



Covid-19 Developments:

- Widespread daily testing continues, and several measures designed to tackle the pandemic remain in place. By mid-February 2022, around 85% of adult population completed their double-dosed vaccination scheme. As of 27th September, a third dose is being administered to the population.
- Although new cases spiked in late December and January as in the rest of the world in the last two weeks, we have seen a stabilization of new cases and a reduction in hospitalizations.
- On the 21st of February, the government announced relaxations in the measures designed to tackle the pandemic as the clinical evidence is considered positive (new cases stabilized, hospitalizations reduced).

Macroeconomic Environment:

- In the 3rd quarter of 2021, GDP (in seasonally adjusted terms) recorded a positive rate of growth of 5.6%, compared with 13.3% in the 2nd quarter of 2021 on an annual basis. The positive 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 (in seasonally adjusted terms) currently driven mainly by increases in exports, gross fixed capital formation and government consumption.
- In November 2021, economic sentiment in Cyprus deteriorated as the Economic Sentiment Indicator (ESI-CypERC) decreased by 1 point compared with October 2021. The decrease was driven by the deterioration in construction and services confidence.
- For the period of January-November 2021, arrivals of tourists totaled 1.840.003 compared to 621.927 in the corresponding period of 2020, recording an increase of 195.9%, and a decrease of 52.4% compared to the period of January-November 2019 (3.866.447 arrivals). Arrivals from the United Kingdom were the main source of tourism for November 2021, with a share of 22.7% of total arrivals, followed by Germany with 10.0%, Russia with 9.6%, Poland with 8.8%, Greece with 8.5% and Israel with 7.7%.
- Employment developments reflect conditions of improved economic activity. Total employment increased by 1.1% for the 1st nine months of 2021 compared to the corresponding period of 2020. The most significant percentage increases were observed in the economic activities of Hotels and Restaurants, Education, Construction, Information and Communication and Professional, Scientific Technical Activities while significant percentage decreases were observed in the economic activities of Financial and Insurance Activities and Transportation and Storage.
- Labour Force Survey (LFS) unemployment, in monthly seasonally adjusted terms, decreased to 6.6% in October 2021 compared to 10.0% in October 2020. 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 15.0% in the 3rd quarter of 2021 from a peak of 40.6% in the 3rd quarter of 2013.
- Compensation per employee recorded an increase of 3.5% in the 1st nine months of 2021 compared with the 1st nine months of 2020.

- Inflation (HICP) in November 2021 recorded an increase of 4.7% compared to an increase of 4.4% in November 2020. For January- November 2021, it stands at 2.0%. For the period January- November 2021, compared to the corresponding period of the previous year, the largest positive change was noted in Transport. Core HICP recorded an increase of 0.9% in January- November 2021.
- Imports of goods recorded an increase of 9.3% in January-October 2021 compared to January-October 2020. Imports are affected by developments in imports of transport equipment (aircrafts and vessels). Imports of goods, excluding imports of aircrafts and vessels, exhibit an increase of 14.1%.
- Exports of goods recorded an increase of 7.0% in January- October 2021 compared to January-October 2020. Exports of goods, excluding exports of aircrafts and vessels, exhibit an increase of 15.1%.

Fiscal Developments:

- General government budget balance (GGBB) recorded a deficit in January-October 2021, of the order of €261.9 mn (-1.1% of GDP) compared to a deficit of €720.3 mn (-3.3% of GDP) during the corresponding period the year before.
- General government primary balance (GGPB) recorded a surplus in January-October 2021, of the order of €162.7 mn (0.7% of GDP) compared to a deficit of €342.0 mn (-1.6% of GDP) during the corresponding period the year before.
- Total expenditure exhibited an increase of about 8.7%, reaching €8,040.8 mn in January-October 2021, compared to €7,394.5 mn during the corresponding period the year before.
- Total revenue exhibited an increase of about 16.6%, reaching €7,778.9 mn in January-October 2021, compared to €6,674.2 mn during the corresponding period the year before.

External Sector

- The current account (CA) balance recorded deterioration, with the deficit increasing from €139.0 mn (-0.6% of GDP) in 2020Q2, to €648.6 mn (-2.8% of GDP), in 2021Q2. This deterioration resulted from the decrease of goods and primary income. The aforementioned adverse developments were partly offset by surplus in services and by lower deficits in secondary income. The resulting deficit when adjusting the data for the impact of Special Purpose Entities (SPEs), that is, classifying SPEs as non-residents, stood at €645.5 mn (-2.8% of GDP) in 2021Q2, compared with a deficit of €409.6 mn (-1.9% of GDP) in 2020Q2. For 2021H1 the deficit stood at €1,453.5 mn (-6.3% of GDP) compared with a deficit of €812.1 mn (-3.8% of GDP) in 2020H1. Adjusted for the impact of SPEs, the deficit stood at €1,269.9 mn (-5.5% of GDP) in 2021H1 compared with a deficit of €945.8 mn (-4.4% of GDP) in 2020H1.
- The international investment position (IIP) recorded a slight deterioration at the end of 2021Q2, presenting a net liability position of €29,809.9 mn, compared with a net liability position of €29,240.0 mn in 2021Q1. With the corresponding data being adjusted for the impact of SPEs, IIP recorded a net liability position of €10,664.1 mn at the end of 2021Q2, compared with a net liability position of €10,304.7 mn, at the end of the previous quarter.
- The gross external debt increased to €193,271.5 mn in 2021Q2 from €192,487.7 mn in 2021Q1. A similar trend was also recorded by external assets in debt instruments, which increased to €127,925.5 mn, up from €127,657.0 mn in 2021Q1. Consequently, net external debt increased by €515.3 mn to €65,346.0 mn, over 2021Q2. Adjusted for the impact of SPEs, gross external debt reached €62,630.2 mn at the end of 2021Q2, compared to €61,866.9 mn, at the end of 2021Q1. The corresponding net external debt indicator increased to -€1,786.2 mn, compared with -€2,146.7 mn at the end of the previous quarter.

