



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.
- First relaxation of measures took place on the 5th of May and a plan was put in place for the gradual relaxation of measures by the end of June. Airports will open on the 9th of June (earlier than initially expected).
- As of 28th of May had only 140 active cases of Covid-19 with four critical. During the month of May on average there were 3 new cases per day while testing is quite high at 92.200 tests per 1 million population.
- The macroeconomic and fiscal effects of the pandemic will be significant. Additional information will be provided in the following sections.

Macroeconomic Environment:

- The baseline scenario regarding the macroeconomic effects of the pandemic is that GDP will contract by 7% in 2020 mainly due to the projected contraction of the tourism sector by around 70%, projected reduction of private consumption by 7.2% and projected reduction of fixed capital consumption by 5.3%.
- In the 1st quarter of 2020, GDP (in seasonally adjusted terms) recorded a positive rate of growth of 0.8%, compared with 3.2% in the 4th quarter of 2019 on an annual basis. The deceleration in the GDP growth rate is mainly attributed to the sectors: Hotels and Restaurants, Manufacturing, Arts, Entertainment and Recreation, Other Service Activities and Construction and is primarily due to the effects of the Covid-19 pandemic.
- Developments are currently driven by decreases in domestic and external demand.
- The economic sentiment indicator (ESI-CypERC) deteriorated in April 2020, it decreased by 21.9 points compared to March 2020, suffering a historically large drop. ESI-CypERC declined below its long-run average, suggesting a grim outlook for economic activity in Cyprus, as a result of the coronavirus pandemic. The decrease in ESI-CypERC was driven by worsening confidence in services, retail trade and industry, as well as weakening consumer confidence.
- During January-March 2020, tourist arrivals decreased at a rate of 31% compared to January-March 2019. An increase of 0.2% was recorded in tourist arrivals from Israel, a 35.7% decrease from Greece, a 39.4% decrease from the UK, a 39.9% decrease from Russia and a 57.8% decrease from Germany.
- Employment developments reflect conditions of strong economic activity. Employment in persons recorded an increase of 3.1% in 2019 compared with 2018. Increases were recorded mainly in construction, professional, scientific and technical activities, wholesale and retail trade, hotels and restaurants, manufacturing and education.
- Labour Force Survey (LFS) unemployment, in monthly seasonally adjusted terms, decreased to 6.7% in March 2020 compared to 7.6% in March 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 15.2% in 2019Q4 from a peak of 40.5% in the 3rd quarter of 2013.
- Compensation per employee recorded an increase of 2.9% in 2019 compared with 2018.
- Inflation (HICP) in April 2020 recorded a decrease of 1.2% compared to an increase of 0.1% in March 2020. For 2020 so far it stands at 0.1%. Core HICP stood at 0.05% in January-April 2020. All subcategories of HICP presented an increase except categories alcoholic beverages and tobacco, clothing and footwear, transport and restaurants and hotels.

- Imports of goods recorded an increase of 5.7% in January-March 2020 compared to January-March 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 an increase of 2.4%.
- Exports of goods recorded a decrease of 21% in January-March 2020 compared to January-March 2019 due to exports of transport equipment (aircrafts and vessels) occurring in 2019. Exports of goods, excluding exports of aircrafts and vessels, exhibit an increase of 9.9%.
- The current account (CA) balance deteriorated remarkably in 2019, recording a deficit of €1,473.5 mn (6.8% of GDP), compared with a deficit of €931.2 mn (4.4% of GDP) in 2018. This was mainly attributed to the primary income and services balance. Adjusting the data for the impact of Special Purpose Entities (SPEs), that is, classifying SPEs as non-residents, the specific deficit stands at €1,438.2 mn (6.6% of GDP) in 2019, compared with a deficit of €715.9 mn (3.4% of GDP) in 2018.
- The international investment position (IIP) recorded a slight improvement at the end of 2019, presenting a net liability position of €25,459.5 mn, compared with a net liability position of €25,631.1 mn the previous year. By adjusting the data for the impact of SPEs, IIP recorded a net liability position of €8,000.5 million at the end of 2019, compared with a net liability position of €8,350.1 mn in 2018.
- The gross external debt amounted to €205,302.8 mn in December 2019, down from €209,455.2 mn a year ago. The same trend was also recorded by external assets in debt instruments which declined to €119,652.5 mn, down from €119,740.5 mn in 2018. The net external debt in 2019 decreased by €4,064.3 mn compared with 2018, thus reaching €85,650.4 mn. Adjusted for the impact of SPEs, gross external debt reached €57,759.7 mn at the end of 2019, compared with €54,809.5 mn in December 2018, while the corresponding net external debt indicator increased from -€1,460.4 mn in 2018, to €282.0 mn in 2019.

