CENTRAL BANK OF CYPRUS

ECONOMIC BULLETIN

JUNE 2022

NICOSIA - CYPRUS

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CENTRAL BANK OF CYPRUS
EUROSYSTEM

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Note: The cut-off date for data in this *Bulletin* is 26th of November 2021.

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ABBREVIATIONS

BLS	Bank Lending Survey
BoE	Bank of England
BPM	Balance of Payments and International Investment Position Manual
CA	Current Account
CBC	Central Bank of Cyprus
CCB	Cyprus Cooperative Bank
CPPI	Commercial Property Price Index
Cystat	Statistical Service of the Republic of Cyprus
DLS	Department of Lands and Surveys
ECB	European Central Bank
EER	Effective Exchange Rate
EONIA	Euro Overnight Index Average
ESA	European System of Accounts
ESI	Economic Sentiment Indicator
ESMA	European Securities and Markets Authority
ESTR	Euro short-term rate
EU	European Union
EURIBOR	Euro Interbank Offered Rate
Eurostat	Statistical Office of the European Union
FED	Federal Reserve
FOMC	Federal Open Market Committee
GDP	Gross Domestic Product
GHS	General Health System
HICP	Harmonised Index of Consumer Prices
IIP	International Investment Position
IFRS	Interational Financial Reporting Standard
IMF	International Monetary Fund
LFS	Labour Force Survey
MFIs	Monetary Financial Institutions
NEER	Nominal Effective Exchange Rate
NACE	Statistical classification of economic activities in the European Union
NFCs	Non-Financial Corporations
NGEU	Next Generation EU
NPFs	Non-Performing Facilities
OPEC	Organisation of the Petroleum Exporting Countries
PEPP	Pandemic Emergency Purchase Programme
QE	Quantitative Easing
REER	Real Effective Exchange Rate
RPPI	Residential Property Price Index
SDW	Statistical Data Warehouse
SPEs	Special Purpose Entities
UK	United Kingdom
US	United States of America

Governor Introduction

The Russian invasion of Ukraine and the subsequent sanctions imposed on Russia have caused a new negative shock that is weakening the pace of recovery in the euro area. This event is responsible, among other things, for the additional disruptions of international trade production and supply chains, following the disruptions realised as a consequence of the acute phase of the COVID-19 pandemic, which had gradually begun to normalise after the aforementioned period. The new supply chain problems have additionally led to significantly increasing inflationary pressures, which are expected to last for a longer period of time. At the same time, the new restrictive measures to deal with the new outbreak in China, such as the temporary closure of the world's busiest port of Shanghai which lasted until the 20th of May, further aggravated the existing problems in international trade in the second quarter of the year.

In Cyprus, the growth prospects of the economy have also been adversely affected, at least in the short term, since the outbreak of war. The resulting sanctions imposed against Russia primarily affect the tourism and professional services sectors of Cyprus, and are expected to have a negative impact on wider economic activity.

Based on these developments, the GDP growth rate for 2022, as currently estimated (CBC forecasts, June 2022), is expected to be around 2.7% compared to 3.6% as the CBC December 2021 forecasts before the start of the war. In accordance with the reference date of this Economic Bulletin, it is noted that, both in the analysis and in the preparation of the forecasts, the preliminary publication of the Cyprus Statistical Service was adopted regarding the growth rate of the economy for the first quarter of 2022 of the order of 5.8 %. However, given the timing of the outbreak of the war, it is expected that the economic impact of the war will be reflected to a greater extent in the figures for the next quarters of 2022. On the other hand, the Cypriot economy may show even greater resilience to the effects of the war compared to June 2022 forecasts in case of continuation of the positive developments in relation to consumer confidence and tourism, as demonstrated in recent relevant indicators.

Regardless, the degree of uncertainty remains high and any forecast today may be subject to change. However, there are factors supporting economic activity and recovery, such as the broader re-opening of the Cypriot economy after the last acute phase of the pandemic, especially in the services sector, as well as the ability to support private spending from accumulated household savings since the pandemic period. Additionally, the medium-term economic outlook remains positive, supported by the large and multi-year private sector projects that had already started before the outbreak of the pandemic as well as other investments linked to disbursements from the European Recovery and Resilience Facility. The financing from European Recovery and Resilience Facility for Cyprus for the 2021-2026 period amounts to €1.2 billion, €1 billion in grants and €200 million in loans. It should be noted that these disbursements depend on a series of legislative reforms concerning structural changes. Therefore, the actions of the State,

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the legislative body and all other bodies involved - in specific issues - will be catalytic in terms of the speed and range of these disbursements.

An important fact is also the large increase observed in domestic inflation initially as a consequence of the effects of the pandemic, mainly on the global production and supply chains, in combination with the increase in demand that followed the restart of the economies. Subsequently, the war in Ukraine created new additional disruptions in international trade, while at the same time leading to a large increase in the prices of oil prices and necessity goods. On the basis of these developments, inflation is expected to accelerate and rise overall to around 7% in 2022 compared to 2.5% as per CBC forecast in December 2021 before the start of the war.

In the labour market, conditions are mainly supported by the continuing economic recovery, albeit at a slower pace than initially expected due to the impact of the war in Ukraine. The unemployment rate in 2022 is expected to rise slightly around 6.9% compared to the CBC's December 2021 forecast of a 6.8% unemployment rate, which is still lower than the 7.5% unemployment rate recorded in 2021.

As for the domestic banking sector, the immediate effect of the war does not appear to be a threat, as the direct exposure of the domestic banking sector to Russia and Ukraine is at very low levels both in terms of deposits and loans. The only bank whose business model was affected by the war and sanctions in Russia was RCB Bank Ltd. CBC acted promptly and with the cooperation of RCB Bank Ltd itself, all depositors were secured without any impact on public finances and without negative impact on the rest of the banking sector, thus maintaining the financial stability of the country. In particular, it was decided to voluntarily phase out the banking operations of RCB Bank Ltd and to transform it, within due time, into an asset management company. As stated in the relevant ECB announcement, which approved the above planning, the voluntary phase-out plan of RCB Bank Ltd envisages the full repayment of all its depositors, and is a consequence of the impact of geopolitical risks on the bank's operations after the Russian invasion of Ukraine. The planning and decision also included the sale of serviced loans to Hellenic Bank Public Company Ltd, thus allowing the full repayment of depositors. In their entirety, the actions resulted in avoiding more drastic measures and are expected to strengthen confidence in the banking sector.

As for the non-performing loans in the banking sector, they have decreased by 89.8%, from €28.4 billion in December 2014 to €2.9 billion in March 2022, mainly due to the actions taken by the biggest banks. Nevertheless, the NPE index on end of March 2022 remains at 11%, significantly higher than the 1.9%, the average index in the European Union. Therefore, it is important to intensify the actions to reduce the NPEs of the smaller banks, showing progress corresponding to that of the larger banks, which must continue the positive course they are recording in this area. Loss absorption capacity, as measured by the Common Equity Tier 1 Ratio (CET1 Ratio), was at 17.2% in March 2022, a level higher than the corresponding European Union average of 15.2%. The Cypriot banking sector has one of the strongest liquidity positions in Europe, with a liquidity coverage ratio of 305% in March 2022, almost double the corresponding European Union average of 175%.

Even though the effects of the pandemic on the loan portfolio of the banks have not been as severe as initially expected, mainly due to the immediate measures taken in time by the CBC and ECB, as well as the fiscal measures provided by the state, it is still early to exclude the possibility of deterioration in the quality of the banks' assets, especially taking into account the unfavourable economic developments due to the geopolitical crisis. As previously mentioned, the Russian invasion of Ukraine has affected various aspects and drivers of the economic activity, such as rising energy prices, supply chain disruptions and weaker consumer confidence. Therefore, a comprehensive and properly formulated strategy by the banks to address the issue of remaining non-performing loans especially from the Cypriot smaller banks, and the prevention of new defaults remains high on the supervisory agenda. Equally important is the stability of the relevant legislative framework, which affects banks, the cost of future new borrowing as well as billions worth of investments in the country.

Domestically, in addition to the intensive monitoring of the asset quality of loan contracts, the CBC has issued numerous circulars to banking institutions and credit acquiring companies calling on them to intensify their restructuring activities. The said CBC actions were successful as they led to the restructuring of loans amounting to €1.7 billion by the banking institutions within 2021, a level that is more than three times higher than the corresponding one in 2020 which amounted to only €0.5 billion. It is a fact that sustainable restructuring solutions offer the possibility for both businesses and households to meet their obligations without burdening them with capitalisation of interest. In this way, banks' balance sheets are not burdened with new defaults, while the smooth operation of businesses continues without interruption, limiting bankruptcies and, by extension, contributing to the orderly functioning of the economy.

The global, European, as well as the Cypriot Economy have faced great challenges in recent years, from the pandemic to the impact of the war in Ukraine. Policy makers are focusing their efforts on dealing with high uncertainty and rising inflation while securing growth prospects. The situation needs particularly careful handling both in relation to businesses and households, as well as in relation to the banking sector. In order to deal with these challenges in a timely manner, the CBC takes all the necessary actions within the framework of its mandate.

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(A) International Environment: macroeconomic and financial developments

- *The Russian invasion of Ukraine in February 2022 had a negative impact on the global economy as well as on expectations for economic growth.*
- *A further boost to inflationary pressures was recorded, amid adverse geopolitical developments and the ongoing supply chain issues following the pandemic.*
- *The historically high inflation rates reported worldwide are expected to have a negative effect on international economic growth.*
- *Based on macroeconomic and geopolitical developments thus far, the major central banks across the world, including the ECB, have decided to proceed with a more rapid withdrawal of expansionary monetary policy measures.*
- *The single monetary policy of the Eurosystem is formed on the basis of new revised data and the ongoing assessment of the prospects by the Governing Council of the ECB.*

The global economy was significantly affected by the Russian invasion of Ukraine and the subsequent economic sanctions against Russia, which exerted additional pressure on the prices of basic goods, especially oil and food. In the first five months of 2022, the large increase in prices prompted central banks around the world to withdraw, at a faster pace, the expansionary monetary policy measures that had been taken to contain the effects of the Covid-19 pandemic. In addition, rising inflation and geopolitical tensions led to a downward revision of economic growth expectations.

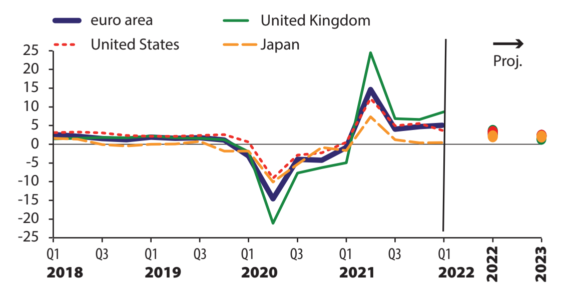
According to the most recent forecasts of international organizations, the economic outlook in the main developed economies has been negatively affected by the current inflationary pressures, the slowdown in global trade, the tightening of financial conditions, as well as the economic fragmentation due to the sanctions in Russia, with an expected slowdown in growth rates (**Chart A.1**). In 2022, the growth rate is expected to stand at around 2.8% and 3.3% for the euro area and the US respectively, indicating a slowdown in growth of around 1.5 percentage points for each economy compared to the previous predictions (December 2021).

Global inflation continued to register significant increases during the period under review, with inflationary pressures intensifying due to both disruptions in the global trade of essential goods (e.g. oil, grains) as well as raw material shortages caused from the Russian invasion. The above, combined with increased demand and ongoing disruptions in the global trade supply chain, are the main factors that have contributed to the increase in inflation worldwide. According to the most recent forecasts of international organizations[1], inflation in 2022 is estimated to fluctuate at levels significantly higher than 2% in the main developed economies, with the exception of Japan (**Chart A.2**). Specifically, inflation in 2022 is expected to rise to 5.7% in the euro area and 7.5% in the US, as opposed to 2.0% and 3.4% which was expected in the corresponding December 2021 forecasts.

In terms of the market's long-term inflation expectations in the euro area, the "5Y5Y ILS rate" (after five years for a five-year horizon) stood at 2.29% on 18 May 2022 (last update of

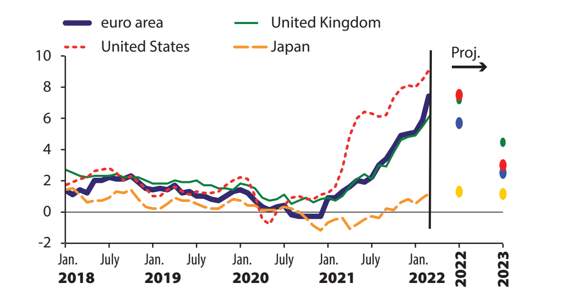
1. The GDP and inflation forecasts for each economy are calculated as the average of the most recent forecasts from the European Commission (European Economic Forecast, Spring 2022) and the International Monetary Fund (World Economic Outlook, April 2022).

CHART A.1 **GDP in selected countries**
(annual change %, seasonally adjusted %)



Source: Eurostat.
Note: The projections are for the year and are calculated as averages of the most recent projections from the European Commission and the IMF.

CHART A.2 **Inflation in selected countries**
(annual change,%)



Sources: Eurostat, SDW(ECB).
Note: The projections are for the year and are calculated as averages of the most recent projections from the European Commission and the IMF.

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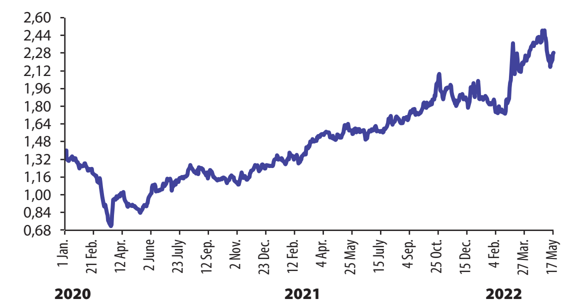
statistics), compared with 1.97% on December 31, 2021 (**Chart A.3**). This increase mainly reflects the aforementioned inflationary pressures, while these market expectations are likely to be affected by possible future changes in monetary policy.

Following the review of the ECB's monetary policy strategy on 8 July 2021, the ECB is proceeding with its announced course of action to reduce monetary easing measures. In particular, the fastest withdrawal of the asset purchase program (APP)[2] has been announced, while the pandemic emergency purchase program (PEPP) has already been completed. These measures have significantly benefited the euro area member-states and have contributed in a substantial way to the mitigation of the adverse economic effects of the pandemic. Furthermore, they have also helped to deal with the malfunctions of the monetary policy transmission mechanism. However, given the developments in inflation expectations at the end of the forecast horizon, the full resolution of the fragmentation in the transmission of monetary policy observed at the beginning of the pandemic, as well as the maintenance of favorable financing conditions for firms and households in the euro area, the ECB concluded that the end of net purchases

CHART A.3 **Market-based indicator of longer-term inflation expectations**
(five-year rate five years ahead "5Y5Y ILS rate", annual change in %)



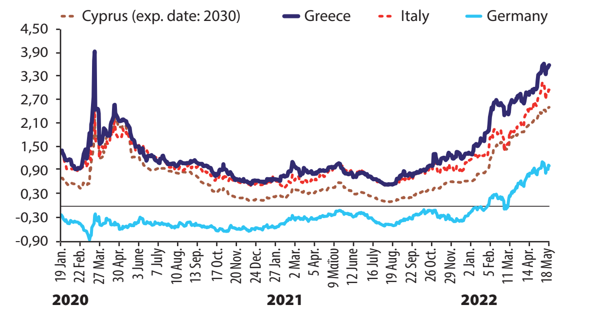
Source: Bloomberg

2. At the monetary policy meeting on 09 June 2022, which took place outside the deadline for updating the data of this Economic Bulletin, the Governing Council of the ECB, taking into account the ongoing unprecedented developments on the inflation front during the most recent months mainly due to the Russian invasion of Ukraine, took further steps to normalize its monetary policy. It decided, among other things, to stop net purchases of assets under the Asset Purchase Program (APP) from 1 July 2022. Furthermore, the Governing Council of the ECB intends to increase the key ECB interest rates by 25 basis points base during its monetary policy meeting in July 2022. For further details of ECB Governing Council decisions (dated 09 June 2022), see the ECB website below:
https://www.ecb.europa.eu/press/pr/date/2022/html/ecb.mp220609~122666c272.el.html

under the PEPP at the end of March 2022 met the criterion of the end of the pandemic crisis[3].

