



Covid-19 Developments:

- Concerns about the spreading of the pandemic in Cyprus began in early March with the first cases recorded on the 9th of March. First measures by the government restricting movement and economic activity were introduced on March 11 and by the end of March a full lock-down was in place. The measures were gradually relaxed from 5th of May to end of June.
- As of 24 August, there had been 1,395 cases of Covid-19 with 21 deaths. During August on average there were 10 new cases per day, with no new deaths. Most new cases in August, regard persons who travelled abroad.
- 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 2nd quarter of 2020, GDP (in seasonally adjusted terms) recorded a negative rate of growth of 11.9%, compared with a positive rate of 0.8% in the 1st 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 domestic demand and decreases in external demand.
- In July 2020, the economic sentiment indicator (ESI-CypERC) increased by 4.5 points compared with June 2020. The increase was driven by confidence improvements in services and among consumers.
- During January-July 2020, tourist arrivals decreased at a rate of 85.3% compared to January-July 2019. A decrease of 61.4% was recorded in tourist arrivals from Greece and a 76.5% decrease from Germany.
- Employment developments reflect conditions of strong economic activity. Employment in persons recorded an increase of 2.4% in the 1st quarter of 2020 compared with the same quarter in 2019. Increases were recorded mainly in construction, wholesale and retail trade, professional, scientific and technical activities and manufacturing.
- Labour Force Survey (LFS) unemployment, in monthly seasonally adjusted terms, increased to 9.8% in June 2020 compared to 7.2% in June 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 19.6% in 2020Q2 from a peak of 41.1% in the 2nd quarter of 2013.
- Compensation per employee recorded an increase of 1.1% in the 1st quarter of 2020 compared with the same quarter in 2019.
- Inflation (HICP) in July 2020 recorded a decrease of 2.0% compared to a decrease of 2.2% in June 2020. For 2020 so far it stands at -0.7%. Core HICP stood at -0.4% in January-July. 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 11.3% in January-June 2020 compared to January-June 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 10.8%.

- Exports of goods recorded a decrease of 10% in January-June 2020 compared to January-June 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 11.8%.
- The current account (CA) balance deteriorated significantly in 2020Q1, recording a deficit of €928.1 mn (4.6% of GDP), compared to a deficit of €639.4 mn (2.9%) in the corresponding quarter of 2019. The increase in the current account deficit resulted from larger deficits in goods and secondary income, and lower surplus in services. The aforementioned adverse developments were partly offset by the decrease in the deficit of primary income. Adjusting the data for the impact of Special Purpose Entities (SPEs), that is, classifying SPEs as non-residents, the resulting deficit stands at €769.9 mn in 2020Q1, compared to a deficit of €798.4 mn in 2019Q1.
- The international investment position (IIP) recorded a slight improvement at the end of 2020Q1, presenting a net liability position of €25,342.1 mn, compared to a net liability position of €25,459.5 mn in the last quarter of 2019. Adjusting the data for the impact of SPEs, IIP recorded a net liability position of €7,650.3 mn at the end of 2020Q1, compared to a net liability position of €8,000.5 mn, at the end of 2019Q4.
- The gross external debt amounted to €205,690.5 mn in 2020Q1, compared to €205,302.8 mn in 2019Q4. The net external debt decreased by €1,360.9 mn to €84,289.5 mn, over 2020Q1. Adjusted for the impact of SPEs, gross external debt reached €57,474.3 mn at the end of 2020Q1, compared to €57,759.7 mn, at the end of 2019Q4, while the corresponding net external debt indicator significantly declined to -€1,975.6 mn, compared to €282 mn at the end of 2019Q4.

