



Covid-19 Developments:

- Cyprus is dealing with relative stability regarding covid-19 since August 2021. Daily new cases have stabilized at around 100 and the number of hospitalized persons has been decreasing.
- Widespread daily testing continues. The positivity rate indicator is low at 0.18.
- Vaccinations have continued at a brisk pace. By early October 2021, around 81% of adult population was vaccinated with at least one dose, and 79% completed their vaccination scheme. As of 27th September, a third dose is being administered to specific sections of the population.

Macroeconomic Environment:

- In the 2nd quarter of 2021, GDP (in seasonally adjusted terms) recorded a positive rate of growth of 12.9%, compared with a negative rate of 2.1% in the 1st quarter of 2021 on an annual basis. The positive GDP growth rate is mainly attributed to the sectors: Hotels and Restaurants, Construction, 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 consumption and gross fixed capital formation and, to a lesser extent, in external demand.
- In July 2021, economic sentiment in Cyprus deteriorated as the Economic Sentiment Indicator (ESI-CypERC) decreased by 4.7 points compared with June 2021. The decrease in the ESI-CypERC mainly resulted from weaker business confidence in services and lower consumer confidence.
- For the period of January-July 2021, arrivals of tourists totalled 638.292 compared to 320.589 in the corresponding period of 2020, recording an increase of 99.1%, and a decrease of 70.7% compared to the period of January-July 2019. Arrivals from Russia were the main source of tourism for July 2021, with a share of 28.2% of total arrivals, followed by the United Kingdom with 9.8%, Poland with 7.6%, Israel with 5.4%, Ukraine with 5.0% and Greece with 4.7%.
- Employment developments reflect conditions of lower economic activity due to the pandemic. Total employment increased by 0.3% for the 1st quarter of 2021 compared to the corresponding quarter of 2020. The most significant percentage increases were observed in the economic activities of Information and Communication, Education, Professional, Scientific Technical Activities while significant percentage decreases were observed in the economic activities of Transportation and Storage and Other Service Activities.
- Labour Force Survey (LFS) unemployment, in monthly seasonally adjusted terms, increased to 7.9% in June 2021 compared to 7.6% in June 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 18.3% in the 2nd quarter of 2021 from a peak of 40.5% in the 2nd quarter of 2013.
- Compensation per employee recorded a decrease of 3.6% in the 1st quarter of 2021 compared with the 1st quarter of 2020.

- Inflation (HICP) in July 2021 recorded an increase of 2.7% compared to an increase of 2.2% in June 2021. For January-July 2021, it stands at 0.9%. For the period January-July 2021, compared to the corresponding period of the previous year, the largest positive change was noted in Transport. Core HICP recorded an increase of 0.5% in January-July 2021.
- Imports of goods recorded an increase of 9.6% in January-June 2021 compared to January-June 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 11.1%.
- Exports of goods recorded a decrease of 14.5% in January-June 2021 compared to January-June 2020. Exports of goods, excluding exports of aircrafts and vessels, exhibit an increase of 11.1%.

Fiscal Developments:

- General government budget balance (GGBB) recorded a deficit in January-June 2021, of the order of €711.9 mn (-3.3% of GDP) compared to a deficit of €611.5 mn (-2.9% of GDP) during the corresponding period the year before.
- General government primary balance (GGPB) recorded a deficit in January-June 2021, of the order of €484.8 mn (-2.2% of GDP) compared to a deficit of €429.7 mn (-2.1% of GDP) during the corresponding period the year before.
- Total expenditure exhibited an increase of about 12.1%, reaching €4,840.3 mn in January-June 2021, compared to €4,316.8 mn during the corresponding period the year before.
- Total revenue exhibited an increase of about 11.4%, reaching €4,128.4 mn in January-June 2021, compared to €3,705.3 mn during the corresponding period the year before.

External Sector

- The current account (CA) balance recorded deterioration, with the deficit increasing from €751.5 mn (-3.6% of GDP) in 2020Q1, to €922.0 mn (-4.2% of GDP), in 2021Q1. The increase resulted mainly from the significant decrease in primary income and, to a much lesser extent, the larger deficit in goods. The aforementioned adverse developments were partly offset by lower deficits in secondary income and higher surplus in services. The resulting deficit when adjusting the data for the impact of Special Purpose Entities (SPEs), that is, classifying SPEs as non-residents, stood at €706.0 mn (-3.2% of GDP) in 2021Q1, compared with a deficit of €611.1 mn (-2.9% of GDP) in 2020Q1.
- The international investment position (IIP) recorded a slight deterioration at the end of 2021Q1, presenting a net liability position of €30,145.1 mn, compared with a net liability position of €29,446.0 mn in 2020Q4. With the corresponding data being adjusted for the impact of SPEs, IIP recorded a net liability position of €11,208.6 mn at the end of 2021Q1, compared with a net liability position of €10,837.4 mn, at the end of the previous quarter.
- The gross external debt increased to €192,088.2 mn in 2021Q1 from €189,307.3 mn in 2020Q4. The external assets in debt instruments increased to €114,375.4 mn, up from €112,421.0 mn in 2020Q4. Consequently, net external debt increased by €826.6 mn to €77,712.8 mn, over 2021Q1. Adjusted for the impact of SPEs, gross external debt reached €62,132.7 mn at the end of 2021Q1, compared to €59,769.4 mn, at the end of 2020Q4. The corresponding net external debt indicator increased to -€450.3 mn, compared with -€869.8 mn at the end of the previous quarter.