Banking Sector:

- Reduction in non-performing exposures (NPEs) continued, as NPEs dropped from €5.1 bn on 31/12/20 (17.7% gross loans) to €4.3 bn on 30/11/21 (15.1% gross loans), accumulated provisions being 52.0% of NPEs, and restructurings €3.9bn (13.9% gross loans). Banks continue deleveraging efforts, and further sales of NPE portfolios are expected to be accounted for in the coming months.
- Total deposits at end January 2022 stand at €51.3 bn, compared to €48.2 bn in December 2020. Since December 2020, there were increases of €2.3 bn in domestic residents, €0.3 bn in ‘non-EU residents’ and €0.5 bn in ‘EU non-residents’.
- CBC’s Residential Property Price Index (RPPI – apartments and houses) recorded a quarterly increase of 0.5% in 2021Q3, following an increase of 0.3% in 2021Q2, and had an annual increase of 1.2%. Cumulative from 1st quarter 2010 (benchmark), RPPI it has exhibited a decline of 20.0%, revealing an adjustment to the conditions of lower domestic and foreign demand.
- Bank of Cyprus, Cyprus’ largest bank, announced these preliminary results for the year 2021: €30mn net profit, CET1 15.1%, Total Capital Ratio 20.0%, excess liquidity €6.4bn, net loans to deposits 57%, €1.8 bn new lending, NPEs at 12.4% gross loans with 59% covered by provisions. The figures do not include NPE sales of Projects Helix 3 and Sinope, agreed in late 2021 and expected to be concluded in 2022H1, which will decrease NPEs to 7.5% and raise CET1 to 15.8% and Total Capital ratio to 20.8%.
- Hellenic Bank, second largest bank, announced these results for the first 9 months of 2021: net profit €21 mn, CET1 20.0%, Capital Adequacy 22.3%, excess liquidity €6.1 bn, net loans to deposits 41.1%, and €628 mn new lending. After excluding NPEs covered by government’s Asset Protection Scheme, NPEs are 14.5% of gross loans, with 63.4% covered by provisions – without exclusion, the respective figures are 21.3% and 49.3%. Under Project Starlight, which is currently being finalized, it will sell €700 mn NPEs, bringing its NPEs to gross loans to single-digit levels (excluding APS loans).

Public debt and financing:

- On the 13th of January the Republic successfully issued a new 10-year bond, which was significantly oversubscribed by over 7 times. The bond was priced at mid-swaps + 65 which resulted in a yield of 0.994% (coupon of 0.95%). On the 22nd of February the bond was trading at 1.728% (mid swap+ 90).
- With the latest issuance the cash buffers of the Republic are more than adequate to cover all projected financing needs for 2022.
- General Government debt is estimated at €24.3 bn at end December 2021 (General Government), which is significantly lower than the same figure at the end of 2020 (€24,9 bn).
- Government bond yields have been going up since Q4 2021 and there was a sharp increase in 2022 attributed solely on international conditions (inflation, interest rate projections, ECB policy, etc).
- The reducing trend of the yields of the monthly 13-week Treasury Bill auctions stopped in the January auction when there was an increase in rates to -0.42% from -0.43% in December while in the February auction there was a further increase to -0.36%

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New publications:

Public Debt Management Annual Report 2020

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

Quarterly Debt Bulletin Q3-2021

[https://www.mof.gov.cy/mof/pdmo/pdmo.nsf/All/EDECACED1518E1B3C22587920035DF24/\\$file/CY%20Qrt%20Bulletin%20Q3%202021%20EN.pdf](https://www.mof.gov.cy/mof/pdmo/pdmo.nsf/All/EDECACED1518E1B3C22587920035DF24/$file/CY%20Qrt%20Bulletin%20Q3%202021%20EN.pdf)

Macroeconomic Monitor December 2021

<http://mof.gov.cy/en/publications/economic-development-bulletins/65/819/?ctype=ar>

Cyprus Recovery and Resilience Plan

<http://www.dgepcd.gov.cy/dgepcd/dgepcd.nsf/All/0A8F355CE59D6403C22586A4002C8A56?OpenDocument>

Economic Developments 2021 and Prospects 2022-2024 (in Greek only)

<http://mof.gov.cy/en/publications/economic-developments-and-prospects/991/?ctype=ar>

Fiscal accounts:

<http://mof.gov.cy/en/economic-indicators/public-finances/public-finance-developments/public-finance-developments-2021>

The information has been compiled and verified to the best of our knowledge.