Fiscal Developments:

- The pandemic has led to a significant deterioration of public finances as both revenues are expected to be lower by 2.7% due to the worsening macroeconomic environment and expenditure are projected to increase sharply by 14.1% mainly due to the measures taken by the government in order to ameliorate the effects of the pandemic on the economy as a whole.
- An initial government support package amounting to around 4.4% of GDP (€895 mn) was approved in April and has already been implemented. A further support package of smaller fiscal magnitude is currently in the process of being adopted.
- General government budget balance (GGBB) continued to be in surplus in January-March 2020, of the order of €164.2 mn (0.8% of GDP) compared to a surplus of €66.8 mn (0.3% of GDP) during the corresponding period the year before.
- General government primary balance (GGPB) also recorded a surplus in January-March 2020, of the order of €244.3 mn (1.2% of GDP) compared to a surplus of €143.6 mn (0.7% of GDP) during the corresponding period the year before.
- Total revenue exhibited an increase of about 4.3%, reaching €2,082.6 mn in January-March 2020, compared to €1,996.0 mn during the corresponding period the year before.
- Total expenditure exhibited a decrease of about 0.6%, reaching €1,918.4 mn in January-March 2020, compared to €1,929.2 mn during the corresponding period the year before.

Banking Sector:

- The reduction in non-performing exposures continued in 2019 as NPE's dropped to €9.06 bn on 31/12/2019 (28,0% of gross loans) from €10.39 bn on 31/12/2018 (30.5% of gross loans).
- Accumulated provisions on loans, reached 55.25% of NPEs on 31/12/2019 (up from 51.55% on 31/12/2018).
- Restructurings were €5.49 bn on 31/12/2019 (17.0% of gross loans).

- Total deposits exhibit a small decrease in 2020, following an increase of €872 mn in 2019. Total deposits were at €48.0 bn at the end of April 2020, down from €48.7 bn in December 2019. The decrease is driven mainly from a decrease in domestic deposits while nonresident deposits have remained relatively stable.
- The CBC's residential property price index recorded an increase of 0.7% in the 3rd quarter of 2019 compared to the 2nd quarter of 2019 and an increase of 2.8% compared to the 3rd quarter of 2018. Cumulative from 2008 (when the index was at its peak) it has exhibited a decline of 27.6%, revealing an adjustment to the conditions of lower domestic and foreign demand.
- Bank of Cyprus, the island's largest bank, posted a net loss of €70 mn for 2019, due to increased provisions after postponing a further sale of NPLs due to the pandemic, and the cost of a voluntary retirement scheme. For 1Q2020, it announced a loss after tax of €26 mn, with the main indices being: fully loaded CET1 of 12.9%, capital adequacy ratio 17.7%, NPLs 29% of gross loans, NPL coverage 56%, net loans to deposits 65%, and excess liquidity of €3bn. Cost to income ratio for 1Q2020 (excluding special levy and contributions to SRF and DGF) reduced to 58%, following the successful completion of Voluntary Staff Exit Plan in 4Q2019. In May 2020, it completed the capital-neutral sale of €133 mn NPEs (Velocity 2).
- 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. 43,632 borrowers applied for loan suspension until May 8, with the gross carrying amount being €10.15 bn, and suspended credit facilities amounting to €1.19 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 order to finance the additional funding needs created by the pandemic and maintain healthy cash buffers the Public Debt Management office proceeded with the following financing transactions in April:
 - On April 7 two new bonds were issued in a double tranche transaction (value date 16 April). A 7 year bond (XS2157184255) of €1,250 mn issued at MS+165 bps (1.564%) and a 30 year bond (XS2157183950) of €500 mn issued at MS+215 bps (2.339%)
 - On April 24 a new 52-week Treasury Bill of €1,250 mn was issued to domestic investor with a yield of 0.5%
- Public debt rose to €21,500 mn at the end of March 2020 (preliminary data) from €20,900 mn at the end of 2019.
- During the period March-April 2020 the yields of the bonds of the Republic had sharply increased due to the disturbance in the markets caused by the pandemic. Due to the low liquidity of the market for Cypriot bonds these effects were larger than in other peer countries. In May yields recovered although they are still not at the levels exhibited in February 2020. This trend is expected to continue in the next few months as the situation normalizes and due to the effects of the ECB and EU reaction to the pandemic. Both Eurobonds issued in April are performing and were trading above par at the end of May 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 1.229%
- The yield at the monthly 13-week Treasury Bill auctions turned positive in March, with the latest auction in late May recording a weighted average yield of 0.13%.

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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 Q4-2019

[https://www.mof.gov.cy/mof/pdmo/pdmo.nsf/All/2872A6E51F482BB4C2258515003F45CB/\\$file/CY%20Qrt%20Bulletin%20Q4_2019%20EN.pdf](https://www.mof.gov.cy/mof/pdmo/pdmo.nsf/All/2872A6E51F482BB4C2258515003F45CB/$file/CY%20Qrt%20Bulletin%20Q4_2019%20EN.pdf)

Macroeconomic Monitor May 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-March 2020:

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

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