0E88D4BE683AA03C22586320033B8AF/$file/200930_outstanding%20Debt.pdf)

Additional Information to the Market

The Annual Funding Plan of the Republic for 2021 can be found on the following link⁷

[https://www.mof.gov.cy/mof/pdmo/pdmo.nsf/8AF7376A3B6909ABC2258442002958DD/\\$file/Annual%20Funding%20Plan%202021.pdf](https://www.mof.gov.cy/mof/pdmo/pdmo.nsf/8AF7376A3B6909ABC2258442002958DD/$file/Annual%20Funding%20Plan%202021.pdf)

The recent sovereign credit ratings of the Republic are shown in the following table⁸

| Solicited Sovereign credit ratings | | | | |
|------------------------------------|----------------|-----------------|----------|------------------------|
| CRA | Long-term debt | Short-term debt | Outlook | Latest evaluation date |
| DBRS | BBB(L) | R-2 | Stable | 13/11/2020 |
| Fitch | BBB- | F3 | Stable | 02/10/2020 |
| Moody's | Ba2 | NP | Positive | 25/06/2020 |
| Standard & Poor's | BBB- | A-3 | Stable | 04/09/2020 |

The indicative timetable of the upcoming sovereign credit ratings of the Republic are shown below⁹

| Solicited Sovereign credit ratings | | |
|------------------------------------|-------------------|-------------------|
| CRA | 1st credit rating | 2nd credit rating |
| DBRS | 14/05/2021 | 22/10/2021 |
| Fitch | 26/03/2021 | 24/09/2021 |
| Moody's | --- | 23/07/2021 |
| Standard & Poor's | 05/03/2021 | 03/09/2021 |

Public Debt Management Office
 Ministry of Finance
 Nicosia – Cyprus
 29 January 2021

⁷ [https://www.mof.gov.cy/mof/pdmo/pdmo.nsf/8AF7376A3B6909ABC2258442002958DD/\\$file/Annual%20Funding%20Plan%202021.pdf](https://www.mof.gov.cy/mof/pdmo/pdmo.nsf/8AF7376A3B6909ABC2258442002958DD/$file/Annual%20Funding%20Plan%202021.pdf)

⁸ https://www.mof.gov.cy/mof/pdmo/pdmo.nsf/index_en/index_en

⁹ https://www.mof.gov.cy/mof/pdmo/pdmo.nsf/page03credit_en/page03credit_en?OpenDocument