The ten-year government bond yields of the euro area member-states have increased significantly in the last six months (**Chart A.4**). According to international analysts, higher-than-expected increases in inflation in the euro zone, increased prospects for a change in monetary policy stance by the ECB and other major central banks, as well as the rise in US bond yields, were the key driving factors for the increases observed. As an example, the yield on German ten-year government bonds rose from -0.18% at the end of December 2021 to 1.03% on 18 May 2022. In these current conditions of high uncertainty, the Governing Council of the ECB confirmed on 14 April the 2022 maintaining discretion, gradual change and flexibility in the conduct of monetary policy in the near future.

CHART A.4 **Selected ten-year "10YR" or proxies for "10YR" euro area sovereign bond yields**
(in %)



Sources: Bloomberg, ECB.

3. For more information, see the ECB's monetary policy decisions on 16 December 2021. https://www.ecb.europa.eu/press/accounts/2022/html/ecb.mg220120~7ed187b5b1.el.html

(B) Domestic Environment

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- *Significant rebound in GDP growth by 5,5% in 2021 due to a base effect, the continuous adjustment to the new economic and geopolitical situation as well as the effectiveness of policy support measures, with ongoing annual growth of 5,8% in 2022Q1.*
- *During the first four months of 2022, domestic HICP inflation registered, on average, a further significant rise, reaching 6,4%, mainly related to the adverse consequences of the pandemic as well as to the Russian invasion of Ukraine*
- *Acceleration in housing price increases by 3.2% was observed in the first quarter of the year, mainly due to increased construction costs.*
- *Recent developments after the war in Ukraine do not seem to have, for the time being, affected the labor market.*
- *The outbreak of the war between Russia and Ukraine is expected to affect negatively the current account balance, especially tourism and, to a lesser extent, other exports of services.*
- *The domestic financial sector developments (loans and deposits) improved in 2021. The positive developments continued in the first quarter of 2022, despite the continuation of the pandemic and geopolitical turbulence.*
- *The Russian invasion of Ukraine does not seem to pose a threat to the Cypriot financial system, as the direct exposure of the domestic banking sector to Russia and Ukraine is at very low levels.*
- *The budget balance recorded a surplus of 1% of GDP in the first quarter of 2022, reflecting the improvement in economic activity and the labour market.*

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- *Government debt-to-GDP ratio decreased in March 2022, compared with its level in March 2021, due to the decline in government's cash buffer and the strong economic recovery.*

1. Economic Activity

According to preliminary data by Cystat, continued annual GDP growth of 5,8% was recorded in 2022Q1. This was due to favourable developments in services (trade, transportation, hotels and restaurants as well as arts, entertainment and recreation) which have been significantly affected by the pandemic and the strict lockdown that was re-introduced in early 2021. The preliminary data relating to 2022Q1 suggest that the impact of the Russian-Ukrainian war is not yet reflected in the National Accounts data.

Based on data available for 2021 (**Table A.1**), a significant GDP recovery by 5,5% was recorded, owing to a base effect, the ongoing adaptation to the new economic situation, as well as the effectiveness of policy support measures. In more detail, the GDP recovery over 2021 was attributable to all sub-categories other than investment, with growth recorded in both domestic demand and net exports. The rise in private consumption by 3,7% in 2021 was the result of a significant base effect due to the impact of the pandemic and a consequence of the gradual recovery in the level of disposable income. Investments recorded a significant decline of 6,4%, however adjusted for the impact of Special Purpose Entities (SPEs), they recorded a rise owing to the continued

TABLE A.1 **Business and consumer surveys: confidence indicators**
)for sub-indices: difference between percentage of positive answers and percentage of negative answers, period average)

	2021 Q1	2021 Q2	2021 Q3	2021 Q4	2022 Q1	2022 April
ESI	86,8	99,3	103,8	107,0	104,8	98,5
Industry	-29,8	-18,3	-9,0	-3,4	-2,4	-9,6
Services	-30,3	13,3	24,7	34,1	26,5	10,5
Consumer	-27,5	-15,1	-19,9	-20,3	-23,6	-32,9
Retail trade	-22,9	-12,8	-7,0	-2,7	-3,6	-8,8
Construction	-24,2	-17,5	-16,5	-14,1	-17,5	-22,5

Source: European Commission.
Note: Seasonally adjusted data.

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completion of major infrastructure projects by the private sector. Public consumption registered an increase by 8%, primarily driven by the rise in expenditure relating to the purchase of health services by the GHS. Second, it was due to increased spending for intermediate consumption (vaccines, diagnostic tests, etc.) and, third, due to the continued gradual restitution of crisis-era wage cuts (see Fiscal Developments). The growth in total exports by 14% (which is similar when the data are adjusted for the impact of SPEs) emanated from the rise in services exports, owing to the significant recovery in tourism (see Balance of Payments), which, however, was not sufficient to bring tourism receipts back to 2019 levels. At the same time, the increase in total imports by 9,2%, which was higher for the respective data adjusted for the impact of SPEs, reflected the rise in imports of services and, to a lesser extent, the increase in goods imports. The latter related mainly to investment, and in particular to the manufacturing sector, as well as, to a lesser extent, to private consumption (see Balance of Payments).

From a sectoral perspective (**Table A.2**), the GDP recovery in 2021 arose due to increased activity observed across all sectors. The sectors with the largest contribution to GDP were trade, transportation, hotels and restaurants (2,9 percentage points), as well as construction, manufacturing and professional services (0,4 percentage points, each). A positive contribution by 0,2 percentage points was also recorded in the arts, entertainment and recreation sector, which is part of the "other sectors" category like manufacturing.

TABLE A.2 **GDP by expenditure category**
(real terms, annul change, %)

	2018	2019	2020	2021
GDP	5,7	5,3	-5,0	5,5
Private consumption	5,1	3,0	-5,0	3,7
Public consumption	3,6	12,7	14,8	8,0
Gross fixed capital formation	-4,9	2,9	0,0	-6,4
Exports of goods and services	7,3	7,5	-5,1	14,0
Imports of goods and services	4,3	8,3	-2,5	9,2

Source: Cystat.

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The recovery path of the Cyprus economy has been negatively affected, at least in the short term, by the Russian-Ukrainian war. For 2022Q2, the limited data available point to the adverse impact of the war on GDP growth. In particular, the GDP path closely follows developments in the Economic Sentiment Index (ESI) as well as in the underlying sub-indicators, which provide early signals of the economic impact of the Russian-Ukrainian war. Specifically, and following a quarterly decrease in the average ESI by 2,3 percentage points in 2022Q1, a further significant decrease was recorded in April, reaching 98,5 (**Table A.3**). The underlying sub-indicators from the Economic Sentiment Surveys (**Table A.3**) for April 2022 show a deterioration across all sub-categories compared with 2022Q1. In addition, the turnover index of retail trade (**Chart A.5**) in 2022Q1 recorded a small annual increase of 1,5%, although in seasonally adjusted terms it recorded a slight decrease by 1,6% compared with 2021Q4. The latter testifies to the impending negative impact of the Russian-Ukrainian war on the economy.

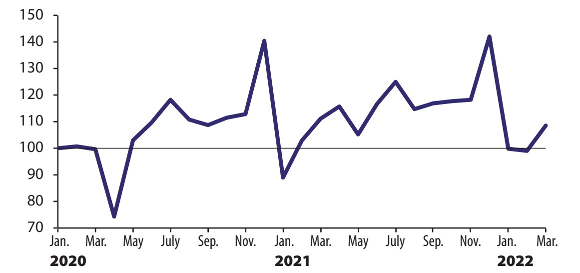
The negative repercussions of the war on the path of private consumption, at least in the short term, can be seen from various qualitative indicators (soft data). Regarding consumer expectations for major purchases (**Chart A.6**), at the present, a significant deterioration is recorded. On the positive side, it is noted that the relevant expectations for the next 12 months exhibit resilience. This development is also consistent with consumers' savings intentions over the next 12 months. Specifically, there is no significant trend towards precautionary savings, as

TABLE A.3 **GDP by economic activity**
(weighted contribution to the overall annual change, percentage points)

	2018	2019	2020	2021
GDP (%)	5,7	5,3	-5,0	5,5
Construction	0,9	0,7	-0,4	0,4
Trade, transportation, hotels and restaurants	2,3	0,8	-4,4	2,9
Financial and insurance activities	-1,4	-0,2	0,7	0,1
Professional, scientific and administrative activities	1,2	0,7	-0,4	0,4
Other sectors[1]	2,7	3,3	-0,4	1,7

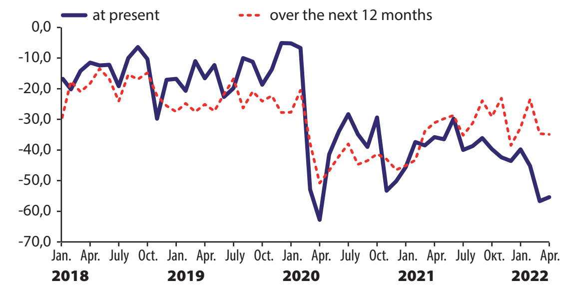
Source: Cystat.
(1) Main sectors included are those of agriculture, manufacturing, public administration, educationand health as well as information and communication.

CHART A.5 **Retail sales (excluding motor vehicles)**
(index of deflated turnover, Jan. 2020=100)



Source: Cystat.

CHART A.6 **Consumers' assessment of major purchases**
(difference between percentage of positive answers and percentage of negative answers)



Source: European Commission.

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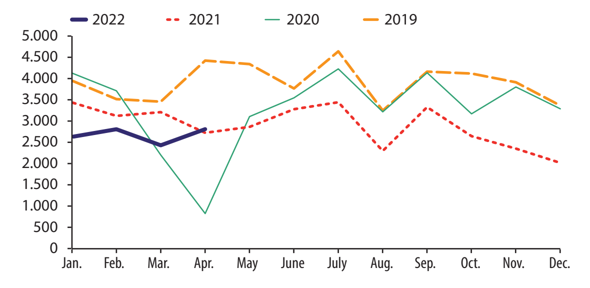
observed at the time of the outbreak of the pandemic. Overall, and despite fluctuations in the time series, the course of these indicators points to resilience in relation to the outlook for private consumption. Regarding motor vehicle registrations (**Chart A.7**), until April 2022 they remain at low levels, both in relation to prior to the health crisis and in relation to the previous year. This reflects issues of availability of motor vehicles in the market, due to ongoing problems in supply chains and in particular the microchip shortages affecting global car production.

As far as the construction sector is concerned, although the residential real estate market is now mainly driven by local demand (see section on Construction sector and real estate prices), there may be consequences owing to the war due to the sanctions, as new investments by Russians cannot be made but also due to the impact upon professional services (e.g. lawyers, accountants) needed to complete real estate transactions. It is of course noted that the relevant foreign direct investment inflows in 2021, and also in 2020, were significantly lower than in previous years due to the cancellation of the Cyprus Investment Programme and the measures to curb the spread of the pandemic. Also, there may be economic benefits in the long-term from transferring headquarters of Ukrainian companies and personnel to Cyprus due to the war situation. Finally, it is noted that in addition to residential projects, private sector investments are expected to record resilience due to the large and multi-year projects that had already started prior to the outbreak of the pandemic (see Macroeconomic forecasts).

CHART A.7 **Registration of motor vehicles**
(number of new registrations)



Source: Cystat.

Regarding tourism (see Tourism), it is noted that the Russian market was the second largest (after the United Kingdom) and averages around 20% of total arrivals (2017-19 data). Through marketing campaigns, the Deputy Ministry of Tourism conducts efforts to enhance arrivals from existing major markets (United Kingdom) and to promote connectivity with others (Israel, Italy, France, Germany, Switzerland, Scandinavian countries, etc.), with this capacity of Cyprus already evident in the historical data (increase in arrivals over time from "non-traditional" markets). In addition, the operation of the casino, as well as the luxury hotel resort with major conference facilities from 2023 is expected to diversify further the tourism product and possibly lead to an increase in business tourism (conferences). However, full normalisation of the tourism sector is expected in 2024 (see Macroeconomic Forecasts).

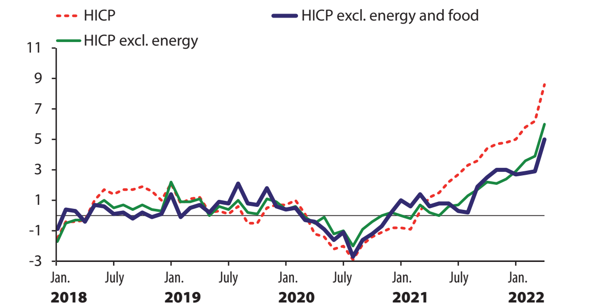
2. Prices (Inflation, real estate prices, labour costs)

Inflation

The domestic Harmonised Index of Consumer Prices (HICP), recorded an all-time high in April 2022, reaching 8,6% compared with 1,2% in the corresponding month of 2021. With regard to the period January-April 2022, HICP inflation accelerated, on average, to 6,4% compared with -0,1% in the corresponding period of 2021 (**Chart A.8a** and **Table A.4**).

Specifically, the sharp rise in domestic HICP inflation during the period under review, is primarily attributed, similar to the euro area

CHART A.8a **Inflation in Cyprus (HICP)**
(annual change, %)



Source: Eurostat.

TABLE A.4 **Inflation in Cyprus**
)annual change, %)

	Weights[(1)]	Jan.- Apr. 2021	Jan.- Apr. 2022	Apr. 2021	Mar. 2022	Apr. 2022
HICP	1000,00	-0,1	6,4	1,2	6,2	8,6
Unprocessed food	47,89	-6,5	19,4	1,2	22,0	21,5
Processed food	161,86	-0,8	3,4	-1,4	3,5	6,0
Energy	97,05	-4,5	28,4	10,6	28,3	33,6
Services	448,37	1,1	3,1	0,2	2,3	5,6
Non-energy industrial goods	244,83	0,8	3,6	1,5	3,8	3,9
HICP excluding energy	902,95	0,2	4,1	0,2	3,9	6,0
HICP excluding energy and food	693,2	0,9	3,4	0,6	2,9	5,0

Source: Eurostat.
(1) Based on the weight for 2022.

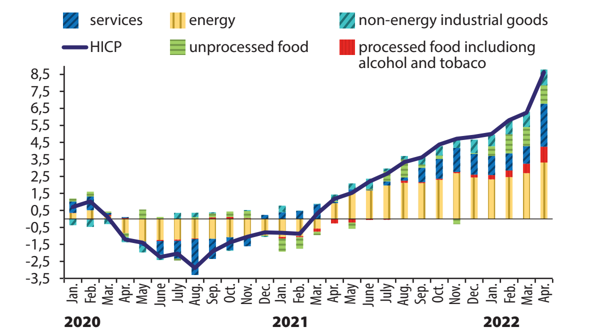
inflation dynamics, to exogenous factors (shocks in the supply side) which are directly related to the adverse consequences of the pandemic as well as to the Russian invasion of Ukraine. In particular, the surge in domestic HICP during the first four months of 2022, reflected, to a large extent, the exceptional rise in energy prices (**Chart A.8b**). At the same time, the remaining components of the HICP also recorded an increase as a result of the ongoing disruptions and shortages in the supply chain of international trade and the second round effects from the substantial increases in energy prices. In more detail, the unprecedented further increase in energy prices during March and April 2022 was mainly due to the developments related to the Russian invasion of Ukraine. These developments have resulted to an exceptional soaring in the prices of oil and gas in international markets, an increase which has significantly passed on to the domestic prices of electricity and main fuels. In the aftermath of the said adverse developments, the Cypriot government announced, on 3 March 2022, the following targeted mitigating measures[4] for the domestic consumers:

(i) The extension of the decline in VAT on electricity prices from 19% to 9% for the period March 2022-April 2022 across the board.