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 €9 bn on 31/03/20 (27.78% of gross loans) from €10.39 bn on 31/12/18 (30.5% of gross loans), the accumulated provisions reaching 57.26% of NPEs (55.25% on 31/12/19), and restructurings €5.29 bn (16.3% of gross loans). The NPEs sales by Bank of Cyprus shall be depicted in May and August figures respectively.
- Total deposits exhibit a small decrease in 2020, following an increase of €872 mn in 2019. Total deposits were at €47.6 bn at the end of July 2020, down from €48.7 bn in December 2019. The decrease is divided in all three categories of residents, non-residents (being EU) and the rest of the world (non-EU).
- The CBC's residential property price index recorded an increase of 0.4% in the 1st quarter of 2020 compared to the 4th quarter of 2019 and an increase of 1.8% compared to the 1st quarter of 2019. Cumulative from 2010Q1 which serves as benchmark, it has exhibited a decline of 21.4%, revealing an adjustment to the conditions of lower domestic and foreign demand.
- Bank of Cyprus, Cyprus largest bank, posted a net loss of €70 mn for 2019, due to increased provisions and a retirement scheme. In 2020H1, it completed a capital-neutral sale of €133 mn NPEs ('Velocity 2'). In August, it reached agreement for the sale of a loan portfolio with gross book value €898 mn (€886 mn NPEs) ('Helix 2'). At completion, expected in 1H2021, the transaction is expected to have a negative impact of 36 bps on CET1 ratio. Accounting for Helix 2 and IFRS 9, the main indices for 2020H1, are: NPEs 22% of gross loans (11% net loans), NPL coverage 58%, €126 mn loss after tax, fully loaded CET1 ratio 14.4%, capital adequacy ratio 17.9%, net loans to deposits 62%, excess liquidity €3.9bn.

- Hellenic Bank, Cyprus second largest lender, announced net profits of €108 mn for 2019. The bank's main indices for 2019 were: CET 1 19.98%, capital adequacy ratio 22.5%, NPL coverage 55.6%, cost to income ratio 67.5%, net loans to deposits ratio 40,9%, and improved net interest income reflecting the impact of the CCB acquisition on interest income from loans and advances to customers and on interest income from debt securities. The bank's NPL ratio 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, amounted to 25%, with a liquidity coverage ratio of 512%. A programmed NPL sale has been postponed due to the pandemic.
- 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. 50,586 borrowers applied for loan suspension until June 19, with the gross carrying amount being €11.75 bn, and suspended credit facilities being €1.34 bn. Furthermore, ECB announced in March 2020 a package of positive measures to support the capital position of banks, with the easing measures enabling increase of the banks' CET1 buffer.

Public debt and financing:

- 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 €24,200 mn at end June 2020 (Central Government) from €20,900 mn at the end of 2019.
- After the sharp increase of bond yields during the period March-April 2020 the situation was reversed in the period May-July 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. Even so, yields of the sovereign bonds of the Republic remain above their minimum levels reached in February 2020
- 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 0.872%
- The yield at the monthly 13-week Treasury Bill auctions turned positive in March, with the latest auction in late August recording a weighted average yield of 0.14%.
- The European Commission has approved in late August the provision of funding to the Republic of an amount up to €479 mn through the SURE scheme. This funding is related to increased expenditure related to supporting employment during the pandemic.
- Currently liquid assets are significant and are adequate to cover the financing needs of the Republic until at least September 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](https://www.mof.gov.cy/mof/pdmo/pdmo.nsf/All/8C06D5A595CD697EC225856800317C74/$file/Annual%20PDM%20Report%202019%20EN%2030%2004%202020%20FINAL.pdf)

Quarterly Debt Bulletin Q1-2020

[https://www.mof.gov.cy/mof/pdmo/pdmo.nsf/All/0CC85461C128FF1DC225858F002A8FCB/\\$file/CY%20Qrt%20Bulletin%20Q1%202020%20EN.pdf](https://www.mof.gov.cy/mof/pdmo/pdmo.nsf/All/0CC85461C128FF1DC225858F002A8FCB/$file/CY%20Qrt%20Bulletin%20Q1%202020%20EN.pdf)

Macroeconomic Monitor August 2020

<http://mof.gov.cy/en/publications/economic-development-bulletins/65/569/?ctype=ar>

Economic Developments 2019 and Prospects 2020-2022 (in Greek only)

<http://mof.gov.cy/en/publications/economic-developments-and-prospects/economic-developments-in-2019-and-prospects-for-2020-22>

Fiscal accounts January-June 2020:

<http://mof.gov.cy/en/economic-indicators/public-finances/public-finance-developments/587/?ctype=ar>

European Centre for Disease Prevention and Control (ecdc)

<https://www.ecdc.europa.eu/en/cases-2019-ncov-eueea>

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