Banking Sector:

- Reduction in non-performing exposures (NPEs) continued, as NPEs dropped from €9.1 bn on 31/12/19 (28.0% gross loans) to €5.0 bn on 30/6/21 (17.5% gross loans), accumulated provisions being 50.3% of NPEs, and restructurings €4.0bn (14.1% gross loans). Banks continue deleveraging efforts. Helix 2 portfolio, which will decrease NPEs by €1.3bn, has not yet been accounted for.
- Total deposits at end August 2021 stand at €50.1 bn, compared to €48.2 bn in December 2020. Since December 2020, there were increases of €1.3 bn in domestic residents, €0.3 bn in ‘non-EU residents’ and €0.3 bn in ‘EU non-residents’.
- CBC’s Residential Property Price Index (RPPI – apartments and houses) recorded a quarterly increase in 2021Q1, after two consecutive quarters of negative growth. More specifically the RPPI recorded a quarterly increase of 0.5% compared with a decrease of 0.2% in 2020Q4. On an annual basis, an increase of 0.9% was recorded compared with an increase of 0.8% in 2020Q4. Cumulative from the 1st quarter of 2010 (benchmark) it has exhibited a decline of 20.7%, 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 half of 2021 following completion of sale of Helix 2 NPE portfolio: €1 mn net profit, fully loaded ratios of CET1 12.9% and of capital adequacy 17.9%, excess liquidity €5.7bn, net loans to deposits 59%, €894 mn new lending, and NPEs consisting 14.6% of gross loans, with 60% covered by provisions. Non-legacy net loans increased to €9.2 bn following increased demand for housing loans, whereas legacy net loans reduced to €0.76 bn. In April 2021, it issued €300mn Tier 2, increasing its capital ratios by c.1%.
- Hellenic Bank, second largest bank, announced the following results for the first 6 months of 2021: net profit €21 mn, fully loaded CET1 ratio 18.7%, fully loaded capital adequacy ratio 21.0%, excess liquidity €6.1 bn, net loans to deposits 41.5%, and €388 mn new lending. NPEs consist 22.0% of gross loans (15.1% after excluding NPEs covered by the government’s Asset Protection Scheme, APS), with 46.5% covered by provisions (59.4% after excluding NPEs covered by the APS scheme). In order to bring its NPEs towards gross loans to single-digit levels (excluding APS loans), the Bank is in discussions to sell an NPE portfolio of €700 mn (‘Project Starlight’). It is also in discussions to sell its NPEs servicer, named APS Cyprus company.

Public debt and financing:

- General Government debt is estimated to be at €24.8 bn at the end August 2021 (General Government), which is about at the same level as at the end of 2020. By the end of 2021 it is expected to be €24.1 bn.
- Yields of the Republic’s bonds continued to be very low during the period July-September 2021 with yields of bonds maturing up to and including 2027 being in the negative area. Long term yields are on an upward trajectory since late August. This is attributed to future European interest rate projections and the response of the ECB to the latest development in the European economy and the pick-up in inflation.
- During this year, the 10year yield (2030 maturity) exhibited a minimum level on 20th of August at 0.104% and maximum on 19th of May at 0.591%. On the 30th of September 2021, it traded at 0.311%.
- Yields of the monthly 13-week Treasury Bill auctions continued to drop. The latest auction in September 2021, recorded a record negative yield of -0.41%. Participation by domestic banks remains strong.
- Currently liquid assets are significant and are adequate to cover the financing needs of the Republic for 2021 and a significant 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 Q2-2021

[https://www.mof.gov.cy/mof/pdmo/pdmo.nsf/All/90DABDBB70135AC8C225874F0046353D/\\$file/CY%20Qrt%20Bulletin%20Q2%202021%20EN.pdf](https://www.mof.gov.cy/mof/pdmo/pdmo.nsf/All/90DABDBB70135AC8C225874F0046353D/$file/CY%20Qrt%20Bulletin%20Q2%202021%20EN.pdf)

Macroeconomic Monitor August 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/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 July 2021:

<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.