(ii) The reduction in excise tax on main fuels for the period 08 March 2022-01 June 2022. The specific price cut corresponds to a reduction of 8,3 cents per litre for diesel and petrol prices (including VAT) and a reduction of 6,4 cents per litre (including VAT), for heating oil price.

CHART A.8b **Contributions of HICP components to overall domestic HICP inflation**

(annual percentage changes; percentage point contibutions)



Sources: Eurostat and CBC calculations.

4. It is noted that on 27 May 2022, which took place after the deadline for updating the data for the current Economic Bulletin, the Cypriot government announced, among others, the extension of all said mitigating measures until 31 August 2022.

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Food prices (processed and unprocessed prices) had also an upward contribution to HICP during the first four months of 2022. This development is mainly attributed to the sizeable increases in their production cost due to factors related to the pandemic and recently significantly amplified by the Russia-Ukraine war (including the indirect effect of increases in energy prices).

Beyond the aforementioned developments in energy and food prices, the rapid rise in inflation in both Cyprus and the rest of the euro area during the period under review continues to be largely driven by the disruptions and shortages in the supply chain of international trade as well as to substantial increases in transportation and freight costs globally, in the aftermath of the effects of the pandemic. At the same moment, the Russian invasion of Ukraine as well as the new restrictive "lockdowns" measures in China have created further supply bottlenecks issues. On the other hand, the ongoing rising demand is exacerbating the existing imbalance between supply and demand. In turn, there are further considerable upward price pressures in the prices of various key sub-categories of non-energy industrial goods "NEIG" inflation, such as motor cars, furniture and fittings, garments, shoes and major household electrical appliances.

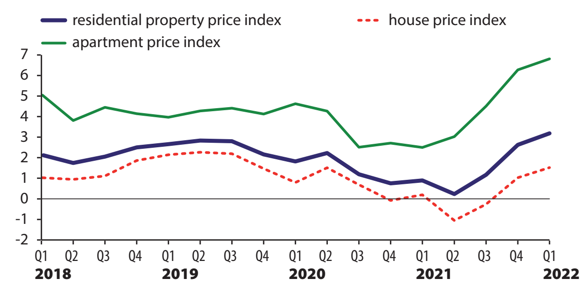
In addition, services prices also recorded a significant growth during the period January-April 2022. This development mainly reflected the fact that key tourism-related sub-categories of services inflation such as accommodation services, restaurants and cafes registered considerable yearly increases in their prices. These increases are mainly attributed to the recovery in demand following the relaxation of covid-19 measures in most countries, indirect effects from the surge in energy prices as well as other expenses related to the pandemic and the Russian invasion of Ukraine. At the same time, the most volatile sub-category of services inflation, namely "passenger by air", registered sizeable yearly price increases in April 2022.This development seems to be related, on one hand, to the recovery in demand for travelling, and, on the other hand, to the up to now limited supply of airline travel from/to Cyprus as well as to the increased fuel cost for airplanes.

In light of the said developments, inflation excluding energy and food prices (core inflation) reached, on average, 3,4% during the first four months of 2022 compared with 0,9% in the corresponding period of 2021 (**Chart A.8a** and **Table A.4**, p. 22). In April 2022, domestic core inflation recorded an all-time high level, reaching 5,0%, significantly up from 0,6% in April 2021 on account of the said developments in NEIG and services prices which were indirectly affected by the increases in energy prices.

Construction sector and real estate prices

During late 2021 and early 2022, the residential property prices in Cyprus recorded an acceleration, especially when it comes to apartments (**Chart A.9**). In particular, according to available data on CBC's Residential Property Price Index (RPPI), in 2021Q4 and 2022Q1, residential property prices recorded an annual

CHART A.9 **House and Apartment price indices**
(annual change, %)

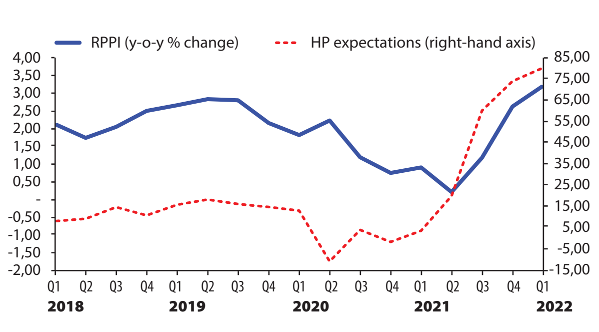


Source: CBC.

increase of 2,6% and 3,2%, respectively. The acceleration of residential property price increases has been supported by the general low interest rate environment, the state aid scheme of partial interest rate subsidy on new housing loans, in place until the end of 2021, the promotion of investments and the provision of incentives for headquartering to high tech companies, as well as the increase in the construction cost. In 2021, commercial property prices recorded decreases, since, according to data on the index published by a company offering financial services in the real estate sector, WiRE FS, shop, warehouse and office prices recorded a decrease of 3,7%, 4,2% and 1,5%, respectively.

Despite the acceleration in residential property price increases in Cyprus over the recent quarters, in late 2021, the residential property prices in Cyprus were considered marginally undervalued, according to estimates of the European Systematic Risk Board (ESRB). It should be noted that the increases in Cyprus fluctuated at significantly lower levels compared with Eurozone, since residential property prices in the Eurozone increased by 8% in 2021, compared with 1,2% in Cyprus. At the same time, the index on residential property price expectations for the next three months, published in the Business and Consumer Surveys of the European Commission, prompt for a continuation of the prices' upward trend. Specifically, the index increased to the historically high level of 80,3 in 2022Q1, on average, compared with 3,7 in 2021Q1, demonstrating the great consensus in the market of further price increases (**Chart A.10**).

CHART A.10 **Residential property price index (RPPI) vs House Price Expectations for the next three months**



Sources: CBC, European Commission.

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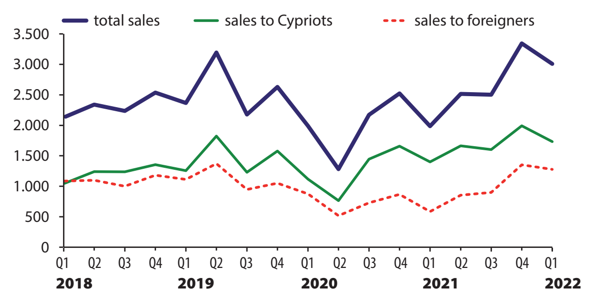
The increase in the prices of construction materials plays an important role in the fluctuation. The price index of construction materials, published by CyStat, recorded increases over the last six quarters (**Chart A.10**, page 26). In 2022Q1, the prices of construction materials recorded an annual increase of 17,7%, with the largest increases mainly recorded in minerals, since, according to CyStat, in 2022Q1, the structural steel and iron bars recorded an annual increase of 46% and 38%, respectively.

As far as demand is concerned, this is supported mainly by the domestic market, but, at the same time, it is enhanced gradually by the increase in the transactions by foreigners, as well (**Chart A.11**).

According to data on the sales contracts of the Department of Lands and Surveys (DLS), the real estate transactions at a Pancyprian level, recorded an annual increase of 40,1% over the first four months of 2022. This increase corresponds to an annual increase of 15,9% and 97,7% in the sales to domestic and foreign buyers, respectively, with domestic buyers still representing the largest share of buyers (**Table A.5**).

According to the CBC's Monetary and Financial Statistics, in 2022Q1 new housing loans increased by 91,6% and 33,4% on an annual and quarterly basis, respectively (€437,5 million in 2022Q1 compared with €228,3 million in 2021Q1 and €328 million in 2021Q4). In addition, according to the same source, in 2022Q1, the interest on new housing loans remained unchanged on average, compared with 2021Q1, at the historically low level of 2,15%. It should be

CHART A.11 **Number of sales contracts**



Source: Department of Lands and Surveys.
*The definition of foreigner has changed since 2018Q1, thus the figures are not comparable with previous periods.

TABLE A.5 **Real estate sector**
)annual change, %, unless otherwise stated)

	Jan.- Apr. 2020	Jan.- Apr. 2021	Apr. 2020	Mar. 2021	Apr. 2021
Sales contracts (total)	27,6	40,1	285,2	33,4	12,7
Sales contracts (locals)	64,1	15,9	535,9	6,3	-2,9
Sales contracts (foreigners)	-16,5	97,7	99,2	105,3	49,8
Building sentiment indicator (average of index) - Cyprus	-23,8	-18,7	-22,5	-18,6	-22,5
Building sentiment indicator (average of index) - Euroarea	-1,3	8,9	2,1	8,9	7,1
Price index of construction materials *	105,2	123,2	106,5	125,7	n/a

Sources: Cystat, DLS, European Commission.
* Data up to April 2022.

noted that lending criteria remained stable at the same strict levels compared with 2021Q4. The increase in pure new housing loans that has been recorded in 2022Q1 might reflect the tendency of existing borrowers to extend their credit line in order to cover the increased construction costs.

The real estate market is expected to continue facing challenges. The extent of the effects of the war on the real estate market has not been fully reflected in the data available to date and, therefore, continuous monitoring of the sector is essential. Any prolonged inflationary pressures may lead to a faster rate of increase of the interest rate, and a consequent erosion of incomes of potential property buyers. According to a latest publication of the ECB , an abrupt increase in real interest rates could cause corrections in the residential prices of the Eurozone in the short term, due to the increase in the borrowing cost. At the same time, the erosion of households' real income is expected to affect the type of properties on demand (lower value, smaller size), or even increase the demand for renting. A counterweight to these negative pressures may be the fact that real estate can offer protection against inflation (hedging), since they offer both a recurring income (rent) and an appreciation in the value of the asset. Thus, it is expected that investors and households will choose to place some of the deposits accumulated during the pandemic in the real estate sector. The gradual enhancement of foreign and domestic investments, the launch and acceleration of important infrastructure projects and the tourism dynamics can further offset the downward pressures.

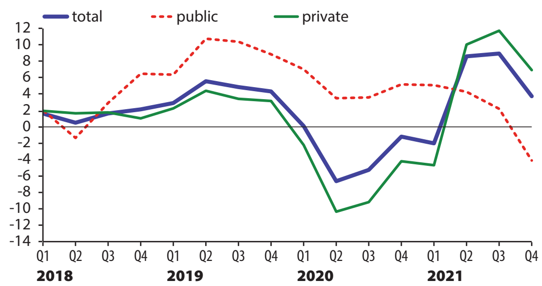
Labour costs

Labour costs rebounded in 2021, following the negative impact of the pandemic in the previous year. The correction in labour costs over 2021 was mainly a consequence of the rise in working hours per employee (2,8%) and, to a lesser extent, the increase in compensation per hour (1,9%). The employment support schemes, which were in place until October 2021, mainly targeted the tourism sector.

Specifically, nominal compensation per employee registered an increase of 4,7% in 2021 compared with a decrease of 3,2% in the previous year (**Chart A.12**). Compensation per public sector employee rose by 1,4%, while a larger increase (5,8%) was recorded in the private sector. Beyond the impact of the GHS, growth in compensation per public sector employee was mainly the result of the continued gradual restitution of wage and pension cuts that had been adopted during the crisis years. In the private sector, the abovementioned increase was due to a significant base effect, a consequence of the reductions recorded during the pandemic period. The increase emanated mainly from the trade, transportation, hotels and restaurant sectors and, to a lesser extent, from the manufacturing, construction and professional services sectors.

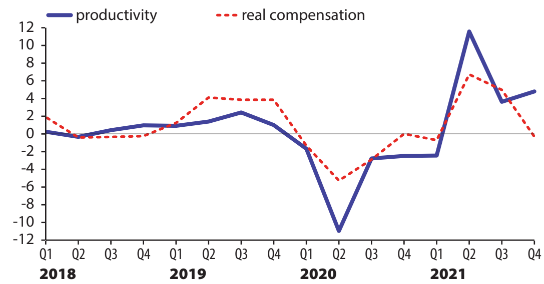
Real compensation per employee registered an increase of 2,5%, which is considered a correction from the decrease 2,3% in 2020 owing to the pandemic and despite the return of inflationary pressures, which reduced the purchasing power of households (**Chart A.13**).

CHART A.12 **Nominal compensation per employee by sector**
(annual change, %)



Sources: SDW (ECB), Cystat, CBC.
Note: The sectoral breakdown is based on CBC calculations.

CHART A.13 **Productivity and real compensation per employee**
(annual change, %)

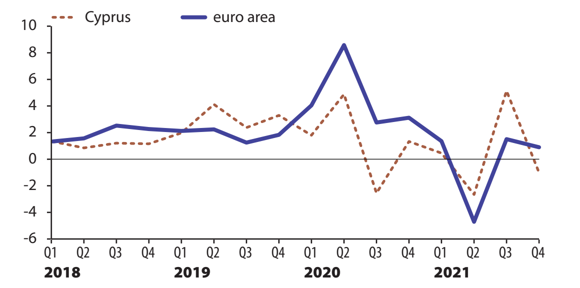


Sources: SDW (ECB), CBC.

Regarding productivity, calculated as the change in real GDP per employed person, the relative index recorded a significant increase of 4,3% in 2021 compared with a drop of 4,5% in the previous year. The correction in this index is due to a base effect owing to the effects of the pandemic and the restrictive measures on GDP as well as the implementation of policy measures to support employment (**Chart A.13**, p. 29).

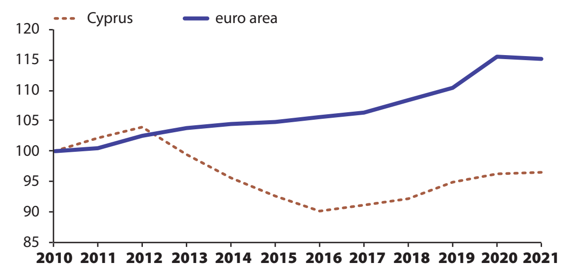
The recovery both in compensation per employee and in productivity translated into a small increase in the unit labour cost index by 0,4% (**Chart A.14a**), an important competitiveness indicator vis-à-vis competitor economies. Despite the significant increase that has recently been observed, the significant cumulative reductions in wages from 2012 and beyond the crisis helped to maintain the competitiveness of the Cyprus economy in the longer term. In particular, the index recorded a cumulative decrease of 13,2% over the period 2013-16 and, despite the annual increases recorded since then, continues to be at lower levels compared with the euro area since 2013 (by approximately 19 percentage points in 2021) (**Chart A.14b**).

CHART A.14a **Unit labour costs: Cyprus and the euro area**
(annual change, %)



Source: SDW (ECB).

CHART A.14b **Unit labour costs: Cyprus and the euro area**
(index 2010=100)



Source: SDW (ECB).

3. Labour market

Recent developments after the war in Ukraine do not seem to have, for the time being, affected the labour market. The resilience seen in the labour market has been supported by the adoption of economic measures by the state helping to contain both worsening unemployment and shrinking employment during the pandemic. It is noted that the state measures were extended until October 2021 and were subsequently lifted due to a significant improvement in the economic environment and thus in the labour market.

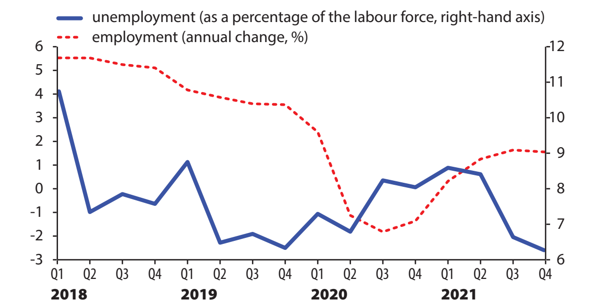
According to the latest available labour market statistics during the period 2021, employment recorded a gradual recovery which rose to 1.6% this year compared to a fall of 1.4% in 2020 (**Chart A.15**). The increase in employment came mainly from the Information and Communication Sector, Construction, Professional Services, as well as Trade, Transport, Hotels and Restaurants. The above-mentioned increases were partially mitigated by a marginal decline in the Financial Services sector.

Hours worked per employee increased by 2.6% in 2021 on an annual basis compared to a significant fall of 6% in 2020 resulting from a full or partial suspension of operations. It is noted that a significant increase was recorded in the second quarter of 2021 (9.5%), which is in line with the significant recovery in GDP growth, thus demonstrating the limited probability of hysteresis effects.

The negative impact of the pandemic, although modest, is reflected in the unemployment figures for the first half of 2021. According to data from the Labour Force Survey (LFS), unemployment stood at 7.5% in 2021 remaining at the same level of the previous year. For the second half of the year (relevant data were published after the cut-off of date of the current Economic Bulletin), unemployment recorded a significant improvement reaching 6.4% in the fourth quarter of 2021 (**Chart A.15**).

In relation to unemployment developments

CHART A.15 **Unemployment and employment**



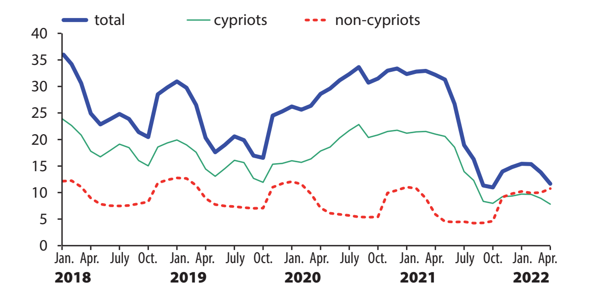
Source: Cystat (LFS).

by age group (**Chart A.17a**), the 25-34 age group had the largest contribution, with 2.3 percentage points to the overall unemployment rate of 6.3% for the fourth quarter of 2021. A smaller contribution to the overall unemployment rate comes from young people aged 15-24, which fell to 17.4% in the fourth quarter of 2021 compared to 19.9% in the corresponding quarter last year, and represents around 1.5 percentage points of the overall unemployment rate for the quarter in question.

Latest data on registered unemployment showed the continued downward trend that is clearly visible from June 2021 (**Chart A.16**) until the latest data release referring to April of this year , which recorded a significant annual decline of 64% (from 32,186 to 11,664 people). In addition to the significant impact due to GDP recovery, it should be noted that the significant declines recorded in the registered unemployment data from June 2021 onwards, were expected due to the system termination of automatic renewals of the registered unemployed, as well as the new registrations without physical presence. The previous system was introduced as of March 2020 to avoid the spread of the coronavirus.

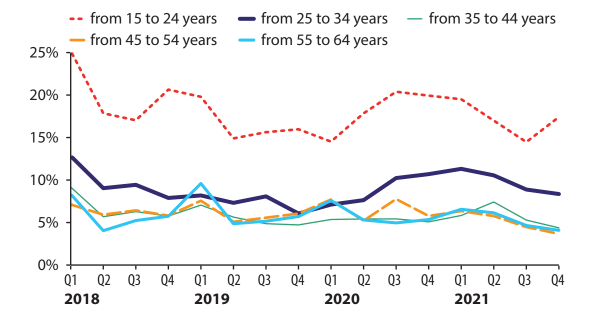
An important factor in the analysis of labour market developments is the long-term registered unemployment, which recorded a significant drop of 17,847 people in April 2022 compared to the corresponding month of the previous year. At the same time, according to the LFS data, the unemployment rate with a duration of six months and over declined in the fourth quarter of 2021, to 3.2% compared with 4.4% in the corresponding quarter of the

CHART A.16 **Registered unemployment**
(number of unemployed, thousands)



Source: Cystat.

CHART A.17a **Unemployment rate by age group**
(as a percentage of the labour force)

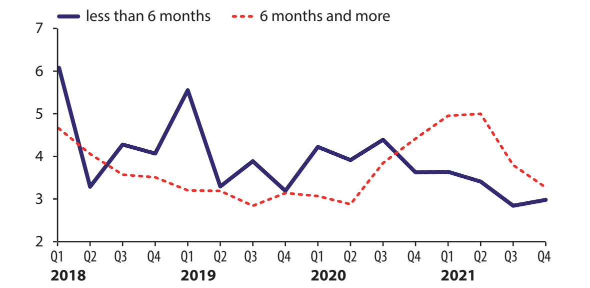


Source: Cystat (LFS).

previous year (**Chart A.17b**). These figures are encouraging, since they suggest that the long-term unemployed are gradually being integrated into employment.

Moreover, according to LFS data, scarcity in the labour market does not appear to be an issue, as the inflow of foreign labour continues, which can cover the personnel needs of companies. In addition, the survey showed strong increase in job vacancies (94.3%) in the fourth quarter of 2021 partly reflecting a strong economic recovery. At the current juncture, the long-term unemployed can gradually be absorbed into the labour force, given the enhanced capacity of the Public Employment Services to place the unemployed in vacancies. At the same time, and in line with recent research by the Employers and Industrialists Federation (April 2022) and Business and consumer surveys, the forecast for staff reduction due to the crisis in Ukraine remains moderate.

CHART A.17b **Unemployment by duration**
(as a percentage of the labour force)



Source: Cystat (LFS).

4. Balance of payments[5]

The outbreak of the war between Russia and Ukraine and the sanctions imposed on Russia, are expected to negatively affect the balance of payments. On the export side, significant losses are expected in services exports, especially to Russia due to the sanctions, as well as the deterioration of international economic activity and the increased uncertainty. The sector expected to be most affected is tourism and, to a lesser extent, transport, financial and other business services,

5. The external statistics data are significantly affected by the classification of SPEs as residents of Cyprus and, in partic¬ular, by those which are considered as economic owners of mobile transport equipment (mainly ships). The transac¬tions of SPEs do not affect nor are affected sub-stantially by the domestic economic cycle.

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as well as information technology services. On the import side, due to further increases in the prices of goods and raw materials (oil, wheat, etc.) as well as the relative inelasticity of demand for some imports, an increased burden on the current account balance is expected. The extent of the aforementioned effects depends on the duration of the war and the sanctions imposed.

Current account data are available until the end of 2021. More specifically, the current account deficit decreased to €1.695,8 million (-7,2% of GDP) in 2021, compared with a deficit of €2.177,2 million (-10,1% of GDP) in 2020 (**Table A.6** and **Chart A.18**). The improvement of the deficit was mainly driven by the increase of the surplus in the services balance, which was partly offset by the primary income account, and the goods balance. The current account deficit, adjusted for the impact of SPEs, deteriorated and reached €2.014,3 million (-8,6% of GDP), compared with -€2.092,5 million (-9,7% of GDP) in 2020 (**Table A.6** and **Chart A.18**).

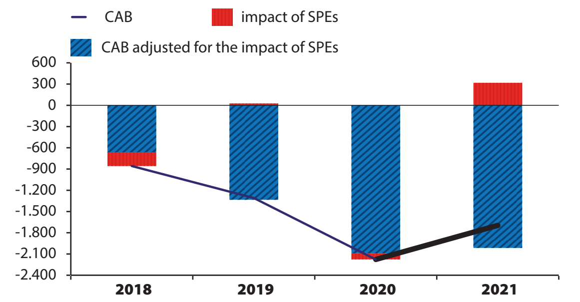
In particular, the trade deficit of goods worsened to €4.292,5 million in 2021, compared with a deficit of €4.151,2 million in the previous year, due to the proportionally higher rise in import relative to that of exports of goods. It is noted that net SPEs transactions mitigate to some extent the widening of the goods deficit (**Chart A.18**). The increase in imports is mainly due to the imports of goods for investments and home consumption. More specifically, intermediate inputs, consumer and capital goods, increased, in line with the recovery in domestic demand. Oil imports registered a large increase, due to the

TABLE A.6 **Balance of payments (main categories)**

	2020 (€ million)	2021 (€ million)	Change (€ million)
Current account balance	**-2.177,2**	**-1.695,8**	**481,4**
Current account balance adjusted for the impact of SPEs	**-2.092,5**	**-2.014,3**	**78,2**
Goods and services balance	**-545,7**	**250,2**	**795,9**
Trade balace	**-4.151,2**	**-4.292,5**	**-141,2**
Exports of goods	2.966,8	3.586,9	620,1
of which:			
Exports of goods - SPEs	870,5	1.116,2	245,8
Imports of goods	7.118,0	7.879,3	761,3
of which:			0,0
Imports of goods - SPEs	1.304,5	1.186,9	-117,6
Services balance	**3.605,5**	**4.542,7**	**937,1**
Exports of services	13.415,4	15.397,9	1.982,5
Imports of services	9.809,8	10.855,2	1.045,4
Primary income (net)	**-1.281,3**	**-1.733,0**	**-451,7**
Secondary income (net)	**-350,2**	**-213,0**	**137,2**
Current account balance (% of GDP)	**-10,1**	**-7,2**	
Current account balance adjusted for the impact of SPEs(% of GDP)	**-9,7**	**-8,6**	

Sources: Cystat, CBC.

CHART A.18 **Current account balance (CAB)**
(€ million)



Sources: Cystat, CBC.

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huge increases in oil prices, despite the decrease in the volume of oil imports.

The surplus of the services balance increased by €937,7 million, reaching €4.542,7 million in 2021, due to the larger increase in exports relative to imports of services (**Table A.7**). For analysis purposes, exports of services and specifically tourism related services are considered to be important, as Cyprus is a tourist destination and a business centre thus relying heavily on the supply of services. In 2020, tourism was significantly affected by the spread of the pandemic. However, in 2021, tourism sector recovered significantly, especially in summer and autumn months. The outbreak of the war between Russia and Ukraine and the sanctions imposed on Russia, are expected to hit exports of services and mostly tourism (mainly from Russia). Other services such as transport, financial and other business services, information technology services are also expected to be negatively affected.

In 2021, exports of services (**Table A.7**) recorded an annual increase of 14,8% (€1.982,5 million), coming from all major categories. More specifically, the travel category, which includes revenues from tourism, recorded the largest increase, amounted to €1.099,4 million, (latest developments on tourism are analysed in the Tourism sub-section). Financial services increased by €319,5 million, reflecting the pick-up in the turnover of investment companies, as a result of the pandemic. Also, telecommunications, computer and information services increased by €250,1 million and transport by €130 million.

TABLE A.7 **Services balance (main categories)**
(€ million)

	2020 (€ million)	2021 (€ million)	Change (€ million)
Services balance	**3.605,5**	**4.542,7**	**937,1**
Exports of services	**13.415,4**	**15.397,9**	**1.982,5**
of which:			
Transport	2.987,7	3.117,7	130,0
Travel	602,1	1.701,5	1.099,4
Finanacial services	5.151,5	5.471,0	319,5
Telecommunications, computer and information services	3.042,9	3.293,0	250,1
Other business services	788,2	820,1	31,9
Εισαγωγές υπηρεσιών	**9.809,8**	**10.855,2**	**1.045,4**
of which:			
Transport	1.718,5	1.887,9	169,4
Travel	614,1	831,0	216,9
Finanacial services	3.381,2	3.493,5	112,4
Telecommunications, computer and information services	2.259,5	2.604,6	345,1
Other business services	1.153,7	1.262,1	108,5

Source: CBC.

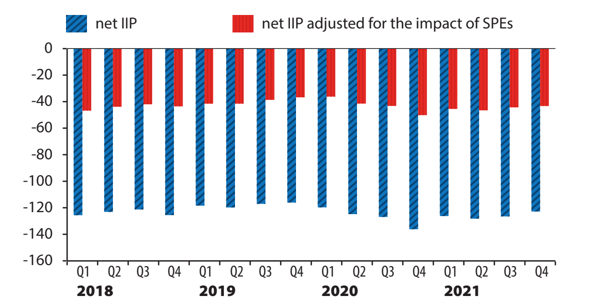
At the same time, imports of services increased by 10,7% (€1.045,4 million) in 2021 (**Table A.7**, p. 35) as a result of the increases recorded by the most categories. The category of telecommunications, computer and information services, recorded the biggest increase (€345,1 million). The increase in the travel category (€216,9 million), was restrained by the government measures taken, to support domestic tourism, due to the pandemic, with a large number of Cypriots choosing to take their holidays domestically.

In 2021, the deficit in the primary income account (which mainly includes income from employment and investment) widened by €451,7 million, and reached -€1.733 million. This development is mainly associated with the income from direct investments and more specifically, to the larger decrease of Cypriots' income from abroad, than the income of foreigners in Cyprus. On the contrary, the deficit in the secondary income account (which mainly includes current transfers) shrank, as a result of the increase in government inflows from European funds (**Table A.6**, p. 34).

Regarding the financial account, in 2021, significant inflows were recorded from the private sector and the issuance of government bonds.

The net international investment position (IIP) at the end of 2021 was negative, standing at -€28,8 billion (-122,8% of GDP) (**Chart A.19**). The IIP was negatively affected by the inclusion of the economic transfer of mobile transport equipment (mainly ships) by SPEs registered in Cyprus. These companies have

CHART A.19 **Net International Investment Position (IIP)**
(as a percentage of GDP)



Sources: Cystat, CBC.

significant financial liabilities, in particular loans, which are mainly associated with the purchase of ships. While these loans have a direct impact on the net IIP, the respective real assets (ships) do not, thus creating an imbalance in the figures reported. As these companies are financed almost entirely by non-domestic banks, they do not constitute a risk to the Cypriot financial system.

Adjusted for the impact of SPEs, the net IIP improved by 79,5 percentage points, standing at -€10,1 billion or -43,3% of GDP, compared with -€10,8 billion or -50,3% of GDP at the end of 2020 (**Chart A.19**, p. 36). It is noted that the improvement in the net IIP as a percentage of GDP in 2021, was partly due to the GDP recovery.

Tourism

Tourism constitutes one of the most important pillars of the Cyprus economy. The sector has not yet fully recovered from the pandemic. The outbreak of the war between Russia and Ukraine is expected to affect negatively the tourism sector.

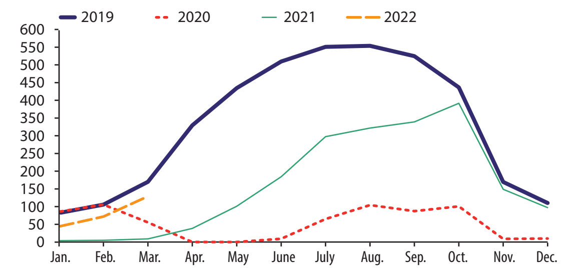
More specifically, in 2021 tourist arrivals reached 1,9 million, recording an annual growth of 206,7% (**Table A.8** and **Chart A.20a**). Significant increases were recorded during the summer months, which have a higher weight in total arrivals for the year. As a result, tourist arrivals in 2021 reached 46% of the 2019 level. The improvement of the epidemiological profile, the relaxation of restrictive measures and the good weather conditions that prevailed in Cyprus during the autumn months, are factors that contributed

TABLE A.8 **Tourism**

	Tourist arrivals (thous.)	Tourist receipts (€ million)	Expenditure per person (€)
2020	631,6	392,0	620,6
2021	1.937,0	1.514,0	781,6
annual % change	206,7	286,2	25,9
2021 Jan. - Feb.	8,9	6,6	741,6
2022 Jan. - Feb.	115,9	67,8	585,0
annual % change	1.202,2	927,3	-21,1
2021 Jan. - Mar.	17,7	n/a	n/a
2022 Jan. -Mar.	244,7	n/a	n/a
annual % change	1.282,5	n/a	n/a

Source: Cystat.
Note: Due to pandemic COVID-19 entrance to the Republic was prohibited for the period 15/3-8/6/2020 and since then threre was a gradual lifting of the restrictive measures.

CHART A.20a **Tourist arrivals**
(number of persons, thousands)



Source: Cystat.
Note: Due to pandemic COVID-19 entrance to the Republic was prohibited for the period 15/3-8/6/2020 and since then threre was a gradual lifting of the restrictive measures.

positively to the above developments. The main tourism export markets in 2021 have been Russia and the UK, with arrivals reaching 518 thousand tourists and 386 thousand tourists, respectively.

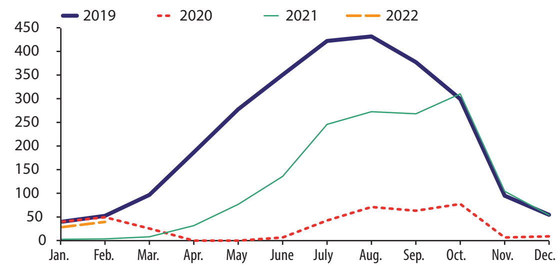
Revenues from tourism increased to €1.514 million in 2021, compared with €392 million in 2020. Revenues were affected by the increased number of tourist arrivals, as well as the rise in the per capita expenditure by 25,9% (**Table A.8**, p. 37 and **Chart A.20b**).

On the basis of available data, for 2022Q1, arrivals reached 1,7 million tourism, compared with only 18 thousand tourist in the corresponding quarter of 2021 (**Table A.8** and **Chart A.20a**, p. 37). It is noted that, the small number in tourist arrival in 2021Q1 was affected by the outbreak of the pandemic and the restrictive measures that were in force. The main tourism export markets, in 2022Q1, have been the UK (69 thousand tourists), Germany (21 thousand), and Israel (20 thousand). Revenues for the first two months of 2022 also increased, compared with the corresponding period of 2021.

Further to pandemic, challenges for the coming years, and especially for 2022, are excessive, amid the uncertainty surrounding the course of the war and the sanctions on both sides, causing a reduction in tourist arrivals from Russia, the second largest market until lately. Tourism in 2022 is expected to exhibit a better performance than in the previous year, with gradual recovery to 2019 level in 2024 (see Macroeconomic Forecasts).

It is noted, that the government measures to boost the performance of the tourism sector, including incentives for domestic

CHART A.20b **Receipts from tourism**
(€ million)



Source: Cystat.
Note: Due to pandemic COVID-19 entrance to the Republic was prohibited for the period 15/3-8/6/2020 and since then threre was a gradual lifting of the restrictive measures.

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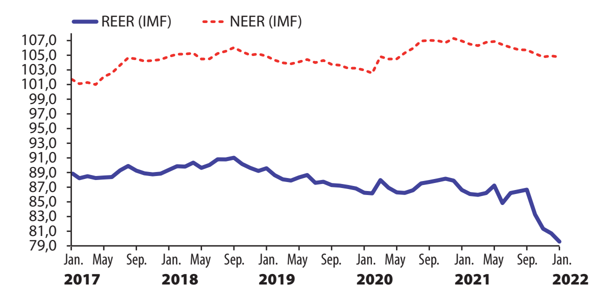
tourism, proved successful, and were extended until July 2022, contributing, to some extent, to the easing of the losses in the tourism industry.

According to the Strategy of the Deputy Ministry of Tourism, there are ongoing efforts to cover the Russian losses from other markets, such as Germany, Austria, Switzerland and Scandinavian countries. In addition, important developments are the hotel renovations and new infrastructure, such as the construction of luxury hotels, marinas and the casino-resort, which is expected to operate towards the end of 2022 and to attract a large number of tourist. All these efforts started a few years ago, aiming to attract more tourists during the winter months and to extend the tourism season.

Effective exchange rate

Chart A.21 shows the effective exchange rate (EER) index of the euro in Cyprus, in nominal (NEER) and real (REER)[6] terms, as calculated by the IMF. The NEER index weakened in the period August 2021 to January 2022, compared with the corresponding period of the previous year. At the same time, the REER records weakening since the beginning of 2021, which becomes more intense from October 2021. Overall, the trend of the REER index, as well as, the widening of the gap between the NEER and REER indices was influenced by developments in the nominal value of the euro, but most importantly by domestic developments, in particular the lower inflation recorded in Cyprus compared with its trading partners.

CHART A.21 **Real and nominal effective exchange rates (IMF weights)**
(base year 2010=100)



Source: IMF.

6. The effective exchange rate index in Cyprus in real terms (REER) is calculated on a monthly basis by IMF taking into account the trade rela¬tions between Cyprus and its 26 main trading partners (countries).

The REER index, the inflation rate, as well as the unit labour costs that have been analysed in the previous section, are important measures of the competitiveness of an economy. Lower unit labour costs (see Labour Costs) and a lower REER in Cyprus compared with competitor countries suggest that domestic exports tend to be more price competitive. In general, inflation is related to, among other factors, the variables mentioned above, and also reflects the degree of competitiveness of the Cyprus economy.

5. Financing conditions and credit developments[7,8]

The domestic financial sector developments (loans and deposits) improved in 2021 despite the ongoing pandemic consequences, on the back of the revival in domestic economic activity coupled with the timely fiscal and monetary support measures adopted.

In particular, the domestic financial sector is gradually emerging from the pandemic crisis proving to be resilient and adequately prepared to face the new challenges associated with the recent geopolitical confrontations and the unpredictable consequences of the Russia's aggression towards Ukraine.

The Russian invasion of Ukraine at end February 2022 will inevitably create new challenges for domestic and global growth prospects. Nevertheless, the effects of the war do not seem to pose a threat to the Cypriot financial system, as the direct exposure of the

7. For a detailed explanation of the methodology and technical analysis of monetary aggregates (deposits and credit growth), see Technical Notes on p.67.
8. The analysis on deposits and credit growth in this section of the Economic Bulletin focuses on domestic residents excluding SPEs. SPEs are included in the non-residents category unless otherwise stated.

domestic banking sector to Russia and Ukraine is at very low levels. Furthermore, RCB Bank, a systemic bank in Cyprus whose business model was affected by the war and subsequent ensuing sanctions, has decided to cease its banking operations, while its voluntary phasing-out plan provides for the full repayment of its depositors. Part of its loans have been already sold to Hellenic bank and will be gradually transformed into an asset management company. Thanks to the timely, proactive and coordinated measures of the Central Bank of Cyprus and the Single Supervisory Mechanism, the financial system was safeguarded, without any negative spill over to the rest of the banking sector. Hence, there was no impact on the state finances or the Deposit Guarantee scheme while confidence in the Cyprus banking sector was reinforced.

These developments took place at a time of strong liquidity and increased capacity of the system to absorb shocks, as in February 2022 total deposits stood at €51,5 billion, the same levels as in December 2021. This is the highest level recorded since May 2013 compared to €48,2 billion in December 2020. In March 2022 (latest data available), total deposits stood at €50,5 billion, while the share of domestic residents deposits[9] stood at 83%, which significantly strengthens the stability of the sector.

Specifically, the annual growth rate of domestic private sector[10] deposits reached 3,9% in March 2022 compared to 5,8% at the end of 2021 and 3,1% in March 2021. The slowdown observed is attributed to the impact of RCB's phasing out its banking operations and paying back its depositors.

9. Including SPEs.
10. Domestic private sector refers to non-MFIs domestic residents, excluding SPEs and central gov

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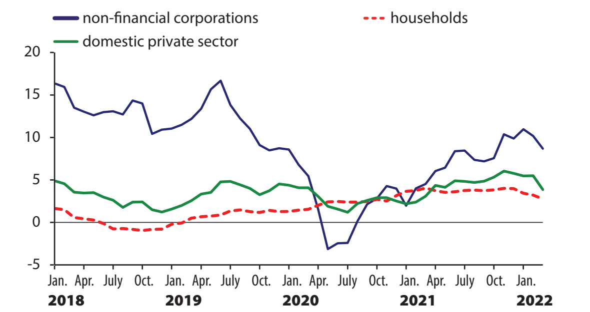
Domestic household's deposits annual growth stood at 2,8% in March 2022 compared to 4% in December 2021 and March 2021 respectively, while non-financial corporation's annual growth reached 8,7% from 9, 9% in December 2021 and 4,5% in March 2021 (**Chart A.22**).

At the same time, non-residents deposits[11], which typically exhibit high volatility, slowed down as well reaching 3,5% in March 2022 compared with 4,9% in December 2021. However, they remained at positive annual growth rates compared with -5.1% in March 2021 (**Chart A.23**).

Regarding credit growth, the recovery of new lending to the non-financial private sector[12] from mid-2020 continued into the first quarter of 2022, surpassing the new lending recorded in the corresponding pre-pandemic quarter of 2019. This was despite the end of the government interest rate subsidy scheme for new housing and business loans (December 2021). Specifically, new lending to the non-financial private sector reached €911 million in 2022Q1 compared with €642 million and €849 million in the same period of 2021 and 2019, respectively (**Chart A.24**) . The increase in new lending derives both from new loans to non-financial corporations and from housing loans to households. In particular, new housing loans in 2022Q1 reached €438 million, recording a historic high since these data are available (end-2014). The increase in new housing loans may partly reflect the current, significantly higher, construction costs. At the same time, new lending to non-financial corporations reached €420 million in 2022Q1 compared

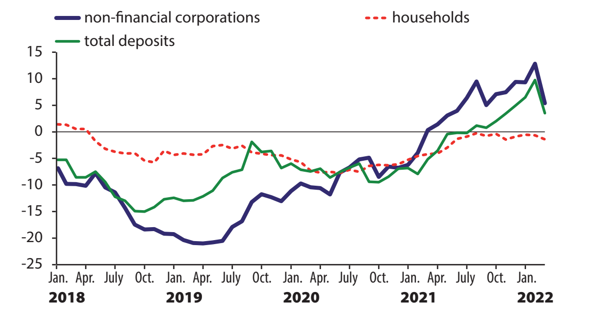
11. Including SPEs.
12. New loan contracts (euro-denominated) to euro area non-financial corporations and households.

CHART A.22 **Deposits of the domestic private sector**
(annual change, %)



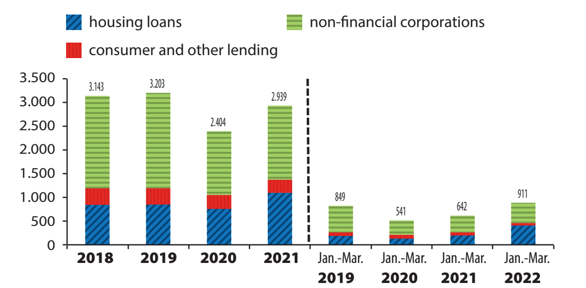
Source: CBC.

CHART A.23 **Deposits of non-residents Cyprus**
(annual change, %)



Source: CBC.

CHART A.24 **Volumes of pure new loans (euro-denominated) to euro area non-fianancial corporations and households**[(1)]
(€ million)



Source: CBC.
1. Pure new loans include all new loan contracts within the reference period.

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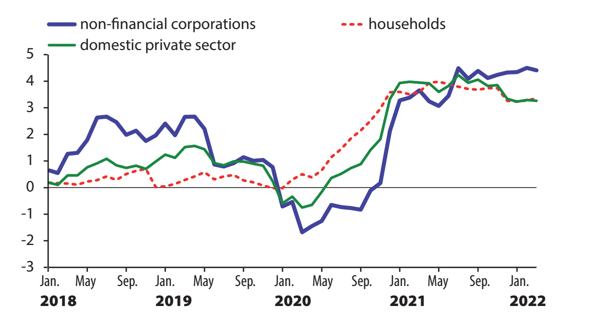
with €346 million in the same period of 2021. New lending to non-financial corporations is likely related to increased financing needs for working capital due to the supply-chain disruptions as well as to increased stocks of goods as a precautionary measure to an environment of increased uncertainty. On the other hand, increased uncertainty over recent geopolitical developments appears to have led to a reduction in new lending to non-financial corporations for loans over €1m in 2022Q1 compared with the previous quarter.

Supported by the increase in new lending, the annual growth rate of net loans[13] to the domestic private sector[14] in March 2022 remained broadly at the increased levels recorded since December 2020 despite the expiry of the initial loan payment moratorium (December 2020). The annual growth rate of net loans to the specific sector was 3,3% in March 2022, unchanged compared with December 2021 and December 2020. More specifically, the annual growth rate of net loans to domestic non-financial corporations reached 4,4% in March 2022, while for domestic households stood at 3,4% (**Chart A.25**). From the household loan categories, the largest annual growth rate in March 2022 was recorded by housing loans, 5,6%. In the context of widespread price increases and shortages of products, and with consumers taking a more conservative stance as evidenced by the results of the most recent Bank Lending Survey (see below), the annual growth rate in consumer credit to domestic households was limited to 0,5% at end-March 2022. At the same time, the annual growth rate in other lending was negative at -4,1% (**Table A.9**).

13. New lending plus capitalisation of interest minus repayment.
14. Domestic private sector refers to non-MFIs domestic residents, excluding SPEs and general government.

CHART A.25 **Loans to the domestic private sector**
(annual change, %)



Source: CBC.

TABLE A.9 **Loans to domestic households (1),(2)**

	Outstanding balance as % of total[3]	Annual percentage change					
		2020 Dec.	2021 Mar.	2021 June	2021 Sep.	2021 Dec.	2022 Mar.-
Domestic households	100,0	3,6	3,6	3,9	3,7	3,3	3,4
1. Consumer credit	11,9	1,3	1,1	2,5	2,0	1,0	0,5
2. Lending for house purchase	74,3	4,5	4,9	5,3	5,2	5,0	5,6
3. Other lending	13,8	1,9	0,6	-0,3	-1,1	-2,3	-4,1

Source: CBC.
(1) Sectoral classification is based on ESA 2010.
(2) Including non-profit institutions serving households.
(3) As at the end of the last month available. Figures may not add up due to rounding.

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According to the latest Bank Lending Survey[15] (April 2022) results, credit standards for loans to enterprises in 2022Q1 remained unchanged at the tightened levels reached in 2021Q4 (**Table A.10**). The tightening of credit standards for business loans from mid-2020 was mainly driven by the participating banks' increased risk perceptions due to the pandemic and their decreased risk tolerance.

At the same time, credit standards for all loan categories to households also remained unchanged in 2022Q1 compared with the previous quarter. They basically remained at the tightened levels reached in 2021Q3. The underlying factors that contributed to the tightening of credit standards for loans to households in 2020 and 2021 were the heightened banks' risk perceptions due to the pandemic, their reduced risk tolerance as well as the European Banking Authority guidelines on loan origination and monitoring.

According to banks' expectations for 2022Q2, credit standards for loans to enterprises and households for all loan categories in Cyprus are expected to tighten.

At the same time, according to the participating banks, net demand for loans by enterprises during 2022Q1 in Cyprus remained unchanged compared with 2021Q4. In contrast, net demand for housing loans as well as consumer credit and other lending by households during 2022Q1, decreased compared with the previous quarter. Participating banks mainly attribute the decrease in demand for housing loans to the expiration of the government interest rate subsidisation scheme for new housing loans at end-December 2021 and the deteriorating

TABLE A.10 **Banking Lending Survey (BLS)**

	Cyprus	
Summary of BLS results April 2022	**2022Q1**	**2022Q2 (expectations)**
Credit standards for loans		
Enterprises	Unchanged	Tightening
Households		
- *Housing loans*	Unchanged	Tightening
- *Consumer credit and other lending*	Unchanged	Tightening
Demand for loans		
Enterprises	Unchanged	Unchanged
Households		
- *Housing loans*	Decrease	Unchanged
- *Consumer credit and other lending*	Decrease	Unchanged

Source: CBC.

15. Detailed analysis of the survey results for Cyprus is available on the CBC website (Central Bank of Cyprus - Bank Lending Survey).

housing market prospects. The decrease in demand for consumer credit and other lending is attributed to a decrease in consumer confidence and a decrease in spending on consumer durables.

According to banks' expectations for 2022Q2, net loan demand in Cyprus by enterprises and households for all loan categories is expected to remain unchanged compared with the previous quarter. It is noted however, that a heterogeneity amongst participating banks' replies was observed across all loan categories.

Regarding the quality of the banks' loan portfolios, the balance of NPFs[16] in 2021 continued its downward trajectory, mainly due to sales/transfers of loan portfolios to credit acquiring companies as well as organic reductions such as loan write-offs, loan repayments and debt-to-asset swaps (real estate). In January 2022 (latest available data), the level of NPFs remained stable compared with the end of 2021. Specifically, in January 2022 the outstanding balance of NPFs in the banking sector stood at €3 billion (11,7% of total loans), remaining at the same levels as in December 2021. However, NPFs have significantly decreased compared with the end of 2020, when they stood at €5.1 billion and 17,7% of total loans. The sales of NPFs to credit acquiring companies, despite improving the quality of the banking sector's loan portfolio, continue to burden the real economy, since these loans continue to weigh on borrowers and consequently remain part of the private debt.

Specifically, domestic non-financial private sector debt to GDP returned to its downward

16. All credit institutions operating in Cyprus (domestic operations only).

trajectory in 2021 after the temporary increase recorded in 2020 due to the pandemic related reduction in economic activity. In more detail, private debt to GDP at the end of 2021 decreased to 240,1% compared with 260,4% at end-2020 and 250,4% at end-2019, mainly due to the increase in nominal GDP (denominator) and loan write-offs. It is noted that private debt at its peak, end March-2015, reached 353,6% of GDP. However, despite its significant reduction, the domestic non-financial private debt is still high compared to the rest of the euro area. It is underlined that the high debt of both households and enterprises in Cyprus, combined with the high percentage of loans with floating interest rate, makes them particularly vulnerable to an imminent change in monetary policy in the euro area.

So far, the interest rate environment in Cyprus remained at very low levels, supported by the ECB's expansionary monetary policy as well as the additional support measures taken during the pandemic.

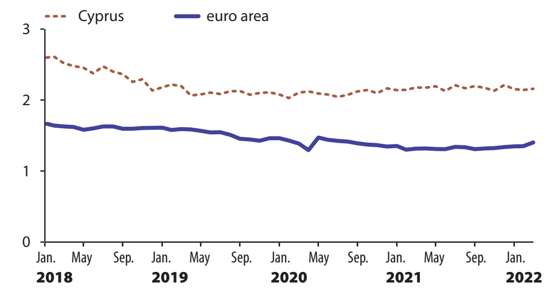
Particularly, domestic interest rates continued their downward trend during the first quarter of 2022, maintaining favourable financing conditions to the domestic economy. However, the increased perception of risk and lower risk tolerance by banks as a result of the pandemic, have caused slight upward pressures in certain categories of lending rates. The protracted energy crisis and inflationary pressures, exacerbated by the recent geopolitical developments, constitute an additional source of uncertainty, as they have a negative impact on households' disposable income and business operating costs.

In detail, the interest rate for consumption loans increased to 3,06% in March 2022 compared with 2,90% in December 2021 and 2,92% in March 2021. Conversely, despite the end of the government's interest rate subsidisation scheme for new housing and business loans at the end 2021, the average interest rate on new loans to households for house purchase[17] declined to 2,16% in March 2022 compared to 2,21% in December 2021 and 2,18% in March 2021. This seems to have supported the increase in new housing loans during the quarter under review (**Chart A.26**). For the same period, the cost of new lending to domestic non-financial corporations for amounts up to €1 million decreased to 3,14% compared with 3,25% in December 2021 and 3,34 % in March 2021 (**Chart A.27**). On the other hand, the cost of new lending for amounts over €1 million reached 3,28% in March 2022 compared with 2,84% and 3,37% in December 2021 and March 2021, respectively, reflecting the increased uncertainty in economic environment and reduced risk tolerance by banks.

The downward trend in domestic lending rates has narrowed down the gap between domestic and the corresponding euro area lending rates. In summary, the spread for housing lending rates decreased by 12 basis points in March 2022 compared to December 2021, reaching 76 basis points, while the spread for non-financial corporations[18] contracted to a smaller extent, by 8 basis points, reaching 146 basis points, respectively.

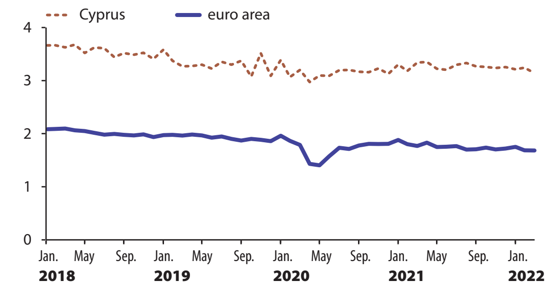
Deposit interest rates followed a similar trend, declining further in the first three months of 2022. Banks' excess liquidity

CHART A.26 **MFI interest rates on euro-denominated housing loans (new business) to euro area households[(1)]**
(% per annum, period averages)



Sources : SDW (ECB), CBC.
(1) With floating rate and up to 1 year initial rate fixation.

CHART A.27 **MFI interest rates on euro-denominated loans (new business) up to €1 million to euro area non-financial corporations[(1)]**
(% per annum, period averages)



Sources : SDW (ECB), CBC.
(1) With floating rate and up to 1 year initial rate fixation.

17. Euro-denominated loans from Cyprus MFIs with an initial rate fixation of up to one year.
18. Loans up to €1 million to non-financial corporations.

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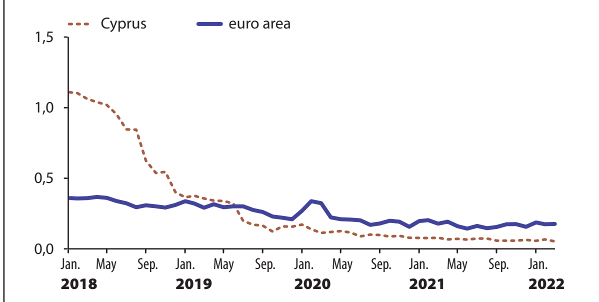
coupled with the negative interest rate they are obliged to pay to hold deposits with the ECB, has led some credit institutions, to impose a negative interest rate on large deposits from March 2020, and the remaining deposit interest rates were virtually maintained at zero. Briefly, the average interest rate[19] on new household deposits decreased slightly to 0,05% in March 2022, compared with 0,06% in December 2021 and 0,08% in March 2021 (**Chart A.28**). The average interest rate[20] on new NFC deposits has reached negative levels for the first time (since the date of availability of the said data), standing at -0,01%, in March 2022 compared with 0,02% and 0,10% in December and March 2021 respectively (**Chart A.29**).

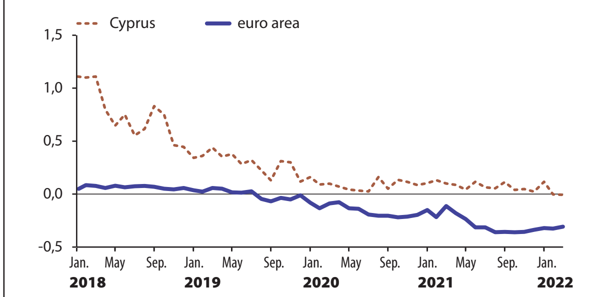
In the near future, taking into account rising inflationary pressures, the withdrawal of the pandemic emergency support measures and the possible change in monetary policy stance to contain inflation at 2% target, interest rates are likely to register a gradual upward trend. It is emphasized that the increase in interest rates will engender an increase in interest payments, which is expected to reduce households' purchasing power and businesses' profit margins. Consequently, this might cause negative effects on their creditworthiness and could possibly lead banks to further tighten their lending criteria. Under these circumstances, the need to reduce private debt becomes even more imperative, so as to mitigate the negative consequences of an impending gradual rise in interest rates.

CHART A.28 **MFI interest rates on euro-denominated deposits (new business) by euro area households[(1)]**
(% per annum, period averages)



Sources : SDW (ECB), CBC.
(1) With agreed maturity up to 1 year.

CHART A.29 **MFI interest rates on euro-denominated deposits (new business) by euro area non-financial corporations[(1)]**
(% per annum, period averages)



Sources : SDW (ECB), CBC.
(1) With agreed maturity up to 1 year.

19. Average interest rate with an agreed maturity of up to one year.
20. Average interest rate with an agreed maturity of up to one year.

The Analytical Credit Dataset (AnaCredit): The first derived aggregated results for Cyprus (Sept. 2018 – March 2022)[1]

Introduction

The Analytical Credit Dataset (AnaCredit) is a shared multipurpose database of the eurosystem which has been recently developed and contains important information on the credit activity in the euro area. Specifically, it provides credit and credit risk information, on loans granted by euro area credit institutions to legal entities, on a loan-by-loan basis. The detailed AnaCredit data are for the time being available only to the European System of National Central Banks (ESCB). Compared to the aggregated statistical information available, the AnaCredit granular data provide to the users numerous additional information as well as flexibility in their analysis.

The data collection is based on an ECB Regulation (ECB/2016/13), which provides for the collection of loan-by-loan information with a monthly or quarterly frequency, depending on the type of information. Starting with the reference data for September 2018, credit institutions in the euro area reported to the European Central Bank (ECB), via the national central banks (NCBs), individual credit exposures falling within the reporting scope. Currently, the AnaCredit database covers around 3,000 credit institutions and foreign branches that report information on approximately 25 million instruments on a monthly basis. Accordingly, 26 credit institutions report data for Cyprus, concerning approximately 88 thousand credit instruments on a monthly basis.

In the current framework, some of the main aspects of the statistical capabilities of the Anacredit database are being presented. The purpose of this presentation is to demonstrate the usefulness and the analytical capabilities provided by the AnaCredit data on issues related to economic, macroprudential and supervisory policy.

Purpose of AnaCredit

Conceived to serve multiple purposes, AnaCredit facilitates the effective and efficient use of resources during the collection, compilation and dissemination of statistics. It enables the assessment of credit dynamics and systemic credit risk more accurately and, together with the possibility of comparing data across countries, facilitates a timely analysis and contributes to the assessment and mitigation of potential risks. Due to the granularity of the information, the loan-level data can be flexibly re-aggregated and analysed across many relevant dimensions and allows agile adaptation to user needs.

Overall, AnaCredit is a result of the ECB's strategy to increase the quality and develop new ESCB statistics that will effectively support the ESCB in the

1. Prepared by the Statistics Department of the Central Bank of Cyprus.

performance of its tasks, including those related to monetary policy analysis and operations, risk management and financial stability surveillance.

The AnaCredit content

The AnaCredit reporting framework is the outcome of in-depth discussions within the ESCB involving several rounds of consultations with users, the industry and other stakeholders.

As regards the AnaCredit scope, the credits (instruments) that are subject to reporting are conventional lending products. More specifically, reportable instruments comprise outstanding financing including deposits other than reverse repurchase agreements (i.e. amounts held at central banks), overdrafts, credit card debt, other revolving credit, reverse repurchase agreements, trade receivables, financial leases and other loans.

The reporting requirements consist of approximately 90 different data attributes (fields) and cover various aspects of the credit exposure, including contractual, financial and accounting information on the individual credit instruments as well as reference, risk and default data on the counterparties involved. Data on the protection items securing the loans are also collected.

AnaCredit data quality

In accordance with the AnaCredit Guideline (ECB/2017/38), NCBs shall monitor and ensure the quality of AnaCredit data and they shall verify the completeness, consistency and accuracy of the data.

During the first three years of the AnaCredit data collection, the production process has been continuously streamlined and enhanced at ESCB level. A harmonised set of interim quality targets, derived from seven composite data quality indicators (DQIs), has been agreed to ensure that the data quality is sufficiently good. It is noted that, as regards the AnaCredit data referring to Cyprus, the Central Bank of Cyprus, together with the reporting credit institutions, have managed to meet all quality targets in a quite early stage of the project, and continue to do so, as a result of intensified work and excellent cooperation among all parties involved.

Initial aggregated results for Cyprus

The initial AnaCredit aggregated results referring to Cyprus, as compiled from the granular datasets for the available reference period (September 2018 - March 2022), are presented below.

Chart 1 illustrates the total credit[2], in terms of outstanding nominal amount, granted to legal entities by the credit institutions in Cyprus, by the geographical area of the debtor. In all, total credit to legal entities[3] reached €42,4 billion in March 2022 compared to €41 billion in September 2018. As illustrated in the respective chart, the bulk of the credit is granted to Cypriot debtors (including the

2. Including the amounts held at the Central Bank as minimum reserves and excess liquidity
3. Amounts include €5 billion de-recognised loans which were sold to credit acquiring companies in June2019 but continued to be serviced by the respective credit institutions until December 2020.

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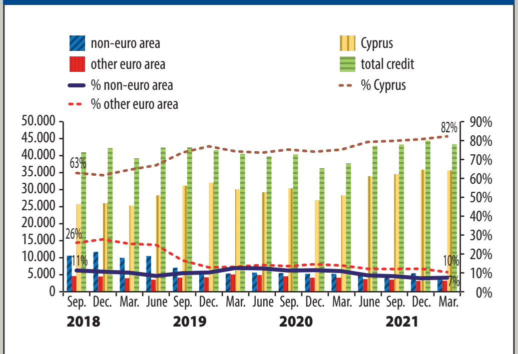
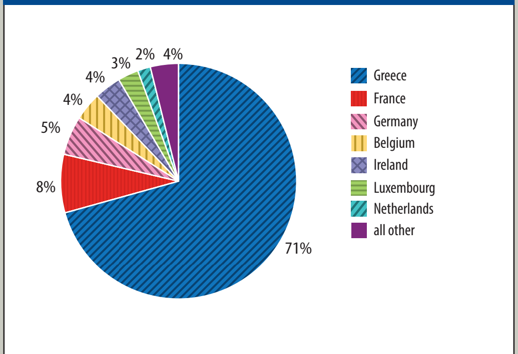
CHART 1 **Credit by Geographical area of Debtor**
(€ million)



Source: CBC.

CHART 2 **Credit by euro area debtor countries (March 2022)**

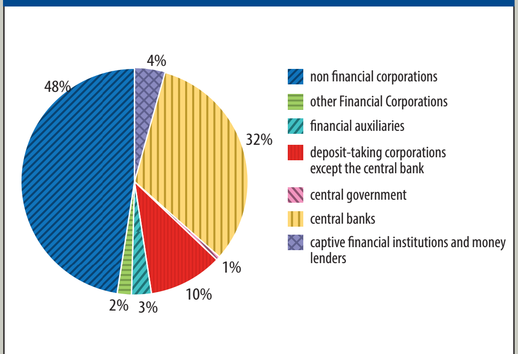


Source: CBC.

Central Bank), which as from the end of 2020 follows an increasing trend, possibly as a result of the expansionary monetary policy of the ECB in an effort to minimize the negative impact of the pandemic. Specifically, in March 2022, credit to Cypriot legal entities reached €34,7 billion, or 82% of the total compared to €25,8 billion, or 63% of the total in September 2018. On the other hand, the share of credit provided to non-euro area legal entities shows a continuous downward trend, reaching €4,5 billion, or 11% of the total in March 2022, from €10,6 billion or 26% of the total credit in September 2018, mainly due to the stricter measures taken at European level to combat money laundering. The total credit to other euro area debtors presents a more stable trend totalling €3,2 billion or 8% of the total in March 2022.

Chart 2 shows total credit by the largest euro area debtor countries, with Greece capturing the biggest slice (70%) as at the end of March 2022.

CHART 3 **Credit by main institutional sector**
(average all periods)



Source: CBC.

The availability of granular information per counterparty allows the analysis of credit data by institutional sector of the debtor, in more detail compared to the general categories that may exist in other aggregated statistics. As illustrated in **Chart 3**, the vast majority of the total credit to legal entities is granted to the non-financial corporations sector, accounting for 48% of the total. This is followed by the central banks sector (32%), reflecting the amounts held at the central bank as minimum reserves and excess liquidity.

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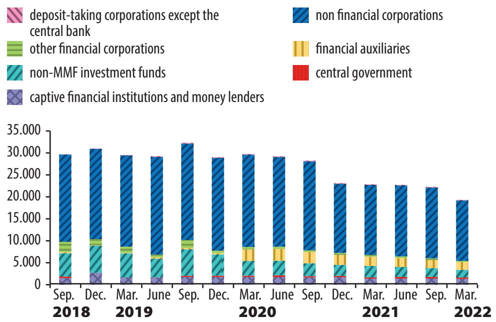
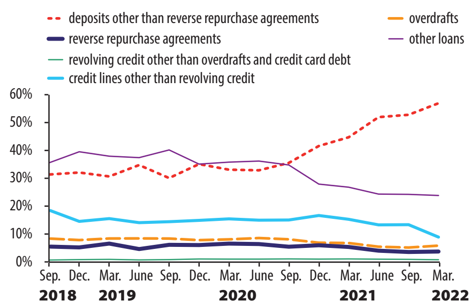
CHART 4 **Credit by institutional sector (excl. central bank)**
(€ million)



Source: CBC.

CHART 5 **Credit by Type of Credit**

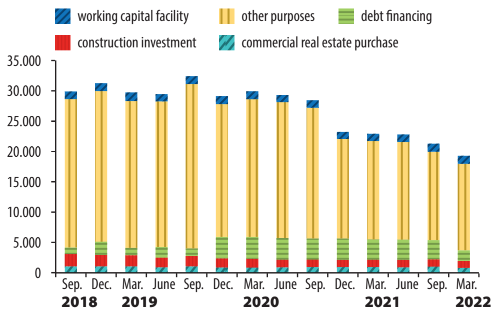


Source: CBC.

For analytical purposes, the central banks sector is excluded in **Chart 4**. The non-financial sector captured on average 70% of the total credit to legal entities, during the period, reaching €14 billion in March 2022. A significant increase in the share of the financial auxiliaries sector is also observed, from an average of 1% of the total in the period September 2018 to December 2019, to an average of 9% of the total credit to legal entities in the period January 2020 to March 2022, reaching €1,8 billion in March 2022[4].

An analysis by type of the credit instruments in **Chart 5** shows an increasing trend in deposits other than reverse repurchase agreements, primarily driven by the increased amounts held at the central bank, from €13 billion or 35% of the total in June 2020, to €23 billion or 57% of the total in March 2022. On the other hand, other loans dropped from €14 billion or 36% of total in June 2020 to €10 billion or 24% of total in March 2022, primarily driven by the sale of loans to credit acquiring companies.

CHART 6 **Credit by Purpose (excl. central bank)**

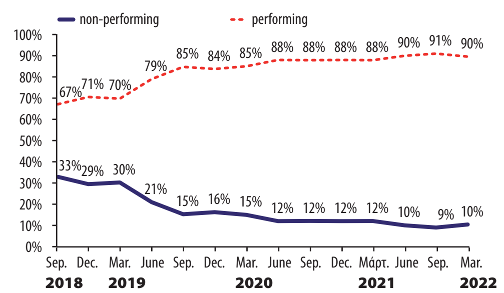


Source: CBC.

Chart 6 illustrates the total credit granted to legal entities according to the purpose of the credit. The amounts held at the Central Bank are again excluded for analytical purposes. As shown in the respective chart, a noticeable increase in the share of debt financing loans was recorded at the end of 2019, reaching €3,5 billion or 9% of the total in the fourth quarter of 2019 from €2,2 billion or 3% of the total in the previous quarter. This is in line with the intensified debt restructuring activities pursued by the

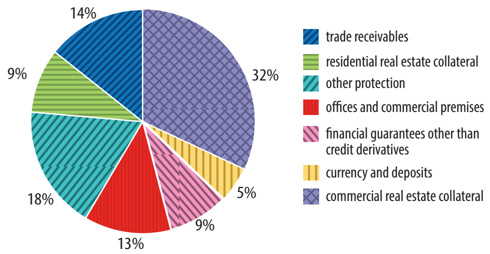
4. Any differences that may arise in relation to other aggregated statistical data, such as the balance sheet data of Monetary Financial Institutions (MFI), are due to the fact that the AnaCredit analytical data of the counterparties, including the institutional sector, are derived by linking t he credit data with a dedicated ESCB counterparty database, which is currently not available to MFIs, and whose quality is considered superior.

CHART 7 Performing status of the instrument for fully recognised credit (excl. CBC)



Source: CBC.

CHART 8 Type of Protection (March 2022)



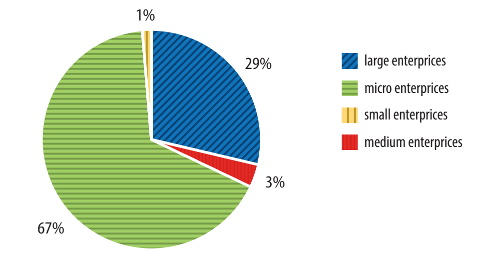
Source: CBC.

domestic credit institutions during the period.

The performing status of the loans is shown in **Chart 7**[5]. A sharp decline of the non-performing credit was recorded in 2019, receding to 15% of the total credit at the end of the year compared to 33% in September 2018, primarily due to the sale of non-performing loans (NPLs) to credit acquiring companies, and as a result of increased restructuring activity and write offs during the year. The diminishing trend of the NPLs to legal entities continued for the rest of the reference period, resulting in the decline of the non-performing credit to only 10% of the total loan portfolio to legal entities in March 2022. On the other hand, performing loans recorded a gradual upward trend, reaching 90% of total loans in March 2022 compared to 67% in September 2018.

Chart 8 provides an overview of the protections securing the credit facilities, as at the end of March 2022. In this regard, the commercial real estate represents the largest share of the credit protection types, reaching 32% of the total protection allocated value.

CHART 9 New Credit by size of enterprise (all periods; excluding central bank)



Source: CBC.

Finally, **Chart 9** illustrates the new credit granted during the whole reference period by the enterprise size[6] of the debtor, excluding the central bank. In all, the majority of the new credit was granted to micro enterprises, capturing 67% of the total new loans, followed by the large enterprises category, which represented 29% of the total new credit granted to legal entities during the whole reference period.

5. The reference here is made to the fully recognised loans in the credit institution's balance sheets, i.e. excluding the de-recognised loans for which the respective credit institutions continued acting as a servicer.
6. In accordance with the SME classification provided in Commission Recommendation 2003/361/EC

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Concluding remarks

AnaCredit significantly enhanced the value of analysis on credit and credit risk by providing detailed, timely and harmonised information. Given the granularity of the information and the possibility to have comprehensive and harmonised data, AnaCredit is an important step towards improving and developing new statistics on credit and credit risk across all euro area countries.

Particularly, the granular AnaCredit data will constitute an important element in future integration efforts, both, within ESCB statistics for an Integrated Reporting Framework (IReF)[7], as well as within the broader aim of an integrated reporting system for the collection of statistical, resolution and prudential data from banks. This note provided only a sample of the possible analytical uses of the AnaCredit granular database, highlighting the usefulness for economic, macroprudential and supervisory policy purposes. The possibility of analysing numerous figures that can potentially be extracted from the AnaCredit database is extremely useful in the implementation of policies related to the operation of the banking sector.

Sources:

AnaCredit (europa.eu)

European Central Bank, The Analytical Credit Dataset A magnifying glass for analysing credit in the euro area, April 2017.

European Central Bank, AnaCredit First biennial quality report 2018-2020, 17 February 2021.

European Central Bank, AnaCredit End User Manual, January 2022.

7. https://www.ecb.europa.eu/stats/ecb_statistics/co-operation_and_standards/reporting/html/index.en.html.

6. Fiscal developments

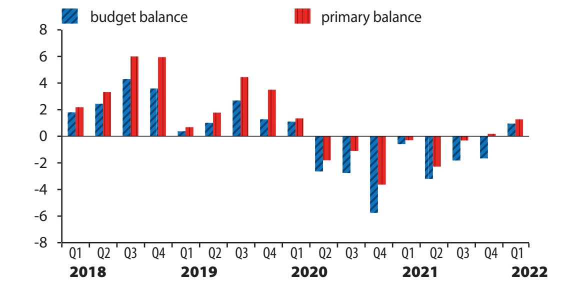
The fiscal outcomes of the first quarter of 2022 have improved significantly compared with the corresponding period of 2021, reflecting the withdrawal of government support measures for workers and businesses aimed to mitigate the impact of the pandemic and the strong economic recovery (see section (B)1. Economic Activity).

According to CyStat data, the budget surplus reached at 1% of GDP in the first quarter of 2022, compared with a budget deficit of 0,6% of GDP in the corresponding quarter of 2021 (**Chart A.30** and **Table A.11**). The primary surplus reached at 1,3% of GDP for the same period, compared with a deficit of 0,3% of GDP in the corresponding period of 2021.

In detail, public revenue increased by 14,2% compared with the corresponding period of the previous year, mainly due to the increase in current taxes on income, social contributions and taxes on production (+26,9%, +18,4% and +14%, respectively, compared with the first quarter of 2021; **Table A.11**). The increase in revenues from current taxes on income and social contributions reflects the improvement in the labour market and the increase in operating profits (relates to corporate tax revenues). The increase in taxes on production reflects the recovery in economic activity. In addition, it appears that structural factors have contributed to the improvement of tax compliance, such as the Decree on the obligation to accept card payment methods and the implementation of the GHS.

Public expenditure recorded a decrease of 3,2%, compared with the corresponding period

CHART A.30 **Budget and primary balances of the general government**
(cumulative for the year as from Q1 as a percentage of GDP)



Sources : Cystat, CBC.
Note: The budget and primary balance for 2018Q3 do not include the fiscal impacts associated with the Cyprus Cooperative Bank (CCB) (€1,5 billion) .

TABLE A.11 **Accounts of general government**

	Jan. - Mar. 2021 (€ million)	Jan. - Mar. 2022 (€ million)	Change %
EXPENDITURE			
Intermediate consumption	172,6	204,7	18,6
Compensation of employees	688,7	717,1	4,1
Social transfers	829,7	921,1	11,0
Interest	68,6	82,4	20,1
Subsidies	274,8	20,7	-92,5
Other current expenditure	160,3	157,9	-1,5
Gross fixed capital formation	74,8	80,0	7,0
Other capital expenditure	15,3	28,7	87,6
Total expenditure	**2.284,8**	**2.212,6**	**-3,2**
Total expenditure as a % of GDP	**9,7**	**8,8**	
REVENUE			
Taxes on production and imports	777,4	885,9	14,0
Current taxes on income, wealth, etc	480,5	609,8	26,9
Social contributions	629,0	744,7	18,4
Other current revenue	41,2	42,0	1,9
Sales	125,6	141,0	12,3
Capital transfers received	62,5	4,1	-93,4
Property income	31,1	24,4	-21,5
Total revenue	**2.147,3**	**2.451,9**	**14,2**
Total revenue as a % of GDP	**9,2**	**9,7**	
Primary balance	**-68,9**	**321,7**	
Primary Balance as a % of GDP	**-0,3**	**1,3**	
Budget Surplus (+) / Deficit (-)	**-137,5**	**239,3**	
Surplus (+) / Deficit (-) % of GDP	**-0,6**	**1,0**	

Sources: Cystat, CBC.

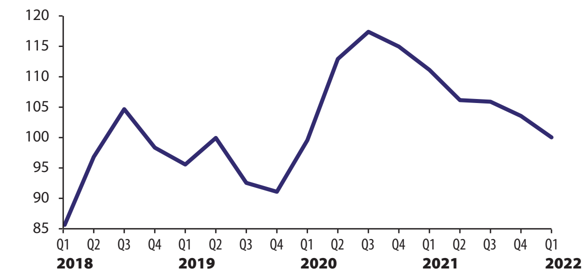
of the previous year, mainly due to the withdrawal of wage subsidisation schemes and direct subsidies to businesses and self-employed (**Table A.11**, p. 55, subsidies). This decrease was partly offset by the increase in social transfers (11%) and to a lesser extent by the increase in intermediate consumption (18,6%) and compensation of employees (4,1%). Compensation of employees continuous to be affected by the gradual restitution of public wages, which aims to reverse the wage cuts implemented in December 2012.

As regards government debt (**Chart A.31**), it stood at 100% of GDP in March 2022, recording a decrease of more than 10 percentage points compared to March 2021. This is due to the use of cash reserves to repay maturing debt (decline in cash reserves) and the strong economic recovery.

Public debt-to-GDP ratio is expected to decline significantly in the coming years, reflecting the estimates for the recovery in economic activity and primary surpluses. It is noted that rating agencies expect a significant reduction in government debt; thus, any derailment will have a serious impact on the credibility of fiscal policy.

At the current juncture, amid high uncertainty and the prevalence of downside risks to the economic activity and upside risks to prices, fiscal risks are high. Increases in prices, especially energy prices, will likely trigger new government support measures, which should be targeted and temporary. The objective of supporting vulnerable households and businesses should be aligned with incentives to reduce the use of fossil fuels, as well as ensuring fiscal sustainability.

CHART A.31 **General government consolidated gross debt**
(as a percentage of GDP)



Sources: Cystat, CBC.

(C) Macroeconomic Forecasts for the Cyprus Economy[21]

21. Forecasts and assumptions take into account economic developments and available data with a cut-off date of May 24, 2022.

- *Slowdown in GDP growth expected in 2022 due to the Russian-Ukrainian war, with some medium-term (scarring) effects over 2023-24.*
- *The GDP trajectory over 2022-24 is foreseen to be mainly driven by the recovery in domestic demand and, for 2023, also in net exports.*
- *Little impact of the war on the labour market, with continued decline in unemployment over the coming years, reaching 5,7% in 2024.*
- *Significant rise in inflation in 2022, mainly due to significant increases in energy prices and the broadening of inflationary pressures across other categories, partly due to ongoing supply chain bottlenecks. More subdued rates are expected over 2023-24, influenced by the gradual correction in oil prices.*
- *Compared with the baseline scenario, downside risks to GDP growth and upside risks to inflation over 2022-24.*

The macroeconomic projections presented in this *Economic Bulletin* were prepared in the context of the Eurosystem exercises using common assumptions. The recovery path of the Cyprus economy has been negatively affected to a significant extent, at least in the short term, by Russia's invasion of Ukraine. Compared with the December 2021 forecasts, the assumptions underpinning the updated forecasts are differentiated as follows:

First, direct and indirect effects owing to the war and the sanctions imposed on Russia are taken into account. Specifically, through further increases in prices of goods and raw materials and losses in services exports, including tourism, as well as through negative effects on business and consumer sentiment.

Second, supply chains problems are expected to be longer lasting than previously. Specifically, they intensify over 2022Q2, with a gradual normalisation since then, and full normalisation assumed at end-2023.

Third, the downward revision in the external environment outlook, as a result of the war and ongoing problems in supply chains, is taken into account.

The CBC's updated GDP forecasts have been revised downwards for all years of the forecast horizon, in particular in 2022 (by 0,9 percentage points) due to both the negative effects of the war and the sanctions. For the years 2023-24, the downward revision amounts to 0,1 percentage points per annum due to some medium-term (scarring) effects, with the level of GDP at end-2024 being lower than that projected in December 2021. It is noted that the downward revision in the years 2023-24 is small in view of the significant support to economic activity expected from absorption of financing from the EU's Recovery and Resilience Fund (RRF).

Regarding inflation, the CBC's updated HICP forecasts point to a significant upward revision, especially for 2022 (by 4,5 percentage points) and, to a lesser extent, over 2023-24 (1,6 and 0,4 percentage points, respectively). This is mainly due to the significant increases in energy prices, as well as the broadening of inflationary pressures across the categories of food, services and non-energy industrial goods. The smaller revisions over 2023-24 are attributable to the projected gradual normalisation of inflationary pressures, owing

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to both the gradual correction of supply chain bottlenecks and the expected decline in oil prices.

Economic Activity

GDP is expected to register a slowdown in 2022 to 2,7% (**Table A.12**), following a rise of 5,5% in 2021, a result of the restart of the economy but also due to the war and the sanctions. The biggest impact is expected on net exports, while domestic demand (private consumption and investments) is foreseen to register resilience due to the pipeline of ongoing investment projects, but also due to use of part of the savings accumulated during the pandemic. Specifically, the relatively moderate rise of 2,6% in private consumption in 2022 is due to the negative impact of the war on consumer sentiment as well as the large increase in prices that are expected to lead to a decrease in the level of real disposable income (**Table A.12**). The utilisation of part of the deposits accumulated during the pandemic mitigates the slowdown in private consumption. Gross fixed capital formation is expected to register an annual increase of 3,2% in 2022, with an acceleration in the relevant growth rate compared with 2021 when the data are adjusted for the impact of Special Purpose Entities (SPEs). This is due to the ongoing implementation of large and multi-year projects, which had already started prior to the outbreak of the pandemic (**Table A.12**). The relative slowdown in public consumption to 3,4% is due to a base effect owing to increased spending on intermediate

TABLE A.12 **National accounts projections in real terms**
)annual change, %)

	2020	2021	2022f	2023f	2024f
GDP	-5,0	5,5	2,7	3,6	3,7
Private consumption	-5,0	3,7	2,6	2,0	2,7
Public consumption	14,8	8,0	3,4	2,4	3,1
Gross fixed capital formation	0,0	-6,3	3,2	2,2	7,3
Exports of goods and services	-5,1	14,0	0,7	4,5	2,8
Imports of goods and services	-2,5	9,2	0,9	2,6	2,8

Sources: Cystat, CBC.

consumption as well as the purchase of health services by the GHS in 2021.

The decline in net exports constrains the projected recovery of GDP in 2022. Exports of goods and services are expected to register a marginal increase of 0,7% in 2022 (**Table A.12**, p. 60), mainly as a consequence of the significant slowdown in tourism revenues, in connection with a decrease in exports of financial services, other business services, as well as exports of computer services (see Balance of Payments). The slowdown in imports of goods and services to 0,9% (**Table A.12**, p. 60) reflects the subdued path of imports of goods relating to private consumption and investment.

GDP growth of 3,6% and 3,7% is forecasted for 2023 and 2024, respectively, (**Table A.12**, p. 60), resulting from the continued recovery of domestic demand and net exports for 2023. The continued growth in private consumption, reaching 2,7% in 2024, is largely supported by the projected rise in real disposable income from labour sources (**Table A.12**, p. 60. At the same time, the savings rate is expected to remain at a relatively higher level compared with prior to the health crisis, reflecting the ongoing deleveraging needs but also possible introduction of measures to improve public finances (Ricardian effects). Gross fixed capital formation is expected to register a strong increase, reaching 7,3% in 2024, due to new projects that are expected to be financed by the RRF, the gradual completion of large and multi-year projects that are ongoing, as well as new infrastructure projects (**Table A.12**, p. 60). The projects cover the sectors of energy, tourism, transport, the casino-resort as well as the marina and port in Larnaca. An increase of 2,4% and 3,1%, respectively, is projected in public consumption in the years 2023-24 due to wage increases (gradual restitution of wages in the public sector that is completed in 2023, the rise in contribution rates towards the Social Insurance Fund in 2024, as well as the impact of automatic indexation of wages to inflation).

Net exports are expected to contribute positively to the rate of GDP growth in the coming years, especially in 2023. Exports are forecasted to register an increase of 4,5% in 2023 and 2,8% in 2024 (**Table A.12**, p. 60), with a notable contribution from tourism and, to a lesser extent, from other services sectors. Due to uncertainty regarding the course of the war as well as the impact of inflationary pressures on the disposable income of the main tourism markets, full normalisation of the tourism sector is foreseen in 2024. The relevant recovery is also linked to the expected operation of the casino-resort[22]. Total imports are expected to increase by an average of 2,7% per annum over 2023-24, in line with the continued improvement in domestic demand (**Table A.12**, p. 60).

Compensation, productivity and the labour market

The impact of the Russian-Ukrainian war on GDP growth is captured to a small extent in the employment path, which is projected to increase by approximately 1,5% per annum in the years 2022-24 (**Table A.13**). This development is consistent with the expectations of a

TABLE A.13 **Labour market projections**
)annual change, %, unless otherwise indicated)

	2020	2021	2022f	2023f	2024f
Compensation per employee	-3,2	4,7	3,2	5,8	3,7
Unit labour costs	1,4	0,4	1,9	3,7	1,4
Productivity	-4,5	4,3	1,2	2,0	2,2
Total employement	-0,5	1,2	1,5	1,6	1,4
Unemployment rate(% of labour force)	7,6	7,5	6,9	6,3	5,7

Sources: Cystat, CBC.

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relatively small share of businesses pointing to a negative impact on their staff levels.

At the same time, unemployment is expected to register a decrease in 2022 to 6,9% of the labour force, down from 7,5% in 2021. A downward trend is foreseen in the coming years, with unemployment converging closer to full employment conditions in 2024 and reaching 5,7%, owing to the continued economic recovery (albeit smaller than in the December 2021 forecasts), but also due to the continued efforts of the Public Employment Services to match unemployed individuals to job vacancies. The small upward revision in the unemployment rate compared with the December 2021 forecast is consistent with the expectations of only a small share of businesses perceiving an impact on their workforce due to the war, as well as the continued recovery in GDP.

A relatively smaller rise in nominal compensation per employee is forecasted in 2022 at 3,2%, compared with 4,7% in 2021 (**Table A.13**, p. 62), owing to the cost of living allowance (COLA) system that is based on the previous year prices as well as the ongoing implementation of existing collective agreements (hotels, construction). In 2023 and 2024, larger increases of 5,8% and 3,7%, respectively, are expected, reflecting the granting of higher COLA due to the inflationary pressures as well as the relatively larger rises expected in collective agreements owing to the strong price developments. It is noted that larger increases are recorded in the public sector for the years 2022 and 2023, mainly due to the ongoing gradual restitution of wages and pensions, with relevant completion in 2023 (see Labour Costs). In 2024, growth in nominal compensation per employee includes the increase in social contribution rates towards the Social Insurance Fund (SIF) that will apply for the next five years. Finally, the continued correction in the labour market, in particular closer to full employment conditions in 2024, does not lead to a wage-price spiral, despite the incorporation of higher increases in wages.

Productivity, following the significant recovery by 4,3% recorded in 2021 due to a base effect and the effects of the pandemic, is projected to record smaller growth rates in the following years by 1,2% in 2022 and, on average, by 2,1% over 2023-24 (**Table A.13**, p. 62).

Unit labour costs are expected to register a further increase in the years 2022-24 by approximately 7 percentage points in cumulative terms (**Table A.13**, p. 62), mainly due to the expected increases in nominal compensation per employee. A similar cumulative rise is foreseen in the relevant index in the euro area. However, the unit labour costs index in Cyprus maintains its comparative advantage relative to the rest of the euro area owing to the reductions in wages, and as a consequence, the improvement in competitiveness recorded in previous years (see Labour Costs).

Inflation

HICP inflation is expected to rise to 7% in 2022 compared with 2,3% in 2021 (**Table A.14**), mainly owing to the steep increases in energy prices but also the broadening of inflationary

TABLE A.14 **HICP projections**
)annual change, %)

	2020	2021	2022f	2023f	2024f
HICP	-1,1	2,3	7,0	2,8	1,9
HICP excluding energy and food	-0,8	1,3	4,1	2,5	2,2

Sources: Cystat, CBC.

pressures across the categories of services, food and non-energy industrial goods due to the supply chain problems. At the same time, core inflation is forecasted to rise to 4,1% in 2022 compared with 1,3% in 2021.

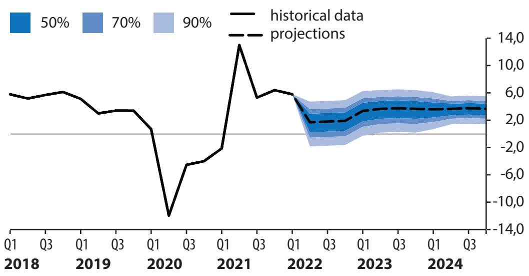
In 2023 and 2024, HICP inflation is expected to slow to 2,8% and 1,9%, respectively, owing to the gradual correction in energy prices, in line with the oil and food price assumptions. Core inflation is projected to rise to 2,5% and 2,2% in 2023 and 2024, respectively, in the context of the gradual normalisation of inflationary pressures in the other sub-categories of the HICP attributable to the gradual correction of supply chains bottlenecks.

Risk assessment of macroeconomic forecasts[23]

The expected GDP path presented in **Table A.12** (p. 60) as well as the HICP and core inflation projections presented in **Table A.14** (p. 64) represent the baseline scenario. The confidence intervals depicting the probabilities of deviation from the baseline forecasts for GDP and HICP inflation are outlined in **Charts A.32** and **A.33**, respectively. Deviations regarding the forecast of core inflation from the baseline are presented in **Chart A.34**. A summary of the risk assessment is presented in **Table A.15** (p. 66).

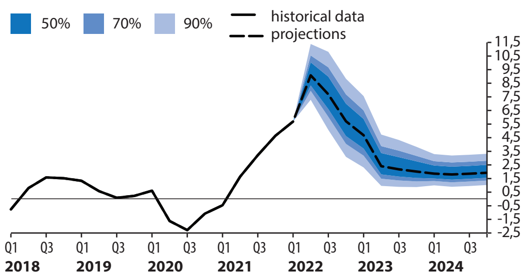
The risks of deviating from the baseline GDP forecasts for the years 2022-24 are assessed, overall, to be on the downside. Downside risks include a worse than expected outlook for exports of non-tourism services, higher than expected oil prices and prolonged

CHART A.32 **Real GDP fan chart**
(annual change, %)



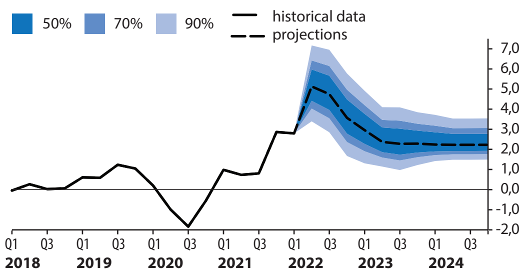
Source: CBC.

CHART A.33 **HICP fan chart**
(annual change, %)



Source: CBC.

CHART A.34 **HICP excluding energy and food fan chart (core inflation)**
(annual change, %)



Source: CBC.

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and/or greater than expected impacts on supply chains. Domestically, risks include tighter than anticipated financing conditions, which may affect domestic demand. Upside risks are associated with a higher than foreseen impact from the absorption of RRF financing available for investments, as well as a larger than expected impact on private consumption from pandemic-delayed spending ("pent-up demand") in conjunction with a lower than envisaged savings ratio. In addition, they are associated with a more favourable than assumed performance in the tourism sector, also relating to the operation of the casino-resort.

Risks to inflation (HICP) for 2022-24 are assessed, overall, to be on the upside. Upside risks stem mainly from higher than expected oil prices as well as prolonged and/or larger than expected price effects owing to problems in supply chains. They are also associated with a more positive than expected path in private consumption, due to pent-up demand and associated with a lower than expected savings ratio. Additionally, higher than foreseen implementation of various investment plans and performance of services, specifically tourism, is expected to have a positive effect on inflation. On the other hand, more adverse effects on service categories other than tourism may exert downward pressure on prices. Downside risks to inflation are also associated with less favourable than expected financing conditions through the negative impact on consumption and investment. Finally, risks of deviating from the baseline scenario for core inflation are also to the upside, as is the case for HICP.

TABLE A.15 **Summary of risk assessment**

Risk	GDP (2022-2024)	Inflation (2022-2024)
Epidemiological developments	=	=
Greater than expected impact from absorption of funds from EU support package and higher than expected private sector investments	+	+
Higher than foreseen oil prices and higher than envisaged impacts from supply chain bottlenecks	-	+
Impact on domestic economic outlook as a result of external environment developments	-	-
Better than foreseen developments in the tourism sector	+	+
Worse than foreseen impact on other services exports due to Russian-Ukranian war	-	-
Tighter than foreseen financing conditions	-	-
Higher than expected impact owing to accumulated savings and pent-up demand	+	+
Overall assessment	**-**	**+**

Source: CBC.
Note: the following symbols cover the spectrum of risks: ++, +, =, -, --.

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Technical Notes

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(A) Domestic monetary aggregates (deposits and credit grouwth)

All monetary aggregates' data exclude the CBC.

On 1 July 2008, a new definition of residents of Cyprus entered into force (Statistical Purposes Directive, 2008). As a result, MFIs reclassified a large number of organisations or customers' businesses with limited or no physical presence in Cyprus, known as 'special purpose entities (SPEs), from non-residents to residents. The effect of this change is excluded from the monetary and financial statistics series presented in this publication, which reports domestic residents data excluding SPEs. For purposes of normalisation and comparability of monetary time series, data have been further processed by the CBC's Economic Analysis and Research Department.

The calculation of annual percentage changes is based on the methodology used by the ECB. More specifically, the growth of monetary aggregates is calculated based on the monthly differences in outstanding amounts adjusted for amounts that do not arise from transactions, such as reclassifications/other adjustments, revaluation adjustments and exchange rate adjustments, so as to reflect changes due to net transactions.

The above methodology has been adopted since the December 2009 edition of the *Economic Bulletin*. In previous editions of the *Bulletin*, the growth rate of monetary variables was calculated as the annual percentage change of outstanding balances at the end of the period. Details of the methodology can be found in the *Monetary and Financial Statistics*, published by the Statistics Department of the CBC, which is available on the CBC website.

(B) Balance of Payments

The present statistical collection system adopted as of June 2014, is based on the methodology of International Monetary Fund (BPM6), which has also been adopted by the EU, as well as on additional requirements and the level of detail required by both the Statistical Service (Eurostat) and the European Central Bank (ECB).

The adoption of BPM6 by the external statistics of the Cyprus took place in June 2014. In October 2014 was the first publication of the data. The published data for BoP, IIP and external debt cover the period from 2008 to date.

The application of new manuals provided the opportunity to adopt broader changes and revisions to improve the coverage and quality of the statistics of the external sector. Specifically, in addition to the incorporation in all external statistics produced and published of the special purpose entities that are registered / incorporated in Cyprus, the CBC has also upgraded the collection systems and compiling statistics of the external sector, giving greater emphasis to the application of new research and the use of available administrative sources.

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(C) National Accounts

In June 2014 Cystat implemented the new statistical standards for the historical data series since 1995. The ESA 2010 replaces ESA 1995 and is based on the System of National Accounts (ESA) 2008 which is in the process of being implemented worldwide. The aim is to adapt the national accounts to the current economic environment, advances in methodology and changing user needs. Regarding the sectoral classification, ESA 2010 provides a clearer separation between non-financial corporations and corporations that are not directly engaged in the non-financial activities. In particular, holding companies of non-financial corporations and other so-called captive financial institutions as well as certain Special Purpose Entities (SPEs) are now classified under a new category. In parallel, the investment funds sector is now separated from the remaining part of other financial intermediaries and insurance companies are shown separately from pension funds. The ESA 2010 has also adopted changes to the financial accounts.

More details on the methodology of compiling the balance of payments and the national accounts are available in Box 1, p. 51, of the December 2014 *Economic Bulletin* and on the website of the CBC.